

CONSOLIDATED FINANCIAL STATEMENTS

QATAR FIRST BANK L.L.C (Public)

31 December 2018

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Qatar First Bank L.L.C. (Public)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Qatar First Bank L.L.C (Public) ('the Bank') and its subsidiaries (together the 'Group') which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of income, changes in owners' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI').

Basis for Opinion

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

Key Audit Matters

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



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Description of the key audit matter	How the matter was addressed in our audit
<p><u>Valuation of Equity Investments</u> - refer notes 3.10 and 11 to the consolidated financial statements</p>	
<p>We focused on this area because:</p> <ul style="list-style-type: none"> • The valuation of equity investments based on level 3 fair values involves significant assumptions, estimates and judgements underlying the determination of fair values. • The carrying value of level 3 based equity investments as of 31 December 2018 is QAR 406.9 million representing 12.5% of the Group's total assets as at 31 December 2018, hence a material portion of the consolidated statement of financial position. The loss on re-measurement of equity investments recorded in the consolidated statement of income for the year is QAR 210.8 million. 	<p>Our audit procedures in this area included the following, amongst others:</p> <ul style="list-style-type: none"> • Testing controls over the process of valuation of equity investments. • Evaluating the competence and capabilities of the external valuation expert appointed by the management. • Involving our own valuation specialist to assist us in the following: <ul style="list-style-type: none"> – assessing the consistency of the valuation basis and appropriateness of the methodology used based on their knowledge about client and the industry; – evaluating the appropriateness of the discount rates applied which included comparing them with the sector averages of the markets in which those investments are operating; – evaluating the appropriateness of the assumptions applied to key inputs such as sales volumes, operating costs, long-term growth rates which included comparing these inputs with externally derived data and their knowledge of the client and the industry and challenging the future forecast business performance by agreeing amounts to approved forecasts and underlying contracts and comparing forecasts with historical performance; • Evaluating the adequacy of the Group's disclosures in the consolidated financial statements including disclosures of key assumptions, judgements and sensitivities, by reference to the requirements of the relevant accounting standards.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters (continued)

Description of the key audit matter	How the matter was addressed in our audit
<p><u>Early adoption of FAS 30 "Impairment, Credit Losses and Onerous Commitments"</u> - refer to notes 3.11, 3.27, and 4 in the consolidated financial statements</p>	
<p>We focused on this area because:</p> <ul style="list-style-type: none"> • FAS 30 "Impairment, Credit Losses and Onerous Commitments" ('FAS 30') which the Group early adopted on 1 January 2018: <ul style="list-style-type: none"> — introduced complex accounting requirements, including new estimates and judgements underlying the determination of adjustments on transition; — resulted in new accounting policies, including transition option elections and practical expedients; and — resulted in new processes, data and controls that have not been subject to testing previously. • The adjustment made to accumulated deficit upon transition to FAS 30 was a QAR 46.5 million debit, which represents 4.1% of the total equity of the Group as at 31 December 2018. 	<p>Our audit procedures in this area included the following, amongst others:</p> <ul style="list-style-type: none"> • Evaluating the appropriateness of management's selection of accounting policies based on the requirements of FAS 30, our business understanding, and industry practice. • Considering the appropriateness of the transition approach and practical expedients applied. • Considering management's process and the controls implemented to ensure the completeness and accuracy of the transition adjustments. • Identifying and testing the relevant controls over the transition process. • Evaluating the reasonableness of management's key judgements and estimates made in preparing the transition adjustments. • Involving our own financial risk management (FRM) specialists to challenge key assumptions/judgements relating to, credit risk grading, significant increase in credit risk, definition of default, probability of default, macro-economic variables, and recovery rates. • Involving our own valuation specialists to evaluate and challenge the inputs, assumptions and techniques used by the valuation experts engaged by the Group for the valuation of real estate collaterals used in the determination of loss given default calculations. • Evaluating the completeness, accuracy and relevance of data used in preparing the transition adjustments. • Evaluating the appropriateness and tested the mathematical accuracy of models applied. • Assessing the adequacy of the Group's disclosures in the consolidated financial statements in relation to the early adoption of FAS 30 by reference to the requirements of the relevant accounting standards.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters (continued)

Description of the key audit matters	How the matter was addressed in our audit
<p><u>Impairment of financial assets subject to credit risk</u> - refer to notes 5, 7, 8 and 30 in the consolidated financial statements</p>	
<p>We focused on this area because:</p> <ul style="list-style-type: none"> • Impairment of financial assets subject to credit risk involves: <ul style="list-style-type: none"> – complex accounting requirements, including assumptions, estimates and judgements underlying the determination of adjustments on transition; – modelling risk (e.g. inappropriate methodology and design decisions); – susceptibility to management bias when making judgements to determine expected credit loss outcomes; and – complex disclosure requirements. • The carrying value of the Group's net financial assets subject to credit risk, both on and off balance sheet, is QAR 2,701.5 million as at 31 December 2018, hence a material portion of the consolidated statement of financial position. Furthermore, the total impairment recognized by the Group on these financial assets amounted to QAR 58.6 million, in the year ended 31 December 2018, which represents 11.5% of the net loss of the Group, hence a material portion of the consolidated statement of income. 	<p>Our audit procedures in this area included the following, amongst others:</p> <ul style="list-style-type: none"> • Evaluating the appropriateness of the accounting policies based on the requirements of FAS 30, our business understanding and industry practice. • Confirming our understanding of management's new or revised processes, systems and controls implemented, including controls over model development. • Identifying and tested the relevant controls. • Evaluating the reasonableness of management's key judgements and estimates made in provision calculations, including selection of methods, models, assumptions and data sources. • Involving our own FRM specialists to challenge significant assumptions and judgements relating to credit risk grading, significant increase in credit risk, definition of default, probability of default, macroeconomic variables, and recovery rates. • Involving our own valuation specialists to evaluate the inputs, assumptions and techniques used by the valuation experts engaged by the Group for the valuation of the real estate collaterals, relating to the determination of loss given defaults. • Assessing the completeness, accuracy and relevance of data used in the calculation of ECL. • Evaluating the appropriateness and tested the mathematical accuracy of models applied. • Evaluating the reasonableness of and tested the post-model adjustments. • Performing detailed credit risk assessment of a sample of performing (stage 1 and 2 and non-performing financing assets (stage 3). • Assessing the adequacy of the Group's disclosures in the consolidated financial statements including key assumptions and judgements, by reference to the requirements of relevant accounting standards.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report ("Annual Report") but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and when it becomes available, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter with those charged with governance.

Responsibilities of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with FAS issued by AAOIFI, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations we considered necessary for the purpose of our audit. The Bank has maintained proper accounting records and its consolidated financial statements are in agreement therewith. We are not aware of any violations of the applicable provisions of the Qatar Financial Centre Regulatory Authority regulations or the terms of the Bank's Article of Association and the amendments thereto, having occurred during the year which might have had a material effect on the Bank's consolidated financial position or performance as at and for year ended 31 December 2018.

26 March 2019
Doha
State of Qatar

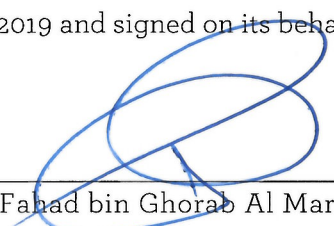
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QATAR FIRST BANK L.L.C (Public)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018 (expressed in QAR'000)



	Notes	As at	
		31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	5	237,697	372,029
Due from banks	6	-	477,218
Investments carried at amortised cost	7	150,801	157,471
Financing assets	8	1,479,789	1,490,186
Accounts receivable	9	24,230	315,272
Inventories	10	39,532	75,534
Equity investments	11	409,320	923,454
Investments in real estate	12	-	243,710
Fixed assets	13	132,973	189,483
Intangible assets	14	10,802	18,206
Assets held-for-sale	15	731,410	570,866
Other assets	16	42,421	125,080
TOTAL ASSETS		3,258,975	4,958,509
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND EQUITY			
Liabilities			
Financing liabilities	17	410,227	812,975
Customers' balances	18	47,853	99,976
Liabilities of disposal groups classified as held-for-sale	15	431,336	362,132
Other liabilities	19	87,120	272,762
Total Liabilities		976,536	1,547,845
Equity of Unrestricted Investment Account Holders	20	1,158,571	1,713,793
Equity			
Share capital	21	2,000,000	2,000,000
Accumulated deficit		(998,459)	(470,014)
Total Equity Attributable to Shareholders of the Bank		1,001,541	1,529,986
Non-controlling interest		122,327	166,885
Total Equity		1,123,868	1,696,871
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND EQUITY		3,258,975	4,958,509

These consolidated financial statements were authorised for issuance by the Board of Directors on 26 March 2019 and signed on its behalf by:


Abdulla bin Fahad bin Ghorab Al Marri
Chairman


Jassim Mohammad Al-Kaabi
Board Member

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

QATAR FIRST BANK L.L.C (Public)
CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2018 (expressed in QAR'000)



	For the year ended	
	31 December	31 December
	<i>Notes</i>	<i>2017</i>
	2018	<i>Restated</i>
CONTINUING OPERATIONS		
INCOME		
Revenue from non-banking activities	22	110,364
Loss on re-measurement of investments at fair value through income statement	11.2	(211,431)
Dividend income		1,382
Profit on investments carried at amortised cost		8,897
Gain on disposal of investments carried at amortised cost		-
(Loss) / Gain on disposal of equity investments	15.2	(119,290)
Gain on disposal of subsidiary	15.3	16,545
Income from financing assets		79,031
Income from placements with financial institutions		14,791
Other income	23	49,615
Total Income Before Return To Unrestricted Investment		139,481
Account Holders		(58,929)
Return to unrestricted investment account holders	20	(79,624)
TOTAL INCOME		59,857
EXPENSES		
Expenses from non-banking activities	22	(145,356)
Staff costs		(58,560)
Financing costs		(19,164)
Depreciation and amortisation	13&14	(9,721)
Other operating expenses	24	(45,904)
TOTAL EXPENSES		(278,705)
Provision for impairment on financing assets, net of recoveries		(45,256)
Provision for impairment on other financial assets		(13,178)
NET LOSS FROM BEFORE INCOME TAX		(446,164)
Income tax expense		-
NET LOSS FROM CONTINUING OPERATIONS		(446,164)
DISCONTINUED OPERATIONS		
Loss from discontinued operations, net of tax	15	(63,928)
NET LOSS FOR THE YEAR		(510,092)
Attributable to:		
Equity holders of the Bank		(481,905)
Non-controlling interest		(28,187)
		(510,092)
Basic / diluted loss per share from continuing operations - QAR	25	(2.13)
Basic / diluted loss per share from discontinued operations - QAR	25	(0.28)
Basic / diluted loss per share -QAR		(2.41)

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

QATAR FIRST BANK L.L.C (Public)

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
For the year ended 31 December 2018 (expressed in QAR'000)



	Notes	Fair value reserves			Total equity attributable to equity holders of the Bank	Non-controlling interests	Total equity	
		Share capital	Investment fair value reserve	Property fair value reserve				Accumulated deficit
Balance at 1 January 2017		2,000,000	(5,079)	4,518	(200,754)	1,798,685	76,366	1,875,051
Fair value adjustment		-	-	(4,518)	-	(4,518)	(998)	(5,516)
Net loss for the year		-	-	-	(269,260)	(269,260)	(12,727)	(281,987)
Transfer to income statement due to disposal of investment fair value through equity		-	5,079	-	-	5,079	-	5,079
Increase in non-controlling interests due to:								
- Real Estate Structures		-	-	-	-	-	104,244	104,244
Balance at 31 December 2017		<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>(470,014)</u>	<u>1,529,986</u>	<u>166,885</u>	<u>1,696,871</u>
Balance at 1 January 2018		<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>(470,014)</u>	<u>1,529,986</u>	<u>166,885</u>	<u>1,696,871</u>
Impact of early adoption of FAS 30	3.1	<u>-</u>	<u>-</u>	<u>-</u>	<u>(46,540)</u>	<u>(46,540)</u>	<u>(2,319)</u>	<u>(48,859)</u>
Balance at 1 January 2018 (Restated)		<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>(516,554)</u>	<u>1,483,446</u>	<u>164,566</u>	<u>1,648,012</u>
Net loss for the year		-	-	-	(481,905)	(481,905)	(28,187)	(510,092)
Disposal of subsidiary	15.3	-	-	-	-	-	(15,545)	(15,545)
Net increase in non-controlling interests due to:								
- Real Estate Structures		-	-	-	-	-	1,493	1,493
Balance at 31 December 2018		<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>(998,459)</u>	<u>1,001,541</u>	<u>122,327</u>	<u>1,123,868</u>

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

	For the year ended	
	31 December <i>Notes</i> 2018	31 December 2017
OPERATING ACTIVITIES		
Net loss for the year	(510,092)	(281,987)
Adjustments for non-cash items in net loss		
Depreciation and amortisation	13&14 25,880	32,634
Loss on disposal of equity investments	119,290	-
Gain on disposal of subsidiary	(16,545)	-
Unrealised loss on equity investments	11.2 211,431	142,419
Unrealised loss / (profit) on Sharia-compliant risk management instruments, net	(23,237)	5,428
Unrealised fair value loss on investment in real estate	12 -	9,016
Provision for impairment on financing assets	45,256	41,948
Provision for impairment on other financial assets	13,178	-
Other provisions , net	26,155	1,425
	<u>(108,684)</u>	<u>(49,117)</u>
Changes in:		
Due from banks	477,218	(122,218)
Investments carried at amortised cost	(8,418)	737,012
Financing assets	79,364	(59,263)
Accounts receivable	(8,420)	(68,829)
Inventories	5,908	(9,537)
Equity investments	(4,373)	201,619
Investments in real estate	-	(40,104)
Assets held-for-sale	336	(570,866)
Other assets	9,045	26,966
Customers' balances	(52,123)	(8,420)
Liabilities of disposal groups classified as held-for-sale	85,687	362,132
Other liabilities	(16,918)	70,880
Net cash from operating activities	<u>458,622</u>	<u>470,255</u>
INVESTING ACTIVITIES		
Purchase of fixed and intangible assets	13&14 (22,377)	(45,154)
Proceeds from disposal of fixed assets	-	18
Net cash used in investing activities	<u>(22,377)</u>	<u>(45,136)</u>
FINANCING ACTIVITIES		
Net change in financing liabilities	(16,848)	(287,253)
Net change in equity of investment account holders	(555,222)	(983,877)
Net change in non-controlling interest	1,493	104,244
Net cash used in financing activities	<u>(570,577)</u>	<u>(1,166,886)</u>
Net decrease in cash and cash equivalents	(134,332)	(741,767)
Cash and cash equivalents at the beginning of the year	372,029	1,113,796
Cash and cash equivalents at the end of the year	5 <u>237,697</u>	<u>372,029</u>

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

1. REPORTING ENTITY

Qatar First Bank L.L.C (Public) (“the Bank” or “the Parent”) is an Islamic bank, which was established in the State of Qatar as a limited liability company under license No.00091, dated 4 September 2008, from the Qatar Financial Centre Authority. The Bank is authorised to conduct the following regulated activities by the Qatar Financial Centre Regulatory Authority (the “QFCRA”):

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

All the Bank’s activities are regulated by the QFCRA and are conducted in accordance with Islamic Shari’a principles, as determined by the Shari’a Supervisory Board of the Bank and in accordance with the provisions of its Articles of Association. The Bank operates through its head office located on Suhaim bin Hamad Street, Doha, State of Qatar. The Bank’s issued shares are listed for trading on the Qatar Exchange effective from 27 April 2016 (ticker: “QFBQ”).

The consolidated financial statements of the Bank for the year ended 31 December 2018 comprise the Bank and its subsidiaries (together referred to as “the Group” and individually as “Group entities”). The Parent Company / Ultimate Controlling Party of the Group is Qatar First Bank L.L.C (Public). The Bank had the following subsidiaries as at 31 December 2018 and 31 December 2017:

Subsidiaries	Activity	Effective ownership as at		Year of incorporation	Country
		31 December 2018	31 December 2017		
Future Card Industries LLC	Manufacturing	71.3%	71.3%	2012	UAE
Isnad Catering Services WLL	Catering	75.0%	75.0%	2012	Qatar
QFB Money Market Fund 1 Ltd.	Money market fund	100.0%	100.0%	2015	Cayman Islands
Astor Properties Finance Limited.	Financing	32.1%	63.7%	2017	Jersey
Astor Properties Holdings Limited.	Holding company	32.1%	63.7%	2017	Jersey
Umm Slal for Accommodation LLC	Construction	70.0%	70.0%	2017	Qatar
Kennedy Flats Property Corp.	Owning and leasing real estate	60.0%	-	2018	USA
LEI-QFB Kennedy Flats LLC.	Leasing real estate	60.0%	-	2018	USA

For details of subsidiaries disposed during the year, refer to Note 15 .

2. BASIS OF PREPARATION

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Financial Accounting Standards (“FAS”) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (“AAOIFI”) and the Shari’a rules and principles as determined by the Shari’a Supervisory Board of the Bank. In line with the requirements of AAOIFI, for matters that are not covered by FAS, the Group uses the guidance from the relevant International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”).

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for valuation of equity investments, investments in real estate, Sharia-compliant-risk-management instruments which are carried at fair value.

Functional and presentational currency

The consolidated financial statements are presented in Qatari Riyals (“QAR”), which is the Bank’s functional and presentational currency, and all values are rounded to the nearest QAR thousand except when otherwise indicated. 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.

Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the consolidated financial statements are set out below:

3.1 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has power, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements comprise of the financial statements of the Bank and its subsidiaries. All intra-group balances, transactions, income and expenses and unrealised profits and losses resulting from intra-group transactions are eliminated in full on the consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Business combinations are accounted for using the acquisition method as at the acquisition date i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the consolidated income statement immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

Non-controlling interests

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated statement of financial position in owners' equity as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as profits or losses attributable to non-controlling interests. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in owners' equity. Gains or losses on disposals to non-controlling interests are also recorded in owners' equity.

3.2 Foreign currencies

Transactions and balances

Transactions in foreign currencies are translated into Qatari Riyals at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Qatari Riyals at the rates ruling at the date of consolidated financial position.

All differences from gains and losses resulting from settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a local currency different from the presentational currency are translated as follows:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- Assets and liabilities for each financial position presented are translated at the closing rate at the date of that financial position,
- 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
- All resulting exchange differences are recognised as a separate component of the consolidated statement of changes in owners' equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to the consolidated statement of changes in owners' equity within the "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.

3.3 Financial assets and liabilities

Recognition

Financial assets and liabilities are recognised on the trade date at which the Group becomes a party of the contractual provisions of the instruments.

De-recognition

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

- the right to receive cash flows from the asset has expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the assets, or (b) 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.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Financial assets and financial liabilities are only offset and the net amounts reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle these on a net basis, or intends to realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or the counterparty.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise of cash and balances with banks; and amounts of placements with financial institutions with an original maturity of three months or less. Placements with financial institutions comprise placements with banks in the form of Wakala and Murabaha investment. They are stated at cost plus related accrued profit and net of provision for impairment, if any.

3.5 Due from banks

Due from banks represent amounts of placements with financial institutions with an original maturity more than three months. Due from bank placements are invested under Wakala and Murabaha and Mudaraba terms. They are stated at cost plus related accrued profit and net of provision for impairment, if any.

3.6 Investment carried at amortised cost

Investments in Sukuk are carried at amortised cost when the investment is managed on a contractual yield basis and its performance is evaluated on the basis of contractual cash flows. These investments are measured initially at fair value plus transaction costs. Premiums or discounts are then amortised over the investment's life using effective profit method less reduction for impairment, if any.

Gain on disposal of investment carried at amortised cost is recognised when substantially all risks and rewards of ownership of these assets are transferred and equals to the difference between fair value of proceeds and the carrying amount at time of de-recognition.

3.7 Financing assets

Financing activities comprise murabaha and ijarah contracts:

Due from murabaha contracts

Murabaha receivables are stated at their gross principal amounts less any amount received, provision for impairment, profit in suspense and unearned profit. These receivables are written off and charged against specific provisions only in circumstances where all reasonable restructuring and collection activities have been exhausted, any recoveries from previously written off financing activities are written back to the specific provision.

The Group considers the promise made in murabaha to the purchase orderer as obligatory.

Due from ijarah contracts

Ijarah receivables arise from financing structures when the purchase and immediate lease of an asset are at cost plus an agreed profit (in total forming fair value). The amount is settled on a deferred payment basis. Ijarah receivable are carried at the aggregate of the minimum lease payments, less deferred income (in total forming amortised cost) and impairment allowance (if any). Ijarah income is recognised on time-apportioned basis over the lease period. Income related to non-performing accounts is excluded from the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Accounts receivable

Accounts receivable is the amount of debt due from the customers at the end of the financial period and are stated at amortised cost less any provision for doubtful debts, if any. When an account receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

3.9 Inventories

Raw materials are stated at the lower of cost or net realisable value. Costs of raw materials include:

- (a) costs of purchases (including transport, and handling) net of trade discounts received, and;
- (b) other costs incurred in bringing the inventories to their present location and condition.

The cost of raw materials is recorded using the first-in first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Finished and semi-finished goods are also measured at the lower of cost or net realisable value that include cost of raw materials, labour and factory overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expense.

3.10 Equity investments

Equity investments comprise the following:

3.10.1 *Investments carried at fair value*

Equity type instruments are investments that do not exhibit the feature of debt type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities.

i. Classification

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

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

An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'. Equity-type investments designated at fair value through income statement include investments, which are managed and evaluated internally for performance on a fair value basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. On initial recognition of an associate, the Group makes an accounting policy choice as to whether the associate shall be equity accounted or designated as at fair value through income statement. The Group makes use of the exemption in FAS 24 – Investment in Associates for venture capital organisation and designates certain of its investment in associates, as ‘investments carried at fair value through income statement’. These investments are managed, evaluated and reported internally on a fair value basis.

ii. Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument.

Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

iii. Measurement

Initial recognition

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

Subsequent measurement

Investments at fair value through income statement are remeasured at fair value at the end of each reporting period and the resultant remeasurement gains or losses is recognised in the consolidated income statement in the period in which they arise.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10.2 Other investments

Other investments includes venture capital investments held as part of investments portfolio that are managed with the objective of earning a return on these investments. The Group aims to generate a growth in the value of investments in the medium term and usually identifies an exit strategy or strategies when an investment is made.

The investments are typically in businesses unrelated to the Bank's business. Investments are managed on a fair value basis and are accounted for as investments designated at fair value through the consolidated income statement.

3.11 Impairment

Impairment of financial assets (other than equity type investments classified as fair value through equity)

3.11.1 Policy applicable from 1 January 2018

The Group recognises loss allowances for expected credit loss (ECL) on the following financial instruments that are not measured at fair value through income statement:

- Financial assets that are debt-type instruments;
- Financial guarantee contracts issued; and
- Financing commitments issued.

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

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

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

Measurement of ECL

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from existing asset;
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

Refer to Note 3.27 for impact of early adoption FAS 30.

3.11.2 Policy applicable up to 31 December 2017

The Group assesses impairment at each financial reporting date whenever there is objective evidence that a specific financial asset or a group of financial assets may be impaired.

In case of equity investments classified as fair value through equity, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is significant or prolonged requires judgement and is assessed for each investment separately. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement - is removed from equity and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in the fair value reserve in the consolidated statement of changes in owners' equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in equity instruments that are carried at cost in the absence of a reliable measure of fair value are also tested for impairment, if there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the carrying amount and its expected recoverable amount. All impairment losses are recognised in the consolidated income statement and shall not be reversed.

Financing assets carried at amortised cost are impaired when their carrying amounts exceed their expected present value of estimated future cash flows discounted at the asset's original effective profit rate. Subsequent recovery of impairment losses are recognised through the consolidated income statement, the reversal of impairment losses shall not result in a carrying amount of the asset that exceeds what the amortised cost would have been had the impairment not been recognised.

Impairment of non-financial assets

The Group assesses at each reporting date if events or changes in circumstances indicate that the carrying value of a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. For assets excluding goodwill, an assessment is made at each financial position 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 recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses relating to goodwill cannot be reversed for subsequent increases in the recoverable amount in future periods.

3.12 Investment in real estate

Investment in real estate comprises of building and other related assets which are held by the Group to earn rentals and/ or are expected to benefit from capital appreciation. Initially investments are recognised at cost including directly attributable expenditures. Subsequently, investments are carried at fair value. Fair value of investments is re-measured at each reporting date and the difference between the carrying value and fair value is recognised in the consolidated statement of changes in owners' equity under property fair value reserve.

In case of losses, they are then recognised in equity under investment fair value reserve to the extent of availability of the reserve through earlier recognised gains assumed, in case such losses exceeded the amount available in the equity fair value reserve for a particular investment in real estate, excess losses are then recognised in the consolidated income statement under unrealised re-measurement losses on investments.

Upon occurrence of future gains, unrealised gains related to the current period are recognised in the consolidated income statement to the extent of crediting back previously recognised losses in the consolidated income statement and excess gains then are recognised in the equity under property fair value reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in real estate are derecognised when they have been disposed off or transferred to investment in real estate-held for sale when the investment in real estate is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment in real estate along with any available fair value reserves attributable to that investment are recognised in the consolidated income statement in the year of retirement or disposal.

3.13 Assets held-for-sale and discontinued operations

Classification

The Group classifies non-current assets or disposal groups as held-for-sale if the carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use within twelve months. A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

If the criteria for classification as held for sale are no longer met, the entity 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, recognised or revaluations that would have been recognised had the asset (or disposal group) not been classified as held-for-sale and its recoverable amount at the date of the subsequent decision not to sell.

Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets and investment property carried at fair value, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in the consolidated income statement. Gains are not recognised in excess of any cumulative impairment loss.

Measurement

Non-current assets or disposal groups classified as held-for-sale, other than financial instruments, are measured at the lower of its carrying amount and fair value less costs to sell. Financial instruments that are non-current assets and 'held-for-sale' continue to be measured in accordance with their stated accounting policies. On classification of equity-accounted investee as held-for-sale, equity accounting is ceased at the time of such classification as held-for-sale. Non-financial assets (i.e. intangible assets, equipment) are no longer amortised or depreciated.

Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated income statement is re-presented as if the operation had been discontinued from the start of the comparative year.

3.14 Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial year in which they are incurred. The Group depreciates fixed assets except for land, on a straight-line basis over their estimated useful lives as follows:

Category description	Years
Plant and machinery	7-10
Buildings	20
Equipment	3 - 5
Furniture and fixtures	3 - 10
Building renovations	5-10
Motor vehicles	5

3.15 Intangible assets

Intangible assets include the value of computer software and generated intangible assets that were identified in the process of a business combination. The cost of intangible assets is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses, if any.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Category description	Years
Software and core banking system	5 - 7
Brand and contractual relationships	5

3.16 Equity of unrestricted investment account holders

The Bank accepts funds from customers for investment in the Bank's capacity as mudarib and at the Bank's discretion in whatever manner the Bank deems appropriate without laying down any restriction as to where, how and for what purpose the fund should be invested. Such funds are classified in the statement of financial position as equity of unrestricted investment account holders.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity of unrestricted investments account holders is recognised when received and initially measured at cost. Subsequent to initial recognition, equity of unrestricted investments account holders is measured at amortised cost.

The allocation of profit of investments jointly financed by the Bank and investments account holders is determined by the management of the Bank within allowed profit sharing limits as per terms and conditions of the investment accounts. Such profit is measured after setting aside impairment provisions, if any. Impairment provision is made when the management considers that there is impairment in the carrying amount of assets financed by the investment account.

Administrative expenses in connection with management of the fund are charged to the common pool results.

3.17 Recognition of income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Income earned by the Group is recognised on the following basis:

Income from financing activities

Murabaha

Profit from Murabaha 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.

Ijarah

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

Income from placements with financial institutions

Income from short term placements is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the expected profits.

Rental income

The Group recognises rental income from properties according to the rent agreements entered into between the Group and the tenants on an accrual basis over the period of the contract.

Revenue from non-banking activities

Revenue from non-banking activities relates to the Group's subsidiaries and it is primarily derived from sale of goods and services, which is recognised when all of the following conditions are met:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend income

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

Income from equity investments

Income from equity investments is described in Note 3.10.

Fee income

Fees are generally recognised on an accrual basis when the service has been provided. Fees 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 recognised on completion of the underlying transaction.

3.18 Employee benefits

Defined contribution plans

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

Employee's end of service benefits

The Group establishes a provision for all end of service benefits payable to employees in accordance with the Group's policies which comply with laws and regulations applicable to the Group. Liability is calculated on the basis of individual employee's salary and period of service at the financial position date. The provision for employees' end of service benefits is included within other liabilities.

3.19 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

3.20 Contingent liabilities

Contingent liabilities include guarantees, letters of credit, Group's obligations with respect to unilateral promise to buy/sell currencies, profit rate swaps and others. These do not constitute actual assets or liabilities at the consolidated statement of financial position date except for assets and obligations relating to fair value gains or losses on these derivative financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Sharia-compliant-risk-management instruments

Sharia-compliant-risk-management instruments, including unilateral/bilateral promises to buy/sell currencies, profit rate swaps, currency options are carried at their fair value. All Sharia-compliant-risk-management instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of these instruments are included in consolidated income statement for the year (other income / other expense). The Group does not apply hedge accounting.

3.22 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Segment reporting are disclosed in Note 33.

3.23 Income tax

(a) Current income tax

The Bank is subject to income tax in Qatar in accordance with Decree no 13 for the year 2010 of the Minister of Economy and Finance addressing QFC Tax regulations applicable as of 1 January 2010. Income tax expense is charged to the consolidated income statement.

(b) Deferred income tax

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

3.24 Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

3.25 Zakah

The Bank is not obliged to pay Zakah on its profits on behalf of shareholders. The Bank is required to calculate and notify individual shareholders of Zakah payable per share. These calculations are approved by the Bank's Shari'a Supervisory Board.

3.26 New standards, amendments and interpretations issued and effective

There were no new accounting standards and amendments issued and effective.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.27 New standards, amendments and interpretations issued but not yet effective but early adopted

3.27.1 FAS 30 – Impairment, credit losses and onerous commitments

3.27.1.1 *Early adoption of FAS 30 “Impairment, credit losses and onerous commitments”*

AAOIFI has issued FAS 30 Impairment, Credit losses and onerous commitments in 2017. The objective of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions (the institutions), and provisions against onerous commitments enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets and transactions. FAS 30 will replace FAS 11 Provisions and Reserves and parts of FAS 25 Investment in Sukuk, shares and similar instruments that deals with impairment.

FAS 30 classifies assets and exposures into three categories based on the nature of risks involved (i.e. credit risk and other risks) and prescribes three approaches for assessing losses for each of these categories of assets 1) Credit Losses approach, 2) Net Realizable Value approach (“NRV”) and 3) Impairment approach.

For the purpose of this standard, the assets and exposures shall be categorized, as under:

- a) Assets and exposures subject to credit risk (subject to credit losses approach):
 - (i) Receivables; and
 - (ii) Off-balance sheet exposures;
- b) Inventories (subject to net realizable value approach);
- c) Other financing and investment assets and exposures subject to risks other than credit risk (subject to impairment approach), excluding inventories.

Credit losses approach for receivables and off balance sheet exposures uses a dual measurement approach, under which the loss allowance is measured as either a 12-month expected credit loss or a lifetime expected credit loss.

FAS 30 introduces the credit losses approach with a forward-looking ‘expected credit loss’ model. The new impairment model will apply to financial assets, which are subject to credit risk. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing group of similar financial assets for the purposes of measuring ECL.

Inventories are measured at lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale, considering the factors specific to the institution.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment loss is the amount by which the carrying amount of assets exceeds its recoverable amount.

The standard shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted. The Group has early adopted the FAS 30 with a date of initial application of 1 January 2018.

Key changes in the Group's accounting policy for impairment of financial assets and off balance sheet instruments bearing credit risks are listed below:

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

Stage 1: 12 months ECL - not credit impaired

Stage 1 includes financial assets on initial recognition and that do not have a significant increase in credit risk since the initial recognition or that have low credit risk. For these assets, ECL are recognised on the gross carrying amount of the asset based on the expected credit losses that result from default events that are possible within 12 months after the reporting date. Profit is computed on the gross carrying amount of the asset.

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes financial assets that have had a significant increase in credit risk (SICR) since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but interest is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Stage 3: Lifetime ECL - credit impaired

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

Transition

Changes in accounting policies resulting from the adoption of FAS 30 have been applied retrospectively, except as described below:

- As permitted by the transitional provisions of FAS 30, the Group elected not to restate the comparative figures. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of FAS 30 are recognised in accumulated losses and non-controlling interest as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of FAS 30 and therefore is not comparable to the information presented for 2018 under FAS 30.
- Assessment being made on the basis of the facts and the circumstances that if a debt-type security had low credit risk at the date of initial application of FAS 30, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

The impact of early adoption of FAS 30 is illustrated in below table:

	Balance at 1 January 2018	FAS 30 impact		Balance at 1 January 2018 (Restated)
		Accumu- lated losses	Non- controlling interest	
Provision for on-balance sheet				
Cash and cash equivalents	372,029	(90)	-	371,939
Due from banks	477,218	(25)	-	477,193
Investments carried at amortised cost	156,205	(295)	-	155,910
Financing assets	1,490,186	(30,325)	-	1,459,861
Accounts receivable	315,272	(10,292)	(2,319)	302,661
Total	2,810,910	(41,027)	(2,319)	2,767,564
Provision for off-balance sheet instruments				
Letters of guarantee	-	(4,792)	-	(4,792)
Unutilised credit facilities	-	(721)	-	(721)
Total	-	(5,513)	-	(5,513)
TOTAL PROVISION FOR FINANCIAL INSTRUMENTS	2,810,910	(46,540)	(2,319)	2,762,051

3.28 New standards, amendments and interpretations issued but not yet effective and not early adopted

3.28.1 FAS 33 “Investments in Sukuk, shares and similar instruments

In December 2018, AAOIFI has issued FAS 33 “Investments in Sukuk, shares and similar instruments, which improves upon and supersedes the AAOIFI’s Financial Accounting Standard 25 “Investments in Sukuk, shares and similar instruments” issued in 2010. This standard aims at setting out principle for classification, recognition, measurement, presentation and disclosures of investment in Sukuk, shares and other similar instruments of investments made by Islamic Financial Institutions. The standard defines the key types of investments of Shari’ah compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which investments are made, managed and held.

The standard shall be effective from financial periods beginning on or after 1 January 2020. Early adoption is permitted. The management is assessing the impact of adoption of FAS 33 on Group’s consolidated financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.28.2 FAS 28 - Murabaha and other deferred payment sales

The objective of this standard is to prescribe the appropriate accounting and reporting principles for recognition, measurement and disclosures to apply in relation to Murabaha and other deferred payment sales transactions for the sellers and buyers for such transactions. This standard supersedes the earlier FAS No. 2 “Murabaha and Murabaha to the Purchase Orderer” and FAS No. 20 “Deferred Payment Sale”. This standard applies to accounting for Murabaha and other deferred payment sales transaction carried out under Shari’ah principles, excluding Tawarruq and commodity murabaha transactions. This standard shall be effective for the financial periods beginning on or after 1 January 2019. Early adoption of the standard is permitted. The management is assessing the impact of adoption of FAS 28 on Group’s consolidated financial statements.

3.28.3 FAS 31 – Investment Agency (Al-Wakala Bi Al-Istithmar)

The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al-Istithmar) instruments and the related assets and obligations from both the principal (investor) and the agent perspectives. The standard provides a broad classification where at the inception of the transaction, the principal (investor) shall evaluate the nature of investment as either a ‘pass-through investment’ – as a preferred option; or the ‘Wakala venture’ approach.

This standard shall be effective for the financial periods beginning on or after 1 January 2020. Early adoption is permitted. The management is assessing the impact of adoption of FAS 31 on Group’s consolidated financial statements.

3.28.4 FAS 34 – Financial reporting for sukuk-holders

The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the sukuk to ensure transparent and fair reporting to all relevant stakeholders particularly sukuk-holders.

This standard shall apply to sukuk in accordance with Shari’ah principles and rules issued by an IFI or the other institution (“originator”), directly or through the use of a special purpose vehicle or similar mechanism. In respect of sukuk, which are kept on balance sheet by the originator in line with requirement of FAS 29 “Sukuk in the books of the originator”, the originator may opt not to apply this standard. The standard shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted. The management has not early adopted FAS 34 and is currently assessing the impact on the consolidated financial statements.

3.28.5 FAS 35 – Risk reserves

The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions (IFIs/ the institutions).

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

The standard defines the accounting principles for risk reserves in line with the best practices of financial reporting and risk management. The standard encourages maintaining adequate risk reserves to safeguarding the interest of profit and loss stakeholders particularly against various risks including credit, market, equity investment risks, as well as, the rate of return risk including displaces commercial risk.

This is expected to provide better stability to the Islamic finance industry in line with the best practices. This standard does not mandatorily require maintaining risk reserves, however, it is applicable to any such reserves, by whichever name referred to by the institution, if they meet the definition of any of reserves covered by the standard.

This standard together with FAS 30 “Impairment, Credit Losses and Onerous Commitments” supersede the earlier FAS 11 “Provisions and Reserves” and shall be effective for the financial periods beginning on or after 1 January 2021 with earlier adoption permitted. The management early adopted FAS 35 with no material impact on Group’s consolidated financial statements, since the Group has not formed such provisions.

4. USE OF ESTIMATES AND JUDGEMENTS

In the preparation of the consolidated financial statements, the management has used its judgements and estimates in determining the amounts recognised therein. The most significant use of judgements and estimates are as follows:

Fair value of equity investments that were valued using assumptions that are not based on observable market data.

The Group uses significant judgements and estimates to determine fair value of investments valued using assumptions that are not based on observable market data. Information about fair values of instruments that were valued using assumptions that are not based on observable market data is disclosed in Note 31.

Allowances for credit losses

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL refer to Note 30.6.5 for more information.

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 resources to continue in the 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 financial statements continue to be prepared on the going concern basis.

5. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
	<i>Note</i>	
Cash on hand	117	14,704
Balance with banks (current accounts)	35,398	76,808
Placement with financial institutions	202,322	280,517
Provision for impairment	30.6.5 (140)	-
	<u>237,697</u>	<u>372,029</u>

Placements with financial institutions represent inter-bank placements in the form of Wakala, Murabaha and other Islamic investments with original maturity less than three months. For details on provision for impairment, refer to Note 30.6.5.

6. DUE FROM BANKS

Due from banks represents inter-bank placements in the form of Murabaha, Mudaraba and other Islamic investments with original maturity more than three months. For details on provision for impairment, refer to Note 30.6.5.

7. INVESTMENTS CARRIED AT AMORTISED COST

	31 December 2018	31 December 2017
	<i>Note</i>	
Investments in sukuk	165,620	156,520
Accrued income	1,124	1,266
Unamortised (discounts) / premiums, net	(855)	(315)
Provision for impairment	30.6.5 (15,088)	-
	<u>150,801</u>	<u>157,471</u>

8. FINANCING ASSETS

	31 December 2018	31 December 2017
	<i>Note</i>	
Murabaha financing	1,593,533	1,722,919
Ijarah receivable	12,980	38,857
Deferred investment sales	218,400	-
Others	-	194
Total financing assets	<u>1,824,913</u>	<u>1,761,970</u>
Deferred profit	(198,966)	(201,207)
Provision for impairment on financing assets	30.6.5 (146,158)	(70,577)
Net financing assets	<u>1,479,789</u>	<u>1,490,186</u>

9. ACCOUNTS RECEIVABLE

Accounts receivable comprises of the following:

	31 December 2018	31 December 2017
	<i>Note</i>	
Trade debtors	27,037	330,286
Provision for impairment on accounts receivable	30.6.5 <u>(2,807)</u>	<u>(15,014)</u>
	<u>24,230</u>	<u>315,272</u>

10. INVENTORIES

Inventories comprise the following:

	31 December 2018	31 December 2017
Raw materials	19,844	55,969
Semi-finished goods	9,841	9,768
Finished goods	<u>9,847</u>	<u>9,797</u>
	<u>39,532</u>	<u>75,534</u>

11. EQUITY INVESTMENTS

	31 December 2018	31 December 2017
	<i>Notes</i>	
Investments at fair value through equity	11.1 31,195	26,288
Investments at fair value through income statement	11.2 <u>378,125</u>	<u>897,166</u>
	<u>409,320</u>	<u>923,454</u>

11.1. Investments at fair value through equity

Investments at fair value through equity comprise unquoted equity investments QAR 31 million as at 31 December 2018 (31 December 2017: QAR 26.3 million) are carried at cost less impairment in the absence of reliable measure of fair value.

11.2. Investments at fair value through income statement

Investments at fair value through income statement comprise of equity investments as follows:

	31 December 2018	31 December 2017
Investment type		
Venture capital investments	253,562	734,140
Other investments at fair value through income statement	<u>124,563</u>	<u>163,026</u>
	<u>378,125</u>	<u>897,166</u>

11 EQUITY INVESTMENTS (Continued)

Movements in the equity investments are as follows:

	31 December 2018			31 December 2017		
	Invest- ments at fair value through equity	Invest- ments at fair value through income statement	Total	Invest- ments at fair value through equity	Invest- ments at fair value through income statement	Total
At the beginning of year	26,288	897,166	923,454	147,580	1,028,580	1,176,160
Additions*	4,907	-	4,907	-	5,394	5,394
Disposal	-	(209,106)	(209,106)	(121,292)	(80,642)	(201,934)
Transfer (to) / from assets held- for-sale	-	(98,504)	(98,504)	-	86,253	86,253
Fair value adjust- ments	-	(211,431)	(211,431)	-	(142,419)	(142,419)
At the end of the year	<u>31,195</u>	<u>378,125</u>	<u>409,320</u>	<u>26,288</u>	<u>897,166</u>	<u>923,454</u>

*Additions of QAR 4.9 million represents the remaining stake of the investment in Jefferson, refer to Note 15.1.1.

12. INVESTMENT IN REAL ESTATE

The table below summarises the movement in investments in real estate during the year:

	31 December 2018			31 December 2017		
	Invest- ments in real estate held-for- use	Construc- tion work in prog- ress	Total	Invest- ments in real estate held-for- use	Construc- tion work in progress	Total
At the beginning of year	202,096	41,614	243,710	214,627	3,511	218,138
Additions	-	-	-	2,001	38,103	40,104
Disposal of subsidiary	(202,096)	(3,511)	(205,607)	-	-	-
Impairment*	-	(38,103)	(38,103)	-	-	-
Fair value adjust- ments	-	-	-	(14,532)	-	(14,532)
At the end of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>202,096</u>	<u>41,614</u>	<u>243,710</u>

*Impairment of QAR 38 million relates to one of the Group's subsidiaries and therefore is presented as a part of other expenses in results of non-banking activities, refer to Note 22.

13. FIXED ASSETS

	Plant and machinery	Land and buildings	Equipment	Furniture and fixture	Building renovations	Motor vehicles	Capital work in progress	Total
Cost								
As at 1 January 2017	75,082	72,556	62,989	67,764	20,215	2,357	1,174	302,137
Additions	435	-	12,991	-	10,413	234	19,004	43,077
Transfers	1,670	(1,721)	2,772	(2,441)	446	-	(726)	-
Disposals / write-off	-	-	(4,311)	(501)	(42)	-	-	(4,854)
As at 31 December 2017	<u>77,187</u>	<u>70,835</u>	<u>74,441</u>	<u>64,822</u>	<u>31,032</u>	<u>2,591</u>	<u>19,452</u>	<u>340,360</u>
Accumulated depreciation								
As at 1 January 2017	(47,586)	(7,770)	(39,711)	(31,536)	(5,570)	(1,421)	-	(133,594)
Depreciation charge*	(4,762)	(840)	(8,691)	(5,153)	(2,325)	(287)	-	(22,058)
Disposals / write-off	-	-	4,274	974	(473)	-	-	4,775
As at 31 December 2017	<u>(52,348)</u>	<u>(8,610)</u>	<u>(44,128)</u>	<u>(35,715)</u>	<u>(8,368)</u>	<u>(1,708)</u>	<u>-</u>	<u>(150,877)</u>
Net book value as at 31 December 2017	<u>24,839</u>	<u>62,225</u>	<u>30,313</u>	<u>29,107</u>	<u>22,664</u>	<u>883</u>	<u>19,452</u>	<u>189,483</u>
Cost								
As at 1 January 2018	77,187	70,835	74,441	64,822	31,032	2,591	19,452	340,360
Additions	828	-	8,621	38	5,720	218	4,815	20,240
Reclassification to assets held-for-sale	-	-	(4,128)	(706)	(12,519)	(315)	-	(17,668)
Disposal of a subsidiary	-	-	(52,364)	(2,121)	(21,723)	-	(54)	(76,262)
Disposals / write-off	-	-	(47)	-	-	(186)	-	(233)
As at 31 December 2018	<u>78,015</u>	<u>70,835</u>	<u>26,523</u>	<u>62,033</u>	<u>2,510</u>	<u>2,308</u>	<u>24,213</u>	<u>266,437</u>
Accumulated depreciation								
As at 1 January 2018	(52,348)	(8,610)	(44,128)	(35,715)	(8,368)	(1,708)	-	(150,877)
Depreciation charge*	(4,708)	(714)	(8,532)	(4,847)	(2,863)	(236)	-	(21,900)
Reclassification to assets held-for-sale	-	-	2,554	706	3,909	203	-	7,372
Disposal of a subsidiary	-	-	24,859	1,857	5,115	-	-	31,831
Disposals / write-off	-	-	1	-	-	109	-	110
As at 31 December 2018	<u>(57,056)</u>	<u>(9,324)</u>	<u>(25,246)</u>	<u>(37,999)</u>	<u>(2,207)</u>	<u>(1,632)</u>	<u>-</u>	<u>(133,464)</u>
Net book value as at 31 December 2018	<u>20,959</u>	<u>61,511</u>	<u>1,277</u>	<u>24,034</u>	<u>303</u>	<u>676</u>	<u>24,213</u>	<u>132,973</u>

*Depreciation charge of QAR 21.9 million (2017: QAR 22.1 million) and amortisation charge (Note 14) of QAR 3.9 million (2017: QAR 10.6 million) include aggregately QAR 9.7 million (2017: QAR 10.5 million) of charges attributable to direct banking activities and the remaining to non-banking activities.

14. INTANGIBLE ASSETS

	Software and core banking system	Brand and contractual relation- ships	Total
At 1 January 2017			
Cost:			
Beginning balance	38,819	34,969	73,788
Additions during the year	2,077	-	2,077
At 31 December 2017	<u>40,896</u>	<u>34,969</u>	<u>75,865</u>
Amortisation			
Beginning balance	(18,569)	(28,514)	(47,083)
Amortisation charge for the year	(4,121)	(6,455)	(10,576)
At 31 December 2017	<u>(22,690)</u>	<u>(34,969)</u>	<u>(57,659)</u>
Net book value as at 31 December 2017	<u>18,206</u>	<u>-</u>	<u>18,206</u>
As at 1 January 2018			
Cost:			
Beginning balance	40,896	34,969	75,865
Additions during the year	2,137	-	2,137
Disposal of a subsidiary	(6,996)	(34,969)	(41,965)
At 31 December 2018	<u>36,037</u>	<u>-</u>	<u>36,037</u>
Amortisation			
Beginning balance	(22,690)	(34,969)	(57,659)
Amortisation charge for the year	(3,980)	-	(3,980)
Disposal of a subsidiary	1,435	34,969	36,404
At 31 December 2018	<u>(25,235)</u>	<u>-</u>	<u>(25,235)</u>
Net book value at 31 December 2018	<u>10,802</u>	<u>-</u>	<u>10,802</u>

15. ASSETS AND LIABILITIES OF DISPOSAL GROUPS CLASSIFIED AS HELD-FOR-SALE

Assets and liabilities of disposal groups classified as held -for-sale comprise of:

	Notes	31 December 2018	31 December 2017
Assets of disposal groups classified as held-for-sale	15.1	632,906	570,866
Equity investments held-for-sale	15.2	98,504	-
Total		<u>731,410</u>	<u>570,866</u>
Liabilities of disposal group classified as held-for-sale	15.1	<u>431,336</u>	<u>362,132</u>

15 ASSETS AND LIABILITIES OF DISPOSAL GROUPS CLASSIFIED AS HELD-FOR-SALE (Continued)

15.1 Assets and liabilities of disposal groups classified as held-for-sale

15.1.1 Assets and liabilities of Real Estate Structures

As a part of its business, the Bank from time to time enters into various structures to invest indirectly in real estate properties and aircrafts using special purpose vehicles (“SPV”) with an intention to sell substantial part of it to investors. Until the Bank ceases its control over those SPVs, they are consolidated by the Bank as a result of application of the accounting consolidation rules under Financial Accounting Standard 23 whereby an entity needs to consolidate an SPV based on economic substance despite the fact that the SPV is not legally owned by and not legally related to the Bank. The financings of these SPVs related to the real estate property have no recourse to the Bank.

(a) US Real Estate Structures

During 2017 the Bank entered into a structure to invest indirectly to acquire 95% in real estate property in the United States of America (the “Jefferson flats”) and during the second quarter of 2018, the Bank entered into another structure to acquire 99.1% stake in real estate (the “Kennedy flats”) (together referred as “US Real Estate Structures”). These US real estate properties thereafter are leased under Ijara terms. During the year, the Bank sold a 90% stake out of 95% in the Jefferson flats and 39.1% stake out of 99.1% in Kennedy flats to its investors. As a result of ceasing its control over Jefferson flats, the Bank de-consolidated Jefferson flats with carrying value of QAR 97 million as at 31 December in these consolidated financial statements and classified investment in remaining stake of QAR 4.9 million within equity investments at fair value through equity, refer to Note 11. The carrying value of Kennedy flats as at 31 December 2018 of QAR 103.8 million was consolidated within these consolidated financial statements.

(b) UK Real Estate Structures

During 2017 the Bank entered into a structure to invest indirectly to acquire 100% in real estate property in the United Kingdom (the “UK Real Estate Structure”). The real estate was financed partly by the Bank through a murabaha contract with an option to acquire the underlying real estate. As at 31 December 2018 the Bank sold a 63.7% stake out of 100% in the UK Real Estate Structure to its investors. The carrying value of UK Real Estate Structures as at 31 December 2018 of QAR 110.6 million (31 December 2018: QAR 111.7 million)

15.1.2 Assets and liabilities of subsidiaries held-for-sale

(a) Assets and liabilities of subsidiary disposed during the year

In December 2018, the Bank sold one of its subsidiaries. As a consequence of ceasing its control over this subsidiary, the Bank de-consolidated the subsidiary’s assets and liabilities in these consolidated financial statements and results has been now presented in the consolidated income statement as “discontinued operations” as it represents a separate major line of business. The comparative consolidated income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

(b) Assets and liabilities of a subsidiary

The assets of and liabilities related to a subsidiary have been presented in the consolidated statement of financial position as “held-for-sale”, with a negative carrying value of QAR 2.8 million.

15 ASSETS AND LIABILITIES OF DISPOSAL GROUPS CLASSIFIED AS HELD-FOR-SALE (Continued)

Results thereof were classified as discontinued operations and comparatives re-presented in the consolidated income statement.

15.1.3. Analysis of disposal group assets/liabilities, results and cashflows

(a) Asset and liabilities of disposal groups classified as held for sale

Analysis of assets and liabilities of disposal groups, which include Real Estate structures and a subsidiary held- for-sale, are as follows:

	31 December 2018	31 December 2017
Assets of disposal groups classified as held-for-sale		
<i>Financial assets</i>		
Cash and cash equivalents	<u>14,981</u>	16,858
<i>Total financial assets</i>	<u>14,981</u>	16,858
<i>Non-financial assets</i>		
Investments in real estate	567,551	534,395
Fixed assets	10,295	-
Other assets	<u>40,079</u>	19,613
<i>Total non-financial assets</i>	<u>617,925</u>	554,008
Total assets of disposal groups classified as held for sale	<u><u>632,906</u></u>	<u><u>570,866</u></u>
Liabilities of disposal groups classified as held-for-sale		
Financial liabilities	376,811	350,041
Other financial liabilities	<u>54,525</u>	12,091
Total liabilities of disposal groups classified as held for sale	<u><u>431,336</u></u>	<u><u>362,132</u></u>
Net carrying value	<u><u>201,570</u></u>	<u><u>208,734</u></u>

(b) Analysis of results of discontinued operations, which include held-for sale and disposed subsidiaries is as follows:

	2018	2017 <i>Restated</i>
Revenue	196,550	294,035
Expenses	<u>(260,478)</u>	<u>(341,242)</u>
Net income from discontinued operations	<u><u>(63,928)</u></u>	<u><u>(47,207)</u></u>
Attributable to		
- Equity holders of the Bank	(56,636)	(40,033)
- Non-controlling interest	<u>(7,292)</u>	<u>(7,174)</u>

(c) Analysis of cashflows of discontinued operations is as follows:

	2018	2017
Operating cash flows	15,035	(37,567)
Investing cash flows	<u>(232,575)</u>	<u>(555,816)</u>
Financing cash flows	<u>211,043</u>	<u>607,613</u>
	<u><u>(6,497)</u></u>	<u><u>14,230</u></u>

15 ASSETS AND LIABILITIES OF DISPOSAL GROUPS CLASSIFIED AS HELD-FOR-SALE (Continued)

15.2. Equity investments held-for-sale

During July 2018, the Bank signed a sale purchase agreement, subject to conditions precedent, to sell its investments in Turkey, namely English Home and Memorial, for a series of installments. During the third quarter of 2018, the Bank successfully completed of sale of Memorial with a carrying value of QAR 209 million and recognized a loss on disposal of QAR 119 million. Sale of English Home is still subject to conditions precedent and accordingly the Bank had classified and presented this investment having fair value of QAR 59.8 million, under assets held-for-sale in the consolidated financial statements for the year ended 31 December 2018.

The Bank is actively pursuing the sale of another investment having fair value of QAR 38.7 million and has therefore reclassified it to assets-held-for-sale in its consolidated financial statements for the year ended 31 December 2018. Subsequent to year-end, this investment was sold, refer to Note 34.

15.3. Disposal of Subsidiary

In December 2018, the Group disposed its subsidiary - Al Wasita Emirates for Catering Services.

The details of the disposal gain and of the disposed assets and liabilities are as follows:

	Carrying value
Cash and cash equivalents	(27,870)
Accounts receivable	(273,609)
Inventory	(29,919)
Investment in real estate	(208,557)
Fixed assets	(44,431)
Intangible assets	(5,561)
Other assets	(70,259)
Financial liabilities	385,900
Other liabilities	188,656
Net assets of discontinued operations	(85,650)
Less: non controlling interest	15,545
Carrying value of disposed assets	(70,105)
Present value of deferred considerations	86,650
Gain on disposal	16,545

Results of disposed subsidiaries up to the date of the disposal were presented within Note 15.1.3 (b).

16. OTHER ASSETS

Other assets comprise the following:

		31 December 2018	31 December 2017
	<i>Note</i>		
<i>Other non-financial assets</i>			
Prepayments		3,341	67,945
Total other non-financial assets		3,341	67,945
<i>Other financial assets</i>			
Refundable deposits		6,165	4,421
Due from related parties	28	4,120	12,424
Due from employees		656	4,069
Fair value of Sharia-compliant-risk-management instruments	31.2	23,789	4,342
Other receivables		5,164	31,879
Provision for impairment	30.6.5	(814)	-
Total other financial assets		39,080	57,135
Total other assets		42,421	125,080

17. FINANCING LIABILITIES

	31 December 2018	31 December 2017
Accepted wakala deposits	168,012	305,393
Murabaha financing	242,215	487,351
Ijara financing	-	20,231
	410,227	812,975

As at 31 December 2018, QAR 151 million investments in sukuk (31 December 2017: nil) and equity investments with a carrying amount of QAR 93.3 million (31 December 2017: QAR 252 million) were pledged against certain murabaha financing liabilities.

As at 31 December 2018 the Group breached certain debt covenants stipulated in their financing liabilities contracts, whose carrying amount was QAR 138 million. The Bank has been re-negotiating the terms with the counterparty. Subsequent to the year end, although, the revised terms have not yet been signed, the principal terms have been agreed. Therefore, as at 31 December 2018 the related amount has been classified as payable on demand.

18. CUSTOMERS' BALANCES

	31 December 2018	31 December 2017
Customers' current accounts	43,362	92,093
Wakala and murabaha deposits	4,491	7,883
Total customers' balances	47,853	99,976

19. OTHER LIABILITIES

	31 December <i>Note</i> 2018	31 December 2017
<i>Other non-financial liabilities</i>		
Unearned revenue	141	6,035
Advances and other payables	3,348	30,802
Total other non-financial liabilities	3,489	36,837
<i>Other financial liabilities</i>		
Accounts payable	24,147	155,386
Staff-related payables	19,843	33,538
Dividends payable	18,491	19,219
Due to related parties	28 13,723	13,723
Provision for off-balance sheet exposures	30.6.5 3,873	-
Other payables and accrued expenses*	3,554	14,059
Total other financial liabilities	83,631	235,925
Total other liabilities	87,120	272,762

20. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS

a) By type

	31 December 2018	31 December 2017
Term accounts	1,151,249	1,702,980
Profit payable to equity of investment account holders	7,322	10,813
	1,158,571	1,713,793

b) By sector

	31 December 2018	31 December 2017
Individual	119,750	154,753
Government	202,021	95,592
Corporate	836,800	1,463,448
	1,158,571	1,713,793

Bank's net mudaraba income calculation is presented below:

	31 December 2018	31 December 2017
Return on equity of unrestricted investment account holders in the profit before Bank's Mudaraba income	62,540	86,295
Return distribution to unrestricted investment account holders		
- Return on unrestricted investment account holders	59,413	82,113
- Amount waived by the Bank in favour of unrestricted investment account holders	3,162	2,066
- Mudarib's incentives	(3,646)	(4,555)
Total return to unrestricted investment account holders	58,929	79,624
Bank's net mudaraba income	3,611	6,671

Calculation of return on mudarabah assets includes only stage 3 provisions, in accordance with resolution of Shari'a Supervisory Board of the Bank. The impact of first time FAS 30 application of QAR 19 million that pertains to stage 3 provisions was temporarily absorbed by the Bank.

20 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS (Continued)

Due to the terms of profit sharing ratios (predominantly at 5% to mudarib and 95% to investment account holders) on mudaraba agreements and in order to align to general market profit rates, the Bank increased the income of the unrestricted investment account holders by waiving part of its incentive. The amount waived was QAR 3.2 million (2017: QAR 2.1 million), as presented in above table.

21. SHARE CAPITAL

	31 December 2018	31 December 2017
Authorized		
250,000,000 ordinary shares (2017: 250,000,000 ordinary shares) of QAR 10 each	<u>2,500,000</u>	<u>2,500,000</u>
Issued and paid		
200,000,000 ordinary shares (2017: 200,000,000 ordinary shares) of QAR 10 each	<u>2,000,000</u>	<u>2,000,000</u>

22. REVENUE AND EXPENSES FROM NON-BANKING ACTIVITIES

	2018	2017 <i>Restated</i>
Sales	110,364	93,594
Other income	-	2,296
Revenue from non-banking activities	<u>110,364</u>	<u>95,890</u>
Cost of sales	(83,628)	(77,489)
Other expenses	(23,625)	(17,265)
Impairment charges	(38,103)	-
Expenses from non-banking activities	<u>(145,356)</u>	<u>(94,754)</u>
Net (loss) / income from non-banking activities	<u>(34,992)</u>	<u>1,136</u>

23. OTHER INCOME

	2018	2017
Net foreign exchange gain / (loss) *	20,612	(10,967)
Rental income	9,232	8,344
Fee and other miscellaneous income	<u>19,771</u>	<u>10,077</u>
	<u>49,615</u>	<u>7,454</u>

*Includes unrealised fair value of Sharia-compliant-risk-management instruments as disclosed in Note 31.2.

24. OTHER OPERATING EXPENSE

	2018	2017
Rent expense	22,500	22,500
Professional services	8,262	8,003
Other	<u>15,142</u>	<u>23,954</u>
	<u>45,904</u>	<u>54,457</u>

25. BASIC / DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net loss attributable to the Banks' shareholders and the weighted average number of shares outstanding during the year.

	2018	2017
	Note	Restated
<i>Basic earnings per share</i>		
Net loss attributable to the equity holders of the Bank from continuing operations	(425,269)	(225,368)
Net profit attributable to the equity holders of the Bank from discontinued operations	15.2 <u>(56,636)</u>	<u>(43,892)</u>
Net loss attributable to the equity holders of the Bank	<u>(481,905)</u>	<u>(269,260)</u>
Total weighted average number of shares	200,000	200,000
Basic loss per share from continuing operations - QAR	(2.13)	(1.13)
Basic earnings per share from discontinued operations - QAR	(0.28)	(0.22)
Basic loss per share - QAR	<u>(2.41)</u>	<u>(1.35)</u>

Since there is no dilutive impact, basic earnings per share equal the dilutive earning per shares.

26. CONTINGENT LIABILITIES

The Group had the following contingent liabilities at the year-end:

	31 December 2018	31 December 2017
Letters of guarantee	722,590	202,601
Unutilised credit facilities	90,307	40,589
	<u>812,897</u>	<u>243,190</u>

Contingent liabilities related to Sharia-compliant-risk-management instruments as disclosed in Note 31.2.

27. COMMITMENTS

	31 December 2018	31 December 2017
Commitment for operating lease		
Later than one year	22,500	50,335
No later than one year	<u>22,500</u>	<u>26,547</u>
	45,000	76,882
Investment related commitment	-	48,206
Commitment for operating and capital expenditure	<u>-</u>	<u>2,851</u>
	<u>45,000</u>	<u>127,939</u>

28. RELATED PARTIES TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include the significant owners and entities over which the Group and the owners exercise significant influence, directors and senior management personnel of the Group, close family members, entities owned or controlled by them, associates and affiliated companies. Balances and transactions in respect of related parties included in the financial statements are as follows:

		As at and for year ended 31 December 2018		
		Affiliated entities/ directors	Associates	Total
		Notes		
<i>a) Consolidated statement of financial position</i>				
Financing assets	8	7,688	60,885	68,573
Other assets	16	437	3,683	4,120
Customers' balances		5	-	
Other liabilities	19	-	13,723	13,723
<i>b) Consolidated income statement</i>				
Income from financing assets		667	6,581	7,248
		As at and for year ended 31 December 2017		
		Affiliated entities/ directors	Associates	Total
		Notes		
<i>a) Consolidated statement of financial position</i>				
Financing assets	8	7,021	121,728	128,749
Other assets	16	12,424	-	12,424
Other liabilities	19	13,723	-	13,723
<i>b) Consolidated income statement</i>				
Income from financing assets		363	7,316	7,679
Dividend income		-	19,871	19,871

Key management compensation is presented below:

	2018	2017 Restated
<i>c) Compensation of key management personnel</i>		
Senior management personnel	12,711	15,807
Shari'a Supervisory Board remuneration	508	536
	<u>13,219</u>	<u>16,343</u>

29. ZAKAH

Zakah is directly borne by the owners. The Group does not collect or pay Zakah on behalf of its owners. Zakah payable by the owners is computed by the Group on the basis of the method prescribed by the Shari'a Supervisory Board of the Bank and notified to the Owners. Zakah payable by the owners, for the year ended 31 December 2018 was QAR 0.1078 for every share held (2017: QAR 0.1370). However, if shares of the Bank are owned for trading purposes then share price, at the time of Zakah calculation, should be as a basis for Zakah.

30. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

30.1. Financial instruments definition and classification

Financial instruments comprise all financial assets and liabilities of the Group. Financial assets include cash and cash equivalents, investment carried at amortised cost, financing assets, accounts receivable, equity investments and other financial assets. Financial liabilities include customer balances, due to banks and other financial liabilities. Financial instruments also include contingent liabilities and commitments included in off financial position items.

Note 3 explains the accounting policies used to recognise and measure the significant financial instruments and their respective income and expenses items.

30.2. Fair value of financial instruments

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. Fair value is determined for each investment individually in accordance with the valuation policies adopted by the Group as set out in 3.10.

30.3. Risk management

QFB perceives strong risk management capabilities to be the foundation in delivering results to customers, investors and shareholders Risk is an inherent part of the Group's business activities. Our Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place.

The risk management framework of the Bank encapsulates the spirit of the following key principles for Risk Management as articulated by Basel III:

- Management oversight and control
- Risk culture and ownership
- Risk recognition and assessment
- Control activities and segregation of duties
- Information and communication
- Monitoring Risk Management activities and correcting deficiencies.

30.4. Risk framework and governance

The Group's risk management process is an integral part of the organisation's culture and is embedded into all of its practices and processes. The Board of Directors (the Board), and a number of Board's subcommittees including Executive Committee; and Audit, Risk and Compliance Committee; management committees; and executive management all contribute to the effective Group wide management of risk.

The Audit, Risk and Compliance Committee is tasked with implementing risk management policies, guidelines and limits as well as ensuring that monitoring processes are in place. The Risk Management Department provides independent monitoring to both the Board and the Audit, Risk and Compliance Committee whilst also working closely with the business units which ultimately own and manage the risks.

30 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

30.5. Investment risk

Equity investment risks are identified and assessed via extensive due diligence activities conducted by the respective investment departments. The Group's investments in venture capital are by definition in illiquid markets, frequently in emerging markets. Such investments cannot generally be hedged or liquidated easily. Consequently, the Group seeks to mitigate its risks via more direct means. Post-acquisition risk management is rigorously exercised, mainly via board representation within the investee company, during the life of the private equity transaction. Periodic reviews of investments are undertaken and presented to the Investment Committee for review. Concerns over risks and performance are addressed via the investment area responsible for managing the investment under the oversight of the Investment Committee.

30.6. Credit risk

Credit risk is the risk that the Group will incur a loss of principal or profit earned because its customers, clients or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, related parties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The table below shows the maximum exposure to credit risk for the relevant components of the financial position.

		31 December 2018	31 December 2017
	<i>Notes</i>		
Balances with banks	5	35,398	76,808
Placements with financial institutions	5	202,182	280,517
Due from banks	6	-	477,218
Investments carried at amortised cost	7	150,801	157,471
Financing assets	8	1,479,789	1,490,186
Accounts receivable	9	24,230	315,272
Financial assets of disposal group classified as held-for-sale	15	14,981	16,858
Other financial assets	16	39,080	57,135
		<u>1,946,461</u>	<u>2,871,465</u>

30.6.1. Concentration of risks

As an active participant in the banking markets, the Group has a significant concentration of credit risk with other financial institutions. At 31 December 2018 the Group had balances with one counterparty bank (31 December 2017: 2 banks) with aggregated amounts above QAR 150 million (31 December 2017: QAR 250 million). The total aggregate amount of these deposits was QAR 203 million (31 December 2017: QAR 640 million).

The analysis by geographical region of the Group's financial assets having credit risk is as follows:

	31 December 2018	31 December 2017
Qatar	1,648,181	2,302,789
Asia & Middle East	205,388	419,520
North America	10,025	24,380
Europe & Others	82,867	124,776
	<u>1,946,461</u>	<u>2,871,465</u>

30 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

The distribution of financial assets having credit risk by industry sector is as follows:

	31 December 2018	31 December 2017
Real Estate	1,119,849	1,168,524
Financials	333,092	954,675
Business Service	130,574	7,021
Construction	110,087	101,786
Consumer Services	108,577	102,093
Others	144,282	537,366
	<u>1,946,461</u>	<u>2,871,465</u>

30.6.2. Credit Quality

The credit quality of financial assets is managed by Group using internal and external credit risk ratings. The Group follows an internal rating mechanism for grading relationship across its credit portfolio.

The Group utilises a scale ranging from 1 to 10 for credit relationship with 1 to 7 denoting performing grades, 8, 9 and 10 denoting non-performing. All credits are assigned a rating in accordance with defined criteria.

The Group endeavours continuously to improve upon internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group. All financing relationships are reviewed at least once in a year and more frequently in case of non-performing assets.

30 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

The following table provides the details for the credit quality:

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Cash and cash equivalents					
Performing (AAA to B-)	237,837	-	-	237,837	372,029
Substandard(CCC+ to CCC-)	-	-	-	-	-
	237,837	-	-	237,837	372,029
Allowance for impairment	(140)	-	-	(140)	-
Net carrying amount	237,697	-	-	237,697	372,029
Due from banks					
Performing (AAA to B-)	-	-	-	-	477,218
Allowance for impairment	-	-	-	-	-
Net carrying amount	-	-	-	-	477,218
Investments carried at amortised cost					
Performing (AAA to B)	45,479	-	-	45,479	157,471
Underperforming (B-)	-	120,410	-	120,410	-
	45,479	120,410	-	165,889	157,471
Allowance for impairment	(29)	(15,059)	-	(15,088)	-
Net carrying amount	45,450	105,351	-	150,801	157,471
Financing assets					
Performing (Grades 1 to 6)	782,778	-	-	782,778	1,416,349
Under-performing (Grade 7)	-	646,910	-	646,910	-
Non-performing (Grade 8 to 10)	-	-	196,259	196,259	144,414
	782,778	646,910	196,259	1,625,947	1,560,763
Allowance for impairment	(3,540)	(30,890)	(111,728)	(146,158)	(70,577)
Net carrying amount	779,238	616,020	84,531	1,479,789	1,490,186
Financing commitments and financial guarantee					
Performing (Grades 1 to 6)	781,530	-	-	781,530	243,190
Under-performing (Grade 7)	-	29,979	-	29,979	-
Non-performing (Grade 8 to 10)	-	-	1,388	1,388	-
	781,530	29,979	1,388	812,897	243,190
Allowance for impairment	(2,202)	(1,255)	(416)	(3,873)	-

30 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

Collateral

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

The fair value of the collateral held against credit-impaired financing assets as at 31 December 2018 is QR 44.8 million (2017: QR 44.8 million).

Renegotiated financing assets

Restructuring activities include extended payment arrangements, approved external management plans, and modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated financing assets as at 31 December 2018 amounted to QAR 709.4 million (2017: QAR 30.4 million).

30.6.3. Repossessed collateral

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. There were nil repossessed property as at 31 December 2018 and 31 December 2017.

30.6.4. Write-off policy

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

This determination is made after considering information such as the occurrence of significant changes in the financed counterparty's / issuer's financial position such that the financed counterparty/ issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised financing assets, write-off decisions generally are based on a product-specific past due status.

30.6.5. Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk (SICR)

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis including internal credit risk grading system, external risk ratings, where available, delinquency status of accounts, credit judgement and, where possible, relevant historical experience. The Group may also determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

30 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

In determining whether credit risk has increased significantly since initial recognition following criteria are considered:

- Two notches downgrade for rating from 1 to 4 or one notch downgrade for ratings from 5 and 6
- Facilities rescheduled during previous twelve months
- Facilities overdue by more than 30 days as at the reporting date, unless rebutted based on other qualitative supportable information
- Any other reason as per management discretion that evidence a significant increase in credit risk

Credit risk grades

Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of financed counterparty. Exposures are subject to on-going monitoring, which may result in an exposure being moved to a different credit risk grade.

Generating the term structure of Probability of Default (PD)

The Group employs statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Group has exposures.

Renegotiated financial assets

The contractual terms of a financing may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing financing whose terms have been modified may be derecognised and the renegotiated financing recognised as a new financing at fair value. Where possible, the Group seeks to restructure financing rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new financing conditions. Management continuously reviews renegotiated financing to ensure that all criteria are met and that future payments are likely to occur.

The accounts which are restructured due to credit reasons in past 12 months will be classified under Stage 2.

Definition of default

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

- the financed counterparty is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financed counterparty is past due more than 90 days on any material credit obligation to the Group, unless rebutted based on other qualitative supportable information.

30 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

- rated internally as 8, 9 or 10 corresponding to the Qatar Financial Centre Regulatory Authority (QFCRA) categories of substandard, doubtful and loss, respectively.

In assessing whether a financed counterparty is in default, the Group considers indicators that are:

- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

Incorporation of forward-looking information

Incorporating forward-looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables affecting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the “base economic scenario”) are updated from the World economic outlook: IMF country data and other reliable sources which provide the best estimate view of the economy over the next five years.

Economic variable assumptions

The most significant period-end assumption used for the ECL estimate as at 31 December 2018 was GDP (2019: 2.7%, 2020: 2.6%).

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors and are supplemented by external PD data where available.

30 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the forecasted collateral value and the Group assumes that haircut percentage applied to Collateral value as per QFCRA.

LGD estimation includes:

- Recovery Rate: Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default. It would also account for expected recovery rate from a general claim on the individual's assets for the unsecured portion of the exposure.
- Discounting Rate: Defined as the opportunity cost of the recovery value not being realized on the day of default adjusted for time value.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments. Comparative amounts represent allowance account for credit losses and reflect measurement basis under relevant FAS:

30 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Cash and cash equivalents					
Balance at 1 January	-	-	-	-	-
Impact of initial application	90	-	-	90	-
	90	-	-	90	-
Impairment allowance for the year, net	50	-	-	50	-
Balance at 31 December	140	-	-	140	-
Due from banks					
Balance at 1 January	-	-	-	-	-
Impact of initial application	25	-	-	25	-
	25	-	-	25	-
Recovery for the year, net	(25)	-	-	(25)	-
Balance at 31 December	-	-	-	-	-
Investments carried at amortised cost					
Balance at 1 January	-	-	-	-	-
Impact of initial application	295	-	-	295	-
	295	-	-	295	-
Transfers to Stage 2	(290)	290	-	-	-
Impairment allowance for the year, net	24	14,769	-	14,793	-
Balance at 31 December	29	15,059	-	15,088	-
Financing assets					
Balance at 1 January	5,399	9,117	56,061	70,577	70,577
Impact of initial application	(3,933)	14,915	19,343	30,325	-
	1,466	24,032	75,404	100,902	70,577
Transfers to Stage 1	1,245	(1,245)	-	-	-
Transfers to Stage 2	(350)	350	-	-	-
Transfers to Stage 3	(464)	-	464	-	-
Impairment allowance for the year, net	1,643	7,753	35,860	45,256	-
Balance at 31 December	3,540	30,890	111,728	146,158	70,577
Off balance sheet instruments, subject to credit risk					
Balance at 1 January	-	-	-	-	-
Impact of initial application	2,282	1,953	1,278	5,513	-
	2,282	1,953	1,278	5,513	-
Impairment allowance for the year, net	(80)	(698)	(862)	(1,640)	-
Balance at 31 December	2,202	1,255	416	3,873	-

As at 31 December 2018 accounts receivable balances are classified as stage 2 with a gross credit exposure of QAR 27 million and related provision of QAR 2.8 million (impact of FAS 30 adoption to opening equity was QAR 10.3 million out of which QAR 10 million was related to a subsidiary disposed off). Provision for impairment charge for 2018 was QAR 0.2 million, presented within results of non-banking activities.

30 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

30.7. *Liquidity risk and funding management*

Liquidity risk is defined as the risk that the Group will not have sufficient funds available to meet its financial liabilities as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Treasury department collects information regarding the liquidity profile of the Bank's financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then maintains a portfolio of short-term liquid assets to ensure that sufficient liquidity is maintained within the Bank as a whole.

All liquidity policies and procedures are subject to review and approval by Assets-Liabilities Management Committee (ALCO) which also regularly receives reports relating to the Bank's liquidity position.

Below table summarises undiscounted cash outflows of financial liabilities, these amounts will not reconcile to the amounts disclosed in the statement of financial position:

	31 December 2018	31 December 2017
On demand	242,782	446,181
Less than 3 months	1,271,864	1,497,830
3 to 6 months	7,186	651,086
6 to 12 months	199,725	211,372
1 to 5 years	433,451	456,130
Total	<u>2,155,008</u>	<u>3,262,600</u>

30 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled.

	On demand	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Total
At 31 December 2018						
Financial assets						
Cash and cash equivalents	35,515	202,182	-	-	-	237,697
Investments carried at amortised cost	-	1,125	-	-	149,676	150,801
Financing assets	-	271,448	132,314	186,941	889,086	1,479,789
Accounts receivable	24,230	-	-	-	-	24,230
Equity investments	-	-	-	-	409,320	409,320
Financial assets held-for-sale	-	14,981	38,584	59,920	-	113,485
Other financial assets	39,080	-	-	-	-	39,080
Total financial assets	98,825	489,736	170,898	246,861	1,448,082	2,454,402
Financial liabilities and equity of unrestricted investment account holders						
Financing liabilities	138,309	271,918	-	-	-	410,227
Customers' balances	47,853	-	-	-	-	47,853
Other financial liabilities	56,497	14,695	7,186	3,138	2,115	83,631
Equity of unrestricted investment account holders	123	970,650	-	187,798	-	1,158,571
Financial liabilities of disposal groups classified as held-for-sale	-	-	-	-	431,336	431,336
Total financial liabilities and equity of unrestricted investment account holders	242,782	1,257,263	7,186	190,936	433,451	2,131,618
Net liquidity gap	(143,957)	(767,527)	163,712	55,925	1,014,631	322,784
Net cumulative gap	(143,957)	(911,484)	(747,772)	(691,847)	322,784	
Contingent liabilities*	90,307	-	35,088	345,802	341,700	812,897
Commitments	-	-	-	-	-	-

*Contingent liabilities related to Sharia-compliant-risk-management instruments as disclosed in Note 31.

30 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

The table below shows an analysis of financial assets and liabilities according to when they are expected to be recovered or settled.

	On demand	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Total
At 31 December 2017						
Financial assets						
Cash and cash equivalents	99,688	272,341	-	-	-	372,029
Due from banks	-	112,217	365,001	-	-	477,218
Investments carried at amortised cost	-	-	-	-	157,471	157,471
Financing assets	25,100	116,986	28,342	66,010	1,253,748	1,490,186
Accounts receivable	2,233	64,808	33,694	79,578	134,959	315,272
Equity investments	-	-	-	-	923,454	923,454
Financial assets held-for-sale	16,858	-	-	-	-	16,858
Other financial assets	-	2,206	2,780	4,489	47,660	57,135
Total financial assets	143,879	568,558	429,817	150,077	2,517,292	3,809,623
Financial liabilities and equity of unrestricted investment account holders						
Financing liabilities	321,691	-	443,732	-	47,552	812,975
Customers' balances	99,976	-	-	-	-	99,976
Other financial liabilities	24,514	46,559	42,552	67,828	54,472	235,925
Equity of unrestricted investment account holders	-	1,428,083	150,073	135,637	-	1,713,793
Financial liabilities of disposal groups classified as held-for-sale	-	6,479	698	3,940	351,015	362,132
Total financial liabilities and equity of unrestricted investment account holders	446,181	1,481,121	637,055	207,405	453,039	3,224,801
Net liquidity gap	(302,302)	(912,563)	(207,238)	(57,328)	2,064,253	584,822
Net cumulative gap	(302,302)	(1,214,865)	(1,422,103)	(1,479,431)	584,822	
Contingent liabilities*	-	24,354	22,018	32,306	164,512	243,190
Commitments	-	64,245	882	12,477	50,335	127,939

*Contingent liabilities related to Sharia-compliant-risk-management instruments as disclosed in Note 31.

30 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

30.8. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in market variables such as profit rates, foreign exchange rates, equity prices and commodities. The Group classifies exposures to market risk into either listed or non-listed corporate investments.

30.8.1. Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Group's current exposure to profit rate risk is limited to the following:

- The Group's placement with the financial institutions (classified as 'Placements with financial institutions');
- The Group's investment portfolio of Sukuk (classified as "Investments at amortised cost");
- The Group's investments in murabaha (classified as "Financing assets"); and
- Amounts borrowed by the Group from financial institutions (classified as "Financing liabilities").

The following table demonstrates the sensitivity to a 100 basis point (bp) change in profit rates, with all other variables held constant. The effect of decreases in profit rate is expected to be equal and opposite to the effect of the increases shown.

	31 Decem- ber 2018	Change in basis points (+/-)	Effect on net profit/ loss (+/-)
Assets			
Placements with financial institutions	202,182	100	2,022
Investments carried at amortised cost	150,801	100	1,508
Financing assets	1,479,789	100	14,798
Liabilities and Equity of unrestricted investment account holders			
Financing liabilities	410,227	100	(4,102)
Equity of unrestricted investment account holders	1,158,571	100	(11,586)
Financial liabilities of disposal group classified as held-for-sale	376,811	100	(3,768)
			<u>(1,128)</u>

30 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

	31 Decem- ber 2017	Change in basis points (+/-)	Effect on net profit/ loss (+/-)
Assets			
Placements with financial institutions	280,517	100	2,805
Due from banks	477,218	100	4,772
Investments carried at amortised cost	157,471	100	1,575
Financing assets	1,490,186	100	14,902
Liabilities and Equity of unrestricted investment account holders			
Financing liabilities	812,975	100	8,130
Equity of unrestricted investment account holders	1,713,793	100	17,138
Financial liabilities of disposal group classified as held-for-sale	350,041	100	3,500
			52,822

30.8.2. Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored regularly to ensure that positions are maintained within established limits.

The table below indicates the currencies that are pegged to the Qatari Riyals and, hence the foreign exchange risk for the Group in respect of these currencies is minimal.

Currency	Exposure (QAR equivalent)	
	31 December 2018	31 December 2017
USD	142,967	299,962
USD pegged currencies	37,829	(17,835)

The table below shows the impact of a 5% movement in the currency rate, for other than those pegged to the Qatari Riyals, against the Qatari Riyals, with all other variables held constant on the consolidated income statement and the consolidated statement of changes in Owners' equity. The effect of decreases in the currency rates is expected to be equal and opposite to the effect of the increases shown.

Currency	Exposure (QAR equivalent)		Effect on net profit (+/-)	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
GBP	6,069	(24,002)	303	(1,200)
EUR	(1,319)	7,394	(66)	370
JOD	-	21	-	1
TRY	59,920	397,852	2,996	19,893
KWD	32	32	2	2

30.8.3. Commodities price risk

The Group does not currently have commodities portfolios; hence it has no exposure to commodity price risks.

30 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

30.9. Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department facilitates the management of operational risk by way of assisting in the identification of, monitoring and managing of operational risk in the Bank. The Bank has Risk and Control Assessments and Key Risk Indicators in place for each department.

30.10. Concentration risk

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

30.11. Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements and that the Group maintains healthy capital ratios in order to support its business and to maximise Owners' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to Owners, return capital to Owners or issue new capital. 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 minimum capital adequacy ratio of 10.5% as prescribed by the Banking Business Prudential Rules of 2014.

The Group's capital resources are divided into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings and non-controlling interest after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes the fair value reserve relating to unrealised gains on equity instruments classified as investments at fair value through equity and currency translation reserve.

Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items. Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off- financial position exposures.

30 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

The Group's policy is at all times to meet or exceed the capital requirements determined by the QFCRA. There have been no material changes in the Group's management of capital during the year. The Group's capital adequacy ratio, calculated in accordance with the capital adequacy guidelines issued by the QFCRA, is as follows:

	31 December 2018	31 December 2017
Total risk weighted assets	<u>5,683,499</u>	<u>8,189,020</u>
Share capital	2,000,000	2,000,000
Accumulated deficit	(998,459)	(470,014)
Non-controlling interest	122,327	166,885
Intangible assets	(10,802)	(18,206)
Other regulatory adjustments	(79,561)	-
Total qualifying capital and reserve funds	<u>1,033,505</u>	<u>1,678,665</u>
Total capital resources expressed as a percentage of total risk weighted assets	<u>18.18%</u>	<u>20.50%</u>

31. SHARIA-COMPLIANT-RISK-MANAGEMENT INSTRUMENTS

31.1 Profit rate swap

Swaps are commitments to exchange one set of cash flows for another. In the case of profit rate swaps, counterparties generally exchange fixed and floating profit payments in a single currency without exchanging principal.

31.2 Unilateral promise to buy/sell currencies

Unilateral promises to buy/sell currencies are promises to either buy or sell a specified currency at a specific price and date in the future. The actual transactions are executed on the promise execution dates, by exchanging the purchase/sale offers and acceptances between the relevant parties. The table below shows the positive and negative fair values of Sharia-compliant-risk-management financial instruments together with the notional amounts analysed by the term to maturity. 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 and the credit and market risk, which can be identified from the derivatives fair value.

	Positive fair value	Negative fair value	Notional amount	Less than 3 months	3 to 12 months	1 to 5 years
<i>31 December 2018</i>						
Profit rate swaps	(379)	170	120,120	-	-	120,120
Unilateral promise to buy/sell currencies	24,168	(769)	741,049	250,496	490,553	-
	<u>23,789</u>	<u>(599)</u>	<u>861,169</u>	<u>250,496</u>	<u>490,553</u>	<u>120,120</u>

31. SHARIA-COMPLIANT-RISK-MANAGEMENT INSTRUMENTS (continued)

	Positive fair value	Negative fair value	Notional amount	Less than 3 months	3 to 12 months	1 to 5 years
<i>31 December 2017</i>						
Profit rate swaps	1,191	(1,090)	227,973	107,853	-	120,120
Unilateral promise to buy/sell currencies	3,151	(6,136)	833,153	802,537	3,310	27,306
	<u>4,342</u>	<u>(7,226)</u>	<u>1,061,126</u>	<u>910,390</u>	<u>3,310</u>	<u>147,426</u>

Unrealised fair value gain/loss arising from Sharia-compliant-risk management instruments were recognized in these consolidation financial statements as required by IFRS; however, as per requirement of Sharia principles gains/losses are realised when actual transactions / settlements happen.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's financial instruments are accounted for under the historical cost method with the exception of equity investments. By contrast, the fair value represents 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. Differences therefore can arise between book values under the historical cost method and fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices and the use of valuation techniques such as discounted cash flow analysis.

Set out below is a comparison of the carrying amounts and fair values of financial instruments:

	31 December 2018	
	Carrying Amount	Fair Value
Financial Assets:		
Cash and cash equivalents	237,697	237,697
Due from banks	-	-
Investments carried at amortised cost	150,801	146,396
Financing assets	1,479,789	1,479,789
Accounts receivable	24,230	24,230
Equity investments	409,320	409,320
Financial assets of disposal group classified as held-for-sale	113,485	113,485
Other financial assets	39,080	39,080
	<u>2,454,402</u>	<u>2,449,997</u>
Financial Liabilities:		
Financing liabilities	410,227	410,227
Customers' balances	47,853	47,853
Financial liabilities of disposal group classified as held-for-sale	431,336	431,336
Other financial liabilities	83,631	83,631
Equity of unrestricted investment account holders	1,158,571	1,158,571
	<u>2,131,618</u>	<u>2,131,618</u>

32 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	31 December 2017	
	Carrying Amount	Fair Value
Financial Assets:		
Cash and cash equivalents	372,029	372,029
Due from banks	477,218	477,218
Investments carried at amortised cost	157,471	146,224
Financing assets	1,490,186	1,490,186
Accounts receivable	315,272	315,272
Equity investments	923,454	923,454
Financial assets of disposal group classified as held-for-sale	16,858	16,858
Other financial assets	57,135	58,401
	<u>3,809,623</u>	<u>3,799,642</u>
Financial Liabilities:		
Financing liabilities	812,975	812,975
Customers' balances	99,976	99,976
Financial liabilities of disposal group classified as held-for-sale	362,132	362,132
Other financial liabilities	235,925	235,925
Equity of unrestricted investment account holders	1,713,793	1,713,793
	<u>3,224,801</u>	<u>3,224,801</u>

32.1. Fair value hierarchy

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,
- level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and
- level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgment in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement.

	Level 1	Level 2	Level 3	Total
<i>31 December 2018</i>				
Equity investments				
- at fair value through equity		-	31,195	31,195
- at fair value through income statement	2,435	-	375,690	378,125
Net gains and losses included in the consolidated statement of changes in owners' equity	-	-	-	-
Net gains and losses, recognized through consolidated income statement	(603)	-	(210,828)	(211,431)

Sharia-compliant-risk-management instruments related assets and liabilities, as disclosed in Note 31, belong to level 2 fair value hierarchy.

32 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	Level 1	Level 2	Level 3	Total
<i>31 December 2017</i>				
Investments in real estate	-	-	243,710	243,710
Equity investments				
- at fair value through equity	-	-	26,288	26,288
- at fair value through income statement	3,038	-	894,128	897,166
Net gains and losses included in the consolidated statement of changes in owners' equity	-	-	(5,516)	(5,516)
Net gains and losses, recognized through consolidated income statement	(1,992)	-	(149,443)	(151,435)

The fair values of financial assets and financial liabilities carried at amortised cost are equal to the carrying value, hence, not included in the fair value hierarchy table, except for investments carried at amortised cost for which the fair value amounts to QAR 146 million (31 December 2017: QAR 146 million) is derived using Level 1 fair value hierarchy.

Valuation technique used in the fair value measurement at 31 December 2018 and 2017 for level three investments included Discounted Cash flow and Market approach. The below table summarises the inputs used discounted cash flow technique:

	Valuation technique	Inputs used	Range of inputs	
			2018	2017
Investments at fair value through income statement	Discounted cash flows	Growth rate	1% to 3%	1% to 5.5%
		Discount rate	10% to 14.9%	10% to 17.1%

Movements in level 3 financial instruments

The following table shows the reconciliation of the opening and closing amount of Level 3 investments which are recorded at fair value:

	At 1 January 2018	Total losses recorded in consolidated income	Additions	Sales/transfers	At 31 December 2018
<i>Equity investments</i>					
- at fair value through equity	26,288	-	4,907	-	31,195
- at fair value through income statement	894,128	(210,828)	-	(307,610)	375,690
	<u>920,416</u>	<u>(210,828)</u>	<u>4,907</u>	<u>(307,610)</u>	<u>406,885</u>

32 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	At 1 January 2017	Total gains recorded in consolidated income statement	Additions	Sales/ transfers	At 31 December 2017
<i>Equity investments</i>					
- at fair value through equity	26,288	-	-	-	26,288
- at fair value through income statement	<u>1,028,580</u>	<u>(140,427)</u>	<u>364</u>	<u>5,611</u>	<u>894,128</u>
	<u>1,054,868</u>	<u>(140,427)</u>	<u>364</u>	<u>5,611</u>	<u>920,416</u>

Transfers between level 1, level 2 and level 3

There were no transfers between the levels during the year ended 31 December 2018 (2017: none).

The effect on the valuations due to possible changes in key variables used for valuations:

- **Growth rate:** Growth rates are assumed to be in range of 1% to 3% (2017: 1% to 5.5%) based on actual and expected performance of the investee. Should the growth rates increase / decrease by 1 percentage point (2017: 1 percentage point), the carrying value of the investments would be QAR 23.8 million higher / QAR 19.6 million lower (2017: QAR 96 million higher / QAR 78 million lower);
- **Discount rate:** The discount rates are assumed to be in range of 10%-14.9% (2017: 10% - 17.1%) for different investments. Should these discount rates increase / decrease by 1 percentage point (2017: 1 percentage point), the carrying value of the investments would be QAR 32.9 million lower / QAR 40.3 million higher (2017: QAR 116 million lower / QAR 143 million higher);
- **Expected cash flows:** Amount of expected cash flows and timing thereof are key variables in valuation of the investments. Should the amount of expected cash flows increase / decrease by 1 percentage point (2017: 1 percentage point), the carrying value of the investments would be QAR 3.4 million higher / lower (2017: QAR 11.8 million higher / lower).

33. SEGMENT INFORMATION

For management purposes, the Group has three reportable segments, as described below. The reportable segments offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the reportable segments, the management reviews internal reports periodically. The following summary describes the operations in each of the Group's reportable segments:

33 SEGMENT INFORMATION (Continued)

Alternative Investments

The Group's alternative investments business segment includes direct investment in the venture capital business and real estate asset classes. Alternative investments business is primarily responsible to acquire large or significant stakes, with board representation, in well managed companies and assets that have strong, established market positions and the potential to develop and expand. The team works as partners with the management of investee companies to unlock value through enhancing operational and financial performance in order to maximize returns. This segment seeks investments opportunities in growth sectors within the GCC and MENA region, as well as Turkey and United Kingdom, but remains opportunistic to attractive investment propositions outside of the geographies identified.

Private Bank

The Group's private bank business segment includes private banking, corporate & institutional banking and treasury & investment management services. The Private banking department targets qualified High Net Worth clients with Sharia compliant up-market products and services that address personal, business and wealth requirements. The services offered under the private banking department includes advisory, deposit accounts, brokerage, funds and investments, treasury Forex products, plain vanilla & specialized financing and Elite services. The corporate & institutional banking department offers deposits accounts and plain vanilla & specialized financing solutions for corporates in Qatar, the GCC and the broader region for sectors and applications currently underserved by regional banks. The treasury department is offering short term liquid investments and FX products to banking clients, deploying the bank's liquidity as well as leading the product development and idea conceptualization function.

Other

Unallocated assets, liabilities and revenues are related to some central management and support functions of the Group.

Information regarding the results, assets and liabilities of each reportable segment is included below. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by the management.

Segment assets and liabilities

The Group does not monitor segments on the basis of segment assets and liabilities and do not possess detailed information thereof. Consequently, disclosure of segment assets and liabilities are not presented in these consolidated financial statements.

33 SEGMENT INFORMATION (Continued)

Below is the information about operating segments:

	Alternative Invest- ments	Private Bank	Other	Total
<i>For the year ended 31 December 2018</i>				
INCOME				
Revenue from non-banking activities	110,364	-	-	110,364
Loss on re-measurement of investments at fair value through income statement	(210,828)	(603)	-	(211,431)
Dividend income	448	934	-	1,382
Profit on investments carried at amortised cost	-	8,897	-	8,897
Gain on disposal of investments carried at amortised cost	-	-	-	-
Loss on disposal of equity investments	(119,290)	-	-	(119,290)
Gain on disposal of subsidiary	16,545	-	-	16,545
Income from financing assets	7,128	71,903	-	79,031
Income from placements with financial institutions	-	14,791	-	14,791
Other income	12,118	28,265	9,232	49,615
Total Income Before Return To Investment Account Holders	(183,515)	124,187	9,232	(50,096)
Return to unrestricted investment account holders	-	(58,929)	-	(58,929)
TOTAL SEGMENT INCOME	(183,515)	65,258	9,232	(109,025)
EXPENSES				
Expenses from non-banking activities	(145,356)	-	-	(145,356)
Staff costs	(4,600)	(14,474)	(39,486)	(58,560)
Financing costs	(10,585)	(8,579)	-	(19,164)
Depreciation and amortization	(321)	(6,429)	(2,971)	(9,721)
Other operating expenses	(3,560)	(8,553)	(33,791)	(45,904)
TOTAL SEGMENT EXPENSES	(164,422)	(38,035)	(76,248)	(278,705)
Provision for impairment on financing assets	(2,329)	(42,927)	-	(45,256)
Provision for impairment on other financial assets	(2,792)	(10,386)	-	(13,178)
NET LOSS FROM CONTINUING OPERATIONS	(353,058)	(26,090)	(67,016)	(446,164)
DISCONTINUED OPERATIONS				
(Loss) / profit from discontinued operations, net of tax	(71,070)	7,142	-	(63,928)
REPORTABLE SEGMENT LOSS	(424,128)	(18,948)	(67,016)	(510,092)

33 SEGMENT INFORMATION (Continued)

	Alternative Invest- ments	Private Bank	Other	Total
<i>For the year ended 31 December 2017</i>	<i>Restated</i>	<i>Restated</i>	<i>Restated</i>	<i>Restated</i>
INCOME				
Revenue from non-banking activities	95,890	-	-	95,890
Loss on re-measurement of investments at fair value through income statement	(140,427)	(1,992)	-	(142,419)
Dividend income	25,330	149	-	25,479
Profit on investments carried at amortised cost	-	20,992	-	20,992
Gain on disposal of investments carried at amortised cost	-	1,265	-	1,265
Gain / (loss) on disposal of equity investments	23,641	-	-	23,641
Income from financing assets	7,316	74,286	-	81,602
Income from placements with financial institutions	-	25,577	-	25,577
Other (loss) / income	(19,126)	12,726	13,854	7,454
Total Income Before Return To Investment Account Holders	(7,376)	133,003	13,854	139,481
Return to unrestricted investment account holders	-	(79,624)	-	(79,624)
TOTAL SEGMENT INCOME	(7,376)	53,379	13,854	59,857
EXPENSES				
Expenses from non-banking activities	(94,754)	-	-	(94,754)
Staff costs	(11,824)	(17,447)	(42,251)	(71,522)
Financing costs	(9,036)	(12,416)	-	(21,452)
Depreciation and amortization	(355)	(6,738)	(3,411)	(10,504)
Other operating expenses	(6,088)	(12,956)	(35,413)	(54,457)
TOTAL SEGMENT EXPENSES	(122,057)	(49,557)	(81,075)	(252,689)
Provision for impairment on financing assets	(5,963)	(35,985)	-	(41,948)
NET LOSS FROM CONTINUING OPERATIONS	(135,396)	(32,163)	(67,221)	(234,780)
DISCONTINUED OPERATIONS				
(Loss) / profit from discontinued operations, net of tax	(52,131)	4,924	-	(47,207)
REPORTABLE SEGMENT LOSS	(187,527)	(27,239)	(67,221)	(281,987)

33 SEGMENT INFORMATION (Continued)

Geographical segment information

The Group currently operates in two geographic markets namely Qatar and other countries. The following tables show the distribution of the Group's net income by geographical segments, based on the location in which the transactions are recorded during the year.

	Qatar	Others	Total
<i>For the year ended 31 December 2018</i>			
INCOME			
Revenue from non-banking activities	-	110,364	110,364
Loss on re-measurement of investments at fair value through income statement	(29,572)	(181,859)	(211,431)
Dividend income	448	934	1,382
Profit on investments carried at amortised cost	5,255	3,642	8,897
Gain on disposal of investments carried at amortised cost	-	-	-
Loss on disposal of equity investments	-	(119,290)	(119,290)
Gain on disposal of subsidiary	-	16,545	16,545
Income from financing assets	71,903	7,128	79,031
Income from placements with financial institutions	14,791	-	14,791
Other income	49,588	27	49,615
Total Income Before Return To Investment			
Account Holders	112,413	(162,509)	(50,096)
Return to unrestricted investment account holders	(58,929)	-	(58,929)
TOTAL INCOME	<u>53,484</u>	<u>(162,509)</u>	<u>(109,025)</u>
EXPENSES			
Expenses from non-banking activities	(38,264)	(107,092)	(145,356)
Staff costs	(58,560)	-	(58,560)
Financing costs	(8,579)	(10,585)	(19,164)
Depreciation and amortization	(9,721)	-	(9,721)
Other operating expenses	(45,904)	-	(45,904)
TOTAL EXPENSES	<u>(161,028)</u>	<u>(117,677)</u>	<u>(278,705)</u>
Provision for impairment on financing assets	(42,927)	(2,329)	(45,256)
Provision for impairment on other financial assets	(13,178)	-	(13,178)
NET LOSS FROM CONTINUING OPERATIONS	<u>(163,649)</u>	<u>(282,515)</u>	<u>(446,164)</u>
DISCONTINUED OPERATIONS			
(Loss) / profit from discontinued operations, net of tax	(12,271)	(51,657)	(63,928)
NET LOSS FOR THE YEAR	<u>(175,920)</u>	<u>(334,172)</u>	<u>(510,092)</u>

33 SEGMENT INFORMATION (Continued)

<i>For the year ended 31 December 2017</i>	Qatar <i>Restated</i>	Others <i>Restated</i>	Total <i>Restated</i>
INCOME			
Revenue from non-banking activities	-	95,890	95,890
Loss on re-measurement of investments at fair value through income statement	(11,946)	(130,473)	(142,419)
Dividend income	20,778	4,701	25,479
Profit on investments carried at amortised cost	8,193	12,799	20,992
Gain on disposal of investments carried at amortised cost	-	1,265	1,265
Income from financing assets	74,286	7,316	81,602
Income from placements with financial institutions	25,427	150	25,577
Other income	3,489	3,965	7,454
Total Income Before Return To Investment			
Account Holders	120,227	19,254	139,481
Return to unrestricted investment account holders	(79,624)	-	(79,624)
TOTAL INCOME	<u>40,603</u>	<u>19,254</u>	<u>59,857</u>
EXPENSES			
Expenses from non-banking activities	-	(94,754)	(94,754)
Staff costs	(71,522)	-	(71,522)
Financing costs	(6,943)	(14,509)	(21,452)
Depreciation and amortization	(10,504)	-	(10,504)
Other operating expenses	(48,369)	(6,088)	(54,457)
TOTAL EXPENSES	<u>(137,338)</u>	<u>(115,351)</u>	<u>(252,689)</u>
Provision for impairment on financing assets	(35,985)	(5,963)	(41,948)
NET LOSS FROM CONTINUING OPERATIONS	<u>(132,720)</u>	<u>(102,060)</u>	<u>(234,780)</u>
DISCONTINUED OPERATIONS			
Profit from discontinued operations, net of tax	(3,315)	(43,892)	(47,207)
NET LOSS FOR THE YEAR	<u>(136,035)</u>	<u>(145,952)</u>	<u>(281,987)</u>

34. SIGNIFICANT SUBSEQUENT EVENTS

Subsequent to year-end 2018, the Bank has sold one of its equity investments at a price close to its carrying amounts as at 31 December 2018.

35. COMPARATIVES

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