البنك الأهلي
ahlibank

Board of Directors' Report & Consolidated Financial Statements for the Year 2018

Board of Directors' Report

Dear Shareholders,

On behalf of the Board of Directors, I am delighted to present Ahlibank's Annual Report for the year ended 31 December 2018.

In 2018 the Bank completed 35 years of serving Qatar's economy and the Qatari community at large. Like many years before, our performance was steady and consistent focused on our long-term goals and our Bank's vision.

Our performance was testament to our conscientious and prudent approach, rewarding us once more with a solid and steady financial performance for the year ended 2018 and I am pleased to report positive results for our Bank for the year 2018, achieving a net profit of QAR 665.6 million compared to QAR 639.7 million for the year 2017, with earnings per share equal to QAR 3.16 (QAR 3.04 in 2017). Total assets grew to reach QAR 40.4 billion compared to QAR 39.9 billion at the end of 2017.

The Bank continues to have a high quality credit portfolio, whereby Non-performing Loans (NPLs), (excluding performing loans under watch list) stood at 1.69% by year end.

As a result of the stable performance for the year 2018, and taking into consideration the benefit of the shareholders and the Bank, and to support the Bank's growth as well as its capital adequacy ratio, and to build additional reserves to hedge against future risks which will ensure long-term value for the shareholders, the Board recommended and approved the distribution of cash dividends at the rate of 10% and free shares at the rate of 10%.

Maintaining appropriate levels of committed stable funding remained a priority for the Board of Directors. To this extent, the Bank increased and extended circa USD 200 million committed stable funding via the first tranche of a new USD 100 Million Asian Club Loan and the extension and increase of bilateral facilities in December of 2018. This, coupled with strong asset quality and stable relationships within our Corporate Banking Department, contributed to both Moody's and Fitch Ratings agencies' revised outlooks from negative to stable. Moody's affirmed Ahlibank's A2/Prime-1 deposit rating, while Fitch Ratings also affirmed for Ahlibank's Long Term Issuer Default Rating (IDR) at 'A'. These ratings moved in parallel with those of Qatar's economic performance and are testament to our own sustainable financial performance and asset quality.

Investment in new and innovative technology remained an important pillar to our strategy, with Ahlibank at the forefront of NFC adoption across its ATM network in Qatar. Pioneering this customer centric technology, 2018 saw Ahlibank as the first in the market to provide contactless cards and ATMs.

Our commitment to the digital space will continue, as will our cautious approach and safeguarding of customer information and transactions data through strong cyber security and corporate governance.

Throughout our 35-year journey, we have been proud to recognise the contributions our people make to the success of our Bank and their individual achievements. Accordingly, during the year we honoured colleagues for their long-service and commitment to our Bank.

On behalf of the Board of Directors, I extend our sincere appreciation and gratitude to His Highness Sheikh Tamim Bin Hamad Al-Thani, the Amir for his wise leadership, may God protect him, and to His Excellency the Prime Minister Sheikh Abdullah Bin Nasser Bin Khalifa Al-Thani and His Excellency the Minister of Finance and His Excellency the Minister of Economy and Commerce for their guidance and support. We also extend appreciation to His Excellency Sheikh Abdulla Bin Saoud Al-Thani, the Governor of Qatar Central Bank, and his deputy, His Excellency Sheikh Mohammed Bin Hamad Bin Qassim Al-Abdullah Al-Thani, and all the Qatar Central Bank staff for their dedication to the banking community.

The loyalty of our customers and the unwavering support of our shareholders is paramount to our achievements and we are truly grateful for your trust and dedication to our Bank.

Finally, I would like to thank the Board of Directors, the Bank's management team and employees for their efforts, enabling the results achieved during 2018. You all remain an integral part of the Bank and your contributions are greatly appreciated.

In conclusion, I ask God Almighty to help us along our journey as we move past this proud milestone and beyond, to achieve even greater prosperity and success, contributing to our community and the vision of our beloved country.

Al Salamu Alaikum

Faisal Bin AbdulAziz Bin Jassem Al-Thani
Chairman & Managing Director

Independent Auditors' Report to the Shareholders of Ahli Bank QPSC

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Ahli Bank Q.P.S.C. (the "Bank") and its subsidiaries (together the Group), which comprise the consolidated statement of financial position as at 31 December 2018, 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 and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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 Group 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.

Key audit matter	How the matter was addressed in our audit
First-time adoption of IFRS 9: Financial Instruments	
The Group adopted IFRS 9: Financial Instruments from 1 January 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognised in the consolidated financial statements. As permitted by transitional provisions of IFRS 9, the Group elected not to restate the comparative figures and recorded an adjustment of QAR 217.8 million to the opening retained earnings as at 1 January 2018. The changes required to processes, systems and controls to comply with IFRS 9 were complex and significant, as the standard requires a fundamental change to the way, when Expected Credit Losses (ECL) are recognised and how these are measured.	We updated our understanding of the Bank's adoption of IFRS 9 and identified the internal controls including entity level controls adopted by the Bank for the accounting, processes and systems under the new accounting standard. In addition, our work performed include the below procedures: – evaluated the appropriateness of key technical decisions, judgments and accounting policy elections made by the Group to ensure compliance with IFRS 9 impairment requirements. – evaluated with the assistance of our specialists, the reasonableness of management's key judgements and estimates made in the ECL calculation, which include but not limited to the selection of methods, models, assumptions and data sources.

Key audit matter	How the matter was addressed in our audit
First-time adoption of IFRS 9: Financial Instruments (continued)	
There was a risk that: – judgements, assumptions and estimates, which includes adopting a 'default' definition and developing PDs at origination, lifetime-PDs, and macroeconomic models with a number of scenarios and probabilities for each scenario and other post-model adjustments and management overlays are inadequate; – inadequate data, as well as lack of uniformity in the data are used which makes it difficult to develop models, which are sufficient for IFRS 9 impairment requirements. Refer to the following notes of the consolidated financial statements: • Note 3c – Significant accounting policies on financial assets and financial liabilities • Note 3y(i) – Significant accounting policies on application of new and revised IFRS • Note 4 – Financial risk management • Note 7 – Accounting and classification of financial assets and liabilities	– evaluated the appropriateness and test the mathematical accuracy of the ECL model applied. – tested certain IT controls related to the credit impairment process and verified the integrity of data used as input to the models – evaluated system-based and manual controls over the recognition and measurement of impairment allowances. – evaluated post model adjustments and management overlays in order to assess the reasonableness of these adjustments. – assessed the reasonableness of forward looking information incorporated into the impairment calculations We have also assessed whether the related disclosures of this area were adequate in accordance with the requirements of International Financial Reporting Standards and applicable provision of QCB regulations.
Impairment of financial assets	
The Group's financial assets, both on and off balance sheet, amount to QAR 44.2 billion and QAR 42.9 billion as at 31 December 2018 and 2017 respectively. In addition, the expected credit loss (ECL) provisioning recognized for the year ended December 31, 2018 amounted to QAR 126.2 million. The Group has adopted IFRS 9 from January 1, 2018, which is complex accounting standard that requires considerable judgements, which were key in the development of new models to measure expected credit losses on financial assets carried at amortized cost or at FVOCI (debt instruments). There is a risk that financial assets are impaired and adequate impairment provisions are not provided in accordance to requirements of IFRS 9 and the applicable provisions of Qatar Central Bank regulations. Financial assets might be inaccurate due to: – The methodologies used to develop probability of default (PD); loss given default (LGD); and (exposure at default EAD) are inappropriate. – Inappropriate segmentation of portfolios is used to develop risk parameters. – The number and range of forward-looking scenarios are not representative of an appropriate range of possible outcomes.	We have assessed and tested the design and operating effectiveness of the relevant controls over data governance, methodologies, inputs and assumptions used by the Group in calculating impairment allowances. In addition, our work performed include the below procedures, among others on the Group's IFRS 9 ECL model: – Review and assess the reasonableness and appropriateness of the data, assumptions and methodologies used within the Bank's IFRS9 ECL model (PD, LGD, and EAD) and customer internal rating systems and methodology. – Assessment on whether significant increase in credit risk (SICR) indicators are present for the financial assets portfolio based on IFRS9 and Qatar Central Banks guidance and the possible implications on the ECL staging and expected provisioning. – Credit file classification supports the staging of relevant exposures, on a sample basis. – Assessment of the ECL methodology, macroeconomic scenarios weightage, on a sample basis.

Key audit matter	How the matter was addressed in our audit
Impairment of financial assets (continued)	
– Extrapolation techniques used to project scenarios and parameters (PD, LGD, and EAD) in future periods are inappropriate. – The methodology used to allocate a probability to each scenario is inappropriate or unsupported. – Significant increases (or reductions) in credit risk (movements between Stage 1, Stage 2 and Stage 3) are not completely or accurately identified on a timely basis. – Assumptions incorporated in the ECL model are not updated on a timely basis. Refer to the following notes of the consolidated financial statements: • Note 3c – Significant accounting policies on financial assets and financial liabilities • Note 4 – Financial risk management • Note 7 – Accounting and classification of financial assets and liabilities • Note 8 – Cash and balances with central bank • Note 9 – Due from banks • Note 10 – Loans and advances to customers • Note 11 – Investment securities • Note 13 – Other assets	We have assessed whether the related disclosures of this area are adequate in accordance to the requirements of International Financial Reporting Standards and Qatar Central Bank, as applicable.
IT systems and controls over financial reporting	
We identified IT systems and controls over financial reporting as an area of focus because the Bank's financial accounting and reporting systems are vitally dependent on complex technology. The extensive volume and variety of transactions processed daily raises a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. A particular area of focus related to logical access management and segregation of duties. The underlying principles are important because they ensure that changes to applications and data are appropriate, authorised and monitored. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data.	Our audit approach relies on automated controls and therefore procedures were designed to test access and control over IT systems. Our audit procedures included: • Update the IT understanding on applications relevant to financial reporting including the core banking system, Treasury system, and the Swift messaging and the infrastructure supporting these applications; • Testing the key automated input / processing and output controls relevant to business processes. • Testing the IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data centre and network operations; • Assessing accuracy and completeness of computer generated information used in financial reporting;

Other Information
The Board of Directors is responsible for the other information. The other information comprises the Board of Directors Report and supplementary information 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.

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 internal controls.
- 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.

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 preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements
Further, as required by the Qatar Commercial Companies' Law, we are also of the opinion that proper books of account were maintained by the Group and the content of the directors' report are in agreement with the Group's consolidated financial statements. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. 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 financial position or performance.

For **Deloitte & Touche**
Qatar Branch
Walid Slim
Partner
License No. 319
QFMA Auditor License No. 120156
6 February 2019
Doha, Qatar

Consolidated Statement of Financial Position
As at 31 December

	2018 QR '000	2017 QR '000
ASSETS		
Cash and balances with central bank	2,405,483	1,979,872
Due from banks	4,099,682	2,202,199
Loans and advances to customers	27,300,910	28,936,299
Investment securities	5,862,489	6,099,869
Property and equipment	247,835	258,608
Other assets	486,493	406,553
TOTAL ASSETS	**40,402,892**	**39,883,400**
LIABILITIES		
Due to banks and central bank	5,729,432	3,982,103
Certificate of deposits and commercial papers	495,270	418,534
Customer deposits	21,594,419	23,568,578
Debt securities	3,628,605	3,624,368
Other borrowings	2,497,516	2,192,233
Other liabilities	957,019	803,740
TOTAL LIABILITIES	**34,902,261**	**34,589,556**
EQUITY		
Share capital	2,103,604	2,003,433
Legal reserve	1,656,324	1,589,767
Risk reserve	631,078	631,078
Fair value reserve	(11,489)	12,530
Retained earnings	1,121,114	1,057,036
TOTAL EQUITY	**5,500,631**	**5,293,844**
TOTAL LIABILITIES AND EQUITY	**40,402,892**	**39,883,400**

These consolidated financial statements were approved by the Board of Directors on 16 January 2019 and were signed on its behalf by:

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

Mahmoud Malkawi
Acting Chief Executive Officer

Consolidated Statement of Income
For the year ended 31 December

	2018 QR '000	2017 QR '000
Interest income	1,744,638	1,599,796
Interest expense	(915,351)	(765,353)
Net interest income	**829,287**	**834,443**
Fee and commission income	191,143	180,187
Fee and commission expense	(6,584)	(6,574)
Net fee and commission income	**184,559**	**173,613**
Foreign exchange gain - net	25,340	23,245
Income from investment securities	50,923	6,627
Other operating income	11,014	6,484
Net operating income	**1,101,123**	**1,044,412**
Staff costs	(172,779)	(182,694)
Depreciation	(24,181)	(26,794)
Net impairment loss on loans and advances to customers	(126,193)	(66,674)
Net impairment loss on investment securities	–	(18,767)
Other expenses	(112,404)	(109,771)
	(435,557)	(404,700)
Profit for the year	**665,566**	**639,712**
Earnings per share	**3.16**	**3.04**

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	2018 QR '000	2017 QR '000
Profit for the year	**665,566**	**639,712**
Other comprehensive (loss)/income for the year		
Items that are or may be reclassified subsequently to profit or loss:		
Movement in fair value reserve (Debt Instruments - IFRS 9):		
Realised during the year	(196)	504
Net change in fair value during the year	(5,191)	–
Net change in fair value loss during the year (IAS 39)	–	(23,160)
Net amount of impairment transferred to profit or loss (IAS 39)	–	23,317
Amortised during the year on reclassification to loans and receivables (IAS 39)	–	68
Items that may not be reclassified subsequently to profit or loss:		
- Net change in fair value of investments in equity instruments designated at FVOCI (IFRS 9)	(2,225)	–
Other comprehensive (loss)/income for the year	**(7,612)**	**729**
Total comprehensive income for the year	**657,954**	**640,441**

Consolidated Statement of Changes in Equity

For the year ended 31 December

	Share capital QR '000	Legal reserve QR '000	Risk reserve QR '000	Fair value reserve QR '000	Retained earnings QR '000	Total equity QR '000
Balance as at 1 January 2017	**1,908,031**	**1,525,796**	**609,505**	**11,801**	**805,066**	**4,860,199**
Total comprehensive income for the year						
Profit for the year	–	–	–	–	639,712	639,712
Other comprehensive income	–	–	–	729	–	729
Total comprehensive income for the year	**–**	**–**	**–**	**729**	**639,712**	**640,441**
Transfer to risk reserve	–	–	21,573	–	(21,573)	–
Transfer to legal reserve	–	63,971	–	–	(63,971)	–
Transfer to social and sports fund	–	–	–	–	(15,993)	(15,993)
Transactions with equity holders, recognised directly in equity						
Contributions by and distributions to equity holders:						
Bonus issue	95,402	–	–	–	(95,402)	–
Dividend paid	–	–	–	–	(190,803)	(190,803)
Total contributions by and distributions to equity holders	**95,402**	**–**	**–**	**–**	**(286,205)**	**(190,803)**
Balance as at 31 December 2017	**2,003,433**	**1,589,767**	**631,078**	**12,530**	**1,057,036**	**5,293,844**

	Share capital QR '000	Legal reserve QR '000	Risk reserve QR '000	Fair value reserve QR '000	Retained earnings QR '000	Total equity QR '000
Balance as at 1 January 2018	**2,003,433**	**1,589,767**	**631,078**	**12,530**	**1,057,036**	**5,293,844**
Adoption of IFRS 9	–	–	–	(16,407)	(217,778)	(234,185)
Restated Balance as at 1 January 2018	**2,003,433**	**1,589,767**	**631,078**	**(3,877)**	**839,258**	**5,059,659**
Total comprehensive income for the year						
Profit for the year	–	–	–	–	665,566	665,566
Other comprehensive loss	–	–	–	(7,612)	–	(7,612)
Total comprehensive income for the year	**–**	**–**	**–**	**(7,612)**	**665,566**	**657,954**
Transfer to legal reserve	–	66,557	–	–	(66,557)	–
Transfer to social and sports fund	–	–	–	–	(16,639)	(16,639)
Transactions with equity holders, recognised directly in equity						
Contributions by and distributions to equity holders:						
Bonus issue	100,171	–	–	–	(100,171)	–
Dividend paid	–	–	–	–	(200,343)	(200,343)
Total contributions by and distributions to equity holders	**100,171**	**–**	**–**	**–**	**(300,514)**	**(200,343)**
Balance as at 31 December 2018	**2,103,604**	**1,656,324**	**631,078**	**(11,489)**	**1,121,114**	**5,500,631**

Consolidated Statement of Cash Flows
For the year ended 31 December

	2018 QR '000	2017 QR '000
Cash flows from operating activities		
Profit for the year	665,566	639,712
Adjustments for:		
Net impairment loss on loans and advances to customers	126,193	66,674
Net impairment loss on investment securities	–	18,767
Depreciation	24,181	26,794
Net (gain)/loss on disposal of property and equipment	(5,310)	64
Net gain on financial investments and mark to market of Equity classified as FVTPL (IFRS 9)	(44,275)	(4,017)
Profit before changes in working capital	**766,355**	**747,994**
Change in due from central bank	**(93,773)**	**189,487**
Change in loans and advances to customers	1,284,970	(2,142,590)
Change in other assets	(79,940)	(46)
Change in due to banks and central bank	1,747,329	2,705,838
Change in customer deposits	(1,974,159)	(1,442,284)
Change in certificate of deposits and commercial paper	76,736	(1,819,095)
Change in other liabilities	119,546	(112,934)
Net cash generated from / (used in) operating activities	**1,847,064**	**(1,873,630)**
Cash flows from investing activities		
Net proceeds from sale / (purchase) of investment securities	285,805	(541,967)
Net acquisition of property and equipment	(8,097)	(10,280)
Net cash generated from / (used in) investing activities	**277,708**	**(552,247)**
Cash flows from financing activities		
Proceeds from issuance of debt securities	–	1,813,743
Net proceeds from other borrowings	305,283	305,284
Repayment of subordinated debt	–	(182,000)
Dividends paid	(200,343)	(190,803)
Net cash generated from financing activities	**104,940**	**1,746,224**
Net increase / (decrease) in cash and cash equivalents	**2,229,712**	**(679,653)**
Cash and cash equivalents as at 1 January	3,297,822	3,977,475
Cash and cash equivalents as at 31 December	**5,527,534**	**3,297,822**
Operational cash flows from interest and dividend		
Interest received	1,670,107	1,538,790
Interest paid	843,639	734,070
Dividends received	6,648	2,610