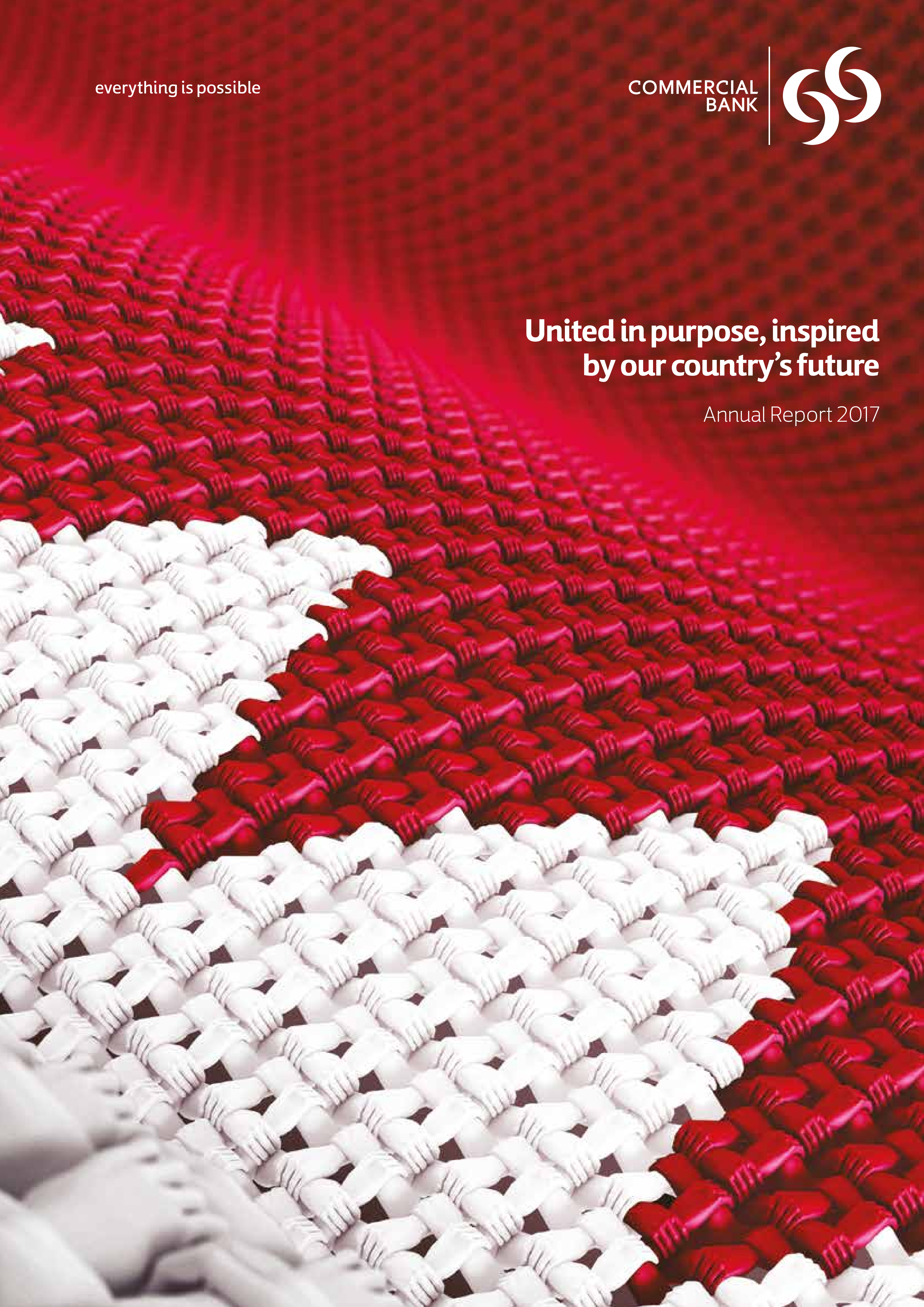
everything is possible

COMMERCIAL BANK



United in purpose, inspired by our country's future

Annual Report 2017

His Highness
Sheikh Tamim Bin Hamad Al Thani
Emir of the State of Qatar

His Highness
Sheikh Hamad Bin Khalifa Al Thani
Father Emir

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Standing strong with Qatar

Commercial Bank stands united with His Highness The Emir Sheikh Tamim Bin Hamad Al Thani and the people of Qatar in the face of the economic blockade. We are proud to be a Qatari bank, loyal to His Highness The Emir and we believe the economic blockade has made Qatar stronger than ever before.

As Qatar's first private bank with over 40 years of history, we support our country in every way we can. By providing innovative banking products and services, financing major projects and small businesses, developing human capital as a leading private sector employer and investing in Qatar's community, supporting Qatar's National Vision 2030 and all-round national development is a common thread in everything we do.

Qatar has proved to be remarkably resilient in 2017, defying expectations and becoming stronger through unity. So too has Commercial Bank.

Living up to our belief that 'everything is possible' Commercial Bank has come together by working as one team to deliver on our five year strategic plan to build momentum for a new phase of sustainable growth. The foundation of our ambition to be the 'Best Bank in Qatar' and the 'Qatari Bank of Choice' are the Five C's of Commercial Bank:

- Corporate Earnings Quality
- Client Experience
- Creativity and Innovation
- Culture
- Compliance

In 2017, we lived up to each of these Five C's by taking real action to achieve growth in the present and position Commercial Bank well for increasingly strong performance in the coming years as we continue our transformation journey.

Proud to be Qatari

We take pride in being a Qatari bank in our country. Commercial Bank's development over more than four decades has mirrored the spectacular growth of Qatar, and as a leader in the private sector, we have a responsibility to give back to our country. Commercial Bank supports economic diversity and sustainability through our innovative approach to business and we are helping to build Qatar's human capital by investing in people and our community of which we have been part of since 1975.

Pictured: Commercial Bank Plaza, our headquarters in the heart of Doha.

Business at a glance

Our changing world

1974	Commercial Bank is incorporated as Qatar's first private sector bank
1975	The Bank begins operations under a management-services contract with Chase Manhattan Bank
1981	The contract with Chase Manhattan Bank officially ends and Commercial Bank is fully independent
1987	A new Commercial Bank head office opens on Grand Hamad Street
1990	ATMs are introduced in Qatar by Commercial Bank
1991	Commercial Bank acquires the Diners Club franchise for Qatar
1992	Point-of-sale machines are introduced in Qatar by Commercial Bank
1997	A dedicated Customer Call Centre is established
2005	Commercial Bank forms a strategic alliance with National Bank of Oman
2006	Commercial Bank signs an agreement to become the title sponsor for the Qatar Masters golf tournament
2007	Commercial Bank forms a strategic alliance with United Arab Bank in the UAE
2008	First Qatari bank to list GDRs on the London Stock Exchange
2009	Commercial Bank opens its new headquarters in Doha, Commercial Bank Plaza
2011	Incorporates Commercial Bank Investment Services (re-branded to become Commercial Bank Financial Services)
2013	Commercial Bank acquires 74.24% shareholding in Alternatifbank in Turkey
2015	Commercial Bank celebrates its 40th anniversary milestone as Qatar's first private bank
2016	Commercial Bank signs a debut USD 166 million 3-year Ninja loan facility – the first Ninja loan for a GCC financial institution Commercial Bank successfully completes the acquisition of the remaining 25% shareholding in Alternatifbank
2017	Incorporates Commercial Bank Innovation Services, a management operation services captive entity that has successfully on-shored previously outsourced activities

About Commercial Bank

Incorporated in 1974 as the first private bank in the country, Commercial Bank is today one of the leading financial institutions in Qatar with a profitable track record since inception. We continue to play an important role in driving innovation and raising service standards in banking across the region through our investment in new technology, a clear focus on customers and prudent management. Our country-wide network includes 29 full service branches and 179 ATMs, and we also own and operate an exclusive Diners Club franchise in Qatar. We are listed on the Qatar Exchange and were the first Qatari bank to list its Global Depository Receipts on the London Stock Exchange. Commercial Bank's latest bonds issuance in June 2014 and June 2016 are listed on the Irish Stock Exchange.

Expanding its geographical footprint, Commercial Bank is 100% owner of Alternatifbank in Turkey and has a strategic partnership with the National Bank of Oman (NBO). These strategic alliances enable Commercial Bank to offer integrated services across the region, including cross-border services for corporate banking and capital markets; trade services for Corporate Banking customers; private banking services; and, syndicated loans in all our alliance markets.

Total assets: QAR 138.4bn
Up 6.2% from 2016

Capital strength: 16.1%
Total regulatory capital adequacy ratio

Commercial Bank has entered into an exclusivity agreement with Tabarak Investment to negotiate terms of the potential sale of the Bank's stake in United Arab Bank.

Our continual investment in technology and people, together with our strong capital base, provides a solid foundation for further growth. Commercial Bank has a robust financial position, with total assets of QAR 138.4 billion at 31 December 2017 and a capital adequacy ratio of 16.1%. The Bank enjoys strong credit ratings of (A2) from Moody's, (A) from Fitch, and (BBB+) from Standard & Poor's.

True to our pioneering origins and history of success, we are dedicated to supporting Qatar's economic development and social infrastructure through Corporate Social Responsibility programmes and sponsorship of various events, which help to raise Qatar's profile internationally.

Our business segments

Wholesale Banking Provides a range of conventional commercial and investment banking services and products to large, medium and small enterprises, including corporate lending, trade finance, syndicated loans, deposits, letter of credit and guarantees.

Retail Banking Provides a full suite of conventional retail banking services and products to retail customers in Qatar, including current and deposit accounts, wealth management, mortgage lending, personal and vehicle loans and credit card and other card services.

Subsidiaries

Alternatifbank (A.S.) A fully owned subsidiary in Turkey that operates through a network of 53 branches.

Commercial Bank Financial Services (L.L.C.) A fully owned subsidiary that provides direct access to the Qatar Exchange, online trading and brokerage services.

Orient 1 Limited A fully owned subsidiary that owns and manages an exclusive Diners Club franchise in Qatar and Oman.

CB Global Limited. A fully owned subsidiary incorporated in Cayman Islands, an issuing vehicle for Euro Commercial Paper and Certificate of Deposit Programme.

CBQ Finance Limited. A fully owned subsidiary incorporated in Bermuda and organised as a special purpose entity established to raise capital for Commercial Bank by issue of debt instruments.

CB Global Trading Limited. A fully owned subsidiary incorporated in Cayman Islands, an intermediary vehicle for Derivatives.

Commercial Bank Innovation Services (L.L.C.) A fully owned subsidiary incorporated in Qatar under the Qatar Financial Centre Authority providing the Bank with Operations management services.

Associates

National Bank of Oman (S.A.O.G.)
An associate entity that operates through 60 conventional branches and 6 Islamic branches in Oman, and one branch each in Egypt, Abu Dhabi and Dubai.

Massoun Insurance Services L.L.C.
A joint arrangement entity that provides tailored corporate and personal insurance products to the Bank's customers.

Forward looking statements

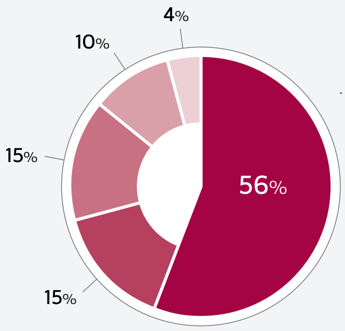
Net profit	Earnings per share	Customers' loans and advances	Customers' deposits	Total assets
QAR 604 million	**QAR 0.90**	**QAR 89.1 bn**	**QAR 77.6 bn**	**QAR 138.4 bn**

This document contains certain forward looking statements with respect to certain plans and current goals and expectations of Commercial Bank and its associated companies relating to their future financial condition and performance.

These forward looking statements do not relate only to historical or current facts. By their nature forward-looking statements involve risk and uncertainty because they relate to future events and circumstances including a number of factors which are beyond Commercial Bank's control.

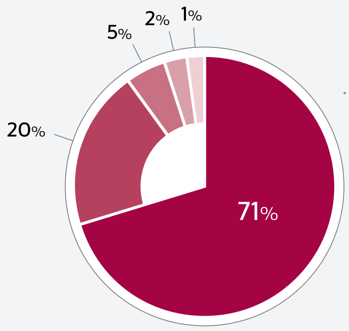
As a result, Commercial Bank's actual future results may differ materially from the plans, goals and expectations set forth in Commercial Bank's forward-looking statements. Any forward-looking statements made by or on behalf of Commercial Bank speak only as of the date they are made. Commercial Bank does not undertake to update forward looking statements to reflect any changes in Commercial Bank's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

The information, statements and opinions contained in this presentation do not constitute a public offer under any applicable legislation or an offer to sell or solicitation of an offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.



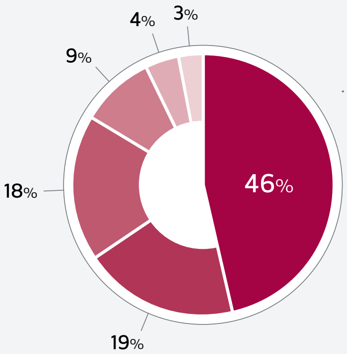
Funding Mix

- Customers' deposits
- Other borrowed funds
- Shareholders' funds
- Due to banks and financial institutions
- Other liabilities



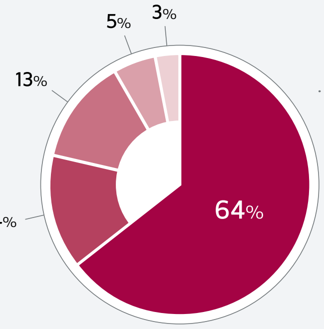
Net Operating Income

- Net interest income
- Net fee income
- Foreign exchange income
- Other income
- Investment & dividend income



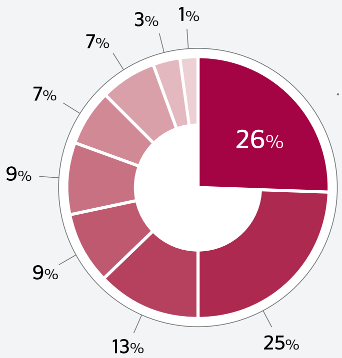
Shareholder's Equity

- Legal reserve
- Tier 1 Note
- Share capital
- Risk reserve
- Other reserves
- Retained earnings



Total Assets

- Loans
- Investments
- Liquid assets
- Other assets
- Investments in associates



Loans and Advances

- Real Estate
- Services
- Government
- Industry
- Personal
- Contracting
- Commercial
- Non Banking Financial Institutions
- Other

Financial highlights

In QAR million, except per share amounts and as stated otherwise	2017	2016	2015	2014	2013
Net interest income	**2,518**	2,341	2,534	2,581	2,188
Net operating income	**3,529**	3,578	3,949	3,903	3,434
Net profit	**604**	501	1,434	1,940	1,605
Total assets	**138,449**	130,380	123,421	115,652	113,111
Lending to customers	**89,122**	77,798	76,601	72,541	66,863
Basic/diluted earnings per share in QAR	**0.90**	0.78	3.92	5.93	5.40
Dividends declared per ordinary share including bonus shares in QAR	**1.0**	0.5	3.00	4.50	4.00
Closing market price per ordinary share in QAR (at year end)	**28.9**	32.50	45.90	68.50	70.8
Book value per ordinary share in QAR	**51.94**	59.09	52.96	59.60	66.90
Long-term debt (at year end)	**20,908**	22,495	20,523	18,885	17,105
Shareholders' equity (at year end)	**21,021**	19,301	17,299	17,696	16,555
Return on average shareholders' equity	**3.0%**	2.7%	8.2%	11.3%	10.2%
Return on average assets	**0.5%**	0.4%	1.2%	1.7%	1.7%
Capital adequacy ratio	**16.1%**	15.2%	13.5%	15.2%	14.1%
Full-time employees (at year end)*	**2,251**	2,138	2,286	2,374	2,567

* Group employees (Commercial Bank, Alternatifbank and beginning 2017 Commercial Bank Innovation Services)

Key highlights

- Net profit of QAR 604 million, up by 20.4% compared to QAR 501 million in 2016
- Operating profit of QAR 2,204 million, up by 13.5%
- Cost income ratio of 37.5% reduced from 45.7%
- Total assets of QAR 138.4 billion, up by 6.2%
- Customer loans and advances of QAR 89.1 billion, up by 14.6%, mainly through credit growth in Government and Public sector and Services sector
- Customer deposits of QAR 77.6 billion, up by 9.5%
- Provisions on non-performing loans at QAR 1,697 million, up by 33.8%

An international banking group

We are part of a connected global economy and Commercial Bank's geographical footprint extends far beyond Qatar through our region-wide "Alliance of banks" and international banking business. Firmly aligned with Qatar's strategic trading partners, Turkey and Oman are key markets for Commercial Bank via our Turkish subsidiary, ABank and associate, National Bank of Oman, with the Commercial Bank Group well positioned to capitalize on the increasing investment flows between these countries.

Chairman's message

Sheikh Abdullah Bin Ali Bin Jabor Al Thani

Commercial Bank has made good progress in cleaning up its balance sheet, diversifying its loan portfolio geographically to create a healthier risk profile, and driving efficiencies across the business.

I am pleased to present Commercial Bank's Annual Report for the year ended 31 December 2017 on behalf of the Board of Directors.

2017 was best characterised by the underlying message of security and strength which His Highness The Emir delivered through his "promise of prosperity and glory" as the theme for the Qatar National Day 2017. As a Qatari bank that is committed to supporting Qatar's all-round national development, in line with the Qatar National Vision 2030, Commercial Bank is fully supportive of His Highness' promise. We are proud of our Qatari heritage and humbled to be able to support the vision of His Highness The Emir, especially during last year's turbulent market conditions.

2017 was a challenging year. The land, air and sea blockade imposed on Qatar by its neighbours interrupted the flow of goods and people through its borders. What started as a diplomatic dispute and a potentially serious economic risk has become a source of incredible strength for Qatar as the country has proved to be remarkably resilient, and receptive to the promise of His Highness The Emir.

Qatar swiftly recovered from the initial disruption caused by the blockade, successfully sourcing alternative imports aided by the opening of Hamad Port and healthy trading relations with countries outside of the diplomatic dispute. Qatar's banking sector experienced an immediate impact, with a withdrawal of deposits from the blockading countries and a tightening of liquidity in the Qatari financial markets. Qatar's banking system proved to be robust, restoring equilibrium within months with the government providing tremendous support.

Qatar's main export of liquefied natural gas (LNG) remains unhampered and the announcement to raise production from 77 to 100 million tonnes per annum by 2024 will further cement Qatar's position as the world's largest LNG exporter, while also providing it with a competitive advantage in the context of a lower oil price environment.

Despite the blockade, Qatar's robust macro fundamentals have not materially changed, reflected by an AA- rating by Fitch and Aa3 by Moody's that take into account the country's large financial buffers of approximately $35 billion in net international reserves at the Qatar Central Bank and more than $300 billion of assets managed by the Qatar Investment Authority. Spending is set to increase in education, health and construction projects in advance of the FIFA 2022 World Cup for which preparations remain on track.

With the visionary leadership of His Highness the Emir Sheikh Tamim Bin Hamad Al Thani and substantial economic resources, Qatar remains in a good position to weather the blockade over the medium to long term.

Taking a broader look, global economic activity strengthened in 2017, although its continued recovery masked a mixed picture at a country level. Upswings in the European Union, Japan, emerging Asia and Russia more than offset downward revisions for the United States and the United Kingdom, with China's growth expected to remain at the same level as last year. According to the World Bank, overall growth in advanced economies is expected to moderate in 2018 to 2.2%. The region's 2018 prospects are far ahead with an expected growth of 3%, up from 1.8% in 2017. Recent reforms, such as the introduction of taxation and removal of energy subsidies, are expected to stimulate economic growth in the region. Another positive factor is the stabilisation of the oil price.

Looking closer to home, the impact of the economic blockade and market conditions on Commercial Bank have been minimal. I am proud to announce that the actions taken under our Five Year Strategic Plan initiated in 2016 are showing results. Commercial Bank has made good progress in cleaning up its balance sheet, diversifying its loan portfolio geographically to create a healthier risk profile, and driving efficiencies across the business and is on track to build sustainable earnings for its shareholders.

Commercial Bank, its subsidiaries and associates announced its financial results for the full year ended 31 December 2017, and the Board of Directors have recommended, for approval at the Annual General Assembly on 21 March 2018, a cash dividend payout of QAR 1.0 per share.

On behalf of the Board of Directors, I would like to express our sincere thankfulness and gratitude for the visionary leadership of His Highness The Emir Sheikh Tamim Bin Hamad Al Thani. We all stand united with the people of Qatar as part of an integrated national effort during the economic blockade.

I also want to take this opportunity to convey our appreciation for the guidance and support we have received from His Excellency the Prime Minister and Minister of the Interior, His Excellency the Minister of Finance, His Excellency the Minister of Economy and Commerce and His Excellency the Governor of Qatar Central Bank.

I would like to thank the Board of Directors for their continued guidance and the Executive Management team for their notable contribution to our accomplishments this past year. We owe our achievements to the loyalty of our customers and support of our shareholders, as well as the dedication and hard work of all our employees who ensure Commercial Bank continues to perform well in challenging market conditions.

Looking ahead, in 2018 Commercial Bank will continue its transformation journey under our Five Year Strategic Plan. I am pleased with the progress achieved so far and we will continue to focus on positioning the business to deliver long-term value and sustainable earnings for our shareholders.

Abdullah Bin Ali Bin Jabor Al Thani
Chairman

Board of Directors

Sheikh Abdulla bin Ali bin Jabor Al Thani
Chairman

Mr. Hussain Ibrahim Alfardan
Vice Chairman

H.E. Mr. Abdul Rahman Bin Hamad Al Attiyah
Board Member

Mr. Omar Hussain Alfardan
Managing Director

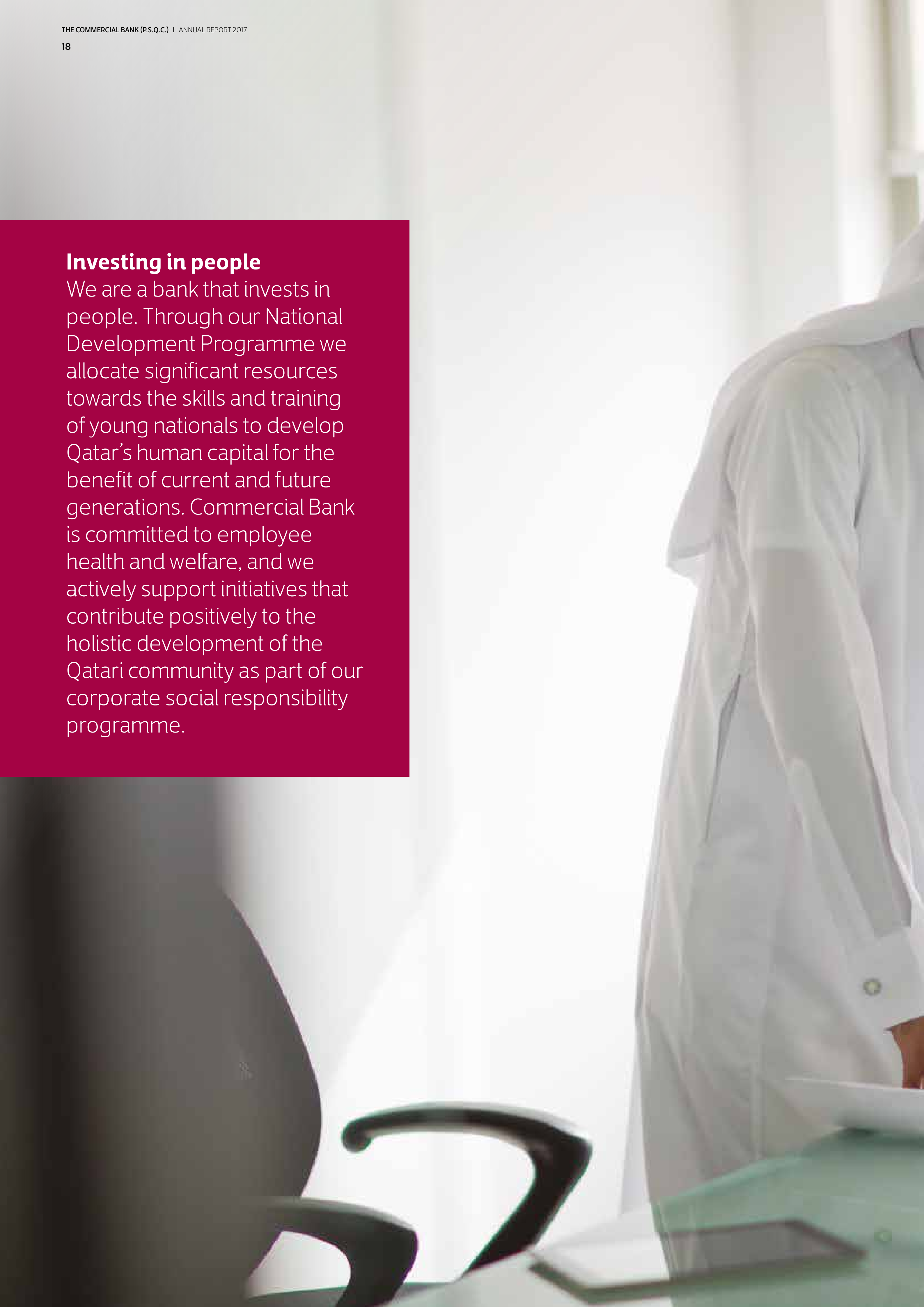
Sheikh Jabor bin Ali bin Jabor Al Thani
Board Member

Mr. Mohd Ismail Mandani Al Emadi
Board Member

Qatar Insurance Company
(Representative: Mr. Ali Saleh Nasser Al Fadala)
Board Member

Sheikh Faisal bin Fahad bin Jassim Al Thani
Board Member

H.E. Mr. Saleh Abdulla Mohamed Al Ibrahim Al Mannai
Board Member



Investing in people

We are a bank that invests in people. Through our National Development Programme we allocate significant resources towards the skills and training of young nationals to develop Qatar's human capital for the benefit of current and future generations. Commercial Bank is committed to employee health and welfare, and we actively support initiatives that contribute positively to the holistic development of the Qatari community as part of our corporate social responsibility programme.

Vice Chairman's message

Mr. Hussain Ibrahim Alfardan

Growth was supported by the Bank's leading products and services which led to a growth of 15% in loans and advances to customers and 10% in customer deposits at a Group level.

Against a challenging economic backdrop driven by the economic blockade and the prevailing lower oil price environment, Commercial Bank maintained profitability and successfully completed the first year of our Five Year Strategic Plan. We have made good progress in building the foundation for the future of Commercial Bank and in continuing to support our nation's development plans.

The economic blockade imposed in the summer of 2017 has proved the resilience of Qatar and its economy with both the public and private sectors implementing successful strategies to weather the blockade. Commercial Bank reduced its funding exposure to impacted GCC countries to 0.7% and has established new interbank relationships with countries such as Kuwait, Oman and Lebanon to support adequate liquidity levels. Conversely, its Qatar residential deposit mix increased from 71% to 83%.

Financially we delivered good results for the year ended 31 December 2017. Commercial Bank reported an operating profit of QAR 2.20 billion, a solid increase of 14% over 2016. Growth was supported by the Bank's leading products and services which led to a double digit growth of 15% in loans and advances to customers and 10% in customer deposits at a Group level. Consolidated Net Interest Income was up 8% year on year to QAR 2.52 billion, demonstrating that in spite of the challenging market conditions, Commercial Bank continued to grow its business. Our operation in Qatar reported 15% growth in advances to customers, well ahead of the market growth of 8%.

Growth in lending is in line with our Strategic Plan and was supported by the public sector and the real estate sector.

I am also pleased to report a significant decrease in our operating expenses of 19% year on year, in line with our strategy to drive efficiencies across the business, streamline processes and reduce costs. Operational efficiencies and automation resulted in reductions in staff costs and lower headcount that are expected to drive further cost savings in 2018. Consequently, the Bank reported a healthy consolidated cost to income ratio of 37.5%, down from 45.7% at FY 2016.

However, provisions and impairments of QAR 1.70 billion were taken as part of our strategy to provision for legacy assets and de-risk our balance sheet. Net loan provisioning for the Commercial Bank Group increased by 33.8% compared to QAR 1.27 billion in 2016, while net loan provisioning for our operation in Qatar increased 44.4% from QAR 1.05 billion in 2016 to QAR 1.52 billion in 2017, a reflection of the current economic environment.

The Bank delivered a consolidated net profit of QAR 604 million for the year ended 31 December 2017, 20.4% higher from QAR 501 million in 2016. Going forward, we expect to see a positive trend in profitability as the majority of legacy provisioning is expected to be completed in 2018.

In line with our strategy, we have focused on an enhanced risk culture to significantly reduce the cost of risk moving forward which is expected to be around 1% in 2018 and to continue to decrease significantly by 2021. Our underlying business remains robust and the actions taken under our Five Year Strategic Plan have already started to reshape our business towards sustainable growth.

Commercial Bank's balance sheet is being re-shaped through sector diversification to reflect the market opportunities. Exposure to the Government and public sector has grown from 10% in 2016 to 13% in 2017 and is targeted to reach a minimum of 16% under the Five Year Strategic Plan. Real estate exposure has gone down from 28% in 2016 and will continue to be reduced from 26% in 2017 to 20% by 2021. We will continue to diversify liquidity channels and explore new funding opportunities. Costs will also be aligned to the market and Commercial Bank has made good progress, with its cost to income ratio at 37.5% for 2017, already close to achieving a target of between 32% and 36% by 2021.

To support our strategy, Commercial Bank enhanced its capital through a QAR 1.5 billion rights issue which was completed in January 2017. The successful completion of this transaction demonstrates the confidence investors continue to have in the Bank.

Our associate bank in Oman, National Bank of Oman (NBO), reported a net profit of QAR 416 million, supported by an increase in customer deposits and maintained its customer loans and advances compared to last year. In Q4 2017 Commercial Bank entered into an exclusivity agreement with Tabarak Investment to negotiate terms of the potential sale of Commercial Bank's stake in United Arab Bank (UAB). The sale of our stake in UAB would allow us to reallocate capital in line with our Strategic Plan.

2017 saw ABank return to profitability to deliver QAR 49 million in Net Profit. Loans and advances to customers were up 24% while customer deposits grew 32% year on year. I am pleased to report ABank enacted changes to its CEO and board of directors in 2017. Mr. Cenk Kaan Gür was appointed CEO of ABank in September 2017, while Mr. Zafer Kurtul and Mr. Turgay Gönensin were elected non-executive directors of ABank in August 2017. Commercial Bank Group CEO Joseph Abraham, who was previously an ABank Board Member, was appointed as Vice Chairman of ABank in August 2017. With the new leadership team and increased commercial relations between Turkey and Qatar, we will create significant value for our customers.

ABank remains a strategic asset and an important opportunity for us to leverage outside the GCC market. The full ownership of ABank, completed in 2016, provided us with a closer integration and alignment of risk management and business strategy.

We remain confident in the Bank's ability to build its future and generate sustainable earnings for its shareholders.

On behalf of the Board of Directors, I would like to convey our sincere gratitude for the visionary and gracious leadership of His Highness the Emir, and His Excellency the Prime Minister and Minister of the Interior, His Excellency the Minister of Finance, His Excellency the Minister of Economy and Commerce and His Excellency the Governor of the Qatar Central Bank for their wisdom in guidance and support, which we continue to greatly appreciate.

Hussain Ibrahim Alfardan
Vice Chairman

Group Chief Executive Officer's message

Mr. Joseph Abraham

Looking ahead to 2018, we will continue investing in technologies and practices that improve the way we work for the benefit of our customers and Qatar itself.

In 2017 we successfully executed on the first full year of our Five Year Strategic Plan which is designed to reshape our business, build sustainable earnings, diversify risk and achieve growth. Actions taken under our Five Year Strategic Plan led to a strengthening of our capital position, improved asset quality through a balance sheet reshape, provisioning for legacy loans and reduction of costs whilst also for the first time in three years growing our loan book ahead of market. We also successfully navigated the challenges of the blockade in terms of liquidity management and have diversified our deposit and investor base to ensure continued strong liquidity to support our business growth.

The intent of our Strategic Plan is to make Commercial Bank the "Best Bank in Qatar", on the foundation of the Five C's of Commercial Bank: Corporate Earnings Quality; Client Experience; Creativity and Innovation; Culture, and Compliance. Solid progress has been achieved in each of these areas.

During 2017, in line with our Strategic Plan we reduced our cost to income ratio from 45.7% to 37.5%, this was achieved by reducing waste and eliminating unnecessary expenditure. We also ended the outsourcing arrangement of our Operations services with TCS (Tata Consultancy Services) in India and insourced these operations to a wholly owned subsidiary in Doha with the creation of Commercial Bank Innovation Services (CBIS). This entity provides the scalability needed to handle greater client volumes at lower costs and introduce new technologies such as robotics and machine learning while improving client experience and risk management. CBIS is a prime example of the type of initiatives we are focusing on to improve productivity and client experience.

In our loan book we have made solid progress in proactively reshaping and diversifying loans while simultaneously growing the portfolio. During the year our government and public sector concentration grew form 10% to 13%, while our Real Estate concentration fell from 28% to 26%. This was achieved while our loan book grew 15%, ahead of market growth of 8%. We are also focused on generating fee income and our Wholesale Bank was awarded for the second year, the Asian Banker's "Best Cash Management Bank in Qatar".

Within Retail and Consumer Banking, in 2017 we continued to build the business to provide better market coverage and drive growth in digital transactions through innovation and end-to-end process automation. One example, is our 60 second remittance service, launched to major markets during the year such as India, Sri Lanka and the Philippines, where we have seen substantial increase in volumes, supported by 95% customer satisfaction scores across all parameters. We have been recognised with many prestigious awards across the year, including The Asian Banker's "Best Retail Bank in Qatar," "SME Bank of the Year in the Middle East" and, during 2017, for our Visa Signature Credit Card for SMEs "Best New Product in Qatar for 2017" by Visa Inc.

The focus with our subsidiaries and associates during 2017 has been on working with them to deliver a good level of sustainable returns in line with our investment. A new management team has joined our subsidiary in Turkey, ABank, and we are confident that with this team we have the capabilities to grow and develop this business. Our associate, the National Bank of Oman continues to deliver solid returns. We have announced the potential sale of our stake in United Arab Bank, which would enable us to reallocate capital, in line with our strategic intent, to our businesses in Qatar and Turkey.

Our achievements in 2017 demonstrate that we are on track to deliver on our Five Year Strategic Plan and that we have the right strategy in place to build sustainable earnings and growth for the future. Looking ahead to 2018, we will continue investing in technologies and practices that improve the way we work for the benefit of our customers and Qatar itself. We will continue to launch new products including a mobile wallet and lead in innovation for the benefit of our clients.

With our Five Year Strategic Plan and the motivation of our people, Commercial Bank is at the forefront of innovation in banking and remains committed to building a better future for our clients and our business.

Joseph Abraham
Group Chief Executive Officer

Our culture

A bank is only as good as its people, and its people are only as good as their teamwork. Our 'One Bank' and 'One Team' culture is based on values of respect, collaboration and teamwork. We firmly believe that 'everything is possible' and lived up to this belief in 2017 through our everyday actions and by completing a number of large, complex cross-departmental projects in record time by working together as 'One Bank', 'One Team.'

Management Review of Operations

Financial Results

QAR million	2017	2016
Net interest income	2,518	2,341
Non-interest income	1,011	1,237
Net operating income	3,529	3,578
Operating expenses	(1,325)	(1,636)
Provisions for impairment losses	(1,743)	(1,395)
Share of results of associates	148	(46)
Income tax expense	(5)	0
Net profit for the year	**604**	**501**

Operating Expenses

QAR million	2017	2016
Staff costs	713	872
General and administrative expenses	404	572
Depreciation and amortisation	208	192
Total operating expenses	**1,325**	**1,636**

Rehan Khan
EGM, Chief Financial Officer

Financial Results

In 2017, Commercial Bank delivered a net profit of QAR 604 million, an increase of 20.4% compared to the QAR 501 million achieved in 2016.

Loans and advances to customers grew by 14.6% to QAR 89.1 billion at 31 December 2017, compared with QAR 77.8 billion at the end of 2016. The growth in lending in 2017 was generated mainly through credit growth in the government and public and services sectors. Loans and advances in the Bank in Qatar grew at a higher rate of 14.5% to QAR 75.5 billion compared to market growth of 8%.

Our deposits increased by 9.5%, to QAR 77.6 billion. The increase in deposits is mainly due to increase in time deposits. This reflects our strategy to ensure continued diversification of our funding base in tight liquidity conditions.

Investment securities increased by 27.6% to QAR 19.6 billion at 31 December 2017 compared with QAR 15.4 billion at the end of December 2016. The increase is mainly in Government bonds.

Net Operating Income

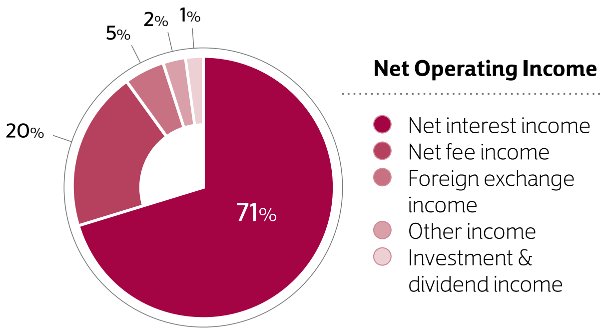
Commercial Bank's net operating income decreased by 1.4% to QAR 3,529 million for the year ended 31 December 2017, down from QAR 3,578 million achieved in 2016. Net operating income for the Bank in Qatar decreased by 4.9% to QAR 3,057 million compared to the same period in 2016.

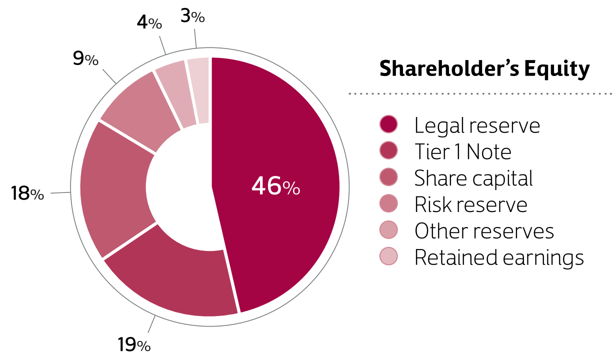
Net interest income for the year ended 31 December 2017 was 7.6% higher than in 2016 to QAR 2,518 million, mainly due to increase in interest income as a result of higher interest rates compared to last year. Net Interest Margin remains stable at 2.2% compared to 2016.

Non-interest income decreased by 18.3% to QAR 1,011 million for the year ended 31 December 2017 compared with QAR 1,237 million in 2016. The overall decrease in non-interest income was due to lower income from investment securities as equity holdings were scaled down in line with the strategic plan and foreign exchange income.

Operating Expenses

Total operating expenses were tightly managed and decreased by 19.0% to QAR 1,325 million for the year ended 31 December 2017 compared with QAR 1,636 million in 2016. The decrease in operating expenses was mainly due to lower staff costs and administrative expenses.





Provisions for Impairment Losses

Provisions for loans and advances increased by 33.8% to QAR 1,697 million for the year ended 31 December 2017, compared to QAR 1,268 million provided in 2016. The non-performing loan ratio has increased to 5.65% at 31 December 2017 compared with 5.01% at the end of December 2016 but the coverage ratio has increased to 81.0% as at December 2017 compared to 78.9% in December 2016.

The Bank sets aside a risk reserve against its lending as part of shareholders' equity. At 31 December 2017, the risk reserve was QAR 1,890 million, meeting the minimum level set by the Qatar Central Bank for the end of 2017.

Impairment provisions on the Bank's investment portfolio decreased to QAR 46 million for the year ended 31 December 2017 compared with QAR 77 million in 2016.

Total Assets and Funding

Commercial Bank delivered balance sheet growth of 6.2% in 2017, with total assets at QAR 138.4 billion compared to QAR 130.4 billion in 2016.

Balance sheet growth was driven by QAR 11.3 billion in loans and advances and QAR 4.2 billion in investment in securities, this was partially offset by a decrease of QAR 8.8 billion in due from banks and financial institutions.

Customers' deposits increased by 9.5% to QAR 77.6 billion at 31 December 2017, compared with QAR 70.9 billion in 2016. The increase was primarily in time deposits.

Capital

Commercial Bank's capital position remains strong and improved with a capital adequacy ratio of 16.1% as at 31 December 2017 compared with 15.2% at the end of 2016, which is above the Qatar Central Bank's required minimum level of 13.88%.

The Board of Directors is recommending, for approval at the Annual General Assembly, the distribution of a cash bonus of 10%.

Subsidiaries

AlternatifBank

AlternatifBank (ABank) delivered a net profit of TL 49 million for the year ended 31 December 2017, with total assets of TL 20.6 billion and lending of TL 14.1 billion.

ABank provides its customers in the corporate, commercial and retail banking segments with high value products, services and solutions. ABank has 53 branches widely distributed around Turkey. In 2017, ABank continued to work closely with its counterparts in Commercial Bank to implement best international practice and continue to realise synergies.

Commercial Bank Financial Services

Commercial Bank Financial Services (CBFS) is a fully owned subsidiary of Commercial Bank. CBFS provides direct access to the Qatar Exchange and offers seamless online trading capabilities for individuals, institutions, corporate and foreign counterparties. In addition to its electronic trading platform, CBFS is also licensed by Qatar Financial Markets Authority to act as Liquidity Provider for certain securities at Qatar Exchange. In 2017, CBFS delivered a net profit of QAR 5.5 million.

Orient 1 Limited

A fully owned subsidiary that owns and manages an exclusive Diners Club franchise in Qatar and Oman. In 2017 Orient 1 delivered a net profit of QAR 5.1 million.

CB Global Limited

A fully owned subsidiary incorporated in Cayman Islands, an issuing vehicle for Euro Commercial Paper and Certificate of Deposit Programme.

CBQ Finance Limited

A fully owned subsidiary incorporated in Bermuda and organised as a special purpose entity established to raise capital for Commercial Bank by issue of debt instruments.

CB Global Trading Limited

A fully owned subsidiary incorporated in Cayman Islands, an intermediary vehicle for Derivatives.

CB Innovation Services LLC.

A fully owned subsidiary incorporated in Qatar under the Qatar Financial Centre Authority providing the Bank with Operations management services.

Associates

National Bank of Oman

National Bank of Oman (NBO) achieved net profit of OMR 44 million, compared with OMR 56 million in 2016. Operating income was marginally down by 3% to OMR 132.1 million from OMR 136.1 million in 2016.

During 2017 NBO maintained its customer lending at OMR 2.7 billion and customers' deposits increased by 2.5% to OMR 2.5 billion compared to 2016.

Massoun Insurance Services L.L.C.

Massoun Insurance Services is a Qatari incorporated joint venture company between Commercial Bank and Qatar Insurance Company. The company provides a range of insurance products which have been tailored to meet the specific needs of the Bank's retail and corporate customers.

Management Review of Operations continued

Rajbhushan Buddhiraju
EGM, Wholesale Banking

Wholesale Banking

Commercial Bank's Wholesale Banking Department offers a comprehensive range of financial services to corporate businesses in Qatar, international companies trading or implementing projects in Qatar, and corporate relationships across the Bank's strategic markets in Turkey, the GCC and other target geographies with high growth potential. These services include commercial banking, treasury, investment banking, cash management, trade, transaction banking, corporate finance and advisory services across different industries.

Wholesale Banking comprises Domestic Corporate Banking and Transaction Banking, and has strong and longstanding banking relationships with leading Qatari businesses nurtured over the years through excellent customer service, tailored financial solutions and the application of innovative technologies.

Business performance

In 2017, Wholesale Banking's business represented a majority of the Bank's total loan book, and generated almost half of the Bank's total revenues.

In line with the Bank's 5 Year Strategic Plan, Wholesale Banking proactively instituted a number measures:

- Strategically re-shape the composition of the balance sheet to reflect the market
- Proactively de-risk the balance sheet for sustainable growth
- Build a strong pipeline of the right customers, with the right risk profile and the right quality of assets
- Focus on Transaction Banking
- Diversify revenue streams
- Working closely with Alliance banks

Re-shaping Wholesale Banking's balance sheet

The composition of the balance sheet was re-shaped in two key areas to reflect stresses in the market and to ensure a quality mix of assets:

- Growth of government and public sector lending from 13% of Wholesale Banking's portfolio in 2016 to 17% YTD Sep 2017
- Rationalisation of real estate exposure with a reduction from 37% of Wholesale Banking's portfolio in 2016 to 31% YTD Sep 2017

Growth of government and public sector lending and rationalisation of real estate exposure remains a strategic aim, with a 5 year target of 21% and 25% composition of the Wholesale Banking book respectively.

De-risking selected exposures

As part of prudent risk management, Wholesale Banking identified some clients where exposure will either be partially or fully reduced in order to ensure Commercial Bank does not have very large exposure towards any one client. In 2017, the total amount intentionally de-risked was in excess of QAR 1.5 billion, with a target of over QAR 2.0 billion by 2018, for an optimised balance sheet containing high quality customers and assets.

Growth and strong lending pipeline

Wholesale Banking achieved strong balance sheet growth, with Wholesale Banking's asset book growing approximately 20% in 2017, outperforming the market growth of around 9%. Viewed in conjunction with the strategic aims of re-shaping and de-risking, this represents sustainable growth with the right customers, with the right risk profile and the right quality of assets. To maintain growth and ensure a sustainable revenue stream in the future, the lending pipeline originating from the public sector was over 40% of the total lending pipeline.

Cross-Selling

Increasing fee income that is not lending-based is an important strategic aim of Wholesale Banking for diversification of revenues. Fee income increased in 2017 to approximately 20% of Wholesale Banking's total operating income, resulting in part from cross-selling innovative new services to customers across Domestic Corporate Banking and Transaction Banking.

Working with Alliance Banks

Wholesale Banking contributes to the efforts of enhancing synergies with our Alliance banks, ABank and NBO, through cross-selling activities, supporting Turkish companies as well as Qatari business in Oman.

Domestic Corporate Banking

Domestic Corporate Banking provides a comprehensive range of cross-product banking solutions to corporate clients operating in Qatar. This unit services client relationships across the following sectors: large corporates, mid-market corporates, contracting, ultra high net worth, government & public sector.

Domestic Corporate Banking was active in arranging large financings in the domestic syndicated and club loan markets, and was associated with the following successful transactions in 2017:

- Facilities extended to Musheireb Properties for developing various assets including a five star hotel next to the Qatar National Convention Centre and for the development of Zulal Destination Spa at Al Mafjar, Al Ruwais
- A finance package to support warehousing in Manateq Warehousing Park for a build-operate-transfer (BOT) project for 25 years
- A facility for Qatari Diar to support their operations

In 2017, Domestic Corporate Banking continued to focus on organic growth of operations by delivering the best client experience and service quality through innovative banking solutions with state of the art technologies. This includes introducing host-to-host connectivity, providing a direct link with our customers to enhance the client experience.

Wholesale Banking continues to work very closely with Retail Banking through the successful 'Banking at Work' unit where a key strategic focus has been to enhance the Total Relationship Value for each customer across all business portfolios. This channel produces approximately 40-45% of Retail acquisitions.

Transaction Banking

Commercial Bank is the market leader for Transaction Banking in Qatar, covering a range of services in areas of Cash Management and Trade Finance.

In 2017, several new service and digital technology initiatives were implemented to improve the client experience:

- A fully automated and online Trade Finance Processing Systems 'Trade Innovations' (TI+) to significantly improve the customer experience in supply chain finance through enhanced features and shortened turnaround times
- An upgraded Corporate Trade Portal, providing an advanced online platform to conduct day to day trade finance transactions digitally
- A feature rich online Corporate Internet Banking service providing state of the art payment solutions
- A bulk bill payment solution for the first time in Qatar allowing customers to pay multiple utility bills (Ooredoo, Qatar Cool and Kahrama) online and in bulk
- A Corporate Premium Service Counter at Commercial Bank's dedicated corporate branches
- A Customer Care Unit within the Trade Services Department, and document preparation assistance to Corporate and SME customers
- A door-to-door banking service to collect and deliver both cash and other trade documents
- Workshops for customers focusing on trade best practices and encouraging adoption of the Bank's online channels

Transaction Banking concluded a number of notable deals in 2017 including cash management mandates for Texas A&M University and Northwestern University, and host-to-host services for QAFCO. Transaction Banking also handled structured trade transactions between an important oil importer from India (Reliance) and Qatar Petroleum.

Recognising its continued focus on enhancing products and services for corporate customers and leading role in cash management, Commercial Bank was awarded the "Best Cash Management Bank in Qatar" award at The Asian Banker Middle East & Africa Transaction Banking Awards 2017, adding to the same national award in 2016.

Commercial Bank and Ooredoo partner to offer a unique bulk bill payment service

Commercial Bank's excellence in cash management was recognised with a second national award in a row at The Asian Banker Middle East & Africa Transaction Banking Awards

Management Review of Operations continued

Fahad Badar
EGM, International Banking

International Banking

International Banking at Commercial Bank is responsible for providing correspondent banking services, corporate cross-border loans and other Wholesale Banking products to financial institutions, large corporates, sovereigns, non-bank financial institutions, and high to ultra-high net worth family offices based outside of Qatar. In 2017, the Bank's international corporate loan portfolio saw growth in the transport, industry and services sectors with strong Qatari angles. The corporate lending business grew significantly in 2017, as the strategic drive towards diversification took shape and landmark opportunities were captured both on direct balance sheet transactions and cross-selling activities such as FX and derivatives.

Commercial Bank's cross-border business strategy remains cautious and focused on portfolio diversification and revenues from trade finance flows, banks and strategic relationships with large corporates in the EMEA region, Turkey, and selectively across North America, Asia Pacific and Sub-Saharan African markets. The lower risk and mostly short-term trade finance book saw reasonable activity in 2017 as credit demand picked up for strategic commodities across markets linked to Qatar. Another key pillar of our strategy was to collaborate more closely on correspondent banking services, credit products and other cross-border business activities of Commercial Bank with our Alliance bank partners: ABank in Turkey, National Bank of Oman and United Arab Bank in order to benefit from synergistic growth across the Commercial Bank Group.

Turkey remains a key market for Commercial Bank post acquisition of ABank in 2013 and the International Banking Department is providing complimentary support through its balance sheet and products platform in order to capitalise on the increasing strategic investment and trade related activity between Qatar and Turkey. Trade loans to financial institutions and relationships with large diversified corporate groups in Turkey have been a key driver for the Commercial Bank Group with a particular focus in strengthening ABank's business franchise in the country. Commercial Bank continues to work closely with its Alliance bank partners to develop a network of Group-wide lending and cross-selling opportunities, in addition to implementing a coordinated Group financial institutions strategy for its correspondent banking and corporate business.

The International Banking Department also plays a key role in supporting the Bank's funding needs by leveraging its global relationships and supporting the Treasury Department in diversifying the Bank's funding. This is achieved by arranging bilateral and syndicated loans for the Bank, and expanding treasury and corporate deposit relationships with regional and Asian sovereign wealth funds, asset managers and other non-bank financial institutions.

Supporting major business initiatives that are relevant to the Qatari banking sector remains a key pillar of the International Banking business. In 2017, the Bank sponsored and participated in several major banking industry events and conferences. These included:

- The Annual Meetings of the IMF and the IIF where Commercial Bank was joined by its subsidiary, ABank and Alliance bank partner, National Bank of Oman
- SIBOS in Toronto, a major industry event for banks and financial institutions across the world

Commercial Bank continues to support its financing and services network with global trade and development institutions such as the ICC Banking Commission, SWIFT, Institute of International Finance, the International Finance Corporation, IMF, Arab Trade Finance Program, ISDA and other development institutions.

Moving forward, our strategic priorities in 2018 and beyond will be to manage and expand the business along the following lines:

- Focus on opportunistic growth in the network countries of our Alliance banks, with a view to strengthening the client proposition and create synergies in these markets;
- Diversify into Asia and Africa as trade and investment flows pick up and also grow into developed markets like the US, UK and select OECD countries for portfolio diversification and risk management purposes;
- Enhance the value proposition by developing structured finance, and distribution, trade and treasury capabilities which will lead to increased cross-selling and improve International Banking's portfolio returns;

- Maintain a well-diversified portfolio with no large concentrations in line with regulatory and the Bank's governance standards focusing on tangible collateral and security support for risk mitigation in order to withstand any credit event downturns;
- Support the Commercial Bank Group's funding initiatives and balance sheet growth by leveraging on Commercial Bank's international corporate network.

Amit Sah
EGM, Consumer Banking

Retail and Enterprise Banking

Introduction

Commercial Bank's Retail Banking business manages the banking and financial needs of individuals, and through our Enterprise Banking team we also cater to small and medium enterprises (SMEs) in Qatar. We provide a full range of products and services including transactional accounts, deposits, loans, credit cards, insurance and wealth management solutions.

Retail and Enterprise Banking provide world-class financial services that help the people of Qatar realise their financial goals and life ambitions. Our teams remain focused on developing innovative products and services to meet customers' many and changing needs.

To further grow our banking service, Retail and Enterprise Banking have started a transformation journey in line with the Bank's Five Year Strategic Reshape Plan to achieve the vision of becoming the "Best Bank in Qatar" and the "Qatari Bank of Choice" - recognised for the increased value we generate for customers, shareholders and our wider society:

- Corporate Earnings Quality: We aim to drive revenue growth across a set of diversified products and customers, whilst maintain high quality credit, together with an efficient and cost-effective delivery structure;
- Client Experience: Our goal is to be the "Qatari Bank of Choice" for our clients by providing best banking service and best customer experience;
- Creativity and Innovation: We are embarking on a digital transformation journey and we will continue to be pioneers of this change in the market by introducing best in class products and services;
- Culture: Our focus is on a "One Bank' and 'One Team" culture, based on values of respect, collaboration, and teamwork;
- Compliance: Our aim is to be the market leader for compliance and good governance to achieve sustainable growth for our business.

Awards

In 2017, Retail Banking further grew its customer base through improved core banking products and the introduction of innovative services to meet the needs of our customers.

The following is a list of recent awards:

- "SME Middle East Bank of the Year 2017" from The Asian Banker
- "Qatar Best Retail Bank of the Year 2017" from The Asian Banker
- Commercial Bank's Visa Signature Credit Card for SMEs was awarded the "Best SME Credit Card" from The Banker Middle East, a leading regional financial magazine in Jan 2017.
- Our SME Card also won the "Best New Product in Qatar for 2016" by Visa, Inc. in May 2017
- "Best Franchise in Europe, Middle East and Africa" from Diners Club International in August 2017.

Business Performance

Retail Banking remains an important contributor to the overall success of Commercial Bank, built on a strong franchise of customer service and innovation. Despite tough market conditions, particularly in the second half of the year, the Retail Banking business delivered a strong performance in 2017.

The Retail and Enterprise Balance sheet remained stable with lending to customers at QAR 21.6 billion in 2017, compared to QAR 21.4 billion in 2016 and deposits at QAR 21.5 billion in 2017 from QAR 21.4 billion in 2016.

With a large expatriate population, customer acquisition continues to remain a strategic focus area and despite the environment in 2017 the Bank witnessed 2% growth of all salaried customers through an ongoing focused acquisition and sales strategy.

With increased focus on automation, control on direct costs, improved fee income revenue stream and effective net interest margin management, Retail Banking improved its contribution to the Bank's revenues by maintaining healthy margins and operating income.

Management Review of Operations continued

Commercial Bank wins "Best Retail Bank in Qatar" award at The Asian Banker Middle East & Africa Regional awards 2017

A growth in our operating income in 2017 versus 2016 by over 5% on a stable balance sheet is testament to improved business management. Our innovative and intelligent product positioning and ongoing customer campaigns have helped Retail Banking maintain consistency in performance through 2017, despite the challenging conditions.

Products and Services

Cards

Commercial Bank's Cards and Payments teams continued their innovation journey in 2017 by launching new and innovative products and winning awards throughout the year. Their contribution to Retail Banking's overall performance remained significant.

Commercial Bank's Visa Signature Credit Card for SMEs was awarded the "Best SME Credit Card" from The Banker Middle East, a leading regional financial magazine in January 2017 and same product was awarded the "Best New Product in Qatar for 2016" by Visa, Inc. in May 2017. These awards were made in recognition of Commercial Bank's innovation to introduce a customised product to meet the needs of the market.

Commercial Bank launched the first contactless debit cards in Qatar on Visa's NFC platform in November 2017. The contactless debit card enables Commercial Bank's customers to conveniently "Tap & Go" at NFC-enabled Point-of-Sale (POS) terminals and cardholders are not required to enter a PIN or sign receipts for transactions up to QAR 100 per day.

Contactless cards are the latest innovation from Commercial Bank to make banking simple and convenient for the best client experience.

Commercial Bank was awarded the "Best Franchise in Europe, Middle East and Africa" by Diners Club International in August 2017 at an exclusive event in Switzerland attended by Diners Club franchise holders and Diners Club senior officials. The Bank has the exclusive rights to issue and acquire Diners Club cards in Qatar and they form a key product proposition in a range of credit card packages offered by the Bank. Commercial Bank also offers the highly exclusive Diners Club Black credit card as a flagship product for high net worth individuals in Qatar.

Commercial Bank, in partnership with Xpress Money, launched an easy to use mobile remittance application in April 2017 for Commercial Bank's PayCard customers. PayCard customers are now able to send money, check rates, view balance and statements, and change their PIN using the app. Remitting money via the mobile app has many additional advantages and benefits to PayCard customers, as it eliminates the need to spend time in long queues at ATMs and exchange houses.

Commercial Bank has partnered with The Supreme Committee for Delivery and Legacy (SC), the organisation responsible for delivering the stadiums for the 2022 FIFA World Cup, to help workers send money back their home countries through the Bank's digital platforms, providing secure international money transfers at a low cost. Commercial Bank is also one of the few banks to have enabled the 3D secure facility for its debit card users that allows customers to use their cards for online transactions.

We continue to be the market leader in the payroll card (PayCard) business, with a total card base of over 600,000.

Commercial Bank deploys a low cost operating model to serve this segment allowing us to support Qatar's National Vision for WPS and the needs of our own Corporate and SME customers

Product Innovation

In partnership with HEC Paris in Qatar, we launched an exclusive arrangement to provide interest free financing for customers intending to complete specialised educational programs at HEC Paris in Qatar.

2017 also saw the launch of one of the biggest domestic campaigns encouraging customers to save with an opportunity to win one of 365 cash prizes in an annual year including a grand prize of QAR 1 million.

Life in Qatar

Commercial Bank leads the market for new arrivals to Qatar with our innovative expat offer, "Life in Qatar." This banking service continued to move from strength to strength in 2017 by enhancing the delivery of the proposition and tactical approaches. Tailored specifically for people moving to Qatar, it provides ease and convenience for those relocating and has already helped over 70,000 customers from over 144 different countries worldwide. The "Life in Qatar" website is filled with useful information for those relocating and multiplied its daily visitors in 2017.

Considerable investment has been made in 2017 towards building our wealth management capabilities with particular focus on investing in upskilling people. Over the course of the year, individuals from various Retail businesses have obtained The International Certificate in Wealth and Investment Management from The Chartered Institute for Securities and Investment, the leading professional body for securities, investment, wealth and financial planning, and widely recognised in the region as the foundation for offering wealth services.

Enterprise Banking

Commercial Bank remains committed to the development of the SME sector in line with Qatar's National Vision 2030. As part of our SME strategy in 2017, we focused on building strong and diversified transactional fee income streams to complement the asset based income stream.

We have achieved selective and controlled growth largely from deepening existing customer relationships with continued emphasis on diversified loans of smaller values, steady volumes, tight controls and more stringent underwriting criteria.

We continued our partnership with Qatar Development Bank's "Al Dhameen" programme in 2017, supporting key sectors of the Qatari economy in their drive to become self-sufficient.

Commercial Bank wins Visa award for "Best SME Credit Card" from The Banker Middle East

As part of our increased focus on digitization, we have successfully migrated two-thirds of all WPS salary transactions to digital channels. We upgraded our online Corporate Trade Portal and launched Supply Chain Finance to provide SME customers with innovative and cost-effective solutions to meet their banking needs.

We enhanced our proposition tailored for young Qatari entrepreneurs called "Sanaduk", allowing them to cultivate important entrepreneurial skills and simultaneously catering to the development of their overall business. This aligns well with the vision of the country to develop its capabilities, diversify economically, and become more self-sufficient. With this product, Commercial Bank is seen as actively supporting Qatar's future business leaders.

Enhancements in Delivery Infrastructure

Branch and ATM Networks

Continuing our branch strategy to align our presence with emerging geographic and economic zones in the country, we opened two new branches in Mall of Qatar and Doha Festival City. We introduced two Corporate Cash Centres with extended hours to offer greater flexibility to SME customers and provide a better experience for Retail customers in mall branches.

Commercial Bank opened two dedicated Collection Centres at City Centre Mall and D-Ring Road working across three shifts with extended working hours on evenings and weekends, offering customers greater convenience to collect cards, PINS and Internet banking tokens.

Our branch network is supplemented by over 179 ATMs that are strategically located around Qatar to ensure optimum usage of the network by customers. More than 60% of our ATM machines offer both cash withdrawal and cash deposit facilities.

Management Review of Operations continued

In support of the "Go Green and Paperless" initiative, we updated all our ATM machines with the capability to issue card PINs. This feature allows customers to generate or change their debit and credit cards PINs by following a few easy steps.

Internet and Mobile Banking

Commercial Bank's strategic intent to deepen digital leadership continued to be an area of greater focus in 2017.

Our dedicated Enterprise Mobile Banking App witnessed a 467% increase in mobile transaction volumes in 2017. The App offers SME customers a convenient banking experience with exciting features including complex, rule based signatory approvals for payments and transfers.

We launched our PayCard Mobile App in 2017, the first in the Middle East, offering online banking with easy remittance facilities. This has helped reduce our customers' reliance on exchange houses for their transfer needs.

The introduction of 60-second remittance capabilities to India, Philippines and Sri Lanka, allows customers from these countries to send money home almost instantly. Adding these services have resulted in a significant increase in transaction volumes and over 95% remittances are now processed through our digital channels.

In recognition of these innovative features for customers, Commercial Bank's Mobile Banking App was consistently rated as the #1 Financial App in Qatar by the Apple store for the majority of 2017.

Parvez Khan
EGM, Treasury & Investments

Treasury and Financial Markets

Commercial Bank's Treasury Department manages the overall funding and liquidity requirements of the Bank. This includes management of operational and strategic liquidity requirements, as well as accessing the debt markets to lock in funding via debt issuance or via institutional funding. Proactive management allows the Bank to manage its funding base in a cost efficient manner while ensuring the balance sheet is managed in accordance with the expectations of rating agencies, regulators, the Board of Directors and shareholders. Treasury has been instrumental in maintaining a stable cost of funding, increasing the duration of the Bank's liabilities in a rising interest rate environment while seeking diversification of funding channels. Treasury continued to focus on balance sheet optimisation and liquidity management, together with maintaining key liquidity ratios and related business regulatory ratios well above the minimum required by the Qatar Central Bank.

Whilst 2017 was a challenging year, particularly in terms of the political and regulatory landscape, Commercial Bank's Treasury team, along with their Bank-wide colleagues continued to deliver a seamless service to all our customers, introducing and supporting many new innovative schemes.

In 2017, Commercial Bank succeeded in becoming fully compliant with the EMIR and Dodd Frank regulatory requirements for the central clearing of interest rate derivatives. Furthermore and in support of this, we successfully opened our fully operational Treasury SPV.

Trading continued to provide strong revenue generation in 2017. As global interest rates rise, the challenge in 2018 will be to focus on using all available asset classes to mitigate any of the risks the Bank will face in this environment and by doing so, increase trading's contributions to the Bank's profitability in a prudent manner.

The Treasury Sales unit provides a full suite of products to the Bank's customers, supporting their needs with regards to managing and hedging their foreign exchange, interest rate exposures and other asset classes. Commercial Bank Treasury and Financial Markets continues to grow its footprint as a leading market-maker in the GCC fixed income, treasury securities and FX markets, and in providing market access to corporates and institutions. In 2017, Commercial Bank Treasury expanded its capacity to support client needs by adding digital execution capabilities and risk management solutions, both domestically as well as cross-border, demonstrating the ability to provide seamless client solutions across multiple geographies.

The Investments Department is engaged in managing the Bank's investments in capital markets to achieve superior and stable returns. The Department continued to provide strong revenue generation in 2017 whilst ensuring a liquidity buffer for the Bank by focusing on liquid investments.

The Department's goal in 2018 will be to maintain returns momentum in a challenging geo-political and regulatory environment with expected tighter monetary policy. The investment emphasis remains on active portfolio management to optimise returns and ensure effective risk management by flexible asset allocation, hedging, and duration management.

Commercial Bank Financial Services

Commercial Bank Financial Services (L.L.C.) (CBFS), a wholly owned subsidiary of Commercial Bank, provides customers with a secure platform for trading on Qatar Stock Exchange listed stocks, bonds and T–bills. CBFS is a licensed brokerage company and is regulated by the Qatar Financial Markets Authority (QFMA) to act as liquidity provider for certain securities at the Qatar Stock Exchange.

CBFS provides its customers with the best investment product options and services available in Qatar while building on its rich heritage from Commercial Bank based on understanding of customer needs.

CBFS has a robust online trading platform and has introduced a mobile trading application in order to have an online presence and provide convenient trading options through secure mobile channels for its customers.

CBFS has also upgraded its e-trading system which is used by our retail customers to trade online. The latest version provides real time market feeds, a richer user interface and additional functionalities. Encouraging customers with an online trading option is in line with the Bank's strategy of providing best digital experience.

CBFS caters to a range of clients with varying risk appetites and investment needs. Our large and diversified customer base includes retail, high net worth individuals and corporate entities (both domestic and international). Since inception in 2011, CBFS has made significant progress and continues to build its position as one of the leading brokerage houses in Qatar.

Rana A A Salatt
EGM, Chief Risk Officer

Risk Management

Managing financial risk is a fundamental part of Commercial Bank's functional activities. The awareness of risk encompasses every aspect of our business and it is seen as the responsibility of each and every member of the Bank. Our Risk Management practices are well embedded and are cascaded down from the Board of Directors through to the Board-level Committees, Management-level Committees, Executive Management and employees.

Accurate, reliable and timely information is vital to support business decisions regarding risk matters at all levels at the Bank.

During 2017, Commercial Bank enhanced its Asset Liability Management capability by incorporating prepayment and behavioural models to sensitize expected cash flows. The Bank also developed the tools and approach for IFRS 9 and incorporated it into the day-to-day decision making process.

There were also significant improvements made to Operational Risk and Fraud Management capabilities in line with the overall digitization strategy of the Bank. In 2018, Commercial Bank will continue to employ clear risk management objectives and well-established strategies through core risk management processes.

Risk Management Framework

Commercial Bank uses an integrated risk management framework to identify, assess, manage and report risks and risk-adjusted returns on a consistent and reliable basis. This framework requires each business to manage the outcome of its risk-taking activities.

The Risk Management Department provides expertise and oversight for business risk taking activities. The Department develops and maintains an aligned and integrated framework, policies and procedures for risk management and ensures they are embedded and used as part of the day-to-day management of the business. Risk Management also measures risk exposures to support risk decisions by business owners and also to make certain market and credit risk decisions under approved delegations of authority. In particular, it undertakes quantitative and qualitative analysis of credit exposures originated by the business as part of its responsibility for credit rating and decision-making.

Commercial Bank maintains the four principal categories of risk: credit, operational, market, funding and liquidity.

Credit Risk

Commercial Bank has clearly defined credit policies for the approval and management of credit risk. Formal credit standards apply to all credit risks decisions, with specific portfolio standards applying to all major lending areas. These incorporate obligor quality, income capacity, repayment sources, acceptable terms and security, and loan documentation tests.

Management Review of Operations continued

The Bank assesses the integrity and ability of debtors or counterparties to meet their contracted financial obligations for repayment. Collateral security such as real estate, charge over income or assets, and financial securities is generally taken for business credit, except for Government, major banks and corporate counterparties that are externally risk-rated and of strong financial standing.

Operational Risk

Operational risk is defined as the risk of economic loss arising from inadequate or failed internal processes, people, systems, or from external events. It includes legal, regulatory, fraud, business continuity and technology risks.

The Operational Risk Management (ORM) Department supports the achievement of Commercial Bank's financial and business goals. ORM manages operational risk using industry standard operational risk tools. The primary objectives of the Operational Risk Department are as follows:

- Maintenance of an effective internal control environment and system of internal control;
- Demonstration of effective governance, including a consistent approach to operational risk management across the Bank;
- Transparency, escalation and resolution of risk and control incidents and issues.

Market Risk

Market Risk, the potential loss in value or earnings arising from changes in market factors is managed by the Bank's Market Risk Department with full oversight by the Asset and Liability Committee (ALCO), which provides specific guidelines for market risk management.

Commercial Bank uses value-at-risk (VaR) as one of the measures for market risk. VaR measures potential loss using historically observed market volatility. Stressed VaR is used at the Bank to measure the potential for economic loss from extreme market events.

For assessing interest rate risk, metrics include earnings-at-risk (EaR), change in yield (PV01) and economic value of equity (EVE).

The results of these measures are reported to the ALCO and the Management Risk Committee on a regular basis.

Liquidity and Funding Management

Commercial Bank follows a balanced liquidity management strategy through the combined use of liquid asset holdings and borrowed liquidity to meet its liquidity needs. The Bank's funding policies provide that:

- Liquidity requirements be measured using a number of approaches including, sources and uses, structure of funds and liquidity indicators;
- An appropriate level of assets is retained in highly liquid form;
- The level of liquid assets complies with stressed scenario assumptions to provide for the risk of the Bank's committed but undrawn lending obligations;
- Establishment of credit lines.

Board Risk-related Committees

The two Board Committees which have primary responsibility and oversight for risk are:

1. The Board Risk Committee (BRC) is responsible for all aspects of enterprise wide risk management including, but not limited to, credit risk, market risk, liquidity risk and operational risk. The BRC reviews policy on all risk issues and maintains oversight of all Bank risks.
2. The Board Executive Committee (BEC) is responsible for evaluating and granting credit facilities within authorised limits as per Qatar Central Bank and Board guidelines. The BEC also reviews strategy on recovery of special asset relationships, reviews and approves all credit proposals (other than off-the-shelf products) relating to political figures and persons in ministerial posts and within the risk delegation of authority.

In addition, specific risk-focused management committees (Risk Management, Asset and Liability and Special Assets Management) convene, at a minimum, on a quarterly basis and more frequently on a needs basis. The Board of Directors or their sub-committees are regularly updated on any potential risk that the Bank may face.

Risk Management continues to be very well positioned to manage risk resulting from the increasing sophistication, scope and diversity of the Bank's business and operations. Risk Management has dedicated teams, underlining Commercial Bank's commitment to a strong risk governance and management framework. In 2018, the Bank will continue to enhance its internal controls and improve various processes in all areas of risk management.

The Bank is in compliance with the provisions of the Basel III framework as per the directive of the Qatar Central Bank.

In summary, the governance framework, policies and administrative procedures and practices relating to risk management in Commercial Bank align well with global best practice, the recommendations of the Basel Committee and the guidelines of the Qatar Central Bank.

Hussein M Ali Al-Abdulla
EGM, Chief Marketing Officer

Marketing

Commercial Bank's Marketing Department is responsible for the Bank's reputation, brand identity and ongoing communications with the Bank's existing and potential customer base through both digital and traditional media channels.

In line with Commercial Bank's digital transformation, the Bank maintains a dominant presence in Qatar's digital spaces and the Bank's brand exemplifies digital marketing thought leadership through a proactive approach to digital media, quality content offering, and implementation of first to market technologies and the utilisation of social media to engage with customers.

Marketing works closely with the Bank's main business lines and support functions to develop integrated marketing campaigns targeting different customer segments with diverse products and services based on ongoing research, consumer insight and return on investment analysis. Marketing also runs the Bank's sponsorships and key events, as well as its Corporate Social Responsibility (CSR) programmes.

Showing national pride

Commercial Bank is proud to be a Qatari bank and stands united with the people of Qatar in full support of His Highness The Emir Sheikh Tamim bin Hamad Al Thani during the economic blockade. To publicly express Commercial Bank's national pride, an image of the iconic 'Tamim Al Majd' mural was placed outside the Commercial Bank Plaza building in West Bay. Covering most of the building's façade, the image is one of the largest of its kind on Doha's skyline.

In a further display of support and solidarity with His Highness the Emir, a signature board with the 'Tamim Al Majd' mural was installed inside the Plaza. At a signing ceremony attended by Commercial Bank's Chairman, Board of Directors, Group CEO, Executive Management and staff, the mural was collectively signed with patriotic messages of allegiance, appreciation and Qatari pride.

Supporting Qatar's domestic economy and international trade

Commercial Bank is committed to supporting Qatar's economic development and sustainability in line with the Qatar National Vision 2030. As a leading provider of banking services and innovative new products, Commercial Bank supports the growth and prosperity of new and established companies and plays a key role in the realisation of the National Vision by financing Qatar's huge infrastructure projects. The economic blockade has intensified Qatar's efforts to strengthen its economy through enhancing bilateral trade with countries outside of the GCC, and Commercial Bank participated in several events during 2017 to promote Qatar's international trading relations.

Commercial Bank Group CEO Joseph Abraham delivered a speech on potential partnership opportunities at the 'Qatar – UK Business and Investment Forum' in London. Staged to connect Qatari businesses and governmental community with their counterparts in the UK, the Forum was held under the patronage of HE Prime Minister and Minister of Interior Sheikh Abdullah bin Nasser bin Khalifa Al Thani, and organised by the Permanent Committee for Organising Conferences at the Ministry of Foreign Affairs.

Commercial Bank Board Members and staff in show of support for HH the Emir

Management Review of Operations continued

Commercial Bank sponsors a summit at 'Expo Turkey by Qatar'

Group CEO Joseph Abraham delivered a speech at the 'Qatar – UK Business and Investment Forum' in London

Turkey is a strategic market for Qatar and Commercial Bank, who with its Turkish subsidiary ABank, were exclusive sponsors of a summit held during the 'Expo Turkey by Qatar' in the Qatar National Convention Centre, with Group CEO Joseph Abraham participating at the Summit's panel session on bilateral business and investment opportunities between Qatar and Turkey. In November, the Group CEO highlighted the untapped opportunities for ASEAN exports to Qatar during his keynote address at the first ever Association of Southeast Asian Nations (ASEAN) seminar on trade and investment held in Qatar.

Corporate Social Responsibility (CSR)

As Qatar's first private bank, the Bank regards CSR as integral to its business, and for over 40 years has been committed to supporting Qatar's national development by serving the wider community through CSR programmes and also considered sponsorship of events. Commercial Bank's Marketing Department is responsible for formulating, implementing and promoting the Bank's comprehensive range of CSR programmes providing financial, practical, humanitarian, educational and skills-based support to the Qatari community.

As a leading proponent of CSR in Qatar, Commercial Bank participated at Qatar University's CSR Exhibition and Conference, and its work with the Qatari community was recognised by an excellence award.

Committed to the Qatari community

Commercial Bank believes that CSR is most effective and credible when CSR activities are relevant to an organisation's expertise and can legitimately be seen to make a difference within a chosen field. Our approach to CSR is to invest heavily in the Qatari community and engage with all segments of Qatari society. As Qatar's leading private sector bank, we believe it is our responsibility to take the initiative and give back to the Qatari community of which we are part, and where we operate every day.

Commercial Bank strives to be an outstanding corporate citizen by supporting the development of the Qatari community as a whole through a range of socio-economic initiatives in diverse areas including humanitarian projects and charitable work for the disadvantaged; educational, training and personal development programmes for Qatari youth; sports and health initiatives; support for Qatari heritage and culture; and the Bank's Qatar National Day programmes that revive and celebrate Qatar's cultural heritage.

During 2017, Commercial Bank's Marketing Department successfully implemented a large number of CSR initiatives with an impact both outside and within the Bank.

In an internationally acclaimed CSR project, Commercial Bank partnered with the Supreme Committee for Delivery & Legacy, the organisation responsible for delivering the stadiums for the 2022 FIFA World Cup, to help workers send money back to their home countries through the Bank's digital platforms at low cost.

With 8,000 Supreme Committee workers registered as Commercial Bank customers, QAR 16 million is transferred to India, Nepal, Bangladesh, Sri Lanka and the Philippines every month from workers on projects directly related to the 2022 FIFA World Cup. Between travel time and queuing, workers lose an average of two hours every time they choose to wire money to their families – invariably on rest days. Commercial Bank officials worked with the Supreme Committee to select workers' accommodations that do not have easy access to ATMs or exchange houses, and

Commercial Bank awarded Jeunghun Wang as the first Asian winner of the 2017 Commercial Bank Qatar Masters along with the QGA president Mr. Hassan Nasser Al Naimi

conducted training sessions for workers on how to use the Bank's mobile app to send money home in a simple, fast and safe way with attractive exchange rates, without having to travel to traditional exchange houses. A dedicated call center was also set up to accommodate any queries related to registration or use of the remittance solution.

Qatari youth

Commercial Bank's National Development Programme invests significant resources towards the skills and training of young Qataris as part of our commitment to developing human capital in line with the National Vision 2030 for the benefit of current and future generations. In 2017, the Bank led a number of educational initiatives for Qatari youth benefiting both staff members and extending out towards the wider Qatari community.

Titled "Leading change via digital channels", 68 kids completed Commercial Bank's fourth "Young Bankers" summer internship programme for Qatari students aged 13 to 17, providing real-life work experience inside Commercial Bank branches. The rewarding two-month long programme focused on the digital evolution taking place within the banking industry, with the students assigned the task of encouraging the use of digital banking channels available to Commercial Bank customers and explaining their benefits, all under the guidance and supervision of Commercial Bank staff.

Commercial Bank partnered with the Ministry of Education and Higher Education to create an assessment centre for secondary school students in a CSR initiative designed to work with students in a meaningful way to help them become tomorrow's leaders. 100 students were assessed on their interests, skills and abilities by undergoing an online test followed by one-to-one meetings with qualified professionals to help them make the right academic decisions for their future careers.

Commercial Bank supports talented young Qataris through university, and 10 new Qatari graduates who had been sponsored throughout their entire university journey were hired on Qatar National Day. These young graduate will now begin Commercial Bank's Graduate Development Programme, known as one of Qatar's most effective professional training programmes, as participants experience working life in nearly all business units, giving them a sound understanding of how the Bank operates and how its different operations link together.

Commercial Bank supported Qatar University's Entrepreneurship Day as exclusive sponsor, which acts as a platform to promote the concept of entrepreneurship among Qatar's youth, universally recognised as a vital element for economic development and an engine for future private sector growth and diversification.

Sports and Health

Commercial Bank believes that sport plays an integral role in today's society, promoting active and healthy lifestyles through physical exercise, dedication, teamwork, competition and good sportsmanship.

Continued title sponsorship of the Commercial Bank Qatar Masters reflects the Bank's promotion of excellence in sports and its keen interest in enhancing Qatar's sporting reputation by bringing the best international competitors to Qatar for a golf tournament that attracts a global audience.

Management Review of Operations continued

National Sports Day is a prominent nationwide initiative that holds great significance for Qatar's residents. Participation in sports and physical activity is an important area of focus for human development in the Qatar National Vision 2030 through promoting health, well-being and the development of Qatar's home-grown sportsmen and women. In 2017 Commercial Bank proudly celebrated National Sports Day, with many staff participating in organised physical activities including yoga classes for females and males, a cricket match, and the Qatar Central Bank (QCB) walking race.

To raise awareness about breast cancer among the Qatari community during the International Breast Cancer Awareness Month of October, Commercial Bank partnered with Primary Health Care Corporation (PHCC). Under the partnership, Commercial Bank displayed awareness adverts about PHCC's National Breast and Bowel Screening Programme on the Bank's network of ATMs across Qatar and PHCC supplied pink ribbons and bracelets for female Bank staff to further raise awareness and show support for breast cancer survivors, patients and their family and friends.

Commercial Bank celebrates National Sports day by organising physical activities and distributing gifts among the wider Qatari community

Commercial Bank National Day celebrations reflect Qatari heritage and unity

Culture

Commercial Bank is proud of our Qatari heritage and we feel part of the Qatari community from within which we were established over forty years ago. Celebrating, cherishing and promoting traditional Qatari culture and values are constant underlying themes behind all our CSR programmes, and most clearly expressed during Qatar National Day and Ramadan.

Commercial Bank chose to celebrate Qatar National Day with a wide range activities drawing upon Qatar's rich cultural heritage in a special area within Commercial Bank Plaza and a stunning temporary replica of Al Zubarah Fort, Qatar's UNESCO World Heritage listed site. Qatar's traditions were brought to the fore at the Plaza, where staff enjoyed cultural activities including Al Fajiri (the art of performed sea songs), a girls' traditional song and dance performance, Arda (folkloric sword dance), and classic Qatari food favourites.

Commercial Bank's multinational staff and their families gathered together during Ramadan for a Suhoor in the time-honoured Qatari tradition to reinforce social relationships across the Bank and foster a sense of community and togetherness.

Charitable activities

Commercial Bank is inspired by, part of, and wholly committed to Qatar. The Bank is committed to supporting the full spectrum of Qatari society, including the disadvantaged and less fortunate.

For Qatar National Day, the Bank engaged in a number of community outreach activities to share the joyful celebrations with the wider Qatari community, with volunteers visiting the children's floor at Al Wakrah hospital, independent schools, international schools, and Qatar Society for Rehabilitation of Special Needs where they distributed National Day gifts.

During Ramadan, the Bank chose to celebrate Garangao by distributing specially designed Garangao gifts including traditional sweets and nuts to children at Commercial Bank mall branches, Hamad Hospital and Al Wakrah Hospital. Al Wakrah Hospital honoured Commercial Bank with an award in recognition of the Bank's efforts in sharing and spreading Garangao joy with kids unfortunately enough to be in the hospital during Ramadan. Taking place on the 14th day of the holy month of Ramadan, Garangao is considered a special custom celebrated in Qatar and the Gulf, with its roots in the pearl diving heritage of the region.

Commercial Bank sponsored Qatar Red Crescent Society's (QCRS) Ramadan Iftar (Mawada) Programme. The Programme is a humanitarian project designed to provide relief to the needy, show compassion and achieve social solidarity during Ramadan. Engaging with poor families, workers, the sick and the elderly, QCRS issued 750 Iftar vouchers which families redeemed at pre-approved restaurants during Ramadan for an Iftar meal. Separately, the Bank organised and shared an Iftar meal with the elderly residents of the Empowerment and Elderly Care Center (IHSAN) as a gesture of appreciation and respect for both the older generations and for Qatari customs during Ramadan.

The Bank supported a number of notable charities in 2017, including a donation towards QCRS' 'Warm Winter' campaign. The donation helped QCRS to distribute winter aid to the poorest families and refugees, alleviating the suffering of the vulnerable in Afghanistan, Yemen, Syria, Syrian refugees in Lebanon, Jordan, Kurdistan and Palestinian refugees in Lebanon.

Kimberley Ann Reid
EGM, Head of Organisational Effectiveness and Strategic Leadership

Human Capital

Investment to reignite Commercial Bank's entrepreneurial culture

- We created a 'People Decisions Forum' where executives meet once a month to advance our People Agenda.
- We reinvigorated our performance management system and put more focus on people, conversations and development.
- We set new, challenging performance standards for our leaders and teams.
- We restructured our Human Capital team and introduced a business-partnering model to support executives and managers to lead, inspire, coach and develop their teams.

Nationalisation

We invest in young Qataris who will be our future leaders

Commercial Bank sponsors over thirty university students with financial support and by offering job opportunities. We support our sponsored students until graduation, which for some in the current cohort will be 2022.

Since 2015 we have supported over 29 graduates through our Graduate Development Programme. In the initial stages of this Programme, young leaders undertake job rotations across our business. In 2017 we focused on placing our graduates in permanent roles to enable them to develop specialist, professional skills. In 2018, we will recruit and onboard more than 21 young Qataris.

Enhanced development for Commercial Bank Nationals

We believe the best way to learn is to apply ourselves creatively at work. We expect around 70% of learning and professional development to happen in the workplace and on the job, which is why our new National Development Programmes focuses on stretch assignments and learning-by-doing.

In 2017, we identified high-potential Qatari managers and supported them to take on new roles, challenging short-term assignments, and high-profile projects. This Programme has been very successful and we look forward to expanding the intake in 2018.

Enhanced development for young leaders

In 2017, we spent time talking to our young Qatari leaders and their managers. We learned a lot about young peoples' development needs and used this knowledge to refine our National Development Programmes.

Management Review of Operations continued

In 2018, we look forward to attracting more young Qataris who share our entrepreneurial vision. Through our new National Recruitment Programme we will purposely seek out young Qatari nationals who are ambitious, innovative and hungry to be part of the dynamic new banking profession of the future.

Learning and development

We invest to make Commercial Bank a great place for learning. We target our development resources toward managers and individuals who are skilled at sharing knowledge and training others. This helps us strengthen our culture of creativity and innovation.

Performance and rewards

The Board of Directors regularly reviews compensation and benefits to make sure we pay fairly and competitively, reward high performers, link incentive payments to the overall performance of the Bank, as well as individuals' personal contributions. The Board of Directors also focuses on risk management by considering:

- The mix between salary and incentives.
- The balance between profit, risk and the time horizons associated with those risks.

We disclose our remuneration policies and practices in our financial reports.

Human Capital operations

In 2017, we undertook a comprehensive review of our policies, procedures and operating model.

We simplified our policies and processes and implemented 'SuccessFactors,' a cloud-based human resource information system that increases operational efficiency and helps to empower our managers.

Leonie Ruth Lethbridge
EGM, Chief Operating Officer

Operations

Commercial Bank has embarked on a digital transformation journey in line with our passion to provide the best client experience, creativity and innovation. The future of banking has become increasingly digital and Commercial Bank are the pioneers of this change in Qatar by investing heavily in technology, bringing globally leading solutions to the market and embedding digital throughout the back-end of our organisation.

Commercial Bank is facilitating and experiencing a rapid digitization among our customer base. Digital banking has the advantage of speed and convenience, allowing customers to bank at a time and place that suits them for the best client experience. In 2017, Commercial Bank grew its active digital users by 27,000 (27%), with the number of digital transactions rising by 5.6 million (57%).

Innovation has always been at the heart of Commercial Bank since we introduced the concept of modern banking to Qatar in 1975. This commitment to innovation continues today, with Commercial Bank launching several 'first-to-market' digital innovations in 2017 including a 60-second online remittance service to India, Sri Lanka and The Philippines; contactless Debit Cards; a remote cheque deposit solution enabling customers to send cheques digitally for clearing; and 'e-Gifts' that allow customers to instantly send electronic cash gifts with a personal greeting to family and friends.

In another digital first, Commercial Bank completed the first blockchain pilot in Qatar with our regional alliance banks in Turkey, Oman and the UAE, in addition to other banks in India and Egypt. The initial pilot phase used a blockchain network to process international transfers, deploying a cloud-based ledger technology network to enhance automation between banks with increased transactional security, accuracy and speed. The blockchain network eliminated the need for intermediaries, enabling near to real time bank-to-bank transfers at a low cost. Following Qatar Central Bank approvals, the second phase of the project will expand to focus on trade finance and transactions that include legal and trade documents. Trade finance transactions will be paperless on the blockchain network, simplifying the process of exchanging purchase orders and invoices by eliminating lengthy international paper trails and verification through trade intermediaries.

While digital is of a critical importance to Commercial Bank and we fully embrace the global trend towards cashless transactions, our branch network continues to be the favoured banking channel for many of our customers. Branches remain integral to how Commercial Bank delivers its services in recognition of some customers' preferences for personal and face-to-face interactions with staff and Relationship Managers. Commercial Bank continues to invest in our branch network and in 2017 we opened a new state-of-the-art branch at the popular Mall of Qatar with full personal banking and ATM services.

Commercial Bank's digital transformation also applies to our internal operations, and we have embedded digital throughout the back-end of our organisation for greater efficiencies and cost reduction. In 2017, we deployed the first Board of Directors electronic voting system in Qatar, allowing us to simplify and accelerate the voting process. A major new digital initiative was the launch of 'CB Smart' which has the core concept of creating a digital office through video conferencing, Wi-Fi, iPads, and using digital rather than physical paper documents. Digital documents have the advantages of saving time, costs and the environment, and a later phase of CB Smart will see the introduction of digital signatures to enhance the client experience through vastly improved turnaround and execution times for documents such as loan agreements that otherwise would need to be physically signed by multiple people in multiple locations.

Dominate Transaction Banking in Qatar

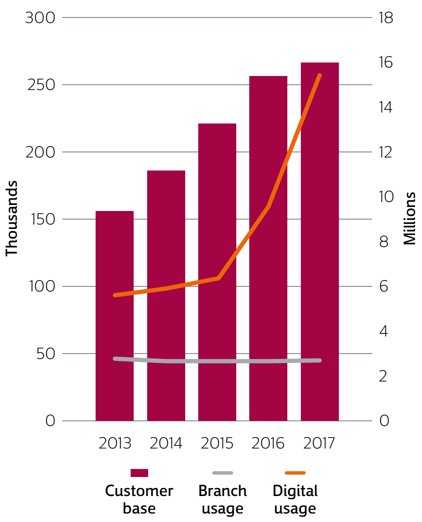
The future of banking will be determined by banks who can capture an increasing share of transaction flows and do so cost-effectively. Transaction Banking is an essential part of our strategic future, and a key element of Commercial Bank's vision to be 'the best bank in Qatar' is to dominate Transaction Banking in Qatar.

Relative to the local competition, Commercial Bank handled a large number of transactions in 2017:

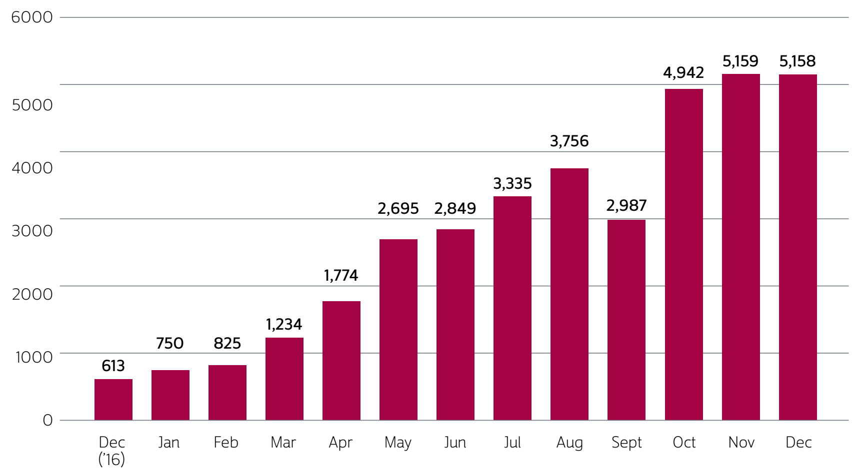
- Commercial Bank branches and digital channels jointly handled an estimated 15 million transactions in 2017
- Commercial Bank has the second largest ATM network and the third largest branch network in Qatar, together processing an estimated QAR 68 billion in cash and cheque transactions in 2017
- Commercial Bank has over 20% market share of Credit Card spending and 17% of cards in force with over 1 million cards issued, including over 60% share of the Pay Card market
- Commercial Bank is the market leader in acquiring, with 56% of all point of sale terminals (excluding Government) in Qatar.
- 600,000 salaries were processed in Qatar with Commercial Bank

Transaction Banking presents an opportunity to create diversified, sustainable earnings, supporting fee income, low cost deposits and the benefits of economies of scale. To fully capitalise on this opportunity, the launch of Commercial Bank Innovation Services (CBIS) in December 2017 represents a major step forward towards realising our goal of dominating Transaction Banking in Qatar.

Digital vs Brach Transactions



SME Mobile Banking Transactions



Management Review of Operations continued

CBIS marks the end of a previous outsourcing model with a global top 3 business process outsourcing firm, where operational costs were proportional to transaction volumes. Under this old model, costs increased 2.5 times since the relationship was established in 2011 and were projected to increase by a factor of 4 by 2020.

CBIS is a scale-agnostic model and a wholly owned subsidiary of Commercial Bank operating under the regime of the Qatar Financial Centre. By bringing operational services back on-shore through our own in-house entity, CBIS facilitates the implementation of new technologies and new ways of thinking such as robotics, machine learning, and straight through processing to revamp our end to end operating model. By having direct control over our own processes, Commercial Bank can now fully exploit these latest technologies and digitization as a driver of innovation and future growth.

CBIS is scalable to handle greater volumes of transactions at lower cost, and as Commercial Bank grows to process a greater number of transactions, the incremental cost of these transactions are kept at virtually zero through innovation and the benefits of economies of scale.

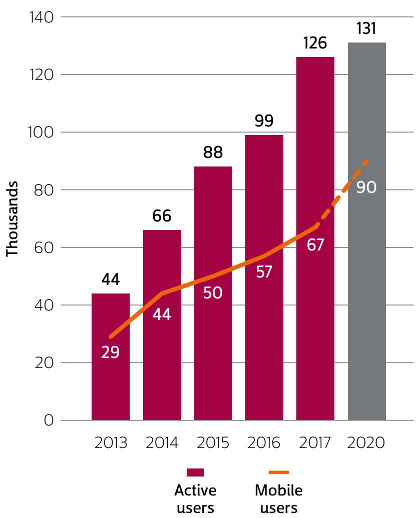
Acknowledgement

Commercial Bank's successful business performance in 2017 has only been possible through the dedication and hard work of our valued employees and the leadership team. We are also extremely grateful for the ongoing support and guidance provided by the Chairman, Vice Chairman and Managing Director and Members of the Board. Under their leadership, we have continued to achieve growth and have sustained our reputation of being one of Qatar's oldest and most successful banks for more than four decades.

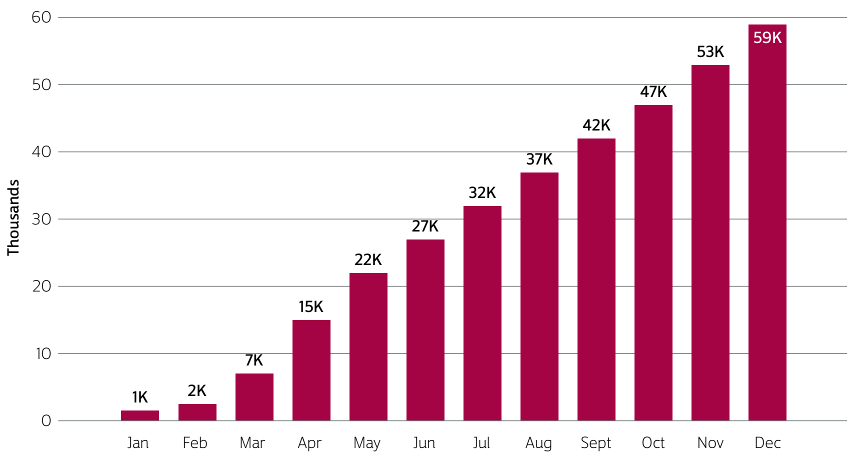
In conclusion, we would like to express our sincere gratitude to His Highness Sheikh Tamim Bin Hamad Al Thani, Emir of the State of Qatar, for his visionary leadership of Qatar. We would also like to thank His Excellency the Prime Minister and Minister of the Interior Sheikh Abdullah Bin Nasser Bin Khalifa Al Thani, His Excellency the Minister of Finance, Mr. Ali Shareef Al Emadi, the Qatar Central Bank and the Ministry of Economy and Commerce for their continued guidance and support of the Bank throughout this past year. The Qatar Central Bank, under the leadership of His Excellency the Governor Sheikh Abdullah Bin Saud Al Thani, has shown prudence with clear and consistent leadership of the banking industry enabling Qatar's financial market to grow despite a challenging operating environment.

We are very proud of our success over the years and are optimistic about what the future will bring for Commercial Bank and for Qatar.

Active Digital Users



Biometric Registration (fingerprint login)



Responsibility Statement

To the best of our knowledge, financial statements prepared in accordance with International Financial Reporting Standards give a true and fair view of the assets, liabilities, financial position and profit of The Commercial Bank (P.S.Q.C.). We confirm that the management review, together with the notes to the financial statements, includes a fair review of development and performance of the business and the position of the Group together with a description of the principal risks and opportunities associated with the expected development of the Group.

21 March 2018

For and on behalf of the Board of Directors:

Mr. Hussain Ibrahim Alfardan
Vice Chairman

Mr. Joseph Abraham
Group Chief Executive Officer

Achieving growth

With the vision of becoming the 'Best Bank in Qatar' and the 'Qatari Bank of Choice', actions taken under our Five Year Strategic Plan initiated in 2016 are showing results by increasing our capital, reshaping our loan book and improving asset quality through selective de-risking, diversification and increasing our share of government and public sector business. We have reduced our costs, grown our international portfolio and strengthened collaboration with our subsidiary and associate banks to achieve greater returns.

Pictured: The Pearl - Qatar, an artificial island spanning nearly four million square metres.

Annual Corporate Governance Report 2017

1. Introduction

The Board of Directors of Commercial Bank are pleased to present the Annual Corporate Governance Report 2017 as per the guidelines and instructions issued by the Qatar Central Bank (QCB) on 26 July 2015 by virtue of Circular No. 68/2015, the new Commercial Companies Law (promulgated by Law No. 11 of 2015), Basel requirements, Governance Code for Companies and Legal Entities Listed on the Main Market issued by Qatar Financial Markets Authority (QFMA) pursuant to Decision No. 5 of 2016 published in the Official Gazette Issue No. 6 on 15 May 2017 and all applicable laws and regulations in Qatar.

In this report, Commercial Bank clearly reflects our commitment in upholding the highest ethical standards of Corporate Governance. We continuously enhance and improve our governance principles and framework as regulations change and regulatory requirements become more complex. Following the election of the Bank's Board of Directors in 4 April 2017, the Board of Directors welcomed the two newly elected Board Members; Sheikh Faisal bin Fahad bin Jassim Al Thani and H.E. Mr. Saleh Abdulla Mohamed Al Ibrahim Al Mannai. During 2017, we also effected required changes to the Board of Directors and Executive Management Organisational Structure. Under the revised structure, Commercial Bank has complied with the requirement of having one-third of the Board of Directors as Independent Board Members and a majority as Non-Executive Board Members. In addition, the Board also approved during the Board Meeting held on 10 December 2017 the re-composition of the Bank's Board Committees in alignment with the Corporate Governance Guidelines issued to banks by the QCB and Governance Code for Companies & Legal Entities Listed on the Main Market issued by the QFMA. These substantial steps were taken to ensure the Board provides effective oversight and management of Commercial Bank in promoting high levels of transparency, disclosure, fairness and accountability throughout the year ended 31 December 2017.

In support of Commercial Bank's Five Year Strategic Reshape Plan, the Board of Directors continued to work with the high calibre Executive Management team towards our vision to be the best bank in Qatar. Our continual investment in technology and people, together with our strong capital base, provides a solid foundation for further growth. Commercial Bank has a robust financial position and enjoys strong credit ratings of A from Fitch, A2 from Moody's and BBB+ from Standard & Poor's.

During the year 2017, Commercial Bank was awarded the "Best Investor Relations award for mid-cap companies" at the Qatar Stock Exchange's annual IR awards ceremony recognising best practice in Investor Relations, demonstrating the Bank's commitment to transparency in terms of communicating effectively with our shareholders, analysts and regulators. In addition, the Bank also won the "Best Retail Bank in Qatar" and "SME Bank of the Year in the Middle East" award for 2017 from The Asian Banker. These awards show that Commercial Bank is well positioned to take us towards our goal, and create long-term value for all our stakeholders.

On behalf of The Board of Directors of Commercial Bank and the Executive Management team, we thank all of our shareholders for their continuing trust and confidence.

2. The Board of Directors

2.1 Role of the Board and Executive Management

The Board is entrusted by the shareholders with the authority to govern the Bank, oversee its operations and provide effective governance over the Bank's key affairs, including the appointment and the oversight of the Executive Management (as well as establishing compensation, performance evaluation and ensuring succession planning), setting the Bank's vision and mission, approval of policies relating to the Bank's long-term transactions, strategies including risk strategy, and Bank's objectives, ensuring the accuracy of its financial statements and returns (including the timely reporting and disclosure of financial information to regulators and shareholders respectively), evaluation of performance and assessment of major risks facing the Bank, and ensuring compliance with related laws and regulations as well as the Bank's Articles of Association (AOA).

In order to provide an organised and focused means of achieving the Bank's goals and to properly address issues in a timely manner, the Board has set up Board Committees in accordance with leading practices and applicable local governance regulations. In addition, the Board has assigned the day-to-day management of the Bank to the Executive Management subject to clear instructions and within the bounds of their delegated authority. In line with QCB Circular No. 68/2015 (5th Principle) and QFMA Corporate Governance Code, the Executive Management is responsible for the implementation of the processes, activities and board resolutions according to the strategies and policies approved by the Board and the Bank's risk structure. The Executive Management is also responsible for preparing the Bank's Organisational Chart ensuring the sound distribution and delegation of authorities as well as the limit of responsibility and accountability.

Each Board Member exercises the fiduciary duties of care, loyalty and compliance with the rules set out in applicable laws and regulations including QCB Corporate Governance Guidelines, QFMA Corporate Governance Code and the Bank's governance documents. At all times, the Board Members are expected to act on an informed basis, in good faith, with due diligence and care, and in the best interests of the Bank and all shareholders/stakeholders in the fulfilment of their responsibilities and tasks towards the Bank.

The detailed roles and responsibilities of the Board are defined in the Board Charter. The Board Charter can be found on the Bank's website at www.cbq.qa and is also available in print to any shareholder upon request.

2.2 Board Composition and Directors' Qualifications

In accordance with the Bank's AOA, Corporate Governance Charter, Commercial Companies Law (CCL) and other applicable regulations, the Bank currently has nine (9) Directors and four were considered Independent Members in accordance with the definitions of 'Independent' by virtue of Corporate Governance Guidelines issued by QCB to Banks and the QFMA Governance Code for Companies listed on the Main Market published in the Official Gazette issue no. (6) Dated 15 May 2017. The Board has five non-executive and four executive members according to QCB classification of board members by virtue of QCB Circular No. 68/2015 and QFMA Governance Code (Note: The Representative of Qatar Insurance Company is Independent).

The positions of the Chairman of the Board and the Group Chief Executive Officer of the Bank are not being held by the same individual.

Members of the Board possess personal qualities including loyalty, integrity, good reputation and creditworthiness and hold the proper educational qualifications, industry knowledge and expertise in the field of banking and international markets, with the technical skills required to fully, professionally and effectively carry out assigned roles and to provide leadership and supervise management in order to ensure maximisation of shareholder wealth. The Directors are also committed to provide the required amount of time and attention towards the accomplishment of their duties for the duration of their tenure.

2.3 Secretary of the Board of Directors

The Board has appointed a Board Secretary who provides administrative support to the members of the Board, the Board Committees and the Chairman to facilitate their execution of all functions relating to the Board. The Board Secretary may only be appointed and removed by a Board resolution.

Under the direction of the Chairman, the Board Secretary is in charge of ensuring timely access to information and coordination among the Board Members as well as between the Board and other stakeholders in the Bank including shareholders, Management, and employees. The Board Secretary is also responsible for maintaining and safekeeping Board documentation and for managing all communication with QCB, government, ministries, institutions and other external entities.

The incumbent Board Secretary possesses the requisite knowledge and skills required to fulfil the role. He has extensive experience in compliance and corporate governance matters for financial institutions. More importantly, the Board Secretary also holds the trust and confidence of the Board in performing Board-related tasks.

2.4 Electing Directors

The Board Remuneration, Nomination and Governance Committee is tasked to uphold transparency in the nomination process for Board membership. This Committee is also responsible for recommending Board Members' appointments and re-nomination for election in the General Assembly, supervising the training of the Board Members with regard to Corporate Governance of the Bank as well as conducting the annual self-assessment of the Board and Board Committees' performance.

Nominations and appointments are made in accordance with formal, rigorous and transparent procedures in line with the Bank's AOA and relevant governance charters. Members of the Board shall be elected by the General Assembly for a period of three years, and a Director may be re-elected more than once.

New Board Members have been elected to the Board in 2017 as follows:

1. Sheikh Faisal bin Fahad bin Jassim Al Thani
2. H.E. Mr. Saleh Abdulla Mohamed Al Ibrahim Al Mannai

At a Board Meeting held following the Ordinary and Extraordinary General Assembly Meetings on 4 April 2017, the following Directors were elected as office holders on the Board for a period of three years.

1. Sheikh Abdulla bin Ali bin Jabor Al Thani – Chairman
2. Mr. Hussain Ibrahim Al Fardan – Vice Chairman
3. Mr. Omar Hussain Al Fardan – Managing Director

In the event that a Director is convicted of an offence of dishonor, breach of trust or is declared bankrupt or absents himself for more than three consecutive meetings of the Board or five non-consecutive meetings without an excuse that has been accepted by the Board, the Director's membership to the Board shall be deemed terminated. Further details relating to the election and removal from office of Directors are provided in the Bank's AOA and the Bank's Corporate Governance Charter.

BOD Assessment

During 2017, in compliance with international leading practices and corporate governance regulations and charter, the Board and Board Committees have completed their annual self-assessment for 2017. The Bank's annual BOD performance assessment exercise shall ensure the Board of Directors' continuous improvement and commitment in carrying out its role and responsibilities effectively.

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2.5 Directors' Responsibilities

The Chairman is responsible for ensuring the proper functioning of the Board in an appropriate and effective manner including timely receipt by the Board Members of complete and accurate information.

Directors shall be given appropriate and timely information to enable them to maintain full and effective control over strategic, financial, operational, compliance and governance issues of the Bank.

Other than resolutions passed at each Annual General Assembly absolving the Board from responsibility and the provisions of the AOA stipulating that disputes against Directors can only be brought in accordance with a resolution by the General Assembly, there are no provisions in effect protecting the Board and Executive Management from accountability.

The comprehensive responsibilities of the Board Chairman are as defined in the Boards' Job Descriptions and Board of Director's Charter which are in line with applicable laws and regulations.

2.6 Directors' Independence

During 2017, at least one-third of the Board of Directors comprise Independent Directors (4 out of 9) and a majority of the Board comprise Non-Executive Directors (5 out of 9). In addition, a majority of the members of the Board Audit and Compliance Committee (BACC) were classified as independent (3 out of 4, subsequently then became 3 out of 3 under the revised Board Committee Structure approved during the Board meeting on 10th December 2017).

The Bank has fully adopted QCB Corporate Governance Guidelines definition of 'Independent Directors' in assessing independence of its Board Members.

2.7 Board Meetings

The Board shall hold at least once every two months i.e. not less than six meetings annually in line with Qatar Central Bank Corporate Governance Guidelines to Financial Institutions, Commercial Bank's AOA and the Board of Directors Charter. The meeting shall not be deemed valid unless the majority of board members are in attendance (at least five out of nine members whether in person or by proxy) provided that at least four Directors are present in person. Excuses for not attending the meeting must be convincing and recorded by means of minutes kept by the Board Secretary. Board meetings are scheduled in the Board Calendar according to key events and coinciding with financial period closures of the Bank. Directors are expected to make every effort to attend, in person, all scheduled Board meetings and meetings of the Board Committees on which they serve. Voting in Board meetings shall be in accordance with the Bank's AOA. Matters considered, and decisions taken, by the Board shall be recorded by the Board Secretary in a special register.

During 2017, the Board held a total of six (6) Board meetings.

2.8 Board Committees

To increase the efficiency of the Board's control over the Bank's various activities and the risks to which it is exposed in an independent and professional manner, the Board has established committees which are delegated to do specific responsibilities and authorities to act on behalf of the Board. In addition, in line with its commitment to corporate governance principles, the committees instituted by the Board meet the minimum committee requirements set forth by applicable corporate governance regulations.

The Board has formed four (4) Board Committees as follows:

1. Board Audit and Compliance Committee;
2. Board Risk Committee;
3. Board Executive Committee;
4. Board Remuneration, Nomination and Governance Committee.

Board Risk Committee
The Board Risk Committee (BRC) is responsible for all aspects of enterprise risk management including, but not restricted to business, credit, market, operational, legal and reputational risk. The BRC reviews policies on all risk matters, maintain oversight of all Bank risks through the Management Risk Committee (MRC), the GCEO, and the CRO and provides risk management directives through the GCEO and the CRO.

The Terms of Reference provide that the Committee is responsible for (i) setting forth risk policies, criteria and control mechanisms for all activities involving all types of risk, (ii) reviewing and ratifying risk tolerance levels and portfolio limits, including limits associated with industry sector, geography, asset quality and others, as approved by MRC, (iii) providing oversight management of business continuity, (iv) reviewing and assessing the performance of the MRC and the Risk Group in monitoring and controlling risk to ensure that the strategies and policies approved by the Board are adhered to and implemented, and (v) reviewing Basel Accord implementation.

The Committee is composed of the following members as at 31 December 2017:

Board Member Name	Status on the Committee	Member Classification
Mr. Mohd Ismail Mandani Al Emadi	Chairman	Independent / Non-Executive
H.E. Mr. Abdul Rahman Bin Hamad Al Attiyah	Member	Non-Independent / Executive
Sheikh Jabor Bin Ali Bin Jabor Al Thani	Member	Non-Independent / Non-Executive
Any Independent or Non-Executive Member	Alternate Member	-

The Committee is required to meet at least four (4) times a year. During 2017, the Board Risk Committee held a total of six (6) meetings and minutes of such meetings are duly documented.

Board Executive Committee

The Board Executive Committee is responsible for handling matters especially relating to credit facilities (within authorised limits), which may arise between full Board Meetings and require the Board's review, as per QCB and Board guidelines. In addition, the Committee is also responsible for approving all strategies, plans, budgets/objectives and policies, procedures and systems as well as reviewing the performance of the Bank.

The Terms of Reference provide that the Committee (i) approve credit facilities in accordance with the mandate and directive provided by the Bank Board of Director, (ii) review and approve all policies relating to the Bank's organisation and operations including all necessary authorities required by Executive Management in the execution of their responsibilities (except those policies which are subject to other relevant Board Committee review as provided in the Board (DOA), (iii) develop the long-term strategy of Commercial Bank based on economic and market conditions and Board's vision. Review the Bank's overall strategy and ensure implementation and execution, (iv) receive reports and analysis of the Bank's financial and operating performance, and to evaluate key performance indicators against their accompanying strategies and (v) review and approve Commercial Bank corporate social responsibility strategy in light of Commercial Bank's values, approve requests for donations and social support, review and approve all operating and capital expenditure budgets.

The Committee is composed of the following members as at 31 December 2017:

Board Member Name	Status on the Committee	Member Classification
Sheikh Abdulla Bin Ali Bin Jabor Al Thani	Chairman	Non-Independent / Executive
Mr. Hussain Ibrahim Al Fardan	Member	Non-Independent / Executive
H.E. Mr. Abdul Rahman Bin Hamad Al Attiyah	Member	Non-Independent / Executive
Mr. Omar Hussain Al Fardan	Member	Non-Independent / Executive
Any Independent or Non-Executive Member	Alternate Member	-

The Committee is required to meet at least twelve (12) times a year. During 2017, the Board Executive Committee met a total of twenty three (23) times and minutes of such meetings are duly documented.

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Board Audit and Compliance Committee
The Board Audit and Compliance Committee is primarily responsible for overseeing the quality and integrity of the accounting, auditing, internal control and financial reporting practices of the Bank as well as setting forth compliance and Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) requirements, and defining criteria and control mechanisms for all activities involving Bank-wide related risks.

The Terms of Reference provide that the Committee is responsible for (i) reviewing and monitoring the adequacy of internal control systems, including accounting and financial controls and the Bank's system to monitor and manage business risk, (ii) considering the effectiveness of the Bank's management of risks and internal controls over annual and interim financial reporting, regulatory and other reporting, (iii) reviewing and approving the policy, plans, activities, staffing and organizational structure of CB's Internal Audit, Compliance and AML/CFT function, (iv) reviewing and approving the appointment, replacement, relocation or dismissal of Audit/Compliance/AML personnel and their remuneration, (v) evaluating the job performance and related remuneration of the Chief Internal Auditor/Head of Compliance and AML/CFT, as well as decisions relating to their appointment/renewal of contract or termination, (vi) ensuring there are no unjustified restrictions or limitations on the functioning of the Bank's Compliance and AML/CFT, as well as on Compliance's/MLRO access to Bank records, documents, personnel as and when required in performance of their functions, (vii) reviewing the effectiveness of the system for monitoring compliance with applicable local as well as international laws, regulations and standards (e.g. Foreign Account Tax Compliance Act) and (viii) reviewing the findings of inspections by any regulatory body.

The Committee is composed of the following members as at 31 December 2017:

Board Member Name	Status on the Committee	Member Classification
Mr. Ali Saleh Nasser Al Fadala	Chairman	Independent / Non-Executive
Sheikh Faisal Fahad bin Jassim Al Thani	Member	Independent / Non-Executive
H.E. Mr. Saleh Abdulla Al Mannai	Member	Independent / Non-Executive
Any Independent or Non-Executive Member	Alternate Member	-

Conforming to the transparency and independence principle, the Internal Audit and Compliance Departments report directly to the Board Audit and Compliance Committee whereby the Heads of both the Internal Audit and Compliance functions are responsible to submit reports and observations to the Committee on a periodic basis and as needed.

The Committee is required to meet at least four (4) times a year. During 2017, the Board Audit and Compliance Committee met a total of seven (7) times and minutes of such meetings are duly documented.

Board Remuneration, Nomination and Governance Committee

The Remuneration, Nomination and Governance Committee is responsible for evaluating the Bank's compensation and remuneration framework for the Board Members, Management and staff, based on the long-term performance and objectives of the Bank. The Committee is also responsible for recommending Board Members' appointments and re-nomination for election by the General Assembly, supervising the training of the Board Members with regard to corporate governance of the Bank as well as conducting the annual self-assessment of the Board's performance. In addition, the Committee is primarily responsible for attending to issues relating to governance.

The Terms of Reference provide that the Committee is responsible for (i) developing and setting a clear remuneration framework covering the executive management remunerations, presenting the Bank's remuneration policy to the General Assembly for approval after being acknowledged by the Board, (ii) reviewing the GCEOs performance and Executive Management members, to be annually evaluated compared to the institution long term goals not only the current year's achievement and present the evaluation results to the Board, (iii) identifying and nominating new Board Member candidates ensuring that nominations and appointments of Board Members are made according to formal, rigorous and transparent procedures, (iv) ensuring that nominations take into account the candidates' sufficient availability to perform their duties as Board Members, in addition to their skills, knowledge and experience as well as professional, technical, academic qualifications and personality and nominations based on the 'Fit and proper Guidelines for Nomination of Board Members', (v) conducting an annual self-assessment of the performance of the Board and Board Committees, (vi) reviewing and assessing on periodic basis any changes to international and local corporate governance practices that could have an impact on how the bank operates and manages its governance policies and (vii) considering any governance non-compliance matters and recommend to the Board actions to resolve the same as applicable.

The Committee is composed of the following members as at 31 December 2017:

Board Member Name	Status on the Committee	Member Classification
Sheikh Jabor Bin Ali Bin Jabor Al Thani	Chairman	Non-Independent / Non-Executive
Mr. Hussain Ibrahim Al Fardan	Member	Non-Independent / Executive
Mr. Omar Hussain Al Fardan	Member	Non-Independent / Executive
Mr. Mohd Ismail Mandani Al Emadi	Member	Independent / Non-Executive
Any Independent or Non-Executive Member	Alternate Member	-

The Committee is required to meet at least two (2) times a year. During 2017, the Board Remuneration, Nomination and Governance Committee held a total of nine (9) meetings and minutes of such meetings are duly documented.

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2.9 Directors' and Executive Management Remuneration

Board Members' remuneration shall be disclosed in accordance with QCB Circular No. 18/2014. This remuneration framework shall be presented to the shareholders in the General Assembly for approval and shall be made public. The Board shall regularly evaluate and measure risks involved in determining and paying incentives and compensations and review the policy and the system accordingly.

In conformity with the Bank's Remuneration Policy for the Board, remuneration shall take into account the responsibilities and scope of functions of the Board Members and the Bank's performance. In addition, the remuneration may include fixed elements and matters, which are related to the performance of the Bank in the long term.

Remuneration of Board Members may take the form of:

- Fixed salaries;
- Directors' fees;
- In-kind benefits; or
- A percentage of the Bank's profits.

In addition, the following elements should be observed in providing remuneration to Board Members:

The Board shall receive remuneration annually of an amount which shall not exceed in aggregate 5% of the net annual profits of the Bank determined and after deduction of transfers to reserves, legal liabilities and a notional dividend payment equivalent to 5% of `the paid up capital of the Bank to shareholders.

The amount of such remuneration shall be approved annually by the General Assembly, taking into account the level of profitability of the Bank.

As reported in the Bank's Annual Report 2017, total remuneration earned by the Board in 2017 (including fixed remuneration) was QAR 18,500 million (subject to approval during the Bank's AGM) (2016: QAR 18,500 million).

With respect to Executive Management and employees, the Bank has a remuneration framework developed that outlines the compensation structures for Executive Management and employees, which are competitive relative to the market, reward performance that contributes to the Bank's growth and profitability and are consistent with the Bank's strategy.

Total remuneration earned by the senior Executive Management in 2017 was QAR 46,925 million (2016: QAR 55,920 million).

2.10 Independent Advisors

The Board and its Committees may retain counsel or consultants with respect to any issue relating to the Bank's affairs. Costs and expenses incurred pursuant to appointment of independent advisors or consultants shall be borne by the Bank.

For 2017, total costs incurred by the Bank with respect to retaining counsel and consultants amounted to QAR 6.5 million.

2.11 Independent and Non-Executive Members of the Board of Directors

As at 31 December 2017, the Board of Directors of the Bank comprised the following members:

Director	Date of First Appointment	Expiry of Current Appointment	Position	Status on the Board	Number & Percentage of Shares %*
Sheikh Abdulla bin Ali bin Jabor Al Thani	1990	2019	Chairman	Non-Independent & Executive	1.71% 6,904,380 shares
Mr. Hussain Ibrahim Al Fardan	1975	2019	Vice Chairman	Non-Independent & Executive	2.26% 9,145,575 shares
H.E. Mr. Abdul Rahman Bin Hamad Al Attiyah	2014	2019	Member	Non-Independent & Executive	0.25% 1,011,813 shares
Mr. Omar Hussain Al Fardan	2002	2019	Managing Director	Non-Independent & Executive	0.29% 1,160,010 shares
Sheikh Jabor bin Ali bin Jabor Al Thani	2002	2019	Member	Non- Independent & Non-Executive	0.45% 1,841,382 shares
Sheikh Faisal bin Fahad bin Jassim Al Thani	2017	2019	Member	Independent & Non-Executive	0.25% 1,011,813 shares
Mr. Mohd Ismail Mandani Al Emadi	2014	2019	Member	Independent & Non-Executive	-
Qatar Insurance Company (Representative: Mr. Ali Saleh Nasser Al Fadala - Independent)	2015	2019	Member	Independent & Non-Executive	1.21% 4,879,937 shares
H.E. Mr. Saleh Abdulla Mohamed Al Ibrahim Al Mannai	2017	2019	Member	Independent & Non-Executive	0.35% 1,430,400 shares

The status of the Board Members as Non-Executive, Independent or Non-Independent is determined in accordance with the Qatar Central Bank Guidelines to Banks by virtue of Circular No. 68/2015 and QFMA Governance Code for Companies & Legal Entities Listed on the Main Market issued on 15 May 2017.

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Sheikh Abdulla bin Ali bin Jabor Al Thani
Chairman

- Graduated from Qatar University with a BA in Social Science;
- Owner of Vista Trading Company;
- Partner in Dar Al Manar, and Domopan Qatar;
- Vice Chairman of National Bank of Oman;
- Director of United Arab Bank.

Mr. Hussain Ibrahim Al Fardan
Vice Chairman

- Chairman of Alfardan Group;
- Chairman of QIC International LLC;
- Vice Chairman of Gulf Publishing and Printing Company;
- Vice Chairman of the Qatar Businessmen Association;
- Director of Qatar Insurance Company and Chairman of Investment Committee (QIC);
- Founding member and Director and Chairman of the Executive Committee for Administrative Policy of Investcorp Bahrain.

H.E. Mr. Abdul Rahman Bin Hamad Al Attiyah
Board Member

- Graduated from the USA with a BA in Political Science;
- State Minister;
- Vice President of the Board of Trustees of the Arab Thought Forum – Amman, Jordan
- Former Secretary General of the Cooperation Council for the Arab States of the Gulf;
- Former Undersecretary of the Foreign Ministry;
- Former Ambassador of the State of Qatar to Saudi Arabia, France, Italy, Greece, Yemen, Switzerland and Djibouti;
- Former permanent representative of the State of Qatar to the United Nations and other international organizations (Geneva, Rome and Paris);
- Owner and Chairman of Mawten Trading Co.;
- Director of the National Bank of Oman (NBO);
- Holder of the Orders of Merit from France, Italy, Yemen, and Sudan as well as the Award of Excellence from the Cooperation Council for the Arab States of the Gulf.
- Holder of the State Award of Appreciation.

Mr. Omar Hussain Al Fardan
Managing Director

- Graduated from Webster University, Geneva with a Bachelor's degree in Business Administration and a Master's degree in Finance;
- President & CEO of Alfardan Group and its affiliates in Qatar and Oman;
- Board Member of Alfardan Jewellery, Alfardan Investment and Alfardan Marine Services in Qatar;
- Vice Chairman of the Board of Directors and Chairman of the Board Executive Committee of United Arab Bank in UAE;
- Chairman of the Board of Directors of Alternatifbank (ABank) in Turkey;
- Advisory Board Member of Qatar Financial Centre Authority;
- Board Member of Qatar Red Crescent Society.

Sheikh Jabor bin Ali bin Jabor Al Thani
Board Member

- Owner of Al Maha Contracting Co.;
- Director of Gulf Publishing and Printing Company;
- Director of Qatar Clay Bricks Company.

Sheikh Faisal bin Fahad bin Jassim Al Thani
Board Member

- Completed his education under Fullbright Scholarship from Colorado University of Boulder;
- Graduated from the Oklahoma, USA as Petroleum Engineer;
- Holds PhD in Project Finance from Leeds, UK;
- Chairman of Qatar Petroleum Society;
- Chairman of Doha Petroleum Club;
- Chairman and Partner of Namma Real Estate;
- Chairman and Partner of Qatar Import-Export Company (QNIE);
- Joined Qatar Petroleum (QP) in 1987 – 2017;
- Previously seconded to several companies - Shell from 1987 to 1992; Qatar Petroleum from 1987 to 1997; Arco Petroleum from 1997 to 2001; BP from 2001 to 2003; Anadarko Petroleum from 2003 to 2007; Maersk Oil Qatar from 2008 – 2017.

Mr. Mohd Ismail Mandani Al Emadi
Board Member

- Graduated from Holy Names University, California with a Bsc degree in Business Administration & Economics;
- Over 30 years of experience in banking;
- Occupying a number of key roles in Commercial Bank from 1983 to 2006 including Head of Banking, Operations, Commercial Services and Risk Management;
- Deputy General Manager of Commercial Bank from 2004 to 2007;
- Director of National Bank of Oman;
- Director of Alternatifbank (ABank) in Turkey;
- CEO of Qatar Real Estate Investment Co. from 2008 to 2011;
- Former Managing Director of Qatar Cinema & Film Distribution Co. in Qatar;
- Former Director of Qatar Real Estate Investment Co.;
- Former Director of Mannai Corporation;
- Former Director of Qatar Shipping Co.;
- Former Director of Doha Securities Market.

Qatar Insurance Company
(Representative: Mr. Ali Saleh Nasser Al Fadala)
Board Member

- Completed his training and education in Egypt, UK and US;
- With over 29 years of experience in insurance;
- Member of the boards of a number of insurance entities in the region and Europe;
- Former CEO of Damaan Islamic Insurance Company (Beema);
- Joined QIC group in 1986 and was appointed Senior Deputy Group President & CEO in February 2013.
- Chairman of the Board of Governor – Qatar Academy Al Khor (member of Qatar Foundation)
- Director of Alternatifbank (ABank) in Turkey.

H.E. Mr. Saleh Abdulla Mohamed Al Ibrahim Al Mannai
Board Member

- Holds a Degree in Business Administration and a Diploma in International Economy from Ain Shams University;
- Started his banking career with Commercial Bank in 1991 to 1993;
- Joined Qatar National Bank in 1994 and holds various positions: teller, Officer in Charge, Assistance Branch Manager, Branch Manager, Group Branch Manager and Corporate Branch Manager.

3. Executive Management

While the Board has the ultimate responsibility on the governance of the Bank, the Executive Management is composed of a group of the Bank's senior employees headed by the GCEO, who is responsible for the implementation of the processes, activities and board resolutions according to the strategies and the policies approved by the Board and the Bank's risk structure. The Executive Management is responsible for preparing the bank's organisational chart ensuring the sound distribution and delegation of authorities as well as the limit of responsibility and accountability. The members of the Executive Management shall contribute to the implementation and development of the sound governance system in collaboration with the Board and to ensure that operations are carried out in an effective, safe and sound manner, and in compliance with applicable internal Bank policies and procedures and external laws and regulations. The Board may delegate authorities to the GCEO to act generally on behalf of the Bank to accomplish a third party's transactions. However, the Board may impose any restrictions on the position of the GCEO or any other official in the Bank such as the financial transactions, which they are allowed to tackle without the approval of the Board. Mr. Joseph Abraham served as the CEO of the Bank on 4th July 2016 and subsequently appointed as GCEO on 16th May 2017. The GCEO is supported by a specialised expertise and highly qualified team overseeing the core banking areas of Wholesale, Retail, Consumer and International Banking as well as other support functions, which include areas of Risk Management, Banking Operations, Strategic Clients, Legal Affairs, Finance, Organisational Effectiveness, Internal Audit and Compliance and AML/CFT.

As at 31 December 2017, Executive Management of the Bank comprised the following:

Mr. Joseph Abraham
Group Chief Executive Officer
He does not own any shares in the Commercial Bank.

- Holds an MBA from the Graduate School of Business, Stanford University in California, USA.
- Joined Commercial Bank in June 2016 as Group Chief Executive Officer.
- Prior to joining Commercial Bank, served as CEO of ANZ Indonesia (Australia and New Zealand Banking Group) based in Jakarta (2008-2016).
- Worked in Indonesia, Singapore, Hong Kong, Ghana, UK and India in various country and regional banking roles with a successful track record covering general management, corporate banking, strategy, product management as well as acquisitions and integrations.
- Appointed as Vice Chairman of the Board of Alternatifbank in Turkey (fully owned subsidiary)
- Board Director of the United Arab Bank, UAE (40% owned associate).
- Appointed as Chairman of Orient 1, CBQ Finance and CB Global Limited.

Mr. Rehan Khan
EGM, Chief Financial Officer
He does not own any shares in the Commercial Bank.

- Graduated from London School of Economics with a Bachelor in Economics.
- Trained with KPMG in London and member of the Institute of Chartered Accountants in England and Wales.
- 22 years banking experience with HSBC working in London, India, Malaysia and Saudi Arabia.
- Joined Commercial Bank as Chief Financial Officer in 2013.
- Director of Orient 1, CBQ Finance, CB Global and CB Financial Services.

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Mr. Rajbhushan Buddhiraju
EGM, Wholesale Banking
He does not own any shares in the Commercial Bank.

- Graduated from Indian School of Mines, India with a Bachelor in Petroleum Engineering.
- MBA from Indian Institute of Management, Calcutta.
- Joined Commercial Bank in 2014 as EGM, Head of Wholesale Banking
- Previously EGM, Retail & SME Banking, Dubai Islamic Bank, Dubai, U.A.E.
- Joined Commercial Bank as Executive General Manager in Retail and Enterprise Banking in 2008 till Sept of 2012.
- General Manager & Head of Retail & Consumer Group, Arab National Bank, Saudi Arabia in May 2006 and Head of Retail Assets in Sept. 2002.
- Worked in CitiGroup for 13 years in India, Singapore, Poland and Hungary (1989-2002).
- Deputy Chairman of Orient 1 Limited.

Mr. Parvez Khan
EGM, Treasury & Investments
He owns 44,411 shares in the Commercial Bank

- Graduated from Aligarh Muslim University with BSC in Chemical Engineering.
- Joined in 1994 and was responsible for setting up Investment services business.
- Over 20 years of experience in Treasury Capital Markets and Investment Banking.
- Holds a Diploma in International Capital Markets from New York Institute of Finance.
- Director of Commercial Bank Financial Services, CBQ Finance Limited and CB Global.

Ms. Rana Salatt
EGM, Chief Risk Officer
She owns 1,328 shares in the Commercial Bank.

- Graduated from Qatar University in 1996 with a major in English.
- Joined Commercial Bank in 1996 as a graduate trainee in Retail Banking and was then promoted to Risk Management Assistant.
- A number of promotions followed: Manager, Credit Risk Administration in 2003, Head of Credit Administration & Control in 2005, Head of Client Relations in 2008, Head of Credit Control in 2009, Assistant General Manager and Head of Risk Controls in 2011 and EGM, Chief Risk Officer in 2013.
- 20 years of banking experience in Commercial Bank between Retail and Risk.
- As Chief Risk Officer, her primary role is to lead and establish a comprehensive and effective enterprise wide integrated risk management framework for the Bank ensuring all risks (including credit, market, liquidity, operational, reputational, corporate governance and regulatory risk) are effectively managed within the defined risk appetite and government regulations;
- She also ensure effective identification, measurement, mitigation and reporting of all risks, the allocation of adequate capital against those risks, and the assurance of an appropriate risk/return relationship;
- Ms. Salatt ensures that the core values are embodied in the Board-approved Risk Charter and Risk policies which outline the enterprise-wide risk management activities of the Bank.

Mr. Fahad Badar
EGM, International Banking
He owns 2,896 shares in the Commercial Bank

- Mr. Fahad Badar's career at The Commercial Bank (P.S.Q.C) spans over 18 years. He held a number of key roles including EGM, Wholesale Banking, EGM Government Sector and International Banking. In addition, he occupied other senior positions in Retail Banking and Operations.
- Mr. Badar holds a Bachelor's degree in Banking & Finance from the Bangor University and an MBA from Durham University, UK.
- Director of Alternatifbank (ABank) in Turkey;
- Director of United Arab Bank.
- Director of National Bank of Oman.

Ms. Leonie Ruth Lethbridge
EGM, Chief Operating Officer
She does not own any shares in the Commercial Bank.

- Holds a Doctorate Degree in Philosophy from Swinburne University of Technology, a Masters in Applied Science (Innovation and Service Management) from RMIT University, Graduate Diploma in Adult Education from University of Melbourne and Bachelor of Applied Science (Hons) from University of New South Wales;
- Joined Commercial Bank as Chief Operating Officer in 4 July 2017;
- Prior to joining Commercial Bank, served as CEO at ANZ Royal in Cambodia;

- Held several key positions in Australia and New Zealand Banking Group for over 10 years: Regional Chief Operating Officer, Institutional and International Banking, Shanghai (2014-2016), Chief Operating Officer ANZ Indonesia, Jakarta (2010-2014), Head of Integration and enablement, ANZ Indonesia, Jakarta (2008-2010), and Acting Head of Risk, Asia Pacific Division, ANZ Banking Group, Melbourne (2007-2008), General Manager Risk, China Partnerships, Shanghai (2005-2006), Senior Manager Risk, and Head of Strategy and Business risk, Melbourne (2002-2005);
- For 2 years (2002-2000), served as Principal Consultant, PA Consulting Group;
- Senior Consultant at SMS Consulting Group from 1999 – 2000;
- Worked as Head of Organisation Development and Quality Assurance at Zibo Morgan Insulators in China for 2 years (1997-1999);
- Held various roles for 12 years (1984 – 1996) including General Manager at Apparel Fabric Dyehouse Bradmill Textiles Ltd;
- Previous Board Memberships: Association of Banks of Cambodia, Board Director, Chair of Education Committee (2016-2017); Australia Indonesia Centre, Board Director (2014-2016); AustCham Shanghai, Board Director (2015-2016); Indonesia Australia Business Council, Vice President and Board Director (2010-2014); and Financial Services Advisory Board, Australia APEC Study Centre (2007-2008).

Ms. Kimberley Ann Reid
EGM, Head of Organisational Effectiveness and Strategic Leadership
She does not own any shares in the Commercial Bank.

- Currently Doctoral Candidate in Faculty of Business of Economics from University of Melbourne, expected completion by year 2019;
- Holds a Master's in Public Administration from Harvard Kennedy School 2011 in Cambridge, USA, Bachelor of Laws (Hons) and Arts (Hons) from University of Melbourne 1987 – 1992 and was admitted to practice as a barrister and solicitor from Supreme Court of Victoria, SA, NSW, High Court of Australia;
- Joined Commercial Bank in 15 March 2017;
- Appointed as EGM, Head of Organisational Effectiveness and Strategic Leadership on 18 April 2017;
- Prior to joining Commercial Bank, served as Principal Consultant in Hampton Reid - Strategy, Policy, Organisational Effectiveness (May 2014 - 2017);
- Integrated Human Capital functions of two legal firms as Executive Director, People and Development at King and Wood Mallesons (January – July 2013);
- Served as Research Associate in Hauser Centre of Non-Profit Organisations from Harvard Kennedy School, USA (2011-2012);
- Held several key positions from ANZ Banking Group for eight years across Asia, Pacific, Europe and USA: (2007 - 2010) General Manager, HR Communications in Hong Kong and China, (2004 – 2007) GM, HR for Operations, Technology and Shared Services in India, Melbourne and (2002 - 2004) Head of Workplace Relations;
- Held various roles (2000 – 2002) Senior Consultant in Hinton and Associates, (1997 – 2000) Senior Associate in Arthur Robinson and Hedderwicks (Now Allens), (1995 – 1997) Senior Policy Officer in Native Title Unit – Human Rights and Equal Opportunities Commission (1994 – 1995) Associate Justice to PRA Gray in Federal Court of Australia and (1993 – 1994) Articled Clerk – Arthur Robinson and Hedderwicks.

Mr. Gary Williams
Senior AGM & Chief Internal Auditor
He does not own any shares in the Commercial Bank.

- Joined Commercial Bank in 2010 as Senior AGM and Chief Internal Auditor.
- Previously with Standard Chartered Bank for 25 years, the last 12 of which were in Group Internal Audit and Operational Risk Assurance positions.
- Roles in the Group Internal Audit function included postings in UK, Singapore, Hong Kong and South Korea.
- Final role in Standard Chartered Bank, prior to joining Commercial Bank was to establish and manage the Operational Risk Assurance function in 20 countries across the Africa, Middle East and Pakistan regions for the Bank.

Annual Corporate Governance Report 2017 continued

Mr. Mohamad Mansour
Senior AGM & Chief Compliance Officer
He does not own any shares in the Commercial Bank.

- Senior AGM – Chief Compliance Officer at the Commercial Bank since 2005. Mohamad has more than 16 years' experience in the compliance & Anti-Money Laundering field. A founding member of Lebanon's Financial Information Unit – also known as "The Special Investigation Commission", where he led numerous money laundering and terrorism financing investigations as senior investigator and research analyst with regional and international counterparts, as well as conducted banks' examinations on anti-money laundering programs.
- He started his career in the USA in the field of finance and management before joining the Central Bank of Lebanon in 1997 as a Senior Officer at the Treasury Bills Department.
- A Certified Anti Money Laundering Specialist (CAMS) since 2003, and Certified Compliance Officer, actively involved with local and international regulators on enhancing the AML/CFT implementation, raising awareness, and introducing the latest AML&CFT information technology solutions. Expert trainer and frequent speaker at regional and international conferences on Compliance and AML.

Mr. Amit Sah
EGM, Consumer Banking
He does not own any shares in the Commercial Bank.

- Holds an MBA from Indian Institute & Management, Ahmedabad, India and a Bachelor of Engineering degree from Indian Institute of Technology, Roorkee, India.
- Joined Commercial Bank in December 2016.
- In his current role, Mr. Amit is responsible for managing the Retail Banking (including SME) franchise for Commercial Bank with focus on defining and executing a growth strategy for sustained profitability driven by market leading value propositions, enhanced customer experience and improved operational efficiencies.
- Mr. Amit is a veteran in in the financial services industry and has benefitted from his experience of working in multiple geographies and across multiple functional units.
- Prior to joining Commercial Bank, he worked with Citibank for over 28 years in various roles including Country Management responsibilities in Thailand and Russia and regional management for the EMEA region based out of London.

Mr. Maher Wahhab
General Counsel and Company Secretary
He does not own any shares in the Commercial Bank.

- Holds an MBA, Graduate School of Business, from Monash University in Australia (March 2009 – July 2010); International Business Law (LLM) from University of Western Sydney, Australia (2002 – 2004); and Bachelor of Law (LLB) from University of Jordan, Jordan (1997 – 2001).
- Joined Commercial Bank in 24 September 2017 as General Counsel and Company Secretary.
- Prior to joining Commercial Bank, served as Head of Legal Department at Arab Bank PLC, Doha – Qatar.
- Served as Deputy General Counsel (2010 – May 2011) and External Legal Advisor (December 2008 – October 2010) with Ras Al Khaimah Investment Authority "RAKIA", Ras Al Khaimah-UAE; Legal Advisor and Company Secretary with Bahrain Airport Services BSC in Bahrain (2006 – 2008); and Legal Consultant of Abu Ghazaleh Legal – Member of Talal Abu Ghazaleh International (2004 – 2006).

Mr. Hussein Ali Al-Abdulla
EGM, Chief Marketing Officer
He does not own any shares in the Commercial Bank.

- Holds a Degree in Petroleum Engineering from Colorado School of Mines in Golden Colorado, USA;
- Master's in Business Administration and Management (2007) from University of Qatar and currently finishing his Masters in "The Adaptation of Digital Transformation in the Banking Sector" from the United Kingdom;
- Joined Commercial Bank in 30 July 2017, appointed as EGM, Chief Marketing Officer;
- Prior to joining Commercial Bank, served as General Manager-Personal Banking (2012-2017) in Barwa Bank, Doha Qatar;
- Held various roles for 13 years (1999 – 2012) in HSBC Bank Middleast Ltd, Doha Qatar.

3.1 Management Committees

The GCEO relies on a number of internal committees in the day-to-day management of the Bank. Based on the governance requirements and broad nature of operations, seven (7) Committees were formed. Decisions are formalised if the required quorum is achieved, including the Chairman or his deputy. All decisions shall be unanimous.

A summary of their main activities is documented in the Risk Charter as discussed below:

Executive Committee (EXCO)
EXCO is chaired by the GCEO, Mr. Joseph Abraham and meets on a regular basis or as required by the business. Its principal function is to develop the annual business plan and budget for the Bank, and to monitor performance against these.

During 2017, the Executive Committee met a total of six (6) times and minutes of such meetings are duly documented.

Management Risk Committee (MRC)
The MRC is the highest management level authority on all risk-related issues facing the Bank including actions on all special assets, and reports on all risk policies and portfolio issues to the Board Risk Committee. It monitors and controls levels of credit, retail and operational risk to ensure that the risk strategies and policies approved by the Board are adhered to and implemented. The MRC also monitors the management of business continuity: a) to ensure that strategies, plans, policies are in place; b) to ensure that management of business continuity is audited by an external audit firm annually and reports presented to Board Risk Committee; and c) to ensure that internal audit schedule an evaluation of the efficiency of the testing programs and report to the Board Audit Committee.

The Chief Risk Officer, Mrs. Rana Salatt serves as Chairman of the MRC, which meets at least four times a year, and more frequently if necessary.

During 2017, the MRC met a total of ten (10) times and minutes of such meetings are duly documented.

Asset and Liability Committee (ALCO)
ALCO is a decision making body for developing policies relating to asset and liability risk management with the objective of maximising shareholder value, enhancing profitability and protecting the Bank from facing adverse consequences arising from changes in extreme market condition and compliance with regulatory guidelines. Its key functions are to formulate policies on market risk, liquidity risk and interest rate risk, and to ensure that such risks are effectively identified, controlled, monitored and managed. Under the overall risk management framework, ALCO is a key component of risk management within the Bank.

The Chief Financial Officer, Mr. Rehan Ahmed Khan serves as Chairman of ALCO. Meetings of ALCO are held more frequently if necessary, particularly in the case of a volatile operating environment.

During 2017, the Asset and Liability Committee met a total of eleven (11) times and minutes of such meetings are duly documented.

Special Assets Management (SAM) Committee
Special Assets are those assets of the Bank which require extensive monitoring and control in order to minimise risk, prevent losses, maximise recoveries and restore profits through rehabilitation, restructuring, workout, collection or legal actions. The SAM Committee supervises these activities, reviews actions proposed to be taken on all accounts within the Special Asset portfolio.

The Committee is responsible for ensuring that recovery action on all Special Assets is pursued rigorously and effectively and that the applicable regulatory requirements for provisions on SAM accounts are implemented with due regard to Management Risk Policy.

Senior AGM, Head of Special Assets, Mr. Yakan Abdel-Majeed serves as the Chairman of the Committee. Meetings are held at least four times a year, or more frequently as deemed appropriate by the Chairman.

During 2017, the Special Assets Management Committee met a total of six (6) times and minutes of such meetings are duly documented.

Management Credit Committee (MCC)
The MCC is the third highest level authority on all counterparty Credit Risk Exposure, after the Board of Directors and Board Executive Committee.

The MCC reviews, recommends and implements approved credit policies and procedures relating to the Bank.

The Committee reviews the delegated authorities related to credit and recommends amendments to the BOD where appropriate. It also escalates its decisions relating to credit facilities, which exceed its authority, to the BEC.

The Chief Credit Officer, Mr. Paul Gossiaux serves as Chairman of the committee. Meetings are held as and when required.

During 2017, the MCC met a total of twenty eight (28) times and minutes of such meetings are duly documented.

Investment Committee (ICO)
The Investment Committee is the decision making committee for the Bank's investment activities, with a view to optimise returns, ensuring that the investment book provides a liquidity buffer for the Bank and mitigate market risk attached to the nature of targeted investment. The Committee also assumes the responsibility to review and approve the range of investment products across the Bank. It also monitors and reviews the performance of all the investment portfolio activities.

EGM, Treasury & Investments, Mr. Parvez Khan serves as Chairman of the Committee. Review and approval of the Committee is obtained by circulation to all members.

During 2017, the Investment Committee met a total of four (4) times and minutes of such meetings are duly documented.

Annual Corporate Governance Report 2017 continued

Crisis Management Committee (CMC)
Management of a crisis requires prevention, planning, testing, evaluation and maintenance to mitigate and minimize the consequences. A crisis can impact people and property. Effects might include fatalities, injuries, property destruction and/or put Commercial Bank's reputation or products in jeopardy.

The Committee has formed an official Crisis Management Team to provide a management response in times of crisis and has develop and communicate a Crisis Management Plan (CMP), to ensure formal drills and training have been conducted bank-wide.

In the event of a crisis, Commercial Bank will need to communicate promptly to internal and external stakeholders in order to minimize any potential adverse impact on people, property and Commercial bank's reputation by ensuring speedy and efficient handling of the crisis.

The Group Chief Executive Officer, Mr. Joseph Abraham serves as the Chairman of the Committee. Meetings are held as and when required.

During 2017, the Crisis Management Committee met a total of two (2) time and minutes of such meeting is duly documented.

3.2 Senior Management Remuneration

Total remuneration earned by the Senior Management in 2017 was QAR 46,925 million.

4. Ownership Structure

In accordance with Article 7 of the Bank's AOA, no person (whether natural or juridical) shall at any time own more than 5% of the total shares in the Bank by any means other than inheritance, with the exception of (i) Qatar Investment Authority, Qatar Holding LLC or any of their associated companies and (ii) a custodian or depository bank holding shares in respect of an offering of Global Depositary Receipts.

On 31 December 2017, 85.99% of the total number of shares in the Bank were held by Qatari nationals (whether individuals or entities) and 14.01% of such shares by foreign investors. On 31 December 2017, in percentage terms, the largest non-individual shareholdings in the Bank were as follows:

Qatar Holding LLC	16.67%
Pension Fund of General Retirement & Social Insurance Authority (GRSIA)	2.13%
Al Watani Funds 8	2.60%
Al Watani Funds 3	1.95%

5. Compliance, Internal Audit and Risk Management

5.1 Compliance Culture

The Bank promotes a robust compliance culture across the organization and requires everyone, from the Board down to staff, to consistently comply with applicable laws, regulations and standards.

5.2 Compliance Set-up

The Bank has incorporated the regulatory requirements into the Bank's policies, procedures and systems. The Bank has comprehensive compliance and AML/CFT policies describing the compliance and AML/CFT functions at Commercial Bank, and this has been assessed and evaluated by internal and external bodies.

The Compliance and AML/CFT business unit does, on a pro-active basis, identify, document and assess the compliance risks associated with the Bank's business activities, including but not limited to the development of new products and business practices, and the proposed establishment of new types of business or customer relationships, or material changes in the nature of such relationships. Compliance risks include risk of legal or regulatory sanctions, material financial loss, or loss to reputation as a result of failure to comply with applicable laws, regulations and standards.

Compliance and AML/CFT business unit was also presented and involved in all the following tasks:

1. Provided compliance advice and guidance on all daily inquiries raised by the Bank's Management/staff in a timely manner;
2. Represented compliance in all Operational Risk Approval Process (ORAPs) and MRC meetings;
3. Addressed all the Bank's business units' inquiries with QCB;
4. Addressed all inquiries raised by QCB on behalf of business units;
5. Facilitated and responded to all QCB examiners' requests for the 2017 annual QCB regulatory review on all the Bank's business units; and
6. Regulatory reporting: investigated and responded to all inquiries raised by the FIU, QCB, and other regulatory inquiries;
7. Monitored the bank's rations vs. QCB mandated ratios.
8. Followed-up the closure of the compliance observations.
9. Track the implementation progress of QCB circulars.
10. Designed and revised customers' data classification as per QCB requirements.

11. Coordinate the data cleansing initiative across all business units.

5.3 Compliance Milestones

The Compliance and AML/CFT business unit monitors and tests compliance by performing compliance reviews to identify regulatory breaches and non-compliance issues. The results of the compliance reviews are reported to the Board Audit and Compliance Committee, the GCEO, the concerned Executive Management and the unit/department heads on a regular basis. The reports summarise deficiencies and/or breaches and recommend measures to address them, in addition to the corrective measures already taken and those which shall be taken in accordance with agreed target dates.

5.4 Compliance Awareness

As a result of the Bank's commitments to the implementation of the regulatory requirements and to keep the Bank's staff up to the standard, the Bank has provided training and awareness to the Bank's staff on governance, QCB regulations, AML/CFT – sanctions and FATCA regulations on frequent basis.

During 2017, the Compliance and AML/CFT business unit carried out 17 compliance reviews which identified compliance and controls deficiencies all of which were appropriately addressed by the Bank's Management. None of the compliance issues identified in the department's compliance reviews had any material financial impact on the Bank.

5.5 Internal Audit

The Internal Audit Department is an independent function that intends to enhance/augment Commercial Bank's overall control environment. Its mandate and authority are defined in its Internal Audit Charter which has been approved by the Board Audit and Compliance Committee and ratified by the Board.

To maintain its independence, the Internal Audit Department reports to the Board, through the Board Audit and Compliance Committee. The remuneration of the Department is determined by the Board Audit and Compliance Committee. The Chief Internal Auditor is nominated by the Board Audit and Compliance Committee and submits periodic reports directly to the Committee and the senior Management.

The Department is tasked to provide an independent assurance to the Board and its senior management as to the adequacy of the Bank's control environment and the effectiveness of the operation of these controls with respect to the management/mitigation of the key risks to which the Bank is exposed. The Department's risk-based internal audit plan focuses on the following:

- Adequacy, effectiveness and efficiency of the Bank's internal control structure;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations;
- Safeguarding and utilisation of assets; and
- Compliance with laws, regulations and contracts.

In addition, the Department is also tasked with the following key responsibilities:

- Performing a scheduled audit of branches/departments/divisions, products, processes, systems, procedures and controls in conformity with the annual audit plan agreed with and approved by the Board Audit and Compliance Committee. This includes:
  - Independent risk assessments of risk and control elements applicable to the area under review;
  - Assist the Bank in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement; and
  - Assess and make appropriate recommendations for improving governance process;
- Performing independent assessments of the quality of the Bank's various credit portfolios. A credit review team within Internal Audit function undertakes this role;
- Providing consulting services to the Bank's Executive Management and businesses such as special reviews of new projects, systems/applications, outsourced facilities, and policies and procedures. In this role, Internal Audit will maintain its independence and objectivity and will not assume responsibility for the management, design or implementation of new processes, products, systems or applications; and
- Performing unscheduled/ad hoc tasks such as fraud investigations and other assignments at the request of the Board Audit and Compliance Committee, the regulator or the Bank's senior Management, as and when necessary.

The Internal Audit function regularly makes recommendations to the Bank's management on areas where controls could be improved or where better adherence is required. Despite the existence of such recommendations, there have been no instances of major control failures that have or could have had an impact on the Bank's overall financial performance. In addition, results of the aforementioned assessment showed that the Bank's internal controls, risk management and governance processes were adequate and operating effectively. There were no material risks, weakness or instances of non-compliance which were beyond the Bank's risk tolerance level.

Annual Corporate Governance Report 2017 continued

In line with the 2017 Internal Audit Plan, the Department issued and submitted a total of 32 Internal Audit Reports and Investigation Reports to the Board Audit and Compliance Committee. These reports in total covered 116 units within the Bank's inventory of "auditable units", with certain units, including the majority of the Bank's branches, being covered in more than one audit assignment. All key recommendations with respect to these reports are presented and discussed during the Board Audit and Compliance Committee meetings, with 7 meetings of this Committee being held during 2017. The Bank's management proactively and timely responds to all recommendations made within Internal Audit reports, such that there was no requirement for the Bank's Board Audit and Compliance Committee to become involved in ensuring the resolution of any such matters. However, there is a governance framework in place to enable the escalation of issues to the Board Audit and Compliance Committee in need.

Additionally, the Internal Audit function undertook 3 ad hoc assignments which, in certain instances, did not result in a formal report being issued to the Board Audit and Compliance Committee.

As of the end of December 2017, the Department is composed of 15 auditors.

5.6 Risk Management

The Risk Management function at Commercial Bank continues to be well positioned to manage the risk associated with the Bank's business.

The Risk Management process addresses all risks, including credit, market, operational, liquidity, reputational and strategic risk. It ensures effective identification, measurement, mitigation and reporting of all risks, the allocation of adequate capital against those risks, and the assurance of an appropriate risk/return relationship.

These core values are embodied in the Board-approved Risk Charter/Risk Appetite Statement and risk policies which outline the enterprise-wide risk management activities of the Bank and detail high level organisation, authorities and processes relating to all aspects of risk management.

The Bank follows the "three lines of defense" model for enterprise risk management, whereby responsibility and accountability for risk management within each line are well embedded and practiced, cascading from the Board of Directors, Board-level Committees, Management-level Committees, Executive Management and employees.

Within Commercial Bank, risk management is based on the Bank's strategy and its risk appetite both set by the Board of Directors. The strategy and resultant risk policies and procedures are implemented through specialist risk management functions reporting to the Chief Risk Officer. Risk management is provided the requisite level of independence and works closely with other business units in the Bank, to support their activities.

The following represent the key objectives of the risk management framework:

- Implement and advance market best practice in risk management;
- Ensure adherence/compliance of all policies and procedures listed for management at the individual and portfolio levels;
- Institute prudent risk control mechanisms across the Bank;
- Ensure compliance with local legal and regulatory guidelines; and
- Maintain primary relationship with the local regulators with respect to risk-related issues.

Risk has over 30 dedicated staff; which underlines Commercial Bank's commitment to a strong risk governance and management framework. During 2017, the Bank continued to enhance its controls and processes in all areas of risk management by incorporating various components of the ICAAP into its periodic reporting, effectively addressing matters pertaining to information security under the broader digitization strategy and providing updates with regards to meeting the strategic risk objectives of the Bank.

Commercial Bank's Board is involved in risk decisions through:

- The Board Risk Committee is responsible for all aspects of enterprise-wide risk management including, but not limited to credit risk, market risk, liquidity risk and operational risk. The BRC reviews the policy on all risk issues and, maintains oversight of all the risks the bank may be exposed to.
- The Board Executive Committee (BEC) is responsible for evaluating and granting credit facilities within authorized limits as per QCB and Board guidelines as well as for reviewing the strategy on recovery of special asset relationships whenever required, reviewing and approving all credit proposals (other than off-the-shelf products) relating to political figures and persons in ministerial posts, within the risk delegation of authority, and approving credit facilities with a tenor above 12 years.

In addition, specific risk-focused management committees (risk, asset and liability and special assets management) convene on a quarterly basis, at a minimum. The Board of Directors or their sub-committees are regularly updated on all major risks that the Bank faces.

In summary, the governance framework, policies and administrative procedures and practices relating to risk management in Commercial Bank align well with global leading practice, the recommendations of Basel Committee, and the guidelines of Qatar Central Bank.

6. The Bank's Policies

The Bank currently has a total of fifty (50) policy manuals/charters, five (5) of which are specifically focused on and involved in corporate governance and risk management.

6.1 Corporate Governance Charter

The Bank recognizes that an effective corporate governance framework is the focal component in the achievement of the Bank's corporate objectives and maximization of shareholders' value. The Bank has established corporate governance practices and protocols in compliance with its AOA and relevant regulatory requirements and in line with relevant corporate governance leading practices.

The Corporate Governance Charter captures the detailed guidelines of the Bank's governance framework in line with the transparency and disclosure requirements as per Qatar Central Bank (QCB) Corporate Governance Guidelines for Banks and Financial Institutions and QFMA Corporate Governance Code for Companies Listed in the Stock Exchange.

6.2 Anti-Fraud Policy

The Anti-Fraud Policy facilitates development of controls that aid in the detection and prevention of fraud perpetrated against the bank.

The Bank promotes an anti-fraud risk culture by adopting the following principles: (i) Commitment to the principles of integrity, accountability, and to an environment of sound governance which includes robust internal controls; (ii) Commitment to a culture that safeguards public funds and property in order to protect shareholder interest; (iii) Zero tolerance approach to fraudulent and/or unethical conduct and holding all employees accountable for their actions; and (iv) Consistent handling of all cases regardless of positions held, connections to authorities, nationality or length of service.

6.3 Human Capital

The Bank's Human Capital Department provides fair and equitable policies geared towards attracting, retaining and motivating employees, which is a key element in the efficient operation of its business. Such policies also capture sound personnel administration practice and maintenance of competitive remuneration and welfare packages to employees.

Commercial Bank continues to invest heavily in Human Capital in line with Qatar National Vision 2030 by developing our employee talent and helping make Commercial Bank one of the best places to work in Qatar.

In terms of Human Capital management, the Bank is committed to:

- Recruit and retain highly qualified and competent candidates through a cost-effective recruitment process;
- Comply with all legal obligations and its own internal regulations relating to hiring, personnel administration and termination of employment;
- Provide fair, equitable and transparent treatment of all employees;
- Develop initiatives to recruit and retain quality Qatari nationals and to meet the targets set by the State of Qatar;
- Follow a consistent and competitive compensation and benefits structure throughout the Bank;
- Implement a fair promotion mechanism which recognises and rewards excellent employee performance;
- Improve employee performance, correct deficiencies, build on strengths and improve organisational effectiveness through a formal performance appraisal system;
- Handle complaints to mitigate grievances and to secure the rights of the Bank and its employees; and
- Promote knowledge sharing and learning across the Bank and facilitate knowledge growth

6.4 Penalties or Fines Imposed on the Bank by Regulatory Authorities

There was no penalties imposed on the Bank in 2017 by QCB.

6.5 Material Issues Regarding the Bank's Employees and Stakeholders

There are no material issues regarding the Bank's employees and stakeholders to be disclosed in this report.

Annual Corporate Governance Report 2017 continued

6.6 Corporate Social Responsibility

The Bank, as a responsible corporate citizen, recognises its social responsibility to integrate business values and operations to meet the expectations and needs of its stakeholders.

The Bank is committed to promoting sustainable development, protecting and conserving human life, health, natural resources and the environment and adding value to the communities in which it operates. In so doing, the Bank recognizes the importance of both financial and non-financial commitment and contribution.

Commercial Bank strives to be an outstanding corporate citizen by supporting the development of the Qatari community as a whole through a range of socio-economic initiatives in diverse areas including humanitarian projects and charitable work for the disadvantaged; educational, training and personal development programmes for Qatari youth; sports and health initiatives; support for Qatari heritage and culture; and the Bank's Qatar National Day programmes that revive and celebrate Qatar's cultural heritage. During 2017, Commercial Bank's Marketing Department successfully implemented a large number of CSR initiatives with an impact both outside and within the Bank. A fully comprehensive description of the Bank's extensive CSR programme is contained in Commercial Bank's Annual Report 2017.

6.7 Code of Ethics

The Bank-wide Code of Ethics serves as a guide to the everyday professional conduct of its employees. The Code covers all applicable laws and regulations and the highest standards of business ethics that Bank employees should be aware of and comply with in the conduct of their day-to-day business activities. In addition to the Bank-wide Code of Ethics, the standards of conduct expected from the Board are also covered in the Board Charter.

The Code extends to the Bank's subsidiaries and outsourced staff and covers the following specific topics:

- Compliance with laws and regulations;
- Board and employee conduct;
- Restrictions on acceptance of gifts or commissions;
- Avoidance of conflict of interest;
- Quality service and operational efficiency;
- Protection and proper use of company assets;
- Prohibition on insider trading;
- Media relations and publicity;
- Whistle-blowing;
- Relations between employees and the Bank;
- Use of proprietary and insider information and stakeholder information;
- Employee information and privacy; and
- Respect for human rights and prohibition of discrimination within the workplace.

Abdulla Bin Ali Bin Jabor Al Thani
Chairman

Consolidated Financial Statements

31 December 2017

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Independent Auditor's Report

TO THE SHAREHOLDERS OF THE COMMERCIAL BANK (P.S.Q.C.)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of The Commercial Bank (P.S.Q.C.) (the 'Bank') and its subsidiaries (together the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

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

Impairment of loans and advances - refer to notes 3(c)(v), 4(b)(i), 4(b)(v), 5(a)(i) and 10(c) in the consolidated financial statements	**How the matter was addressed in our audit**
We focused on this area because: • Loans and advances are QAR 89,121 million representing 64.37% of the Group's total assets as at 31 December 2017, hence a material portion of the consolidated statement of financial position. The net impairment charge on loans and advances during the year was QAR 1,697 million. • The Group makes complex and subjective judgments over both timing of recognition of impairment and the estimation of the amount of such impairment.	Our audit procedures in this area included, among others: • Our team used their local knowledge to assess the trends in their local credit environment and considered the likely impact on the Group's loans and advances portfolio to focus their testing on key risk areas. • For the corporate portfolio: - we tested the key controls over the credit grading and monitoring process; - we tested the governance controls over the impairment processes, including the continuous re-assessment by the Group that impairment policies remain appropriate for the risks within the Group's loans and advances portfolio; - we performed detailed credit assessments of a sample of performing and non-performing loans and advances in line with QCB regulations; - as part of our credit assessments for these selected loans and advances, we critically challenged the reasonableness of the forecast of recoverable cash flows, realization of collateral and other possible sources of repayment. We tested the consistency of key assumptions and compared them to progress against business plans and our own understanding of the relevant industries and business environments. We also agreed them where possible to externally derived evidence.

Key Audit Matters (continued)

	How the matter was addressed in our audit (continued)
	• For the retail portfolio, the impairment process is based on historical payment performance of each segment within the portfolio, adjusted for current market and economic conditions. We tested the accuracy of key variables relevant for the retail loans portfolio (e.g. year-end balances, repayment history, past-due status) and we assessed the appropriateness of the impairment calculation methodology. We evaluated whether the output is consistent with historical payment performance, and we challenged the appropriateness of the Group's adjustments to reflect current market and economic conditions. • For the collective impairment calculation, our work included testing controls over the appropriateness of the methodology and models used to calculate the charge, the process of determining key assumptions and the identification of loans to be included within the calculation. • We assessed the adequacy of the Group's disclosure in relation to impairment of loans and advances by reference to the requirements of the relevant accounting standards and QCB regulations.
Valuation of investment securities - refer to notes 3(c)(v), 5(a)(ii), 5(b)(i) and 11 in the consolidated financial statements	**How the matter was addressed in our audit**
We focused on this area because: • Investment securities represent QAR 19,629 million or 14.18% of the Group's total assets as at 31 December 2017, hence a material portion of the consolidated statement of financial position. • Of the total investment securities, QAR 1,959 million comprise unquoted debt and equity securities at fair value, the measurement of which requires use of estimates and judgements. • IFRS and QCB regulations require assessment at each reporting date to determine whether there is objective evidence that an investment is impaired. In case of equity instruments classified as 'Available for Sale' (AFS), objective evidence would include a significant or prolonged decline in the fair value of an investment below cost, determination of which requires management judgment.	Our audit procedures in this area included, among others: • Testing controls over the process of valuation of investment securities. • Agreeing the valuation of the quoted equity and debt securities to externally quoted prices. • For unquoted debt and equity securities, assessing the appropriateness of the valuation methodology and challenging the key underlying assumptions, such as pricing inputs and discount factors. • For debt securities, perform tests to determine whether there is objective evidence of impairment due to credit-related factors. • Testing, for a selection of pricing inputs used, that they were externally sourced and were correctly input into the pricing models. • We assessed the adequacy of the Group's disclosure in relation to the valuation of investment securities by reference to the requirements of the relevant accounting standards and QCB regulations.

Independent Auditor's Report continued

Key Audit Matters (continued)

Impairment assessment of goodwill - refer notes 3(i)(i), 5(a)(ii) and 14 in the consolidated financial statements	**How the matter was addressed in our audit**
We focused on this area because: • As at 31 December 2017, the Group's consolidated financial statements include recognised goodwill of QAR 201 million, net of impairment, which is a material amount for the purposes of our audit, and which arose from the Bank's acquisition of its Turkish subsidiary in 2013. • An assessment is required annually to establish whether this goodwill should continue to be recognized, or if any impairment is required. The impairment assessment relies on determining the recoverable amount of the investment in the subsidiary using valuation techniques such as discounted cash flows. The estimation of future cash flows and the rate at which they are discounted is inherently uncertain and requires the use of estimates and judgments.	Our audit procedures in this area included, among others: • Testing of the Group's budgeting procedures upon which the forecasts are based. • We involved our own valuation specialists to assist us in: - evaluating the appropriateness of the methodology used by the Group to assess impairment of goodwill; - evaluating key inputs and assumptions in cash flow projections used by the Group in comparison to externally derived data as well as our own assessments of investee specific circumstances and experience in the related industry, in particular its derivation of discount rates, terminal growth rates and comparing progress against stated business plans. • We assessed the adequacy of the Group's disclosure in relation to key inputs and assumptions for goodwill impairment by reference to the requirements of the relevant accounting standards.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Bank's annual report (the "Annual Report"), but does not include the Bank's consolidated financial statements and our auditor's report thereon. Prior to the date of this auditor's report, we obtained the report of the Board of Directors which forms part of the Annual Report, and the remaining sections of the Annual Report are expected to be made available to us after that date.

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

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

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the Consolidated Financial Statements

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

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

Auditor's responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Independent Auditor's Report continued

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations we considered necessary for the purposes of our audit. The Bank has maintained proper accounting records and its consolidated financial statements are in agreement therewith. We have read the report of the Board of Directors to determine whether the financial information contained therein is in agreement with the books and records of the Bank. We are not aware of any violations of the applicable provisions of the Qatar Central Bank Law No. 13 of 2012 and of the Qatar Commercial Companies Law No. 11 of 2015 or the terms of the Articles of Association and any amendments thereto, having occurred during the year which might have had a material effect on the Bank's consolidated financial position or performance as at and for the year ended 31 December 2017.

Gopal Balasubramaniam
KPMG
Audit Registration No. 251
Licensed by QFMA: External Auditor's License No. 120153

29 January 2018
Doha, State of Qatar

Consolidated Statement of Financial Position

Figures in thousand Qatar Riyals

As at 31 December	Notes	2017	2016
ASSETS			
Cash and balances with central banks	8	7,373,918	6,420,566
Due from banks	9	10,499,348	19,302,001
Loans and advances to customers	10	89,121,935	77,797,597
Investment securities	11	19,629,246	15,377,783
Investment in associates and a joint arrangement	12	2,088,158	4,300,647
Asset held for sale	13	2,287,100	-
Property and equipment	14	2,590,987	2,649,235
Intangible assets	15	430,178	483,364
Other assets	16	4,428,182	4,049,093
TOTAL ASSETS		**138,449,052**	130,380,286
LIABILITIES			
Due to banks	17	13,515,872	11,634,313
Customer deposits	18	77,633,333	70,926,401
Debt securities	19	11,604,890	11,717,260
Other borrowings	20	9,303,365	10,777,242
Other liabilities	21	5,370,073	6,023,798
TOTAL LIABILITIES		**117,427,533**	111,079,014
EQUITY			
Share capital	22	4,047,254	3,266,292
Legal reserve	22	9,742,066	8,828,240
General reserve	22	26,500	26,500
Risk reserve	22	1,890,408	1,802,308
Fair value reserve	22	(44,500)	(219,815)
Treasury shares	22	(179,507)	-
Foreign currency translation reserve	22	(1,383,926)	(1,259,807)
Other reserves	22	1,064,189	997,767
Revaluation reserve	22	1,264,794	1,264,794
Retained earnings		594,226	594,980
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		**17,021,504**	15,301,259
Non-controlling interests		15	13
Instruments eligible for additional capital	22	4,000,000	4,000,000
TOTAL EQUITY		**21,021,519**	19,301,272
TOTAL LIABILITIES AND EQUITY		**138,449,052**	130,380,286

The consolidated financial statements were approved by the Board of Directors on 29 January 2018 and were signed on its behalf by:

Sheikh Abdullah Bin Ali Bin Jabor Al Thani
Chairman

Mr. Hussain Ibrahim Alfardan
Vice Chairman

Mr. Joseph Abraham
Group Chief Executive Officer

The attached notes 1 to 41 form an integral part of these consolidated financial statements

Consolidated Income Statement

Figures in thousand Qatar Riyals

For the year ended 31 December	Notes	2017	2016
Interest income	25	5,138,921	4,562,589
Interest expense	26	(2,620,621)	(2,221,841)
Net interest income		**2,518,300**	2,340,748
Fee and commission income	27	1,029,333	1,041,156
Fee and commission expense	28	(308,985)	(304,513)
Net fee and commission income		**720,348**	736,643
Net foreign exchange gain	29	162,641	245,314
Income from investment securities	30	48,690	163,019
Other income	31	79,296	92,119
Net operating income		**3,529,275**	3,577,843
Staff costs	32	(713,472)	(872,272)
Depreciation	14	(152,392)	(137,050)
Amortization and impairment of intangible assets	15	(55,610)	(104,618)
Impairment loss on investment securities		(46,484)	(76,613)
Net impairment loss on loans and advances to customers	10(c)	(1,696,819)	(1,267,801)
Other expenses	33	(403,593)	(571,602)
Profit before share of results of associates and a joint arrangement		**460,905**	547,887
Share of results of associates and a joint arrangement	12	147,876	(46,350)
Profit before tax		**608,781**	501,537
Income tax expense		(5,131)	(158)
Profit for the year		**603,650**	501,379
Attributable to:			
Equity holders of the Bank		**603,648**	500,750
Non-controlling interests		2	629
Profit for the year		**603,650**	501,379
Earnings per share			
Basic/diluted earnings per share (QAR per share)	34	**0.90**	0.78

The attached notes 1 to 41 form an integral part of these consolidated financial statements

Consolidated Statement of Comprehensive Income

Figures in thousand Qatar Riyals

For the year ended 31 December	Notes	**2017**	2016
Profit for the year		**603,650**	501,379
Other comprehensive income for the year:			
Items that are, or may be subsequently reclassified to profit or loss:			
Foreign currency translation differences for foreign operation	23	(124,119)	(262,104)
Share of other comprehensive income of investment in associates and a joint arrangement	23	8,190	11,612
Net movement in fair value of available-for-sale investments	23	167,125	(173,843)
Items that are, or may not be subsequently reclassified to profit or loss:			
Revaluation on land and buildings	23	-	1,264,794
Other comprehensive income for the year		**51,196**	840,459
Total comprehensive income for the year		**654,846**	1,341,838
Attributable to:			
Equity holders of the Bank		**654,844**	1,341,209
Non-controlling interests		2	629
Total comprehensive income for the year		**654,846**	1,341,838

The attached notes 1 to 41 form an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity

For the year ended 31 December	Notes	Share capital	Legal reserve	General reserve	Risk reserve	Fair value reserve
Balance as at 1 January 2017		**3,266,292**	**8,828,240**	**26,500**	**1,802,308**	**(219,815)**
Total comprehensive income for the year						
Profit for the year		-	-	-	-	-
Other comprehensive income		-	-	-	-	175,315
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**175,315**
Transfer to legal reserve	22	-	2,062	-	-	-
Transfer to risk reserve	22	-	-	-	88,100	-
Net movement in other reserves and fair value reserve	22	-	-	-	-	-
Instruments eligible for additional capital	22	-	-	-	-	-
Dividend for Instruments eligible for additional capital	22	-	-	-	-	-
Social and sports fund	24	-	-	-	-	-
Put option on non-controlling interest		-	-	-	-	-
Transactions with equityholders of the Bank recognised directly in equity						
Contributions by and distributions to equity holders of the Bank:						
Increase in share capital		588,235	-	-	-	-
Increase in legal reserve	22	-	911,764	-	-	-
Dividends for the year 2016	22	-	-	-	-	-
Bonus issue	22	192,727	-	-	-	-
Treasury shares		-	-	-	-	-
Total contributions by and distributions to equity holders of the Bank		**780,962**	**911,764**	**-**	**-**	**-**
Net movement in non-controlling interests		-	-	-	-	-
Balance as at 31 December 2017		**4,047,254**	**9,742,066**	**26,500**	**1,890,408**	**(44,500)**

The attached notes 1 to 41 form an integral part of these consolidated financial statements

Figures in thousand Qatar Riyals

	Treasury shares	Foreign currency translation reserve	Other reserves	Revaluation reserve	Retained earnings	Total equity attributable to equity holders of the Bank	Non-controlling interests	Instruments eligible for additional capital	Total equity
	-	**(1,259,807)**	**997,767**	**1,264,794**	**594,980**	**15,301,259**	**13**	**4,000,000**	**19,301,272**
	-	-	-	-	603,648	603,648	2	-	603,650
	-	(124,119)	-	-	-	51,196	-	-	51,196
	-	**(124,119)**	**-**	**-**	**603,648**	**654,844**	**2**	**-**	**654,846**
	-	-	-	-	(2,062)	-	-	-	-
	-	-	-	-	(88,100)	-	-	-	-
	-	-	66,422	-	(66,422)	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	(240,000)	(240,000)	-	-	(240,000)
	-	-	-	-	(15,091)	(15,091)	-	-	(15,091)
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	588,235	-	-	588,235
	-	-	-	-	-	911,764	-	-	911,764
	-	-	-	-	-	-	-	-	-
	-	-	-	-	(192,727)	-	-	-	-
	(179,507)	-	-	-	-	(179,507)	-	-	(179,507)
	(179,507)	**-**	**-**	**-**	**(192,727)**	**1,320,492**	**-**	**-**	**1,320,492**
	-	-	-	-	-	-	-	-	-
	(179,507)	**(1,383,926)**	**1,064,189**	**1,264,794**	**594,226**	**17,021,504**	**15**	**4,000,000**	**21,021,519**

Consolidated Statement of Changes in Equity continued

For the year ended 31 December	Notes	Share capital	Legal reserve	General reserve	Risk reserve	Fair value reserve	Treasury shares
Balance as at 1 January 2016		3,266,292	8,820,294	26,500	1,787,308	(70,305)	-
Total comprehensive income for the year							
Profit for the year		-	-	-	-	-	-
Other comprehensive income		-	-	-	-	(162,231)	-
Total comprehensive income for the year		-	-	-	-	(162,231)	-
Transfer to legal reserve	22	-	7,946	-	-	-	-
Transfer to risk reserve	22	-	-	-	15,000	-	-
Net movement in other reserves and fair value reserve	22	-	-	-	-	12,721	-
Instruments eligible for additional capital	22	-	-	-	-	-	-
Dividend for Instruments eligible for additional capital	22	-	-	-	-	-	-
Social and sports fund	24	-	-	-	-	-	-
Put option on non-controlling interest		-	-	-	-	-	-
Transactions with equity holders of the Bank recognised directly in equity							
Contributions by and distributions to equity holders of the Bank:							
Increase in share capital of Abank		-	-	-	-	-	-
Dividends for the year 2015	22	-	-	-	-	-	-
Bonus issue	22	-	-	-	-	-	-
Total contributions by and distributions to equity holders of the Bank		-	-	-	-	-	-
Net movement in non-controlling interest		-	-	-	-	-	-
Balance as at 31 December 2016		3,266,292	8,828,240	26,500	1,802,308	(219,815)	-

Figures in thousand Qatar Riyals

Foreign currency translation reserve	Other reserves	Other equity	Revaluation reserve	Retained earnings	Total equity attributable to equity holders of the Bank	Non-controlling interests	Instruments eligible for additional capital	Total equity
(804,995)	1,139,887	(651,052)	-	1,239,526	14,753,455	545,225	2,000,000	17,298,680
-	-	-	-	500,750	500,750	629	-	501,379
(196,634)	-	-	1,264,794	-	905,929	(65,470)	-	840,459
(196,634)	-	-	1,264,794	500,750	1,406,679	(64,841)	-	1,341,838
-	-	-	-	(7,946)	-	-	-	-
-	-	-	-	(15,000)	-	-	-	-
-	(142,120)	-	-	122,265	(7,134)	-	-	(7,134)
-	-	-	-	-	-	-	2,000,000	2,000,000
-	-	-	-	(220,000)	(220,000)	-	-	(220,000)
-	-	-	-	(12,534)	(12,534)	-	-	(12,534)
-	-	651,052	-	-	651,052	-	-	651,052
-	-	-	-	-	-	47,305	-	47,305
-	-	-	-	(979,888)	(979,888)	-	-	(979,888)
-	-	-	-	-	-	-	-	-
-	-	-	-	(979,888)	(979,888)	47,305	-	(932,583)
(258,178)	-	-	-	(32,193)	(290,371)	(527,676)	-	(818,047)
(1,259,807)	997,767	-	1,264,794	594,980	15,301,259	13	4,000,000	19,301,272

Consolidated Statement of Cash Flows

Figures in thousand Qatar Riyals

For the year ended 31 December	Notes	2017	2016
Cash flows from operating activities			
Profit before tax		608,781	501,537
Adjustments for:			
Net impairment loss on loans and advances to customers		1,696,819	1,267,801
Impairment loss on investment securities		46,484	76,613
Depreciation	14	152,392	137,050
Amortization of intangible assets and transaction costs		126,930	174,188
Loss on investment securities at fair value through profit or loss	30	2,635	6,383
Net gain on disposal of available-for-sale securities	30	(39,339)	(152,433)
Gain on disposal of property and equipment and other assets		(4,042)	(810)
Share of results of associates and joint arrangement	12	(147,876)	46,350
Operating profit before working capital changes		**2,442,784**	2,056,679
Working capital changes			
Change in due from banks		3,521,993	(1,385,806)
Change in loans and advances to customers		(13,984,587)	(4,938,019)
Change in other assets		(444,075)	(907,538)
Change in due to banks		2,194,421	(572,134)
Change in customer deposits		7,381,483	2,822,005
Change in other liabilities		(823,358)	2,512,556
Contribution to social and sports fund		(12,534)	(35,841)
Net cash from / (used in) operating activities		**276,127**	(448,098)
Cash flows from investing activities			
Acquisition of investment securities		(8,561,768)	(10,654,156)
Dividend received from associates and a joint arrangement	12	81,454	79,389
Proceeds from sale/maturity of investment securities		4,253,761	10,564,071
Acquisition of property and equipment and intangible assets	14&15	(113,350)	(199,781)
Proceeds from the sale of property and equipment and other assets		6,201	4,436
Net cash (used in) / from investing activities		**(4,333,702)**	(206,041)
Cash flows from financing activities			
Proceeds from issue of debt securities	19	3,845,587	4,143,999
Repayment of debt securities	19	(3,968,148)	(178,298)
Repayment of other borrowings	20	(5,414,984)	(5,355,178)
Proceeds from other borrowings	20	4,161,023	4,158,709
Proceeds from rights issue		1,499,999	-
Proceeds from issue of instrument eligible for additional capital		-	2,000,000
Purchase of treasury shares		(179,507)	-
Dividends paid		-	(979,888)
Net cash (used in) / from financing activities		**(56,030)**	3,789,344
Net increase / (decrease) in cash and cash equivalents		**(4,113,605)**	3,135,205
Effect of exchange rate fluctuations		119,174	241,423
Cash and cash equivalents as at 1 January		14,315,866	10,939,238
Cash and cash equivalents as at the end of the year	36	**10,321,435**	14,315,866
Net cash flows from interest and dividend:			
Interest paid		2,613,395	2,001,392
Interest received		4,948,811	4,432,359
Dividend received		11,986	16,969

The attached notes 1 to 41 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2017

1. REPORTING ENTITY

The Commercial Bank (P.S.Q.C.) ("the Bank") is an entity domiciled in the State of Qatar and was in corporated in 1974 as a public share holding company under Emiri Decree No.73 of 1974. The commercial registration number of the Bank is 150. The address of the Bank's registered office is PO Box 3232, Doha, State of Qatar. The consolidated financial statements of the Bank for the year ended 31 December 2017 comprise the Bank and its subsidiaries (together referred to as "the Group"). The Group is primarily engaged in conventional banking, brokerage services and the credit card business and operates through its head office, subsidiaries and branches.

The principal subsidiaries of the Group are as follows:

Name	Country of incorporation	Capital	Activity	Percentage of ownership 2017	Percentage of ownership 2016
Alternatifbank A.S. ("ABank")	Turkey	TRY 980,000,000	Banking services	100%	100%
Commercial Bank Financial Services (L.L.C.)	Qatar	QAR 100,000,000	Brokerage services	100%	100%
Global Card Services L.L.C.	Sultanate of Oman	OMR 500,000	Credit card business	100%	100%
CBQ Finance Limited	Bermuda	US$ 1,000	Debt issuance for the Bank	100%	100%

2. BASIS OF PREPARATION

(a) Statement of compliance

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

The Group presents its consolidated statement of financial position broadly in the order of liquidity. An analysis regarding recovery or settlement of assets/liabilities within twelve months after the end of the reporting date ("current") and more than twelve months after the reporting date ("non-current") is presented in Note 4(c) (iii).

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following assets and liabilities that are measured at fair value:

- investment securities designated at fair value through income statement;
- derivatives;
- available-for-sale investments;
- land and buildings; and
- The carrying values of recognised assets and liabilities that are hedged items in quantifying fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

(c) Functional and presentation currency

These consolidated financial statements are presented in Qatari Riyals ("QAR"), which is the Bank's functional and presentation 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 the consolidated financial statements in conformity with IFRS and QCB regulations requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained in note 3(y), the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

(a) Basis of consolidation

(i) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquire and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquire is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred the amount of any non-controlling interest in the acquired and the acquisition-date fair value of any previous equity interest in the acquired over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

(ii) Non-controlling interests (NCI)

In accordance with IFRS 3R, for each business combination, the acquirer can measure, at the acquisition date, components of NCI in the acquired business that represent ownership interests and entitle its holders to a proportionate share of the entity's net assets in the event of liquidation at either:

(a) fair value on the acquisition date; or
(b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

NCI is measured only on initial recognition. The Group measures the NCI at fair value, including its share of goodwill.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

The accounting policies of subsidiaries are consistent with the accounting policies adopted by the Group.

(iv) Transactions eliminated on consolidation

Intra-group balances, and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

(v) Associates and joint arrangements

Associates and joint arrangements are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates and joint arrangements are accounted for by the equity method of accounting and are initially recognised at cost (including transaction costs directly related to acquisition of investment in associates and joint arrangement). The Group's investment in associates and joint arrangements includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' and joint arrangement's post-acquisition profits or losses is recognised in the consolidated income statement; its share of post-acquisition reserve movements is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associates and joint arrangements equals or exceeds its interest in the associates and joint arrangements, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associates and joint arrangement.

Intergroup gains on transactions between the Group and its associates and joint arrangement are eliminated to the extent of the Group's interest in the associates and joint arrangements. Intergroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Assoicates financial statements are being prepared using similar accounting policies and period end as the parent.

(vi) Funds management

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's funds management is set out in Note 37.

(b) Foreign currency

(i) Foreign currency transactions and balances

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

The gains and losses on revaluation of foreign currency non-monetary available-for-sale investments are recognised in the consolidated statement of changes in equity.

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

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currency (continued)

(ii) Foreign operations

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

Exchange differences arising from the above process are reported in equity and NCI as 'foreign currency translation reserve".
When the Group has any foreign operation that is disposed of, or partially disposed of, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of the net investment in the foreign operation and are recognised in other comprehensive income, and presented in the foreign exchange translation reserve in equity.

(c) Financial assets and financial liabilities

(i) Recognition and initial measurement

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

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

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

- loans and receivables (LaR);
- held to maturity (HTM);
- available-for-sale (AFS); and
- at fair value through profit or loss (FVTPL), either as: held for trading; or FVTPL on initial designation.

Financial liabilities

The Group has classified and measured its financial liabilities at amortized cost

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial assets and financial liabilities (continued)

(iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

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

(iv) Offsetting

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

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

(v) Measurement principles

- **Amortized cost measurement**

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

- **Fair value measurement**

  'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

  When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial assets and financial liabilities (continued)

(v) Measurement principles (continued)

- **Fair value measurement** (continued)

  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 Group 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 Group 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 Group 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 fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

- **Identification and measurement of impairment**

  At each reporting date the Group 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.

  Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

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

  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 recognised in profit or loss and reflected in an allowance account against loans and advances to customers.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial assets and financial liabilities (continued)

(v) Measurement principles (continued)

- **Identification and measurement of impairment** (continued)
  For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

  Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

  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.

(d) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents include amounts due from banks and with an original maturity of 90 days or less.

(e) Loans and advances to customers

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

Loans and advances to customers, cash and balances with central banks and due from banks are classified as 'loans and receivables'.

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

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment securities

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

(i) Held-to-maturity financial assets

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

(ii) Held for trading financial assets

A financial asset is classified as held-for-trading if it is:

- acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or
- a derivative, except for a derivative that is a designated and effective hedging instrument

(iii) Financial assets designated as at fair value through profit or loss

In addition to financial assets held for trading, financial assets are classified in the FVTPL category on initial recognition, to designate such instruments as a FVTPL using the fair value option in one of the following circumstances:

When doing so results in more relevant information because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would result from measuring assets or liabilities or recognising gains or losses on them on different bases (an "accounting mismatch"); or
- a group of financial assets or liabilities (or both) is managed and its performance is evaluated on a fair value basis in accordance with the entity's document risk management or investment strategy and information is provided by key management personnel on this basis.

The Group has classified its investments as held for trading where such investments are managed for short term profit taking or designated certain investments as fair value through profit or loss. Fair value changes on these investments are recognised immediately in profit or loss.

(iv) Available-for-sale financial investments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Derivatives

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

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value. The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging derivative instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss. These hedging relationships are discussed below.

Fair value hedges

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

Cash value hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income in the hedging reserve. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognised in other comprehensive income from the period when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement within 'Other gains/ (losses) – net'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement within 'Other gains/ (losses) – net'.

(ii) Derivatives held for trading purposes

The Group's derivative trading instruments includes, forward foreign exchange contracts and interest rate swaps. The Group sells these derivatives to customers in order to enable them to transfer, modify or reduce current and future risks. These derivative instruments are fair valued as at the end of reporting date and the corresponding fair value changes is taken to the profit or loss.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property and equipment

(i) Recognition and measurement

Items of property and equipment are initially measured at cost and subsequently at cost less accumulated depreciation and accumulated impairment losses, if any, except for land and building which are subsequently measured at fair value.

Revaluations of freehold land and buildings are carried out by an independent valuer. Net surpluses arising on revaluation are credited to a revaluation reserve, except that a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. A decrease as a result of a revaluation is recognised as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. On disposal the related revaluation surplus is credited to retained earnings.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs.

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

Buildings	20 years
Leasehold improvements	6 - 10 years
Furniture and equipment	3 - 8 years
Motor vehicles	5 years

(i) Impairment of goodwill and intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of goodwill and intangible assets (continued)

(ii) Intangible assets

The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

(j) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Provisions

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

(l) Financial guarantees

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

(m) Employee benefits

Defined contribution plans

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

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Employee benefits (continued)

Defined benefit plan

The Bank makes provision for end of service benefits payable to its expatriate employees on the basis of the employees' length of service in accordance with the employment policy of the Bank and the applicable provisions of the Labour Law. This provision is included in other provisions as part of other liabilities in the consolidated statement of financial position. The expected costs of these benefits are accrued over the period of employment.

ABank, under Turkish Labour Law, is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires. There are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary subject to a maximum threshold per employee for each year of service. There are no agreements for pension commitments other than the legal requirement as explained above. The liability is not funded, as there is no funding requirement.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(n) Share capital and reserves

(i) Share issue costs

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

(ii) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's equity holders.

(o) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading, are recognized within 'interest income' and 'interest expense' 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 financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(p) Fee 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 account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised 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 recognised 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income from investment securities

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

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

(r) Dividend income

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

(s) Income tax expenses

Taxes are calculated based on tax laws and regulations in other countries in which the Group operates. Tax is recognized based on an evaluation of the expected tax charge/credit. The Group operations inside Qatar are exempted from income tax.

(t) Earnings per share

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

(u) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Chief Executive Officer of the Bank as its chief operating decision maker.

All transactions between operating segments are conducted on an arm's length basis directly associated with each segment are included in determining operating segment performance.

(v) Fiduciary activities

The Group acts as fund manager and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, corporate and other institutions. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group.

(w) Repossessed collateral

Repossessed collaterals in settlement of customers' debts are stated under "Other assets" at carrying value of debts or fair value if lower. According to QCB instructions, the Group should dispose of any land and properties acquired in settlement of debts within a period not exceeding three years from the date of acquisition although this period can be extended with the approval of QCB.

(x) Comparatives

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

(y) New standards, amendments and interpretations

New standards, amendments and interpretations effective from 1 January 2017

The following standards, amendments and interpretations, which became effective as of 1 January 2017, are relevant to the Group:

a) Disclosure Initiative (Amendments to IAS 7).

The amendments require disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017 on prospective basis.

The new disclosure requirements have been included in these consolidated financial statements in note 40, where the Group has presented reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) New standards, amendments and interpretations (continued)

New standards, amendments and interpretations effective from 1 January 2017 *(continued)*

b) Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12).
The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Therefore, assuming that the tax base remains at the original cost of the debt instrument, there is a temporary difference.

The adoption of this standard had no significant impact on the consolidated financial statements.

c) Annual Improvements to IFRSs 2014–2016 Cycle – various standards.
The annual improvements to IFRSs to 2014-2016 cycles include certain amendments to various IFRSs, earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The following are the key amendments in brief:

- **IFRS 1 First-time Adoption of IFRS** – Outdated exemptions for first-time adopters of IFRS are removed. Effective for annual periods beginning on or after 1 January 2018.

- **IFRS 12 Disclosure of Interests in Other Entities** – The disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. Effective retrospectively for annual periods beginning on or after 1 January 2017.

- **IAS 28 Investments in Associates and Joint Ventures** – A venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis.

A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. Effective retrospectively for annual periods beginning on or after 1 January 2018; early application is permitted.

The adoption of these amendments had no significant impact on the consolidated financial statements.

New standards, amendments and interpretations issued but not yet effective
A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however; the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

The following standards are expected to have a material impact on the Group's consolidated financial statements in the period of initial application.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) New standards, amendments and interpretations (continued)

New standards, amendments and interpretations issued but not yet effective *(continued)*

a) IFRS 9 Financial Instruments (continued)

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

Figures in thousand Qatar Riyals

	Retained earnings	Fair value reserve
Closing balance under IAS 39 (31 December 2017)	**594,226**	**(44,500)**
Estimated risk reserve transfer on 1 January 2018	1,493,635	-
Impact on reclassification and remeasurements (i) :		
Investment securities (equity) from available-for-sale to those measured at fair value through other comprehensive income (i.a)	21,727	(21,727)
Investment securities (debt) from available-for-sale to those measured at fair value through other comprehensive income (i.b)	44,134	(44,134)
Investment securities (equity) from available-for-sale to those measured at fair value through profit and loss (i.c)	16,075	(16,075)
Investment securities (debt) from available-for-sale to those measured at fair value through profit and loss (i.d)	20,745	(20,745)
Investment securities (funds) from available-for-sale to those measured at fair value through profit and loss (i.c)	12,688	(12,688)
Investment securities (debt) from available-for-sale to those measured at amortised cost (i.e)	-	32,980
	115,369	**(82,389)**
Impact on recognition of Expected Credit Losses (ii):		
Expected credit losses for due from banks	(130,948)	-
Expected credit losses for debt securities at amortized cost	-	-
Expected credit losses for debt securities at fair value through other comprehensive income	(12,446)	-
Expected credit losses for loan and advances	(1,271,542)	-
Expected credit losses for off balance sheet exposures subject to credit risk.	(78,699)	-
	(1,493,635)	-
Estimated adjusted opening balance under IFRS 9 on date of initial application of 1 January 2018	**709,595**	**(126,889)**

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

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

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) New standards, amendments and interpretations (continued)

New standards, amendments and interpretations issued but not yet effective *(continued)*

a) IFRS 9 Financial Instruments (continued)

i) Classification and measurement

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

Based on the Group's assessment, the new IFRS 9 classification requirements is expected to have a material impact on its accounting for loans, investments in debt securities and investments in equity securities..

(i.a) At 31 December 2017, the Group had equity investments classified as available-for-sale with a carrying value of QAR 118 million that are held for long-term strategic purposes. Under IFRS 9, the Group has designated these investments as measured at FVOCI. Due to this reclassification, an increase of QAR 21.7 million is estimated in the retained earnings along with a corresponding decrease in fair value reserve due to reclassification of impairment on equity investments measured at fair value through comprehensive income.

(i.b) At 31 December 2017, the Group had debt investments classified as available-for-sale with a carrying value of QAR 3,116 million. Under IFRS 9, the Group has designated these investments as measured at FVOCI. Due to this reclassification, an increase of QAR 44.1 million is estimated in the retained earnings along with a corresponding decrease in fair value reserve due to reclassification of impairment on debt investments measured at fair value through comprehensive income.

(i.c) At 31 December 2017, the Group had investments in funds and equity instruments classified as available-for-sale with carrying values of QAR 225 million. Under IFRS 9, the Group has designated these investments as measured at FVTPL based on business model. Due to this reclassification, an increase of QAR 28.8 million is estimated in the retained earnings and equivalent decrease is estimated in fair value reserve.

(i.d) At 31 December 2017, the Group had investments in debt instruments classified as available-for-sale with carrying values of QAR 682 million. Under IFRS 9, the Group has designated these investments as measured at FVTPL based on business model. Due to this reclassification, an increase of QAR 20.7 million is estimated in the retained earnings and equivalent decrease is estimated in fair value reserve.

(i.e) At 31 December 2017, the Group had debt investments classified as available-for-sale with carrying value of QAR 12,850 million. Under IFRS 9, the Group has designated these investments as measured at amortized cost based on business model. Due to this reclassification, an increase of QAR 33 million is estimated in fair value reserve.

(ii) Expected credit losses

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) New standards, amendments and interpretations (continued)

New standards, amendments and interpretations issued but not yet effective *(continued)*

a) IFRS 9 Financial Instruments (continued)

(iii) Financial liabilities

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

No significant changes are expected for financial liabilities, other than changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument's credit risk, which will be presented in other comprehensive income.

(iv) Hedge accounting

IFRS 9's hedge accounting requirements are designed to align the accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in IAS 39. The elements of hedge accounting: fair value, cash flow and net investment hedges are retained.

When initially applying IFRS 9, the Group has the option to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. However, the Group determined that all existing hedge relationships that are currently designated in effective hedging relationships would continue to qualify for hedge accounting under IFRS 9. The new hedge accounting requirements under IFRS 9 will not have a material impact on hedge accounting applied by the Group.

(v) Disclosure

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

b) IFRS 15 Revenue from Contracts with Customers

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

c) Classification and Measurement of Shared-based Payment Transactions (Amendments to IFRS 2)

Currently, there is ambiguity over how an entity should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2 Share-based Payment.

The amendments cover three accounting areas:

- measurement of cash-settled share-based payments;
- classification of share-based payments settled net of tax withholdings; and
- accounting for a modification of a share-based payment from cash-settled to equity-settled.

The new requirements could affect the classification and/or measurement of these arrangements – and potentially the timing and amount of expense recognised for new and outstanding awards. There is currently no guidance in IFRS 2 on how to measure the fair value of the liability incurred in a cash-settled share-based payment.

The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments – i.e. the modified grant date method. Therefore, in measuring the liability:

- market and non-vesting conditions are taken into account in measuring its fair value; and
- the number of awards to receive cash is adjusted to reflect the best estimate of those expected to vest as a result of satisfying service and any non-market performance conditions.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) New standards, amendments and interpretations (continued)

New standards, amendments and interpretations issued but not yet effective *(continued)*

c) Classification and Measurement of Shared-based Payment Transactions (Amendments to IFRS 2) *(continued)*

The amendments can be applied prospectively so that prior periods do not have to be restated. Retrospective, or early, application is permitted if companies have the required information. The amendments are effective for annual periods commencing on or after 1 January 2018.

The Group does not expect to have a significant impact on its consolidated financial statements.

d) IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard-i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Group is in the process of assessing the potential impact on its consolidated financial statements. The Group has not yet decided whether it will use the optional exemptions.

e) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or jointventure constitute a 'business' (as defined in IFRS 3 Business Combinations).Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interest in the associate or joint venture.

The effective date for these changes has now been postponed until the completion of a broader review

– which the IASB hopes will result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. However, early adoption continues to be permitted.

The Group does not expect to have a significant impact on its consolidated financial statements.

4. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

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

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

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Introduction and overview (continued)

Financial instruments

Financial instruments comprise the Group's financial assets and liabilities. Financial assets include cash and balances with Central banks, due from banks, loans and advances, investment securities, derivative financial assets and certain other assets and financial liabilities include customer deposits, borrowings under repurchase agreements and interbank takings, debt issued and other borrowed funds, derivative financial liabilities and certain other liabilities. Financial instruments also include rights and commitments included in off- balance sheet items.

Note 3(c) describes the accounting policies followed by the Group in respect of recognition and measurement of the key financial instruments and their related income and expense.

Risk Management

The Group derives its revenue from assuming and managing customer risk for profit. Through a robust governance structure, risk and return are evaluated to produce sustainable revenue, to reduce earnings volatility and increase shareholder value. The most important types of risk are credit risk, liquidity risk, market risk and operational risk. Credit risk reflects the possible inability of a customer to meet his/her repayment or delivery obligations. Market risk, which includes foreign currency, interest rate risks and other price risks, is the risk of fluctuation in asset and commodity values caused by changes in market prices and yields. Liquidity risk results in the inability to accommodate liability maturities and withdrawals, fund asset growth or otherwise meet contractual obligations at reasonable market rates. Operational risk is the potential for loss resulting from events involving people, processes, technology, legal issues, external events or execution or regulatory issues.

Risk and other committees

The governance structure of the Group is headed by the Board of Directors. The Board of Directors evaluates risk by engaging with the Group Chief Executive Officer and Chief Risk Officer alongwith the following Board and Management Committees:

1) Board Risk Committee is responsible for all aspects of Enterprise Risk Management including but not restricted to credit risk, market risk, and operational risk. This committee sets the policy on all risk issues and maintains oversight of all Group risks through the Management Risk Committee.

2) Board Audit Committee is responsible for setting the policy on all Audit issues and maintains oversight of all Bank audit issues through the Chief Internal Auditor. In addition, the committee is also be responsible for Compliance & Anti-Money Laundering.

3) Board Executive Committee is responsible for evaluating and granting credit facilities and approval of the Group's investment activities within authorized limits per Qatar Central Bank and Board of Directors' guidelines. In addition, this committee is also responsible for all policies and strategies of the business and compliance of corporate Governance.

4) Management Credit Committee is the third highest-level authority on all regular and performing Counterparty Credit Risk Exposures, after the Board of Directors and Board Executive Committee. The Special Assets Management Committee is the MCC equivalient for watch list and non performing assets to minimize risks, prevent losses, maximize recoveries and restore profits through rehabilitation, restructuring, workout, collection or legal actions. Both Committees exercise the powers as conferred upon them by the Delegation of Authority ("DoA") as approved by the Board.

5) Management Risk Committee is the highest management authority on all risk related issues in the Group and its subsidiaries and affiliates in which it has strategic investments. This committee provides recommendations on all risk policy and portfolio issues to the Board Risk Committee.

6) Asset and Liability Committee (ALCO) is a management committee which is a decision making body relating to Asset and Liability management. (i.e. balance sheet structure, funding, pricing, hedging, setting limits etc.) Under the overall risk management framework, ALCO is a key component of risk management within the Bank.

7) Investment Committee (IC) is the decision making committee for Cb's investment activities, with a view to optimize returns, ensuring that the investment book provides a liquidity buffer for the bank and mitigate market risk attached to the nature of targeted investment

8) Crisis Management Committee (CMC) is the authority for management of a crisis entailing, prevention, planning, testing, evaluation and maintenance to mitigate and minimize the consequences.

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk

Credit risk is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is the most important risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit risk is attributed to both on-balance sheet financial instruments such as loans, overdrafts, debt securities and other bills, investments, and acceptances and credit equivalent amounts related to off-balance sheet financial instruments. The Group's approach to credit risk management preserves the independence and integrity of risk assessment, while being integrated into the business management processes. Policies and procedures, which are communicated throughout the organisation, guide the day-to-day management of credit exposure and remain an integral part of the business culture. The goal of credit risk management is to evaluate and manage credit risk in order to further enhance this strong credit culture.

(i) Credit risk measurement

1. Loans and advances

The Group's aim is to maintain a sound asset portfolio by enhancing its loan mix. This is being achieved through a strategy of reducing exposure to non-core client relationships while increasing the size of the consumer portfolio comprising of consumer loans, vehicle loans, credit cards and residential mortgages, which have historically recorded very low loss rates. In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Group reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derive the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

(i) The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They combine statistical analysis along with the business relationship officers and credit risk officers assessment and are validated, where appropriate, by comparison with externally available data. Clients of the Group are segmented based on a 10 point rating scale (22 notches including modifiers) for the corporate book and product based application scores for the retail products. The Group's rating scale reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary.

The ratings of the major rating agency are mapped to Group's rating grades based on the long-term average default rates for each external grade. The Group uses the external ratings where available to benchmark internal credit risk assessment. Observed defaults per rating category vary year on year, especially over an economic cycle.

(ii) Exposure at default is based on the amounts the Group expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Group includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

(iii) Loss given default or loss severity represents the Group's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

2. Debt securities and other bills

For debt securities and other bills, external ratings such as Standard & Poor's and Moody's ratings or their equivalents are used by Treasury for managing the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

(ii) Risk limit control and mitigation policies

Portfolio diversification

Portfolio diversification is an overriding principle, therefore, the credit policies are structured to ensure that the Group is not over exposed to a given client, industry sector or geographic area. To avoid excessive losses if any single counter-party is unable to fulfil its payment obligations, large exposure limits have been established per credit policy following the local regulations. Limits are also in place to manage exposures to a particular country or sector. These risks are monitored on an ongoing basis and subject to an annual or more frequent review, when considered necessary.

Collateral

In order to proactively respond to credit deterioration, the Group employs a range of policies and practices to mitigate credit risk.

The most traditional of these is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as at the reporting date. With gross-settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honours its obligation but the counterparty fails to deliver the counter-value.

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

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

Figures in thousand Qatar Riyals

	2017	2016
Credit risk exposures relating to assets recorded on the consolidated statement of financial position are as follows:		
Balances with central banks	6,647,279	5,818,300
Due from banks	10,499,348	19,302,001
Loans and advances to customers	89,121,935	77,797,597
Investment securities - debt	19,250,397	14,602,510
Other assets	1,957,777	1,636,566
Total as at 31 December	**127,476,736**	119,156,974
Other credit risk exposures are as follows:		
Guarantees	20,823,314	21,644,329
Letters of credit	2,700,146	2,505,758
Unutilised credit facilities	5,948,621	6,175,191
Total as at 31 December	**29,472,081**	30,325,278
	156,948,817	149,482,252

The above table represents a worse-case scenario of credit risk exposure to the Group, without taking account of any collateral held or other credit enhancements attached.

(iv) Concentration of risks of financial assets with credit risk exposure

Geographical sectors

The following table breaks down the Group's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorized by geographical region. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties.

Figures in thousand Qatar Riyals

2017	**Qatar**	**Other GCC**	**Other Middle East**	**Rest of the world**	**Total**
Balances with central banks	4,547,098	-	2,100,181	-	6,647,279
Due from banks	3,288,722	972,305	2,204,001	4,034,320	10,499,348
Loans and advances to customers	71,388,727	1,214,430	14,154,022	2,364,756	89,121,935
Investment securities - debt	15,208,688	783,439	2,492,389	765,881	19,250,397
Other assets	964,455	26,052	664,289	302,981	1,957,777
	95,397,690	**2,996,226**	**21,614,882**	**7,467,938**	**127,476,736**

Figures in thousand Qatar Riyals

2016	Qatar	Other GCC	Other Middle East	Rest of the world	Total
Balances with central banks	3,899,003	-	1,919,297	-	5,818,300
Due from banks	4,900,428	2,750,226	3,950,186	7,701,161	19,302,001
Loans and advances to customers	61,512,153	1,673,141	12,658,833	1,953,470	77,797,597
Investment securities - debt	10,238,126	1,080,802	2,455,551	828,031	14,602,510
Other assets	903,899	20,222	576,600	135,845	1,636,566
	81,453,609	5,524,391	21,560,467	10,618,507	119,156,974

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

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

Geographical sectors (continued)

Figures in thousand Qatar Riyals

2017	Qatar	Other GCC	Other Middle East	Rest of the world	Total
Guarantees	11,407,787	1,399,027	329,753	7,686,747	20,823,314
Letters of credit	2,269,333	32,779	-	398,034	2,700,146
Unutilised credit facilities	4,424,384	910,146	-	614,091	5,948,621
	18,101,504	**2,341,952**	**329,753**	**8,698,872**	**29,472,081**

Figures in thousand Qatar Riyals

2016	Qatar	Other GCC	Other Middle East	Rest of the world	Total
Guarantees	10,415,853	1,743,445	2,719,602	6,765,429	21,644,329
Letter of credit	2,011,652	217,519	274,832	1,755	2,505,758
Unutilised credit facilities	4,549,890	910,050	715,251	-	6,175,191
	16,977,395	2,871,014	3,709,685	6,767,184	30,325,278

Industry sectors

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

Figures in thousand Qatar Riyals

	Gross exposure 2017	Gross exposure 2016
Funded		
Government	31,719,283	23,458,970
Government agencies	4,829,599	2,818,667
Industry	8,194,017	5,254,690
Commercial	7,639,784	12,492,054
Services	34,374,970	36,184,327
Contracting	3,938,925	7,818,390
Real estate	26,203,202	19,415,500
Consumers	7,909,046	9,618,027
Other sectors	2,667,910	2,096,349
Total funded	**127,476,736**	119,156,974
Un-funded		
Government institutions & semi government agencies	802,862	1,107,810
Services	12,546,526	13,753,866
Commercial and others	16,122,693	15,463,602
Total un-funded	29,472,081	30,325,278
Total	**156,948,817**	149,482,252

Total maximum exposure net of tangible collateral is QAR 52 billion (2016: QAR 55 billion). The types of collateral obtained include cash, mortgages over real estate properties and pledges of shares.

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

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

Credit risk exposure

The table below presents an analysis of financial assets by rating grade equivalent to the rating of the international rating agencies.

Figures in thousand Qatar Riyals

	2017	2016
Equivalent grades		
AAA to AA-	39,222,737	30,253,465
A+ to A-	19,920,384	21,849,898
BBB+ to BBB-	58,559,412	63,739,879
BB+ to B-	19,579,366	16,139,694
Unrated/ equivalent internal grading	19,666,918	17,499,316
	156,948,817	149,482,252

The majority of the unrated exposures represent credit facilities granted to customers by the Group's subsidiary ABank.

(v) Credit quality

The following table sets out the credit quality of the Group's credit exposure at carrying amounts before taking into account collateral held or other credit enhancements.

Figures in thousand Qatar Riyals

	Loans and advances to customers		Due from banks		Investment securities - debt	
	2017	2016	**2017**	2016	**2017**	2016
Neither past due nor impaired:						
A: Low risk	33,319,519	25,050,781	7,173,646	13,555,754	17,819,114	13,173,854
B: Standard/satisfactory risk	49,041,208	48,435,405	3,325,702	5,746,247	1,431,283	1,428,656
	82,360,727	73,486,186	**10,499,348**	19,302,001	**19,250,397**	14,602,510
Past due but not impaired :						
A: Low risk	583,129	893,552	-	-	-	-
B: Standard/satisfactory risk	5,178,257	2,561,056	-	-	-	-
	5,761,386	3,454,608	**-**	-	**-**	-
Impaired:						
C: Substandard	669,952	295,097	-	-	-	-
D: Doubtful	641,342	548,844	-	-	-	-
E: Bad debts	3,962,891	3,218,926	-	-	67,055	102,280
	5,274,185	4,062,867	**-**	-	**67,055**	102,280
Less: impairment allowance-specific & collective	(4,274,363)	(3,206,064)	-	-	(67,055)	(102,280)
	999,822	856,803	-	-	-	-
Carrying amount – net	**89,121,935**	77,797,597	**10,499,348**	19,302,001	**19,250,397**	14,602,510

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

(v) Credit quality (continued)

Figures in thousand Qatar Riyals

	2017	2016
Investment securities - debt		
Available-for-sale	19,128,772	14,281,720
Investment securities designated at fair value through income statement	188,680	423,070
Less: impairment allowance (note 11 c)	(67,055)	(102,280)
Carrying amount – net	**19,250,397**	14,602,510

Note: None of the other assets are past due or impaired as at 31 December 2017.

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

Investment in debt securities carried at fair value through profit or losses are not assessed for impairment but are subject to the same internal grading system, where applicable.

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

Loans and advances to customers less than 90 days as at 31 December past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

Figures in thousand Qatar Riyals

	2017	2016
Up to 30 days	2,002,563	1,665,032
31 to 60 days	306,033	1,211,196
Above 60 days	3,452,790	578,380
Gross	**5,761,386**	3,454,608

Rescheduled loans and advances to customers
Rescheduled activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts as non impaired. The carrying value of renegotiated loans and advances as at 31 December 2017 was QAR 2,310 million (2016: QAR 3,177 million).

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

(vi) 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 indices of similar assets.

The Group has collateral in the form of blocked deposits, pledge of shares or legal mortgage against the past dues loans and advances to customers.

The aggregate collateral is QAR 1,423 million (2016: QAR 768 million) for past due loans and advances to customers up to 30 days, QAR 228 million (2016: QAR 447 million) for past due from 31 to 60 days and QAR 646 million (2016: QAR 258 million) for past due above 60 days.

(vii) Repossessed collateral

During the year, the Group acquired ownership of land and building by taking possession of collateral held as security for an amount of QAR nil million (2016: QAR nil million).

Repossessed properties proceeds are used to reduce the outstanding indebtedness and are sold as soon as practicable. Repossessed property is classified in the consolidated statement of financial position within other assets.

(viii) Write-off policy

The Group writes off a loan or an investment in debt security balance, and any related allowances for impairment losses, when Group Credit determines that the loan or security is uncollectible. QCB approval is required for such write off when the amount to be written off exceeds Qatar Riyal hundred thousand.

This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, write-off decisions generally are based on a product-specific past due status. The amount written off during the year was QAR 738 million (2016: QAR 513 million).

(c) Liquidity risk

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

(i) Management of liquidity risk

The management of liquidity risk is governed by the Group's liquidity policy. The primary objective of liquidity risk management; over which ALCO has oversight, is to provide a planning mechanism for unanticipated changes in the demand or needs for liquidity created by customer behaviour or abnormal market conditions. ALCO emphasises the maximisation and preservation of customer deposits and other funding sources. ALCO also monitors deposit rates, levels, trends and significant changes. Deposit marketing plans are regularly reviewed for consistency with the liquidity policy requirements. ALCO has in place a contingency plan, which is periodically reviewed. The Group's ability to raise wholesale and/or long term funding at competitive costs is directly impacted by the Bank's credit ratings, which are as follows:

Moody's:	Long Term A2, Short Term P1, financial strength Baa3 and outlook Negative.
Fitch :	Long Term A, Short Term F1, financial strength bbb- and outlook Negative.
Standard & Poor's:	Long Term BBB+, Short Term A-2, financial strength bbb- and outlook Negative

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(ii) Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by the Group's lead regulator, QCB under the heading 'Liquidity adequacy ratio' (LAR). The minimum ratio limit set by QCB is 100%.

Following table sets out the LAR position of the Group during the year as follows:

	2017	2016
At 31 December	**100.41**	117.84
Average for the year	**108.27**	111.99
Maximum for the year	**114.88**	117.84
Minimum for the year	**93.72**	104.91

(iii) Maturity analysis

The following table sets out the maturity profile of the Group's assets and liabilities. The contractual/expected maturities of assets and liabilities have been determined on the basis of the remaining period at 31 December to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

Figures in thousand Qatar Riyals

	Carrying amount	Demand / within 1 month	1-3 months	3 months – 1 year	Subtotal 1 year	1-5 years	More than 5 years	No Maturity
2017								
Cash and balances with central banks	7,373,918	3,792,896	-	-	3,792,896	-	-	3,581,022
Due from banks	10,499,348	7,457,612	947,049	1,985,487	10,390,148	109,200	-	-
Loans and advances to customers	89,121,935	9,205,960	2,509,831	9,340,865	21,056,656	23,559,354	44,505,925	-
Investment securities	19,629,246	22,903	1,278,827	1,649,125	2,950,855	7,700,892	8,598,650	378,849
Investment in associates and a joint arrangement	2,088,158	-	-	-	-	-	-	2,088,158
Asset held for sale	2,287,100	-	-	-	-	-	-	2,287,100
Others assets	7,449,347	1,095,720	196,275	218,788	1,510,783	2,187,163	-	3,751,401
Total	**138,449,052**	**21,575,091**	**4,931,982**	**13,194,265**	**39,701,338**	**33,556,609**	**53,104,575**	**12,086,530**
Due to banks	13,515,872	7,601,509	3,082,910	1,109,864	11,794,283	1,468,206	253,383	-
Customer deposits	77,633,333	45,510,147	15,293,079	13,042,771	73,845,997	3,787,336	-	-
Debt securities	11,604,890	103,120	-	1,734,223	1,837,343	8,510,390	1,257,157	-
Other borrowings	9,303,365	411,793	553,656	6,063,877	7,029,326	2,274,039	-	-
Other liabilities	5,370,073	2,540,501	567,012	1,929,939	5,037,452	332,621	-	-
Total	**117,427,533**	**56,167,070**	**19,496,657**	**23,880,674**	**99,544,401**	**16,372,592**	**1,510,540**	**-**
Difference	**21,021,519**	**(34,591,979)**	**(14,564,675)**	**(10,686,409)**	**(59,843,063)**	**17,184,017**	**51,594,035**	**12,086,530**

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(iii) Maturity analysis (continued)

Figures in thousand Qatar Riyals

	Carrying amount	Demand / within 1 month	1-3 months	3 months – 1 year	Subtotal 1 year	1-5 years	More than 5 years	No Maturity
2016								
Cash and balances with central bank	6,420,566	3,056,011	-	-	3,056,011	-	-	3,364,555
Due from banks	19,302,001	11,029,421	2,159,366	5,053,976	18,242,763	1,059,238	-	-
Loans and advances to customers	77,797,597	5,270,134	1,624,183	10,087,589	16,981,906	21,268,061	39,547,630	-
Investment securities	15,377,783	686,825	7	479,911	1,166,743	7,075,612	6,360,155	775,273
Investment in associates and a joint arrangement	4,300,647	-	-	-	-	-	-	4,300,647
Others assets	7,181,692	885,572	166,033	172,376	1,223,981	2,241,717	-	3,715,994
Total	130,380,286	20,927,963	3,949,589	15,793,852	40,671,404	31,644,628	45,907,785	12,156,469
Due to banks	11,634,313	9,787,406	582,615	312,690	10,682,711	698,219	253,383	-
Customer deposits	70,926,401	33,883,217	17,510,243	17,674,314	69,067,774	1,858,627	-	-
Debt securities	11,717,260	66,296	84,430	1,817,814	1,968,540	8,493,910	1,254,810	-
Other borrowings	10,777,242	1,642,921	238,344	3,116,298	4,997,563	5,180,925	598,754	-
Other liabilities	6,023,798	1,882,235	496,543	3,313,951	5,692,729	331,069	-	-
Total	111,079,014	47,262,075	18,912,175	26,235,067	92,409,317	16,562,750	2,106,947	-
Difference	19,301,272	(26,334,112)	(14,962,586)	(10,441,215)	(51,737,913)	15,081,878	43,800,838	12,156,469

(iv) Maturity analysis (financial liabilities and derivatives)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations.

Figures in thousand Qatar Riyals

2017	**Carrying amount**	**Gross undiscounted cash flows**	**Less than 1 month**	**1-3 months**	**3 months – 1 year**	**1-5 years**	**More than 5 years**
Non-derivative financial liabilities							
Due to banks	13,515,872	13,983,948	7,781,117	3,126,136	1,284,691	1,487,665	304,340
Customer deposits	77,633,333	78,968,189	46,286,513	15,555,963	13,272,299	3,853,414	-
Debt securities	11,604,890	12,735,145	109,489	-	1,779,319	9,435,119	1,411,218
Other borrowings	9,303,365	9,804,820	413,938	568,652	6,344,175	2,478,055	-
Other liabilities	5,014,459	5,014,459	2,184,887	567,012	1,929,939	332,621	-
Total liabilities	**117,071,919**	**120,506,561**	**56,775,944**	**19,817,763**	**24,610,423**	**17,586,874**	**1,715,558**

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(iv) Maturity analysis (financial liabilities and derivatives) (continued)

Derivative financial instruments:
Generally, forward foreign exchange contracts are settled on a gross basis and interest rate swaps are settled on a net basis.

Figures in thousand Qatar Riyals

2017	**Total**	**Up to 1 Year**	**1 - 5 years**	**More than 5 years**
Derivatives Held for Trading:				
Forward foreign exchange contracts				
Outflow	(18,009,204)	(14,957,505)	(3,013,671)	(38,028)
Inflow	17,896,328	14,792,197	3,008,141	95,990
Interest rate swaps:				
Outflow	(103,935)	(20,749)	(63,115)	(20,071)
Inflow	114,072	22,739	68,980	22,353
Derivatives Held as Fair Value Hedges:				
Interest rate swaps:				
Outflow	(358,276)	(20,805)	(81,971)	(255,500)
Inflow	189,245	11,385	44,081	133,779
Derivatives Held as Cash Value Hedges:				
Forward foreign exchange contracts:				
Outflow	-	-	-	-
Inflow	-	-	-	-
Interest rate swaps:				
Outflow	-	-	-	-
Inflow	-	-	-	-
Total Outflows	**(18,471,415)**	**(14,999,059)**	**(3,158,757)**	**(313,599)**
Total inflows	**18,199,645**	**14,826,321**	**3,121,202**	**252,122**

Figures in thousand Qatar Riyals

2016	Carrying amount	Gross undiscounted cash flows	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years
Non-derivative financial liabilities							
Due to banks	11,634,313	11,917,658	9,852,902	693,313	352,114	712,379	306,950
Customer deposits	70,926,401	72,029,617	34,357,924	17,818,002	17,966,764	1,886,927	-
Debt securities	11,717,260	13,122,798	69,652	88,590	1,834,877	9,860,180	1,269,499
Other borrowings	10,777,242	11,279,965	1,775,642	272,448	3,249,691	5,358,742	623,442
Other liabilities	5,866,882	5,866,882	1,725,319	496,543	3,313,951	331,069	-
Total liabilities	110,922,098	114,216,920	47,781,439	19,368,896	26,717,397	18,149,297	2,199,891

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(iv) Maturity analysis (financial liabilities and derivatives) (continued)

Derivative financial instruments:
Generally, forward foreign exchange contracts are settled on a gross basis and interest rate swaps are settled on a net basis.

Figures in thousand Qatar Riyals

2016	Total	Up to 1 Year	1 - 5 years	More than 5 years
Derivatives Held for Trading:				
Forward foreign exchange contracts:				
Outflow	(18,011,043)	(14,743,330)	(2,795,430)	(472,283)
Inflow	18,688,823	15,363,924	2,794,691	530,208
Interest rate swaps:				
Outflow	(134,277)	(22,869)	(74,673)	(36,735)
Inflow	142,040	24,129	78,612	39,299
Derivatives Held as Fair Value Hedges:				
Interest rate swaps:				
Outflow	(343,695)	(18,725)	(73,416)	(251,554)
Inflow	163,274	8,657	35,069	119,548
Derivatives Held as Cash Value Hedges:				
Forward foreign exchange contracts:				
Outflow	-	-	-	-
Inflow	-	-	-	-
Interest rate swaps:				
Outflow	-	-	-	-
Inflow	-	-	-	-
Total Outflows	(18,489,015)	(14,784,924)	(2,943,519)	(760,572)
Total inflows	18,994,137	15,396,710	2,908,372	689,05

(v) Off-balance sheet items

Figures in thousand Qatar Riyals

2017	**Below 1 Year**	**Above 1 Year**	**Total**
Loan commitments	1,148,931	4,799,690	5,948,621
Guarantees and other financial facilities	12,400,537	11,122,923	23,523,460
Capital commitments	178,472	-	178,472
Total	**13,727,940**	**15,922,613**	**29,650,553**

Figures in thousand Qatar Riyals

2016	Below 1 Year	Above 1 Year	Total
Loan commitments	1,302,401	4,872,790	6,175,191
Guarantees and other financial facilities	11,133,268	13,016,819	24,150,087
Capital commitments	168,074	-	168,074
Total	12,603,743	17,889,609	30,493,352

4. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risks

The Group takes exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposures to market risk into either trading or non-trading portfolios and by product type.

The market risks arising from trading and non-trading activities are concentrated in Group Treasury and monitored by two teams separately. Regular reports are submitted to the Board of Directors and heads of each business unit.

Trading portfolios include those positions arising from market-making transactions where the Group acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Group's held-to-maturity and available-for-sale investments.

(i) Management of market risks

Overall authority for market risk is vested in ALCO. Group Market Risk is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

The Group's proprietary investments are managed according to the Group's internal investment policy, which has been approved by the Board of Directors and drafted in accordance with the Qatar Central Bank guidelines. The Group's trading activities are conducted by Treasury and Investments Division. These activities are subject to business line guidelines and policies. The Group employs several techniques to measure and control activities including sensitivity analysis, position limits and risk based limits. The maximum limit of the Group's total proprietary investments (i.e. total of fair value through profit and loss, held to maturity and available for sale investment excluding Qatar Government issued or guaranteed investment or debt security portfolios) is restricted to 70% of the Group's capital and reserves (Tier 1 capital). However the individual limit for the held for trading investment portfolio is 10% of capital and reserves (Tier 1 capital) with a maximum permissible loss to carry for local securities at any given time. Investment policy is reviewed by the Board of Directors annually and day to day limits are independently monitored by the Market Risk Management department.

Investment proposals are approved at the Investment Committee and decisions driven by the investment strategy, which is developed by the business line under ALCO oversight and approved by the Board.

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

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

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by Group Treasury.

The Asset and Liability Management ("ALM") process, managed through ALCO, is used to manage interest rate risk associated with non-trading financial instruments. Interest rate risk represents the most significant market risk exposure to the Group's non-trading financial instruments.

The Group's goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect net interest income. Interest rate risk is measured as the potential volatility to the net interest rate income caused by changes in market interest rates. The Group typically manages the interest rate risk of its non-trading financial instruments by segmenting these assets and liabilities into two broad portfolios: non–discretionary and discretionary. The non-discretionary portfolio consists of the Group's customer driven loans and deposit positions and securities required to support regulatory requirements. To manage the resulting interest rate sensitivity of the Group's non-discretionary portfolio, the Group uses a discretionary portfolio of securities, long dated deposits, inter-bank takings and placements, and when warranted, derivatives. Strategically positioning the discretionary portfolio, the Group largely manages the interest rate sensitivity in the non-discretionary portfolio.

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risks (continued)

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

The following table summarises the interest sensitivity position at year end, by reference to the re-pricing period or maturity of the Group's assets and liabilities.

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

Figures in thousand Qatar Riyals

		Repricing in:					
	Carrying amount	Less than 3 months	3-12 months	1-5 years	More than 5 years	Non-interest sensitive	Effective interest rate %
2017							
Cash and balances with central banks	7,373,918	3,701,691	-	-	-	3,672,227	-
Due from banks	10,499,348	8,513,861	1,985,487	-	-	-	2.35%
Loans and advances to customers	89,121,935	44,082,741	37,244,372	5,048,210	589,675	2,156,937	5.27%
Investment securities	19,629,246	1,158,654	4,182,396	6,282,285	7,627,058	378,853	3.38%
Investment in associates and a joint arrangement	2,088,158	-	-	-	-	2,088,158	-
Asset held for sale	2,287,100	-	-	-	-	2,287,100	-
Property and equipment and all other assets	7,449,347	139,909	108,858	204,344	17,242	6,978,994	-
	138,449,052	**57,596,856**	**43,521,113**	**11,534,839**	**8,233,975**	**17,562,269**	**-**
Due to banks	(13,515,872)	(12,601,973)	(913,899)	-	-	-	2.73%
Customer deposits	(77,633,333)	(49,353,702)	(13,042,772)	(3,787,409)	-	(11,449,450)	2.67%
Debt securities	(11,604,890)	-	(226,386)	(10,121,348)	(1,257,156)	-	4.42%
Other borrowings	(9,303,365)	(1,828,448)	(6,848,718)	(626,199)	-	-	1.37%
Other liabilities	(5,370,073)	(149,931)	(30,525)	(113,293)	(297)	(5,076,027)	-
Equity	(21,021,519)	-	-	(4,000,000)	-	(17,021,519)	-
	(138,449,052)	**(63,934,054)**	**(21,062,300)**	**(18,648,249)**	**(1,257,453)**	**(33,546,996)**	**-**
Interest rate sensitivity gap	**-**	**(6,337,198)**	**22,458,813**	**(7,113,410)**	**6,976,522**	**(15,984,727)**	**-**
Cumulative Interest rate sensitivity gap	**-**	**(6,337,198)**	**16,121,615**	**9,008,205**	**15,984,727**	**-**	**-**

4. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risks (continued)

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

Figures in thousand Qatar Riyals

		Repricing in:					
	Carrying amount	Less than 3 months	3-12 months	1-5 years	More than 5 years	Non-interest sensitive	Effective interest rate %
2016							
Cash and balances with central bank	6,420,566	2,951,037	-	-	-	3,469,529	-
Due from banks	19,302,001	14,248,027	5,053,974	-	-	-	1.69%
Loans and advances to customers	77,797,597	38,485,866	31,478,636	3,598,151	871,898	3,363,046	5.00%
Investment securities	15,377,783	1,139,538	2,357,752	6,266,172	4,839,048	775,273	3.82%
Investment in associates and a joint arrangement	4,300,647	-	-	-	-	4,300,647	-
Property and equipment and other assets	7,181,692	307,297	116,384	84,874	20,936	6,652,201	-
	130,380,286	57,131,765	39,006,746	9,949,197	5,731,882	18,560,696	
Due to Bank	(11,634,313)	(11,634,313)	-	-	-	-	1.58%
Customer deposits	(70,926,401)	(40,422,651)	(17,509,056)	(1,834,579)	-	(11,160,115)	2.48%
Debt securities	(11,717,260)	-	(1,968,540)	(8,493,910)	(1,254,810)	-	4.55%
Other borrowings	(10,777,242)	(1,917,089)	(8,501,225)	(358,928)	-	-	1.62%
Other liabilities	(6,023,798)	(242,624)	(29,386)	(66,940)	(19,866)	(5,664,982)	-
Equity	(19,301,272)	-	-	(2,000,000)	(2,000,000)	(15,301,272)	-
	(130,380,286)	(54,216,677)	(28,008,207)	(12,754,357)	(3,274,676)	(32,126,369)	-
Interest rate sensitivity gap	-	2,915,088	10,998,539	(2,805,160)	2,457,206	(13,565,673)	-
Cumulative Interest rate sensitivity gap	-	2,915,088	13,913,627	11,108,467	13,565,673	-	-

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risks (continued)

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

Sensitivity analysis

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 50 basis point (bp) parallel fall or rise in all yield curves worldwide and a 50 bp rise or fall in the greater than 12-month portion of all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates, assuming no a symmetrical movement in yield curves and a constant financial position, is as follows:

Figures in thousand Qatar Riyals

	50 bp parallel increase	50 bp parallel decrease
Sensitivity of net interest income		
2017		
At 31 December	**59,726**	**(59,726)**
Average for the year	**64,471**	**(64,471)**
2016		
At 31 December	67,851	(67,851)
Average for the year	50,806	(50,806)

Figures in thousand Qatar Riyals

	50 bp parallel increase	50 bp parallel decrease
Sensitivity to reported Fair value reserve in equity of interest rate movements		
2017		
At 31 December	**1,432**	**(1,432)**
Average for the year	**1,770**	**(1,770)**
2016		
At 31 December	2,107	(2,107)
Average for the year	2,379	(2,379)

Interest rate movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in net interest income and the fair value changes reported in profit or loss; and
- fair value reserves arising from increases or decreases in fair values of available-for-sale financial instruments are reported directly in other comprehensive income.

Overall non-trading interest rate risk positions are managed by Group Treasury, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's non-trading activities.

4. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risks (continued)

(iii) Exposure to other market risks – non-trading portfolios

Foreign currency transactions

The Group monitors any concentration risk in relation to any individual currency in regard to the translation of foreign currency transactions and monetary assets and liabilities. The table shows the net foreign currency exposure by major currencies at the end of the reporting period along with the sensitivities if there were to be a change in the currency exchange rate.

Figures in thousand Qatar Riyals

	2017	2016
Net foreign currency exposure:		
Pounds Sterling	**166,043**	(14,954)
Euro	**(1,026,485)**	7,473
USD	**(13,171,504)**	(4,873,124)
Other currencies	**3,927,455**	4,506,612

Figures in thousand Qatar Riyals

	Increase in profit or loss		Increase in fair value reserve	
5% increase in currency exchange rate	**2017**	2016	**2017**	2016
Pound Sterling	**8,302**	(748)	**31**	18
Euro	**(51,324)**	374	**66**	48
USD	**(658,575)**	(243,656)	**8,401**	19,733
Other currencies	**196,372**	225,331	**749**	5,727

Open exchange position in other currencies represents Group's investment in associates and a joint arrangement denominated in OMR and AED which are pegged with USD.

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the equity indices and individual stocks The non-trading equity price risk exposure arises from equity securities classified as held for trading and available for sale. A 10 per cent increase in the Qatar Exchange and a 15 per cent increase in the Abu Dhabi Securities Exchange and Saudi Stock Exchange market index at 31 December 2017 would have increased equity by QAR 8 million (2016: QAR 28 million). An equivalent decrease would have resulted in an equivalent but opposite impact.

The Group is also exposed to equity price risk and the sensitivity analysis thereof is as follows:

Figures in thousand Qatar Riyals

	2017	2016
Increase / (decrease) in other comprehensive income:		
Qatar Exchange	**7,509**	13,004
Abu Dhabi Securities Exchange	**-**	6,110
Saudi Stock Exchange	**-**	8,745

The above analysis has been prepared on the assumption that all other variables such as interest rate, foreign exchange rate, etc. are held constant and is based on historical correlation of the equity securities to the relevant index. Actual movement may be different from the one stated above and is subject to impairment assessment at the end of each reporting period.

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid Control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address Operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

(f) Capital management

Regulatory capital

The Group's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on equity holders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period. The Capital Adequacy Ratio (CAR) of the group is calculated in accordance with the Basel Committee guidelines as adopted by Qatar Central Bank (QCB). From 1st January 2014 QCB adopted Basel III guidelines for CAR calculation.

4. FINANCIAL RISK MANAGEMENT (continued)

(f) Capital management (continued)

The Group's regulatory capital position under Basel III QCB regulations as at 31 December was as follows:

Figures in thousand Qatar Riyals

	Basel III 2017	Basel III 2016
Common Equity Tier 1 (CET 1) Capital	13,044,099	11,002,598
Additional Tier 1 Capital	3,961,712	3,961,937
Tier 1 Capital	17,005,811	14,964,535
Tier 2 Capital	1,799,160	2,333,381
Total Eligible Capital	**18,804,971**	17,297,916
Risk Weighted Assets for Credit Risk	108,224,349	104,583,275
Risk Weighted Assets for Market Risk	2,454,384	1,688,869
Risk Weighted Assets for Operational Risk	6,285,206	7,634,483
Total Risk Weighted Assets	**116,963,939**	113,906,627
-		
Total Capital Ratio	16.08%	15.19%

The minimum requirement for Capital Adequacy Ratio under Basel III as per Qatar Central bank Requirements are as follows:

	Without Capital Conservation Buffer	Including Capital Conservation Buffer	Additional DSIB charge	ICAAP Capital charge	Total
Minimum limit for CET 1 ratio	6%	2.5%	0.375%	0%	8.875%
Minimum limit for Tier 1 capital ratio	8%	2.5%	0.375%	0%	10.875%
Minimum limit for Total capital ratio	10%	2.5%	0.375%	1.0%	13.875%

The adoption of IFRS 9 on 1 January 2018 is not expected to have a material impact on the total capital adequacy ratio based on regulatory guidance to date.

5. USE OF ESTIMATES AND JUDGMENTS

(a) Key sources of estimation uncertainty

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

Notes to the Consolidated Financial Statements continued

5. USE OF ESTIMATES AND JUDGMENTS (continued)

(a) Key sources of estimation uncertainty (continued)

(i) Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on the basis as described in the accounting policy.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function. Minimum impairment on specific counter parties is determined based on the QCB regulations.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances to customers and investment securities measured at amortised cost with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired financial assets, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

The Bank reviews its loan portfolio to consolidate impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in the accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Where the fair values of financial assets and financial liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

(iii) Goodwill impairment

Goodwill is tested annually for impairment; assets are grouped together into smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to the CGU which is expected to benefit from the synergies of the combination.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

5. USE OF ESTIMATES AND JUDGMENTS (continued)

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

(i) Valuation of financial instruments

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

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

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: Inputs other than quoted prices included within Level1 that are observable either directly (i.e.as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are value based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market observable prices exist.

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

Figures in thousand Qatar Riyals

			31 December 2017
	Level 1	**Level 2**	**Carrying amount**
Derivative assets	-	462,483	462,483
Investment securities	2,556,279	16,874,981	19,629,246
	2,556,279	**17,337,464**	**20,091,729**
Derivative liabilities	-	355,614	355,614
	-	**355,614**	**355,614**

			31 December 2016
	Level 1	Level 2	Carrying amount
Derivative assets	-	226,523	226,523
Investment securities	2,655,263	12,486,481	15,377,783
	2,655,263	12,713,004	15,604,306
Derivative liabilities	-	156,917	156,917
	-	156,917	156,917

All unquoted available for sale equities and investment funds are recorded at fair value except for investments with a carrying value of QAR 198 million (2016: QAR 236 million), which are recorded at cost since their fair value cannot be reliably estimated. There have been no transfers between levels 1, 2 and 3 during the years 2017 and 2016.

Fair value of financial assets and liabilities not measured at fair value is approximately equal to the carrying value.

Notes to the Consolidated Financial Statements continued

5. USE OF ESTIMATES AND JUDGMENTS (continued)

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

(ii) Financial asset and liability classification

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

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

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

(iii) Qualifying hedge relationships

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

(iv) Impairment of investments in equity and debt securities

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

(v) Useful lives of property and equipment

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

(vi) Useful life of intangible assets

The Group's management determines the estimated useful life of its intangible assets for calculating amortization. This estimate is determined after considering the expected economic benefits from the use of intangible assets.

(vii) Fair value of land and buildings

The fair value of land and building is determined by valuations from an external professional real estate valuer using recognised valuation techniques and the principles of IFRS 13 "Fair Value Measurement". These valuations entail significant estimates and assumptions about the future. The valuation basis used is capitalization method and comparison & cost approach method.

6. OPERATING SEGMENTS

For management purposes, the Group is divided into four operating segments, which are based on business lines, together with its associates and joint arrangement companies, as follows:

Commercial Bank:

1. **Wholesale Banking** provides an extensive range of conventional funded and non-funded credit facilities, demand and time deposit services, currency exchange facilities, interest rate swaps and other derivative trading services, loan syndication and structured financing services to corporate, commercial and multinational customers. Money market funds and proprietary investment portfolio are also managed by this operating segment.

2. **Retail Banking** provides personal current, savings, time and investment account services, credit card and debit card services, consumer and vehicle loans, residential mortgage services and custodial services to retail and individual customers.

Subsidiaries:

3. **ABank:** A subsidiary that provides banking services through its branch network in Turkey. Abank also has its subsidiaries. The Group reported Abank group result under this operating segment.

4. **Other principal subsidiaries:**
   a) Global Card Services L.L.C. provide credit card services in the Sultanate of Oman.
   b) Commercialbank Financial Services L.L.C. provides brokerage services in the State of Qatar.
   c) CBQ Finance Limited, a SPV used for debt issuance for the bank,

6. OPERATING SEGMENTS (continued)

Unallocated assets, liabilities and revenues are related to certain central functions and non-core business operations. (For example, Group headquarters, staff apartments, common property & equipment, cash functions and development projects and related payables, net of intra-group transactions).

Associates and joint arrangement Companies – includes the Group's strategic investments in the National Bank of Oman in the Sultanate of Oman and Massoun Insurance Services L.L.C. which operate in the State of Qatar. All Associates and joint arrangement Companies are accounted for under the equity method.

Management monitors the results of the operating segments separately to make decisions about resource allocation and performance assessment. Transfer prices between operating segments are on an arm's length basis.

(a) By operating segment

Segment assets and liabilities comprise operating assets and liabilities which are directly handled by the operating segment and income or expenses are attributed with the assets and liabilities' ownership. The following table summarizes performance of the operating segments:

Figures in thousand Qatar Riyals

	Commercial Bank			Subsidiaries			
	Wholesale Banking	Retail Banking	Total Commercial Bank	ABank	Others	Unallocated	Total
2017							
Net interest income	1,131,817	956,485	2,088,302	493,735	3,273	(67,010)	**2,518,300**
Net fee, commission and other income	486,609	427,222	913,831	21,513	19,845	55,786	**1,010,975**
Segmental revenue	1,618,426	1,383,707	3,002,133	515,248	23,118	(11,224)	**3,529,275**
Impairment loss on investment securities	(46,484)	-	(46,484)	-	-	-	**(46,484)**
Net impairment loss on loans and advances to customers	(866,625)	(659,019)	(1,525,644)	(174,917)	3,742	-	**(1,696,819)**
Segmental profit			**428,962**	**49,121**	**10,706**	**(33,015)**	**455,774**
Share of results of associates and a joint arrangement							**147,876**
Net profit for the year							**603,650**
Other information							
Assets	85,641,936	22,749,435	108,391,371	19,830,916	316,796	5,534,711	**134,073,794**
Investments in associates and a joint arrangement	-	-	-	-	-	-	**2,088,158**
Asset held for sale	-	-	-	-	-	-	**2,287,100**
Liabilities	76,834,256	22,152,153	98,986,409	18,258,505	94,092	88,527	**117,427,533**
Contingent items	23,921,526	597,103	24,518,629	4,392,507	560,945	-	**29,472,081**

Intra-group transactions are eliminated from this segmental information (Assets: QAR 2,520 million and Liabilities: QAR 364 million)

Notes to the Consolidated Financial Statements continued

6. OPERATING SEGMENTS (continued)

(a) By operating segment (continued)

Figures in thousand Qatar Riyals

	Commercial Bank			Subsidiaries			
	Wholesale Banking	Retail Banking	Total Commercial Bank	ABank	Others	Unallocated	Total
2016							
Net interest income	1,138,104	881,412	2,019,516	410,007	3,458	(92,233)	2,340,748
Net fee, commission and other income	579,517	409,715	989,232	170,130	21,021	56,712	1,237,095
Segmental revenue	1,717,621	1,291,127	3,008,748	580,137	24,479	(35,521)	3,577,843
Impairment loss on investment securities	(76,613)	-	(76,613)	-	-	-	(76,613)
Net impairment loss on loans and advances to customers	(710,343)	(339,596)	(1,049,939)	(213,503)	(4,299)	(60)	(1,267,801)
Segmental profit			674,768	2,602	305	(129,946)	547,729
Share of results of associates and a joint arrangement							(46,350)
Net profit for the year							501,379
Other information							
Assets	79,707,956	22,797,898	102,505,854	17,976,836	228,663	5,368,286	126,079,639
Investments in associates and a joint arrangement	-	-	-	-	-	-	4,300,647
Liabilities	72,063,791	22,175,505	94,239,296	16,680,097	16,555	143,066	111,079,014
Contingent items	24,829,154	1,178,298	26,007,452	3,746,483	571,343	-	30,325,278

Intra-group transactions are eliminated from this segmental information (Assets: QAR 2,358 million and Liabilities: QAR 368 million)

6. OPERATING SEGMENTS (continued)

(b) By geography

Figures in thousand Qatar Riyals

Consolidated statement of financial position	Qatar	Other GCC countries	Other Middle East	Europe	North America	Rest of the world	Total
2017							
Cash and balances with central banks	5,182,523	9	2,191,386	-	-	-	7,373,918
Due from banks	3,288,722	972,305	2,204,001	1,916,134	916,216	1,201,970	10,499,348
Loans and advances to customers	71,388,727	1,214,430	14,154,023	1,391,439	63	973,253	89,121,935
Investment securities	15,433,344	866,833	2,523,754	140,580	428,947	235,788	19,629,246
Investment in associates and a joint arrangement	8,818	2,079,340	-	-	-	-	2,088,158
Asset held for sale	-	2,287,100	-	-	-	-	2,287,100
Property and equipment and all other assets	5,687,013	26,052	1,433,140	258,213	2,073	42,856	7,449,347
Total assets	**100,989,147**	**7,446,069**	**22,506,304**	**3,706,366**	**1,347,299**	**2,453,867**	**138,449,052**
Due to banks	3,253,831	4,379,585	971,171	3,670,600	300,846	939,839	13,515,872
Customer deposits	57,730,958	2,689,705	10,028,755	1,998,896	30,801	5,154,218	77,633,333
Debt securities	181,131	-	2,206,596	9,217,163	-	-	11,604,890
Other borrowings	119,851	4,579,359	1,088,099	1,960,815	1,118,786	436,455	9,303,365
Other liabilities	4,251,110	61,233	726,896	266,577	19,660	44,597	5,370,073
Equity	21,021,504	-	15	-	-	-	21,021,519
Total liabilities and equity	**86,558,385**	**11,709,882**	**15,021,532**	**17,114,051**	**1,470,093**	**6,575,109**	**138,449,052**

Notes to the Consolidated Financial Statements continued

6. OPERATING SEGMENTS (continued)

(b) By geography (continued)

Figures in thousand Qatar Riyals

Consolidated statement of income	Qatar	Other GCC countries	Other Middle East	Europe	North America	Rest of the world	Total
Year ended 31 December 2017							
Net interest income	1,882,834	(34,873)	795,558	(223,447)	(59,861)	158,089	2,518,300
Net fee, commission and other income	995,647	(645)	27,324	(12,470)	22,861	(21,742)	1,010,975
Net operating income	2,878,481	(35,518)	822,882	(235,917)	(37,000)	136,347	3,529,275
Staff cost	(550,973)	-	(162,451)	-	-	(48)	(713,472)
Depreciation	(141,080)	-	(11,297)	-	-	(15)	(152,392)
Amortization of intangible assets	(47,339)	-	(8,271)	-	-	-	(55,610)
Impairment loss on investment securities	(18,071)	(14,351)	-	(5,001)	(8,097)	(964)	(46,484)
Net impairment loss on loans and advances to customers	(1,525,644)	3,742	(174,917)	-	-	-	(1,696,819)
Other expenses	(298,967)	-	(104,060)	-	-	(566)	(403,593)
Profit before share of results of associates and a joint arrangement	296,407	(46,127)	361,886	(240,918)	(45,097)	134,754	460,905
Share of results of associates and a joint arrangement	3,959	143,917	-	-	-	-	147,876
Profit for the year before tax	**300,366**	**97,790**	**361,886**	**(240,918)**	**(45,097)**	**134,754**	**608,781**
Income tax expenses	-	-	(5,131)	-	-	-	(5,131)
Net profit for the year	**300,366**	**97,790**	**356,755**	**(240,918)**	**(45,097)**	**134,754**	**603,650**

6. OPERATING SEGMENTS (continued)

(b) By geography (continued)

Figures in thousand Qatar Riyals

Consolidated statement of financial position	Qatar	Other GCC countries	Other Middle East	Europe	North America	Rest of the world	Total
2016							
Cash and balances with central bank	4,396,286	9	2,024,271	-	-	-	6,420,566
Due from banks	4,900,428	2,750,226	3,950,186	2,987,438	761,780	3,951,943	19,302,001
Loans and advances of customers	61,512,153	1,673,141	12,658,833	1,436,505	56,526	460,439	77,797,597
Investments securities	10,541,549	1,242,214	2,489,104	251,083	635,006	218,827	15,377,783
Investment in associates and a joint arrangement	8,859	4,291,788	-	-	-	-	4,300,647
Property and equipment and all other assets	5,667,654	20,222	1,357,809	125,568	1,994	8,445	7,181,692
Total assets	87,026,929	9,977,600	22,480,203	4,800,594	1,455,306	4,639,654	130,380,286
Due to banks	3,823,332	3,267,736	1,964,280	1,849,270	663,609	66,086	11,634,313
Customer deposits	48,595,570	4,805,798	8,156,003	1,128,662	20,960	8,219,408	70,926,401
Debt securities	375,226	-	1,519,490	9,672,455	150,089	-	11,717,260
Other borrowings	187,793	6,311,116	537,947	2,322,848	1,160,633	256,905	10,777,242
Other liabilities	5,186,811	65,011	560,848	163,877	2,745	44,506	6,023,798
Equity	19,301,259	-	13	-	-	-	19,301,272
Total liabilities and equity	77,469,991	14,449,661	12,738,581	15,137,112	1,998,036	8,586,905	130,380,286

Notes to the Consolidated Financial Statements continued

6. OPERATING SEGMENTS (continued)

(b) By geography (continued)

Figures in thousand Qatar Riyals

Consolidated statement of income	Qatar	Other GCC countries	Other Middle East	Europe	North America	Rest of the world	Total
Year ended 31 December 2016							
Net interest income	2,122,466	(33,592)	528,620	(215,360)	8,112	(69,498)	2,340,748
Net Fee, commission and other income	944,906	55,367	175,941	19,934	27,904	29,445	1,253,497
Net operating income	3,067,372	21,775	704,561	(195,426)	36,016	(40,053)	3,594,245
Staff cost	(678,672)	-	(192,111)	-	-	(1,489)	(872,272)
Depreciation	(125,537)	-	(11,373)	-	-	(140)	(137,050)
Amortization of intangible assets	(97,139)	-	(7,479)	-	-	-	(104,618)
Impairment loss on investment securities	(21,661)	(54,196)	-	690	(1,446)	-	(76,613)
Net impairment loss on loans and advances to customers	(1,049,999)	(4,299)	(213,503)	-	-	-	(1,267,801)
Other expenses	(432,235)	-	(152,911)	-	-	(2,858)	(588,004)
Profit before share of results of associates and a joint arrangement	662,129	(36,720)	127,184	(194,736)	34,570	(44,540)	547,887
Share of results of associates and a joint arrangement	4,861	(51,211)	-	-	-	-	(46,350)
Profit for the year before tax	666,990	(87,931)	127,184	(194,736)	34,570	(44,540)	501,537
Income tax expenses	-	-	(158)	-	-	-	(158)
Net profit for the year	666,990	(87,931)	127,026	(194,736)	34,570	(44,540)	501,379

7. FINANCIAL ASSETS AND LIABILITIES

(a) Accounting classifications and fair values

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

Figures in thousand Qatar Riyals

	Fair value through income statement	**Held-to-maturity**	**Loans and receivables (at amortised cost)**	**Available-for-sale**	**Other amortised cost**	**Total carrying amount**	**Fair value**
2017							
Cash and balances with central banks	-	-	7,373,918	-	-	7,373,918	7,373,918
Due from banks	-	-	10,499,348	-	-	10,499,348	10,499,348
Derivative assets	462,483	-	-	-	-	462,483	462,483
Loans and advances to customers	-	-	89,121,935	-	-	89,121,935	89,121,935
Investment securities-measured at fair value	188,680	-	-	19,440,566	-	19,629,246	19,629,246
	651,163	**-**	**106,995,201**	**19,440,566**	**-**	**127,086,930**	**127,086,930**
Derivative liabilities	355,614	-	-	-	-	355,614	355,614
Due to banks	-	-	-	-	13,515,872	13,515,872	13,515,872
Customer deposits	-	-	-	-	77,633,333	77,633,333	77,633,333
Debt securities	-	-	-	-	11,604,890	11,604,890	11,782,538
Other borrowings	-	-	-	-	9,303,365	9,303,365	9,303,365
	355,614	**-**	**-**	**-**	**112,057,460**	**112,413,074**	**112,590,722**

Figures in thousand Qatar Riyals

	Fair value through income statement	Held-to-maturity	Loans and receivables (at amortised cost)	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
2016							
Cash and balances with central banks	-	-	6,420,566	-	-	6,420,566	6,420,566
Due from banks	-	-	19,302,001	-	-	19,302,001	19,302,001
Derivative assets	226,523	-	-	-	-	226,523	226,523
Loans and advances to customers	-	-	77,797,597	-	-	77,797,597	77,797,597
Investment securities-measured at fair value	423,070	-	-	14,954,713	-	15,377,783	15,377,783
	649,593	-	103,520,164	14,954,713	-	119,124,470	119,124,470
Derivative liabilities	156,916	-	-	-	-	156,916	156,916
Due to banks	-	-	-	-	11,634,313	11,634,313	11,634,313
Customer deposits	-	-	-	-	70,926,401	70,926,401	70,926,401
Debt securities	-	-	-	-	11,717,260	11,717,260	12,051,692
Other borrowings	-	-	-	-	10,777,242	10,777,242	10,777,242
	156,916	-	-	-	105,055,216	105,212,132	105,546,564

Notes to the Consolidated Financial Statements continued

8. CASH AND BALANCES WITH CENTRAL BANKS

Figures in thousand Qatar Riyals

	2017	2016
Cash	726,639	602,266
Cash reserve with central banks *	4,395,786	4,291,626
Other balances with central banks	2,251,493	1,526,674
	7,373,918	6,420,566

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

9. DUE FROM BANKS

Figures in thousand Qatar Riyals

	2017	2016
Current accounts	1,760,666	1,085,901
Placements	6,268,824	13,423,046
Loans to banks	2,469,858	4,793,054
	10,499,348	19,302,001

10. LOANS AND ADVANCES TO CUSTOMERS

a) By type

Figures in thousand Qatar Riyals

	2017	2016
Loans	82,692,419	72,503,971
Overdrafts	7,928,545	4,488,163
Bills discounted	632,506	667,998
Bankers acceptances	2,156,937	3,363,046
	93,410,407	81,023,178
Deferred profit	(14,109)	(19,517)
Allowance for impairment of loans and advances to customers	(4,274,363)	(3,206,064)
Net loans and advances to customers*	**89,121,935**	**77,797,597**

*The aggregate amount of non-performing loans and advances to customers amounted QAR 5,274 million which represents 5.65% of total loans and advances to customers (2016: QAR 4,062 million 5.01% of total loans and advances to customers).

Allowance for impairment of loans and advances to customers includes QAR 549 million of interest in suspense (2016: QAR 445 million).

By internal business segment

Figures in thousand Qatar Riyals

	2017	2016
Government and related agencies	12,348,519	7,928,932
Wholesale	48,166,483	42,276,637
Retail	28,606,933	27,592,028
Net loans and advances to customers	**89,121,935**	77,797,597

10. LOANS AND ADVANCES TO CUSTOMERS (continued)

b) By sector

Figures in thousand Qatar Riyals

At 31 December 2017:	**Loans**	**Overdrafts**	**Bills discounted**	**Bankers acceptances**	**Total**
Government and related agencies	7,348,152	5,000,367	-	-	12,348,519
Non-banking financial institutions	2,347,076	76	37,853	-	2,385,005
Industry	8,329,504	21,059	12,863	10,846	8,374,272
Commercial	5,637,966	275,875	120,646	223,107	6,257,594
Services	21,855,330	471,829	256,022	755,054	23,338,235
Contracting	4,921,300	377,230	161,881	1,167,092	6,627,503
Real estate	24,262,392	359,274	-	174	24,621,840
Personal	7,210,031	1,370,432	43,012	-	8,623,475
Others	780,668	52,402	229	665	833,964
	82,692,419	**7,928,544**	**632,506**	**2,156,938**	**93,410,407**
Less: Deferred profit					(14,109)
Allowance for impairment of loans and advances to customers					(4,274,363)
					4,288,472
Net loans and advances to customers					**89,121,935**

Figures in thousand Qatar Riyals

At 31 December 2016:	Loans	Overdrafts	Bills discounted	Bankers acceptances	Total
Government and related agencies	5,831,014	2,097,918	-	-	7,928,932
Non-banking financial institutions	2,257,210	32,265	33,884	-	2,323,359
Industry	5,705,029	30,500	12,564	4,728	5,752,821
Commercial	10,148,596	299,916	160,590	261,850	10,870,952
Services	13,885,812	212,576	310,687	1,952,931	16,362,006
Contracting	6,458,864	338,354	148,551	1,142,079	8,087,848
Real Estate	18,186,128	183,297	444	-	18,369,869
Personal	9,009,918	1,218,512	1,278	-	10,229,708
Others	1,021,400	74,825	-	1,458	1,097,683
	72,503,971	4,488,163	667,998	3,363,046	81,023,178
Less: Deferred profit					(19,517)
Allowance for impairment of loans and advances to customers					(3,206,064)
					(3,225,581)
Net loans and advances to customers					77,797,597

Notes to the Consolidated Financial Statements continued

10. LOANS AND ADVANCES TO CUSTOMERS (continued)

c) Movement in allowance for impairment of loans and advances to customers

Figures in thousand Qatar Riyals

	2017	2016
Balance at 1 January	3,206,064	2,360,458
Allowance made during the year	2,167,992	1,705,566
Recoveries during the year	(364,497)	(253,309)
Net allowance for impairment during the year *	1,803,495	1,452,257
Written off / transferred during the year	(701,577)	(504,759)
Exchange differences	(33,619)	(101,892)
Balance at 31 December	**4,274,363**	3,206,064

*This includes net interest suspended during the year QAR 106.7 million (2016: QAR 184.5 million) as per QCB regulations.

Further analysis is as follows:

Figures in thousand Qatar Riyals

	Commercial Bank	**Abank**	**Other subsidiaries**	**Total**
Balance at 1 January 2017	2,692,477	497,477	16,110	3,206,064
Allowance made during the year	1,869,500	298,492	-	2,167,992
Recoveries during the year	(237,180)	(123,575)	(3,742)	(364,497)
Written off / transferred during the year	(575,667)	(125,910)	-	(701,577)
Exchange differences	-	(33,619)	-	(33,619)
Balance at 31 December 2017	**3,749,130**	**512,865**	**12,368**	**4,274,363**

Figures in thousand Qatar Riyals

	Commercial Bank	Abank	Other subsidiaries	Total
Balance at 1 January 2016	1,850,106	498,541	11,811	2,360,458
Allowance made during the year	1,340,134	359,544	5,888	1,705,566
Recoveries during the year	(105,678)	(146,042)	(1,589)	(253,309)
Written off / transferred during the year	(392,085)	(112,674)	-	(504,759)
Exchange differences	-	(101,892)	-	(101,892)
Balance at 31 December 2016	2,692,477	497,477	16,110	3,206,064

11. INVESTMENT SECURITIES

Figures in thousand Qatar Riyals

	2017	2016
Available-for-sale	19,440,566	14,954,713
Investment securities designated at fair value through profit or loss	188,680	423,070
Total	**19,629,246**	15,377,783

The carrying value of investment securities pledged under repurchase agreements (REPO) is QAR 6,666 million (2016:QAR 3,793 million)

a) Available-for-sale

Figures in thousand Qatar Riyals

	2017			2016		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Equities	112,181	151,248	263,429	247,790	156,935	404,725
State of Qatar debt securities	13,095,696	1,681,420	14,777,116	2,293,530	7,514,228	9,807,758
Debt and other securities*	4,213,505	71,096	4,284,601	4,257,935	113,747	4,371,682
Investment funds	60,476	54,944	115,420	107,309	263,239	370,548
Total	**17,481,858**	**1,958,708**	**19,440,566**	6,906,564	8,048,149	14,954,713

* Fixed rate securities and floating rate securities amounted to QAR 3,999 million and QAR 286 million respectively (2016: QAR 4,008 million and QAR 363 million respectively).

b) Investment securities designated at fair value through profit or loss

Figures in thousand Qatar Riyals

	2017	2016
Debt securities	188,680	423,070
Total*	**188,680**	423,070

*Fair value through profit or loss includes investments held for trading amounting to QAR 182 million as on 31 December 2017 (2016: QAR 365 million).

c) Movement in impairment loss on investment Available for sale - debt securities

Figures in thousand Qatar Riyals

	2017	2016
Balance at 1 January	102,280	118,883
Allowance for impairment during the year	4,629	6,803
Reversals during the year	(3,454)	(15,634)
Written off during the year	(36,400)	(7,772)
Total	**67,055**	102,280

The Group has also recognised impairment loss for investments in equities and funds during the year amounting to QAR 41.86 million (2016: QAR 69.8 million).

Notes to the Consolidated Financial Statements continued

12. INVESTMENT IN ASSOCIATES AND A JOINT ARRANGEMENT

Figures in thousand Qatar Riyals

	2017	2016
Balance at 1 January	4,300,647	4,423,172
Share of results -(note 22)	147,876	(46,350)
Cash dividend - (note 22)	(81,454)	(79,389)
Other movements	8,189	3,214
Reclassified to asset held for sale- (note 13)	(2,287,100)	-
Balance at 31 December	**2,088,158**	4,300,647

Figures in thousand Qatar Riyals

Name of the Entity	Classification	Amount 2017	Amount 2016	Country	Activities	Ownership % 2017	Ownership % 2016
National Bank of Oman SAOG ('NBO')	Associate	2,079,340	2,023,455	Oman	Banking	34.9%	34.9%
United Arab Bank PJSC ('UAB')*	Associate	-	2,268,333	UAE	Banking	40%	40%
Massoun Insurance Services LLC	Joint venture	8,818	8,859	Qatar	Insurance brokerage	50%	50%
		2,088,158	4,300,647				

*refer to note 13

The summarised financial position and results of associates and a joint arrangement as at the end of reporting period are as follows:

Figures in thousand Qatar Riyals

	2017	2016
Total assets	32,821,200	54,474,088
Total liabilities	27,641,712	47,299,357
Operating income	1,260,281	2,153,311
Net profit	424,075	19,238
Total comprehensive income	382,063	36,905
Share of results	**147,876**	(46,350)

13. ASSET HELD FOR SALE

With respect to Group's stake in one of its associate, UAB, the Group had agreed to grant a third party purchaser (the "Purchaser") a 90 day period of exclusivity expired on 24 December 2017. During this period the parties will negotiate the terms of definitive transaction documents' pertaining to the potential purchase by the Purchaser, subject to the satisfaction of certain conditions.The period has been extended till 28 February 2018.

14. PROPERTY AND EQUIPMENT

Figures in thousand Qatar Riyals

	Land and buildings	Leasehold improvements	Furniture and equipment	Motor vehicles	Capital work in progress	Total
Cost						
Balance at 1 January 2016	1,010,386	143,282	1,010,540	7,935	377,378	2,549,521
Additions / transfers	14,470	13,485	122,774	68	36,633	187,430
Revaluation on land & buildings	974,319	-	-	-	-	974,319
Disposals	(2,118)	(10,388)	(1,321)	(3,416)	-	(17,243)
Exchange differences	88	(9,675)	(16,460)	(27)	-	(26,074)
Balance at 31 December 2016	1,997,145	136,704	1,115,533	4,560	414,011	3,667,953
Balance at 1 January 2017	1,997,145	136,704	1,115,533	4,560	414,011	3,667,953
Additions / transfers	1,518	8,108	83,933	1,666	3,652	98,877
Revaluation on land & buildings	-	-	-	-	-	-
Disposals	(193)	(6,008)	(9,520)	(1,364)	-	(17,085)
Exchange differences	(11)	(3,091)	(5,142)	(37)	-	(8,281)
Balance at 31 December 2017	**1,998,459**	**135,713**	**1,184,804**	**4,825**	**417,663**	**3,741,464**
Accumulated depreciation						
Balance at 1 January 2016	274,788	123,027	800,329	5,996	-	1,204,140
Depreciation for the year	27,267	5,932	103,208	643	-	137,050
Revaluation on land & buildings	(290,475)	-	-	-	-	(290,475)
Disposals	(620)	(8,548)	(1,056)	(3,393)	-	(13,617)
Exchange differences	(2)	(6,128)	(12,220)	(30)	-	(18,380)
Balance at 31 December 2016	10,958	114,283	890,261	3,216	-	1,018,718
Balance at 1 January 2017	10,958	114,283	890,261	3,216	-	1,018,718
Depreciation for the year	37,393	6,899	107,246	854	-	152,392
Revaluation on land & buildings	-	-	-	-	-	-
Disposals	-	(5,977)	(8,206)	(745)	-	(14,928)
Exchange differences	-	(1,881)	(3,793)	(31)	-	(5,705)
Balance at 31 December 2017	**48,351**	**113,324**	**985,508**	**3,294**	**-**	**1,150,477**
Net carrying amounts						
Balance at 31 December 2016	1,986,187	22,421	225,272	1,344	414,011	2,649,235
Balance at 31 December 2017	**1,950,108**	**22,389**	**199,296**	**1,531**	**417,663**	**2,590,987**

Notes to the Consolidated Financial Statements continued

15. INTANGIBLE ASSETS

Figures in thousand Qatar Riyals

	Goodwill	Brand	Customer relationship	Core deposit	Internally developed software	Total
Cost						
Balance at 1 January 2016	325,824	96,391	276,238	74,315	18,029	790,797
Additions / transfers	-	-	-	-	-	-
Acquisitions	-	6,281	-	-	6,070	12,351
Disposals	-	-	-	-	-	-
Exchange differences	(56,748)	(16,267)	3,057	(1,400)	(2,564)	(73,922)
Balance at 31 December 2016	269,076	86,405	279,295	72,915	21,535	729,226
Balance at 1 January 2017	269,076	86,405	279,295	72,915	21,535	729,226
Additions / transfers	-	6,722	-	-	7,751	14,473
Acquisitions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Exchange differences	(17,856)	(5,264)	7,184	963	(986)	(15,959)
Balance at 31 December 2017	**251,220**	**87,863**	**286,479**	**73,878**	**28,300**	**727,740**
Amortisation and Impairment						
Balance at 1 January 2016	-	50,665	73,788	16,646	11,319	152,418
Amortisation during the year	-	4,168	36,894	8,323	5,433	54,818
Acquisitions	-	-	-	-	-	-
Impairment during the year	49,800	-	-	-	-	49,800
Exchange differences	-	(8,923)	-	-	(2,251)	(11,174)
Balance at 31 December 2016	49,800	45,910	110,682	24,969	14,501	245,862
Balance at 1 January 2017	49,800	45,910	110,682	24,969	14,501	245,862
Amortisation during the year	-	3,982	36,894	8,323	6,411	55,610
Acquisitions	-	-	-	-	-	-
Impairment during the year	-	-	-	-	-	-
Exchange differences	-	(2,952)	-	-	(958)	(3,910)
Balance at 31 December 2017	**49,800**	**46,940**	**147,576**	**33,292**	**19,954**	**297,562**
Net carrying amounts						
Balance at 31 December 2016	219,276	40,495	168,613	47,946	7,034	483,364
Balance at 31 December 2017	**201,420**	**40,923**	**138,903**	**40,586**	**8,346**	**430,178**

Impairment testing for CGU containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's CGU-ABank. A discount rate of 16.9% and a terminal growth rate of 2.75 % were used to estimate the recoverable amount of ABank.

The recoverable amount for the CGU has been calculated based on the 'Value in Use Method', determined by discounting the future cash flows expected to be generated from the continuing use of the CGU. The discount rate was a pre-tax measure based on the Government Bonds10 year yield TL, adjusted for an equity market risk premium and equity beta.

Five years of cash flows are included in the discounted cash model. A long term growth rate into perpetuity has been determined as the lower of the nominal GDP rates for the country in which CGU operate and the long term compound annual profit before taxes, depreciation and amortization growth rate estimated by the management. The key assumptions described above may change as economic and market conditions change.

15. INTANGIBLE ASSETS (continued)

No impairment loss is recognized in 2017 (2016: QAR 49.8 million) as the recoverable amount of this CGU was determined to be higher than its carrying amount.

16. OTHER ASSETS

Figures in thousand Qatar Riyals

	2017	2016
Interest receivable and accrued income	892,709	725,386
Prepaid expenses	94,354	69,135
Accounts receivable	352,874	389,085
Repossessed collateral*	2,139,591	2,107,564
Positive fair value of derivatives (note 37)	462,483	226,523
Clearing cheques	249,711	295,572
Others	236,460	235,828
	4,428,182	4,049,093

*This represents the value of the properties acquired in settlement of debts and subsequent additions, which have been stated at their carrying value net of any allowance for impairment and credit enhancement. The estimated market values of these properties at the end of the reporting period are not materially different from the carrying values.

17. DUE TO BANKS

Figures in thousand Qatar Riyals

	2017	2016
Balances due to central banks	281,625	1,083,548
Current accounts	811,754	488,216
Placements with banks	6,570,486	7,588,404
Repurchase agreements with banks	5,852,007	2,474,145
	13,515,872	11,634,313

18. CUSTOMER DEPOSITS

Figures in thousand Qatar Riyals

		2017	2016
a)	**By type**		
	Current and call deposits	17,630,840	17,673,432
	Saving deposits	4,394,576	5,046,979
	Time deposits	55,607,917	48,205,990
		77,633,333	70,926,401
b)	**By sector**		
	Government	12,426,816	5,981,470
	Government and semi government agencies	12,540,523	7,011,322
	Individuals	21,494,057	21,076,685
	Corporate	27,491,521	33,651,984
	Non-banking financial institutions	3,680,416	3,204,940
		77,633,333	70,926,401

Notes to the Consolidated Financial Statements continued

19. DEBT SECURITIES

Figures in thousand Qatar Riyals

	2017	2016
EMTN unsecured Programme – Senior unsecured notes *	5,540,548	7,238,665
Senior Notes*	1,130,570	1,053,348
Subordinated Notes *	3,431,969	3,425,247
Others#	1,501,803	-
Total	**11,604,890**	11,717,260

* The following table provides the breakdown of the Debt Securities as at close of 31 December 2017.

Instrument	Issuer	Issued amount	Issued on	Maturity	Coupon
EMTN - Senior notes	CBQ Finance Ltd	EUR 25 million*	Nov-17	Nov-18	Fixed Rate 0.12%
	CBQ Finance Ltd	USD 750 million*	Jun-14	Jun-19	Fixed Rate 2.875%
	CBQ Finance Ltd	USD 750 million*	Jun-16	Jun-21	Fixed Rate 3.25%
Subordinate notes	CBQ Finance Ltd	USD 600 million*	Nov-09	Nov-19	Fixed Rate 7.50%
	ABank	USD 297 million	Apr-16	Apr-26	Fixed Rate 8.75%
	ABank	USD 50 million	Jun-15	Jun-25	Floating Rate LIBOR +6.00%
Senior Notes	ABank	USD 250 million**	Jul-14	Jul-19	Fixed Rate 3.13%
Senior Notes	ABank	TL 107 million	Aug-17	Jan-18	Fixed Rate 11.00%
Senior Notes	ABank	TL 128 million	Nov-17	Apr-18	Fixed Rate 10.90%

* issued for and Guaranteed by the Bank
** Guaranteed by the Bank
# Others include Commercial Papers issued by the bank. These mature within 1 year.

Movements in debt securities are analysed as follows:

Figures in thousand Qatar Riyals

	2017	2016
Balance at beginning of the year	11,717,260	8,449,337
Additions	3,845,587	4,143,999
Repayments	(3,968,148)	(178,298)
Amortisation of discount and transaction cost	19,776	17,244
Other movement	-	(475,131)
Exchange difference	(9,585)	(239,891)
Balance at 31 December	**11,604,890**	11,717,260

The table below shows the maturity profile of debt securities:

Figures in thousand Qatar Riyals

	2017	2016
Up to 1 year	1,837,344	1,968,540
Between 1 and 3 years	5,801,290	4,887,784
Over 3 years	3,966,256	4,860,936
Balance at 31 December	**11,604,890**	11,717,260

20. OTHER BORROWINGS

Figures in thousand Qatar Riyals

	2017	2016
Syndicated loans	5,065,654	6,473,878
Others *	4,237,711	4,303,364
Total	**9,303,365**	10,777,242

*This includes the other borrowings of Abank QAR 3,033 million (2016: QAR 3,298 million).

Movements in other borrowings are as follows:

Figures in thousand Qatar Riyals

	2017	2016
Balance at beginning of the year	10,777,242	12,074,417
Additions	4,161,023	4,158,709
Repayments	(5,414,984)	(5,355,178)
Fair value adjustment on consolidation of ABank	(37,291)	(37,291)
Amortisation of discount and transaction cost	10,556	11,338
Other movement	-	475,131
Exchange difference	(193,181)	(549,884)
Balance at 31 December	**9,303,365**	10,777,242

The table below shows the maturity profile of other borrowings:

Figures in thousand Qatar Riyals

	2017	2016
Up to 1 year	7,029,324	4,997,563
Between 1 and 3 years	935,090	4,636,171
Over 3 years	1,338,951	1,143,508
Balance at 31 December	**9,303,365**	10,777,242

Notes to the Consolidated Financial Statements continued

21. OTHER LIABILITIES

Figures in thousand Qatar Riyals

	2017	2016
Interest payable	462,071	454,845
Accrued expense payable	306,682	278,821
Other provisions (note i)	225,099	235,658
Negative fair value of derivatives (note 37)	355,614	156,916
Unearned income	209,891	143,588
Cash margins	520,427	366,526
Accounts payable	267,194	444,101
Directors' remuneration and meeting attendance fee	18,500	18,500
Social & sports activities support fund ("Daam") (note 24)	15,091	12,534
Dividend payable	16,009	18,389
Managers' cheque and payment order	38,255	56,807
Unclaimed balances	43,087	14,160
Due for trade acceptances	2,156,937	3,363,046
Deferred tax liabilities	33,822	54,335
Income tax payable	24,465	22,770
Others	676,929	382,802
Total	**5,370,073**	6,023,798

(i) Other provisions

Figures in thousand Qatar Riyals

	Provident fund (a)	Pension fund (b)	Total 2017	Total 2016
Balance at 1 January	234,655	1,003	235,658	210,006
Provision made during the year (note 32)	16,086	11,154	27,240	72,913
Earnings of the fund	6,051	-	6,051	5,885
Provident fund – staff contribution	7,312	5,923	13,235	6,503
Transferred to state retirement fund authority	-	(16,770)	(16,770)	(17,563)
Payment during the year	(39,789)	-	(39,789)	(40,461)
Exchange difference	(526)	-	(526)	(1,625)
Balance at 31 December	**223,789**	**1,310**	**225,099**	235,658

(a) The provident fund includes the Group's obligations for end of service benefits to expatriate staff per Qatar labour law and the employment contracts.

(b) Pension fund contributions in respect of the national staff are paid to the State administered retirement fund at the end of each month. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized when they are due.

22. EQUITY

(a) Share capital

The issued, subscribed and paid up share capital of the Bank is QAR 4,047,253,750 (2016: QAR 3,266,292,100) divided into 404,725,375 (2016: QAR 326,629,210) ordinary shares of QAR 10 each.

In thousands of shares	**2017**	2016
On issue at the beginning of the reporting period	326,629	326,629
Right issued	58,823	-
Bonus shares issued	19,273	-
In issue at 31 December	**404,725**	326,629

The Extraordinary General Assembly of the Bank was held on 16 November 2016 to resolve the increase of issued share capital of the Bank from QAR 3,266,292,100 to QAR 3,854,527,390 by way of offering 58,823,529 new ordinary shares for subscription at a price of QAR 25.50 (Twenty five Qatari Riyals and fifty Dirhams) each (including premium per share of QAR 15.5) (the Rights Issue). This resulted in an increase in the share capital by QAR 588.24 million and legal reserve by QAR 911.76 million (share premium) and in total by QAR 1,500 million. The Rights Issue exercise was closed on 25 January 2017.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' Annual/Extra-ordinary General meeting of the Bank.

(b) Legal reserve

The legal reserve of Commercial Bank and Abank are QAR 9,652 million (2016: QAR 8,740 million) and QAR 86 million (2016: QAR 85 million) respectively.

In accordance with Qatar Central Bank Law No 13 of 2012, 10% of the net profit of the Group for the year is required to be transferred to legal reserve. Share premium collected from the issuance of new shares also transferred to legal reserve. Transfer to legal reserve from net profit is mandatory until the legal reserve equals 100% of the paid up capital. This reserve is not available for distribution except in circumstances specified in Qatar Commercial Companies Law No 11 of 2015 and is subject to pre-approval from QCB.

In accordance with the Turkish Commercial code, an entity is required to transfer 5% of net profit until the legal reserve is equal to 20% of issued and fully paid up share capital. Rate for transfer to legal reserve goes up to 10% of net profit allocated for distribution excluding the first 5% of the allocated profit. Share premium and proceeds from cancelled shares, if any net of related expenses are also transferred to legal reserve.

(c) General reserve

As per the Bank's Articles of Association, the general reserve may only be used in accordance with a resolution from the General Assembly upon the Board of Directors recommendation and after obtaining Qatar Central Bank approval.

(d) Risk reserve

In accordance with QCB regulations, a risk reserve should be maintained created to cover contingencies on both the public and private sector financing assets, with a minimum requirement of 2.50% of the total loans and advances of the Group inside and outside Qatar after the exclusion of the specific provisions and interest in suspense. The finance provided to/or secured by the Ministry of Finance or finance against cash guarantees is excluded from the gross direct finance. During the year, the net transfer as approved by QCB was QAR 88 million (2016: QAR 15 million).

(e) Fair value reserve

The fair value reserve arises from the revaluation of the available-for-sale investments and change of post acquisition fair value reserve of its associates and a joint arrangement.

(f) Treasury shares

Treasury shares represent ordinary shares of The Commercial Bank (P.S.Q.C) with nominal value of QAR 10 each. These shares are carried at cost of QAR 27.47 each. Treasury shares are presented as a deduction from equity.

Notes to the Consolidated Financial Statements continued

22. EQUITY (continued)

(g) Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(h) Other reserves

This includes the Group's share of profit from investment in associates and a joint arrangement and non-distributable profit of subsidiaries, net of cash dividend received, as required by QCB regulations as follows:

Figures in thousand Qatar Riyals

	2017	2016
Balance as at 1 January	997,767	1,139,887
Share of result of associates and a joint arrangement (note 12)	147,876	(46,350)
Dividend from associates and a joint arrangement (note 12)	(81,454)	(79,389)
	66,422	(125,739)
Transferred from retained earning and other movement	-	(16,381)
Net movement	66,422	(142,120)
Balance as at 31 December	**1,064,189**	997,767

(i) Proposed dividend

The Board of Directors has proposed a cash dividend of 10% for the year 2017 (2016: 5% bonus shares). This proposal is subject to approval at the Annual General Assembly.

(j) Dividends

A bonus share issue of 5% or 1 bonus share for every 20 shares held for the year 2016 (2015: 30% cash dividend), was approved at the Annual General Assembly held on 4 April 2017 and distributed to shareholders.

(k) Revaluation reserve

This represents the surplus on revaluation of land and buildings that are used in Group's operations and is not avaliable for distribution until the related assets have been disposed off or used.

(l) Instruments eligible for additional capital

In December 2013 the Bank raised tier 1 capital by issuing unsecured perpetual non-cumulative unlisted Tier 1 notes for an amount of QAR 2 billion. The distributions (i.e. coupon payments) are discretionary and non-cumulative and priced at a fixed rate of 6% per annum, payable annually until the first call date (i.e. 30 December 2019), and thereafter to be reset at a prevailing sixth year mid-swap rate plus margin every sixth year.

In February 2016 the Bank raised additional tier 1 capital by issuing unsecured perpetual non-cumulative unlisted Tier 1 notes for an amount of QAR 2 billion. The distributions (i.e. coupon payments) are discretionary and non-cumulative and priced at a fixed rate of 6% per annum, payable annually until the first call date (i.e. 27 February 2022), and thereafter to be reset at a prevailing sixth year mid-swap rate plus margin every sixth year.

The Notes are ranked junior to the Bank's existing unsubordinated obligations including existing subordinated debt and depositors, pari passu to all current and future subordinated obligations and senior to the ordinary shares issued by the Bank.

The Notes have no fixed redemption date and the Bank can only redeem the Notes in the limited circumstance as mentioned in the term sheet i.e. regulatory / tax redemption and other general redemption conditions solely at the Bank's discretion. The Bank might be required to write-off the proposed Capital issue, if a "loss absorption" event is triggered and the Bank has non-discretionary obligation to deliver cash or financial assets. These notes have been classified under equity.

23. OTHER COMPREHENSIVE INCOME

Figures in thousand Qatar Riyals

	2017	2016
Available-for-sale investments:		
Positive change in fair value	261,900	135,472
Negative change in fair value	(48,163)	(247,764)
Net change in fair value	213,737	(112,292)
Net amount transferred to profit or loss*	(46,612)	(61,551)
167,125	(173,843)	
Foreign currency translation differences for foreign operation	(124,119)	(262,104)
Share of other comprehensive income of associates and a joint arrangement	8,190	11,612
Revaluation reserve on land and buildings (net)	-	1,264,794
Total other comprehensive income	**51,196**	840,459

*Net amount transferred to profit or loss includes a positive change in fair value of QAR 50 million (2016: QAR 66 million) and a negative change in fair value of QAR 4 million (2016: QAR 4 million).

24. CONTRIBUTION TO SOCIAL AND SPORTS ACTIVITIES SUPPORT FUND ("DAAM")

Pursuant to Law No. 13 of 2008, the Bank made an appropriation of QAR 15.1 million (2016: QAR 12.5 million) from retained earnings for its contribution to the Social and Sports Activities Support Fund ("Daam") of Qatar. This amount represents 2.5% of the net profit of the Group for the year ended 31 December 2017.

25. INTEREST INCOME

Figures in thousand Qatar Riyals

	2017	2016
Loans and advances to customers	4,163,011	3,699,520
Debt securities	670,313	597,308
Amounts deposited with banks	277,739	249,776
Amounts deposited with central banks	27,858	15,985
	5,138,921	4,562,589

26. INTEREST EXPENSE

Figures in thousand Qatar Riyals

	2017	2016
Customer deposits	1,689,441	1,395,747
Debt securities	436,558	425,682
Other borrowings	293,660	282,256
Amount deposited by central banks and other banks	200,962	118,156
	2,620,621	2,221,841

27. FEE AND COMMISSION INCOME

Figures in thousand Qatar Riyals

	2017	2016
Loans and advances	314,412	379,651
Credit and debit card fees	406,628	371,381
Indirect credit facilities	151,380	148,938
Banking and other operations	113,750	95,489
Investment activities for customers	43,163	45,697
	1,029,333	1,041,156

Notes to the Consolidated Financial Statements continued

28. FEE AND COMMISSION EXPENSE

Figures in thousand Qatar Riyals

	2017	2016
Credit and debit card fees	245,560	234,424
Brokerage services	3,344	9,753
Others	60,081	60,336
	308,985	304,513

29. NET FOREIGN EXCHANGE GAIN

Figures in thousand Qatar Riyals

	2017	2016
Dealing in foreign currencies & revaluation of spot assets	**162,641**	245,314

30. INCOME FROM INVESTMENT SECURITIES

Figures in thousand Qatar Riyals

	2017	2016
Net gain on disposal of available-for-sale securities	39,339	152,433
Dividend income	11,986	16,969
Loss on investment securities at fair value through income statement	(2,635)	(6,383)
	48,690	163,019

31. OTHER INCOME

Figures in thousand Qatar Riyals

	2017	2016
Rental and other income	**79,296**	92,119

32. STAFF COSTS

Figures in thousand Qatar Riyals

	2017	2016
Salary and allowances	664,902	772,236
Health care and medical insurance expenses	17,132	20,863
Staff end of services and pension fund contribution (note 21 (i))	27,240	72,913
Training and education	4,198	6,260
	713,472	872,272

33. OTHER EXPENSES

Figures in thousand Qatar Riyals

	2017	2016
Marketing and advertisement	32,126	59,143
Professional fees	44,509	132,884
Communication, utilities and insurance	59,430	63,894
Board of Directors' remuneration	18,500	18,500
Occupancy, IT consumables and maintenance	103,005	133,657
Travel and related costs	1,970	1,794
Printing and stationery	8,185	9,697
Outsourcing service costs	98,830	109,022
Others	37,038	43,011
	403,593	571,602

34. EARNINGS PER SHARE

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

Figures in thousand Qatar Riyals

	2017	2016
Profit for the year attributable to the equity holders of the Bank	603,648	500,750
Less: Dividend on instruments eligible for additional capital	(240,000)	(220,000)
Profit for EPS calculation	**363,648**	280,750
Weighted average number of outstanding ordinary shares in thousands	**402,066**	358,499
Earnings per share (QAR)	**0.90**	0.78

The weighted average number of ordinary shares in thousands have been calculated as follows:

Figures in thousand Qatar Riyals

	2017	2016
Qualifying ordinary shares at the beginning of the period	326,629	326,629
Effect of bonus share issue	19,273	19,273
Effect of right issue	56,164	12,597
Weighted average number of ordinary shares for the period	402,066	358,499

35. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Figures in thousand Qatar Riyals

	2017	2016
a) Contingent liabilities		
Unutilized credit facilities	5,948,621	6,175,191
Guarantees	20,823,314	21,644,329
Letters of credit	2,700,146	2,505,758
Total	**29,472,081**	30,325,278
b) Capital commitments		
Total	**178,472**	168,074

Unused facilities

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

Guarantees and Letters of credit

Guarantees and letters of credit commit the group to make payments on behalf of customers in the event of a specific event. Guarantees and standby letters of credit carry the same credit risk as loans.

Lease commitments

The Group leases a number of branches and office premises under operating leases. Lease rentals are payable as follows:

Figures in thousand Qatar Riyals

	2017	2016
Less than one year	5,967	4,080
Between one and five years	22,077	27,938
More than five years	1,299	1,269
	29,343	33,287

Notes to the Consolidated Financial Statements continued

36 CASH AND CASH EQUIVALENTS

Figures in thousand Qatar Riyals

	2017	2016
Cash and balances with central banks *	2,978,132	2,128,940
Due from banks up to 90 days	7,343,303	12,186,926
	10,321,435	14,315,866

*Cash and balances with central banks exclude the mandatory cash reserve.

37. DERIVATIVES

Figures in thousand Qatar Riyals

				Notional / expected amount by term to maturity			
	Positive fair value	**Negative fair value**	**Notional amount**	**within 3 months**	**3 - 12 months**	**1-5 years**	**More than 5 years**
At 31 December 2017:							
Derivatives held for trading:							
Interest rate swaps	282,479	174,367	7,888,900	68,185	251,668	4,036,997	3,532,050
Forward foreign exchange contracts and others	178,437	160,427	35,902,206	22,337,907	7,410,907	6,019,374	134,018
Derivatives held for fair value hedges:							
Interest rate swaps	1,567	20,820	3,090,986	-	-	105,646	2,985,340
Total	**462,483**	**355,614**	**46,882,092**	**22,406,092**	**7,662,575**	**10,162,017**	**6,651,408**

Figures in thousand Qatar Riyals

				Notional / expected amount by term to maturity			
	Positive fair value	Negative fair value	Notional amount	within 3 months	3 - 12 months	1-5 years	More than 5 years
At 31 December 2016:							
Derivatives held for trading:							
Interest rate swaps	156,602	73,291	4,596,153	342,813	447,315	2,178,675	1,627,350
Forward foreign exchange contracts and others	69,921	72,491	36,699,867	23,205,306	6,901,949	5,590,121	1,002,491
Derivatives held for fair value hedges:							
Interest rate swaps	-	11,134	1,500,310	113,155	-	113,155	1,274,000
Total	226,523	156,916	42,796,330	23,661,274	7,349,264	7,881,951	3,903,841

The bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the bank (i.e. assets) which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the bank requires margin deposits from counter-parties.

38. FUND MANAGEMENT

As at the end of the reporting date, the Group holds QAR 314 million (2016: QAR 286 million) worth of international investment securities on behalf of its customers. Out of this amount, investment securities with a value of QAR 258 million (2016: QAR 223 million) are held with an international custody and settlement house. The remaining investment securities are held with the financial institutions through whom the securities were purchased. These financial institutions are industry leaders in their respective fields. The Group has established maximum limits for such holding with each financial institution according to its risk management policy

39. RELATED PARTIES

The Group carries out various transactions with subsidiaries, associates and joint arrangement companies, members of the Board of Directors and the executive management or companies in which they have significant interest or any other parties of important influence in the Group's financial or operations decisions. The balances at the year end with these accounts were as follows:

Figures in thousand Qatar Riyals

	2017	2016
Board members of the bank		
- Loans, advances and financing activities (a)	2,712,220	2,246,419
- Deposits	933,329	545,357
- Contingent liabilities and other commitments	110,139	111,807
- Interest and fee income	25,625	9,441
- Interest paid on deposits accounts of board members	12,433	5,873
- Remuneration	18,500	18,500
Associates and joint arrangement companies		
Due from banks	91,000	436,996
Due to banks	31,353	2,625
Deposits	10,663	10,327
Contingent liabilities	766,360	780,153
- Interest earned from associates	3,049	2,583
- Interest paid to associates	2,424	440
Senior management of the bank		
- Remuneration and other benefits	46,925	55,920
- Loans and advances	5,286	5,481

(a) A significant portion of the loans, advances and financing activities' balance at 31 December 2017 and 31 December 2016 with the members of the Board and the companies in which they have significant influence are secured against tangible collateral or personal guarantees. Moreover, the loans, advances and financing activities' are performing satisfactorily honouring all obligations.

Notes to the Consolidated Financial Statements continued

40. CASH FLOW MOVEMENT IN LIABILITIES AND EQUITY

Additional disclosure for IAS 7

Cash Flow statement on Liabilities and Equity arising from Financing activities

Figures in thousand Qatar Riyals

	Liabilities		Equity				
	Debt Securities	Other Borrowings	Share Capital	Legal Reserve	Treasury Shares	Retained Earnings	Total
Balance at 1 January 2017	11,717,260	10,777,242	3,266,292	8,828,240	-	594,980	35,184,014
Proceeds from issue of debt securities/borrowings	3,845,587	4,161,023	-	-	-	-	8,006,610
Repayment of debt securities/borrowings	(3,968,148)	(5,414,984)	-	-	-	-	(9,383,132)
Amortization of discount and transaction costs on securities/other borrowings	19,776	10,556	-	-	-	-	30,332
Other movements	-	(37,291)	-	-	-	(321,513)	(358,804)
Exchange differences	(9,585)	(193,181)	-	-	-	-	(202,766)
Proceeds from rights issue	-	-	588,235	911,764	-	-	1,499,999
Bonus share issue	-	-	192,727	-	-	(192,727)	-
Profit for the year	-	-	-	-	-	603,648	603,648
Transfer to legal reserve	-	-	-	2,062	-	(2,062)	-
Transfer to risk reserve	-	-	-	-	-	(88,100)	(88,100)
Dividend paid	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	(179,507)	-	(179,507)
Balance at 31 December 2017	**11,604,890**	**9,303,365**	**4,047,254**	**9,742,066**	**(179,507)**	**594,226**	**35,112,294**

41. COMPARATIVES

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

Supplementary Information - Parent

a. Statement of Financial Position – Parent

As at 31 December

Figures in thousand Qatar Riyals

	2017	2016
ASSETS		
Cash and balances with central bank	5,182,523	4,396,286
Due from banks	10,252,481	18,648,899
Loans and advances to customers	75,481,794	65,910,284
Investment securities	17,173,445	12,987,755
Investment in associates and a joint arrangement and subsidiaries	4,257,008	6,530,129
Asset held for sale	2,184,802	-
Property and equipment	2,554,001	2,611,494
Other assets	3,502,271	3,226,727
TOTAL ASSETS	**120,588,325**	114,311,574
LIABILITIES		
Due to banks	12,576,417	10,434,092
Customer deposits	67,561,058	62,759,898
Debt securities	9,217,163	9,409,101
Other borrowings	5,438,849	6,684,951
Other liabilities	4,646,300	5,459,343
TOTAL LIABILITIES	**99,439,787**	94,747,385
EQUITY		
Share capital	4,047,254	3,266,292
Legal reserve	9,652,129	8,740,365
General reserve	26,500	26,500
Risk reserve	1,573,600	1,502,500
Fair value reserves	15,430	(29,592)
Treasury shares	(179,507)	-
Revaluation reserve	1,264,794	1,264,794
Retained earnings	748,338	793,330
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	**17,148,538**	15,564,189
Instrument eligible for additional capital	4,000,000	4,000,000
TOTAL EQUITY	**21,148,538**	19,564,189
TOTAL LIABILITIES AND EQUITY	**120,588,325**	114,311,574

Supplementary Information - Parent continued

b. Income Statement – Parent

For the year ended 31 December

Figures in thousand Qatar Riyals

	2017	2016
Interest income	3,737,021	3,276,847
Interest expense	(1,715,729)	(1,349,564)
Net interest income	**2,021,292**	1,927,283
Fee and commission income	894,560	897,134
Fee and commission expense	(273,587)	(259,397)
Net fee and commission income	**620,973**	637,737
Foreign exchange gain	213,360	196,771
Income from investment securities	58,309	131,713
Other operating income	76,975	96,125
Net operating income	**2,990,909**	2,989,629
Staff costs	(542,469)	(672,086)
Depreciation	(141,080)	(125,537)
Amortization and impairment of intangible assets	(47,339)	(97,139)
Impairment loss on investment securities	(46,484)	(76,613)
Net impairment loss on loans and advances to customers	(1,525,644)	(1,049,999)
Other expenses	(291,946)	(423,433)
Profit for the year	**395,947**	544,822

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Commercial Bank was incorporated in 1974, as Qatar's first private sector bank. Today, we offer a complete range of banking services, including: current and savings accounts, loans, credit cards, insurance, brokerage and investment services. We are committed to delivering excellent service and innovation that makes banking easy and gives you greater flexibility over the way you .manage your money

(.The Commercial Bank (P.S.Q.C
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