QATAR DEVELOPMENT BANK Q.S.C.C.

Financial Statements
For the year ended 31 December 2018

QATAR DEVELOPMENT BANK Q.S.C.C.
FINANCIAL STATEMENTS
31 December 2018

Contents

Independent auditor's report to the Shareholders of Qatar Development bank Q.S.C.C.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Qatar Development bank Q.S.C.C. (the "Bank") present fairly, in all material respects, the financial position of the Bank as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and the applicable provisions of the Qatar Central Bank ("QCB") regulations.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of profit or loss for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the State of Qatar. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

The management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and and the applicable provisions of the QCB regulations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, management is responsible for assessing the Bank'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 management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the 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 the 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Further, as required by the Qatar Commercial Companies Law number 11 of 2015, we report that:

- We have obtained all the information we considered necessary for the purpose of our audit;
- The Company has maintained proper books of account and the financial statements are in agreement therewith;
- The financial information included in the Board of directors' report is in agreement with the books and records of the Company; and
- Nothing has come to our attention, which causes us to believe that the Company has breached any of the provisions of the Qatar Commercial Companies Law number 11 of 2015, or of its Articles of Association, which would materially affect the reported results of its operations or its financial position as at 31 December 2018.

Mohamed Elmoataz

Auditor's registration number 281
Doha, State of Qatar
10 February 2019

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PRICEWATERHOUSECOOPERS - Qatar Branch
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(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

STATEMENT OF FINANCIAL POSITION
As at 31 December

	Notes	2018	2017
ASSETS			
Balances with Qatar Central Bank		**24,382**	86,980
Due from banks	7	**1,948,119**	2,210,742
Loans and advances to customers	8	**5,315,143**	4,619,757
Investment securities	9	**1,532,107**	1,469,582
Investment in associates and subsidiaries	11	**26,955**	13,822
Investment properties	12	**972,119**	954,662
Property and equipment		**58,470**	47,999
Other assets	13	**121,248**	85,682
TOTAL ASSETS		**9,998,543**	9,489,226
LIABILITIES AND EQUITY			
LIABILITIES			
Customers' deposits	14A	**58,095**	79,910
Provisions	14B	**168,988**	80,604
Other liabilities	15	**185,369**	176,102
TOTAL LIABILITIES		**412,452**	336,616
EQUITY			
Share capital	16	**9,120,645**	8,520,645
Legal reserve	16	**142,029**	135,242
General reserve	16	**1,010**	1,010
Risk reserve	16	**159,454**	138,593
Fair value reserve		**142,349**	177,066
Retained earnings		**20,604**	180,054
TOTAL EQUITY		**9,586,091**	9,152,610
TOTAL LIABILITIES AND EQUITY		**9,998,543**	9,489,226

These financial statements were approved and authorised for issuance by the Board of Directors on *10 February 2019* and signed on their behalf by:

....
H.E. Mr. Ali Bin Ahmed Al Kuwari
Chairman

....
Abdulaziz Bin Nasser Al-Khalifa
Chief Executive Officer

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

STATEMENT OF PROFIT OR LOSS
For the year ended 31 December

	Notes	2018	2017
Interest income	18	**150,599**	135,434
Profit from Islamic financing		**169,248**	134,071
Net interest income and profit from Islamic financing		**319,847**	269,505
Fees and commission income	19	**193,865**	159,549
Rental income	12	**53,022**	53,675
Income from investment securities	20	**26,888**	110,374
Other operating income		**3,331**	962
Foreign exchange gain		**3,090**	6,332
Total income		**600,043**	600,397
Staff and other costs	21	**(422,790)**	(337,131)
Rental expenses		**(6,218)**	(7,671)
Depreciation		**(33,174)**	(29,695)
Net impairment loss on due from banks	3.1c.iv	**(68)**	-
Net impairment reversal (loss) on investment securities	3.1c.iv	**236**	(28,849)
Net impairment loss on loans and advances to customers	3.1c.iv	**(33,183)**	(131,547)
Net impairment loss on off balance sheet exposures subject to credit risk	3.1c.iv	**(13,870)**	-
Share of losses and impairment of associates and subsidiaries		**(57,040)**	(37,627)
Profit for the year		**33,936**	27,877

The attached notes on pages 9 to 59 form an integral part of these financial statements

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December

	2018	2017
Profit for the year	**33,936**	27,877
Other comprehensive income for the year		
Items that are or may be subsequently reclassified to profit or loss		
Net change in fair value of available for sale investments (IAS 39)	**-**	(76,673)
Net amount transferred to profit or loss	**-**	(92,291)
Net change in fair value of debt investments measured at FVOCI (IFRS 9)	**(33,519)**	-
Items that will not be subsequently reclassified to profit or loss		
Net change in the fair value of equity investments designated at FVOCI (IFRS 9)	**36,193**	-
Other comprehensive income (loss) for the year	**2,674**	(168,964)
Total comprehensive income (loss) for the year	**36,610**	(141,087)

The attached notes on pages 9 to 59 form an integral part of these financial statements

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY
As at 31 December

	Share Capital	Legal reserve	General reserve	Risk reserve	Fair value reserve	Retained earnings	Total
Balance at 1 January 2018	**8,520,645**	**135,242**	**1,010**	**138,593**	**177,066**	**180,054**	**9,152,610**
Adoption of IFRS 9 (note 3.1c.i)					**(37,156)**	**(165,738)**	**(202,894)**
Restated balance as at 1 January 2018	**8,520,645**	**135,242**	**1,010**	**138,593**	**139,910**	**14,316**	**8,949,716**
Capital contribution from Government*	**600,000**	**-**	**-**	**-**	**-**	**-**	**600,000**
Total comprehensive income for the year							
Profit for the year	**-**	**-**	**-**	**-**	**-**	**33,936**	**33,936**
Other comprehensive income	**-**	**-**	**-**	**-**	**2,674**	**-**	**2,674**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**2,674**	**33,936**	**36,610**
Reversal of impairment loss on debt investments	**-**	**-**	**-**	**-**	**(235)**	**-**	**(235)**
Transfer to legal reserve	**-**	**6,787**	**-**	**-**	**-**	**(6,787)**	**-**
Transfer to risk reserve	**-**	**-**	**-**	**20,861**	**-**	**(20,861)**	**-**
Balance at 31 December 2018	**9,120,645**	**142,029**	**1,010**	**159,454**	**142,349**	**20,604**	**9,586,091**
Balance at 1 January 2017	7,320,645	129,667	1,010	123,643	346,030	172,702	8,093,697
Capital contribution from Government*	1,200,000	-	-	-	-	-	1,200,000
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	27,877	27,877
Other comprehensive income	-	-	-	-	(168,964)	-	(168,964)
Total comprehensive income for the year	-	-	-	-	(168,964)	27,877	(141,087)
Transfer to legal reserve	-	5,575	-	-	-	(5,575)	-
Transfer to risk reserve	-	-	-	14,950	-	(14,950)	-
Balance at 31 December 2017	8,520,645	135,242	1,010	138,593	177,066	180,054	9,152,610

*During the year, the Bank has received QAR 600 million (2017: QAR 1,200 million) from the Government as a capital contribution towards the authorised capital.

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

STATEMENT OF CASH FLOWS
For the year ended 31 December

	Notes	**2018**	2017
Cash flows from operating activities			
Profit for the year		**33,936**	27,877
Adjustments for:			
Net impairment loss on due from banks	3.1c.iv	**68**	-
Net impairment (reversal) loss on investment securities	3.1c.iv	**(236)**	28,849
Net Impairment loss on loans and advances to customers	3.1c.iv	**33,183**	131,547
Net impairment loss on off balance sheet exposures subject to credit risk	3.1c.iv	**13,870**	-
Depreciation		**33,174**	29,695
Net gain on disposal of investments	20	**-**	(92,291)
Share of losses / impairment on associates and subsidiaries		**57,040**	37,627
Provision for end of service benefits	14B(i)	**26,772**	10,552
		197,807	173,856
Change in loans and advances to customers		**(881,301)**	(629,858)
Change in other assets		**(70,537)**	(37,461)
Change in customers' deposits		**(21,815)**	(907)
Change in other liabilities		**9,266**	7,466
		(766,580)	(486,904)
Payments made for end of service benefits	14B(i)	**(2,216)**	(3,296)
Net cash used in operating activities		**(768,796)**	(490,200)
Cash flows from investing activities			
Change in term deposit with banks		**220,000**	(652,164)
Purchases of investment securities	9	**(291,083)**	(125,809)
Proceeds from the disposals of investment securities	9	**231,232**	379,874
Purchases of associates and subsidiaries	11	**(35,200)**	(35,553)
Additions of investment properties	12	**(42,236)**	(72,804)
Acquisition of property and equipment		**(18,866)**	(6,821)
Net cash generated from (used in) investing activities		**63,847**	(513,277)
Cash flows from financing activities			
Proceeds from capital contribution	16	**600,000**	1,200,000
Net cash generated from financing activities		**600,000**	1,200,000
Net (decrease) increase in cash and cash equivalents		**(104,949)**	196,523
Cash and cash equivalents at 1 January		**338,412**	141,889
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	22	**233,463**	338,412

The attached notes on pages 9 to 59 form an integral part of these financial statements

1 CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

Qatar Development Bank (Q.S.C.C.) ("QDB" or "the Bank") was established in the State of Qatar as a closed shareholding company under Commercial Registration No.19299.

The main objective of the Bank is to participate in the economic development process of the State of Qatar, by providing the necessary financing for small and medium size industrial, educational, health, agricultural and tourism projects. The Bank also provides Islamic financing through various Islamic modes of financing in accordance with the Islamic Shari'a, as determined by the Shari'a Committee.

The Bank also administers the disbursement of the Government housing loan scheme as part of its fiduciary activities.

Qatar Companies Law No. 11 of 2015 (Companies Law) which is applicable to the bank has come into effect from 16 June 2015. The bank has amended its articles of association to be in compliance with the new Companies Law.

2 BASIS OF PREPARATION

(a) Statement of compliance

The principal accounting policies applied in the preparation of these financial statements are set out below.

These policies have been consistently applied to all years presented, except the changes in accounting policies mentioned in note 3.1a.

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in conformity with the applicable provisions of the Qatar Central Bank regulations as well as the requirements of the Qatar Commercial Companies' Law No. 11 of 2015, as amended.

(b) Basis of measurement

The financial statements have been prepared under the historical cost convention, except for financial investment securities which have been measured at fair value through other comprehensive income ("FVOCI").

(c) Functional and presentation currency

The financial statements are presented in Qatari Riyals, ("QAR"), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in QAR has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements 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 recognized in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimating uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in the note 6.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

(a) New and amended standards applicable to the Bank

The following standards and amendments to standards have been applied by the Bank in preparation of these financial statements. The adoption of the below standards and amendments to standards did not result in changes to previously reported net profit or equity of the Bank, except for the changes mentioned in note 3.1c on adoption of IFRS 9.

Standards

IFRS 9 - Financial Instruments (1 January 2018) (note 3.1c).
IFRS 15 - Revenue from Contracts with Customers (1 January 2018). The new standard introduces the core principle that revenue must be recognized when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. The effect of the change of this standard is insignificant to the Bank's financial performance and reported results for the year ended 31 December 2018.

(b) New standards and interpretations effective for annual periods after 1 January 2018 and not early adopted

A number of new standards and amendments to standards and interpretations are effective for annual years beginning after 1 January 2018 and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the bank, except for the following:

- IFRS 16, 'Leases' (Effective 1 January 2019)

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Bank has assessed the estimated impact that the initial application of IFRS 16 will have on its financial statements as below.

The Bank has set up a project team which has reviewed all of the Bank's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Bank's operating leases.

As at the reporting date, the Bank has non-cancellable operating lease commitments of QAR 109 million (note 17). Of these commitments, approximately none relate to short-term leases nor to low value leases.

For the remaining lease commitments the Bank expects to recognise right-of-use assets of approximately QAR 67.2 million on 1 January 2019, lease liabilities of QAR 66.7 million (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Overall net assets will be approximately QAR 0.5 million higher, and net current assets will be QAR 5 million lower due to the presentation of a portion of the liability as a current liability.

The Bank expects that net profit will decrease by approximately QAR 1 million for 2019 as a result of adopting the new rules. Adjusted EBITDA used to measure segment results is expected to increase by approximately QAR 6 million, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

Operating cash flows will increase and financing cash flows decrease by approximately QAR 5 million as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Bank's activities as a lessor are not material and hence the Bank does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

The Bank will apply the standard from its mandatory adoption date of 1 January 2019. The Bank intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(c) Changes in accounting policies relating to IFRS 9 - Financial Instruments

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements as of and for the year ended 31 December 2017. The Bank did not early adopt any of IFRS 9 requirements in previous periods.

As permitted by the transitional provisions of IFRS 9 and QCB regulations, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and the opening balance of fair value reserve of the current year.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are the IFRS 9 transition impact disclosures for the Bank. Further details of the specific IFRS 9 accounting policies applied in the current period are described in more detail in the notes below.

i. Impact of adopting IFRS 9

The impact from the adoption of IFRS 9 as at 1 January 2018 has been to decrease retained earnings by QAR 165.7 million:

	Retained earnings	**Fair value reserve**
	QAR'000	***QAR'000***
Closing balance under IAS 39 (31 December 2017)	180,054	177,066
Impact on reclassification and remeasurements		
Previously recognized impairment on equity investment securities measured at fair value through other comprehensive income	**45,371**	(45,371)
Impact on recognition of Expected Credit Losses		
Due from banks	**(205)**	-
Investment securities (debt) at fair value through other comprehensive income	**(8,215)**	8,215
Loans and advances	**(152,732)**	-
Loan commitments and financial guarantees	**(49,957)**	-
Adjustments on the opening balance under IFRS 9 on date of initial application of 1 January 2018	**(165,738)**	(37,156)
Balance as at 1 January 2018	**14,316**	139,910

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

ii. Classification and Measurement of Financial Instruments

The Bank performed a detailed analysis of its business models for managing financial assets as well as analysing their cash flow characteristics. The below table reconciles the original measurement categories and carrying amounts of financial assets in accordance with IAS 39 and the new measurement categories under IFRS 9 as at 1 January 2018.

				Impact of IFRS 9		
	Original classification under IAS 39	**New classification under IFRS 9**	**Original carrying amount QAR'000**	**Re-measure-ment QAR'000**	**Re-classifica-tion QAR'000**	**New carrying amount QAR'000**
Financial assets						
Balances with Qatar Central Bank	Loans and receivables	Amortised cost	86,980	-	-	86,980
Due from banks	Loans and receivables	Amortised cost	2,210,742	(205)	-	2,210,537
Loans and advances to customers	Loans and receivables	Amortised cost	4,619,757	(152,732)	-	4,467,025
Investment securities – debt	Available-for-sale	FVOCI	1,267,036	-	-	1,267,036
Investment securities – equity	Available-for-sale	FVOCI	177,825	-	-	177,825
Investment securities – funds	Available-for-sale	FVOCI	24,721	-	-	24,721
Accrued interest receivable	Loans and receivables	Amortised cost	58,686	-	-	58,686
Others assets	Loans and receivables	Amortised cost	25,912	-	-	25,912
			8,471,659	(152,937)	-	8,318,722

*The balance does not include the expected credit losses relating to loan commitments and financial guarantees.

Financial Liabilities

There were no significant changes to the classification and measurement of financial liabilities.

iii. Expected credit losses / Impairment allowances

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	31 December 2017 QAR'000	**Re-measurement QAR'000**	**1 January 2018 QAR'000**
Due from banks	-	205	**205**
Loans and advances to customers	546,189	152,732	**698,921**
Investment securities – debt – FVOCI	-	8,215	**8,215**
Loan commitments and financial guarantees	50,653	49,957	**100,610**
	596,842	211,109	**807,951**

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

iv. Exposure and movement in ECL

Expected credit losses / Impairment allowances

	Stage 1 QR'000	Stage 2 QR'000	Non-performing QR'000	Total QR'000
Exposure subject to ECL – as at 31 December 2018				
Due from banks	1,950,229	-	-	1,950,229
Debt type investments carried at fair value through other comprehensive income	969,021	304,891	-	1,273,912
Financing assets excluding balance with Ministry of finance	3,215,583	2,463,067	378,596	6,057,246
Off balance sheet exposures subject to credit risk	441,001	119,702	94,706	655,409
	6,575,834	2,887,660	473,302	9,936,796
ECL Closing Balance - as at 31 December 2017 (under IAS 39)				
Due from banks	-	-	-	-
Debt type investments carried at fair value through other comprehensive income	-	-	-	-
Financing assets excluding balance with Ministry of finance	130,189	161,728	254,272	546,189
Off balance sheet exposures subject to credit risk	-	-	50,653	50,653
	130,189	161,728	304,925	596,842
ECL impact of initial application of IFRS 9				
Due from banks	205	-	-	205
Debt type investments carried at fair value through other comprehensive income	209	8,006	-	8,215
Financing assets excluding balance with Ministry of finance	(19,480)	172,212	-	152,732
Off balance sheet exposures subject to credit risk	45,480	4,477	-	49,957
	26,414	184,695	-	211,109

	Stage 1 QR'000	Stage 2 QR'000	Non-Performing QR'000	Total QR'000
Opening ECL Balance (Day 1 impact) - as at 1 January 2018				
Due from banks	205	-	-	205
Debt type investments carried at fair value through other comprehensive income	209	8,006	-	8,215
Financing assets excluding balance with Ministry of finance	110,709	333,940	254,272	698,921
Off balance sheet exposures subject to credit risk	45,480	4,477	50,653	100,610
	156,603	346,423	304,925	807,951

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

	Stage 1 QR'000	Stage 2 QR'000	Non-Performing QR'000	Total QR'000
Expected credit losses charged for the year (net)				
Due from banks	**68**	**-**	**-**	**68**
Debt type investments carried at fair value through other comprehensive income	**38**	**(274)**	**-**	**(236)**
Financing assets	**(32,272)**	**1,919**	**63,536**	**33,183**
Off balance sheet exposures subject to credit risk	**(7,837)**	**1,779**	**19,928**	**13,870**
	(40,003)	**3,424**	**83,464**	**46,885**
Closing Balance - as at 31 December 2018				
Due from banks	**273**	**-**	**-**	**273**
Debt type investments carried at fair value other comprehensive income	**247**	**7,732**	**-**	**7,979**
Financing assets	**78,438**	**335,858**	**317,808**	**732,104**
Off balance sheet exposures subject to credit risk	**37,643**	**6,257**	**70,581**	**114,481**
	116,601	**349,847**	**388,389**	**854,837**

v. Changes in Accounting Policies and Significant Estimates and Judgements

Key changes to the Bank's accounting policies

The key changes to the Bank's accounting policies resulting from the adoption of IFRS 9 are summarised below. Since the comparative financial information has not been restated, the accounting policies in respect of the financial instruments for comparative periods are based on IAS 39 and applicable QCB regulations as disclosed in the audited financial statements as of and for the year ended 31 December 2017.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 removes the requirement contained in IAS 39 relating to bifurcation of an embedded derivative from an asset host contract. However, entities are still required to separate derivatives embedded in financial liabilities where they are not closely related to the host contract.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities with the exception of the treatment of the bank's own credit gains and losses, which arise where a bank has chosen to measure a liability at fair value through profit or loss, these gains and losses are recognised in other comprehensive income. There continue to be two measurement categories for financial liabilities: fair value and amortised cost.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

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

The Bank applies a three-stage approach to measure expected credit losses (ECL) on financial assets carried at amortised cost and debt instruments classified as FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL
Stage 1 includes financial assets on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk (i. Local sovereign that carry credit rating of (Aaa) or (Aa) and carry (zero) credit weight in accordance with capital adequacy instructions of the QCB ii. Externally rated debt instruments of rating Aaa or Aa. iii. Other financial assets which the Bank may classify as such after obtaining QCB's no objection) at the reporting date. For these assets, 12-month ECL are recognised and interest is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL is the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12-months.

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

Stage 3: Lifetime ECL - credit impaired
Stage 3 includes financial assets that have objective evidence of impairment at the reporting date in accordance with the indicators specified in the QCB's instructions. For these assets, lifetime ECL is recognised and treated with the interests calculated on them, according to QCB's instructions. When transitioning financial assets from stage 2 to stage 3, the percentage of provision made for such assets should not be less than the percentage of provision made before transition.

The new hedge accounting requirements under IFRS 9 will not have an impact on the Bank as it does not have hedging instruments.

Key changes to the Significant Estimates and Judgements

<u>Financial asset and liability classification</u>

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

<u>Impairment of financial instruments</u>
Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

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

i. Facilities restructured due to financial difficulty
ii. Facilities overdue by 60 days as at the reporting date

Credit risk grades

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

Generating the term structure of Probability of Default (PD)

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

vi. Changes to Banks financial risk management objectives and policies

i. Credit Risk Measurement

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9 as detailed in note 4.2.

ii. Credit risk grading

The Bank uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Bank uses internal rating models tailored to the various categories of counterparty. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

iii. Credit quality assessments

Pursuant to the adoption of IFRS 9, the Bank has mapped its internal credit rating scale to Moody's rating scale, the table below provides an analysis of counterparties by rating grades and credit quality of the Bank's credit risk as at 31 December 2018:

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

Rating grade	Loans and advances to customers	Investment securities (debt)	Loan commitments and financial guarantees	Due from banks and other financial assets*	Total
AAA to AA-	1,293,597	815,034	-	490,449	2,599,080
A+ to A-	-	244,116	-	1,457,670	1,701,786
BB+ to B-	-	214,763	-	-	214,763
Unrated	4,021,546	-	3,784,535	130,277	7,936,358
Total	**5,315,143**	**1,273,913**	**3,784,535**	**2,078,396**	**12,451,987**

** Other financial assets include balances with Qatar Central Bank and other assets which are subject to credit risk.*

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

(a) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Bank
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Bank recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

(b) Subsidiaries

The bank's subsidiaries accounting for lower than 0.5% of the total assets and/or operational results of the bank during the current or previous year are not consolidated in these financial statements are listed below. The bank's subsidiaries are measured at cost.

Name of subsidiary	**Country of incorporation**	**Bank effective shareholding percentage 2018**	**Bank effective shareholding percentage 2017**
Yellow Services W.L.L.	Qatar	**100%**	100%
Yellow Entertainment Development W.L.L.	Qatar	**100%**	100%
Qatar Business Incubation Centre (QBIC)	Qatar	**100%**	100%
Bedaya Center W.L.L.*	Qatar	**50%**	50%

The total assets of the above mentioned subsidiaries are not material to the bank's assets (less than 0.27% of the total assets and/or operational results of the bank during the current or previous periods) for the year ended 31 December 2018.

(c) Interest in other entities

Name of entity	**Country of incorporation**	**Bank effective shareholding percentage 2018**	**Bank effective shareholding percentage 2017**
Elan Qatar W.L.L.	Qatar	**100%**	100%

The Company is not consolidated in the books of the Bank in accordance with IFRS 10 "Consolidated Financial Statements", as Ministry of Finance has the right to change the owner without showing any reason as per letter dated 19 October 2014 from the Ministry of Finance.

(d) Associates

Associates are all entities over which the bank has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The bank's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The bank's share of post-acquisition profit or loss is recognized in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

When the bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the bank does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and charges the amount to the statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the bank and its associates are recognized in the bank's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the bank.

Dilution gains and losses arising in investments in associates are recognized in the statement of profit or loss.

(e) Joint arrangements

The bank applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

Joint ventures are measured using the equity method of accounting, under which interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the bank's share of the post-acquisition profits or losses and movements in other comprehensive income.

When the bank's share of losses in a joint venture equals to or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the bank's net investment in the joint ventures), the bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the bank and its joint ventures are eliminated to the extent of the bank's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the bank.

Foreign currency transactions and balances

Foreign currency transactions that are transactions denominated, or those require settlement in a foreign currency are translated into the 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 denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the 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 recognized in the statement of profit or loss.

Financial assets and financial liabilities

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired (see definition on note 4.2) at initial recognition – the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, as described in note 3.1.2, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

i. Classification and subsequent measurement

From 1 January 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

(i) the Bank's business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Bank's business model for the loans and advances to customers book is solely to collect contractual cash flows. Another example is the debt investment securities, which is held by the Bank as part of liquidity management and is generally classified within the hold to collect and sell business model.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Fair value option for financial assets

The Bank may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as income from investment securities when the Bank's right to receive payments is established.

(i) Impairment

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 4.2 provides more detail of how the expected credit loss allowance is measured.

(ii) Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(iii) Derecognition other than a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
(ii) Is prohibited from selling or pledging the assets; and
(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments (see note below).

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expired).

The exchange between the Bank and its original lenders of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.
The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculated as described in note 4.2); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Bank are measured as the amount of the loss allowance (calculated as described in note 4.2). The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank 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, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

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 Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank 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 Bank 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.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Investment properties

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or use in the production or supply of goods and services or for administrative purposes.

Investment property is measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Subsequent expenditure is capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

Investment properties are treated as long term investments and carried at cost less accumulated depreciation and impairment. Buildings are depreciated over a period of 25 years on a straight line basis. Land is not depreciated. The cost of property includes all directly attributable costs.

When the use of an investment property changes such that it is reclassified as property and equipment, the carrying amount and cost of the property transferred do not change for measurement purposes.

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 capitalized 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 recognized in other income/other expenses in the statement of profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

The depreciable amount is the cost of property and equipment, or other amount substituted for cost, less its residual value. Depreciation is recognized in the statement of 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. Land is not depreciated.

The estimated useful lives for property and equipment are as follows:

Buildings	25 years
Furniture and fixtures	4 years
Equipment	3-4 years

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

Impairment of non-financial assets

The carrying amounts of the Bank'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. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

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 recognized.

Provisions

Provisions are recognized when it is probable that an outflow of economic benefits will be required to settle current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Possible contingent liabilities are not recognized in the financial statements but are disclosed unless the probability of settlement is remote.

Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

The Bank 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 provisions in the statement of financial position.

Fiduciary assets

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

Interest income and expense

Interest income and expense are recognized in the statement of 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 Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

From 1 January 2018, for the financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

The calculation of the effective interest rate includes all transaction costs and fees 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 amortized cost calculated on an effective interest basis.

Interest income and expense for all financial instruments except for those classified as fair value through profit or loss (except for debt securities issued by the Bank and derivatives managed in conjunction with those debt securities) are recognized in 'Interest income' and 'Interest expense' in the statement of profit or loss using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability (or Bank of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by the Bank that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

Fees and commission income and expense

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including housing loan management fees, account servicing fees, investment management fees, sales commission and placement fees are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

Income from investment securities

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

Rental Income

Rental income arising from investment property is accounted for on a straight line basis over the lease term.

Dividend income

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

Islamic financing

Revenues on Islamic financing transactions are recognized on a time apportioned basis over the period of the contract. Income on non performing financing accounts is suspended until realization in accordance with Qatar Central Bank regulations.

Accounting policies applicable up to 31 December 2017

Financial assets

At inception or on initial recognition, a financial asset is classified in one of the following categories:

- loans and receivables; and
- available-for-sale (AFS)

Available-for-sale securities

Subsequent to initial recognition investment securities are accounted for depending on their classification as either 'held to maturity', 'fair value through profit or loss', or 'available-for-sale'.

Financial Liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the statement of profit or loss.

Modification of financial assets and liabilities

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the premodification interest rate.

Impairment

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

The Bank considers evidence of impairment for loans and advances at both specific and collective level. All individually significant loans and advances are assessed for specific impairment at least quarterly and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and the new financial asset is initially recognized at fair value.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances to customers.

The Bank writes off a loan, whether partially or in full, and any related allowance for impairment losses, when the Bank determines that there is no realistic prospect of recovery.

For listed investments, a decline in the market value from cost by 20% or more, or a decline in the market value from cost 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 previously impaired available-for-sale equity investment securities is recorded in fair value reserve.

4 FINANCIAL RISK MANAGEMENT

4.1 INTRODUCTION AND OVERVIEW

Risk management framework

Risk is inherent in the Bank's activities and being a development bank with a specific mandate to lend to developmental oriented sectors without any recourse to secondary collaterals impose a relatively higher risk appetite and tolerances on the bank. The higher risk loan book calls for the intensive management of all inherent risk as a critical factor for the sustainability of the business both at a tactical as well as at a strategic level. The Board and management of the Bank fully recognize the critical importance of risk management and have put in place a robust 'fit for purpose' risk management framework to proactively identify, assess and measure, monitor and manage risks within the predefined appetite and tolerances. This process of risk management is critical to the fulfilment of the Bank's strategic business objectives and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

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

The Bank is exposed to credit risk, liquidity risk, operational risk, strategic risk and market risk. The risk management framework in the Bank is now integrated with its strategic planning process and therefore, also defines standards for managing strategic and business risks such as changes in the environment, technology and industry.

Risk management structure

The Board of Directors is ultimately responsible for defining and monitoring risk control and management processes. Executive Management Committees like ALCO (asset and liabilities committee) and Management Risk committee execute the Board approved risk strategies and report on significant risk exposures. Risk management department headed by the Executive Director level acts as the secretary to the risk committees of the bank and administratively report to the CEO with a dotted line reporting to Board in the form of Board reports.

Internal Audit

Risk management processes throughout the Bank are audited on a timely basis by the internal audit function, which examines both the adequacy of the risk management policies & procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board through its Audit Committee.

Risk measurement and reporting systems

Risk is identified, measured and assessed by a variety of tools and methodologies which include quantitative models and qualitative risk scorecards. Whereas risk is measured and assessed both on an inherent and residual basis, monitoring and controlling risks is primarily performed based on risk limits established by the Board. These limits have been derived from the risk appetite framework which reflects the level of risk that the Board is willing to accept in relation to the business strategy of the Bank and the market environment.

The risk MIS (Management Information System) collects, processes and analyses pertinent business and risk information at transaction and portfolio level and reports to the head of each business division, Risk Committees and ultimately to the Board of Directors.

4.2 CREDIT RISK

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from the Bank's lending activities and interbank transactions, but can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances. The Bank is also exposed to other credit risks arising from investments in debt securities.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team which reports regularly to the Board of Directors and Asset and liability management committee.

i. Credit risk measurement

(a) Loans and advances (including loan commitments and guarantees)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9 as mentioned below.

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

Credit risk grading

The Bank uses internal credit risk grading that reflect its assessment of the probability of default of individual counterparties. The Bank uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as financial ratios, management factors, business factors, demand supply etc.) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between an A and A- rating grade is lower than the difference in the PD between a B and B- rating grade.

The following are additional considerations for each type of portfolio held by the Bank:

Loans and advances

For loans and advances, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as financial statements. The information provided by the relationship manager is then validated by credit officers and amended wherever necessary. This will determine the updated internal credit rating and PD.

Treasury

For debt securities in the Treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PD's associated with each grade are determined based on realised default rates over the prior 12 months, as published by the rating agency.

The Bank's rating method comprises seven rating levels for instruments not in default (1 to 7) and two default classes (8 to 9). The master scale assigns each rating category a specified range of probabilities of default, which is stable over time. The rating methods are subject to a regular and periodic validation and recalibration so that they reflect the latest projections in the light of all actually observed defaults.

The Bank's internal rating scale and mapping of external ratings are set out below:

Internal rating	PD as percentage	Moody's	Description
1	0.29%	Baa3	Good loans
2	1.73%	Ba3	Good loans
3	7.71%	B3	Good loans
4	14.56%	Caa1	Good loans
5	17.92%	Caa2	Good loans
6	24.45%	Caa3	Monitoring
7	46.74%	CA-C1	Watch listed
8	66.99%	CA-C2	Doubtful loans
9	78.31%	CA-C3	Loss loan

ii. Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 4.2.2.1 for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 4.2.2.2 for a description of how the Bank defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 4.2.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forwardlooking information. Note 4.2.2.4 includes an explanation of how the Bank has incorporated this in it ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3). Further explanation is also provided of how the Bank determines appropriate groupings when ECL is measured on a collective basis (refer to note 4.2.2.5).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition

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Stage 1	Stage 2	Stage 3
(Initial recognition) 12-month expected credit losses	(Significant increase in credit risk since initial recognition) Lifetime expected credit losses	(Credit-impaired assets) Lifetime expected credit losses

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below:

iii. Significant increase in credit risk (SICR)

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following qualitative or backstop criteria have been met:

- Watchlisted customers
- More than 60 DPD
- Restructuring due to chronic financial deteriaration
- Customer flagged by the Early Warning Indicator model
- Customers flagged by Credit Review mechanism

The assessment of SICR incorporates forward-looking information (refer to note 4.2.2.4 for further information) and is performed on a quarterly basis at a portfolio level for all financial instruments held by the Bank. In relation to Wholesale and Treasury financial instruments, where a Watchlist is used to monitor credit risk, this assessment is performed at the counterparty level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Backstop
A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 60 days past due on its contractual payments.

The Bank has used the low credit risk exemption for externally rated debt securities (money market and bond securities) only in the year ended 31 December 2018. 'The debt securities portfolio mainly consists of GCC sovereigns and other high rated debt securities. Assets with rating grades of AAA and AA will fall in the definition of low credit risk assets in line with QCB.

iv. Definition of default and credit-impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

1. Customer has defaulted to pay one of the installments of the loan or the like.
2. The agreed payments of the other direct credit facilities are past due.
3. The limit granted for the other direct credit facilities is not renewed without submitting any acceptable reasons.
4. The balance exceeds limits granted for the other credit facilities by 10% or more without submitting any acceptable reasons.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Bank's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

v. *Measuring ECL – Explanation of inputs, assumptions and estimation techniques*

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

- Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12 month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historically observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Bank's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, Bank has computed LGD based on haircuts applied for each collateral type – with haircuts derived based on regulatory & expert inputs
- For unsecured products, the bank has decided to apply the Basel and QCB mimimum of 45% LGD' for all non subordinated claims.

In future, once the Bank develops internal recovery database, it will develop its own Through-The-Cycle (TTC) and Point-in-Time (PIT) LGD estimates

Refer to note 4.2.2.4 for an explanation of forward-looking information and its inclusion in ECL calculations.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a semi-annual basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

vi. Forward-looking information incorporated in the ECL models

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

These economic variables and their associated impact on the PD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Bank's Economics team on an annual basis based on the IMF forecasts and provide the best estimate view of the economy over the next four years.

After four years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate (e.g. inflation) or a long run average growth rate (e.g. GDP) over a period of two to five years. The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

In addition to the base economic scenario, the Bank's Economics team also provide other possible scenarios along with scenario weightings. The number of scenarios and their attributes are reassessed at each reporting date. At 1 January 2018 and 31 December 2018, the Bank concluded that three scenarios appropriately captured non-linearities. Each scenarios have been given equal weights.

The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Bank measures ECL as probability weighting of individual ECL scenarios.

These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2018 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

		2019	**2020**	**2021**	**2022**
Gross domestic product, constant prices (% Change)	Base	3.40%	2.84%	2.31%	2.04%
	Upside	3.74%	3.18%	2.65%	2.37%
	Downside	3.07%	2.51%	1.98%	1.70%
General government gross debt (% Change)	Base	0.17%	0.13%	0.08%	0.09%
	Upside	0.09%	0.05%	0.00%	0.01%
	Downside	0.25%	0.21%	0.16%	0.17%
Inflation, average consumer prices (Percent Change)	Base	0.030%	0.022%	0.021%	0.021%
	Upside	0.02%	0.02%	0.02%	0.02%
	Downside	0.036%	0.028%	0.026%	0.026%

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

The weightings assigned to each economic scenario at 31 December 2018 were as follows:

	Base	**Upside**	**Downside**
All other portfolios	33.3%	33.3%	33.3%

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

vii. Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

As of 31 December 2018, the bank has decided that the portfolios for which significant customers are not rated as of date, will be assessed collectively for probability of default. These include Export Insurance and Business Finance – Agriculture, Fisheries and Livestock.

- Export Insurance portfolio is very small and represents approx. 0.15% of total Exposure at Default amount and hence the entire portfolio has been classified as stage 2.
- For Agrigulture, Fishery & livestock, granular analysis was done based on the delinquency data. Average of the default rates based on the delinquency date was assumed to represent the PDs for the years (2013-2015)

The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk team.

viii. Risk limit control and mitigation policies

The Bank seeks to manage its credit risks exposure through effective customer selection and due diligence processes, well-structured approval matrix and proactive credit monitoring and collection practices. To reduce concentration risks, the Bank diversifies its lending, investing and financing activities across sectors, industries, products and borrowers. In terms of collateral coverage, typically only the primary collateral (assets being financed) is obtained in line with its mandate of supporting the private enterprise or mortgage over real estate is obtained.

ix. Maximum exposure to credit risk before collateral held or other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including off balance sheet items. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements, but net of impairment.

	Gross maximum exposure	
	Total 2018	Total 2017
Balances with Qatar Central Bank	**24,382**	86,980
Due from banks	**1,948,119**	2,210,742
Net loans and advances to customers	**5,315,143**	4,619,757
Investment securities – debt	**1,273,913**	1,267,036
Other assets (excluding prepayments and advances)	**105,896**	84,598
Total on statement of financial position	**8,667,453**	8,269,113
Guarantees (AL Dahmeen & AL Tasdeer)	**943,594**	907,131
Letter of guarantees and credits	**446,048**	501,231
Unutilised credit facilities	**2,350,994**	2,433,553
Operating lease commitments	**109,397**	103,805
Total off statement of financial position	**3,850,033**	3,945,720
Total exposure	**12,517,486**	12,214,833

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

x. Risk concentration for maximum exposure to credit risk by industry sector

	maximum exposure	
	2018	2017
Government	**662,301**	722,620
Financial institutions	**1,972,501**	2,297,722
Industry/manufacturing	**9,165,176**	8,565,477
Others	**717,508**	629,014
	12,517,486	12,214,833

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

The table below summarizes the credit quality by class of financial asset, based on the Bank's internal credit classification methodology:

	Loans and advances to customers		**Due from banks**		**Investment securities – debt**		**Other assets**	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Neither past due nor impaired:	**3,218,681**	4,287,736	**1,948,392**	2,210,742	**1,273,913**	1,267,036	**105,896**	84,598
Past due but not impaired:	**2,463,067**	599,142	**-**	-	**-**	-	**-**	-
Impaired								
Substandard (overdue > 3 months)	**57,309**	49,258	**-**	-	**-**	-	**-**	-
Doubtful (overdue > 6 months)	**24,206**	38,348	**-**	-	**-**	-	**-**	-
Loss (overdue > 9 months)	**297,081**	199,224	**-**	-	**-**	-	**-**	-
	378,596	286,830		-	**-**	-	**-**	-
Less: Impairment allowance	**(745,201)**	(553,951)	**(273)**	-	**-**	-	**-**	-
Carrying amount – net	**5,315,143**	4,619,757	**1,948,119**	-	**1,273,913**	-	**105,896**	-
Total carrying amount	**5,315,143**	4,619,757	**1,948,119**	2,210,742	**1,273,913**	1,267,036	**105,896**	84,598

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

xi. Aging analysis of past dues but not impaired category of loans and advances

Past due but not impaired loans and advances to customers are those for which contractual interest or principal payments are past due, but the Bank 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 Bank.

	2017
Up to 30 days	560,213
30 to 60 days	19,225
60 – 90 days	19,704
Gross	599,142

xii. Collateral

The determination of eligible collateral and the value of collateral are based on QCB regulations and are assessed by reference to market price or indexes of similar assets.

The Bank has collateral in the form of CR pledge, real estate mortgage etc against the past due loans and advances to customers.

As at 31 December 2017, the aggregate collateral is QAR 828.12 million for past due up to 30 days, QAR 28.54 million for past due from 31 to 60 days and QAR 25.59 million for past due from 61 and above days.

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

4.3 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its funding requirements. Liquidity risk arises from fluctuations in cash flows due to market disruptions or credit down grades, which may cause certain sources of funding to cease immediately. The Bank has a very low exposure to liquidity risk since all its assets are predominantly financed by Capital. Hence, pure liquidity and asset liability risks like maturity mismatch, interest rate risk in the Banking book are very minimal.

The table below sets out the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The amounts included in the maturity tables are the contractual undiscounted cash flows, including principal and interest payments. All liabilities are denominated in Qatari Riyals. Assets are mainly dominated in Qatari Riyals, 90% of total assets, and US Dollars, 10% of total assets, in which Qatari Riyal is pegged with.

At 31 December 2018	Up to 1 Month	1 – 3 Months	3 – 12 Months	Sub total < 1 year	1 – 5 years	Over 5 years	No maturity	Total
Balances with Qatar Central Bank	24,382	-	-	24,382	-	-	-	24,382
Due from banks	269,082	260,000	1,199,727	1,728,809	200,000	19,310	-	1,948,119
Loans and advances to customers	411,431	227,952	745,565	1,384,948	2,444,946	1,485,249	-	5,315,143
Investment securities	-	-	-	-	498,192	775,720	258,195	1,532,107
Other assets (excluding prepayments and advances)	-	-	-	-	-	-	105,896	105,896
Total assets	**704,895**	**487,952**	**1,945,292**	**3,138,139**	**3,143,138**	**2,280,279**	**364,091**	**8,925,647**
Customers' deposits	58,095	-	-	58,095	-	-	-	58,095
Other liabilities (excluding deferred income)	117,123	5,362	-	122,485	-	-	-	122,485
Total liabilities	**175,218**	**5,362**	**-**	**180,580**	**-**	**-**	**-**	**180,580**
Net liquidity gap	**529,677**	**482,590**	**1,945,292**	**2,957,559**	**3,143,138**	**2,280,279**	**364,091**	**8,745,067**
Cumulative liquidity gap	**529,677**	**1,012,267**	**2,957,559**	**2,957,559**	**6,100,697**	**8,380,976**	**8,745,067**	**8,745,067**

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

At 31 December 2017	Up to 1 Month	1 – 3 Months	3 – 12 Months	Sub total < 1 year	1 – 5 years	Over 5 years	No maturity	Total
Balances with Qatar Central Bank	86,980	-	-	86,980	-	-	-	86,980
Due from banks	901,432	1,090,000	-	1,991,432	200,000	19,310	-	2,210,742
Loans and advances to customers	118,664	205,451	184,535	508,650	2,233,815	1,877,292	-	4,619,757
Investment securities	-	75,000	150,870	225,870	367,652	673,513	202,547	1,469,582
Other assets (excluding prepayments and advances)	-	-	-	-	-	-	84,598	84,598
Total assets	1,107,076	1,370,451	335,405	2,812,932	2,801,467	2,570,115	287,145	8,471,659
Customers' deposits	79,910	-	-	79,910	-	-	-	79,910
Other liabilities (excluding deferred income)	107,618	2,214	-	109,832	-	-	-	109,832
Total liabilities	187,528	2,214	-	189,742	-	-	-	189,742
Net liquidity gap	919,548	1,368,237	335,405	2,623,190	2,801,467	2,570,115	287,145	8,281,917
Cumulative liquidity gap	919,548	2,287,785	2,623,190	2,623,190	5,424,657	7,994,772	8,281,917	8,281,917

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

4.4 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

The bank 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 bank is exposed to interest rate risk created as a results 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 risks exposures are monitored and reported on a timely basis to senior management and any breaches are escalated immediately. In addition, all trading activity is continuously monitored at ALCO level.

(a) Interest rate risk

The Bank has an interest rate risk exposure due to its investments in fixed income instruments. Interest rate risk in its fixed income bond portfolio is managed by way of a well laid out process of issuer due diligence and bond selection in line with portfolio objectives. The treasury policy of the Bank defines issuer due diligence standards, approval authorities, Risk control limits and reporting. The Bank uses a variety of measures to measure interest rate risk sensitivity of its portfolio which includes duration and stress testing.

The Bank's interest sensitivity position based on contractual repricing arrangements at 31 December 2018 was as follows:

	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest sensitive	Total
Balances with Qatar Central Bank	-	-	-	-	24,382	24,382
Due from banks	529,082	1,199,727	200,000	19,310		1,948,119
Loans and advances to customers	639,383	745,565	2,444,946	1,485,249		5,315,143
Investment securities	-	-	498,192	775,720	258,195	1,532,107
Other assets (excluding prepayments and advances)	-	-	-	-	105,896	105,896
Total assets	**1,168,465**	**1,945,292**	**3,143,138**	**2,280,279**	**388,473**	**8,925,647**
Customers' deposits	-	-	-	-	58,095	58,095
Other liabilities (excluding deferred income)	-	-	-	-	122,485	122,485
Total liabilities	**-**	**-**	**-**	**-**	**180,580**	**180,580**
On balance sheet interest rate sensitivity gap	**1,168,465**	**1,945,292**	**3,143,138**	**2,280,279**	**207,893**	**8,745,067**
Cumulative interest rate sensitivity gap	**1,168,465**	**3,113,757**	**6,256,895**	**8,537,174**	**8,745,067**	**8,745,067**

All liabilities are denominated in Qatari Riyals. Assets are mainly denominated in Qatari Riyals, 90% of total assets, and US Dollars, 10% of total assets, to which the Qatari Riyal is pegged.

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

The Bank's interest sensitivity position based on contractual repricing arrangements at 31 December 2017 was as follows:

	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest sensitive	Total
Balances with Qatar Central Bank	-	-	-	-	86,980	86,980
Due from banks	1,991,432	-	200,000	19,310	-	2,210,742
Loans and advances to customers	324,115	184,535	2,233,815	1,877,292	-	4,619,757
Investment securities	75,000	150,870	367,652	673,513	202,547	1,469,582
Other assets (excluding prepayments and advances)	-	-	-	-	84,598	84,598
Total assets	2,390,547	335,405	2,801,467	2,570,115	374,125	8,471,659
Customers' deposits	-	-	-	-	79,910	79,910
Other liabilities (excluding deferred income)	-	-	-	-	109,832	109,832
Total liabilities	-	-	-	-	189,742	189,742
On balance sheet interest rate sensitivity gap	2,390,547	335,405	2,801,467	2,570,115	184,383	8,281,917
Cumulative interest rate sensitivity gap	2,390,547	2,725,952	5,527,419	8,097,534	8,281,917	8,281,917

All liabilities are denominated in Qatari Riyals. Assets are mainly denominated in Qatari Riyals, 90% of total assets, and US Dollars, 10% of total assets, to which the Qatari Riyal is to.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of profit or loss.

The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate on non-trading financial assets and financial liabilities held at the reporting date. The effect of decreases in basis points is expected to be equal and opposite to the effect of the increases shown.

	Increase/decrease in basis points	**Sensitivity of net interest income**	
		2018	2017
Expected impact (QAR)	+/- 10	+/-**1,894**	+/-1,615

(b) *Currency risk*

In the opinion of the management, the Bank's exposure to currency risk is minimal as most of the foreign currency financial assets and liabilities are denominated in US Dollars and Euros. As the Qatari Riyal is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk. The exposure to Euro currency is also minimal, 0.30% of total assets, and hence not considered to represent significant risk.

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

(c) *Equity price risk*

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity and the value of individual investments. The effect on equity due to a reasonable possible change in equity indices, with all other variables held constant, is as follows:

		Effect on equity	
Market indices	**Change in equity price**	**2018**	2017
Qatar Exchange	10%	**+/-21,354**	+/- 17,600

4.5 OPERATIONAL AND OTHER RISKS

Operational risk refers to the loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank endeavours to minimize operational losses by ensuring that effective infrastructure, controls, systems and individuals are in place throughout the organization. An enterprise wide Risk and Control Self-Assessment (RCSA) Process helps the bank to identify risks, test controls and track and report significant operational risk exposures through KRI's and operational risk loss data. Likewise regulatory, legal and reputation risks are assessed by way of RCSA and controlled throughout. External legal advice is obtained from lawyers to confirm legal and regulatory requirements, where required.

Other risks to which the Bank is exposed are regulatory risk, legal risk and reputational risk. Regulatory risk is controlled through a framework of compliance policies and procedures. Legal risk is managed through the effective use of external legal advisers. Reputational risk is controlled through the regular examination of issues that are considered to have reputational repercussions for the Bank, with guidelines and policies being issued as appropriate.

4.6 CAPITAL MANAGEMENT

Since capital is the primary source of funding the various business lines of the bank, the primary objective is to maintain the value of the capital at a level where bank's businesses are sustainable. Other objectives of bank's capital management strategies involves maintaining strong ratings and healthy capital ratios in order to support its development objective. No changes were made in the objectives, policies and processes from the previous years.

The Bank maintains an actively managed capital base to cover risks inherent in the business.

Capital comprises of share capital, legal reserve, general reserve, risk reserve, fair value reserve, and retained earnings amounting to QAR 9.6 billion (2017: QAR 9.2 billion).

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

5 FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values

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

	Amortised cost	**Fair value through other comprehensive income**	**Total Carrying amount**	**Fair value**
31 December 2018				
Balances with Qatar Central Bank	**24,382**	**-**	**24,382**	**24,382**
Due from banks	**1,948,119**	**-**	**1,948,119**	**1,948,119**
Loans and advances to customers	**5,315,143**	**-**	**5,315,143**	**5,315,143**
Investment securities	**-**	**1,532,107**	**1,532,107**	**1,532,107**
Other assets (excluding prepayments and advances)	**105,896**	**-**	**105,896**	**105,896**
	7,393,540	**1,532,107**	**8,925,647**	**8,925,647**
Customers' deposits	**58,095**	**-**	**58,095**	**58,095**
Other liabilities (excluding deferred income)	**122,485**	**-**	**122,485**	**122,485**
	180,580	**-**	**180,580**	**180,580**

	Loans and receivables	Available -for-sale	Other amortised cost	Total Carrying amount	Fair value
31 December 2017					
Balances with Qatar Central Bank	86,980	-	-	86,980	86,980
Due from banks	2,210,742	-	-	2,210,742	2,210,742
Loans and advances to customers	4,619,757	-	-	4,619,757	4,619,757
Investment securities	-	1,469,582	-	1,469,582	1,469,582
Other assets (excluding prepayments and advances)	-	-	84,598	84,598	84,598
	6,917,479	1,469,582	84,598	8,471,659	8,471,659
Customers' deposits	-	-	79,910	79,910	79,910
Other liabilities (excluding deferred income)	-	-	109,832	109,832	109,832
	-	-	189,742	189,742	189,742

The fair value of the financial assets and liabilities held at amortized cost equal the carrying value. That is because the bank finances institutions in the development sector with real interest that is authorized by the government of Qatar. The market interest rate for development loans are similar to the interest rate provided by the bank resulting in a minimal change in interest rate.

6 USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 4.2.2, which also sets out key sensitivities of the ECL to changes in these elements.

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;
- 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 groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Bank in the above areas is set out in note 4.2.2.

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

(i) Valuation of financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;

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.

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1	**Level 2**	**Level 3**	**Total**
31 December 2018				
Financial assets				
Investment securities	**1,487,455**	**-**	**44,652**	**1,532,107**
31 December 2017				
Financial assets				
Investment securities	1,443,041	-	26,541	1,469,582

During the year ended 31 December 2018, 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.

Investment securities - at cost

At 31 December 2018, certain unquoted financial investments amounting to QAR 44.65 million (2017: QAR 26.54 million) were carried at cost due to non-availability of quoted market prices or other reliable measures of their fair values. Management believes there is no impairment in their value and that cost represents the fair value of those investments

(ii) Useful lives of property and equipment / investment property

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

7 DUE FROM BANKS

	2018	2017
Current accounts	**1,898**	-
Call accounts	**207,184**	251,432
Placements	**1,739,310**	1,959,310
	1,948,392	2,210,742
Allowance for impairment	**(273)**	-
	1,948,119	2,210,742

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

	2018	2017
The geographical distribution is set out below:		
Qatar	**1,926,300**	2,161,884
North America	**14,220**	48,407
Europe	**7,052**	112
Other GCC countries	**820**	339
	1,948,392	2,210,742

	2018	2017
Current	**1,729,082**	1,991,432
Non-current	**219,310**	219,310
At 31 December	**1,948,392**	2,210,742

8 LOANS AND ADVANCES TO CUSTOMERS

(a) By type

	2018	2017
(i) Conventional banking loans and advances	**377,254**	501,267
(ii) Islamic financing activities		
Murabaha	**2,740,449**	2,258,368
Istisna'a	**49,525**	33,436
Ijarah	**3,076,535**	2,547,972
	5,866,509	4,839,776
Deferred income on Islamic finances	**(183,419)**	(167,335)
	5,683,090	4,672,441
Net financing activities	**6,060,344**	5,173,708
Allowance for impairment	**(745,201)**	(553,951)
Net loan and advances and financing activities	**5,315,143**	4,619,757

	2018	2017
Current	**1,384,948**	508,650
Non-current	**3,930,195**	4,111,107
At 31 December	**5,315,143**	4,619,757

(b) All loans and advances are to corporate customers and small and medium sized entities located in the State of Qatar.

(c) The movement in the allowance for impairment of loans and advances is as follows:

	2018	2017
At 1 January	**553,951**	421,247
ECL impact of initial adoption of IFRS 9	**152,732**	-
Charge for the year	**68,871**	146,739
Recoveries	**(30,353)**	(14,035)
At 31 December	**745,201**	553,951

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

(d) Details of non-performing loans are as follows:

The net amount of non-performing loans and advances and financing activities to customers as at 31 December 2018 amounted to QAR 378.60 million representing 6.06% % (2017: QAR 286.83 million representing 5.4 %) of the total gross loans and advances to customers.

(e) Net impairment during the year:

	2018	2017
Loans and advances (net of recoveries)	**33,183**	131,547
Interest in suspense	**5,335**	1,157
For the year ended 31 December	**38,518**	132,704

9 INVESTMENT SECURITIES

	2018			2017		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
By type						
Equity securities measured at fair value through OCI / AFS (for 2017)	**213,542**	**-**	**213,542**	176,005	-	176,005
Equity securities measured at cost	**-**	**15,111**	**15,111**	-	1,820	1,820
State of Qatar Bonds	**662,301**	**-**	**662,301**	722,620	-	722,620
Other debt securities	**611,612**	**-**	**611,612**	544,416	-	544,416
Investment funds	**-**	**29,541**	**29,541**	-	24,721	24,721
Total	**1,487,455**	**44,652**	**1,532,107**	1,443,041	26,541	1,469,582

	2018	2017
Current	**-**	225,870
Non-current	**1,532,107**	1,243,712
At 31 December	**1,532,107**	1,469,582

The movement in investments securities is as follows:

	2018	2017
At 1 January	**1,469,582**	1,829,168
Additions	**291,083**	125,809
Disposals	**(231,232)**	(287,583)
Net amount transfer from equity	**-**	(121,139)
Fair value increase (decrease)	**2,674**	(76,673)
At 31 December	**1,532,107**	1,469,582

The State of Qatar Bonds and other debt securities financial assets amounting to QAR 662.3 million and QAR 611.61 million respectively (2017: QAR. 722.62 million and QAR. 544.42 million) represent investments in fixed rate securities. There are no investments in floating rate securities as at 31 December 2018.

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

Interest in other entities

The Bank has an interest in Elan Qatar W.L.L. ("Elan Qatar") and Qatari German Company for Medical Devices Q.S.C. ("QGMD") and are classified as investment securities at FVOCI.

(1) The main activities of the Elan Qatar are to provide media and outdoor advertising services, marketing services, managing events, printing and road signboard services.

During the year 2014, the ownership of Elan Qatar was transferred to the Bank on the instruction of the Ministry of Finance (MoF) at QAR 1. 99.1% of the shares of Elan Qatar were transferred to QDB directly and 0.9% through its wholly owned company Yellow Services W.L.L. (structured entity established only to acquire Elan Qatar).

Elan Qatar is not consolidated in the books of the Bank in accordance with IFRS 10 "Consolidated Financial Statements", as the MoF has the right to change the owner without showing any reason as per the letter dated 19 October 2014 from the MoF.

The maximum exposure to loss for the Bank is the credit risk in respect of the loan amounting to QAR 1,294 million (2017: QAR 1,240 million) provided by the Bank to Elan Qatar. However, the Bank's exposure towards Elan Qatar is secured through a guarantee issued by the MoF to settle the loan in case of default.

(2) The principal activities of QGMD are manufacturing of single used disposable syringes. Though the Bank holds less than 20% of shareholding in the QGMD, the existence of significant influence is evidenced by the Bank's representation on the Board of Directors and direct involvement in the policy making processes of QGMD. However, QGMD is not accounted for using the equity method of accounting as per the requirements of IAS 28 as the operations are not material to the Bank.

10 BUSINESS COMBINATIONS

In September 2017, the Bank entered into an agreement to purchase the remaining shares (50%) of Qatar Business Incubation Centre (QBIC) (previously recorded as an investment in joint venture as of the year ended 31 December 2016) for a cash consideration of QAR 37 million.

The Bank performed a purchase price allocation study for the net assets of the subsidiary.

The acquisition resulted in a gain amounted to QAR 7.2 million for the year ended 31 December 2017.

The main assets in the Company's books (investment properties) have been transferred to QDB books in December 2017. Refer to Note 11.

ASSETS	**September 2017**
Investment properties	**97,350**
Bank balances and cash	**12,561**
Others	**39,595**
Total assets	**149,506**
EQUITY AND LIABILITIES	
Liabilities	
Accounts payable and accruals	**7,612**
Others	**31,350**
Total liabilities	**38,962**
Net assets	**110,544**
Equity	
Share capital	**70,000**
Retained Earnings	**40,544**
Total equity / net assets	**110,544**
Net consideration paid for the remaining 50% interest	**103,350**
Gain on the acquisition	**7,194**

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

11 INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES

	2018	2017
Balance at 1 January	**13,822**	22,879
Investments acquired during the year	**35,200**	35,000
	49,022	57,879
Share of results	**(22,067)**	(7,610)
Disposed of / impaired during the year	**-**	(36,447)
	(22,067)	(44,057)
Balance at 31 December	**26,955**	13,822

Name of the Company	**Amount 2018**	2017	**Associates / Joint venture**	**Country**	**Ownership % 2018**	2017
Yellow Services W.L.L.	**22,755**	9,822	Subsidiary	Qatar	**100%**	100%
Yellow Entertainment Development W.L.L.	**200**	-	Subsidiary	Qatar	**100%**	-
Qatar Business Incubation Centre	**4,000**	4,000	Subsidiary	Qatar	**100%**	100%
Al Shams Advanced Lighting Technologies Q.P.S.C*	**-**	-	Associate	Qatar	**39%**	39%
The Bedaya Centre**	**-**	-	Joint venture	Qatar	**50%**	50%

Set out below is the summary of the Bank's investments in unconsolidated subsidiaries:

(A) Yellow Services W.L.L.
The Yellow Services W.L.L. ("the Company") is engaged in investment activities and providing management consultancy services.

This investment is presented under investment in associates and subsidiaries and considered as a subsidiary but not consolidated as the Company's operations are not material to the Bank.

(B) Yellow Entertainment Development W.L.L.
The principal activities of the Yellow Entertainment Development W.L.L. ("the Company") are investment in properties including construction, sales and operating, development of various kinds of projects, general building contracting and operating real estate.

This investment is treated as a subsidiary but not consolidated as the Company's operations are not material to the Bank.

(C) Qatar Business Incubation Centre
Qatar Business Incubation Centre ("QBIC" or "the Company") was formed to provide entrepreneurs and small and medium enterprises with the support that allows them to promote their capabilities, continue to build their businesses and successfully carry out their operations.

It was recorded as an investment in joint venture as of the year ended 31 December 2016. In September 2017, QDB acquired the remaining shares and controlled the operations of the Company in full.

The transaction has been considered as a business combination. QDB, being the acquirer, applied the fair value method on the date of acquisition. Refer to Note 10.

(D) Al Shams Advanced Lighting Technologies Q.P.S.C
The principal activities of the Al Shams Advanced Lighting Technologies Q.P.S.C ("the Company") are manufacturing HID lamps and other lighting products.

This investment is classified as investment in associate. Further, the Bank has extended a financing facility amounting to QAR 9.08 million to the Company.

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

(E) The Bedaya Centre

The Bedaya Centre provides consulting and training support to youths residing in Qatar relating to personalized assessments and career counselling, work readiness training, leadership programs, entrepreneurship training/mentoring and enterprise development services facilitating various options to access finance. In July 2018, the parties have agreed that QDB will acquire the remaining equity interest of the Company to become the sole owner. However, as at 31 December 2018, QDB is still in process of completing the registration in the ministry.

The financial position and results of associates and subsidiaries based on latest available financial statements are as follows:

	Yellow Services W.L.L.	**Yellow Entertainment Development W.L.L.**	**Qatar Business Incubation Centre**	**Al Shams advanced lighting technologies***	**The Bedaya Centre****	**Total**
31 December 2018						
Total assets	**36,790**	**304**	**26,115**	**8,690**	**898**	**72,797**
Total liabilities	**14,035**	-	**5,585**	**9,495**	**884**	**29,999**
Total revenue	-	-	**459**	**857**	**303**	**1,619**
Net profit / (loss)	**(22,067)**	-	**(1,229)**	**(2,251)**	**(6,350)**	**(31,897)**
Share of profit (loss)	**(22,067)**	-	-	-	-	**(22,067)**

	Yellow Services W.L.L.	Yellow Entertainment Development W.L.L.	Qatar Business Incubation Centre	Al Shams advanced lighting technologies*	The Bedaya Centre**	Total
31 December 2017						
Total assets	10,251	-	20,262	10,514	3,223	44,250
Total liabilities	430	-	3,060	8,783	4,766	17,039
Total revenue	-	-	4,882	1,050	283	6,215
Net loss	-	-	(14,781)	(1,582)	(3,948)	(20,311)
Share of loss	-	-	(5,440)	(617)	-	(6,057)

*The Investments in this associate has been fully impaired.

**The Investments in this joint venture has been fully impaired. The Bank has recognized the share of loss up to the cost of the investment in prior years.

The following table provides the carrying amounts and classifications of interests recorded in the Bank's statement of financial position and maximum exposure to loss as of and for the years ended 31 December 2018 and 2017.

	2018	2017
Statement of financial position line items		
Investment securities	-*	-*
Loans and advances to customer	**1,293,597**	1,239,934
Total assets	**1,293,597**	1,239,934
Statement of profit or loss line items		
Profit	**38,808**	31,841
Maximum exposure to loss	**1,332,405**	1,271,775

*This represents investment in Elan Qatar W.L.L. amounting to QAR 1.

Note 12.1

Yellow Services W.L.L. has net assets of QAR 36.79 million representing only the cash and investments as at 31 December 2018.

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

Note 12.2

Yellow Entertainment Development W.L.L. has net assets of QAR 0.31 million representing cash and other receivables as at 31 December 2018

12 INVESTMENT PROPERTIES

The movement in investment property is as follows:

	Buildings	Land	Projects under development	Total
Cost				
Balance at 1 January 2017	440,900	53,576	351,576	846,052
Acquisitions during the year	297	-	72,507	72,804
Transfers from a subsidiary (Note 11)	97,350	-	-	97,350
Balance at 31 December 2017	538,547	53,576	424,083	1,016,206
Balance at 1 January 2018	**538,547**	**53,576**	**424,083**	**1,016,206**
Transfers	**399,092**	-	**(399,092)**	-
Acquisitions during the year	-	-	**42,236**	**42,236**
Balance at 31 December 2018	**937,639**	**53,576**	**67,227**	**1,058,442**
Accumulated depreciation				
Balance at 1 January 2017	(43,180)	-	-	(43,180)
Charge during the year	(18,364)	-	-	(18,364)
Balance at 31 December 2017	(61,544)	-	-	(61,544)
Balance at 1 January 2018	**(61,544)**	-	-	**(61,544)**
Charge during the year	**(24,779)**	-	-	**(24,779)**
Balance at 31 December 2018	**(86,323)**	-	-	**(86,323)**
Carrying amounts				
Balance at 1 January 2017	397,720	53,576	351,576	802,872
Balance at 31 December 2017	477,003	53,576	424,083	954,662
Balance at 31 December 2018	**851,316**	**53,576**	**67,227**	**972,119**

Investment properties comprises of lands, buildings and projects under development located in the State of Qatar, all investment properties are carried at historical cost less depreciation and impairment, if any.

The buildings under investment properties are developed on lands that are not owned by the Bank but rather leased from the State of Qatar.

For disclosure purposes, the Bank's investment properties were valued at 31 December 2018 by independent professionally qualified appraisers that hold a recognized relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to the highest and best use. The Bank's finance department reviews the valuations performed by the independent appraisers for financial reporting purposes. Discussions of valuation processes and results held between the Bank and the independent appraisers annually. Valuations have been done by reference to market evidence of recent transactions for similar properties. The table below summarizes the fair value for each investment property.

Name of the property	**Fair value at 31 December 2018**	Fair value at 31 December 2017
Buildings	**1,643,303**	1,151,720
Land	**50,763**	58,050
Projects under development	**67,227**	424,083

Rental income generated from these investment properties amounted to QAR 53.02 million (2017: QAR 53.68 million).

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

13 OTHER ASSETS

	2018	2017
Accrued interest receivable	**66,589**	58,686
Staff furniture allowance	**20,794**	20,985
Prepayments	**15,352**	1,083
Other receivables	**74,015**	25,455
Provisions against other receivables	**(55,502)**	(20,527)
	121,248	85,682

14A CUSTOMERS' DEPOSITS

	2018	2017
Current account	**(50,974)**	72,005
Cash margin	**(7,121)**	7,905
	(58,095)	79,910

All customers' deposits are mainly used for the purpose of serving the corporate clients.

14B PROVISIONS

	2018	2017
Provision for end of service benefits (i)	**54,507**	29,951
Provision for Al- Dahmeen, Al-Tasdeer (ii)	**70,581**	50,653
Provision for letters of credits and letter of guarantees	**43,900**	-
	168,988	80,604

(i) Provision for end-of-service benefits

	2018	2017
At 1 January	**29,951**	22,695
Provision made during the year	**26,772**	10,552
Payments during the year	**(2,216)**	(3,296)
At 31 December	**54,507**	29,951

(ii) This represents the provision made against guarantees (Dahmeen and Al-Tasdeer).

	2018	2017
At 1 January	**50,653**	30,217
Provision made during the year	**19,928**	20,436
At 31 December	**70,581**	50,653

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

15 OTHER LIABILITIES

	2018	2017
Deferred income	**62,884**	66,270
Accruals and others	**45,588**	26,674
Accounts payable	**68,235**	77,644
Board and committee's remuneration payable	**3,300**	3,300
Penalty collections for delayed loan repayments	**5,362**	2,214
	185,369	176,102

All other liabilities for the banks for the years ended 31 December 2018 and 2017 are categorized as current other liabilities.

16 EQUITY

Share capital

The authorised capital of the Bank amounts to QAR 12,000 million (2017: QAR 12,000 million) consisting of 1,200 million shares of QAR 10 each. The Government of the State of Qatar (Ministry of finance) is the ultimate parent and controlling party of the Bank.

During the year, the Bank has received QAR 600 million (2017: QAR 1,200 million) from the Government as a contribution towards the authorised capital. The number of shares issued and fully paid increases based on the contributions from the Government. As of 31 December 2018 and 2017, the number of shares issued and fully paid are 912,064,488 and 852,064,488 respectively.

Legal reserve

In accordance with the Bank's Articles of Association, at least 20% of the net profit for the year is required to be transferred to the legal reserve until the reserve equals 100% of the paid up capital. The minimum required percentage of transfer to legal reserve as per Qatar Central Bank rules and regulations is 10%. This reserve is not available for distribution except in circumstances specified in the Qatar Commercial Companies Law No. 11 of 2015 and with the approval of Qatar Central Bank.

General reserve

The general reserve was created in 1997 in accordance with Article 31 (3) of the Articles of Association. This reserve can be used at the discretion of the General Assembly, after obtaining the approval of Qatar Central Bank.

Risk reserve

In accordance with Qatar Central Bank rules and regulations, a risk reserve is made to cover contingencies on the loans, advances and financing activities to customers with a minimum requirement of 2.5% of the total private sector exposure, net of cash secured facilities is made to cover contingencies on the private sector loans and advances. The Bank is currently transferring 3% to the reserve (2017: 3%).

17 CONTINGENT LIABILITIES AND COMMITMENTS

	2018	2017
Al-Tasdeer	**27,968**	20,028
Al- Dahmeen	**955,647**	887,103
Letters of guarantee	**256,818**	248,522
Letters of credit	**193,109**	252,709
Unutilised credit facilities	**2,350,994**	2,433,553
Operating lease commitments	**109,397**	103,805
	3,893,933	3,945,720

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

(i) Al-Tasdeer (export promotion agency)

This commits the Bank to make payments to its customers, contingent upon the credit default of their overseas importers as per the terms of the contracts, thereby providing them a guarantee to cover their credit risk.

(ii) Letters of credit, guarantees, Al-Dahmeen

Letters of credit, guarantees, Al-Dahmeen (Financial guarantee provided to customers in partnership with other banks) commit the Bank to make payments on behalf of customer's contingent upon their failure to perform under the terms of the contract. Guarantees, Al-Dahmeen and standby letters of credit carry the same risk as loans. Credit guarantees can be in the form of irrevocable letters of credit, credit insurance, advance payment guarantees and endorsement liabilities from bills rediscounted.

(iii) Unutilized facilities

Commitments to extend credit represent contractual commitments to fund loans and revolving credits. Commitments generally have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. The commitments generally have expiry dates of less than one year.

18 INTEREST INCOME

	2018	2017
Due from banks	**62,409**	48,448
Loans and advances to customers	**20,148**	27,475
Debt securities	**68,042**	59,511
	150,599	135,434

19 FEE AND COMMISSION INCOME

	2018	2017
Fee income on housing loans department *	**153,308**	125,035
Fee income on loans and advances	**20,263**	16,103
Fee income on Al-Tasdeer	**1,978**	1,885
Fee income on Al- Dahmeen	**6,752**	6,868
Fee income on indirect facilities	**11,564**	9,658
	193,865	159,549

* The portfolio contains government sponsored and funded housing loans to Qatari Nationals managed by the Bank. The Housing Loan Portfolio is not owned by QDB but rather managed by QDB on behalf of the Government of Qatar. The housing loans management fee is recognized at the lower of 1% of the amount of outstanding balance or the actual profit of the housing loans per annum and is recognized as the service is performed.

20 INCOME FROM INVESTMENT SECURITIES

	2018	2017
Net gains on disposal of investments	**-**	92,291
Dividend income	**26,888**	18,083
	26,888	110,374

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

21 STAFF AND OTHER COSTS

	2018	2017
Staff cost	**258,047**	223,670
Professional and Governmental fees	**54,497**	33,529
Advertisement and conferences	**56,174**	46,341
IT expenses	**14,045**	7,446
Repairs and maintenance	**19,918**	12,197
Board of Directors and committee's remuneration	**3,300**	3,300
Communication and insurance	**2,605**	2,647
Others	**14,204**	8,001
	422,790	337,131

22 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following amounts:

	2018	2017
Balances with Qatar Central Bank	**24,382**	86,980
Current accounts with banks	**1,898**	-
Call accounts with banks	**207,183**	251,432
	233,463	338,412

23 RELATED PARTY DISCLOSURES

The Bank enters into transactions with major shareholders, directors and key management personnel of the Bank, and entities controlled, jointly controlled, or significantly influenced by such parties. All the loans and advances and financing activities to related parties are given at market rates.

The year end balances in respect of related parties included in the financial statements are as follows:

	2018			
	Government of State of Qatar	**Associate**	**Subsidiary**	**Interest in other entities**
(a) Statement of financial position				
Financial investments	**662,133**	**-**	**-**	**-**
Other receivable	**-**	**-**	**14,006**	**-**
Investments in associates and joint ventures	**-**	**-**	**26,955**	**-**
Gross amount of loans and advances	**-**	**9,081**	**-**	**1,293,597**
Impairment on advances to customers	**-**	**2,506**	**-**	**280**

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

	2018			
	Government of State of Qatar	**Associate**	**Joint Ventures**	**Entities under common control**
(b) Statement of profit or loss				
Interest on the State of Qatar bonds	**33,236**	**-**	**-**	**-**
Interest on loans and advances	**-**	**-**	**-**	**19,029**
Net impairment (reversal)/ loss on loans and advances to customers	**-**	**(5,913)**	**-**	**280**

	2017			
	Government of State of Qatar	Associate	Joint Ventures	Entities under common control
(a) Statement of financial position				
Financial investments	722,620	-	-	-
Other receivable	-	-	-	401
Investments in associates and joint ventures	-	-	-	13,822
Gross amount of loans and advances	-	8,484	-	1,239,934
Specific impairment on advances to customers	-	8,419	-	-
(b) Statement of profit or loss				
Interest on the State of Qatar bonds	30,271	-	-	-
Interest on loans and advances	-	-	-	16,841
Net impairment loss on loans and advances to customers	-	2,494	-	-

Board of Directors remuneration amounted to QAR 3.3 million (2017: QAR 2.8 million).

Compensation of key management personnel is as follow:

	2018	2017
Salaries and other benefits	**17,029**	12,910

24 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation in the current year's financial statements. However, such reclassification does not have any effect on the net income, net assets and equity of the previous year.