

# **Ahli Bank Q.S.C.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2017**

# Ahli Bank Q.S.C.

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### CONSOLIDATED FINANCIAL STATEMENTS

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QR. 30010

RN: 000492/WS/FY2018

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Ahli Bank Q.S.C.

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Ahli Bank Q.S.C. (the "Bank") and its subsidiaries (together the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the applicable provisions of Qatar Central Bank regulations.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 Bank in accordance with the International Ethics Standards Board for Accountants' Codes of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Qatar, and we have fulfilled our other ethical responsibilities in accordance with these requirements 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. The key audit matters noted below relate to the consolidated financial statements.

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

Key audit matter	How the matter was addressed in our audit
<p><b>Impairment of loans and advances to customers</b></p> <p>As at 31 December 2017 and 2016, loans and advances to customers represent 72.4 and 70.4 percent respectively (QR. 28.9 billion at 31 December 2017 and QR. 26.9 billion at 31 December 2016 respectively) of the Group's total assets.</p> <p>There is a risk that loans and advances to customers are impaired and no such reasonable impairment provisions are provided in accordance to requirements of International Financial Reporting Standards (IFRSs) and the applicable provisions of Qatar Central Bank regulations, considering the areas of management assumptions and judgments. Accordingly, loans and advances to customers might be with carrying amounts greater than estimated recoverable amounts.</p> <p>Refer to Notes 4b(iii), 5a(ii) &amp; 10 of the consolidated financial statements that provide details regarding the impairment of loans and advances to customers.</p>	<p>Assessed and tested the design and operating effectiveness of the relevant controls over loans and advances origination, monitoring, impairment data and calculations. In addition, IT controls for impairment systems were tested.</p> <p>By selecting samples of loans and advances to customers using our professional sampling techniques and any requirements prescribed by Qatar Central Bank, we checked whether there is an objective evidence that an impairment exists on these loans and advances and assessed the reasonableness of impairment provisions in accordance to the IFRS requirements and applicable provisions of Qatar Central Bank regulations. This included the considerations to direct and indirect default indicators as prescribed by Qatar Central Bank regulations and IFRS.</p> <p>We assessed whether the related disclosures of this area were adequate in accordance to requirements of International Financial Reporting Standards and Qatar Central Banks, as applicable.</p>

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Impairment of Investment securities	How the matter was addressed in our audit
<p>As at 31 December 2017 and 2016, investment securities represent 15.3 and 14.7 percent respectively (QR. 6.1 billion at 31 December 2017 and QR 5.6 billion at 31 December 2016 respectively) of the Group's total assets. As disclosed in Note 11 to the consolidated financial statements, the Bank's investment securities consist of available for sale and held to maturity financial assets. Available for sale financial assets are measured at fair value, while held to maturity financial assets are measured at amortised cost. Furthermore, the management consideration to impairment of available for sale and held to maturity financial assets was disclosed in Notes 3c(vi) &amp; 11.</p> <p>There is a risk is that investment securities are impaired and no such reasonable impairment losses are provided in accordance to requirements of International Financial Reporting Standards (IFRSs), and the applicable guidance of Qatar Central Bank regulations, considering the areas of management assumptions and judgments. Accordingly, investment securities might be with carrying amounts greater than estimated recoverable amounts.</p>	<p>Assessed and tested the design and operating effectiveness of the relevant controls over the investment securities impairment.</p> <p>By selecting samples of investment securities using our professional sampling techniques, we checked whether there is an objective evidence that an impairment exists on these investment securities and assessed the reasonableness of impairment losses in accordance to the IFRS requirements and the applicable guidance of Qatar Central Bank regulations.</p> <p>We assessed whether the related disclosures of this area were adequate in accordance to requirements of International Financial Reporting Standards and Qatar Central Banks guidance, as applicable.</p>

### Other information

The Board of Directors is responsible for the other information. The other information comprises the Board of Directors Report which we obtained prior to the date of this auditors' report and the Annual Report, which is expected to be made available to us after the date of this auditor's report. The other information does not include the consolidated financial statements and our auditor's report thereon. 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, 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. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### 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 IFRSs and the applicable provisions of Qatar Central Bank regulations, 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.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### **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 guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of user taken on the basis of these consolidated financial statements.

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

- Identify and assess the risk 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 reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management 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 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.
- 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.

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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 disclosures 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 are also of the opinion that proper books of account were maintained by the Group. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. We further confirm that the consolidated financial information included in the Board of Directors' report addressed to the General Assembly is in agreement with the books and records of the Group. To the best of our knowledge and belief and according to the information given to us, no contraventions of the applicable provisions of Qatar Central Bank Law, Qatar Commercial Companies' Law and the Bank's Articles of Association were committed during the year which would materially affect the Group's activities or its financial position.

**Doha – Qatar**  
**January 31, 2018**

For **Deloitte & Touche**  
**Qatar Branch**



**Walid Slim**  
**Partner**  
**License No. 319**  
**QFMA Auditor License No. 120156**

**Ahli Bank Q.S.C.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

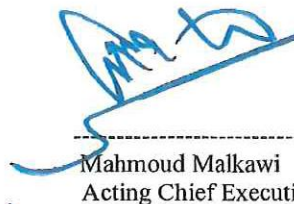
QAR '000s

As at 31 December	Note	2017	2016
<b>ASSETS</b>			
Cash and balances with central bank	8	1,979,872	1,789,297
Due from banks	9	2,202,199	3,261,913
Loans and advances to customers	10	28,936,299	26,861,405
Investment securities	11	6,099,869	5,570,902
Property and equipment	12	258,608	275,186
Other assets	13	406,553	406,507
<b>TOTAL ASSETS</b>		<b>39,883,400</b>	<b>38,165,210</b>
<b>LIABILITIES</b>			
Due to banks and central bank	14	3,982,103	1,276,265
Certificate of deposits and commercial paper		418,534	2,237,629
Customer deposits	15	23,568,578	25,010,862
Debt securities	16 (a)	3,624,368	1,810,625
Subordinated debt	16 (b)	-	182,000
Other borrowings	16 (c)	2,192,233	1,886,949
Other liabilities	17	803,740	900,681
<b>TOTAL LIABILITIES</b>		<b>34,589,556</b>	<b>33,305,011</b>
<b>EQUITY</b>			
Share capital	18 (a)	2,003,433	1,908,031
Legal reserve	18 (b)	1,589,767	1,525,796
Risk reserve	18 (c)	631,078	609,505
Fair value reserves	18 (d)	12,530	11,801
Retained earnings		1,057,036	805,066
<b>TOTAL EQUITY</b>		<b>5,293,844</b>	<b>4,860,199</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>39,883,400</b>	<b>38,165,210</b>

These consolidated financial statements were approved by the Board of Directors on 17 January, 2018 and were signed on its behalf by:



Sh. Faisal Bin Abdul-Aziz Bin Jassem Al Thani  
 Chairman & Managing Director



Mahmoud Malkawi  
 Acting Chief Executive Officer

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

**Ahli Bank Q.S.C.**  
**CONSOLIDATED STATEMENT OF INCOME**

**QAR '000s**

<b>For the year ended 31 December</b>	<b>Note</b>	<b>2017</b>	<b>2016</b>
Interest income	19	<b>1,599,796</b>	1,282,427
Interest expense	20	<b>(765,353)</b>	(547,359)
<b>Net interest income</b>		<b>834,443</b>	735,068
<b>Net fee and commission income</b>	21	<b>173,613</b>	168,789
Foreign exchange gain	22	<b>23,245</b>	17,070
Income from investment securities	23	<b>6,627</b>	31,173
Other operating income	24	<b>6,484</b>	6,560
<b>Net operating income</b>		<b>1,044,412</b>	958,660
Staff costs	25	<b>(182,694)</b>	(172,658)
Depreciation	12	<b>(26,794)</b>	(27,858)
Net (impairment loss)/recoveries on loans and advances to customers	10 (c)	<b>(66,674)</b>	10,819
Impairment loss on investment securities		<b>(18,767)</b>	(43,531)
Other expenses	26	<b>(109,771)</b>	(93,684)
		<b>(404,700)</b>	(326,912)
<b>Profit for the year</b>		<b>639,712</b>	631,748
<b>Earnings per share</b>	27	<b>3.19</b>	3.15

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

For the year ended 31 December	Note	2017	2016
<b>Profit for the year</b>		<b>639,712</b>	631,748
<b>Other comprehensive income for the year</b>			
<b>Items that are or may be reclassified subsequently to profit or loss</b>			
<u>Available-for-sale financial assets:</u>			
Realised during the year	18 (d)	<b>504</b>	(9,065)
Fair value loss during the year	18 (d)	<b>(23,160)</b>	(58,055)
Net amount of impairment transferred to profit or loss	18 (d)	<b>23,317</b>	43,531
Amortised during the year on reclassification to loans and receivables	18 (d)	<b>68</b>	55
<b>Other comprehensive profit/(loss) for the year</b>		<b>729</b>	(23,534)
<b>Total comprehensive income for the year</b>		<b>640,441</b>	608,214

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

**Ahli Bank Q.S.C.**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** **OAR '000s**

<b>For the year ended 31 December</b>	<b>Note</b>	<b>Share capital</b>	<b>Legal reserve</b>	<b>Risk reserve</b>	<b>Fair value reserves</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>Balance as at 1 January 2016</b>		1,817,173	1,462,621	536,353	35,335	688,873	4,540,355
<b>Total comprehensive income for the year</b>							
Profit for the year		-	-	-	-	631,748	631,748
Other comprehensive loss		-	-	-	(23,534)	-	(23,534)
<b>Total comprehensive income for the year</b>		-	-	-	(23,534)	631,748	608,214
Transfer to risk reserve	18 (c)	-	-	73,152	-	(73,152)	-
Transfer to legal reserve	18 (b)	-	63,175	-	-	(63,175)	-
Transfer to social and sports fund for the year	32	-	-	-	-	(15,794)	(15,794)
<b>Transactions with equity holders, recognised directly in equity</b>							
Contributions by and distributions to equity holders:							
Bonus issue	18 (a)	90,858	-	-	-	(90,858)	-
Dividend paid	18 (e)	-	-	-	-	(272,576)	(272,576)
<b>Total contributions by and distributions to equity holders</b>		90,858	-	-	-	(363,434)	(272,576)
<b>Balance as at 31 December 2016</b>		1,908,031	1,525,796	609,505	11,801	805,066	4,860,199

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

**Ahli Bank Q.S.C.**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)** OAR '000\$

For the year ended 31 December	Note	Share capital	Legal reserve	Risk reserve	Fair value reserves	Retained earnings	Total equity
Balance as at 1 January 2017		1,908,031	1,525,796	609,505	11,801	805,066	4,860,199
<b>Total comprehensive income for the year</b>							
Profit for the year		-	-	-	-	639,712	639,712
Other comprehensive income		-	-	-	729	-	729
<b>Total comprehensive income for the year</b>		-	-	-	729	639,712	640,441
Transfer to risk reserve	18 (c)	-	-	21,573	-	(21,573)	-
Transfer to legal reserve	18 (b)	-	63,971	-	-	(63,971)	-
Transfer to social and sports fund for the year	32	-	-	-	-	(15,993)	(15,993)
<b>Transactions with equity holders, recognised directly in equity</b>							
Contributions by and distributions to equity holders:							
Bonus issue	18 (a)	95,402	-	-	-	(95,402)	-
Dividend paid	18 (e)	-	-	-	-	(190,803)	(190,803)
<b>Total contributions by and distributions to equity holders</b>		95,402	-	-	-	(286,205)	(190,803)
<b>Balance as at 31 December 2017</b>		<b>2,003,433</b>	<b>1,589,767</b>	<b>631,078</b>	<b>12,530</b>	<b>1,057,036</b>	<b>5,293,844</b>

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

For the year ended 31 December	Note	2017	2016
<b>Cash flows from operating activities</b>			
Profit for the year		639,712	631,748
<i>Adjustments for:</i>			
Net impairment /(recoveries) on loans and advances to customers		66,674	(10,819)
Impairment loss on investment securities		18,767	43,531
Depreciation	12	26,794	27,858
Net loss on write off of property and equipment		64	-
Net gain on sale of available-for-sale securities	23	(4,017)	(24,006)
<i>Profit before changes in operating assets and liabilities</i>		<b>747,994</b>	668,312
Change in due from central bank		189,487	(83,834)
Change in loans and advances to customers		(2,142,590)	(2,804,670)
Change in other assets		(46)	(60,549)
Change in due to banks and central bank		2,705,838	(1,362,024)
Change in customer deposits		(1,442,284)	4,626,772
Change in certificate of deposits and commercial paper		(1,819,095)	687,729
Change in other liabilities		(112,934)	(64,568)
<b>Net cash (used in)/from operating activities</b>		<b>(1,873,630)</b>	1,607,168
<b>Cash flows from investing activities</b>			
Acquisition of investment securities		(2,525,908)	(1,831,074)
Proceeds from sale of investment securities		1,983,941	1,067,037
Acquisition of property and equipment	12	(10,280)	(40,286)
<b>Net cash used in investing activities</b>		<b>(552,247)</b>	(804,323)
<b>Cash flows from financing activities</b>			
Proceeds from issuance of debt securities		1,813,743	1,810,625
Proceeds /(repayment) from other borrowings	16 (c)	305,284	(167,917)
Repayment of subordinated debt		(182,000)	-
Dividends paid		(190,803)	(272,576)
<b>Net cash from financing activities</b>		<b>1,746,224</b>	1,370,132
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(679,653)</b>	2,172,977
Cash and cash equivalents as at 1 January		3,977,475	1,804,498
<b>Cash and cash equivalents as at 31 December</b>	29	<b>3,297,822</b>	3,977,475
<b>Operational cash flows from interest and dividend</b>			
Interest received		1,538,790	1,265,364
Interest paid		734,070	500,621
Dividends received		2,610	7,167

**Ahli Bank Q.S.C.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at and for the year ended 31 December 2017**

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**1. REPORTING ENTITY**

Ahli Bank Q.S.C. (“the Bank”) is an entity domiciled in the State of Qatar and was incorporated in 1983 as a public shareholding company under Emiri Decree no. 40 of 1983. The commercial registration of the Bank is 8989. The address of the Bank’s registered office is Suhaim Bin Hamad Street, Al Sadd Area in Doha (P.O. Box 2309, Doha, State of Qatar). The consolidated financial statements of the Bank for the year ended 31 December 2017 comprise the Bank and its subsidiaries (together referred to as “the Group” and individually as “Group entities”). The Group is primarily involved in corporate and retail banking and brokerage activities, and has 15 branches in Qatar.

The principal subsidiaries of the Bank is as follows:

Company’s name	Country of incorporation	Company’s capital	Company’s activities	Percentage of ownership 2017	Percentage of ownership 2016
Ahli Brokerage Company L.L.C. (CR No 47943)	Qatar	QAR 50 million	Brokerage	100	100
ABQ Finance Limited	Cayman Islands	US \$ 1	Debt Issuance	100	100

**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”), the applicable provisions of the Qatar Central Bank (“QCB”) regulations and Qatar Commercial Companies’ Law.

**(b) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the following material items on the consolidated statement of financial position, which are measured at fair value:

- derivatives;
- available-for-sale financial assets; and
- recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships.

**(c) Functional and presentation currency**

These consolidated financial statements are presented in Qatari Riyals (“QAR”), which is the Group’s functional currency. Except as otherwise indicated, financial information presented in QAR has been rounded to the nearest thousand. The functional currency for the Group’s subsidiary has been assessed as QAR.

**(d) Use of estimates and judgments**

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 5.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

#### **(a) Basis of Consolidation**

##### **(i) Subsidiary**

Subsidiary is an investee controlled by the Group. The financial statement of subsidiary is included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Group 'controls' an investee if it is exposed to, or has right to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The accounting policies of subsidiary have been changed when necessary to align them with the policies adopted by the Group.

##### **(ii) Transactions eliminated on consolidation**

Intra-group balances, and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### **(b) Foreign currency**

##### **Foreign currency transactions and balances**

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

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

#### **(c) Financial assets and financial liabilities**

##### **(i) Recognition and initial measurement**

The Group initially recognises loans and advances to customers, due from / to banks, customer deposits, debt securities and other borrowings on the date at which they are originated. All other financial assets and liabilities are initially recognised on the settlement date at which the Group becomes a party to the contractual provisions of the instrument.

##### **(ii) Classification**

###### **Financial assets**

At inception a financial asset is classified in one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale;

###### **Financial liabilities**

The Group has classified and measured its financial liabilities at amortised cost.

##### **(iii) Derecognition**

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Financial assets and financial liabilities (continued)**

**(iii) Derecognition (continued)**

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

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

**(iv) Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS and when approved by the QCB, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

**(v) Measurement principles**

***Amortised cost measurement***

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

***Fair value measurement***

'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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price. Fair values of derivatives represent quoted market prices or internal pricing models as appropriate.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 5 (b) (i).

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Financial assets and financial liabilities (continued)**

**(vi) Identification and measurement of impairment**

The Group considers evidence of impairment loss for loans and advances to customers and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances to customers and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances to customers and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances to customers and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances to customers and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical loss experience (probability of default – PD), which is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based, loss given default (LGD) and loss identification factor. Further, the Group takes into consideration factors such as any deterioration in country risk, industry as well as identified structural weaknesses or deterioration in cash flows on assessing the collective impairment.

For listed securities, a decline in the market value by 20% from cost or more, or for a continuous period of 9 months or more, are considered to be indicators of impairment.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

In subsequent periods, the appreciation of fair value of an impaired available-for-sale investment security is recorded in fair value reserves.

**(d) Cash and cash equivalents**

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

**(e) Loans and advances to customers**

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances to customers are initially measured at the transaction price which is the fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **(f) Investment securities**

Subsequent to initial recognition investment securities are accounted for depending on their classification as either 'held to maturity' or 'available-for-sale'.

#### **(i) Held-to-maturity financial assets**

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which were not designated as at fair value through profit or loss or as available-for-sale. Held-to-maturity investments were carried at amortised cost using the effective interest method.

#### **(ii) Available-for-sale financial assets**

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities are carried at cost less impairment, and all other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset is reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Group had the intention and ability to hold that financial asset for the foreseeable future or until maturity.

#### **(g) Derivatives**

##### **(i) Derivatives held for risk management purposes and hedge accounting**

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

These include financial options, futures and forwards, interest rate swaps and currency swaps, which create rights and obligations that, have the effect of transferring between the parties of the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, a derivative financial instrument gives one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instruments, as prices in financial markets change, those terms may become either favourable or unfavourable.

##### **• Fair value hedges**

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognized immediately in the consolidated income statement. The related aspect of the hedged item is adjusted against the carrying amount of the hedged item and recognized in the consolidated income statement.

##### **• Cash flow hedges**

In relation to cash flow hedges which meet the conditions for hedge accounting, any gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially as cash flow hedge reserve in other comprehensive income. The gains or losses on cash flow hedges initially recognized in the consolidated statement of comprehensive income are transferred to the consolidated income statement in the period in which the hedged transaction impacts the consolidated income statement. Where the hedged transaction results in the recognition of an asset or a liability, the associated gains or losses that had initially been recognized in the consolidated statement of comprehensive income, are included in the initial measurement of the cost of the related asset or liability.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(g) Derivatives (continued)**

**(i) Derivatives held for risk management purposes and hedge accounting (continued)**

**• Cash flow hedges (continued)**

For hedges which do not qualify for hedge accounting, any gains or losses arising in the fair value of the hedging instrument are taken directly to the consolidated income statement for the period.

Hedge accounting is discontinued when the hedging instrument expires, is terminated or exercised, or no longer qualifies for hedge accounting. For effective fair value hedges of financial instruments with fixed maturities, any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges, any cumulative gain or loss on the hedging instrument recognized as cash flow hedge reserve in other comprehensive income is held therein until the forecasted transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized as cash flow hedge reserve in other comprehensive income is transferred to the consolidated income statement.

**(ii) Derivatives held for trading purposes**

The Group's derivative trading instruments includes forward exchange contracts and interest rate and foreign currency swaps. After initial recognition at transaction prices, being the best evidence of fair value upon initial recognition, derivatives are subsequently measured at fair value. Fair value represents quoted market price or internal pricing models as appropriate. The resulting gains or losses are included in the consolidated income statement.

**(h) Property and equipment**

**(i) Recognition and measurement**

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognised in other income/other expenses in profit or loss.

**(ii) Subsequent costs**

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

**(iii) Depreciation**

Depreciable amount is the cost of property and equipment, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset and is based on cost of the asset less its estimated residual value. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

Buildings	20 years
Leasehold improvements	5 years
Furniture and equipment	3-7 years
Motor Vehicles	5 years

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(h) Property and equipment (continued)**

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

**(i) Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment losses are recognised in profit or loss. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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

**(j) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**(k) Financial guarantees**

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

**(l) Employee termination benefits and pension funds**

***End of service gratuity plans-Defined benefits plan***

The Group provides for end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. The provision of employees' end of service benefits is included in the other provisions within other liabilities.

***Pension and provident fund plan-Defined contribution plan***

Under Law No. 24 of 2002 on Retirement and Pension, the Group is required to make contributions to a Government fund scheme for Qatari employees calculated as a percentage of the Qatari employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Share capital and reserves**

Incremental cost directly attributable to the issue of an equity instrument is deducted from the initial measurement of the equity instruments.

**(n) Dividends on ordinary shares**

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Group's shareholders. Dividends for the year that are declared after the date of the consolidated statement of financial position are dealt with in a separate note.

**(o) Interest income and expense**

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- Fair value changes in qualifying derivatives, including hedge ineffectiveness, and related hedged items in fair value hedges of interest rate risk.

Interest income of investment securities is calculated on an effective interest basis are also included in interest income.

**(p) Fees and commission income and expense**

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

*Fee income earned from services that are provided over a certain period of time.*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

*Fee income from providing transaction services*

Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, and brokerage fees. Loan syndication fees are recognised in the income statement when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same effective rate as for the other participants.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(q) Income from investment securities**

Gains or losses on the sale of investment securities are recognised in profit or loss as the difference between fair value of the consideration received and carrying amount of the investment securities.

Unrealised gains or losses on fair value changes from remeasurement of investment securities classified as held for trading or designated as fair value through profit or loss are recognised in profit or loss.

Income from held to maturity investment securities is recognised based on the effective interest rate method.

**(r) Dividend income**

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

**(s) Earnings per share**

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

**(t) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief executive officer. The chief executive officer is the person or group that allocates resources to and assesses the performance of the operating segments of an entity.

Income and expenses directly associated with each segment are included in determining operating segment performance.

**(u) Fiduciary activities**

Assets held in a fiduciary capacity are not treated as assets of the Group in the consolidated statement of financial position.

**(v) Repossessed collateral**

Repossessed collaterals against settlement of customers' debts are stated within the consolidated statement of financial position under "Other assets" at their acquisition value net of allowance for impairment.

**(w) Comparatives**

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

**(x) Parent bank financial information**

Statement of financial position and income statement of the Parent bank, disclosed as supplementary information, is prepared following the same accounting policies as mentioned above except for; investment in subsidiaries which are not consolidated and is carried at cost.

**(y) Application of new and revised International Financial Reporting Standards (IFRSs)**

**New Standards and Amendments to Standards**

The following amendments to IFRS and new IFRSs have been applied by the Group in preparation of these consolidated financial statements. The below were effective from 1 January 2017:

**Standards**

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

Amendments to IAS 7: Statement of cash flow – Disclosure Initiative

Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12

The adoption of the above did not result in any changes to the previously reported net profit or equity of the Group.

**Ahli Bank Q.S.C.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at and for the year ended 31 December 2017**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(y) Application of new and revised International Financial Reporting Standards (IFRSs)**

**Standards issued but not yet effective**

The below mentioned standards are not yet effective. The Group is currently evaluating the impact of these new standards. The Group will adopt these new standards on the respective effective dates.

	Effective Date
IFRS 9: Financial Instruments	01/January/2018
IFRS 15: Revenue from Contracts with Customers	01/January/2018
IFRS 16: Leases	01/January/2019

**IFRS 9 Financial Instruments**

The Bank will adopt IFRS 9 on 1 January 2018 and will not restate the comparative information in accordance with applicable Qatar Central Bank (QCB) guidelines. IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new model based on expected credit losses for recognizing loan loss provisions and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

The Bank has assessed the estimated impact that the initial application of IFRS 9 will have on its consolidated financial statements as below.

	Retained earnings <i>QAR'000</i>	Non-controlling interest <i>QAR'000</i>	Fair value reserve <i>QAR'000</i>
<b>Closing balance under IAS 39 (31 December 2017)</b>			
<b><u>Impact on reclassification and remeasurements (a) :</u></b>			
Investment securities (equity) from available-for-sale to those measured at fair value through Profit or Loss (a.1)	6,401	-	(6,401)
Investment securities (Bonds) classified as Loans and Advances to those measured at fair value through other comprehensive income (a.1)	-	-	3,716
Investment securities (Bonds) from Held to Maturity to those measured at fair value through other comprehensive Income (a.1)	-	-	(16,771)
Impairment on AFS Investment debt securities which is no longer required under IFRS 9.	7,982	-	(7,982)
	<u>14,383</u>	-	<u>(27,438)</u>
<b><u>Impact on recognition of Expected Credit Losses (b)</u></b>			
Expected credit losses for due from banks	(89)	-	-
Expected credit losses for debt securities at amortised cost	-	-	-
Expected credit losses for debt securities at fair value through other comprehensive income	(2,258)	-	-
Expected credit losses for loan and advances	(191,644)	-	-
Expected credit losses for off balance sheet exposures subject to credit risk	(41,169)	-	-
	<u>(235,160)</u>	-	<u>-</u>
<b>Estimated adjusted opening balance under IFRS 9 on date of initial application of 1 January 2018</b>	<u>(220,777)</u>	-	<u>(27,438)</u>

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Bank to revise its accounting processes and internal controls and these changes are not yet complete;
- although parallel runs were carried out in the second half of 2017, the new systems and associated controls in place have not been operational for a more extended period;
- the Bank has not finalized the testing and assessment of controls over its new IT systems and changes to its governance framework;
- the Bank is refining and finalizing its models for ECL calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to re-assessment and changes upon instructions of the regulatory authority.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **(y) Application of new and revised International Financial Reporting Standards (IFRSs) (continued)**

##### **(a) Classification and measurement**

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which financial assets are managed and the underlying cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: (a) measured at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVOCI) and Fair Value through Profit or Loss (FVPL). Under IFRS 9, derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on the Bank's assessment, the new IFRS 9 classification requirements is expected to have/ or not to have a material impact on its accounting for loans, investments in debt securities and investments in equity securities.

(a.1) At 31 December 2017, the Bank had equity investments classified as available-for-sale with a fair value of QAR 6,401 thousands. Under IFRS 9, the Bank has designated these investments as measured at FVPL. Due to this reclassification, an increase of QAR 6,401 thousands is estimated in the retained earnings along with a corresponding decrease in fair value reserve due to reclassification of impairment on equity investments measured at fair value through other comprehensive income to the reserves.

At 31 December 2017, the Bank had debt investments classified as Loans and Advances, the Bank has designated these investments as measured at FVOCI. Due to this reclassification, an increase of QAR 3,716 is estimated in the fair value reserve.

At 31 December 2017, the Bank had Debt investments classified as Held to maturity. Under IFRS 9, the Bank has designated these investments as measured at FVOCI or amortised cost based on the business model. Due to this reclassification, a decrease of QAR 16,771 is estimated in the fair value reserve.

At 31 December 2017, the Bank had Debt investments classified as Available for sale and, the Bank has designated these investments as measured at FVOCI under IFRS 9. The Bank carries an impairment of QAR 7,982 thousands as per QCB/IAS 39. Impairment on these bonds would be assessed based on Expected Credit Loss (ECL) under IFRS 9 and the carrying impairment amount would no longer be required resulting in an increase of QAR 7,982 in the retained earnings and a corresponding decrease in fair value reserves.

##### **IFRS 15: Revenue from Contracts with Customers**

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

##### **(b) Expected credit losses**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments. 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 Banks of similar financial assets for the purposes of measuring ECL.

##### **(c) Financial liabilities**

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- No significant changes are expected for financial liabilities, other than changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument's credit risk, which will be presented in other comprehensive income.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **(y) Application of new and revised International Financial Reporting Standards (IFRSs) (continued)**

##### **(d) Hedge accounting**

- IFRS 9's hedge accounting requirements are designed to align the accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in IAS 39. The elements of hedge accounting: fair value, cash flow and net investment hedges are retained.
- When initially applying IFRS 9, the Bank has the option to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. However, the Bank determined that all existing hedge relationships that are currently designated in effective hedging relationships would continue to qualify for hedge accounting under IFRS 9. The new hedge accounting requirements under IFRS 9 will not have a material impact on hedge accounting applied by the Bank.

##### **(e) Disclosure**

IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of IFRS 9.

### **4. FINANCIAL RISK MANAGEMENT**

#### **(a) Introduction and Overview**

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

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

#### **Risk Management**

##### **Introduction**

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit, liquidity, market, including trading and non-trading, and operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

##### **• Risk Management Structure**

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

##### **• Executive Committee**

The Executive Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and managing and monitoring relevant risk decisions.

##### **• Risk Management Department**

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It is also responsible for monitoring compliance with risk principles, policies and limits, across the Group. Each business group has a decentralised department which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This function also ensures the complete capture of the risks in risk measurement and reporting systems.

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(a) Introduction and Overview (continued)**

**Risk Management (continued)**

• **Treasury**

Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure, as laid down by the Asset Liability Committee (ALCO) from time to time.

• **Internal Audit**

Risk management processes throughout the Group are audited annually by the Internal Audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

*Risk measurement and reporting systems*

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the business departments is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors and the Executive Committee.

The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for impairment on a quarterly basis.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business departments have access to necessary and up-to-date information.

Frequent briefing is given to the senior management and all other relevant members of the Group on the utilization of market limits, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

***Risk mitigation***

As part of its overall risk management strategy, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into any hedging transactions, which are authorised by the appropriate approval authority mechanism within the Group. The effectiveness of hedges is assessed by the Treasury and senior management (based on economic considerations too rather than purely the IFRS hedge based accounting regulations). The effectiveness of all the hedge relationships is monitored by Risk quarterly at each reporting period. In cases of ineffectiveness, the Group will continuously monitor the expected performance of the hedge and take mitigating action such as re-hedging wherever necessary to make the hedge more effective on the underlying instrument concerned.

The Group actively uses collaterals to reduce its credit risks (see Note 4. (b) Credit risk below for more detail).

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(a) Introduction and Overview (continued)**

**Risk Management (continued)**

*Excessive risk concentration*

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.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio, with limits set on geographic and industry sector exposures. Identified concentrations of credit risks are controlled and managed accordingly.

**(b) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge a financial obligation and cause the other party to incur a financial loss. In the case of derivatives this is limited to positive fair values. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk 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 of credit risk indicate the relative sensitivity of the Group's performance to developments, affecting a particular industry or geographic location.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or group of customers in specific locations or businesses. It also obtains collaterals, when appropriate. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities,
- For commercial lending, mortgages over real estate properties, inventory, trade receivables, cash and securities.
- For retail lending, mortgages over residential properties, cash or securities.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

The Group also obtains corporate guarantees from parent companies for loans, advances and financing activities to their subsidiaries.

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Credit risk (continued)**

**(i) Maximum exposure to credit risk before collateral held or other credit enhancements**

	2017	2016
<b>Credit risk exposures relating to assets recorded on the consolidated statement of financial position are as follows:</b>		
Balances with central bank	1,847,200	1,684,690
Due from banks	2,202,199	3,261,913
Loans and advances to customers	28,936,299	26,861,405
Investment securities - debt	6,011,252	5,468,965
Other assets	<u>237,224</u>	<u>193,670</u>
<b>Total as at 31 December</b>	<b><u>39,234,174</u></b>	<b><u>37,470,643</u></b>
<b>Other credit risk exposures are as follows:</b>		
Contingent liabilities	9,016,408	8,034,584
Unutilized facilities	<u>9,408,427</u>	<u>9,928,537</u>
<b>Total as at 31 December</b>	<b><u>18,424,835</u></b>	<b><u>17,963,121</u></b>
<b>Total Credit risk exposure</b>	<b><u>57,659,009</u></b>	<b><u>55,433,764</u></b>

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

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Credit risk (continued)**

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

**Geographical sectors**

The following table breaks down the Group's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorized by geographical region.

	Qatar	Other GCC	Europe	Rest of the world	Total
<b>At 31 December 2017</b>					
Balances with central bank	1,847,200	-	-	-	1,847,200
Due from banks	2,150,000	7,306	39,149	5,744	2,202,199
Loans and advances to customers	28,910,219	26,080	-	-	28,936,299
Investment securities – debt	5,550,231	405,254	-	55,767	6,011,252
Other assets	237,224	-	-	-	237,224
<b>Total</b>	<b>38,694,874</b>	<b>438,640</b>	<b>39,149</b>	<b>61,511</b>	<b>39,234,174</b>

Other credit risk exposure are as follows:

Guarantees and letters of credit	8,967,082	7,298	30,066	11,962	9,016,408
Unutilized facilities	9,408,427	-	-	-	9,408,427
<b>Total</b>	<b>18,375,509</b>	<b>7,298</b>	<b>30,066</b>	<b>11,962</b>	<b>18,424,835</b>

	Qatar	Other GCC	Europe	Rest of the world	Total
<b>At 31 December 2016</b>					
Balances with central bank	1,684,690	-	-	-	1,684,690
Due from banks	1,543,331	520,458	534,078	664,046	3,261,913
Loans and advances to customers	26,796,296	65,109	-	-	26,861,405
Investment securities – Debt	4,947,674	486,209	-	35,082	5,468,965
Other assets	193,670	-	-	-	193,670
<b>Total</b>	<b>35,165,661</b>	<b>1,071,776</b>	<b>534,078</b>	<b>699,128</b>	<b>37,470,643</b>

Other credit risk exposure are as follows:

Guarantees and letters of credit	7,911,833	22,555	29,302	70,894	8,034,584
Unutilized facilities	9,928,537	-	-	-	9,928,537
<b>Total</b>	<b>17,840,370</b>	<b>22,555</b>	<b>29,302</b>	<b>70,894</b>	<b>17,963,121</b>

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Credit risk (continued)**

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

**Industry sectors**

The following table breaks down the Group's credit exposure at carrying amounts before taking into account collateral held or other credit enhancements, as categorized by the industry sectors of the Group's counterparties.

	<b>Gross exposure 2017</b>	Gross exposure 2016
Government	<b>9,298,750</b>	5,470,038
Government agencies	<b>249,507</b>	1,793,890
Industry	<b>705,593</b>	941,290
Commercial	<b>12,225,430</b>	11,771,734
Services	<b>6,697,243</b>	7,357,867
Contracting	<b>2,021,881</b>	2,526,575
Real estate	<b>4,620,635</b>	4,378,028
Personal	<b>3,415,135</b>	3,231,221
Contingent liabilities and utilized facilities	<b>18,424,835</b>	17,963,121
	<b><u>57,659,009</u></b>	<u>55,433,764</u>

**Credit risk exposure**

The Group's internal rating scale and mapping to the table below are as follows:

<b>Bank's rating</b>	<b>Description of the grade</b>	<b>Mapping</b>
Grade A	Low risk – excellent	High grade
Grade B	Standard/satisfactory risk	Standard grade
Grade C	Sub-standard – watch	Watch list/impaired
Grade D	Doubtful	Watch list/impaired
Grade E	Bad debts	Watch list/impaired

	<b>2017</b>	2016
<b>Equivalent grades</b>		
High Grade	<b>12,594,918</b>	10,615,140
Standard Grade	<b>45,046,017</b>	44,780,126
Watch List or Impaired	<b>18,074</b>	38,498
	<b><u>57,659,009</u></b>	<u>55,433,764</u>

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(iii) Credit quality

	Loans and advances to customers		Due from banks		Investment securities – debt	
	2017	2016	2017	2016	2017	2016
<b>Neither past due nor impaired (low risk):</b>						
High and standard grade	27,866,982	25,178,900	2,202,199	3,261,913	-	-
	<u>27,866,982</u>	<u>25,178,900</u>	<u>2,202,199</u>	<u>3,261,913</u>	<u>-</u>	<u>-</u>
<b>Past due but not impaired</b>						
Standard Grade/satisfactory risk	1,101,643	1,692,807	-	-	-	-
<b>Carrying amount</b>	<u>1,101,643</u>	<u>1,692,807</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Watch list or Impaired</b>						
Substandard and doubtful (overdue upto 9 months)	124,334	132,039	-	-	-	-
Loss (overdue > 9 months)	259,608	194,071	-	-	-	-
	<u>383,942</u>	<u>326,110</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Less: impairment allowance-specific	(365,868)	(287,612)	-	-	-	-
Less: impairment allowance-collective	(50,400)	(48,800)	-	-	-	-
	<u>28,936,299</u>	<u>26,861,405</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Carrying amount – net</b>	<u>28,936,299</u>	<u>26,861,405</u>	<u>2,202,199</u>	<u>3,261,913</u>	<u>-</u>	<u>-</u>
<b>Investment securities - debt</b>						
Held to maturity	-	-	-	-	3,190,527	1,319,332
Available for sale	-	-	-	-	2,828,707	4,150,965
Less: impairment allowance	-	-	-	-	(7,982)	(1,332)
<b>Carrying amount – net</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,011,252</u>	<u>5,468,965</u>
<b>Total carrying amount</b>	<u>28,936,299</u>	<u>26,861,405</u>	<u>2,202,199</u>	<u>3,261,913</u>	<u>6,011,252</u>	<u>5,468,965</u>

**Impaired loans and advances to customers and investment in debt securities**

Individually impaired loans and advances to customers and investment debt securities for which the Group determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan/investment security agreement(s).

**Loans and advances to customers past due but not impaired**

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

	2017	2016
Up to 60 days	954,943	1,636,563
61 – 90 days	146,700	56,244
<b>Gross</b>	<u>1,101,643</u>	<u>1,692,807</u>

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Credit risk (continued)**

**(iv) Write-off policy**

The Group writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when Group Credit determines that the loan or security is uncollectible and after QCB's approval.

This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status. There were no amount written off during the year. (2016: QAR 42,681 thousands).

**(c) Liquidity risk**

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

**(i) Management of liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities.

In addition, the Group maintains 4.5% (2016: 4.75%) of average customer deposits as a mandatory deposit with Qatar Central Bank.

The Group's Asset and Liability Committee (ALCO) monitors the maturity profile on an overall basis with ongoing liquidity monitoring by the Treasury.

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Liquidity risk (continued)**

**(ii) Maturity analysis (including all assets and liabilities)**

	Carrying amount	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years
<b>31 December 2017</b>						
Cash and balances with central bank	1,979,872	1,422,892	235,188	315,759	6,033	-
Due from banks	2,202,199	2,202,199	-	-	-	-
Loans and advances to customers	28,936,299	2,023,818	2,472,226	6,240,175	10,505,027	7,695,053
Investment securities	6,099,869	-	212,675	1,469,208	2,324,126	2,093,860
Property and equipment	258,608	-	-	-	-	258,608
Others assets	406,553	31,506	237,649	4,717	-	132,681
<b>Total</b>	<b>39,883,400</b>	<b>5,680,415</b>	<b>3,157,738</b>	<b>8,029,859</b>	<b>12,835,186</b>	<b>10,180,202</b>
Due to banks and central bank	3,982,103	2,711,210	127,400	1,143,493	-	-
Certificate of deposits and commercial paper	418,534	43,672	197,388	177,474	-	-
Customer deposits	23,568,578	8,722,739	6,242,356	8,442,673	160,810	-
Debt securities	3,624,368	-	-	-	3,624,368	-
Other borrowings	2,192,233	-	-	273,000	1,919,233	-
Other liabilities	803,740	140,286	370,299	163,904	83,726	45,525
Equity	5,293,844	-	-	-	-	5,293,844
<b>Total</b>	<b>39,883,400</b>	<b>11,617,907</b>	<b>6,937,443</b>	<b>10,200,544</b>	<b>5,788,137</b>	<b>5,339,369</b>
<b>Difference</b>	<b>-</b>	<b>(5,937,492)</b>	<b>(3,779,705)</b>	<b>(2,170,685)</b>	<b>7,047,049</b>	<b>4,840,833</b>

	Carrying amount	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years
<b>31 December 2016</b>						
Cash and balances with central bank	1,789,297	1,018,939	442,246	327,632	480	-
Due from banks	3,261,913	2,827,693	434,220	-	-	-
Loans and advances to customers	26,861,405	1,031,062	2,317,544	5,790,094	11,589,175	6,133,530
Investment securities	5,570,902	121,893	280,180	1,032,028	3,098,001	1,038,800
Property and equipment	275,186	-	-	-	-	275,186
Others assets	406,507	39,725	194,330	39,771	-	132,681
<b>Total</b>	<b>38,165,210</b>	<b>5,039,312</b>	<b>3,668,520</b>	<b>7,189,525</b>	<b>14,687,656</b>	<b>7,580,197</b>
Due to banks	1,276,265	819,517	456,748	-	-	-
Certificate of deposits and commercial paper	2,237,629	509,821	1,245,808	482,000	-	-
Customer deposits	25,010,862	7,066,681	10,301,375	7,631,630	11,176	-
Debt securities	1,810,625	-	-	-	1,810,625	-
Subordinated debt	182,000	-	-	-	182,000	-
Other borrowings	1,886,949	-	-	-	1,886,949	-
Other liabilities	900,681	147,263	396,081	168,709	104,940	83,688
Equity	4,860,199	-	-	-	-	4,860,199
<b>Total</b>	<b>38,165,210</b>	<b>8,543,282</b>	<b>12,400,012</b>	<b>8,282,339</b>	<b>3,995,690</b>	<b>4,943,887</b>
<b>Difference</b>	<b>-</b>	<b>(3,503,970)</b>	<b>(8,731,492)</b>	<b>(1,092,814)</b>	<b>10,691,966</b>	<b>2,636,310</b>

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Liquidity risk (continued)**

**(iii) Maturity analysis (financial liabilities and derivatives)**

	Carrying amount	Gross undiscounted cash flows	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years
<b>31 December 2017</b>							
<b>Non-derivative financial liabilities</b>							
Due to banks and central bank	3,982,103	3,997,862	2,719,012	132,854	1,145,996	-	-
Certificate of deposits and commercial paper	418,534	423,278	44,348	198,388	180,542	-	-
Customer deposits	23,568,578	23,765,386	8,742,631	6,278,324	8,564,125	180,306	-
Debt securities	3,624,368	4,116,172	11,166	21,252	97,257	3,986,497	-
Other borrowings	2,192,233	2,308,793	5,041	9,595	316,272	1,977,885	-
<b>Total</b>	<b>33,785,816</b>	<b>34,611,491</b>	<b>11,522,198</b>	<b>6,640,413</b>	<b>10,304,192</b>	<b>6,144,688</b>	<b>-</b>

**Derivative financial instruments**

**Risk Management:**

Outflow		1,211,700	672,452	118,635	387,946	32,667	-
Inflow		(1,201,711)	(669,848)	(116,816)	(385,495)	(29,552)	-
		<b>34,621,480</b>	<b>11,524,802</b>	<b>6,642,232</b>	<b>10,306,643</b>	<b>6,147,803</b>	<b>-</b>

	Carrying Amount	Gross undiscounted cash flows	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years
<b>31 December 2016</b>							
<b>Non-derivative financial liabilities</b>							
Due to banks	1,276,265	1,278,514	821,045	457,469	-	-	-
Certificate of deposits and commercial paper	2,237,629	2,247,602	513,888	1,250,037	483,677	-	-
Customer deposits	25,010,862	25,159,852	7,072,491	10,341,113	7,734,392	11,856	-
Debt securities	1,810,625	2,093,401	5,498	10,996	49,481	2,027,426	-
Subordinated debt	182,000	187,069	431	819	185,819	-	-
Other borrowings	1,886,949	1,989,678	3,624	6,900	32,159	1,946,995	-
<b>Total</b>	<b>32,404,330</b>	<b>32,956,116</b>	<b>8,416,977</b>	<b>12,067,334</b>	<b>8,485,528</b>	<b>3,986,277</b>	<b>-</b>

**Derivative financial instruments**

**Risk Management:**

Outflow		5,528,551	2,662,757	1,209,501	1,600,516	55,777	-
Inflow		(5,504,416)	(2,646,357)	(1,215,584)	(1,598,347)	(44,128)	-
		<b>32,980,251</b>	<b>8,433,377</b>	<b>12,061,251</b>	<b>8,487,697</b>	<b>3,997,926</b>	<b>-</b>

**(d) Market risks**

Market risk is the risk that the Group's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level of volatility of market rates or prices such as interest rates commodities prices, foreign exchange rates and equity prices.

**(i) Management of market risks**

The Group manages its market risks within the regulatory framework of limits defined by the Qatar Central Bank. Setting the internal framework for the management of market risks and ensuring compliance with this methodology is the responsibility of the Asset and Liability Committee (ALCO) which consists of senior management including members of the Risk management function. The Group is exposed to interest rate risk created as a result of assets and liabilities mismatch or off balance sheet instruments that mature or reprice over a given period.

Both interest rate gaps and foreign exchange rate fluctuations are managed within the prescribed board limits. All risk exposures are monitored and reported on a daily basis to senior management and any breaches are escalated immediately. In addition all trading activity is continuously being monitored at ALCO level.

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(d) Market risks (continued)**

**(ii) Exposure to interest rate risk – non-trading portfolios**

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Group central Treasury in its day-to-day monitoring activities.

A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

	Carrying amount	Less than 3 months	Repricing in:			Non-interest sensitive	Effective interest rate
			3-12 months	1-5 years	More than 5 years		
<b>2017</b>							
Cash and balances with central bank	1,979,872	884,000	-	-	-	1,095,872	
Due from banks	2,202,199	2,186,644	-	-	-	15,555	1.38%
Loans and advances to customers	28,936,299	8,821,489	19,505,533	428,077	167,966	13,234	4.86%
Investment securities	6,099,869	212,676	1,469,208	2,324,126	2,005,243	88,616	3.82%
Property and equipment	258,608	-	-	-	-	258,608	
Other assets	406,553	-	-	-	-	406,553	
	<b>39,883,400</b>	<b>12,104,809</b>	<b>20,974,741</b>	<b>2,752,203</b>	<b>2,173,209</b>	<b>1,878,438</b>	
Due to banks and central bank	3,982,103	2,824,225	1,143,493	-	-	14,385	1.83%
Certificate of deposits and commercial paper	418,534	241,060	177,474	-	-	-	1.70%
Customer deposits	23,568,578	13,965,014	7,124,777	160,810	-	2,317,977	2.26%
Debt securities	3,624,368	-	-	3,624,368	-	-	3.68%
Other borrowings	2,192,233	2,192,233	-	-	-	-	3.10%
Other liabilities	803,740	-	-	-	-	803,740	
Equity	5,293,844	-	-	-	-	5,293,844	
	<b>39,883,400</b>	<b>19,222,532</b>	<b>8,445,744</b>	<b>3,785,178</b>	<b>-</b>	<b>8,429,946</b>	
Statement of financial position items		(7,117,723)	12,528,997	(1,032,975)	2,173,209	(6,551,508)	
Off statement of financial position items		(918,960)	-	918,960	-	-	
<b>Interest rate sensitivity gap</b>		<b>(8,036,683)</b>	<b>12,528,997</b>	<b>(114,015)</b>	<b>2,173,209</b>	<b>(6,551,508)</b>	
<b>Cumulative Interest rate sensitivity gap</b>		<b>(8,036,683)</b>	<b>4,492,314</b>	<b>4,378,299</b>	<b>6,551,508</b>	<b>-</b>	

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(d) Market risks (continued)**

**(ii) Exposure to interest rate risk – non-trading portfolios (continued)**

	Carrying amount	Less than 3 months	3-12 months	Repricing in: 1-5 years	More than 5 years	Non-interest sensitive	Effective interest rate
2016							
Cash and balances with central bank	1,789,297	460,000	-	-	-	1,329,297	
Due from banks	3,261,913	2,845,425	379,230	-	-	37,258	0.80%
Loans and advances to customers	26,861,405	6,251,913	19,772,353	633,451	142,842	60,846	4.32%
Investment securities	5,570,902	402,073	1,032,028	3,098,001	936,863	101,937	3.77%
Property and equipment	275,186	-	-	-	-	275,186	
Other assets	406,507	-	-	-	-	406,507	
	<u>38,165,210</u>	<u>9,959,411</u>	<u>21,183,611</u>	<u>3,731,452</u>	<u>1,079,705</u>	<u>2,211,031</u>	
Due to banks	1,276,265	1,260,071	-	-	-	16,194	1.27%
Certificate of deposits	2,237,629	1,755,629	482,000	-	-	-	1.73%
Customer deposits	25,010,862	16,036,915	6,063,922	11,176	-	2,898,849	1.85%
Debt securities	1,810,625	-	-	1,810,625	-	-	3.79%
Subordinated debt	182,000	182,000	-	-	-	-	2.81%
Other borrowings	1,886,949	1,886,949	-	-	-	-	2.42%
Other liabilities	900,681	-	-	-	-	900,681	
Equity	4,860,199	-	-	-	-	4,860,199	
	<u>38,165,210</u>	<u>21,121,564</u>	<u>6,545,922</u>	<u>1,821,801</u>	<u>-</u>	<u>8,675,923</u>	
Statement of financial position items		(11,162,153)	14,637,689	1,909,651	1,079,705	(6,464,892)	
Off statement of financial position items		(1,032,640)	36,400	996,240	-	-	
Interest rate sensitivity gap		(12,194,793)	14,674,089	2,905,891	1,079,705	(6,464,892)	
Cumulative Interest rate sensitivity gap		(12,194,793)	2,479,296	5,385,187	6,464,892	-	

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(d) Market risks (continued)**

**(ii) Exposure to interest rate risk – non-trading portfolios (continued)**

**Sensitivity analysis**

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated income statement and equity.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the interest sensitive non-trading financial assets and financial liabilities held at 31 December 2017, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of swaps designated as cash flow hedges at 31 December 2017 for the effects of the assumed changes in interest rates and based on the assumption that there are parallel shifts in the yield curve. The effect of decreases in interest rates is expected to have an equal and opposite effect of the increases shown.

	<i>Change in basis points</i>	<i>Sensitivity of net interest income</i>		<i>Sensitivity of equity</i>	
		<b>2017</b>	2016	<b>2017</b>	2016
<i>Currency</i>					
Qatari Riyal	25	<b>27,656</b>	20,804	-	-
US Dollar	25	<b>8,980</b>	2,149	<b>2,238</b>	3,076

**(iii) Exposure to currency risk – non-trading portfolios**

**Foreign currency transactions**

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

The Group had the following net open positions at the year end:

**Functional currency of Group entities**

	<b>2017</b>	2016
Net foreign currency exposure:		
Pounds Sterling	<b>(115)</b>	(24)
Euro	<b>6,905</b>	952
USD	<b>(5,121,730)</b>	(2,311,177)
Other currencies	<b>33,682</b>	79,827
Total	<b>(5,081,258)</b>	(2,230,422)

The others above include an exposure to Egyptian Pounds (EGP) amounting to QAR 26,494 thousand (2016: QAR 25,921 thousand). This exposure arises from the investment made in 2006.

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

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(d) Market risks (continued)**

**(iii) Exposure to currency risks – non-trading portfolios (continued)**

**Sensitivity Analysis**

	Increase / (decrease) in profit or loss		Increase / (decrease) in other comprehensive income	
	2017	2016	2017	2016
1% change in currency exchange rate				
Pound Sterling	1	1	-	-
Euro	69	10	-	-
USD	-	-	-	-
Other currencies	72	539	265	259

**(iv) Exposure to equity price risks – non-trading portfolios**

**Equity price risk**

Equity price risk arises from fluctuations in equity indices and prices. The Board has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Group's Credit and Investment Committee. The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect on equity, as a result of a change in the fair value of equity instruments held as available-for-sale investments at the year end, due to change in equity indices, with all other variables held constant, is as follows:

	Change in Equity price %	Effect on equity 2017	Effect on Equity 2016
<i>Market index</i>			
Qatar Exchange	10%	4,289	5,362

**(e) Operational risks**

Operational Risk is the loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank manages its Operational Risk primarily through the Board approved Operational Risk Framework (ORF) consisting of the Operational Risk Policy (ORP) and the Operational Risk Committee (ORC), which has representation across all departments. The Bank utilizes a Basel III compliant approach known as 'Operational Risk Self-Assessment' (ORSA) process to assess, document and report the operational risks encountered in the course of normal business activity.

The ORC approves the ORSA every two years and reviews operational risks faced by various functions in the Bank on a regular basis throughout the year to track the status of open risks and pursuing appropriate controls wherever necessary. Furthermore both compliance and internal audit perform independent periodic reviews to assess adequacy of check and controls at any given point in time.

The Bank has a robustly documented Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP). These documents outline the procedures to be followed in a disaster scenario. The BCP aims to establish the level of impact upon the Bank's business activity of having to operate from a different site in the event of an emergency or natural disaster. This includes access to critical computer systems, connectivity to local area network, database servers, internet, intranet and e-mails etc. This is a well-established process and takes place periodically throughout the year. The last Disaster Recovery (DR) test and Business Continuity (BC) was performed on 6 June 2017 and 26 October 2017 respectively. The completion of DR & BCP is signed off by all concerned departments to confirm tests were successfully carried out by them as well as a report circulated to all ORC members for their comments and reference. Both the BCP & DR processes were independently audited by external auditors as per QCB requirements and were found to be thorough and well implemented.

Basic firefighting training is provided to staff fire wardens periodically (last performed on 28 December 2017) with the assistance of Civil Defense Authority. An evacuation drill is normally conducted annually as part of safety and security procedures across the branches network.

**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(f) Capital management**

**Regulatory capital**

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by Qatar Central Bank. The following table summarises the capital adequacy of the Group under Basel III requirements:

	2017	2016
Common Equity Tier 1 (CET1) capital	4,845,285	4,669,396
Tier 2 capital *	354,532	48,800
Total eligible capital	<u>5,199,817</u>	<u>4,718,196</u>
Total risk weighted assets	30,691,827	30,201,144
CET1/Tier 1 Ratio	15.79	15.46
Total Capital Ratio	16.94	15.62

The minimum accepted Capital Adequacy Ratio under Basel III as per Qatar Central Bank Requirements are as follows:

Minimum limit without Capital Conservation Buffer is 10%.

Minimum limit including Capital Conservation Buffer is 12.5%.

**Risk weighted assets and carrying amounts**

	2017	2016	2017	2016
	Basel III Risk weighted amount	Basel III Risk weighted amount	Carrying amount	Carrying amount
Cash and balances with central bank	-	-	1,979,872	1,789,297
Due from banks	394,975	722,812	2,202,199	3,261,913
Loans and advances to customers	26,902,494	26,101,931	28,936,299	26,861,405
Investment securities	734,558	741,999	6,099,869	5,570,902
Other assets	781,257	797,789	665,161	681,693
Total risk weighted assets for credit risk	<u>28,813,284</u>	<u>28,364,531</u>	<u>39,883,400</u>	<u>38,165,210</u>
Risk weighted assets for market risk	40,587	80,779		
Risk weighted assets for operational risk	1,837,956	1,755,834		
	<u>30,691,827</u>	<u>30,201,144</u>		

	2017	2016
Risk weighted assets	30,691,827	30,201,144
Regulatory capital	5,199,817	4,718,196
Regulatory capital as a percentage of Risk weighted assets (Capital ratio)	16.94%	15.62%

\* After IFRS 9 adjustments

**5. USE OF ESTIMATES AND JUDGMENTS**

**(a) Key sources of estimation uncertainty**

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

**(i) Going concern**

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

**(ii) Impairment losses on loans, advances and financing activities to customers**

The Group reviews its individually significant loans, advances and financing activities to customers at each consolidated statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups). Furthermore, management complies with all applicable provisions of Qatar Central Bank regulations in this regard.

**(iii) Impairment of investments in equity and debt securities**

Investments in equity and debt securities are evaluated for impairment on the basis described in the significant accounting policies section.

**(iv) Fair value of financial instruments**

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models are taken from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs, such as volatility, discount rates etc.

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

**(i) Valuation of financial instruments**

The Group's accounting policy on fair value measurements is discussed in the significant accounting policies section.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

**5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)**

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

**(i) Valuation of financial instruments (continued)**

**Financial instruments measured at fair value – Fair value hierarchy**

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total
<b>31 December 2017</b>				
Derivative assets held for risk management	-	4,578	-	4,578
Investment securities – available for sale	1,481,817	1,427,524	-	2,909,341
	<u>1,481,817</u>	<u>1,432,102</u>	-	<u>2,913,919</u>
Derivative liabilities held for risk management	-	11,458	-	11,458
	-	<u>11,458</u>	-	<u>11,458</u>
<b>31 December 2016</b>				
Derivative assets held for risk management	-	40,719	-	40,719
Investment securities – available for sale	2,721,619	1,529,951	-	4,251,570
	<u>2,721,619</u>	<u>1,570,670</u>	-	<u>4,292,289</u>
Derivative liabilities held for risk management	-	61,467	-	61,467
	-	<u>61,467</u>	-	<u>61,467</u>

During the year ending 31 December 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Financial investments in Level 2 above include Qatar Government Bonds amounting to QAR 283,030 thousands, (2016: QAR 283,030 thousands) which were issued in lieu of sale of certain real estate loans and equity investments listed in Qatar Exchange to the Government of Qatar.

**Financial instruments not measured at fair value**

The following financial instruments which are not measured at fair value are not being included in fair value hierarchy, as carrying amount is a reasonable approximation of fair value, except for Investment securities classified as held to maturity which the fair value amounts to QAR 3,173,756 thousands (2016 : QAR 1,304,820 thousands), which is derived using level 1.

The fair value of the following financial instruments approximate their carrying values:

**Financial assets**

Cash and balances with Qatar Central Bank  
 Due from banks and other financial institutions  
 Loans, advances and financing activities to customers

**Financial liabilities**

Due to banks, Qatar Central Bank and other financial institutions  
 Customer deposits  
 Debt securities  
 Subordinated debt  
 Other borrowings

**5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)**

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

**(i) Valuation of financial instruments (continued)**

**Financial instruments not measured at fair value (continued)**

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to call accounts, demand deposits, savings accounts without a specific maturity and variable rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity

**(ii) Financial asset and liability classification**

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

- In classifying financial assets or liabilities as trading, the Group has determined that it meets the description of trading assets and liabilities set out in accounting policies.
- In designating financial assets at fair value through profit or loss, the Group has determined that it has met one of the criteria for this designation set out in accounting policies.
- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policies.

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

**(iii) Qualifying hedge relationships**

In designating financial instruments in qualifying hedge relationships, the Group has determined that it expects the hedges to be highly effective over the period of the hedging relationship.

In accounting for derivatives as cash flow hedges, the Group has determined that the hedged cash flow exposure relates to highly probable future cash flows.

**(iv) Impairment of investments in equity and debt securities**

Investments in equity and debt securities are evaluated for impairment on the basis described in the significant accounting policies section.

**(v) Useful lives of property and equipment**

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

**6. OPERATING SEGMENTS**

For management purposes, the Group is organised into two major operating segments:

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

Retail and private banking and wealth management

Principally handling individual customers' deposit and current accounts, providing consumer loans, residential mortgages, overdrafts, credit cards and fund transfer facilities. Private banking and wealth management represents servicing high net worth individuals through a range of investment products, funds, credit facilities, trusts and alternative investments.

Corporate banking, treasury, investments and brokerage subsidiary

Principally handling loans and other credit facilities, and deposit and current accounts for corporate and institutional customers and providing money market, trading and treasury services, as well as management of the Group's funding. The brokerage services are offered through the wholly owned subsidiary, Ahli Brokerage Company L.L.C.

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**6. OPERATING SEGMENTS (CONTINUED)**  
**(i) Information about operating segments**

2017

	Retail & private banking and wealth management	Corporate banking, treasury, investments and brokerage	Total
Net interest income	196,886	637,557	834,443
Net fee and commission income	50,063	123,550	173,613
Foreign exchange gain	16,721	6,524	23,245
Income from investment securities	-	6,627	6,627
Other operating income	-	6,484	6,484
<b>Total segment revenue</b>	<b>263,670</b>	<b>780,742</b>	<b>1,044,412</b>
Other material non-cash items: Impairment losses and provisions	(22,278)	(63,163)	(85,441)
<b>Reportable segment profit before tax</b>	<b>97,847</b>	<b>541,865</b>	<b>639,712</b>
<b>Reportable segment assets</b>	<b>6,248,440</b>	<b>33,634,960</b>	<b>39,883,400</b>
<b>Reportable segment liabilities</b>	<b>10,668,000</b>	<b>23,921,556</b>	<b>34,589,556</b>

\*There is no inter group transactions in the above segmental information.

**6. OPERATING SEGMENTS (CONTINUED)**  
**(i) Information about operating segments (continued)**

2016

	Retail & private banking and wealth management	Corporate banking, treasury, investments and brokerage	Total
Net interest income	186,358	548,710	735,068
Net fee and commission income	52,458	116,331	168,789
Foreign exchange gain	12,436	4,634	17,070
Income from investment securities	-	31,173	31,173
Other operating income	-	6,560	6,560
Total segment revenue	251,252	707,408	958,660
Other material non-cash items: Impairment losses and provisions	(4,515)	(28,197)	(32,712)
Reportable segment profit before tax	102,277	529,471	631,748
Reportable segment assets	6,037,648	32,127,562	38,165,210
Reportable segment liabilities	8,554,317	24,750,694	33,305,011

\*There is no inter group transactions in the above segmental information.

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**7. FINANCIAL ASSETS AND LIABILITIES**

**(a) Accounting classifications and fair values**

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

**31 December 2017**

	Fair value through profit or loss	Held-to- maturity	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and balances with central bank	-	-	1,979,872	-	-	1,979,872	1,979,872
Due from banks	-	-	-	-	2,202,199	2,202,199	2,202,199
Derivative assets held for risk management	4,578	-	-	-	-	4,578	4,578
Loans and advances to customers	-	-	28,936,299	-	-	28,936,299	28,936,299
Investment securities:							
Measured at fair value	-	3,190,527	-	2,909,341	-	2,909,341	2,909,341
Measured at amortised cost	4,578	3,190,527	30,916,171	2,909,341	2,202,199	39,222,816	3,173,756
Derivative liabilities held for risk management	11,458	-	-	-	-	11,458	11,458
Due to banks and central bank	-	-	-	-	3,982,103	3,982,103	3,982,103
Certificate of deposits and commercial paper	-	-	-	-	418,534	418,534	418,534
Customer deposits	-	-	-	-	23,568,578	23,568,578	23,568,578
Debt securities	-	-	-	-	3,624,368	3,624,368	3,624,368
Other borrowings	-	-	-	-	2,192,233	2,192,233	2,192,233
	<b>11,458</b>	-	-	-	<b>33,785,816</b>	<b>33,797,274</b>	<b>33,797,274</b>

**7. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**

**(a) Accounting classifications and fair values (continued)**

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

	Fair value through profit or loss	Held-to- maturity	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
31 December 2016							
Cash and balances with central bank	-	-	1,789,297	-	-	1,789,297	1,789,297
Due from banks	-	-	-	-	3,261,913	3,261,913	3,261,913
Derivative assets held for risk management	40,719	-	-	-	-	40,719	40,719
Loans and advances to customers	-	-	26,861,405	-	-	26,861,405	26,861,405
Investment securities:							
Measured at fair value	-	-	-	4,251,570	-	4,251,570	4,251,570
Measured at amortised cost	-	1,319,332	-	-	-	1,319,332	1,304,820
	40,719	1,319,332	28,650,702	4,251,570	3,261,913	37,524,236	37,509,724
Derivative liabilities held for risk management	61,467	-	-	-	-	61,467	61,467
Due to banks	-	-	-	-	1,276,265	1,276,265	1,276,265
Certificate of deposits and commercial paper	-	-	-	-	2,237,629	2,237,629	2,237,629
Customer deposits	-	-	-	-	25,010,862	25,010,862	25,010,862
Debt securities	-	-	-	-	1,810,625	1,810,625	1,810,625
Subordinated debt	-	-	-	-	182,000	182,000	182,000
Other borrowings	-	-	-	-	1,886,949	1,886,949	1,886,949
	61,467	-	-	-	32,404,330	32,465,797	32,465,797

**8. CASH AND BALANCES WITH CENTRAL BANK**

	2017	2016
Cash	132,672	104,607
Cash reserve with QCB*	884,248	1,073,735
Other balances with QCB	962,952	610,955
	<u>1,979,872</u>	<u>1,789,297</u>

\*The cash reserve with QCB is mandatory reserve not available for use in the Group's day to day operations.

**9. DUE FROM BANKS**

	2017	2016
Current accounts	15,799	82,832
Placements	2,186,400	3,179,081
	<u>2,202,199</u>	<u>3,261,913</u>

**10. LOANS AND ADVANCES TO CUSTOMERS**

**a) By type**

	2017	2016
Loans	24,815,729	23,953,143
Overdrafts	3,788,569	2,446,161
Bills discounted	365,034	320,195
Reclassified AFS Securities (i)	20,865	20,797
Acceptances	287,817	388,911
Other loans	79,257	77,156
	<u>29,357,271</u>	<u>27,206,363</u>
Deferred profit	(4,704)	(8,546)
Specific impairment of loans and advances to customers	(365,868)	(287,612)
Collective impairment allowance	(50,400)	(48,800)
<b>Net loans and advances to customers (Note 10(a)(i))</b>	<u>28,936,299</u>	<u>26,861,405</u>

The aggregate amount of non-performing loans and advances to customers (excluding performing loans under watch list) amounted QAR 292.04 million, which represents 0.99% of total loans and advances to customers (2016: QAR 223.45 million, 0.82% of total loans and advances to customers).

Specific impairment of loans and advances to customers includes QAR 62.96 million of interest in suspense (2016: QAR 50.80 million)

*(i) Reclassified AFS Securities:*

Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Group reclassified certain financial assets from available-for-sale to loans and advances category. The Group identified assets eligible under the amendments, for which at 1 July 2008, it had clear change of intent to hold for the foreseeable future rather than to exit in the short term. Under IAS 39 as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date

The carrying value of the financial assets reclassified to loans and advances at 1 July 2008 was QAR 304,555 thousand (31 December 2017: QAR 20,865 thousand and 31 December 2016: QAR 20,797 thousand) with the fair value at 31 December 2017 of QAR 24,581 thousand (31 December 2016: QAR 24,246 thousand). Unrealized fair value gains on reclassified financial assets available-for-sale that were not impaired, were recorded directly in equity. As of July 2008, such unrealized fair value gains recorded directly in equity amounted to QAR 14,579 thousand.

As of the reclassification date i.e. 1 July 2008, the effective interest rates on reclassified financial assets available-for-sale ranged from 4.12% to 6.46% with expected recoverable cash flows of QAR 483,080 thousand. If the reclassification had not been made, there would not have been any effect on the Group's consolidated income statement for the year ended 31 December 2017 (2016: Nil). Also, as at 31 December 2017, the equity would have included QAR 975 thousand (31 December 2016: QAR 1,043 thousand) of unrealized fair value losses on the reclassified available-for-sale financial assets, which were not impaired.

**10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

**a) By type (continued)**

Note 1	2017	2016
Government and related agencies	2,873,379	1,776,293
Corporate	21,094,324	19,732,973
Retail	4,968,596	5,352,139
	<u>28,936,299</u>	<u>26,861,405</u>

**b) By industry**

**At 31 December 2017:**

	Loans	Overdrafts	Bills discounted	Reclassified AFS securities	Acceptances	Other loans	Total
Government and related agencies	706,992	2,166,387	-	-	-	-	2,873,379
Industry	609,967	42,235	1,360	20,865	10,860	58	685,345
Commercial	10,841,333	942,360	281,453	-	220,086	1,196	12,286,428
Services	3,068,927	161,523	43,610	-	8,223	238	3,282,521
Contracting	1,610,652	324,185	38,066	-	48,648	332	2,021,883
Real estate	4,552,521	9,878	-	-	-	2,750	4,565,149
Personal	3,425,337	142,001	545	-	-	74,683	3,642,566
	<u>24,815,729</u>	<u>3,788,569</u>	<u>365,034</u>	<u>20,865</u>	<u>287,817</u>	<u>79,257</u>	<u>29,357,271</u>
Less: deferred profit							(4,704)
Specific impairment of loans and advances to customers							(365,868)
Collective impairment allowance							<u>(50,400)</u>
							<u>28,936,299</u>

**At 31 December 2016:**

	Loans	Overdrafts	Bills discounted	Reclassified AFS securities	Acceptances	Other loans	Total
Government and related agencies	809,200	778,088	-	-	-	-	1,587,288
Industry	714,377	58,211	-	20,797	10,053	57	803,495
Commercial	10,328,153	1,032,789	180,330	-	297,579	356	11,839,207
Services	2,566,780	55,719	7,483	-	4,994	194	2,635,170
Contracting	1,995,593	322,131	132,382	-	76,285	184	2,526,575
Real Estate	4,320,572	65,987	-	-	-	14	4,386,573
Personal	3,218,468	133,236	-	-	-	76,351	3,428,055
	<u>23,953,143</u>	<u>2,446,161</u>	<u>320,195</u>	<u>20,797</u>	<u>388,911</u>	<u>77,156</u>	<u>27,206,363</u>
Less: deferred profit							(8,546)
Specific impairment of loans and advances to customers							(287,612)
Collective impairment allowance							<u>(48,800)</u>
							<u>26,861,405</u>

**10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)****c) Movement in impairment provisions on loans and advances to customers**

	2017	2016
Balance at 1 January	336,412	380,067
Provisions made during the year	107,452	63,302
Recoveries during the year	(27,596)	(64,276)
	416,268	379,093
Written off during the year	-	(42,681)
<b>Balance at 31 December</b>	<b>416,268</b>	<b>336,412</b>

The movement includes the effect of interest suspended on loans and advances to customers as per QCB regulations.

	Corporate	Retail	Real Estate mortgages	Total
Balance at 1 January	12,364	243,164	80,884	336,412
Provision made during the year	47,718	55,408	4,326	107,452
Recoveries during the year	(2,313)	(25,283)	-	(27,596)
Amounts written off	-	-	-	-
<b>Balance at 31 December 2017</b>	<b>57,769</b>	<b>273,289</b>	<b>85,210</b>	<b>416,268</b>

Balance at 1 January	7,260	294,906	77,901	380,067
Provision made during the year	17,144	43,175	2,983	63,302
Recoveries during the year	(7,952)	(56,324)	-	(64,276)
Amounts written off	(4,088)	(38,593)	-	(42,681)
Balance at 31 December 2016	12,364	243,164	80,884	336,412

The above impairment provisions include collective impairment on the Group's loans, advances and financing activities to customers' portfolio for QAR 50,400 thousands (2016: QAR 48,800 thousands)

**11. INVESTMENT SECURITIES**

Investment securities as at 31 December 2017 totaled QAR 6,099,869 thousands (2016: QAR 5,570,902 thousands). The analysis of investment securities is detailed below:

	2017	2016
Available-for-sale	3,020,093	4,339,004
Held to maturity	3,190,527	1,319,332
Total	6,210,620	5,658,336
Impairment loss	(110,751)	(87,434)
Total	6,099,869	5,570,902

## 11. INVESTMENT SECURITIES (CONTINUED)

a) Available-for-sale	2017		2016	
	Quoted	Unquoted	Quoted	Unquoted
Equities	82,154	101,489	79,330	100,916
State of Qatar debt securities/T-Bills	847,060	1,383,030	1,712,624	1,483,030
Other debt securities	598,617	-	955,310	-
Mutual funds	7,743	-	7,794	-
Less: impairment loss	(53,756)	(56,995)	(33,439)	(53,995)
<b>Total</b>	<b>1,481,818</b>	<b>1,427,524</b>	<b>2,721,619</b>	<b>1,529,951</b>

Fixed rate securities and floating rate securities amounted to QAR 2,820,725 thousands and QAR NIL respectively (2016: QAR 4,149,633 thousands and QAR NIL thousands respectively).

b) Held to maturity	2017		2016	
	Quoted	Unquoted	Quoted	Unquoted
<b>-By issuer</b>				
State of Qatar debt securities	2,365,706	-	648,647	-
Other debt securities	824,821	-	670,685	-
Less: impairment loss	-	-	-	-
<b>Total</b>	<b>3,190,527</b>	<b>-</b>	<b>1,319,332</b>	<b>-</b>
<b>-By interest rate</b>				
Fixed rate securities	3,190,527	-	1,319,332	-
Floating rate securities	-	-	-	-
Less: impairment loss	-	-	-	-
<b>Total</b>	<b>3,190,527</b>	<b>-</b>	<b>1,319,332</b>	<b>-</b>

The fair value of held to maturity investments amounted to QAR 3,173,756 thousands at 31 December 2017 (2016: QAR 1,304,820 thousands).

## c) Movement in impairment loss on investment securities

	2017	2016
Balance at 1 January	87,434	83,906
Impairment loss during the year	23,767	43,531
Reversal of provisions on derecognition	(450)	(40,003)
<b>Balance at 31 December</b>	<b>110,751</b>	<b>87,434</b>

## 12. PROPERTY AND EQUIPMENT

Balance at 31 December 2016	Land and building	Leasehold improvements	Furniture and equipment	Motor Vehicles	Capital Work in Progress	Total
<b>Cost</b>						
Balance at 1 January 2016	195,594	78,105	150,939	156	51,593	476,387
Acquisitions / transfers	20,487	10,327	9,472	-	-	40,286
Disposals / write offs	-	(147)	-	-	-	(147)
Balance at 31 December 2016	216,081	88,285	160,411	156	51,593	516,526
Balance at 1 January 2017	<b>216,081</b>	<b>88,285</b>	<b>160,411</b>	<b>156</b>	<b>51,593</b>	<b>516,526</b>
Acquisitions / transfers	<b>2,780</b>	<b>5,280</b>	<b>2,220</b>	-	-	<b>10,280</b>
Disposals / write offs	-	(1,522)	-	-	-	(1,522)
<b>Balance at 31 December 2017</b>	<b>218,861</b>	<b>92,043</b>	<b>162,631</b>	<b>156</b>	<b>51,593</b>	<b>525,284</b>
<b>Accumulated depreciation</b>						
Balance at 1 January 2016	35,321	58,947	119,239	122	-	213,629
Depreciation for the year	5,844	5,202	16,781	31	-	27,858
Disposals / write offs	-	(147)	-	-	-	(147)
Balance at 31 December 2016	41,165	64,002	136,020	153	-	241,340
Balance at 1 January 2017	<b>41,165</b>	<b>64,002</b>	<b>136,020</b>	<b>153</b>	-	<b>241,340</b>
Depreciation for the year	<b>6,458</b>	<b>6,765</b>	<b>13,568</b>	<b>3</b>	-	<b>26,794</b>
Disposals / write offs	-	(1,458)	-	-	-	(1,458)
<b>Balance at 31 December 2017</b>	<b>47,623</b>	<b>69,309</b>	<b>149,588</b>	<b>156</b>	-	<b>266,676</b>
<b>Carrying amounts</b>						
Balance at 31 December 2016	174,916	24,283	24,391	3	51,593	275,186
<b>Balance at 31 December 2017</b>	<b>171,238</b>	<b>22,734</b>	<b>13,043</b>	-	<b>51,593</b>	<b>258,608</b>

## 13. OTHER ASSETS

	2017	2016
Interest receivable	196,587	135,575
Profit receivable (Islamic)	4,451	4,457
Prepaid expenses	25,050	18,963
Positive fair value of derivatives (Note 30)	4,578	40,719
Sundry debtors	32,063	52,148
Advances and deposits	1,855	1,378
Repossessed collateral*	132,681	132,681
Others	9,288	20,586
	<b>406,553</b>	<b>406,507</b>

\* This represents the value of the properties acquired in settlement of debts which are stated at their acquisition value. The estimated market values of these properties as at 31 December 2017 are not materially different from the carrying values..

**14. DUE TO BANKS AND CENTRAL BANK**

	2017	2016
Balances due to central bank	1,820,513	498
Current accounts	14,392	16,194
Deposits	2,147,198	1,259,573
	<b>3,982,103</b>	<b>1,276,265</b>

**15. CUSTOMER DEPOSITS**

**a) By type**

	2017	2016
Current and call deposits	2,926,163	3,820,238
Saving deposits	1,056,800	1,090,479
Time deposits	19,585,615	20,100,145
	<b>23,568,578</b>	<b>25,010,862</b>

**b) By sector**

Government	6,438,149	1,278,237
Government and semi government agencies	3,457,282	4,003,157
Retail	6,559,867	6,765,374
Corporate	7,113,280	12,964,094
	<b>23,568,578</b>	<b>25,010,862</b>

**16. (a) DEBT SECURITIES**

	2017	2016
3.625% Euro Medium Term Note – Maturing in April 2021	1,812,831	1,810,625
3.50% Euro Medium Term Note – Maturing in February 2022	1,811,537	-
	<b>3,624,368</b>	<b>1,810,625</b>

**16. (b) SUBORDINATED DEBT**

	2017	2016
USD 50 million Tier II qualified Subordinated Medium Term Notes (terms as under)	-	182,000
Date of maturity	December 27, 2017	
Interest rate	3 month LIBOR + 220 bps	

**16. (c) OTHER BORROWINGS**

	2017	2016
Term loan facilities	2,192,233	1,886,949

The table below shows the other borrowings of the Bank as at 31 December 2017 and 2016:

Currency	Coupon Rate	Maturity	2017	2016
QAR	3 MONTH LIBOR +180 Bps	October 2019	299,433	449,149
USD	3 MONTH LIBOR + 140 Bps	September 2019	709,800	709,800
USD	3 MONTH LIBOR +100 Bps	June 2020	910,000	455,000
USD	3 MONTH LIBOR + 85 Bps	December 2018	91,000	91,000
USD	3 MONTH LIBOR + 95 Bps	October 2018	182,000	182,000
	<b>Total</b>		<b>2,192,233</b>	<b>1,886,949</b>

**17. OTHER LIABILITIES**

	2017	2016
Interest payable	152,358	121,075
Accrued expense payable	76,299	57,538
Other provisions (Refer (i) below)	44,014	40,992
Bills payable	7,629	9,126
Negative fair value of derivatives (Note 30)	11,458	61,467
Unearned income (Commission received in advance)	92,577	91,442
Cash margins	70,561	53,788
Dividend payable	8,554	9,954
QE clients payable	567	568
Social and sports fund	15,993	15,794
Staff provident fund	-	19,481
Staff pension fund	1,391	1,983
Due in relation to acceptances	287,817	388,911
Others	34,522	28,562
<b>Total</b>	<b>803,740</b>	<b>900,681</b>

**(i) Other provisions**

	Staff indemnity	Legal provision	Others	Total 2017	Total 2016
Balance at 1 January	40,966	26	-	40,992	45,163
Provisions made/transferred during the year	9,619	-	-	9,619	9,747
	50,585	26	-	50,611	54,910
Provisions paid and written off during the year	(6,597)	-	-	(6,597)	(13,918)
<b>Balance at 31 December</b>	<b>43,988</b>	<b>26</b>	<b>-</b>	<b>44,014</b>	<b>40,992</b>

**18. CAPITAL AND RESERVES**

**(a) Share capital**

	Ordinary shares	
<i>In millions of shares</i>	2017	2016
On issue at the beginning of the reporting year	190.81	181.72
New shares issued (bonus issue)	9.53	9.09
<b>On issue at 31 December</b>	<b>200.34</b>	<b>190.81</b>

At 31 December 2017 the authorised share capital comprised 200.34 million ordinary shares (2016: 190.81 million). These instruments have a par value of QAR 10. All issued shares are fully paid.

**Bonus issue**

On 07 March 2017, the Bank issued bonus shares (ordinary shares) at the rate of one share for every twenty shares held by the ordinary shareholders upon obtaining approval from the shareholders in the Annual General Meeting held on 07 March 2017.

**18. CAPITAL AND RESERVES (CONTINUED)**

**(b) Legal reserve**

In accordance with Qatar Central Bank's Law No. 13 of 2012 as amended, 10% of the net profit for the year is required to be transferred to legal reserve until the legal reserve equals 100% of the paid up capital. This reserve is not available for distribution except in circumstances specified in the Qatar Commercial Companies' Law and is subject to the approval of QCB. In the year ended 31 December 2017, the Group has transferred QAR 63.97 million being 10% of the net profits (2016: QAR 63.18 million).

**(c) Risk reserve**

In accordance with Qatar central Bank circular 102/2011, in 2017 2.5% (2016 - 2.5%) of the net loans and advances to customers is required to be maintained, except for facilities granted to government and facilities against cash collateral. The total amount of the transfer made to the risk reserve was QAR 21,573 thousands (2016: QAR 73,152 thousands).

**(d) Fair value reserves**

This reserve comprises the fair value changes recognised on available-for-sale financial assets / and the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet affected profit or loss

	<i>Available-for-sale investments</i>	
	<i>2017</i>	<i>2016</i>
At 1 January	<b>11,801</b>	35,335
Realised during the year	<b>504</b>	(9,065)
Fair value (losses) during the year	<b>(23,160)</b>	(58,055)
Net amount of impairment transferred to profit or loss	<b>23,317</b>	43,531
Amortised during the year on reclassification to loans and receivables	<b>68</b>	55
<b>At 31 December</b>	<b>12,530</b>	<b>11,801</b>

**(e) Proposed bonus shares and dividend**

A cash dividend of QAR 1 per share amounting to QAR. 200,343 thousands has been proposed by the Board of Directors for the year ended 31 December 2017 (2016: QAR 1 per share amounting to QAR 190,803 thousands).

The Board of Directors have also proposed the issue of bonus shares at the rate of one share for every twenty held by ordinary shareholders as at 31 December 2017 amounting to QAR. 100,172 thousands (2016: one shares for every twenty shares amounting to QAR 95,402 thousands).

The above proposed cash dividend and issue of bonus shares is subject to the approval of the shareholders in their Annual General Meeting.

**19. INTEREST INCOME**

	2017	2016
Balances with Qatar Central Bank	14,713	6,624
Due from banks	21,375	14,930
Debt securities	235,693	180,041
Loans and advances to customers	1,328,015	1,080,832
	<u>1,599,796</u>	<u>1,282,427</u>

**20. INTEREST EXPENSE**

	2017	2016
Balances with Qatar Central Bank	25,373	132
Due to banks	56,080	58,394
Customer deposits	501,672	393,609
Others	182,228	95,224
	<u>765,353</u>	<u>547,359</u>

**21. FEE AND COMMISSION INCOME - NET**

	2017	2016
Credit related fees	89,350	87,370
Brokerage fees	8,224	7,262
Banking services	4,987	2,437
Commission on unfunded facilities	63,975	65,149
Others	7,077	6,571
	<u>173,613</u>	<u>168,789</u>

**22. FOREIGN EXCHANGE GAIN/(LOSS)**

	2017	2016
Dealing in foreign currencies	23,251	17,075
Revaluation of assets and liabilities	(6)	(5)
	<u>23,245</u>	<u>17,070</u>

**23. INCOME FROM INVESTMENT SECURITIES**

	2017	2016
Net gains on sale of available-for-sale SECURITIES	4,017	24,006
Dividend income	2,610	7,167
	<u>6,627</u>	<u>31,173</u>

**24. OTHER OPERATING INCOME**

	2017	2016
Rental income	5,490	6,308
Others	994	252
	<u>6,484</u>	<u>6,560</u>

**25. STAFF COSTS**

	2017	2016
Basic salaries	79,130	81,966
Staff pension fund costs	3,404	3,981
Staff indemnity costs	9,619	9,747
Training	387	291
OtherS	90,154	76,673
	<b>182,694</b>	<b>172,658</b>

**26. OTHER EXPENSES**

	2017	2016
Professional fees	8,363	3,819
Communication and insurance	15,405	14,280
Board of directors' remuneration	12,120	11,145
Occupancy and maintenance	16,521	15,818
Computer and IT costs	21,519	14,785
Printing and stationary	2,644	3,791
Others	33,199	30,046
	<b>109,771</b>	<b>93,684</b>

**27. BASIC AND DILUTED EARNINGS PER SHARE**

Earnings per share of the Bank is calculated by dividing profit for the year attributable to the equity holders of the Bank by the weighted average number of ordinary shares in issue during the year:

	2017	2016
Profit for the year attributable to the equity holders of the Bank - QAR '000	639,712	631,748
Weighted average number of outstanding shares	<b>200,343,271</b>	200,343,271
<b>Basic and Diluted Earnings per share (QAR)</b>	<b>3.19</b>	3.15

\*There were no potentially dilutive shares outstanding at any time during the year, therefore, the diluted earnings per share is equal to the basic earnings per share.

**The weighted average number of shares (2016 adjusted) have been calculated as follows:**

	2017	2016
Weighted average number of shares at 1 January	190,803,115	190,803,115
Bonus shares issued on 07 March 2017	9,540,156	9,540,156
Weighted average number of shares at 31 December	<b>200,343,271</b>	200,343,271

**28. CONTINGENT LIABILITIES AND OTHER COMMITMENTS**

	2017	2016
<b>a) Contingent liabilities</b>		
Unutilized facilities-cancellable & non cancellable	9,408,427	9,928,537
Guarantees	8,238,506	7,108,186
Letters of credit	777,902	926,398
	<b>18,424,835</b>	<b>17,963,121</b>
<b>b) Other commitments</b>		
Forward foreign exchange contracts	1,066,379	3,667,572
Interest rate swaps	918,960	1,032,640
Foreign Exchange Options	-	247,491
<b>Total</b>	<b>1,985,339</b>	<b>4,947,703</b>

**Unused facilities**

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Since commitments may expire without being drawn upon, the total contractual amounts do not necessarily represent future cash requirements.

**Guarantees and Letters of credit**

Letters of credit and guarantees commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract. Guarantees and standby letters of credit carry the same risk as loans. Credit guarantees can be in the form of irrevocable letters of credits, advance payment guarantees and endorsements liabilities from bills rediscounted.

**29. CASH AND CASH EQUIVALENTS**

	2017	2016
Cash and balances with banks	227,422	338,393
Money market placements	3,070,400	3,639,082
	<b>3,297,822</b>	<b>3,977,475</b>

\*Cash and balances with central bank do not include the mandatory cash reserve.

**Ahli Bank Q.S.C.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**As at and for the year ended 31 December 2017**

**QAR '000s**

**30. DERIVATIVES**

	Positive fair value	Negative fair value	Notional amount	Notional / expected amount by term to maturity				
				Within 3 months	3 - 12 months	1-5 Years	More than 5 years	
<b>At 31 December 2017:</b>								
<b>Derivatives held for trading/fair value hedges:</b>								
Forward foreign exchange contracts	4,578	3,070	1,066,379	343,995	722,384	-	-	-
Interest rate swaps	-	8,388	918,960	-	-	918,960	-	-
<b>Total</b>	<b>4,578</b>	<b>11,458</b>	<b>1,985,339</b>	<b>343,995</b>	<b>722,384</b>	<b>918,960</b>	<b>-</b>	<b>-</b>
<b>At 31 December 2016:</b>								
<b>Derivatives held for trading/fair value hedges:</b>								
Forward foreign exchange contracts	40,661	38,223	3,667,572	1,560,889	2,106,683	-	-	-
Interest rate swaps	58	23,244	1,032,640	-	-	1,032,640	-	-
<b>Total</b>	<b>40,719</b>	<b>61,467</b>	<b>4,700,212</b>	<b>1,560,889</b>	<b>2,106,683</b>	<b>1,032,640</b>	<b>-</b>	<b>-</b>

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices

These include financial options, futures and forwards, interest rate swaps and currency swaps, which create rights and obligations that have the effect of transferring between the parties of the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, a derivative financial instrument gives one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instruments, as prices in financial markets change, those terms may become either favourable or unfavourable.

### 30. DERIVATIVES (CONTINUED)

#### Derivative product types

Forwards exchange contracts are contractual agreements to either buy or sell a specified currency at a specific price and date in the future. Forwards exchange contracts are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

#### Derivatives held for trading purposes

Most of the Group's derivative trading activities relate to customer driven transactions as well as positioning and arbitrage. Positioning involves managing positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products.

#### Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate movements. This is achieved by hedging specific financial instruments and forecasted transactions, as well as strategic hedging against overall consolidated statement of financial position exposures.

The Group uses forward foreign exchange contracts to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps to hedge against the interest rate risk arising from specifically identified fixed rate exposures. The Group also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate liabilities. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value or cash flow hedges. Hedging of interest rate risk is also carried out by monitoring the duration of assets and liabilities and entering into interest rate swaps to hedge net interest rate exposures. Since hedging of net positions does not qualify for special hedge accounting, related derivatives are accounted for the same way as trading instruments.

### 31. FIDUCIARY ACTIVITIES

The Group provides investment brokerage and custody services to customers. Those assets that are held in a fiduciary capacity are excluded from these consolidated financial statements and amount to QAR 225,886 thousands at 31 December 2017 (2016: QAR 568,261 thousands).

### 32. SOCIAL AND SPORTS FUND

During the year, the Group made an appropriation of QAR 15,993 thousands (31 December 2016: QAR 15,794 thousands) representing 2.5% of the net profit for the year ended 31 December 2017, pursuant to the Law No.13 of 2008 and further clarifications for the Law issued in 2010.

### 33. RELATED PARTIES

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

The Group enters into transactions with major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled, or significantly influenced by such parties. All the loans, advances and financing activities to related parties are given at market rates and these are performing and free of any allowance for possible credit losses

**33. RELATED PARTIES (CONTINUED)**

The balances of related parties included in the consolidated financial statements are as follows:

	2017		2016	
	Board of directors	Shareholders	Board of directors	Shareholders
<b>Assets:</b>				
Loans and advances to customers	776,274	-	759,192	-
<b>Liabilities:</b>				
Customer deposits	540,477	3,760,193	382,878	1,884,267
<b>Unfunded items:</b>				
Letters of guarantee, letters of credit, commitments and indirect credit facilities	12,022	-	11,584	-
<b>Income statement items:</b>				
Interest and fee and commission income	34,747	-	31,126	-
Interest and fee and commission expense	10,372	53,255	6,227	41,007
Board of Directors' remuneration	12,120	-	11,145	-

**a) Transactions with key management personnel**

Key management personnel (other than Board of Directors) and their immediate relatives have transacted with the Group during the year as follows:

	<b>2017</b>	2016
Other loans	<b>4,709</b>	4,703
Key management personnel compensation for the year ended comprised:		
	<b>2017</b>	2016
Salaries and short term employee benefits	<b>18,976</b>	21,527
Post employment benefits	<b>8,474</b>	7,792
	<b>27,450</b>	29,319

**FINANCIAL STATEMENTS OF THE PARENT BANK**

a) **Statement of Financial Position – Parent Bank**

	2017	2016
<b>As at 31 December</b>		
<b>ASSETS</b>		
Cash and balances with central bank	1,979,871	1,789,296
Due from banks	2,202,199	3,261,913
Loans and advances to customers	28,936,299	26,861,405
Investment securities	6,099,869	5,570,902
Investment in subsidiary	50,000	50,000
Property and equipment	258,206	274,492
Other assets	405,029	406,841
<b>TOTAL ASSETS</b>	<b>39,931,473</b>	<b>38,214,849</b>
<b>LIABILITIES</b>		
Due to banks and central bank	3,982,103	1,276,265
Certificate of deposits and commercial paper	418,534	2,237,629
Customer deposits	23,604,888	25,047,622
Debt securities	3,624,368	1,810,625
Subordinated debt	-	182,000
Other borrowings	2,192,233	1,886,949
Other liabilities	802,816	900,109
<b>TOTAL LIABILITIES</b>	<b>34,624,942</b>	<b>33,341,199</b>
<b>EQUITY</b>		
Share capital	2,003,433	1,908,031
Legal reserve	1,589,767	1,525,796
Risk reserve	631,078	609,505
Fair value reserves	12,365	11,635
Retained earnings	1,069,888	818,683
<b>TOTAL EQUITY</b>	<b>5,306,531</b>	<b>4,873,650</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>39,931,473</b>	<b>38,214,849</b>

**FINANCIAL STATEMENTS OF PARENT BANK (CONTINUED)**

<b>b) Income Statement – Parent Bank</b>	<b>2017</b>	<b>2016</b>
<b>For the year ended 31 December</b>		
Interest income	<b>1,599,796</b>	1,282,427
Interest expense	<b>(766,360)</b>	(548,210)
<b>Net interest income</b>	<b>833,436</b>	734,217
<b>Net fee and commission income</b>	<b>165,515</b>	161,633
Foreign exchange gain	<b>23,245</b>	17,070
Income from investment securities	<b>6,627</b>	30,701
Other operating income	<b>6,484</b>	6,561
<b>Net operating income</b>	<b>1,035,307</b>	950,182
Staff costs	<b>(180,208)</b>	(169,705)
Depreciation	<b>(26,440)</b>	(27,506)
Net provisions	<b>(85,441)</b>	(32,712)
Other expenses	<b>(104,270)</b>	(88,453)
<b>Profit for the year</b>	<b>638,948</b>	631,806