

Rising to the challenge

Annual Report
2018



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



His Highness
Sheikh Hamad Bin Khalifa Al Thani
Father Emir



The tailwinds powering 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 continued 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. Over the last year, Qatar's economy has grown, new businesses have emerged, and social and cultural life is flourishing.

As Qatar's first private bank with over 40 years of history, we support our country in every way we can, acting as one of the many tailwinds powering Qatar. 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.

After defying expectations by becoming stronger after the blockade, Qatar has set sail on a new voyage to success as a bold, confident, and prosperous nation. So too has Commercial Bank as a business.

Living up to our belief that 'everything is possible' Commercial Bank has continued to work together in 2018 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

We are living 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.





Contents

Business at a glance	8
Forward looking statements	10
Financial highlights	14
Key highlights	15
Chairman's message	18
Board of Directors	20
Vice Chairman's message	24
Group Chief Executive Officer's message	26
Management review of operations	30
Annual Corporate Governance Report 2018	58
Independent Auditors' Report	60
Consolidated Statement of Financial Position	65
Consolidated Income Statement	66
Consolidated Statement of Comprehensive Income	67
Consolidated Statement of Changes in Equity	68
Consolidated Statement of Cash Flows	72
Notes to the Consolidated Financial Statements	74
Supplementary Information	167





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 159 ATMs, and we also own and operate exclusive 'Diners Club' franchise in Qatar and Turkey. 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 bonds issuance is listed on the Irish Stock Exchange and the Swiss Exchange (SIX).

Expanding its geographical footprint, Commercial Bank is 100% owner of Alternatif bank 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.

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 135.1 billion at 31 December 2018 and a capital adequacy ratio of 15.5%. The Bank enjoys strong credit ratings of (A3) 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

Alternatif Bank A fully owned subsidiary in Turkey that operates through a network of 49 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 incorporated in Bermuda that owns an exclusive 'Diners Club' franchise in Qatar and Turkey.

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 issuing 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 (S.A.O.G.) An associate entity that operates through 60 conventional branches and 6 Islamic branches in Oman, and one branch in each at 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.



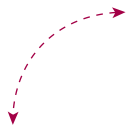
proud to be qatari

We are a Qatar-based bank and we are incredibly proud of our country. As one of the largest private sector employers Qatar, we have a duty to contribute to the development and success of the country and it is our honour to do so. Through the services we offer to the market and our innovative approach to business, Commercial Bank supports economic diversity and sustainability. We are also committed to build Qatar's human capital by investing in our people and community.





Commonwealth



Business at a Glance

Our voyages

- 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 1987 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
- 2008** First Qatari bank to list GDRs on the London Stock Exchange
- 2009** Commercial Bank Plaza, the new headquarters of Commercial Bank, is opened on 13 May 2009 by H E Sheikh Hamad bin Jassim bin Jaber Al-Thani, Prime Minister and Minister for Foreign Affairs of Qatar
- 2011** Incorporates Commercial Bank Investment Services (re-branded to become Commercial Bank Financial Services)
- 2013** Commercial Bank acquires 74.24% shareholding in Alternatif Bank 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 Alternatif Bank
- 2017** Commercial Bank incorporates CB Innovation Services LLC, a management operation services captive entity that has successfully on-shored previously outsourced activities.
- 2018** Commercial Bank receives 'Best Bank in Qatar' award from Global Finance, 'Best Remittance Service' and 'Best Cash Management Bank' in the Middle East from the Asian Banker.



Forward Looking Statements

Net Profit	Earnings per Share	Loans and Advances	Customer Deposits	Total Assets
QAR 1,663 million	QAR 3.52	QAR 83.7 bn	QAR 71.3 bn	QAR 135.1 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.

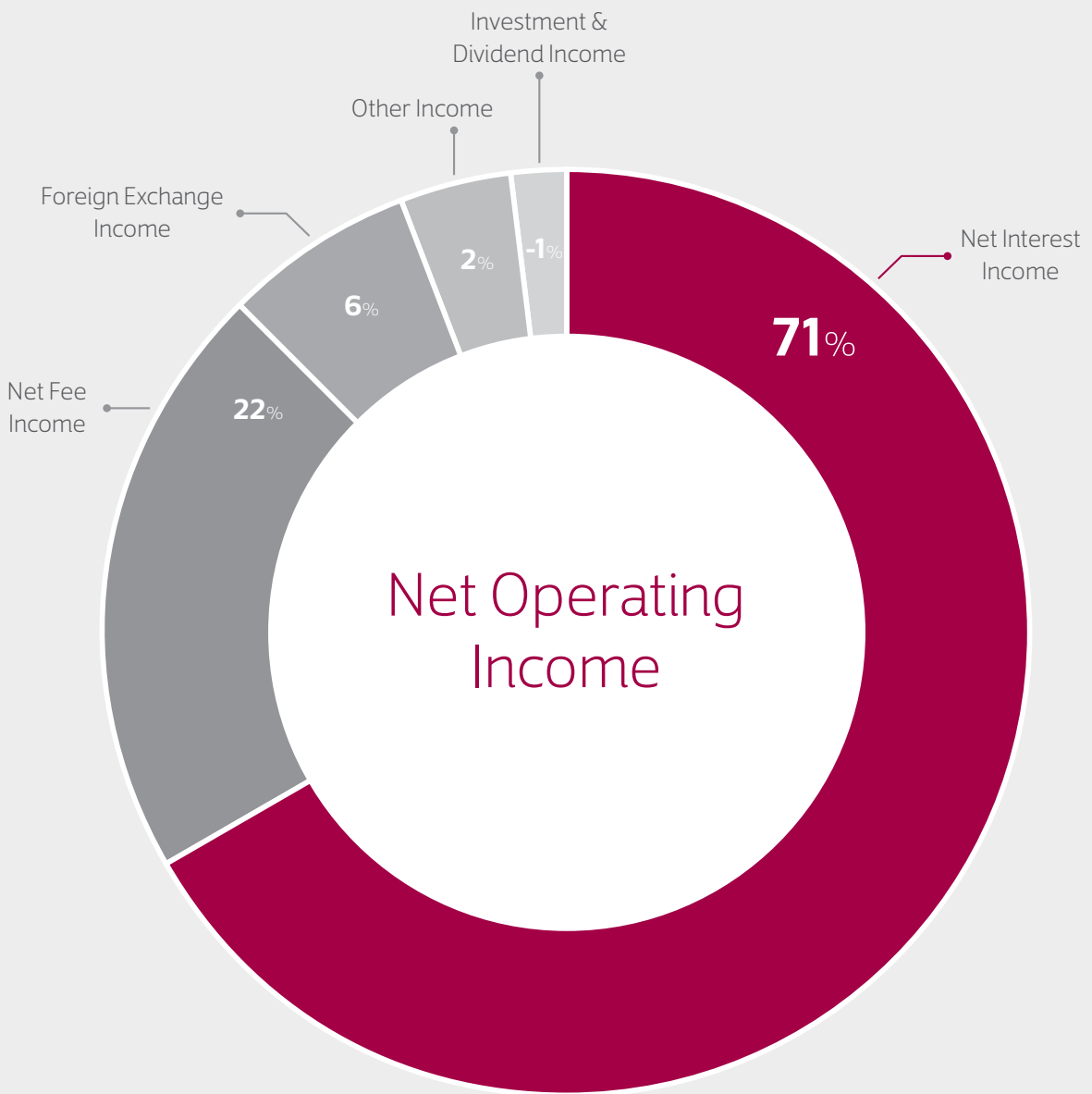
As a result, Commercial Bank's actual future results may differ materially from the plans, goals and expectations set forth in Commercial Bank's forward-looking statements.

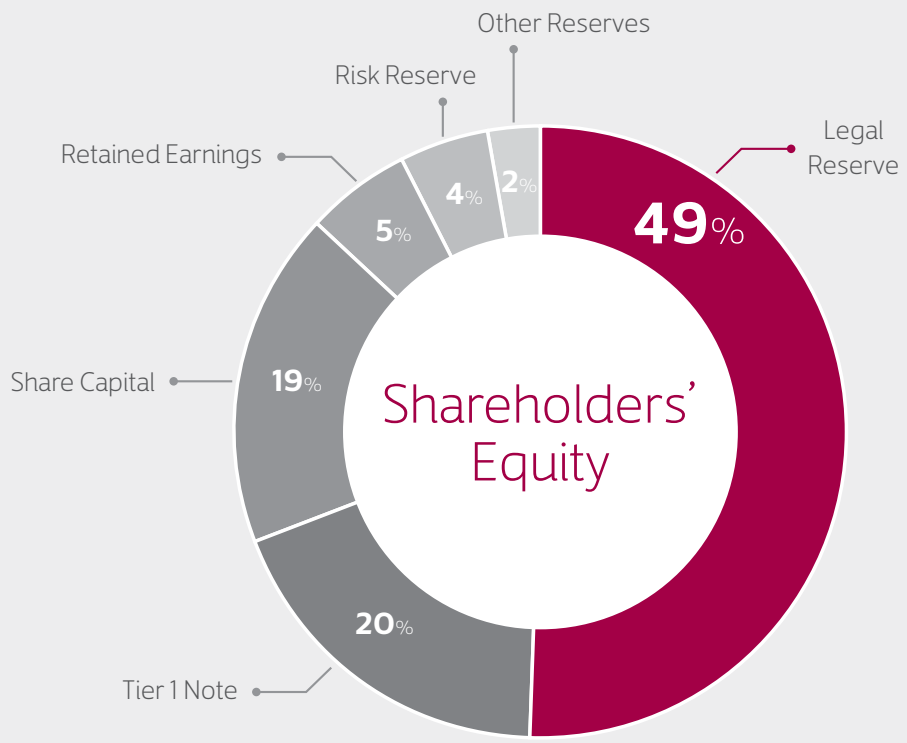
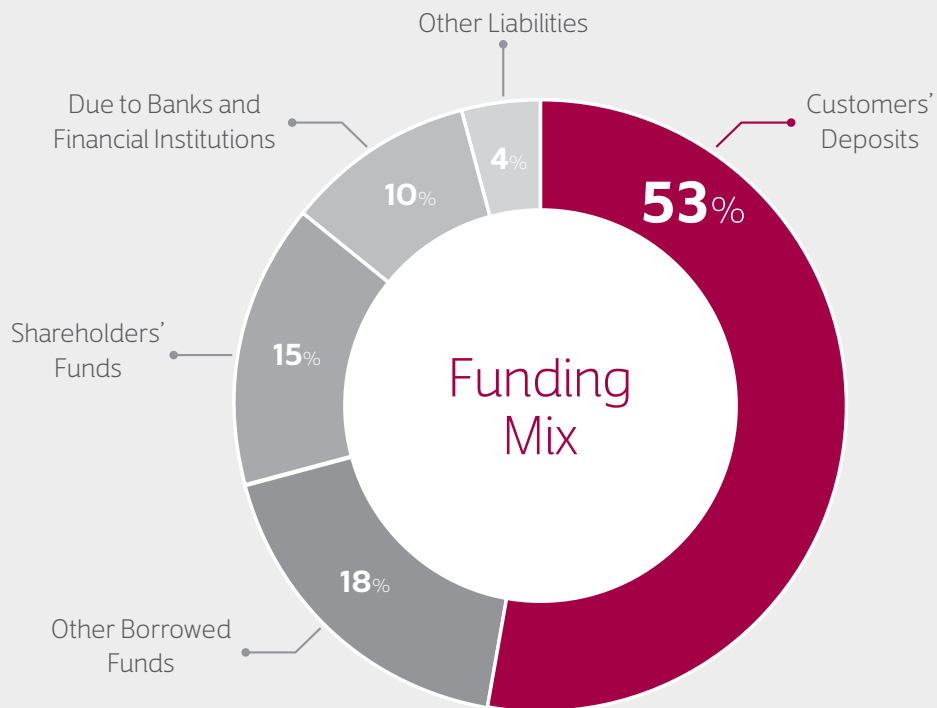
Any forward-looking statements made by or on behalf of Commercial Bank are made in the context of the time of publication of this report. Commercial Bank does not undertake to update forward looking statements to reflect any changes in Commercial Bank's expectations with regard to any changes in events, conditions or circumstances on which any such statement is based.

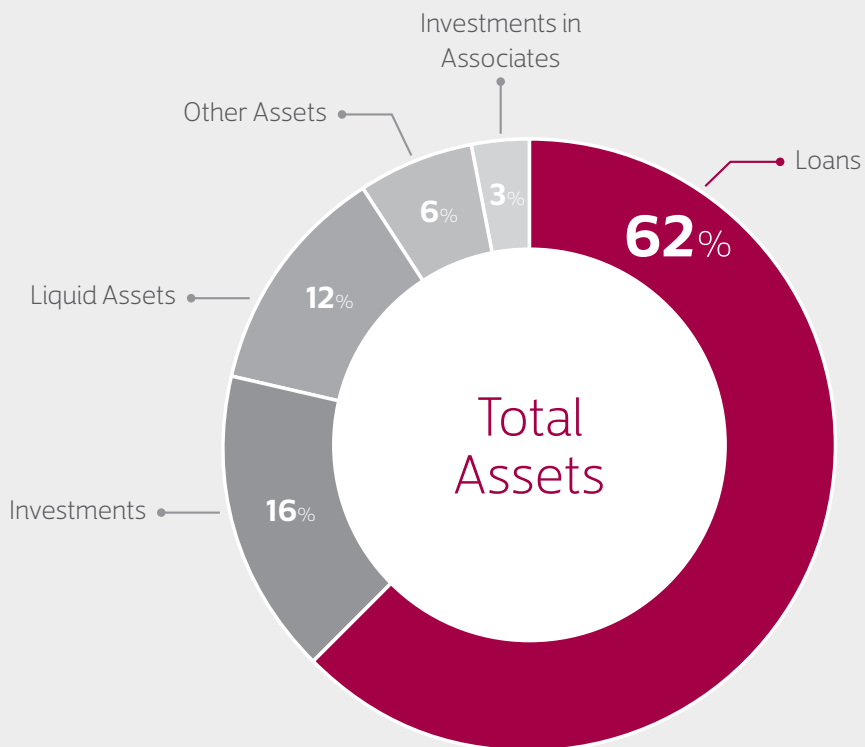
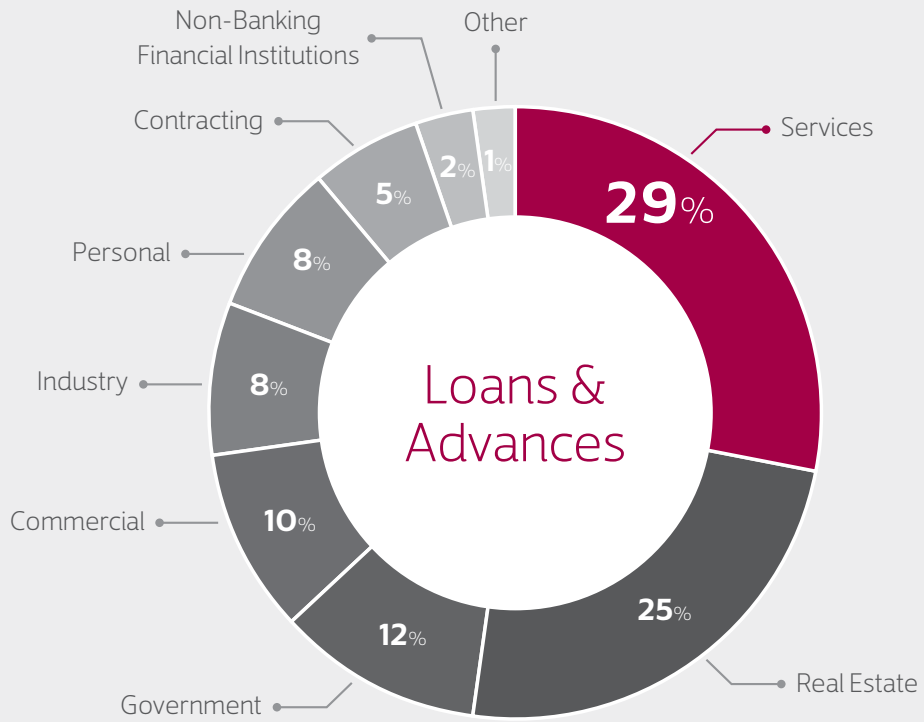
The information, statements and opinions contained in this presentation do not constitute a public offer under any applicable legislation, or an offer to sell or solicitation of an offer to buy any securities or financial instruments or any advice, or recommendations with respect to such securities or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

NET PROFIT (QAR MILLION)

1,663







Financial Highlights

In QAR million, except per share amounts and as stated otherwise	2018	2017	2016	2015	2014
Net interest income	2,482	2,518	2,341	2,534	2,581
Net operating income	3,509	3,529	3,578	3,949	3,903
Net profit	1,663	604	501	1,434	1,940
Total assets	135,071	138,449	130,380	123,421	115,652
Lending to customers	83,702	89,122	77,798	76,601	72,541
Basic/diluted earnings per share in QAR	3.52	0.91	0.78	3.92	5.93
Dividends declared per ordinary share including bonus shares in QAR	1.5	1.0	0.5	3.00	4.50
Closing market price per ordinary share in QAR (at year end)	39.39	28.90	32.50	45.90	68.50
Book value per ordinary share in QAR	49.41	51.94	59.09	52.96	59.60
Long-term debt (at year end)	24,300	20,908	22,495	20,523	18,885
Shareholders' equity (at year end)	19,999	21,021	19,301	17,299	17,696
Return on average shareholders' equity	8.1%	3.0%	2.7%	8.2%	11.3%
Return on average assets	1.2%	0.5%	0.4%	1.2%	1.7%
Capital adequacy ratio	15.5%	16.1%	15.2%	13.5%	15.2%
Full-time employees (at year end)*	2,270	2,251	2,138	2,286	2,374

* Group employees (Commercial Bank, Alternatif Bank and Commercial Bank Innovation Services)



Key Highlights

▲ **175.5** %

NET PROFIT OF
QAR 1,663.2 MILLION,
UP BY 175.5%

▲ **5.9** %

OPERATING PROFIT OF
QAR 2,335 MILLION,
UP BY 5.9%



Other key financial highlights

- Cost to income ratio of 33.4% reduced from 37.5%.
- Provisions on loans and advances to customers QAR 927.2 million, down by 45.4%.
- Total assets of QAR 135.1 billion, down by 2.4%.
- Customer loans and advances of QAR 83.7 billion, down by 6.1%.
- “Best Bank in Qatar” award from Global Finance Magazine.
- “Best Retail Bank in Qatar” award for a second year in a row from The Asian Banker.
- “Best Remittance Service for the Middle East” award from The Asian Banker.



international voyages

Commercial Bank is truly international. Our geographical footprint extends far beyond Qatar through our regional alliance of banks. Turkey and Oman are key markets for Commercial Bank and we are present in these markets through our Turkish subsidiary, Alternatif Bank and associate, National Bank of Oman. Because these countries are strategic trading partners of Qatar, Commercial Bank Group is well positioned to capitalize on the increasing investment flows between these countries.





Chairman's Message



Sheikh Abdulla Bin Ali Bin Jabor Al Thani

Chairman

I am pleased to present Commercial Bank's Annual Report for the year ended 31 December 2018 on behalf of the Board of Directors.

In 2018 Qatar returned to "business as usual" on its transformation journey towards a sustainable, knowledge-based economy. The initial effects of the blockade imposed in 2017 are now fully behind us and the economy has not only maintained the status quo but emerged from a challenging position to become stronger and more diversified this year.

Qatar has strong economic fundamentals, which are recognised by the major rating agencies and international investors. Fitch, Moody's and S&P all upwardly revised their outlook on Qatar to "stable" from "negative" in 2018, and affirmed Qatar's sovereign credit ratings at AA-, Aa3 and AA-/A-1 respectively. The Qatar Stock Exchange was the best performer in the region in 2018 and confidence in the future of Qatar's economy was evident when Qatar raised a \$12 billion sovereign bond in April in the international financial markets that was heavily oversubscribed, with orders exceeding \$52 billion.

Qatar's resilient, well-diversified economy is backed by large sovereign reserves and prudent macroeconomic management. The IMF predicts Qatar's GDP to grow by 2.7% in 2018, well ahead of the 1.3% forecast for the Middle East region. Lower output in the hydrocarbon sector has meant that a large proportion of this growth in 2018 has come from the private sector, demonstrating Qatar's success in promoting economic diversification.

2018 has been noteworthy for Qatar's rapid progress in delivering self-sufficiency projects, especially in food products and manufacturing, with Qatar's private sector and stable business environment that is supportive of foreign investments playing a major role in facilitating these projects. Private sector growth is expected to increase in 2019 driven by construction, agriculture, manufacturing, transportation and logistics. Construction remains a key private sector growth driver, supported by continued funding for major infrastructure projects relating to the 2022 World Cup and delivering the Qatar National Vision 2030.

Strict fiscal discipline has helped Qatar achieve a budget surplus in the first half of 2018, and prospects for hydrocarbon sector growth in 2019 look the best in several years. Longer term, Qatar's competitive strengths in LNG set us apart from our regional neighbours and the lifting of the moratorium on the development of the North Field will cement Qatar's position as the world's largest LNG exporter for many years to come.

Looking abroad, there is much uncertainty about the future of the global economy. Markets ended the year in turmoil, the US Treasury yield curve inverted for the first time in more than a decade, and increasing economic and geopolitical rivalry between the US and China suggests that global growth achieved since the end of the financial crisis has peaked.

2019 is likely to see US economic growth weaken in line with the rest of the world. China's economy slowed in 2018 and stimulus provided by the authorities won't increase growth until later in 2019. Other major advanced economies are also slowing, with both the Eurozone and Japan set for sluggish growth next year. In emerging economies, higher US interest rates and a stronger dollar push up borrowing costs and curb investments, while slower US and Chinese growth will impact negatively on exports in 2019.

Thanks to the coordinated efforts of many ministries, organisations and companies, all under the leadership of His Highness the Emir Sheikh Tamim Bin Hamad Al Thani, the economic outlook for Qatar in 2019 is stronger. 2018 was a better year for Qatar than the year before, and

so too at Commercial Bank. We have a clear vision to improve the Bank's performance based on our five-year strategic plan initiated in 2016. Within that plan, our key areas of focus have been taking provisions for our legacy loan book, reducing our cost to income ratio, and continuing to build the Bank's 43 year-old franchise in terms of new technology and innovation.

This plan is working, with actions taken under our five-year strategic plan delivering good results and evident in the Bank's strong bottom line performance in 2018. Commercial Bank, its subsidiaries and associates announced its financial results for the full year ended 31 December 2018, and the Board of Directors have recommended, for approval at the Annual General Assembly on 20 March 2019, a cash dividend payout of QAR 1.5 per share.

On behalf of the Board of Directors, I would like to express our thankfulness and gratitude for the visionary leadership of His Highness the Emir Sheikh Tamim Bin Hamad Al Thani. Under the leadership of His Highness, Qatar is well positioned to continue on its remarkable growth trajectory and Commercial Bank is fully aligned with, and contributes towards, Qatar's national development objectives.

I also want 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 Commerce and Industry and His Excellency the Governor of Qatar Central Bank.

I would like to thank the Board of Directors for their continued guidance and all our employees for their collective efforts towards making 2018 a successful year for Commercial Bank, recognising that this success could not have been achieved without the loyalty of our customers and the continued support of our shareholders.

2019 will be the third year of our five-year strategic plan. We have made good progress in reshaping our business and next year we will continue on our transformation journey towards delivering long-term sustainable growth for our shareholders while contributing towards Qatar's national success story.




Abdulla Bin Ali Bin Jabor Al Thani

Chairman





Board of Directors





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- 1. Sheikh Abdulla Bin Ali bin Jabor Al Thani**
Chairman
 - 2. Mr. Hussain Ibrahim Alfardan**
Vice Chairman
 - 3. HE Mr. Abdul Rahman Bin Hamad Al Attiyah**
Member
 - 4. Mr. Omar Hussain Alfardan**
Managing Director
 - 5. Sheikh Jabor Bin Ali bin Jabor Al Thani**
Member
 - 6. Sheikh Faisal Bin Fahad bin Jassim Al Thani**
Member
 - 7. Mr. Mohd Ismail Mandani Al Emadi**
Member
 - 8. Qatar Insurance Company**
Member
(Represented by HE Mr. Khalaf Ahmed Al Mannai)
 - 9. HE Mr. Saleh Abdulla Mohamed Al Ibrahim Al Mannai**
Member
- 
- 

investing in our crew

At Commercial Bank, we know that our people are our most important asset. That is why we invest so much in their career development, health, and wellbeing. Through our successful National Development Programme, we have helped hundreds of young, Qatari nationals to learn the skills that are needed to develop successful careers. We also support people outside of the Commercial Bank family through our community-focused corporate social responsibility programme.



Vice Chairman's Message



Mr. Hussain Ibrahim Alfardan
Vice Chairman

Qatar continued to transform its economy in 2018 for a more sustainable future, implementing a raft of reforms designed to strengthen the economy, increase self-sufficiency and promote growth. By aligning itself with the economic objectives of the nation and providing a strong, stable and innovative financial institution to

support Qatar's economy, Commercial Bank is pleased to continue to be a part of Qatar's growth story. 2018 is the second full year of our five-year strategic plan and the benefits of the continuing execution of this plan are evident in our positive financial results for the year ended 31 December 2018.

The Bank delivered a consolidated operating profit of QAR 2.34 billion and a net profit of QAR 1.66 billion, representing a 5.9% and a 175.5% increase over the same period last year, respectively.

Under our five-year strategic plan, we took the prudent decision to take provisions for our legacy loan book. This provisioning process is coming to an end, with net provisions for loans and advances decreasing by 45.4% in 2018 to QAR 927 million. Significant provisions have been taken since 2016, and income previously associated with these provisions have been substituted with high quality sources due to our strategic intent to de-risk and re-shape our balance sheet. As part of this re-shape, the Domestic Bank's exposure to the real estate sector decreased from 29.2% in 2017 to 28.7% in 2018.

In further support of long-term sustainable growth, we are building new fee income that is not purely lending based due to our strategic focus on transaction banking and growth in fee-based products and services such as remittances, cash management and wealth management. Non-interest income increased by 1.5% to QAR 1.03 billion.

We successfully decreased our operating expenses by 11.5% year on year, in line with our strategy to drive operational efficiencies across the business through investment in digitization and automation, eliminate waste, and reduce staff costs while avoiding large scale redundancies. Consequently, the Bank reported a substantial fall in the cost to income ratio of 33.4%, down from 37.5% in 2017.

Due to the repayment of government loans across banks in Qatar in April 2018 after the State's sovereign bond issue, an increase in interest rates, and a depreciation in the Turkish Lira, loans and advances to customers decreased by 6.1% in 2018 at a Group level, with consolidated net interest income down 1.4% to QAR 2.48 billion for the year 2018. Despite a 4.4% decrease in loans and advances, net interest income increased by 4.0% at the Domestic level through a combination of asset pricing and a strong focus on cost of funding. A conscious decision to dispose of deposits bearing high interest rates resulted in customer deposits decreasing in the Domestic Bank by 7.7% to QAR 62.4 billion.

Deposits and liquidity continue to be well-managed despite the blockade, supported by our successful fundraisings this year, including a \$500 million bond under our European Medium Term Note Programme, a CHF 435 million Swiss Franc bond and a \$750 million syndicated senior unsecured term loan facility.

During 2018 we implemented IFRS 9 in line with best governance standards and a conservative approach, resulting in a one-time IFRS 9 charge of just over QAR 1.5 billion. This impacted our CET1 capital, reducing to 10.5% as at 31 December 2018 and our future focus is to increase this back to a minimum range of 11.0 to 11.5% through profit generation and retention.

Our subsidiary Alternatif Bank reported an increase in net profit to QAR 90.6 million for the year, up 85% compared with last year. Our investment in Turkey is set to grow in the long-term and Alternatif Bank has the right strategy and management team on the ground to manage Turkey's current macroeconomic challenges and proactively seek opportunities with the right risk profile for growth.

Our associate bank in Oman, National Bank of Oman (NBO), reported a net profit of OMR 51 million for 2018, 16% higher than the previous year. We continue to classify United Arab Bank (UAB) as an Asset Held for Sale and we remain focused on improving the performance of the entity as per our corporate strategy.

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, His Excellency the Prime Minister and Minister of the Interior, His Excellency the Minister of Finance, His Excellency the Minister of Commerce and Industry and His Excellency the Governor of the Qatar Central Bank for their wisdom, guidance and support, which we continue to greatly appreciate.



Hussain Ibrahim Alfardan
Vice Chairman

Group Chief Executive Officer's Message



Mr. Joseph Abraham

Group Chief Executive Officer

2018 marks the second full year of our five-year strategic plan designed to reshape our business, build sustainable earnings, diversify risk and achieve growth. We are on track to deliver this plan and 2018 was a transformational year during which the market recognised the value of our strategy and its disciplined execution.

The foundation of our strategic plan with the vision of being the "Best Bank in Qatar" are the Five Cs of Commercial Bank: Corporate earnings quality; Client experience; Creativity and innovation; Culture; and Compliance, together with a focus on best in class transaction banking. We have made continued progress against each of these Five C's in 2018.

Commercial Bank is Qatar's oldest and leading private sector bank with a solid franchise based on over 42 years of innovation and customer service. To build on our past and position Commercial Bank for a sustainable future, we continue to invest in innovation, new technology, new products, new premises and our staff development and capability enhancement.

We continue to reshape and diversify our loan book, with the strategic intent of decreasing our concentration in real estate and increasing our share of high quality government and public sector loans. The provisioning process for our legacy loan book has started to tail off as we have provisioned the majority of legacy exposures and we continue to de-risk legacy assets with significant single name concentrations. We have successfully reduced our costs by 11.5% this year by targeting waste and inefficiency, and moved our cost to income ratio down from 37.5% to 33.4% closer in line with the market.

For the best client experience, we launched new digital products and services in 2018 such as contactless cards, a redesigned mobile app, and expanded our award-winning digital remittance service to two additional countries, as well as opening a new state-of-the-art branch in Doha Festival City. Our "One Bank" culture emphasizes strong collaboration across the Bank's different departments for the benefit of our clients and we have invested in a new gym and staff club for our employees. In line with our objective to be a market leader for compliance and good governance, we have further strengthened our risk culture and are the first company in Qatar to introduce mandatory deferred executive remuneration with provisions for malus and clawback in line with international best practice.

Our strategic focus on transaction banking is gaining momentum and contributing to revenues while keeping operating costs flat. Key to our competitive advantage in transaction banking is our wholly owned subsidiary based in the Qatar Financial Centre (QFC) called Commercial Bank Innovation Services (CBIS), which is deploying the latest world-class technologies, enabling the Bank to quickly deliver innovative new products, apply new processes to our banking operations, and improve creativity. Previously our technology and operations were outsourced to India but we have achieved something unique by bringing this function back in-house in Qatar, creating over 300 onshore jobs in support of the country's vision of making the QFC and Qatar a world class location for establishing companies.

The result of all these actions taken under our strategic plan is that I am pleased to report a positive business

performance for 2018. The market has also recognised that Commercial Bank is doing the right thing under our strategic plan, with recognition coming in the form of a greater than 50% rise in our share price and award wins such as the "Best Bank in Qatar 2018" from Global Finance magazine, "Best Remittance Bank in the Middle East 2018", and "Best Retail Bank in Qatar 2018" for the second year in a row from The Asian Banker.

Our Turkish subsidiary Alternatif Bank and alliance bank National Bank of Oman (NBO) continue to be a key part of our strategy and we remain confident in their potential to contribute additional value to the Commercial Bank Group.

The Turkish economy and currency have gone through some volatility in 2018 but we remain committed long-term investors in Alternatif Bank, injecting a further \$50 million of capital into the business in 2018 and purchasing new head office in Istanbul. Turkey remains one of Qatar's most important partners for trade and investments and we continue to integrate and align our business with Alternatif Bank in terms of business strategy, risk protocols, and our cross-border offerings to take advantage of the increasing two-way investment flows between Qatar and Turkey.

NBO has a strong capital position and continues to deliver solid results, while our stake in United Arab Bank (UAB) continues to be an Asset Held for Sale. Our strategy for UAB is to focus on transforming its performance to ensure its share price more closely reflects the true value of UAB.

Our achievements in 2018 demonstrate that Commercial Bank has the right strategy in place and the right team to implement it. We will continue to invest in 2019, with a long list of new technological initiatives, new digital products to meet the needs of our clients, and new branches aligned to our client footprint all planned for launch. We have demonstrated that "everything is possible" in 2018, and I am confident with the support and guidance of our Board and the capability and engagement of our staff working together as "One Bank", we will continue to build our business and grow sustainably in 2019.



Joseph Abraham
Group Chief Executive Officer

A sunset over a body of water with a white text box containing the title and a paragraph.

our pioneering culture

We are strongest when we work together to achieve a shared vision, which is to be the best bank in Qatar. At Commercial Bank, we have worked hard to foster a pioneering culture where “Everything is possible” and our “One Bank, One Team” culture is based on values of respect, collaboration and teamwork. We are incredibly proud of this culture and believe that it is one of the most important factors behind the Bank’s success in 2018.



Management Review of Operations

Financial Results

In 2018, Commercial Bank delivered a net profit of QAR 1,663 million, an increase of 175.5% compared to the QAR 604 million achieved in 2017.

Loans and advances to customers reduced by 6.1% to QAR 83.7 billion at 31 December 2018, compared with QAR 89.1 billion in 2017. The reduction was mainly due to the reduction in government temporary overdraft and the translation of the Turkish Lira into the reporting currency.

Our deposits decreased by 8.1% to QAR 71.3 billion, as we let go expensive deposits.

Investment securities increased by 12.6% to QAR 22.1 billion as at 31 December 2018 compared with QAR 19.6 billion at the end of December 2017. The increase is mainly in Government bonds.



Rehan Khan
EGM, Chief Financial Officer

Financial Results (QAR million)	2018	2017
Net interest income	2,482	2,518
Non-interest income	1,026	1,011
Net operating income	3,508	3,529
Operating expenses	(1,173)	(1,325)
Provisions for impairment losses	(836)	(1,743)
Share of results of associates	171	148
Income tax expense	(7)	(5)
Net profit for the year	1,663	604

Operating Expenses (QAR million)	2018	2017
Staff costs	676	713
General and administrative expenses	313	404
Depreciation and amortisation	184	208
Total operating expenses	1,173	1,325

Net Operating Income

Commercial Bank's net operating income decreased by 0.6% to QAR 3,508 million for the year ended 31 December 2018, down from QAR 3,529 million achieved in 2017. Net operating income for the Bank in Qatar increased by 0.2% to QAR 2,996 million compared to the same period in 2017.

Net interest income for the year ended 31 December 2018 was 1.4% lower than in 2017 to QAR 2,482 million. Net interest margin remained at 2.2% as margins have been managed through active loan book re-pricing and diversifying liquidity sources to minimize the increasing cost of funding.

Non-interest income increased by 1.5% to QAR 1,026 million for the year ended 31 December 2018 compared with QAR 1,011 million in 2017. The overall increase in non-interest income was due to higher income from fee-based income mainly on credit and transaction banking and foreign exchange gains.

Operating Expenses

Total operating expenses were tightly managed and decreased by 11.5% to QAR 1,173 million for the year ended 31 December 2018 compared with QAR 1,325 million in 2017. The decrease in operating expenses was mainly due to lower staff costs and administrative expenses.

Provisions for Impairment Losses

Provisions for loans and advances reduced by 45.4% to QAR 927 million for the year ended 31 December 2018, compared to QAR 1,697 million provided in 2017. The non-performing loan ratio decreased to 5.6% in December 2018 compared to 5.7% in 2017, the coverage ratio has reduced to 78.9% as at December 2018 compared to 81.0% in December 2017.

The Bank sets aside a risk reserve against its lending as part of shareholders' equity. At 31 December 2018, the risk reserve was QAR 886 million.

Impairment provisions on the Bank's investment portfolio decreased to QAR 0.4 million for the year ended 31 December 2018 compared with QAR 46 million in 2017.

Total Assets and Funding

Commercial Bank's balance sheet declined by 2.4% in 2018, with total assets at QAR 135.1 billion compared to QAR 138.4 billion in 2017.

Balance sheet decline was driven by QAR 5.4 billion decline in loans and advances and this was partially offset by the increase of QAR 2.5 billion in investment securities.

Customer deposits reduced by 8.1% to QAR 71.3 billion at 31 December 2018, compared with QAR 77.6 billion in 2017, as we let go expensive deposits.

Capital

Commercial Bank's capital position remains strong, however capital adequacy ratio reduced to 15.5% as at 31 December 2018 compared to 16.1% at the end of 2017, due to the impact of the one-time IFRS 9 adjustment. The capital adequacy ratio is above the Qatar Central Bank's required minimum level of 14.0 %.

Subsidiaries

Alternatif Bank

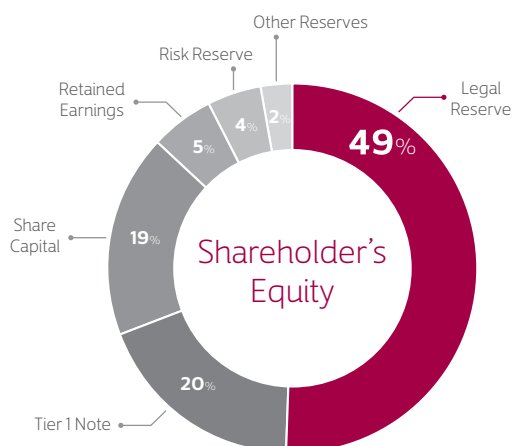
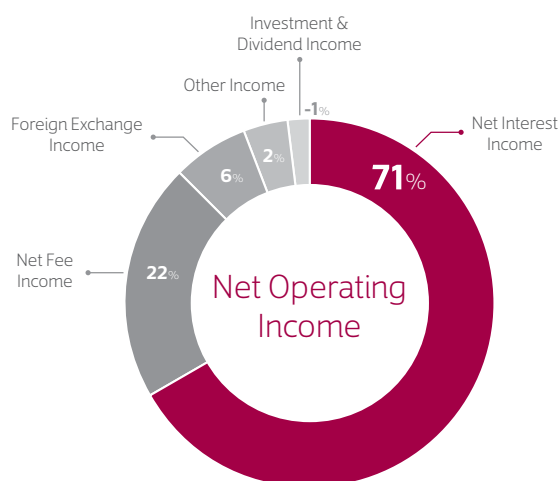
Alternatif Bank delivered a net profit of TL 116.6 million for the year ended 31 December 2018, with total assets of TL 25.5 billion and lending of TL 17.3 billion.

Alternatif Bank provides its customers in the corporate, commercial and retail banking segments with high value products, services and solutions. Alternatif Bank has 49 branches widely distributed around Turkey.

In 2018, Alternatif Bank 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 Stock Exchange. In 2018, CBFS delivered a net profit of QAR 11.5 million.



Management Review of Operations continued

Orient 1 Limited

A fully owned subsidiary incorporated in Bermuda owns exclusive 'Diners Club' franchise in Qatar and Turkey.

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 50.6 million, compared with OMR 44 million in 2017. Operating income was marginally down by 2.3% to OMR 129 million from OMR 132.1 million in 2017.

During 2018 NBO continued to increase its customer lending by 5.9% to OMR 2.8 billion and customers' deposits are maintained at OMR 2.5 billion.

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.



Commercial Bank opens new Alternatif Bank head office in Istanbul



Raju Budhiraju
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 2018, Wholesale Banking's business represented most of the Bank's total loan book and generated almost half of the Bank's total revenues.

In line with the Bank's five-year strategic plan, Wholesale Banking proactively initiated several new measures, such as:

- Grow the balance sheet in line with the market, primarily within the government and public sector;
- 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.

Growing the government and public sector balance sheet

Growth in the public sector balance sheet during 2018 was approximately 8%. While public sector growth numbers for the market are not separately available, the growth of this sector in Commercial Bank book is estimated to be faster than the market growth. We have identified new public sector customers to focus on, targeting cash management. We aim to see significant growth in this sector – approximately 10% in 2019.

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, which are:

- Growth of government and public sector lending from 17% of Wholesale Banking's portfolio YTD Sep 2017 to 21.5% in YTD Sep 2018;
- Rationalisation of real estate exposure with a reduction from 31% of Wholesale Banking's portfolio YTD Sep 2017 to 29.3% YTD Sep 2018.

Growth of government and public sector lending and rationalisation of real estate exposure remains a strategic aim, with a five-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 certain clients where exposure will either be partially or fully reduced to ensure Commercial Bank does not have very large exposure towards any one client. In 2018, the total amount of intentionally de-risked assets was more than QAR 0.7 billion, with an additional target of over QAR 1.5 billion by 2019, for an optimized balance sheet containing high-quality customers and assets.

Growth and strong lending pipeline

Wholesale Banking's asset book grew by approximately 20% in 2017, outperforming the market growth of around 9%. Wholesale Banking's focus in 2018 was to grow its assets book with the right risk profile and the right quality, in conjunction with the strategic aims of re-shaping and de-risking to maintain growth and ensure a sustainable revenue stream in the future. The lending pipeline originating from the public sector represents over 50% of the total lending pipeline.

Management Review of Operations continued

Cross-selling

Diversification of the revenue, primarily an increase of the fee income that is not lending-based, is one of the major strategic aims of Wholesale Banking. 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, Alternatif Bank and National Bank of Oman, 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 and the 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 2018:

- Lending towards an iconic government hotel geared towards the 2022 World Cup;
- Key arterial highways connecting stadiums being built for the 2022 World Cup;
- Supporting air conditioning in Lusail;
- Supporting warehousing and logistics in Manatec.

In 2018, 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 and 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.

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 2018, several new service and digital technology initiatives were implemented to improve the client experience:

- Remote Cheque Deposit solution for corporate customers for faster and easy collection of cheques;
- Corporate Mobile App with rich features to conduct all payments and inquiries of bank accounts;
- CB Smart Trade solution that provides real-time notifications and alerts on all trade finance requests submitted to the Bank;
- Conducting workshops for customers focusing on trade best practices and encouraging adoption of the Bank's online channels;
- A structured trade solution for a leading automobile dealer that assisted automobile imports in Qatar on an extended credit period;
- 60 Seconds Remittance service for corporate customers through Corporate Internet Banking;
- A Corporate Premium Service Counter at Commercial Bank's dedicated corporate branches.

Transaction Banking concluded several notable deals in 2018 including cash management mandates for two large mobile phone operators, host-to-host services for Milaha, and customised cash management solutions for large public sector and private sector corporates. 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" and "Best Transaction Bank in Qatar" at the Asian Banker Middle East and Africa Transaction Banking Awards 2018, adding to the "Best Cash Management Bank" award received in 2016 and 2017.



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 2018, the Bank's international corporate lending strategy focused mostly on transport, industry and services sectors with strong Qatari angles. The corporate lending business maintained its strategic drive towards diversification, targeting landmark opportunities 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 and banks, and strategic relationships with large corporates in the EMEA region, Turkey, and selectively across the North American, Asia Pacific and Sub-Saharan African markets. The lower risk and mostly short-term trade finance book saw reasonable activity in 2018 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 to benefit from synergistic growth across the Commercial Bank Group.

Interests in Turkey

Turkey remains a key market for Commercial Bank following the acquisition of Alternatif Bank in 2013. The International Banking department is providing complementary support through its balance sheet

and products platform 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 focus in strengthening Alternatif Bank'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.

Diversifying funding

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. The International Banking department played a leading role in the successful arrangement of a three-year USD 750 million syndicated Senior Unsecured Term Loan Facility, closed in December 2018. The syndication was launched at an initial value of USD 750 million. The transaction received strong interest from the market and closed significantly oversubscribed at a value of USD 975 million.

Supporting business initiatives

Supporting major business initiatives that are relevant to the Qatari banking sector remains a key pillar of the International Banking business. In 2018, the Bank sponsored and participated in several major banking industry events and conferences. These included:

- The Annual Meetings of the International Monetary Fund (IMF) and the Institute of International Finance (IIF), where Commercial Bank was joined by its subsidiary, Alternatif Bank, and Alliance bank partner, National Bank of Oman;
- SIBOS in Sydney, Australia, a major industry event for banks and financial institutions around 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, the Institute of International Finance, the International Finance Corporation, IMF, Arab Trade Finance Program, ISDA and other development institutions.

Management Review of Operations continued

2019 priorities

Moving forward, our strategic priorities in 2019 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, 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 to withstand credit event downturns;
- Support the Commercial Bank Group's funding initiatives and balance sheet growth by leveraging Commercial Bank's international corporate network.

Retail and Enterprise Banking

Commercial Bank's Retail Banking manages the banking and financial needs of individuals and businesses through small and medium-sized enterprise (SMEs). We provide a full range of products and services including transactional accounts, deposits, loans, credit cards, insurance, and wealth management solutions, that all help our customers to realise their financial goals and ambitions.

The Retail and Enterprise Banking teams remain focused on developing innovative products and services to meet customers' many and changing needs. We are active in driving the Bank's five-year strategic plan, guided by its core values that we call our Five Cs, which are:



Amit Sah
EGM, Consumer Banking

- Corporate earnings quality: we aim to drive revenue growth across a set of diversified products and customers, whilst maintaining high quality credit, together with an efficient and cost-effective delivery structure;
- Client experience: our goal is to be the bank of choice for our clients by providing the best service and 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. Our capability and dominance in transactional banking is achieved through continuous development and improvement;
- Culture: our focus is on a "One Bank, One Team" culture, based on values of respect, collaboration, and teamwork. We use all our resources collectively to achieve the best outcome for our customers and stakeholders;
- Compliance: this is core to our business, the ability to be robust and manage with good governance is vital when building and sustaining a market-leading Bank.

Awards

In 2018, Retail Banking further grew its customer base through improved banking products and the introduction of innovative services to meet the needs of our customers.

Whilst we continually seek and value feedback from our customers, it is equally rewarding when industry experts recognise our performance with awards. We won the following three awards in 2018:

- “Best Bank in Qatar” by Global Finance Magazine;
- “Best Retail Bank in Qatar” by The Asian Banker;
- “Best Remittance Service for the Middle East” by The Asian Banker.

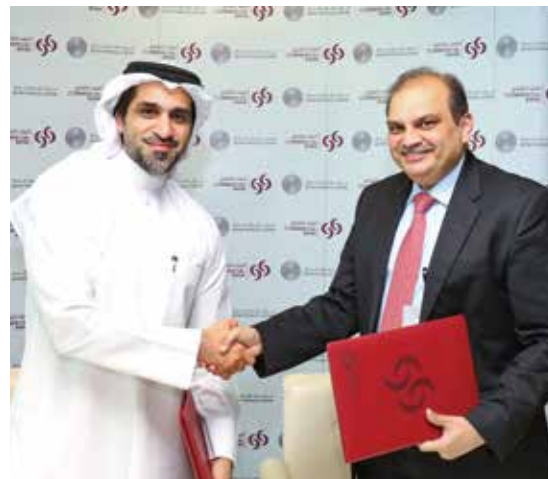
Business performance

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, Retail Banking delivered a strong performance in 2018.

The Retail and Enterprise balance sheet remained healthy with lending to customers adjusted to QAR 19.3 billion and deposits growing marginally to QAR 21.6 billion. With increased focus on automation, control of direct costs, improved fee income revenue streams, and effective net interest margin management, Retail Banking improved its contribution to the Bank’s revenues by maintaining healthy margins and operating income.



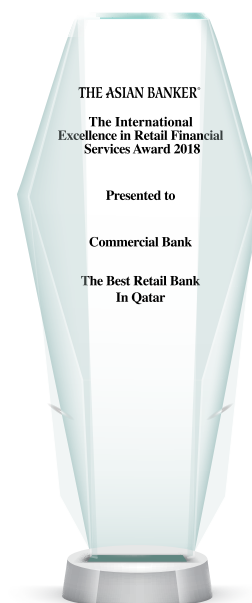
Commercial Bank receives The Best Retail Bank in Qatar award



Commercial Bank & QFC form strategic partnership



Commercial Bank's 2018 awards



Management Review of Operations continued

The growth in our operating income in 2018 over 2017 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 2018.

We take great pride in delivering a quality service to all our customers, with our Private Banking and Sadara Banking services leading with exceptional standards.

Branch and ATM networks

Continuing our branch strategy to align our presence with emerging geographic and economic zones in Qatar, we opened our branch at Al Ruwais, which expanded our reach to serve customers and support the international trade hub in Northern Qatar. We proudly maintain one of the largest branch networks amongst all the banks in the country and as we reshape our physical model, you will see the efforts in 2018 working with national partners such as Qatar Rail, start to emerge with a new breed of branches in 2019.

For greater convenience for our SME and corporate customers, we have dedicated Corporate Cash Centres and Corporate Branches at five different locations, working extended hours.

Our branch network is supplemented by over 180 ATMs that are strategically located around Qatar to ensure optimum usage of the network by customers.



Commercial Bank Doha Festival City branch opening

More than 60% of our ATM machines offer both cash withdrawal and cash deposit facilities. Customers can also conveniently do bill payments, transfers and generate or change PINs for their cards through our ATM network.

Internet and Mobile Banking

Our leadership in Digital Banking grew even further with our unrelenting focus on our Internet Banking and Mobile Banking services. The new look mobile app came with more features, intuitive navigation supported by voice commands and biometric recognition using face and fingerprint. The ability to personalise and remember favourite transactions made the app both easy to use whilst being safe, secure and convenient.

The introduction of 60 Seconds Remittance service to India, the Philippines, Sri Lanka, Pakistan, and Nepal allows customers from these countries to send money home almost instantly. These services have resulted in a significant increase in transaction volumes and over 95% of Retail Customer remittances are now processed seamlessly through our digital channels.

For the first time in the history of Commercial Bank, online international remittances reached almost 1.5 million transactions in 2018. In recognition of this outstanding service, Commercial Bank was named “Best Remittance Service for the Middle East” by the Asian Banker.

‘PayCard’ customers benefitted from being able to use a Nepalese language version if required, to cater to this nationality being the largest ‘PayCard’ customer base, the first in the Middle East, offering convenient banking with easy remittance facilities. This helped reduce our customers’ reliance on exchange houses for sending money back their home country.

Our dedicated Enterprise Mobile Banking App witnessed a fivefold increase in mobile transaction volumes. The Mobile App offers corporate and business customers a convenient banking experience with features including complex, rule-based signatory approvals for payments and transfers.



Commercial Bank customer wins hotel stay on Maldives private island

These innovative features that make our customers' journeys easier were part of the reason that Commercial Bank's Mobile Banking App consistently featured as the #1 Financial App in Qatar, by both Apple and Android App stores.

Cards

Commercial Bank's Cards and Payments business continued its market leading journey in 2018 by launching innovative, new, award winning products through the year. The limited edition range, a High Net Worth Card offer, by select invitation only, is the flagship portfolio for the cards business. It led with strong double-digit growth and contributed 21% of the Card Business spends portfolio.

The limited edition customers of Commercial Bank have one of the highest spends per card, across the Middle East, as per statistics shared by the card schemes.

Overall the cards business had a strong growth in spend and balances in 2018. In line with changing trends and consumer behavior, Commercial Bank has also focused on increasing online spending, which resulted in the Bank registering huge growth in this area and winning an award from Visa for being the "Highest growing Bank in E-com spends" in 2017 and the same has continued in 2018.

Commercial Bank was one of the first banks in Qatar to launch the comprehensive Contactless payment ecosystem comprising Contactless Credit Cards, Debit Cards and POS terminals in Q1 2018. The Bank has

achieved market dominating numbers of issuance of over 200,000 for Contactless Cards, rollout of over 6000 POS terminals and processing more than 500,000 Contactless POS transactions in 2018.

We launched a fully integrated ECR payment system with one of the largest retailers in the Middle East region. The innovation resulted in a great customer experience by reducing the transaction time and by eliminating the chances of manual errors. The integrated payment solution was received very well by our customers and the Bank is working with other key merchant partners to expand the reach and scope of this enhanced offering.

In line with the government's vision for WPS customers and the need for the Bank's own Corporate & SME customers, Commercial Bank has created a low cost but efficient payroll card (PayCard) business model and is the market leader with an estimated 60%+ market share in the low salaried WPS segment.

The pace of innovation and technological change in the payments industry is very high, and Commercial Bank is staying at the forefront of this change. Following Contactless Credit Cards, Debit Cards and Acquiring, the Bank will continue to launch new products in 2019, including a mobile wallet, which will allow customers to use their mobile phones to make payments.

Management Review of Operations continued



Commercial Bank customer wins QAR 1 million in Save and Win campaign

Wealth management

We have been building our wealth management capabilities with a focus on investing in and upskilling our people. Over the course of the year, 28 individuals from various retail businesses have obtained the International Certificate in Wealth and Investment Management (ICWIM) from the Chartered Institute for Securities and Investment (CISI). This is one of the leading professional body for securities, investment, wealth and financial planning, and is widely recognised in the region as the foundation for offering wealth services.

With an expanding product range, improved technology and systems, we are aware that our high net worth clients need access to a world class wealth management service and that is what we have been growing in a discreet and professional manner.

CB Save & Win

Retail Banking concluded a year-long campaign in October 2018, called CB Save & Win that was aimed at changing the behavior of our customers to save more money, and rewarding them for banking with us, with cash prize draws.

Since its launch in 2017, Commercial Bank has awarded a total of 365 cash prizes to customers totaling QAR 3.2 million. All customers who maintained a

minimum average balance of QAR 10,000 or more in their Current or Savings account were automatically entered into monthly, quarterly and annual prize draws.

Many of our Sadara Wealth customers took part and enjoyed the monthly prize draws. We will continue to create and lead the market with innovative ideas to help our customers.

Life in Qatar

Commercial Bank dominates the market for new arrivals into Qatar with our innovative offer for expatriates, "Life in Qatar." This service continued to move from strength to strength in 2018.

We improved the "instant service", which allows customers to have their bank account details and debit card ready as soon as they sign up, the minute they land in Qatar, thus helping them settle quickly and their employers to arrange salary payments efficiently.

Tailored specifically for people moving to Qatar, it provides ease and convenience for those relocating and has already helped over 90,000 customers from over 144 different countries worldwide.

The "Life in Qatar" website now has a new look and provides a better user experience. It is filled with useful information for those relocating and continues to attract visitors daily.

Enterprise banking

Commercial Bank remains committed to the development of the SME sector in line with the Qatar National Vision 2030. Our SME strategy in 2018 has been to dominate Transaction Banking, drive digitization and build strong transaction revenues while moving away from assets-based lending.

Digital initiatives in 2018 such as Remote Cheque Deposit, modernising our Corporate Mobile Banking App and Corporate Trade Portal with end-to-end supply chain finance, has enhanced the customer experience and lead to increased customer engagement.

Over two-thirds of the total SME base banking with Commercial Bank is now digitally active. The digital channels have given SMEs better control over cash flows and provided flexibility to securely transact from the comfort of their offices.

Treasury and Investments

The Commercial Bank's Treasury and Investments Department is responsible for asset-liability management, capital and financial market investments, trading, and treasury sales. The 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 international debt capital markets for funding needs.

Departmental functions

Proactive management allows the Bank to manage its funding base in a cost-efficient manner while ensuring its balance sheet is managed in accordance with the expectations of rating agencies, regulators, the Board of Directors and shareholders. The department's treasury function has been instrumental in maintaining a stable cost of funding, managing the duration of the Bank's liabilities in a volatile interest rate environment, seeking diversification of funding channels, and maintaining key liquidity ratios and related business regulatory ratios well above the minimum required by the Qatar Central Bank.

The department's investments function is engaged in managing the Bank's investments in capital markets to achieve superior and stable returns. It continued to provide strong revenue generation in 2018 whilst



Parvez Khan
EGM, Treasury and Investments

ensuring a liquidity buffer for the Bank by focusing on liquid and diversified investments. It's goal in 2019 is to maintain returns momentum in a challenging geopolitical and monetary policy environment. The investment emphasis remains on active portfolio management to optimise returns and ensure effective risk management by flexible asset allocation, hedging, and duration management.

Treasury Sales

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 Investments department continues to grow its footprint as a leading market-maker in the regional rates, fixed income, treasury securities and FX markets, and in providing market access to corporates and institutions. In 2018, Commercial Bank Treasury and Investments expanded its capacity to support client needs by adding digital execution capabilities and risk management solutions, both domestically as well as cross-border, demonstrating its ability to provide seamless client solutions across multiple geographies.

Management Review of Operations continued

Commercial Bank Financial Services

Commercial Bank Financial Services (L.L.C.) (CBFS), a wholly owned subsidiary of The Commercial Bank (P.S.Q.C.), 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).

CBFS provides its customers with the best investment product options and services available in Qatar while building up 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 for its customers in order to have 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, richer user interface and additional functionalities. Encouraging customers with 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 include 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.

Risk Management

Managing risk is a fundamental part of Commercial Bank's day-to-day business activities. As part of the overall corporate governance framework, the Board of Directors is responsible for overseeing a strong risk governance framework, including a strong risk culture, a well-developed risk appetite—articulated through the Bank's Risk Appetite Statement – and well-defined responsibilities for risk management and control functions. The keystone of the Bank's risk governance framework are the three lines of defense, namely:

1. The first line of defense is the frontline units, business units, or functions that create risk. These groups are the Bank's primary risk-takers, responsible for implementing effective internal controls and maintaining processes for identifying, assessing, controlling, and mitigating the risks associated with their activities, consistent with the Bank's Risk Appetite Statement and risk limits.
2. The second line of defense is independent risk management, which oversees risk-taking and assesses risks independent of the frontline units, business units or functions that create risk. Independent risk management complements the frontline units' risk-taking activities through its monitoring and reporting responsibilities, including compliance with the Bank's risk appetite, and is responsible for identifying, measuring, monitoring, and controlling aggregate and emerging risks enterprise-wide.
3. The third line of defense is internal audit, which provides independent assurance to the Board on the effectiveness of governance, risk management, and internal controls.

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



Paul Gossiaux
EGM, Chief Risk Officer

During 2018, Commercial Bank continued to enhance its Asset Liability Management capability by incorporating prepayment and behavioral modelling to sensitize expected cash flows. The Bank also implemented IFRS 9 during the year and is fully compliant with Qatar Central Bank requirements.

There were also significant improvements made to Operational Risk and Fraud Management capabilities in line with the overall digitization strategy of the Bank. In 2019, Commercial Bank will continue to employ clear risk management objectives and well-established strategies through core risk management processes.

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.

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 the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It includes legal risk but excludes strategic and reputational risk.

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 ORM Department are:

- 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 (PVO1) 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 several 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.

Management Review of Operations continued

Board Risk-related Committees

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

1. The Board Risk Committee (BRC), which 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 2019, the Bank will continue to enhance its internal controls and improve various processes in all areas of risk management. The Bank follows the provisions of the Basel III framework as per the directive of 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 Qatar Central Bank.

Marketing

The Marketing Department of Commercial Bank establishes and promotes the Bank's reputation and brand identity to stakeholders and customers through effective communication using both traditional and digital media channels.

Marketing works closely with the Bank's main business units 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.

Commercial Bank is proud of its leading position as a digital bank. Through exemplary thought leadership in digital marketing – alongside our proactive approach to digital media, introduction of first-to-market technologies, quality content offering, and customer engagement on and through social media – Commercial Bank continues to dominate Qatar's digital banking spaces.

Demonstrating national pride

Commercial Bank's successes and achievements this year contributed to a national awareness about how the continuing blockade has, throughout Qatar, made us more resilient and determined to achieve results, in alignment with the country's key strategic messages and fulfilment of the Qatar National Vision 2030. The Bank's pride in enhancing its national identity and high values of participation in all social and cultural events stems out of its loyalty to and solidarity with the wise leadership of our government under His Highness the Amir Sheikh Tamim bin Hamad Al Thani.

Commercial Bank's sponsorship of National Day is a key part of its aims to establish positive cooperation and play an effective role in the interest of all segments of Qatari society by sponsoring major activities in various important fields. We were honored with a prestigious award as Gold Sponsor of Qatar National Day 2018 celebrations, presented by HE the Minister of Culture and Sports, Dr Salah bin Ghanem bin Nasser Al Ali, following the success of our celebratory events.

Supporting Qatar's economy

Commercial Bank is committed to helping support the development of Qatar's economy and future sustainability in line with the goals of the economic pillar of the Qatar National Vision 2030.

To promote excellence within the country's financial sector, the Bank took the role of Lead Sponsor of the Euromoney Qatar Conference 2018, held under the patronage of HE Sheikh Abdullah bin Nasser bin Khalifa Al Thani, Prime Minister and Minister of Interior. Group CEO Joseph Abraham and COO Leonie Lethbridge spoke at this major industry event, which focused on Qatar's post-blockade strategy, and on how the financial services sector can work together to drive Qatar's private sector and economic growth forward into 2019.

As part of its remit to support international trading relations, the Bank participated in the inaugural Qatar–Germany Business and Investment Forum, during which high-level government officials and executives from both countries discussed business and investment opportunities to expand the long-term Qatari-German economic partnership, supported by Qatari investments into Germany.

In support for increasing two-way trade between Qatar and Turkey, and to increase support for robust strategic



Hussein M Ali Al-Abdulla
EGM, Chief Marketing Officer

collaboration between the countries, Commercial Bank held its annual Analyst Day in Istanbul, where senior management presented details of its strategy, key successes over the past year and plans for future growth. On the sidelines of the Analyst Day, Commercial Bank opened the new head office of its subsidiary Alternatif Bank at the Vadistanbul Bulvar complex in Istanbul, Turkey.

A high-level delegation of National Bank of Oman (NBO) Board Members and senior management was hosted at Commercial Bank Plaza for their first board meeting in Doha as part of a tradition of dialogue and collaboration between NBO and Commercial Bank. During this time, the Bank welcomed an NBO delegation to an event attended by Qatari businessmen, including the Bank's VIP clients, thus enhancing economic relations and investment opportunities between Qatari and Omani companies. Commercial Bank has a strategic alliance with NBO as Oman's second largest bank and holds a 34.9% stake.

Commercial Bank has also helped home-grown companies to flourish. In the Qatar National Vision 2030, SMEs play a vital role in creating a strong and diversified private sector. That is why in 2018 the Bank launched an initiative to assist Qatari entrepreneurs by providing them with a display space at Commercial Bank Plaza to communicate to a wider audience and bring them closer to new and potential customers. The initiative also served to promote locally made Qatari products, which is very important given Qatar's strategic priority of self-sufficiency.

Management Review of Operations continued



Commercial Bank Lead Sponsor of Euromoney Conference

Corporate Social Responsibility (CSR)

Since its inception over forty years ago, Commercial Bank has been committed to supporting Qatar's national development by giving back to the wider community through a comprehensive range of meaningful corporate social responsibility programmes formulated and implemented by the Bank's Marketing Department.

As part of the Bank's humanitarian and social initiatives, Commercial Bank engaged in a range of initiatives during the holy month of Ramadan that focused on community engagement and social inclusiveness, including distributing water and dates to members of the public before Iftar every Saturday in different locations around the city, distributing food supplies for needy families direct to their homes, and giving Iftar

boxes to taxi drivers. The Bank also launched a social media initiative – #CastYourKindness – to encourage philanthropy and community experiences by having others share their favorite videos of social events taking place in Ramadan.

As part of its Qatar National Day 2018 celebrations, Commercial Bank created and distributed a limited edition set of National Day souvenirs for children in schools, hospitals and the Qatar Society for Rehabilitation of People with Special Needs. This activity was designed to ensure that all children in Qatar can take part in National Day celebrations.



Commercial Bank supports World Diabetes Day



Commercial Bank community activities during Ramadan

Health and fitness

At Commercial Bank, our people are our greatest asset, and we are committed to investing in their wellbeing. Improving the nation's health is also one of the most important parts of the human development pillar of the Qatar National Vision 2030, and we promote sports and wellness activities for our staff not just during National Sports Day but throughout the year, advertising the message that sport and physical exercise perform a vital function for the community, promoting active and healthy lifestyles and cultivating values of dedication, teamwork, competition and good sportsmanship.

In 2018 Commercial Bank helped the nation celebrate National Sport Day with a mix of physical activities, staff wellness and a community outreach programme, which included the distribution of special gifts to the Qatar Society for Rehabilitation of Special Needs, independent schools, the children's floor at Hamad Hospital and at Al Wakrah Hospital.

The opening of Commercial Bank's new on-site gym, CB House of Fitness, marked an important moment

in the development of the Bank's employee wellness programme, promoting a healthy workforce all year round. CB House of Fitness is a fully equipped mixed gym, with a ladies-only area, open from early to late every workday with high-quality facilities and dedicated, professional staff also offering fitness classes like Yoga, Zumba, Aerobics and Reformer Pilates.

Our continued title sponsorship of the Commercial Bank Qatar Masters not only reinforces the Bank's support for sporting activities but also its pursuit of excellence. Commercial Bank remains committed to enhancing Qatar's sporting reputation by bringing the best international competitors to Qatar annually for a golf tournament that attracts a global audience.

To celebrate the 2018 World Cup in Russia, staff from across the Bank's different departments enjoyed the thrilling final stages of the tournament in two specially created fan zones at Commercial Bank Plaza and our Al Wakrah branch. In addition, Commercial Bank engaged with football fans using their social media channels to create awareness and spread the excitement.



Commercial Bank awarding the winner of Commercial Bank Qatar Masters 2018

Management Review of Operations continued

In further efforts to enhance awareness of key health issues in Qatar, the Bank marked Breast Cancer Awareness Month by organizing an awareness day in collaboration with Qatar Cancer Society during which a range of awareness-raising activities were launched for its employees and members of the public.

Likewise, to promote employee health and wellness on World Diabetes Day, Commercial Bank, in partnership with a medical team from the Qatar Diabetes Association (QDA), offered one-to-one diabetes assessments to all its employees at a risk-assessment station at Commercial Bank Plaza to help them identify and prevent type two diabetes, one of the most common non-communicable diseases in Qatar.

Qatari youth

Commercial Bank takes pride in being a Qatari bank and supporting all four pillars of the Qatar National Vision 2030 through our activities, with a focus on strengthening the economy through our services and investing in Qatar's human talent as one of the largest private sector employers in the country.

The Bank's National Development Programme invests heavily in the skills and training of young Qataris and we look forward to continuing to support Qatar on its journey towards sustainable development and prosperity, for the benefit of current and future generations.

The Bank remains committed to a policy of attracting, recruiting, training and developing Qatari nationals and fostering home-grown ideas and talents. Commercial Bank's policy on Qatarization is to offer excellent opportunities to young nationals embarking on a banking career and to continually explore the market to select and to provide exciting career opportunities for experienced nationals.

Commercial Bank's National Development Team participated at the Education City Career Fair in February 2018 to recruit Qatari nationals as the next generation of highly skilled banking leaders. The Bank's new National Talent Development Programmes were rolled out during mid-2018 to ensure our future leaders receive the very best training and enhanced professional development.

Commercial Bank also participated in the second Qatar Student Forum, organised by the Embassy of the State of Qatar in Washington, DC, and held in Los Angeles, California. Senior human capital and talent development staff from the Bank spoke about the opportunities available to graduates, giving Qatari students based in the United States an opportunity to network with Commercial Bank as a prestigious Qatar-based employer offering excellent career prospects.



Commercial Bank honours Young Bankers



Jassim Al Thani
Chief Human Capital Officer

Human Capital

In 2018, Commercial Bank continued to invest in its entrepreneurial culture. Initiatives included:

- Reinvigorating our performance management system and put more focus on people, conversations and development;
- Setting new, challenging performance standards for our leaders and teams;
- A restructure of the Human Capital team and introduction of HC Communications and Culture to engage and communicate proactively with employees;
- Introduction of the Chamber of Innovation, where employees are encouraged to propose ideas and get immediate business endorsement to apply;
- Attracting and recruiting the right talent that will contribute further into delivering on the Bank's five-year strategic plan;
- Partnering with Ministry of Labour to source national talent and provide them with career opportunities within the Bank Nationalisation;
- A restructure concept to all nationalization themes, from a new sponsorship program where we enhance the experiences of internships, to developing our internal talents and launching our new talent development program;

- A newly-supportive National Talent Committee (NTC) that oversees creative initiatives and endorses various programs that development and encourage nationals.

Enhanced development for Commercial Bank Qatari 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 2018, we identified high-potential Qatari talent 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 2019.

Enhanced career experiences

In 2018, through the newly reintroduced mentorship program, we paired young Qataris with senior managers from a different business unit, which has helped to both supporting business challenges and unlocking human potential. We have also introduced an ongoing feedback initiative to Qatari nationals, at 30, 60, and 90 days intervals, to further support and accelerate integration and affiliation to the Bank.

In 2019, 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 driven to shape the future of banking and financial services sector in Qatar.

Learning and development

We invest to make Commercial Bank a great place for learning. We target our development resources toward our people who are skilled at sharing knowledge and training others through leader-led training. This strengthens our creativity and innovation culture.

We have also introduced a new study support initiative for staff working towards full or part time study programs, focuses on Qatari nationals and endorsed by the NTC.

Management Review of Operations continued

Performance and rewards

The Board of Directors regularly reviews compensation and benefits to ensure we pay fairly and competitively, reward high performers, and linking incentive payments to the overall performance of the Bank.

The Board of Directors also focuses on risk management by considering.

- The split 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 2018, 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 support managers with effective people process.



Commercial Bank at the Second Qatar Students Conference and Forum in the United States

Talent resourcing and management

Through a structured process, Commercial Bank has successfully attracted skilled and competent employees across various strategic business units. These employees have been able to contribute significantly and successfully towards the Bank's strategic goals.

Our recruitment strategy focuses on global competencies, diversity, strong academic qualifications, and leadership capabilities of the future with a strong emphasis on technology. We aim to transfer knowledge to our national talent pool, equipping them with the capabilities required to become the leaders to take the Bank into the future.

As we continue to build on our strategies, our focus remains to attract Qatari nationals across all levels in the bank with the focus on senior leadership roles.

Operations

The future of banking is increasingly digital and Commercial Bank is a pioneer of this change in Qatar. Commercial Bank is investing in innovation and bringing creative, globally leading solutions to the market to provide the best client experience.

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 2018, Commercial Bank grew its active digital users by 21,000 (14%), with the number of digital transactions rising by 12.9 million (84%).

Commercial Bank's digital transformation also applies to our internal activities, and we have embedded digital throughout our organisation for greater efficiencies and cost reduction.

In 2018, robotic processing capability and technology was leveraged to enable fast, reliable processing of highly complex tasks, with reduced risk.

Expansion of digital customer services

Innovation has always been at the heart of Commercial Bank. This commitment to innovation continues today, with Commercial Bank launching several 'first-to-market' digital innovations in 2018, including an expanded 60 Seconds Remittance service to Nepal and Pakistan, expanding the service initiated in 2017 to India, Sri Lanka, and the Philippines. The milestone of enabling more than one million 60 Seconds Remittances was surpassed in 2018. Client-centric advancements in technology include the 'Tap and Pay' Credit Cards for quick and easy purchases, the Corporate & SME Mobile Banking App that offers convenient tailored services, and a Remote Cheque Deposit solution that allows customers to process cheques digitally for clearing.

In another digital first, Commercial Bank introduced the CB Smart tracker for Corporate Banking clients. This online portal allows customers to view the progress of their trade finance requests and eliminate the need to visit or call the Bank during the process. For customers who prefer to use paper-based instructions, the Bank provides dynamic SmartForms, a sophisticated solution that performs necessary validation of customer data to trigger real-time payments.

The importance of our branch network

While digital technology 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 our Relationship Managers. Commercial Bank continues to invest in our branch network and in 2018 we opened two new, state-of-the-art branches at the popular Doha Festival City and at Al Ruwais, with full personal banking and ATM services.

Transaction Banking

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 is a key element of Commercial Bank's vision to be the "Best Bank in Qatar". In 2018, several global banks again recognised Commercial Bank as best in class for our seamless payments services, which enabled real-time processing particularly in US dollar and Euro transactions.



Leonie Ruth Lethbridge
EGM, Chief Operating Officer

Relative to other banks in Qatar, Commercial Bank handled many transactions in 2018, for example:

- Commercial Bank branches and digital channels jointly handled an estimated 30 million transactions in 2018;
- Commercial Bank is among the top three providers of ATM and Branch services;
- Commercial Bank is the market leader in acquiring, with 56% of all point of sale terminals (excluding Government) in Qatar;
- Over 600,000 monthly salaries are initiated through the government's Wages Protection System with Commercial Bank, of which 96% is initiated by the customer online.

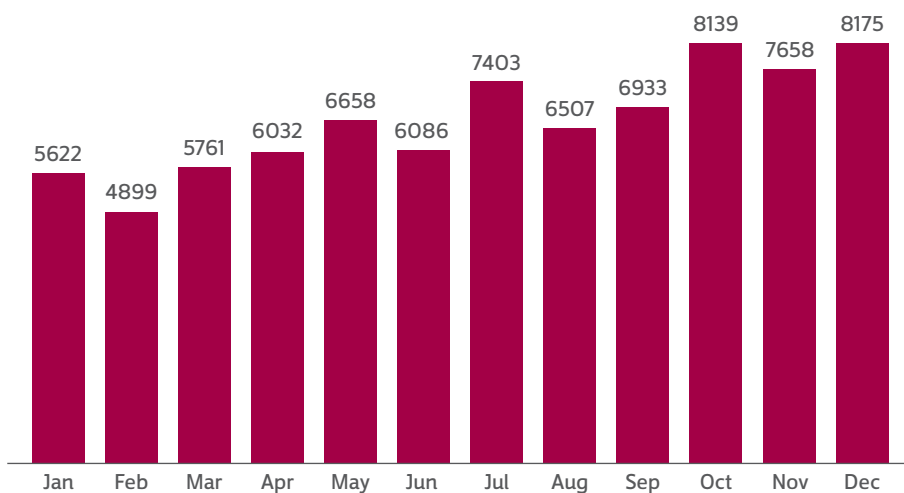
Commercial Bank Innovation Services

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, we invested substantially in Commercial Bank Innovation Services (CBIS), which provides a major capability uplift towards realising our goal of dominating Transaction Banking in Qatar.

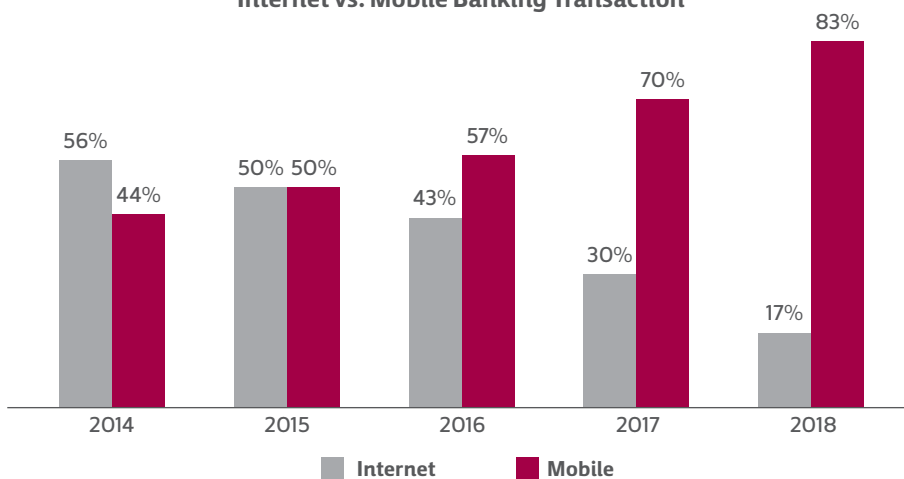
Using innovative technologies, CBIS is scalable to handle greater volumes of transactions at lower cost. As Commercial Bank grows to process a greater number of transactions, the incremental cost of these transactions are kept at virtually zero through innovation and the benefits of economies of scale.

Management Review of Operations continued

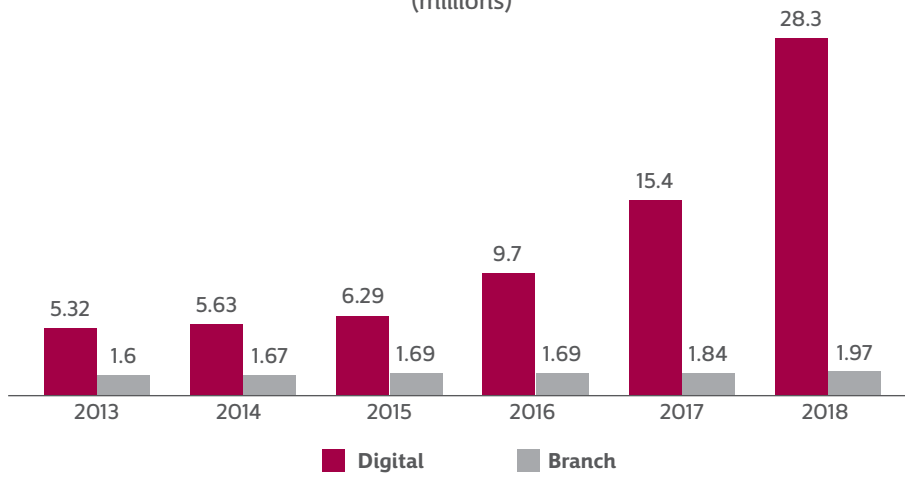
SME Mobile Banking Transactions



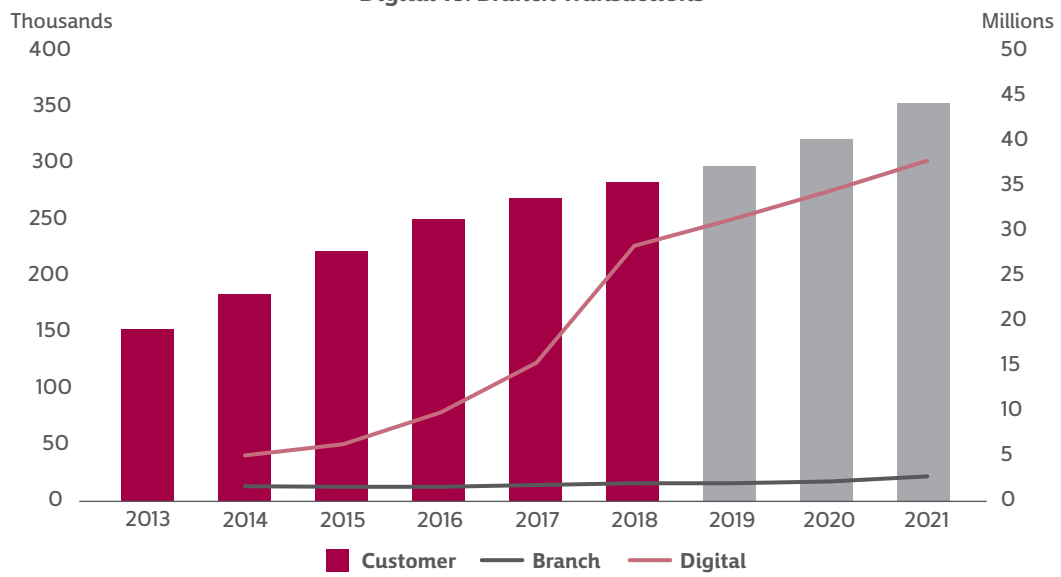
Internet vs. Mobile Banking Transaction



Digital vs. Branch Transactions
(millions)

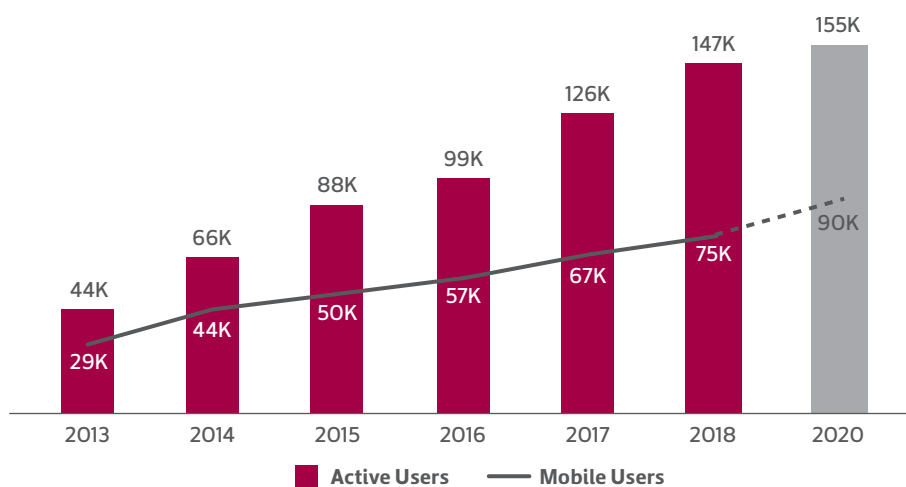


Digital vs. Branch Transactions

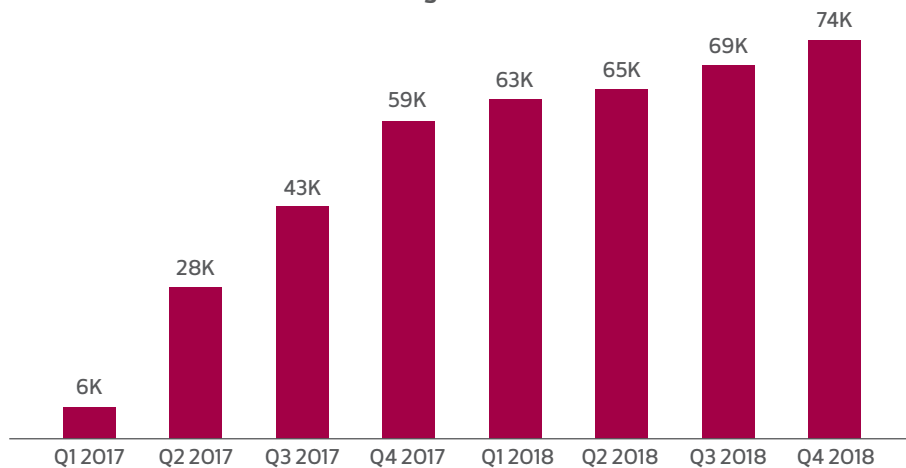


Management Review of Operations continued

Active Digital Users



Biometric Registered Customers



CBIS marked the end of a Commercial Bank's previous outsourcing model to a global, top three business process outsourcing firm, where operational costs were proportional to transaction volumes. Under this old model, costs increased two and a half times since 2011 and were projected to increase by a factor of four by 2020. 2018 marked the very successful consolidation of the CBIS model, which successfully serviced increased transaction volumes at 50% of the projected cost of the previous outsourced approach.

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, 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, future growth, and improved customer experience.

Acknowledgement

Commercial Bank's successful business performance in 2018 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 maintained 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.

Responsibility Statement

To the best of our knowledge, financial statements prepared in accordance with International Financial Reporting Standards provide 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.

20 March 2019

For and on behalf of the Board of Directors:

Mr. Hussain Ibrahim Alfardan

Vice Chairman

Mr. Joseph Abraham

Group Chief Executive Officer

our growing fleet


We are a growing business with an expanding local and international footprint. In 2016, we launched our Five-Year Strategic Plan focused on five Cs: corporate earnings quality, client experience, creativity and innovation, culture, and compliance. The execution of this plan has showed positive results since launch. We have reshaped our loan book and improved asset quality, reduced our costs, and grown our international portfolio. This work has led to year-on-year increases in our net and operating profit in 2018, which we hope to continue in 2019.





Annual Corporate Governance Report 2018

Effective governance is, at its core, simply about doing the right things for stakeholders. It is enabled by having the right checks and balances throughout the organization to ensure that the right things are always done. It comprises the processes and structures which affect the way an organization is directed, managed and monitored and its activities are reported, including: the elements of internal control, ethics, various risk functions, policies and procedures, internal audit, external audit and formal committees that promote greater transparency and facilitate efficient and effective management for the best interests of stakeholders.



The Board of Directors firmly believes that good corporate governance is fundamental in ensuring the proper management of Commercial Bank in the interests of all of our stakeholders. We recognise that the way we interact with stakeholders is key for the success of our business and the transparent disclosure of our governance assists investors in their investment decisions.

We continue to enhance our corporate governance framework as the Bank's business evolves and regulatory requirements change.

The main rules, procedures and practical application of Commercial Bank's governance are contained in the Bank's Corporate Governance Charter, Board of Directors Charter and Board Committees Charter. These charters reflect Commercial Bank's long-standing ethical governance practices and the regulatory requirements mandated by:


- guidelines and instructions issued by the Qatar Central Bank on 26 July 2015 by virtue of Circular No. 68/2015 (QCB Corporate Governance Guidelines);
- the Commercial Companies Law promulgated by Law No. 11 of 2015 (CCL); and
- the Governance Code for Companies and Legal Entities Listed on the Main Market issued by Qatar Financial Markets Authority pursuant to Decision No. 5 of 2016 (QFMA Corporate Governance Code).

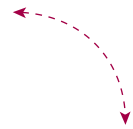
These charters also follow the recommendations of leading international best practice for corporate governance developed by the Organisation for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS), and the International Institute of Finance (IIF).

The Board understands that sound corporate governance principles and practices are fundamental to maintaining the trust of its stakeholders, which is also critical in business growth, sustainability and profitability. The Board is committed to implement the corporate governance principles of justice, equality among stakeholders without discrimination, transparency and disclosure, while upholding the values of corporate social responsibility and acting in the public interest of Commercial Bank and stakeholders over their personal interests, as well as performing their duties, tasks and functions in good faith, integrity, honour and sincerity. The implementation of these principles is driven by a qualified Board aided by a seasoned and experienced Executive Management team. The Board ensures that the Bank adheres to these corporate governance principles in its day-to-day activities at all times.

The Board of Directors of Commercial Bank have prepared the Bank's Annual Corporate Governance Report for 2018 as required by the QCB Corporate Governance Guidelines, the QFMA Corporate Governance Code, and in line with international best practice. The Annual Corporate Governance Report 2018 is an attachment to this Annual Report, forms an integral part of it, and is presented to shareholders for approval at the Bank's AGM on 20 March 2019. The Annual Corporate Governance Report 2018 can also be viewed on Commercial Bank's website at www.cbq.qa

The Board of Directors confirms that Commercial Bank is compliant with the provisions of the QFMA Corporate Governance Code and the QCB Corporate Governance Guidelines as at 31 December 2018.





Rising to the challenge

Consolidated Financial Statements
31 December 2018

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 consolidated financial statements of The Commercial Bank (P.S.Q.C.) (the "Bank") and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>1. Adoption of IFRS 9 effective from 1 January 2018</p>	
<p>The Group adopted IFRS 9 effective 1 January 2018. As permitted by IFRS 9, the requirements have been applied retrospectively without restating comparatives.</p> <p>The differences between previously reported carrying amounts and new carrying amounts of financial instruments as of 31 December 2017 and 1 January 2018 amounted to QR 1,496 million which have been recognized in the opening retained earnings.</p> <p>Transitional impact of IFRS 9 has been disclosed in note 3.a (i) to the consolidated financial statements.</p> <p>Significant judgement is involved in order to determine the classification and impairment of financial assets under IFRS 9, hence, this is considered a key audit matter.</p>	<p>Our audit procedures in this area included the following:</p> <ul style="list-style-type: none"> • Obtained an understanding and evaluated the Group’s business model assessment and the test on the contractual cash flows, which give rise to cash flows that are ‘solely payments of principal and interest’ (SPPI test) performed by the management specialist; • Evaluated the classification analysis performed by the Bank regarding the classification of financial instruments into Amortized Cost (“AC”), Fair Value Through Other Comprehensive Income (“FVOCI”) or Fair Value Through Profit and Loss (“FVTPL”); • Obtained an understanding of the Group’s implementation process of ECL model with respect to IFRS 9. • Our approach included testing the controls associated with the relevant processes for estimating ECL and performing substantive procedures on such estimates for all financial assets subject to impairment testing under IFRS 9. • Tested the appropriateness of the opening balance adjustments. • Assessed the adequacy of the Group’s disclosures in relation to first time application of IFRS 9.

Independent Auditor's Report continued

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>2. Impairment of loans and advances to customers</p> <p>The process for estimating impairment provision on credit risk associated with loans and advances in accordance with IFRS 9 Financial instruments (IFRS 9) involves significant judgement.</p> <p>IFRS 9 requires use of the ECL model for the purposes of calculating impairment provision. ECL model requires the Group to exercise significant judgement using subjective assumptions when determining both the timing and the amounts of ECL for loans and advances. Due to the complexity of requirements under IFRS 9, significance of judgements applied and the Group's exposure to loans and advances forming a major portion of the Group's assets, the audit of ECL for loans and advances is a key audit matter.</p> <p>As at 31 December 2018, the Group's gross loans and advances amounted to QR 87,559 million and the related allowances for impairment amounted to QR 3,847 million, comprising QR 1,003 million of ECL against Stage 1 and 2 exposures and QR 2,844 million against exposures classified under Stage 3. The basis of calculation of ECL is presented in the summary of significant accounting policies and notes 4 (b) and 10 to the consolidated financial statements.</p>	<p>In addition to the procedures enumerated in the key audit matter 1 above, our procedures focused on the following key areas:</p> <ul style="list-style-type: none"> • We assessed: <ul style="list-style-type: none"> • the Group's IFRS 9 based impairment provisioning policy including significant increase in credit risk criteria with the requirements of IFRS 9; • Group's ECL modeling techniques and methodology against the requirements of IFRS 9; and • the theoretical soundness and tested the mathematical integrity of the models. • We obtained an understanding of the design and tested the operating effectiveness of relevant controls over the credit process and ECL model. • We have also tested completeness and accuracy of the data used and reasonableness of the management assumptions, involving specialists where needed. • We understood and assessed the significant modeling assumptions for exposures. • For a sample of exposures, we performed procedures to evaluate: <ul style="list-style-type: none"> • Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL; • Timely identification of exposures with a significant increase in credit risk and appropriateness of the Group's staging; and • The ECL calculation. • Assessed the impairment allowance for individually impaired loans and advances (stage 3) in accordance with IFRS.

Other Matter

The consolidated financial statements as at and for the year ended 31 December 2017 were audited by another auditor, whose audit report dated 29 January 2018, expressed an unmodified audit opinion thereon.

Report on the Audit of the Consolidated Financial Statements (continued)

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. The Bank's 2018 Annual Report is expected to be made available to us after the date of this auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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.

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risk of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and reasonableness of accounting estimates and related disclosures made by the Board of Directors.

Independent Auditor's Report continued

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosure is 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 period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosures about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

We have obtained all the information and explanations, which we considered necessary for the purpose of our audit. The Bank has maintained proper accounting records and its consolidated financial statements are in agreement therewith. We have read the report of the Board of Directors to be included in the Annual Report and the financial information contained therein is in agreement with the books and records of the Bank. We confirm that we are not aware of any contraventions by the Bank of its Articles of Association and the amendments thereto, the applicable provisions of Qatar Central Bank Law No. 13 of 2012 and of the Qatar Commercial Companies Law No. 11 of 2015, having occurred during the financial 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 2018.



Ziad Nader

Partner of Ernst & Young
Qatar Auditors Registry Number 258
Doha - State of Qatar
Date: 28 February 2019

Consolidated Statement of Financial Position

QAR '000s

As at 31 December	Notes	2018	2017
ASSETS			
Cash and balances with central banks	8	6,716,058	7,373,918
Due from banks	9	9,468,706	10,499,348
Loans and advances to customers	10	83,701,631	89,121,935
Investment securities	11	22,107,807	19,629,246
Investment in associates and a joint arrangement	12	2,096,310	2,088,158
Asset held for sale	13	2,559,591	2,287,100
Property and equipment	14	2,718,913	2,590,987
Intangible assets	15	283,049	430,178
Other assets	16	5,418,645	4,428,182
TOTAL ASSETS		135,070,710	138,449,052
LIABILITIES			
Due to banks	17	13,820,543	13,515,872
Customer deposits	18	71,321,450	77,633,333
Debt securities	19	15,998,539	11,604,890
Other borrowings	20	8,301,828	9,303,365
Other liabilities	21	5,628,930	5,370,073
TOTAL LIABILITIES		115,071,290	117,427,533
EQUITY			
Share capital	22	4,047,254	4,047,254
Legal reserve	22	9,745,152	9,742,066
General reserve	22	26,500	26,500
Risk reserve	22	886,151	1,890,408
Fair value reserve	22	(73,466)	(44,500)
Treasury shares	22	(179,507)	(179,507)
Foreign currency translation reserve	22	(1,816,866)	(1,383,926)
Other reserves	22	1,079,858	1,064,189
Revaluation reserve	22	1,283,920	1,264,794
Retained earnings		1,000,413	594,226
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		15,999,409	17,021,504
Non-controlling interests		11	15
Instruments eligible for additional capital	22	4,000,000	4,000,000
TOTAL EQUITY		19,999,420	21,021,519
TOTAL LIABILITIES AND EQUITY		135,070,710	138,449,052

The consolidated financial statements were approved by the Board of Directors on 4th February 2019 and were signed on its behalf by:



Sheikh Abdulla 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

QAR '000s

For the year ended 31 December	Notes	2018	2017
Interest income	25	6,077,322	5,138,921
Interest expense	26	(3,595,000)	(2,620,621)
Net interest income		2,482,322	2,518,300
Fee and commission income	27	1,117,965	1,029,333
Fee and commission expense	28	(360,727)	(308,985)
Net fee and commission income		757,238	720,348
Net foreign exchange gain	29	202,247	162,641
(Loss)/Income from investment securities	30	(18,826)	48,690
Other income	31	85,576	79,296
Net operating income		3,508,557	3,529,275
Staff costs	32	(676,466)	(713,472)
Depreciation	14	(129,227)	(152,392)
Amortisation of intangible assets	15	(54,749)	(55,610)
Impairment losses on investment securities		(399)	(46,484)
Net impairment losses on loans and advances to customers		(927,164)	(1,696,819)
Net impairment reversal on other financial assets		92,055	-
Other expenses	33	(312,893)	(403,593)
Profit before share of results of associates and a joint arrangement		1,499,714	460,905
Share of results of associates and a joint arrangement	12	170,738	147,876
Profit before tax		1,670,452	608,781
Income tax expense		(7,272)	(5,131)
Profit for the year		1,663,180	603,650
Attributable to:			
Equity holders of the Bank		1,663,179	603,648
Non-controlling interests		1	2
Profit for the year		1,663,180	603,650
Earnings per share			
Basic/diluted earnings per share (QAR per share)	34	3.52	0.91

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

Consolidated Statement of Comprehensive Income

QAR '000s

For the year ended 31 December	Notes	2018	2017
Profit for the year		1,663,180	603,650
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	(432,940)	(124,119)
Share of other comprehensive income of investment in associates and a joint arrangement	23	(2,092)	8,190
Net movement in cash flow hedges-effective portion of changes in fair value	23	24,436	-
Net movement in fair value of available-for-sale investments (IAS 39)	23	-	167,125
Net change in fair value of investments in debt securities designated at FVOCI (IFRS 9)	23	2,128	-
Net amount transferred to profit and loss	23	(10,001)	-
Items that may not be subsequently reclassified to profit or loss:			
Net change in fair value of equity investments designated at FVOCI (IFRS 9)	23	(19,484)	-
Share of other comprehensive income of investment in associates and a joint arrangement (IFRS 9)	23	(5,423)	-
Revaluation reserve on land and buildings	23	19,126	-
Other comprehensive (loss) / income for the year		(424,250)	51,196
Total comprehensive income for the year		1,238,930	654,846
Attributable to:			
Equity holders of the Bank		1,238,929	654,844
Non-controlling interests		1	2
Total comprehensive income for the year		1,238,930	654,846

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 2018		4,047,254	9,742,066	26,500	1,890,408	(44,500)
Transition adjustments on adoption of IFRS 9 on 1 January 2018*		-	-	-	(1,529,257)	(18,530)
Balance as at 1 January 2018 – restated		4,047,254	9,742,066	26,500	361,151	(63,030)
Total comprehensive income for the year						
Profit for the year		-	-	-	-	-
Other comprehensive income		-	-	-	-	(10,436)
Total comprehensive income for the year		-	-	-	-	(10,436)
Transfer to legal reserve	22	-	3,086	-	-	-
Transfer to risk reserve	22	-	-	-	525,000	-
Net movement in other reserves and fair value reserve	22	-	-	-	-	-
Dividend for Instruments eligible for additional capital	22	-	-	-	-	-
Social and sports fund	24	-	-	-	-	-
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		-	-	-	-	-
Increase in legal reserve	22	-	-	-	-	-
Dividends for the year 2017	22	-	-	-	-	-
Bonus issue	22	-	-	-	-	-
Treasury shares		-	-	-	-	-
Total contributions by and distributions to equity holders of the Bank		-	-	-	-	-
Net movement in non-controlling interests		-	-	-	-	-
Balance as at 31 December 2018		4,047,254	9,745,152	26,500	886,151	(73,466)

*Includes transition on adoption of IFRS 9 for investment in associate

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

QAR '000s

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
(179,507)	(1,383,926)	1,064,189	1,264,794	594,226	17,021,504	15	4,000,000	21,021,519
-	-	(78,442)	-	51,510	(1,574,719)	-	-	(1,574,719)
(179,507)	(1,383,926)	985,747	1,264,794	645,736	15,446,785	15	4,000,000	19,446,800
-	-	-	-	1,663,179	1,663,179	1	-	1,663,180
-	(432,940)	-	19,126	-	(424,250)	-	-	(424,250)
-	(432,940)	-	19,126	1,663,179	1,238,929	1	-	1,238,930
-	-	-	-	(3,086)	-	-	-	-
-	-	-	-	(525,000)	-	-	-	-
-	-	94,111	-	(94,111)	-	-	-	-
-	-	-	-	(240,000)	(240,000)	-	-	(240,000)
-	-	-	-	(41,580)	(41,580)	-	-	(41,580)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	(404,725)	(404,725)	-	-	(404,725)
-	-	-	-	-	-	-	-	-
-	-	-	-	(404,725)	(404,725)	-	-	(404,725)
-	-	-	-	-	-	(5)	-	(5)
(179,507)	(1,816,866)	1,079,858	1,283,920	1,000,413	15,999,409	11	4,000,000	19,999,420

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
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	-	-	-	-	-
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		588,235	-	-	-	-
Increase in legal reserve		-	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 interest		-	-	-	-	-
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

QAR '000s

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 Cash Flows

QAR '000s

For the year ended 31 December	Notes	2018	2017
Cash flows from operating activities			
Profit before tax		1,670,452	608,781
Adjustments for:			
Net impairment loss on loans and advances to customers		927,164	1,696,819
Impairment loss on investment securities		399	46,484
Net impairment losses on other financial assets		(92,055)	-
Depreciation	14	129,227	152,392
Amortization of intangible assets and transaction costs		97,592	126,930
Net loss/ (gain) on investment securities measured at fair value	30	24,131	(36,704)
Gain on disposal of property and equipment and other assets		(91)	(4,042)
Share of results of associates and joint arrangement	12	(170,738)	(147,876)
Operating profit before working capital changes		2,586,081	2,442,784
Working capital changes			
Change in due from banks		908,197	3,521,993
Change in loans and advances to customers		(898,316)	(13,984,587)
Change in other assets		(1,322,483)	(444,075)
Change in due to banks		673,265	2,194,421
Change in customer deposits		(3,148,142)	7,381,483
Change in other liabilities		282,206	(823,358)
Contribution to social and sports fund		(15,091)	(12,534)
Net cash (used in) / from operating activities		(934,283)	276,127
Cash flows from investing activities			
Acquisition of investment securities		(7,323,607)	(8,561,768)
Investment in associate participating in rights issue		(272,491)	-
Dividend received from associates and a joint arrangement	12	76,627	81,454
Proceeds from sale/maturity of investment securities		3,977,082	4,253,761
Acquisition of property and equipment and intangible assets	14&15	(286,431)	(113,350)
Proceeds from the sale of property and equipment and other assets		4,184	6,201
Net cash (used in) / from investing activities		(3,824,636)	(4,333,702)

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

Consolidated Statement of Cash Flows continued

QAR '000s

For the year ended 31 December	Notes	2018	2017
Cash flows from financing activities			
Proceeds from issue of debt securities	19	9,508,091	3,845,587
Repayment of debt securities	19	(5,055,194)	(3,968,148)
Repayment of other borrowings	20	(6,634,330)	(5,414,984)
Proceeds from other borrowings	20	6,583,404	4,161,023
Proceeds from rights issue		-	1,499,999
Proceeds from issue of instrument eligible for additional capital		-	-
Purchase of treasury shares		-	(179,507)
Dividends paid		(404,725)	-
Net cash from / (used in) financing activities		3,997,246	(56,030)
Net (decrease) in cash and cash equivalents		(761,673)	(4,113,605)
Effect of exchange rate fluctuations		424,784	119,174
Cash and cash equivalents as at 1 January		10,321,435	14,315,866
Cash and cash equivalents as at 31 December	36	9,984,546	10,321,435
Net cash flows from interest and dividend:			
Interest paid		3,455,544	2,613,395
Interest received		5,864,966	4,948,811
Dividend received		5,305	11,986

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

Notes to the Consolidated Financial Statements

1. REPORTING ENTITY

The Commercial Bank (P.S.Q.C.) (“the Bank”) is an entity domiciled in the State of Qatar and was incorporated 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 2018 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	
				2018	2017
Alternatifbank A.S. (“ABank”)	Turkey	TRY 1,167,000,000	Banking services	100%	100%
Commercial Bank Financial Services (L.L.C.)	Qatar	QAR 100,000,000	Brokerage services	100%	100%
CBQ Finance Limited	Bermuda	USD 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:

- derivative financial instruments;
- investments measured at fair value through profit or loss (‘FVTPL’) (2018) / Held for trading financial investments (2017);
- other financial assets designated at fair value through profit or loss (‘FVTPL’);
- financial investment measured at fair value through other comprehensive income (‘FVOCI’) (2018) / Available-for-sale financial investments (2017);
- 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.

Notes to the Consolidated Financial Statements continued

2. BASIS OF PREPARATION (continued)

(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.

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) New standards, amendments and interpretations

New standards, amendments and interpretations effective from 1 January 2018

The following standards, amendments and interpretations, which became effective as of 1 January 2018, are relevant to the Group:

IFRS 9 Financial Instruments	1-Jan-18
IFRS 15 Revenue from Contracts with Customers	1-Jan-18
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1-Jan-18

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

(i) IFRS 9 Financial Instruments

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

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

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) IFRS 9 Financial Instruments (continued)

Classification of financial assets and financial liabilities

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

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in the consolidated income statement, under IFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in the consolidated income statement.

Impairment of financial assets

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

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

Stage 1: 12 months ECL - not credit impaired.

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

Stage 2: Lifetime ECL - not credit impaired

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

Stage 3: Lifetime ECL - credit impaired

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

For an explanation of how the Group classifies financial liabilities under IFRS 9. Refer to Note 3 (d) (ii).

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) IFRS 9 Financial Instruments (continued)

Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required.

The Group has also elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- (a) As permitted by the transitional provisions of IFRS 9, The Group elected not to restate comparative figures. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- (b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
- The determination of the business model within which a financial asset is held.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) IFRS 9 Financial Instruments (continued)

Impact of adopting IFRS 9

The impact of adopting IFRS 9 has been shown below:

(Figures in QAR '000s)

	Retained earnings	Fair value reserve
Closing balance under IAS 39 (31 December 2017)	594,226	(44,500)
<i>Impact on reclassification and remeasurements:</i>		
Investment securities (equity) from available-for-sale to those measured at fair value through other comprehensive income	2,002	(2,002)
Investment securities (equity) from available-for-sale to those measured at fair value through profit and loss	16,075	(16,075)
Investment securities (debt) from available-for-sale to those measured at fair value through profit and loss	20,745	(20,745)
Investment securities (funds) from available-for-sale to those measured at fair value through profit and loss	12,688	(12,688)
Investment securities (debt) from available-for-sale to those measured at amortised cost	-	32,980
	51,510	(18,530)
<i>Impact on recognition of Expected Credit Losses</i>		
Expected credit losses for due from banks	(31,632)	-
Expected credit losses for debt securities	(23,654)	-
Expected credit losses for loan and advances	(1,315,988)	-
Expected credit losses for off balance sheet exposures subject to credit risk.	(157,983)	-
	(1,529,257)	-
Transfer from risk reserve	1,529,257	-
Opening balance under IFRS 9 on date of initial application of 1 January 2018	645,736	(63,030)

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) IFRS 9 Financial Instruments (continued)

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table is reconciliation of original measurement categories and carrying value in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

(Figures in QAR '000s)

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Re measurement	Re classification	New carrying amount under IFRS 9
Cash and balances with central banks	Loans and receivables	Amortised cost	7,373,918	-	-	7,373,918
Due from banks	Loans and receivables	Amortised cost	10,499,348	(31,632)	-	10,467,716
Loans and advances to customers	Loans and receivables	Amortised cost	89,121,935	(1,315,988)	-	87,805,947
Investment securities – debt	Available-for-sale	Amortised cost	13,802,548	32,980	-	13,835,528
Investment securities – debt	Available-for-sale	FVOCI	4,497,695	-	-	4,497,695
Investment securities – debt	Available-for-sale	FVTPL	728,787	-	-	728,787
Investment securities – debt	Held-for-trading	FVTPL	181,915	-	-	181,915
Investment securities – equity	Available-for-sale	FVOCI	166,260	-	2,002	168,262
Investment securities – equity and funds	Available-for-sale	FVTPL	252,041	(16,075)	-	235,966

Financial Liabilities

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

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) IFRS 9 Financial Instruments (continued)

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

Expected credit loss / Impairment allowances:

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

(Figures in QAR '000s)

	31 December 2017	Re- measurement	1 January 2018
Loans and receivables under IAS 39 / financial assets at amortised cost under IFRS 9 (includes cash and cash equivalents, loans and advances to banks and loans and advances to customers)	4,163,007	1,347,620	5,510,627
Available-for-sale debt investment securities under IAS 39/ debt financial assets at FVOCI under IFRS 9	-	23,654	23,654
Loan commitments and financial guarantee contracts issued	111,356	157,983	269,339

(ii) IFRS 15 'Revenue from Contracts with Customers'

The Group implemented 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 concluded that the standard has no material effect, on the consolidated financial statements of the Group.

Standards issued but not yet effective

A number of standards and amendments to standards are issued but not yet effective and the Group has not adopted these in the preparation of these consolidated financial statements. The below standards may have a significant impact on the Group's consolidated financial statements, however, the Group is currently evaluating the impact of these new standards. The Group will adopt these new standards on the respective effective dates.

IFRS 16 Leases

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

The group has set up a project team which has reviewed all of the group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

IFRS 16 Leases (continued)

The Group expects to recognise right-of-use assets of approximately QAR 147.1 million on 1 January 2019, lease liabilities of QAR 130.4 million (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Overall net assets will not be impacted, and net current assets will be lower due to the presentation of a portion of the liability as a current liability.

The Bank expects that net profit after tax will decrease by approximately QAR 1.2 million for 2019 as a result of adopting the new rules. Net interest income is expected to decrease by approximately QAR 9.8 million, as the interest on the lease liability will be part of interest expense. Other expenses will decrease by QAR 46.9 million as operating lease payments were included in other expenses, however depreciation will increase by QAR 38.3 million due to amortization of the right-of-use assets.

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

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year, prior to date of adoption.

Further the group has used the following practical expedients on initial application:

- Used the Group's previous assessment of which existing contracts are or contain, lease;
- Where the unexpired lease term of less than 12 months or leases are of low value (USD 5,000 or less), then the Group has elected to use the short term lease exemption.

(b) 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.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

(i) Business combination (continued)

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.

(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.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

(v) Associates and joint arrangements (continued)

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.

Associates 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 38.

(c) 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)

(c) 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.

(d) 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.

(ii) Classification

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and financial liabilities (continued)

(ii) Classification (continued)

Financial assets – Policy applicable from 1 January 2018 (continued)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated.

The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and financial liabilities (continued)

(ii) Classification (continued)

Assessment whether contractual cash flows are solely payments of principal and interest (continued)

In assessing whether the contractual cash flows are solely payments of principal and interest (“the SPPI test”), the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers contingent events that would change the amount and timing of cash flows, prepayment and extension terms, terms that limit the Group’s claim to cash flows from specified assets and features that modify consideration of the time value of money.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. The reclassification takes place from the start of the first reporting period following the change.

Financial assets - applicable up to 31 December 2017

At inception or on initial recognition 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 assets held for trading

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.

Financial assets designated as at FVTPL

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.

Financial liabilities

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

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) 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.

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in the consolidated income statement on derecognition of such securities.

A financial asset (in whole or in part) is derecognised where:

- the rights to receive cash flows from the asset have expired;

the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset.

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) Modification of financial assets and liabilities

Financial Assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purpose, including for the purpose of determining whether a significant increase in credit risk has occurred.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and financial liabilities (continued)

(iv) Modification of financial assets and liabilities (continued)

Policy applicable from 1 January 2018

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset based on the revised cash flows of the financial assets and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the consolidated income statement. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Policy applicable up to 31 December 2017

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

Financial Liabilities

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

(v) 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.

(vi) 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).

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and financial liabilities (continued)

(vi) Measurement principles (continued)

- **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.

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.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and financial liabilities (continued)

(vii) Impairment

Policy applicable from 1 January 2018

The Group recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments; and
- Loan commitments and financial guarantee contracts.

No impairment loss is recognised on equity investments.

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

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

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

Measurement of ECL

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

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

Restructured financial assets

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

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

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and financial liabilities (continued)

(vii) Impairment (continued)

Credit-impaired financial assets

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

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

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

Policy applicable upto 31 December 2017

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.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and financial liabilities (continued)

(vii) 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.

(e) 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 includes amounts due from banks and with an original maturity of 90 days or less.

(f) Loans and advances to customers

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

Loans and advances to customers are initially measured at the transaction price, which is the fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method, except for the financial assets which are classified to be measured at FVTPL, which are measured at fair value with changes recognised immediately in the consolidated income statement.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investment Securities

Policy applicable from 1 January 2018

The 'investment securities' includes:

- Debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- Debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- Debt securities measured at FVOCI; and
- Equity investment securities designated at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest income using the effective interest method;
- Expected credit losses and reversals; and
- Foreign exchange gains and losses.

When a debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to consolidated income statement.

The Group elects to present in OCI changes in the fair value of certain investments in equity. The election is made on an instrument by instrument basis on initial recognition and is irrevocable. Gains and losses on such equity instruments are never subsequently reclassified to consolidated income statement, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in consolidated income statement, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Policy applicable upto 31 December 2017

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.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investment Securities (continued)

(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.

(h) 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.

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.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Derivatives (continued)

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

Cash flow hedge

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)

(i) 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.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Property and equipment (continued)

(i) Recognition and measurement (continued)

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

(j) 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.

(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.

The estimated useful economic life of intangible assets with finite lives are; Brand 18 to 19 years, Customer relationship 11 to 12 years, Core deposit 13 to 16 years and Internally developed software and others 5 years.

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.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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.

(l) 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.

(m) Financial guarantee contract and loan commitments

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.

(n) 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.

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.

Alternatif Bank, 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.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) 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.

(p) Interest income and expense

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

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

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis;
- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income / expense;
- The ineffective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of interest rate risk; and

Fair value changes in qualifying derivatives, including hedge ineffectiveness, and related hedged items in fair value hedges of interest rate risk

Interest income on investment (debt) securities measured at FVOCI (2018) / available-for-sale financial investments (2017) and measured at amortised cost (2018) / held to maturity (2017) is calculated using effective interest rate method and is also included in interest income.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) 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.

(r) 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

From 1 January 2018, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in the consolidated income statement on derecognition of such securities

(s) Dividend income

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

(t) Income tax expenses

Taxes are calculated based on tax laws and regulations in the countries in which the Group operates. Tax is recognized based on an evaluation of the expected tax charge/credit. Income tax and deferred tax mainly arising from Alternatif bank operations.

(u) 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.

(v) 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.

Notes to the Consolidated Financial Statements continued

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) 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.

(x) Repossessed collateral

Reposessed 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.

(y) Comparatives

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

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.

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(d) 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.

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

a) Introduction and overview (continued)

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 equivalent 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 bank'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 defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize the Group's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Loans and advances are the largest sources of credit risk for the Group. Other sources of credit risk exist throughout the activities of the Group, including in the banking book and in the trading book, and both on and off the balance sheet. The Group also faces credit risk (or counterparty risk) in various financial instruments other than loans, including: acceptances, interbank transactions, trade financing, foreign exchange transactions, derivative instruments, and in the extension of commitments and guarantees, as well as the settlement of transactions. The Group maintains well defined, written policies and procedures for identifying, measuring, monitoring, and controlling credit risk, governing credit-granting activities in conformance with the risk appetite and limits defined by the Board. All extensions of credit are made on an arm's length basis in accordance with the Group's credit-granting approval process by a combination of authorized individuals, groups or credit committees, depending on the size and nature of the credit, who have the experience, knowledge and background to exercise prudent judgement in assessing, approving and managing credit risks.

(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.

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

(i) Credit risk measurement (continued)

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.

(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.

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

(ii) Risk limit control and mitigation policies (continued)

Credit-related commitments (continued)

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.

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

(Figures in QAR '000s)

	2018	2017
Credit risk exposures relating to assets recorded on the consolidated statement of financial position are as follows:		
Balances with central banks	6,098,033	6,647,279
Due from banks	9,468,706	10,499,348
Loans and advances to customers	83,701,631	89,121,935
Investment securities - debt	21,338,418	19,250,397
Other assets	2,485,958	1,957,777
Total as at 31 December	123,092,746	127,476,736
Other credit risk exposures are as follows:		
Guarantees	22,057,901	20,823,314
Letters of credit	2,148,781	2,700,146
Unutilised credit facilities	4,373,836	5,948,621
Total as at 31 December	28,580,518	29,472,081
	151,673,264	156,948,817

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.

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

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 QAR '000s)

2018	Qatar	Other GCC	Other Middle east	Rest of the world	Total
Balances with central banks	4,661,557	-	1,436,476	-	6,098,033
Due from banks	2,740,633	630,516	2,405,394	3,692,163	9,468,706
Loans and advances to customers	69,962,068	578,185	11,941,650	1,219,728	83,701,631
Investment securities - debt	17,132,116	255,032	2,489,253	1,462,017	21,338,418
Other assets	1,270,204	32,531	921,619	261,604	2,485,958
	95,766,578	1,496,264	19,194,392	6,635,512	123,092,746

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

2018	Qatar	Other GCC	Other Middle east	Rest of the world	Total
Guarantees	11,101,817	1,346,053	1,657,008	7,953,023	22,057,901
Letters of credit	1,910,758	3,300	-	234,723	2,148,781
Unutilised credit facilities	3,293,914	828,219	-	251,703	4,373,836
	16,306,489	2,177,572	1,657,008	8,439,449	28,580,518

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)

Geographical sectors (continued)

(Figures in QAR '000s)

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
Letter 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

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 QAR '000s)

	Gross exposure 2018	Gross exposure 2017
Funded		
Government	30,554,077	31,719,283
Government agencies	5,912,184	4,829,599
Industry	7,127,587	8,194,017
Commercial	10,052,752	7,639,784
Services	34,749,235	34,374,970
Contracting	3,055,669	3,938,925
Real estate	22,513,464	26,203,202
Consumers	6,175,154	7,909,046
Other sectors	2,952,624	2,667,910
Total funded	123,092,746	127,476,736
Un-funded		
Government institutions & semi government agencies	1,471,520	802,862
Services	3,632,236	12,546,526
Commercial and others	23,476,762	16,122,693
Total un-funded	28,580,518	29,472,081
Total	151,673,264	156,948,817

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

(v) Credit quality

The following table sets out information about the credit quality of financial assets, commitments and financial guarantees.

(Figures in QAR '000s)

Cash and Balances with Central Banks (Excluding Cash on Hand) and Due from Banks	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Investment grade - ORR 1 to 4	9,763,533	-	-	9,763,533	13,820,925
Sub-investment grade - ORR 5 to 7	2,400,399	3,416,505	-	5,816,904	3,325,702
Substandard - ORR 8	-	-	-	-	-
Doubtful ORR 9	-	-	-	-	-
Loss - ORR 10	-	-	-	-	-
Total - Gross	12,163,932	3,416,505	-	15,580,437	17,146,627
Loss allowance	(619)	(13,079)	-	(13,698)	-
Carrying amount	12,163,313	3,403,426	-	15,566,739	17,146,627

Loans and advances to Customers	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Investment grade - ORR 1 to 4	12,471,424	51,549	-	12,522,973	33,902,648
Sub-investment grade - ORR 5 to 7	46,905,521	23,228,644	-	70,134,165	54,219,465
Substandard - ORR 8	-	-	1,025,370	1,025,370	669,952
Doubtful ORR 9	-	-	1,902,502	1,902,502	641,342
Loss - ORR 10	-	-	1,963,246	1,963,246	3,962,891
Total - Gross	59,376,945	23,280,193	4,891,118	87,548,256	93,396,298
Loss allowance	(50,382)	(952,227)	(2,844,016)	(3,846,625)	(4,274,363)
Carrying amount	59,326,563	22,327,966	2,047,102	83,701,631	89,121,935

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

(v) Credit quality (continued)

(Figures in QAR '000s)

Investment Securities - Debt	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Investment grade - ORR 1 to 4	18,289,149	254,985	-	18,544,134	17,819,114
Sub-investment grade - ORR 5 to 7	2,430,699	387,638	-	2,818,337	1,431,283
Substandard - ORR 8	-	-	-	-	-
Doubtful ORR 9	-	-	-	-	-
Loss - ORR 10	-	-	-	-	67,055
Total - Gross	20,719,848	642,623	-	21,362,471	19,317,452
Loss allowance	(236)	(23,817)	-	(24,053)	(67,055)
Carrying amount	20,719,612	618,806	-	21,338,418	19,250,397

Loan Commitments and financial Guarantees	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Investment grade - ORR 1 to 4	12,315,583	531,873	-	12,847,456	12,002,780
Sub-investment grade - ORR 5 to 7	7,086,883	8,158,644	-	15,245,527	17,416,595
Substandard - ORR 8	-	-	75,362	75,362	16,118
Doubtful ORR 9	-	-	26,295	26,295	539
Loss - ORR 10	-	-	385,878	385,878	36,049
Total - Gross	19,402,466	8,690,517	487,535	28,580,518	29,472,081
Loss allowance	(25,711)	(76,308)	(1,953)	(103,972)	(751)
Carrying amount	19,376,755	8,614,209	485,582	28,476,546	29,471,330

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 accounts which are re-structured due to credit reasons in past 12months will be classified under stage 2.

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

(v) Credit quality (continued)

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 loans and advances to customers. Aggregate collateral for stage 1 as at 31 December 2018 is QAR 61,363 million (2017 QAR 72,114 million), stage 2 QAR 21,520 million (2017 QAR 11,379 million) and stage 3 QAR 3,670 million (2017 QAR 2,084 million).

(vi) 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 450 million (2017: QAR nil million).

Reposessed 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.

(vii) 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 2,819 million (2017: QAR 702 million).

(viii) Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis including internal credit risk grading system, external risk ratings, where available, delinquency status of accounts, credit judgement and, where possible, relevant historical experience.

The Group may also determine that an exposure has undergone a significant increase in credit risk based on particular Qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its Quantitative analysis on a timely basis.

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

(viii) Inputs, assumptions and techniques used for estimating impairment (continued)

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

- i) Two notches downgrade for ratings investment grade rating or one notch downgrade for ratings non investment grade ratings
- ii) Facilities restructured during previous twelve months
- iii) Facilities overdue by 30 days as at the reporting date

Credit risk grades

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

Generating the term structure of Probability of Default (PD)

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

Renegotiated financial assets

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

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

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is rated 9 or 10.

In assessing whether a borrower is in default, the Group also considers indicators that are:

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

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

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

(viii) Inputs, assumptions and techniques used for estimating impairment (continued)

Measurement of ECL

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

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

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

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

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the forecasted collateral value and recovery costs of any collateral that is integral to the financial asset.

LGD estimation includes:

- 1) Cure Rate: Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing accounts.
- 2) Recovery Rate: Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default would also account for expected recovery rate from a general claim on the individual's assets for the unsecured portion of the exposure.

Discounting Rate: Defined as the opportunity cost of the recovery value not being realized on the day of default adjusted for time value.

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

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

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

(viii) Inputs, assumptions and techniques used for estimating impairment (continued)

(Figures in QAR '000s)

Movement in ECL	Stage 1	Stage 2	Stage 3	Total
Opening Balance as at 1 January 2018 (After Day 1 impact)				
Due from banks and balances with central banks	31,575	57	-	31,632
Loans and advances to customers	(40,557)	1,356,545	4,163,007	5,478,995
Investment Securities (Debt)	20,497	3,157	-	23,654
Loan Commitments and Financial Guarantees	50,301	107,682	111,356	269,339
	61,816	1,467,441	4,274,363	5,803,620
ECL Charge for the Period (net)				
Due from banks and balances with central banks	(30,956)	13,022	-	(17,934)
Loans and advances to customers	91,240	(291,752)	1,601,989	1,401,477
Investment Securities (Debt)	(20,261)	20,660	-	399
Loan Commitments and Financial Guarantees	(27,590)	(31,374)	(15,156)	(74,120)
	12,433	(289,444)	1,586,833	1,309,822
Write offs / Transfer				
Due from banks and balances with central banks	-	-	-	-
Loans and advances to customers	(301)	6,919	(2,778,834)	(2,772,216)
Investment Securities (Debt)	-	-	-	-
Loan Commitments and Financial Guarantees	-	-	(90,965)	(90,965)
	(301)	6,919	(2,869,799)	(2,863,181)
Exchange differences				
Due from banks and balances with central banks	-	-	-	-
Loans and advances to customers	-	(119,485)	(142,146)	(261,631)
Investment Securities (Debt)	-	-	-	-
Loan Commitments and Financial Guarantees	3,000	-	(3,282)	(282)
	3,000	(119,485)	(145,428)	(261,913)
Closing Balance - as at 31 December 2018				
Due from banks and balances with central banks	619	13,079	-	13,698
Loans and Advances to Customers	50,382	952,227	2,844,016	3,846,625
Investment Securities (Debt)	236	23,817	-	24,053
Loan Commitments and Financial Guarantees	25,711	76,308	1,953	103,972
	76,948	1,065,431	2,845,969	3,988,348

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(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 A3, Short Term P2, financial strength Ba1 and outlook Stable.
Fitch :	Long Term A, Short Term F1, financial strength bbb- and outlook Stable.
Standard & Poor's:	Long Term BBB+, Short Term A-2, financial strength bbb- and outlook stable

(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:

	2018 (%)	2017 (%)
At 31 December	106.60	100.41
Average for the year	105.57	108.27
Maximum for the year	111.84	114.88
Minimum for the year	95.06	93.72

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(iii) Maturity analysis

The following table sets out the maturity profile of the Group's assets and liabilities. The contractual 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 QAR '000s)

	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
2018								
Cash and balances with central banks	6,716,058	3,159,244	-	-	3,159,244	-	-	3,556,814
Due from banks	9,468,706	5,451,328	2,742,734	1,201,950	9,396,012	72,694	-	-
Loans and advances to customers	83,701,631	5,627,287	2,368,452	6,977,516	14,973,255	23,776,426	44,951,950	-
Investment securities	22,107,807	253,067	-	2,412,492	2,665,559	8,970,428	9,702,429	769,391
Investment in associates and a joint arrangement	2,096,310	-	-	-	-	-	-	2,096,310
Asset held for sale	2,559,591	-	-	-	-	-	-	2,559,591
Other assets	8,420,607	1,248,682	211,343	301,085	1,761,110	2,596,258	-	4,063,239
Total	135,070,710	15,739,608	5,322,529	10,893,043	31,955,180	35,415,806	54,654,379	13,045,345
Due to banks	13,820,543	7,612,664	2,352,838	2,437,618	12,403,120	1,164,040	253,383	-
Customer deposits	71,321,450	41,519,760	13,534,260	12,036,801	67,090,821	4,230,629	-	-
Debt securities	15,998,539	290,559	487,244	7,112,408	7,890,211	6,846,644	1,261,684	-
Other borrowings	8,301,828	172,030	1,496,057	1,806,218	3,474,305	4,827,523	-	-
Other liabilities	5,628,930	3,717,988	1,054,256	659,932	5,432,176	196,754	-	-
Total	115,071,290	53,313,001	18,924,655	24,052,977	96,290,633	17,265,590	1,515,067	-
Difference	19,999,420	(37,573,393)	(13,602,126)	(13,159,934)	(64,335,453)	18,150,216	53,139,312	13,045,345

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(iii) Maturity analysis (continued)

(Figures in QAR '000s)

	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 bank	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)

(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 QAR '000s)

2018	Gross						
	Carrying amount	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	13,820,543	14,414,653	7,765,249	2,392,305	2,674,298	1,283,573	299,228
Customer deposits	71,321,450	73,020,105	42,493,340	13,871,045	12,332,884	4,322,836	-
Debt securities	15,998,539	17,739,977	330,178	514,117	7,445,342	7,543,965	1,906,375
Other borrowings	8,301,828	9,004,514	212,890	1,545,051	2,038,727	5,207,846	-
Total liabilities	109,442,360	114,179,249	50,801,657	18,322,518	24,491,251	18,358,220	2,205,603
2017	Gross						
	Carrying amount	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	13,983,949	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	-
Total liabilities	112,057,460	115,492,103	54,591,057	19,250,751	22,680,484	17,254,253	1,715,558

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 QAR '000s)

2018	Total	Up to 1 Year	1 - 5 years	More than 5 years
Derivatives Held for Trading:				
Forward foreign exchange contracts:				
Outflow	(21,165,182)	(16,903,370)	(4,234,125)	(27,687)
Inflow	21,422,087	17,093,721	4,242,510	85,856
Interest rate swaps:				
Outflow	(291,328)	(7,889)	(274,028)	(9,411)
Inflow	322,395	16,552	295,184	10,659
Derivatives Held as Fair Value Hedges:				
Interest rate swaps:				
Outflow	(354,777)	(26,752)	(91,194)	(236,831)
Inflow	310,303	23,704	77,147	209,452
Derivatives Held as Cash Flow Hedges:				
Forward foreign exchange contracts:				
Outflow	(1,973)	(165)	(1,808)	-
Inflow	1,692	106	1,586	-
Interest rate swaps:				
Outflow	(45,252)	(36,898)	(8,354)	-
Inflow	40,968	34,285	6,683	-
Total Outflows	(21,858,512)	(16,975,074)	(4,609,509)	(273,929)
Total inflows	22,097,445	17,168,368	4,623,110	305,967

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 QAR '000s)

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 Flow 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

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

(v) Off-balance sheet items

(Figures in QAR '000s)

2018	Below 1 Year	Above 1 Year	Total
Loan commitments	1,968,142	2,405,694	4,373,836
Guarantees and other financial facilities	12,816,899	11,389,783	24,206,682
Capital commitments	157,569	-	157,569
Total	14,942,610	13,795,477	28,738,087
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

(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.

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risks (continued)

(i) Management of market risks (continued)

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.

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.

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.

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)

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

(Figures in QAR '000s)

2018	Repricing in:					Non-interest sensitive	Effective interest rate %
	Carrying amount	Less than 3 months	3-12 months	1-5 years	More than 5 years		
Cash and balances with central banks	6,716,058	3,086,476	-	-	-	3,629,582	-
Due from banks	9,468,706	8,170,614	1,225,292	72,800	-	-	2.72%
Loans and advances to customers	83,701,631	39,381,081	37,973,604	4,159,870	471,349	1,715,727	6.18%
Investment securities	22,107,807	1,602,503	3,436,848	7,570,881	8,728,185	769,390	4.24%
Investment in associates and a joint arrangement	2,096,310	-	-	-	-	2,096,310	-
Asset held for sale	2,559,591	-	-	-	-	2,559,591	-
Property and equipment and all other assets	8,420,607	-	-	-	-	8,420,607	-
	135,070,710	52,240,674	42,635,744	11,803,551	9,199,534	19,191,207	-
Due to banks	(13,820,543)	(10,933,365)	(2,887,178)	-	-	-	4.47%
Customer deposits	(71,321,450)	(43,626,394)	(12,036,801)	(4,230,677)	-	(11,427,578)	3.53%
Debt securities	(15,998,539)	(229,825)	(2,321,851)	(12,185,179)	(1,261,684)	-	2.93%
Other borrowings	(8,301,828)	(1,768,303)	(6,056,110)	(477,415)	-	-	4.07%
Other liabilities	(5,628,930)	-	-	-	-	(5,628,930)	-
Equity	(19,999,420)	-	-	-	-	(19,999,420)	-
	(135,070,710)	(56,557,887)	(23,301,940)	(16,893,271)	(1,261,684)	(37,055,928)	-
Interest rate sensitivity gap	-	(4,317,213)	19,333,804	(5,089,720)	7,937,850	(17,864,721)	
Cumulative Interest rate sensitivity gap	-	(4,317,213)	15,016,591	9,926,871	17,864,721	-	-

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)

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

(Figures in QAR '000s)

2017	Repricing in:					Non-interest sensitive	Effective interest rate %
	Carrying amount	Less than 3 months	3-12 months	1-5 years	More than 5 years		
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	-	-	-	-	7,449,347	-
	138,449,052	57,456,947	43,412,255	11,330,495	8,216,733	18,032,622	-
Due to Bank	(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)	-	-	-	-	(5,370,073)	-
Equity	(21,021,519)	-	-	-	-	(21,021,519)	-
	(138,449,052)	(63,784,123)	(21,031,775)	(14,534,956)	(1,257,156)	(37,841,042)	-
Interest rate sensitivity gap	-	(6,327,176)	22,380,480	(3,204,461)	6,959,577	(19,808,420)	-
Cumulative Interest rate sensitivity gap	-	(6,327,176)	16,053,304	12,848,843	19,808,420	-	-

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 QAR '000s)

	50 bp parallel increase	50 bp parallel decrease
Sensitivity of net interest income		
2018		
At 31 December	68,654	(68,654)
Average for the year	65,555	(65,555)
2017		
At 31 December	59,726	(59,726)
Average for the year	64,471	(64,471)
Sensitivity to reported Fair value reserve in equity of interest rate movements		
2018		
At 31 December	9	(9)
Average for the year	720	(720)
2017		
At 31 December	1,432	(1,432)
Average for the year	1,770	(1,770)

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 FVOCI 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.

Notes to the Consolidated Financial Statements continued

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 QAR '000s)

Net foreign currency exposure:	2018	2017
Pounds Sterling	(143,989)	166,043
Euro	(3,097,484)	(1,026,485)
USD	(12,519,651)	(13,171,504)
Other currencies	1,997,530	3,927,455

(Figures in QAR '000s)

	Increase (decrease) in profit or loss		Increase (decrease) in fair value reserve	
	2018	2017	2018	2017
5% increase in currency exchange rate				
Pound Sterling	(7,199)	8,302	-	31
Euro	(154,874)	(51,324)	-	66
USD	(625,983)	(658,575)	307	8,401
Other currencies	99,876	196,372	-	749

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 fair value through other comprehensive income. A 10 per cent increase in the Qatar Exchange market index at 31 December 2018 would have increased equity by QAR nil (2017: QAR 8 million). An equivalent decrease would have resulted in an equivalent but opposite impact.

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risks (continued)

(iii) Exposure to other market risks – non-trading portfolios (continued)

Equity price risk (continued)

The Group is also exposed to equity price risk and the sensitivity analysis there of is as follows:

	(Figures in QAR '000s)	
	2018	2017

Increase / (decrease) in other comprehensive income:		
Qatar Exchange	-	7,509

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.

(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.

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(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.

The Group's regulatory capital position under Basel III QCB regulations as at 31 December was as follows:

	(Figures in QAR '000s)	
	Basel III 2018	Basel III 2017
Common Equity Tier 1 (CET 1) Capital	11,898,725	13,044,099
Additional Tier 1 Capital	3,962,963	3,961,712
Tier 1 Capital	15,861,688	17,005,811
Tier 2 Capital	1,772,890	1,799,160
Total Eligible Capital	17,634,578	18,804,971
Risk Weighted Assets for Credit Risk	105,121,959	108,224,349
Risk Weighted Assets for Market Risk	1,494,331	2,454,384
Risk Weighted Assets for Operational Risk	7,032,731	6,285,206
Total Risk Weighted Assets	113,649,021	116,963,939
Total Capital Ratio	15.52%	16.08%

Notes to the Consolidated Financial Statements continued

4. FINANCIAL RISK MANAGEMENT (continued)

(f) Capital management (continued)

	CET 1 ratio Without Capital Conservation buffer	CET 1 ratio Including Capital Conservation buffer	Tier 1 capital ratio including capital conservation buffer	Tier 1 and 2 capital ratio including capital conservation buffer	Total capital including capital conservation buffer and DSIB' buffer	Total capital including conservation buffer, DSIB' buffer and ICAAP Pillar II capital charge
2018						
Actual	10.47%	10.47%	13.96%	15.52%	15.52%	15.52%
Minimum QCB limit	6.00%	8.50%	10.50%	12.50%	13.00%	14.00%
2017						
Actual	11.15%	11.15%	14.54%	16.08%	16.08%	16.08%
Minimum QCB limit	6.00%	8.50%	10.50%	12.50%	12.875%	13.875%

Had the Group not adopted IFRS9, total capital adequacy ratio and Common equity tier 1 (CET 1) capital adequacy ratio would have been as follows:

	Basel III 2018
CET1 Ratio	10.47 %
Total Capital Ratio	15.07 %

5. USE OF ESTIMATES AND JUDGMENTS

(a) Key sources of estimation uncertainty

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

(i) Allowances for credit losses

Policy applicable from 1 January 2018

Assessment of whether credit risk on the financial assets has increased significantly since initial recognition and incorporation of forward looking information in the measurement of ECL, refer to note 4(b)(ix).

Notes to the Consolidated Financial Statements continued

5. USE OF ESTIMATES AND JUDGMENTS (continued)

(a) Key sources of estimation uncertainty (continued)

Policy applicable upto 31 December 2017

(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 judgement is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

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.

(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 Level 1 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.

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)

(i) Valuation of financial instruments (continued)

- 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 QAR '000s)

	Level 1	Level 2	Level 3	Carrying amount
31-Dec-2018 (Audited)				
Derivative assets	-	371,716	-	371,716
Investment securities	35,825	4,891,639	164,951	5,092,415
	35,825	5,263,355	164,951	5,464,131
Derivative liabilities	-	353,499	-	353,499
	-	353,499	-	353,499
31-Dec-2017 (Audited)				
Derivative assets	-	462,483	-	462,483
Investment securities	2,556,279	16,874,981	84,107	19,515,367
	2,556,279	17,337,464	84,107	19,977,850
Derivative liabilities	-	355,614	-	355,614
	-	355,614	-	355,614

There have been no transfers between level 1 and level 2

Reconciliation of level 3 investments are as follows :

	2018	2017
Balance at 1 January	84,107	122,160
Cost movement	113,879	(61,041)
Profit and loss movement	(23,793)	22,988
Fair value reserve movement	(9,242)	-
Balance at 31 December	164,951	84,107

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

Policy applicable from 1 January 2018

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Refer to note 3 (d) (ii) for further information.

Policy applicable up to 31 December 2017

The Group's accounting policies provide scope for assets and liabilities to be designated in 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

Policy applicable from 1 January 2018

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL. Refer to note 4 (b) (viii) Inputs, assumptions and techniques used for estimating impairment of financial assets for more information.

Policy applicable up to 31 December 2017

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.

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)

(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".

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. **Alternatif Bank:** A subsidiary that provides banking services through its branch network in Turkey. Alternatif Bank also has its subsidiaries. The Group reported Alternatif Bank group result under this operating segment.
4. **Other principal subsidiaries:**
 - a) Commercialbank Financial Services L.L.C. provides brokerage services in the State of Qatar.
 - b) CBQ Finance Limited, a SPV used for debt issuance for the bank,

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.

Notes to the Consolidated Financial Statements continued

6. OPERATING SEGMENTS (continued)

(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 QAR '000s)

2018	Commercial Bank			Subsidiaries			Total
	Wholesale Banking	Retail Banking	Commercial Bank	Alternatif Bank	Others	Unallocated	
Net interest income	1,307,822	845,913	2,153,735	390,494	5,135	(67,042)	2,482,322
Net fee, commission and other income	299,102	575,600	874,702	89,729	27,405	34,399	1,026,235
Segmental revenue	1,606,924	1,421,513	3,028,437	480,223	32,540	(32,643)	3,508,557
Impairment loss on investment securities	(399)	-	(399)	-	-	-	(399)
Net impairment loss on loans and advances to customers and other financial assets	(374,247)	(336,829)	(711,076)	(124,573)	540	-	(835,109)
Segmental profit			1,441,990	90,642	13,911	(54,101)	1,492,442
Share of results of associates and a joint arrangement							170,738
Net profit for the year							1,663,180
Other information							
Assets	32,948,009	1,344,186	34,292,195	6,336,812	273,094	5,811,077	46,713,178
Loans and advances	52,767,452	19,404,163	72,171,615	11,481,137	-	48,879	83,701,631
Investments in associates and a joint arrangement	-	-	-	-	-	-	2,096,310
Asset held for sale	-	-	-	-	-	-	2,559,591
Liabilities	34,934,575	862,197	35,796,772	7,456,064	38,069	458,935	43,749,840
Customers deposits	40,562,335	21,559,864	62,122,199	9,187,110	-	12,141	71,321,450
Contingent items	23,208,775	628,245	23,837,020	4,183,497	560,001	-	28,580,518

Intra-group transactions are eliminated from this segmental information (Assets: QAR 2,015 million and Liabilities: QAR 613 million).

Notes to the Consolidated Financial Statements continued

6. OPERATING SEGMENTS (continued)

(a) By operating segment (continued)

(Figures in QAR '000s)

2017	Commercial Bank			Subsidiaries			Total
	Wholesale Banking	Retail Banking	Total Commercial Bank	Alternatif Bank	Others	Unallocated	
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 and other financial assets	(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	31,720,140	1,189,437	32,909,577	6,327,154	316,796	5,398,332	44,951,859
Loans and advances	53,921,796	21,559,998	75,481,794	13,503,762	-	136,379	89,121,935
Investments in associates and a joint arrangement	-	-	-	-	-	-	2,088,158
Asset held for sale	-	-	-	-	-	-	2,287,100
Liabilities	30,994,122	653,702	31,647,824	7,997,634	94,092	54,650	39,794,200
Customer deposits	45,840,134	21,498,451	67,338,585	10,260,871	-	33,877	77,633,333
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)

(b) By geography

(Figures in QAR '000s)

Consolidated statement of financial position	Qatar	Other GCC countries	Other Middle East	Europe	North America	Rest of the world	Total
2018							
Cash and balances with central banks	5,206,814	-	1,509,244	-	-	-	6,716,058
Due from banks	2,740,633	630,516	2,405,394	1,216,987	1,337,322	1,137,854	9,468,706
Loans and advances to customers	69,962,068	578,185	11,941,651	678,913	-	540,814	83,701,631
Investment securities	17,248,988	735,653	2,508,886	55,933	771,558	786,789	22,107,807
Investment in associates and a joint arrangement	12,603	2,083,707	-	-	-	-	2,096,310
Asset held for sale	-	2,559,591	-	-	-	-	2,559,591
Property and equipment and all other assets	6,516,545	15,738	1,676,247	202,962	-	9,115	8,420,607
Total assets	101,687,651	6,603,390	20,041,422	2,154,795	2,108,880	2,474,572	135,070,710
Due to banks	5,264,977	816,266	2,173,662	5,544,785	-	20,853	13,820,543
Customer deposits	51,485,510	2,442,214	9,006,613	1,178,961	16,514	7,191,638	71,321,450
Debt securities	-	-	2,544,056	13,454,483	-	-	15,998,539
Other borrowings	211,617	502,323	1,392,122	3,817,800	1,105,540	1,272,426	8,301,828
Other liabilities	4,313,656	17,250	880,027	340,816	15,154	62,027	5,628,930
Equity	19,999,409	-	11	-	-	-	19,999,420
Total liabilities and equity	81,275,169	3,778,053	15,996,491	24,336,845	1,137,208	8,546,944	135,070,710

Notes to the Consolidated Financial Statements continued

6. OPERATING SEGMENTS (continued)

(b) By geography (continued)

(Figures in QAR '000s)

Consolidated statement of income	Qatar	Other GCC countries	Other Middle East	Europe	North America	Rest of the world	Total
Year ended 31 December 2018							
Net interest income	2,797,758	44,576	387,357	(520,112)	(59,742)	(167,515)	2,482,322
Net fee, commission and other income	939,302	(5,059)	93,789	(18,679)	9,174	7,708	1,026,235
Net operating income	3,737,060	39,517	481,146	(538,791)	(50,568)	(159,807)	3,508,557
Staff cost	(532,741)	-	(143,461)	-	-	(264)	(676,466)
Depreciation	(119,438)	-	(9,789)	-	-	-	(129,227)
Amortization of intangible assets	(47,339)	-	(7,410)	-	-	-	(54,749)
Impairment loss on investment securities	(399)	-	-	-	-	-	(399)
Net impairment loss on loans and advances to customers	(822,184)	541	(105,521)	-	-	-	(927,164)
Net impairment losses on other financial assets	111,108	-	(19,053)	-	-	-	92,055
Other expenses	(215,477)	-	(97,265)	-	-	(151)	(312,893)
Profit before share of results of associates and a joint arrangement	2,110,590	40,058	98,647	(538,791)	(50,568)	(160,222)	1,499,714
Share of results of associates and a joint arrangement	3,785	166,953	-	-	-	-	170,738
Profit for the year before tax	2,114,375	207,011	98,647	(538,791)	(50,568)	(160,222)	1,670,452
Income tax expenses	(189)	-	(7,083)	-	-	-	(7,272)
Net profit for the year	2,114,186	207,011	91,564	(538,791)	(50,568)	(160,222)	1,663,180

Notes to the Consolidated Financial Statements continued

6. OPERATING SEGMENTS (continued)

(b) By geography (continued)

(Figures in QAR '000s)

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 QAR '000s)

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 losses on investment securities	(18,071)	(14,351)	-	(5,001)	(8,097)	(964)	(46,484)
Net impairment losses 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

Notes to the Consolidated Financial Statements continued

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 QAR '000s)

	Fair value through Profit & loss		Fair value through other comprehensive income		Amortised Cost	Total carrying amount	Fair value
	Debt instruments	Equity instruments	Debt instruments	Equity instruments			
2018							
Cash and balances with central banks	-	-	-	-	6,716,058	6,716,058	6,716,058
Due from banks	-	-	-	-	9,468,706	9,468,706	9,468,706
Loans and advances to customers	4,619	-	-	-	83,697,012	83,701,631	83,701,631
Investment securities							
- Measured at fair value	441,174	658,617	3,881,850	110,774	-	5,092,415	5,092,415
- At amortised cost	-	-	-	-	17,015,392	17,015,392	17,011,067
	445,793	658,617	3,881,850	110,774	116,897,168	121,994,202	121,989,877
Due to banks	-	-	-	-	13,820,543	13,820,543	13,820,543
Customer deposits	-	-	-	-	71,321,450	71,321,450	71,321,450
Debt securities	-	-	-	-	15,998,539	15,998,539	16,005,936
Other borrowings	-	-	-	-	8,301,828	8,301,828	8,301,828
	-	-	-	-	- 109,442,360	109,442,360	109,449,757

Notes to the Consolidated Financial Statements continued

7. FINANCIAL ASSETS AND LIABILITIES (continued)

(a) Accounting classifications and fair values (continued)

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

(Figures in QAR '000s)

2017	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
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
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
	188,680	-	106,995,201	19,440,566	-	126,624,447	126,624,447
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
	-	-	-	-	112,057,460	112,057,460	112,235,108

8. CASH AND BALANCES WITH CENTRAL BANKS

(Figures in QAR '000s)

	2018	2017
Cash	618,025	726,639
Cash reserve with central banks *	3,531,400	4,395,786
Other balances with central banks	2,566,633	2,251,493
	6,716,058	7,373,918

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

Notes to the Consolidated Financial Statements continued

9. DUE FROM BANKS

	(Figures in QAR '000s)	
	2018	2017
Current accounts	1,794,590	1,760,666
Placements	5,182,478	6,268,824
Loans to banks	2,505,336	2,469,858
	9,482,404	10,499,348
Allowance for impairment of due from bank	(13,698)	-
	9,468,706	10,499,348

10. LOANS AND ADVANCES TO CUSTOMERS

a) By type

	(Figures in QAR '000s)	
	2018	2017
Loans	80,356,664	82,692,419
Overdrafts	5,069,471	7,928,545
Bills discounted	367,098	632,506
Bankers acceptances	1,766,122	2,156,937
	87,559,355	93,410,407
Deferred profit	(11,099)	(14,109)
Allowance for impairment of loans and advances to customers**	(2,844,016)	(4,274,363)
ECL on loans and advances to customers	(1,002,609)	-
Net loans and advances to customers*	83,701,631	89,121,935

*The aggregate amount of non-performing loans and advances to customers amounted QAR 4,891 million which represents 5.59% of total loans and advances to customers (2017: QAR 5,274 million 5.65% of total loans and advances to customers).

**Allowance for impairment of loans and advances to customers includes QAR 563 million of interest in suspense (2017: QAR 549 million).

	(Figures in QAR '000s)	
By internal business segment	2018	2017
Government and related agencies	10,218,386	12,348,519
Wholesale	46,956,120	48,166,483
Retail	26,527,125	28,606,933
Net loans and advances to customers	83,701,631	89,121,935

Notes to the Consolidated Financial Statements continued

10. LOANS AND ADVANCES TO CUSTOMERS (continued)

b) By sector

(Figures in QAR '000s)

2018	Loans	Overdrafts	Bills discounted	Bankers acceptances	Total
Government and related agencies	7,741,511	2,476,875	-	-	10,218,386
Non-banking financial institutions	1,575,772	-	25,236	-	1,601,008
Industry	7,408,275	10,405	6,083	11,614	7,436,377
Commercial	7,916,044	288,218	72,704	732,073	9,009,039
Services	24,312,889	238,557	150,710	451,151	25,153,307
Contracting	3,468,394	367,274	112,365	568,770	4,516,803
Real estate	21,784,703	162,561	-	-	21,947,264
Personal	5,191,694	1,476,295	-	-	6,667,989
Others	957,382	49,286	-	2,514	1,009,182
	80,356,664	5,069,471	367,098	1,766,122	87,559,355
Less: Deferred profit					(11,099)
Allowance for impairment of loans and advances to customers					(2,844,016)
ECL on loans and advances to customers					(1,002,609)
					(3,857,724)
Net loans and advances to customers					83,701,631

Notes to the Consolidated Financial Statements continued

10. LOANS AND ADVANCES TO CUSTOMERS (continued)

b) By sector (continued)

(Figures in QAR '000s)

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	52,403	229	664	833,964
	82,692,419	7,928,545	632,506	2,156,937	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

c) Movement in allowance for impairment of loans and advances to customers

(Figures in QAR '000s)

	2018	2017
Balance at 1 January	4,274,363	3,206,064
Transition adjustment on adoption of IFRS 9 on 1 January 2018	1,315,988	-
Allowance made during the year	1,913,098	2,167,992
Recoveries during the year	(511,621)	(364,497)
Net allowance for impairment during the year *	1,401,477	1,803,495
Written off / transferred during the year	(2,883,572)	(701,577)
Exchange differences	(261,631)	(33,619)
Balance at 31 December	3,846,625	4,274,363

*This includes net interest suspended during the year QAR 474.3 million (2017: QAR 106.7 million) as per QCB regulations.

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 (continued)

Further analysis is by internal business segment

	Commercial Bank					
	Stage 1		Stage 2		Stage 3	
	Wholesale Banking	Retail Banking	Wholesale Banking	Retail Banking	Wholesale Banking	Retail Banking
Balance at 1 January 2018	-	-	-	-	2,879,220	869,910
Transition adjustment on adoption of IFRS 9 on 1 January 2018	537	820	890,711	42,105	-	-
Allowance made during the year	29,856	42,361	(210,236)	(30,167)	1,201,873	557,450
Recoveries/reversal during the year	-	-	-	-	(214,259)	(80,382)
Written off / transferred during the year	-	-	-	-	(2,417,706)	(337,145)
Exchange differences	-	-	-	-	-	-
Balance at 31 December 2018	30,393	43,181	680,475	11,938	1,449,128	1,009,833

	Commercial Bank					
	Stage 1		Stage 2		Stage 3	
	Wholesale Banking	Retail Banking	Wholesale Banking	Retail Banking	Wholesale Banking	Retail Banking
Balance at 1 January 2017	-	-	-	-	2,048,565	643,912
Transition adjustment on adoption of IFRS 9 on 1 January 2018	-	-	-	-	-	-
Allowance made during the year	-	-	-	-	1,489,934	379,566
Recoveries/reversal during the year	-	-	-	-	(172,557)	(64,623)
Written off / transferred during the year	-	-	-	-	(486,722)	(88,945)
Exchange differences	-	-	-	-	-	-
Balance at 31 December 2017	-	-	-	-	2,879,220	869,910

Notes to the Consolidated Financial Statements continued

(Figures in QAR '000s)

	Subsidiaries						Total	
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3		
Total Commercial Bank	Alternatif bank			Total Alternatif Bank	Others		Total	
3,749,130	-	-	512,865	512,865	-	-	12,368	4,274,363
934,173	(41,914)	423,729	-	381,815	-	-	-	1,315,988
1,591,138	122,381	23,900	175,679	321,960	-	-	-	1,913,098
(294,641)	(103,358)	(75,250)	(37,831)	(216,439)	-	-	(541)	(511,621)
(2,754,851)	(301)	6,919	(135,339)	(128,721)	-	-	-	(2,883,572)
-	-	(119,485)	(142,146)	(261,631)	-	-	-	(261,631)
3,224,949	(23,192)	259,813	373,228	609,849	-	-	11,827	3,846,625

(Figures in QAR '000s)

	Subsidiaries						Total	
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3		
Total Commercial Bank	Alternatif bank			Total Alternatif Bank	Others		Total	
2,692,477	-	-	497,477	497,477	-	-	16,110	3,206,064
-	-	-	-	-	-	-	-	-
1,869,500	-	-	298,492	298,492	-	-	-	2,167,992
(237,180)	-	-	(123,575)	(123,575)	-	-	(3,742)	(364,497)
(575,667)	-	-	(125,910)	(125,910)	-	-	-	(701,577)
-	-	-	(33,619)	(33,619)	-	-	-	(33,619)
3,749,130	-	-	512,865	512,865	-	-	12,368	4,274,363

Notes to the Consolidated Financial Statements continued

11. INVESTMENT SECURITIES

(Figures in QAR '000s)

	31-Dec-18 Audited	31-Dec-17 Audited
IFRS 9:		
Fair value through other comprehensive income (FVOCI)	3,992,624	-
Fair value through profit & loss (FVTPL)	1,099,791	-
Amortised cost (AC)	17,015,392	-
Total	22,107,807	-
IAS 39:		
Available-for-sale	-	19,440,566
Investment securities designated at fair value through profit or loss	-	188,680
Total	-	19,629,246

The carrying value of investment securities pledged under repurchase agreements (REPO) is QAR 7,656 million (2017: QAR 6,666 million)

a) Fair value through other comprehensive income (IFRS 9):

(Figures in QAR '000s)

	2018		
	Quoted	Unquoted	Total
Equities	-	110,774	110,774
State of Qatar debt securities	2,568,724	-	2,568,724
Debt and other securities*	1,270,436	42,690	1,313,126
Total	3,839,160	153,464	3,992,624

Available-for-sale (IAS 39):

2017

	Quoted	Unquoted	Total
Equities	112,181	151,248	263,429
State of Qatar debt securities	13,095,696	1,681,420	14,777,116
Debt and other securities	4,213,505	71,096	4,284,601
Investment funds	60,476	54,944	115,420
Total	17,481,858	1,958,708	19,440,566

* Fixed rate securities and floating rate securities amounted to QAR 1,311 million and QAR 2 million respectively (2017: QAR 3,999 million and QAR 286 million respectively).

The Group has classified three strategic equity investments as fair value through other comprehensive income (FVOCI) amounting to QAR 110.8 million.

Notes to the Consolidated Financial Statements continued

11. INVESTMENT SECURITIES (continued)

b) Fair value through profit & loss (IFRS 9)

(Figures in QAR '000s)

	2018		
	Quoted	Unquoted	Total
Equities	569,696	26,752	596,448
State of Qatar debt securities	61,000	-	61,000
Debt and other securities	343,774	36,400	380,174
Investment funds	26,068	36,101	62,169
Total	1,000,538	99,253	1,099,791

Investment securities designated at fair value through profit & loss (IAS 39)

2017

Debt securities	188,680
Total	188,680

c) Amortised Cost (IFRS 9)

(Figures in QAR '000s)

By Issuer	2018		
	Quoted	Unquoted	Total
State of Qatar debt securities	12,482,962	1,605,250	14,088,212
Debt and other securities	2,927,180	-	2,927,180
Total	15,410,142	1,605,250	17,015,392

(Figures in QAR '000s)

By Interest Rate	2018		
	Quoted	Unquoted	Total
Fixed Rate Securities	15,279,288	1,605,250	16,884,538
Floating Rate Securities	130,854	-	130,854
Total	15,410,142	1,605,250	17,015,392

Investment in securities include an amount of QAR 1.92 billion in a subsidiary which were re-classified and designated as amortized cost from FVOCI as on 30th September 2018. The associated FVR within the statement of OCI increased by QAR 202 million with a corresponding increase in the carrying value of the investment. The profit and loss impact was not material.

Notes to the Consolidated Financial Statements continued

12. INVESTMENT IN ASSOCIATES AND A JOINT ARRANGEMENT

(Figures in QAR '000s)

	2018	2017
Balance at 1 January	2,088,158	4,300,647
Share of results - (note 22)	170,738	147,876
Cash dividend - (note 22)	(76,627)	(81,454)
Other movements	(85,959)	8,189
Reclassified to asset held for sale- (note 13)	-	(2,287,100)
Balance at 31 December	2,096,310	2,088,158

Name of the Entity	Classification	Amount (QAR '000s)		Country	Activities	Ownership %		Price per share (QAR)
		2018	2017			2018	2017	
National Bank of Oman SAOG ('NBO')	Associate	2,083,707	2,079,340	Oman	Banking	34.9%	34.9%	1.72
United Arab Bank PJSC ('UAB')*	Associate	-	-	UAE	Banking	40%	40%	1.19
Massoun Insurance Services LLC	Joint venture	12,603	8,818	Qatar	Insurance brokerage	50%	50%	Un listed
		2,096,310	2,088,158					

*Refer to note 13

The summarised financial position and results of NBO as at the end of reporting period is as follows:

(Figures in QAR '000s)

	2018	2017
Total assets	33,770,081	32,803,699
Total liabilities	28,698,879	27,640,155
Operating income	1,219,512	1,248,957
Net profit	478,375	416,158
Total comprehensive income	456,804	382,063
Share of results	166,953	145,239

13. ASSET HELD FOR SALE

The Group had granted a third party purchaser (the "Purchaser") an exclusivity during which the parties were negotiating the terms of a potential sale to the Purchaser, subject to the satisfaction of certain conditions, of the Group's stake in one of its associates, UAB. Discussions for the sale of Group's stake in UAB have concluded in June 2018, with both parties unable to reach an agreement. The Group's strategy in regards to UAB remains unchanged.

Notes to the Consolidated Financial Statements continued

14 PROPERTY AND EQUIPMENT

(Figures in QAR '000s)

	Land and buildings	Leasehold improvements	Furniture and equipment	Motor vehicles	Capital work in progress	Total
Cost						
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
Balance at 1 January 2018	1,998,459	135,713	1,184,804	4,825	417,663	3,741,464
Additions / transfers	177,909	6,067	79,056	456	8,641	272,129
Revaluation on land & buildings	21,592	-	-	-	-	21,592
Disposals	(414)	(11,000)	(12,014)	(905)	-	(24,333)
Exchange differences	(21,264)	(11,820)	(20,282)	(217)	-	(53,583)
Balance at 31 December 2018	2,176,282	118,960	1,231,564	4,159	426,304	3,957,269
Accumulated depreciation						
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
Balance at 1 January 2018	48,351	113,324	985,508	3,294	-	1,150,477
Depreciation for the year	39,629	4,424	84,534	640	-	129,227
Revaluation on land & buildings	-	-	-	-	-	-
Disposals	-	(7,652)	(11,687)	(901)	-	(20,240)
Exchange differences	(211)	(6,711)	(14,018)	(168)	-	(21,108)
Balance at 31 December 2018	87,769	103,385	1,044,337	2,865	-	1,238,356
Net carrying amounts						
Balance at 31 December 2017	1,950,108	22,389	199,296	1,531	417,663	2,590,987
Balance at 31 December 2018	2,088,513	15,575	187,227	1,294	426,304	2,718,913

Notes to the Consolidated Financial Statements continued

15. INTANGIBLE ASSETS

(Figures in QAR '000s)

	Goodwill	Brand	Customer relationship	Core deposit	Internally developed software	Total
Cost						
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
Balance at 1 January 2018	251,220	87,863	286,479	73,878	28,300	727,740
Additions / transfers	-	5,001	-	-	9,301	14,302
Acquisitions	-	-	-	-	-	-
Disposals	-	-	-	-	(188)	(188)
Exchange differences	(70,971)	(23,463)	(15,718)	(6,165)	(7,418)	(123,735)
Balance at 31 December 2018	180,249	69,401	270,761	67,713	29,995	618,119
Amortisation and Impairment						
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
Balance at 1 January 2018	49,800	46,940	147,576	33,292	19,954	297,562
Amortisation during the year	-	3,449	36,894	8,323	6,083	54,749
Acquisitions	-	-	-	-	-	-
Impairment during the year	-	-	-	-	-	-
Exchange differences	-	(12,360)	-	-	(4,881)	(17,241)
Balance at 31 December 2018	49,800	38,029	184,470	41,615	21,156	335,070
Net carrying amounts						
Balance at 31 December 2017	201,420	40,923	138,903	40,586	8,346	430,178
Balance at 31 December 2018	130,449	31,372	86,291	26,098	8,839	283,049

Notes to the Consolidated Financial Statements continued

15. INTANGIBLE ASSETS (continued)

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 23.0% 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 Bonds 10 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.

No impairment loss is recognized in 2018 nil (2017: nil) as the recoverable amount of this CGU was determined to be higher than its carrying amount.

16. OTHER ASSETS

(Figures in QAR '000s)

	2018	2017
Interest receivable and accrued income	1,127,511	892,709
Prepaid expenses	60,366	94,354
Accounts receivable	392,869	352,874
Repossessed collateral*	2,605,213	2,139,591
Positive fair value of derivatives (note 37)	371,716	462,483
Clearing cheques	218,861	249,711
Others	642,109	236,460
	5,418,645	4,428,182

*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 QAR '000s)

	2018	2017
Balances due to central banks	561,311	281,625
Current accounts	323,873	811,754
Placements with banks	6,773,721	6,570,486
Repurchase agreements with banks	6,161,638	5,852,007
	13,820,543	13,515,872

Notes to the Consolidated Financial Statements continued

18. CUSTOMER DEPOSITS

a) By type

	(Figures in QAR '000s)	
	2018	2017
Current and call deposits	16,310,290	17,630,840
Saving deposits	4,389,075	4,394,576
Time deposits	50,622,085	55,607,917
	71,321,450	77,633,333

b) By sector

	(Figures in QAR '000s)	
	2018	2017
Government	10,610,571	12,426,816
Government and semi government agencies	8,641,978	12,540,523
Individuals	22,064,871	21,494,057
Corporate	26,865,471	27,491,521
Non-banking financial institutions	3,138,559	3,680,416
	71,321,450	77,633,333

19. DEBT SECURITIES

	(Figures in QAR '000s)	
	2018	2017
EMTN unsecured Programme – Senior unsecured notes *	7,809,032	5,540,548
Senior Notes*	2,888,175	1,130,570
Subordinated Notes *	3,441,222	3,431,969
Others#	1,860,110	1,501,803
Total	15,998,539	11,604,890

Notes to the Consolidated Financial Statements continued

19. DEBT SECURITIES (continued)

* The following table provides the breakdown of the Debt Securities as at close of 31 December 2018.

Instrument	Issuer	Issued amount	Issued on	Maturity	Coupon
EMTN - Senior notes	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%
	CBQ Finance Ltd	USD 155 million*	Apr-18	Apr-19	Fixed Rate 3.25%
	CBQ Finance Ltd	USD 500 million*	May-18	May-23	Fixed Rate 5.00%
	CBQ Finance Ltd	CHF 335 million*	Mar-18	Mar-21	Fixed Rate 0.707%
	CBQ Finance Ltd	CHF 100 million*	Oct-18	Oct-22	Fixed Rate 1.125%
Subordinate notes	CBQ Finance Ltd	USD 600 million*	Nov-09	Nov-19	Fixed Rate 7.50%
	Alternatif Bank	USD 297 million	Apr-16	Apr-26	Fixed Rate 8.75%
	Alternatif Bank	USD 50 million	Jun-15	Jun-25	Floating Rate LIBOR +6.00%
Senior Notes	Alternatif Bank	USD 250 million**	Jul-14	Jul-19	Fixed Rate 3.13%
Senior Notes	Alternatif Bank	TL 66 million	Oct-18	Jan-19	Fixed Rate 27.00%
	Alternatif Bank	TL 77 million	Nov-18	Jan-19	Fixed Rate 26.00%
	Alternatif Bank	TL 50 million	Dec-18	Mar-19	Fixed Rate 23.75%
	Alternatif Bank	TL 33 million	Dec-18	Mar-19	Fixed Rate 23.50%
	Alternatif Bank	TL 53 million	Dec-18	Mar-19	Fixed Rate 23.70%
	Alternatif Bank	TL 65 million	Dec-18	Mar-19	Fixed Rate 23.61%
	Alternatif Bank	TL 84 million	Oct-18	Jan-19	Fixed Rate 11.00%
	Alternatif Bank	TL 84 million	Nov-18	Feb-19	Fixed Rate 10.90%
	Alternatif Bank	TL 26 million	Dec-18	Mar-19	Fixed Rate 24.00%
	Alternatif Bank	TL 6 million	Dec-18	Mar-19	Fixed Rate 24.00%

* Issued for and Guaranteed by the Bank

** Guaranteed by the Bank

Others include Commercial Papers and certificate of deposits issued by the bank.

Movements in debt securities are analysed as follows:

	(Figures in QAR '000s)	
	2018	2017
Balance at 1st January	11,604,890	11,717,260
Additions	9,508,091	3,845,587
Repayments	(5,055,194)	(3,968,148)
Amortisation of discount and transaction cost	29,119	19,776
Other movement	-	-
Exchange difference	(88,367)	(9,585)
Balance at 31 December	15,998,539	11,604,890

Notes to the Consolidated Financial Statements continued

19. DEBT SECURITIES (continued)

The table below shows the maturity profile of debt securities:

	(Figures in QAR '000s)	
	2018	2017
Up to 1 year	7,885,098	1,837,344
Between 1 and 3 years	4,679,586	5,801,290
Over 3 years	3,433,855	3,966,256
Balance at 31 December	15,998,539	11,604,890

20. OTHER BORROWINGS

	(Figures in QAR '000s)	
	2018	2017
Syndicated loans	4,848,032	5,065,654
Others	3,453,796	4,237,711
Total	8,301,828	9,303,365

Movements in other borrowings are as follows:

	(Figures in QAR '000s)	
	2018	2017
Balance at 1 January	9,303,365	10,777,242
Additions	6,583,404	4,161,023
Repayments	(6,634,330)	(5,414,984)
Fair value adjustment on consolidation of Alternatif Bank	(37,291)	(37,291)
Amortisation of discount and transaction cost	13,724	10,556
Other movement	-	-
Exchange difference	(927,044)	(193,181)
Balance at 31 December	8,301,828	9,303,365

The table below shows the maturity profile of other borrowings:

	(Figures in QAR '000s)	
	2018	2017
Up to 1 year	3,474,304	7,029,324
Between 1 and 3 years	4,093,799	935,090
Over 3 years	733,725	1,338,951
Balance at 31 December	8,301,828	9,303,365

Notes to the Consolidated Financial Statements continued

21. OTHER LIABILITIES

(Figures in QAR '000s)

	2018	2017
Interest payable	601,527	462,071
Accrued expense payable	291,899	306,682
Other provisions (note i)	215,723	225,099
Negative fair value of derivatives (note 37)	353,499	355,614
Unearned income	228,529	209,891
Cash margins	652,083	520,427
Accounts payable	443,407	267,194
Directors' remuneration	18,500	18,500
Social & sports activities support fund ("Daam") (note 24)	41,580	15,091
Dividend payable	19,640	16,009
Managers' cheque and payment order	28,164	38,255
Unclaimed balances	11,010	43,087
Due for trade acceptances	1,751,994	2,156,937
Deferred tax liabilities	12,123	33,822
Income tax payable	26,634	24,465
Others	828,646	676,929
Net impairment losses on loan commitments and financial guarantees	103,972	-
Total	5,628,930	5,370,073

(i) Other provisions

(Figures in QAR '000s)

	Provident fund (a)	Pension fund (b)	Total 2018	Total 2017
Balance at 1 January	223,789	1,310	225,099	235,658
Provision made during the year (note 32)	8,369	10,999	19,368	27,240
Earnings of the fund	5,968	-	5,968	6,051
Provident fund – staff contribution	6,950	5,852	12,802	13,235
Transferred to state retirement fund authority	-	(15,460)	(15,460)	(16,770)
Payment during the year	(29,838)	-	(29,838)	(39,789)
Exchange difference	(2,216)	-	(2,216)	(526)
Balance at 31 December	213,022	2,701	215,723	225,099

(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.

Notes to the Consolidated Financial Statements continued

22. EQUITY

(a) Share capital

The issued, subscribed and paid up share capital of the Bank is QAR 4,047,253,760 (2017: QAR 4,047,253,760) divided into 404,725,376 (2017: 404,725,376) ordinary shares of QAR 10 each.

<i>In thousands of shares</i>	(Figures in QAR '000s)	
	2018	2017
On issue at the beginning of the reporting period	404,725	326,629
Right issued	-	58,823
Bonus shares issued	-	19,273
In issue at 31 December	404,725	404,725

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.

At 31 December 2018, the authorised share capital comprised 404,725 thousand ordinary share (2017: 404,725 thousand).

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 Alternatif Bank are QAR 9,652 million (2017: QAR 9,652 million) and QAR 89 million (2017: QAR 86 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.

Notes to the Consolidated Financial Statements continued

22. EQUITY (continued)

(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. On 1st January 2018, after QCB approval QAR 1,529 millions was appropriated from risk reserve for transition adjustment on adoption of IFRS 9. During the year QAR 525 million (2017: QAR 88 million) was transferred to the risk reserve account as per QCB approval.

(e) Fair value reserve

The fair value reserve arises from the revaluation of the investment securities through FVOCI, cash flow hedges and change of post acquisition fair value reserve of its associates and a joint arrangement.

(Figures in QAR '000s)

Fair value reserve	2018	2017
Balance as at 1 January	(44,500)	(219,815)
Changes due to adoption of IFRS 9:		
Transfer to Amortised cost	32,980	-
Transfer from retained earnings	(51,510)	-
Restated balance at beginning of the year	(63,030)	(219,815)
Impact of revaluation (IFRS 9) :		
- on equity securities	(19,484)	-
- on debt securities	2,355	-
Net amount Transferred to Income statement	(10,228)	(46,612)
Net movement in effective portion of Cash Flow hedges	24,436	-
Net change in fair value of investment in associates	(7,515)	8,190
Net change in fair value of available -for -sale investments (IAS 39)	-	213,737
Net movement during the year	(10,436)	175,315
Balance as at 31 December	(73,466)	(44,500)

(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.

(g) Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Notes to the Consolidated Financial Statements continued

22. EQUITY (continued)

(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 QAR '000s)

	2018	2017
Balance as at 1 January	1,064,189	997,767
Transition adjustments on adoption of IFRS 9 on 1 January 2018	(78,442)	-
Share of result of associates and a joint arrangement (note 12)	170,738	147,876
Dividend from associates and a joint arrangement (note 12)	(76,627)	(81,454)
Net movement	94,111	66,422
Balance as at 31 December	1,079,858	1,064,189

(i) Proposed dividend

The Board of Directors has proposed a cash dividend of 15 % for the year 2018 (2017: 10% cash dividend). This proposal is subject to approval at the Annual General Assembly.

(j) Dividends

A cash dividend of 10% for the year 2017 (2016: 5% bonus share), was approved at the Annual General Assembly held on 21 March 2018 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 available 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 and thereafter to be reset at a prevailing sixth year mid-swap rate plus margin every sixth year. As per amendments required by Qatar Central Bank the first call date was amended from 27 February 2022 to 31 December 2021.

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.

Notes to the Consolidated Financial Statements continued

23. OTHER COMPREHENSIVE INCOME

(Figures in QAR '000s)

	2018	2017
Changes in fair value of investments in debt securities designated at FVOCI (IFRS 9) and (Available-for-sale investments for 2017):		
Positive change in fair value	68,543	261,900
Negative change in fair value	(66,415)	(48,163)
Net change in fair value	2,128	213,737
Net amount transferred to profit or loss*	(10,001)	(46,612)
Foreign currency translation differences for foreign operation	(432,940)	-
Share of other comprehensive income of associates and a joint arrangement	(2,092)	-
Net changes in FV of Cash Flow hedges	24,436	-
	(418,469)	167,125
Net changes in fair value of equity investments designated at FVOCI (IFRS 9):		
Foreign currency translation differences for foreign operation	-	(124,119)
Net changes in FV of equity investments – FVOCI	(19,484)	-
Share of other comprehensive income of associates and a joint arrangement	(5,423)	8,190
Revaluation Reserve	19,126	-
Total other comprehensive income	(424,250)	51,196

*Net amount transferred to profit or loss includes a positive change in fair value of QAR 10.4 million (2017: QAR 50.0 million) and a negative change in fair value of QAR 0.4 million (2017: QAR 4.0 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 41.6 million (2017: QAR 15.1 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 2018.

25. INTEREST INCOME

(Figures in QAR '000s)

	2018	2017
Loans and advances to customers	4,811,277	4,163,011
Debt securities	895,035	670,313
Amounts deposited with banks	321,830	277,739
Amounts deposited with central banks	49,180	27,858
	6,077,322	5,138,921

The amounts reported above include interest income, calculated using the effective interest method, that relate to amortized cost QAR 5,763 million (2017 : 4,469 million) and at fair value QAR 314 million (2017: QAR 670 million)

Notes to the Consolidated Financial Statements continued

26. INTEREST EXPENSE

(Figures in QAR '000s)

	2018	2017
Customer deposits	2,291,014	1,689,441
Debt securities	591,718	436,558
Other borrowings	364,976	293,660
Amount deposited by central banks and other banks	347,292	200,962
	3,595,000	2,620,621

The amounts reported above include interest expense, calculated using the effective interest method, on financial liabilities at amortised cost.

27. FEE AND COMMISSION INCOME

(Figures in QAR '000s)

	2018	2017
Loans and advances	327,352	314,412
Credit and debit card fees	438,709	406,628
Indirect credit facilities	180,091	151,380
Banking and other operations	137,962	113,750
Investment activities for customers	33,851	43,163
	1,117,965	1,029,333

28. FEE AND COMMISSION EXPENSE

(Figures in QAR '000s)

	2018	2017
Credit and debit card fees	269,986	245,560
Brokerage services	23,805	3,344
Others	66,936	60,081
	360,727	308,985

29. NET FOREIGN EXCHANGE GAIN

(Figures in QAR '000s)

	2018	2017
Dealing in foreign currencies & revaluation of spot assets	202,247	162,641

Notes to the Consolidated Financial Statements continued

30. INCOME FROM INVESTMENT SECURITIES

(Figures in QAR '000s)

	2018	2017
Net gain on disposal of investment securities measured at fair value	10,267	39,339
Net Change in Fair-value of Investment securities measured at fair value through income statement	(34,398)	(2,635)
Dividend income	5,305	11,986
	(18,826)	48,690

31. OTHER INCOME

(Figures in QAR '000s)

	2018	2017
Rental and other income	85,576	79,296

32. STAFF COSTS

(Figures in QAR '000s)

	2018	2017
Salary and allowances	637,954	664,902
Health care and medical insurance expenses	16,997	17,132
Staff end of services and pension fund contribution (note 21 (i))	19,368	27,240
Training and education	2,147	4,198
	676,466	713,472

33. OTHER EXPENSES

(Figures in QAR '000s)

	2018	2017
Marketing and advertisement	38,021	32,126
Professional fees	25,671	44,509
Communication, utilities and insurance	50,232	59,430
Board of Directors' remuneration	18,500	18,500
Occupancy, IT consumables and maintenance	68,328	103,005
Travel and related costs	1,800	1,970
Printing and stationery	6,498	8,185
Outsourcing service costs	46,361	98,830
Others	57,482	37,038
	312,893	403,593

Notes to the Consolidated Financial Statements continued

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 QAR '000s)	
	2018	2017
Profit for the year attributable to the equity holders of the Bank	1,663,179	603,648
Less: Dividend on instruments eligible for additional capital	(240,000)	(240,000)
Profit for EPS calculation	1,423,179	363,648
Weighted average number of outstanding ordinary shares in thousands	404,725	400,040
Earnings per share (QAR)	3.52	0.91

The weighted average number of ordinary shares in thousands have been calculated as follows:

	(Figures in QAR '000s)	
	2018	2017
Qualifying ordinary shares at the beginning of the period	404,725	326,629
Effect of bonus share issue	-	19,273
Effect of right issue	-	54,138
Weighted average number of ordinary shares for the period	404,725	400,040

35. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

	(Figures in QAR '000s)	
	2018	2017
a) Contingent liabilities		
Unutilized credit facilities	4,373,836	5,948,621
Guarantees	22,057,901	20,823,314
Letters of credit	2,148,781	2,700,146
Total	28,580,518	29,472,081
b) Capital commitments		
Total	157,569	178,472

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 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.

Notes to the Consolidated Financial Statements continued

36. CASH AND CASH EQUIVALENTS

(Figures in QAR '000s)

	2018	2017
Cash and balances with central banks *	3,184,658	2,978,132
Due from banks up to 90 days	6,799,888	7,343,303
	9,984,546	10,321,435

*Cash and balances with central banks exclude the mandatory cash reserve.

37. DERIVATIVES

(Figures in QAR '000s)

	Positive fair value	Negative fair value	Notional / expected amount by term to maturity				
			Notional amount	within 3 months	3 - 12 months	1-5 years	More than 5 years
At 31 December 2018							
Derivatives held for trading:							
Interest rate swaps	210,529	119,502	6,905,474	66,489	271,270	3,647,959	2,919,756
Forward foreign exchange contracts and others	147,758	158,232	42,587,267	26,254,574	7,742,516	8,476,634	113,543
Derivatives held for fair value hedges:							
Interest rate swaps	13,309	625	3,857,446	-	168,379	1,239,795	2,449,272
Derivatives held for cash flow hedges:							
Forward foreign exchange contracts and others	120	72,371	1,395,891	-	92,094	1,303,797	-
Interest rate swaps	-	2,769	413,065	-	-	413,065	-
Total	371,716	353,499	55,159,143	26,321,063	8,274,259	15,081,250	5,482,571
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

Notes to the Consolidated Financial Statements continued

37. DERIVATIVES (continued)

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.

At 31 December 2018, the Group held the following derivatives as hedging instruments:-

Cash Flow Hedges:	Hedged item	Description	Hedging instrument		
			Currency	Notional in currency	Average Rate
Interest Rate Swaps	Customer Deposits	Fixed for floating	TRY	600,000,000	23.81%
Cross Currency Swaps	Bond Issuance	CHF to USD	USD	459,390,408	4.34%
			CHF	435,000,000	0.78%
Cross Currency Swaps	JPY Bond	JPY to USD	USD	25,300,443	2.77%
			JPY	2,800,000,000	0.10%

Fair value Hedges:	Hedged item	Description	Hedging instrument		
			Currency	Notional in currency	Average Rate
Interest Rate Swaps	Govt Bonds	Fixed for floating	USD	260,000,000	2.79%
	Loans	Fixed for floating	TRY	110,000,000	22.59%

38. FUND MANAGEMENT

As at the end of the reporting date, the Group holds QAR 357 million (2017: QAR 314 million) worth of international investment securities on behalf of its customers. Out of this amount, investment securities with a value of QAR 306 million (2017: QAR 258 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

Notes to the Consolidated Financial Statements continued

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 QAR '000s)	
	2018	2017
Board members of the bank		
- Loans, advances and financing activities (a)	1,604,135	1,568,573
- Deposits	729,255	933,329
- Contingent liabilities and other commitments	13,307	59,200
- Interest and fee income	36,683	25,625
- Interest paid on deposits accounts of board members	12,017	12,433
- Remuneration	18,500	18,500
Associates and joint arrangement companies		
Due from banks	436,800	91,000
Due to banks	24,333	31,353
Deposits	14,602	10,663
Contingent liabilities	782,138	766,360
- Interest earned from associates	26	3,049
- Interest paid to associates	2,271	2,424
Senior management of the bank		
- Remuneration and other benefits	46,710	46,925
- Loans and advances	4,636	5,286

(a) A significant portion of the loans, advances and financing activities' balance at 31 December 2018 and 31 December 2017 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 QAR '000s)

	Liabilities		Equity				Total
	Debt Securities	Other Borrowings	Share Capital	Legal Reserve	Treasury Shares	Retained Earnings	
Balance at 1 January 2018	11,604,890	9,303,365	4,047,254	9,742,066	(179,507)	645,736	35,163,804
Proceeds from issue of debt securities/borrowings	9,508,091	6,583,404	-	-	-	-	16,091,495
Repayment of debt securities/borrowings	(5,055,194)	(6,634,330)	-	-	-	-	(11,689,524)
Amortization of discount and transaction costs on securities/ other borrowings	29,119	13,724	-	-	-	-	42,843
Other movements	-	(37,291)	-	-	-	(375,691)	(412,982)
Exchange differences	(88,367)	(927,044)	-	-	-	-	(1,015,411)
Proceeds from rights issue	-	-	-	-	-	-	-
Bonus share issue	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	1,663,179	1,663,179
Transfer to legal reserve	-	-	-	3,086	-	(3,086)	-
Transfer to risk reserve	-	-	-	-	-	(525,000)	(525,000)
Dividend paid	-	-	-	-	-	(404,725)	(404,725)
Treasury shares	-	-	-	-	-	-	-
Balance at 31 December 2018	15,998,539	8,301,828	4,047,254	9,745,152	(179,507)	1,000,413	38,913,679

41. COMPARATIVES

Prior year figures have not been restated upon the adoption of IFRS 9.

Supplementary Information - Parent

FINANCIAL STATEMENTS OF THE PARENT (a) Statement of Financial Position – Parent

QAR '000s

As at 31 December	2018	2017
ASSETS		
Cash and balances with central bank	5,206,814	5,182,523
Due from banks	8,929,370	10,252,481
Loans and advances to customers	72,171,615	75,481,794
Investment securities	19,731,226	17,173,445
Investment in associates and a joint arrangement and subsidiaries	3,635,854	4,387,602
Asset held for sale	2,559,591	2,287,100
Property and equipment	2,523,835	2,554,001
Other assets	4,236,827	3,502,271
TOTAL ASSETS	118,995,132	120,821,217
LIABILITIES		
Due to banks	13,442,167	12,576,417
Customer deposits	62,356,756	67,561,058
Debt securities	13,454,483	9,217,163
Other borrowings	4,969,305	5,438,849
Other liabilities	4,782,315	4,645,897
TOTAL LIABILITIES	99,005,026	99,439,384
EQUITY		
Share capital	4,047,254	4,047,254
Legal reserve	9,652,129	9,652,129
General reserve	26,500	26,500
Risk reserve	951,909	1,573,600
Fair value reserves	(41,084)	13,756
Treasury shares	(179,507)	(179,507)
Foreign currency translation reserve	(1,771,821)	(1,121,125)
Other reserves	1,029,858	1,014,189
Revaluation reserve	1,264,794	1,264,794
Retained earnings	1,010,074	1,090,243
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK	15,990,106	17,381,833
Instrument eligible for additional capital	4,000,000	4,000,000
TOTAL EQUITY	19,990,106	21,381,833
TOTAL LIABILITIES AND EQUITY	118,995,132	120,821,217

Supplementary Information - Parent continued

FINANCIAL STATEMENTS OF THE PARENT (continued)

(b) Income Statement – Parent

	QAR '000s	
For the year ended 31 December	2018	2017
Interest income	4,348,781	3,737,021
Interest expense	(2,262,088)	(1,715,729)
Net interest income	2,086,693	2,021,292
Fee and commission income	967,658	894,560
Fee and commission expense	(311,412)	(273,587)
Net fee and commission income	656,246	620,973
Foreign exchange gain	171,946	213,360
Income from investment securities	(6,599)	58,309
Other operating income	87,508	76,975
Net operating income	2,995,794	2,990,909
Staff costs	(494,179)	(542,469)
Depreciation	(118,874)	(141,080)
Amortization and impairment of intangible assets	(47,339)	(47,339)
Impairment losses on investment securities	(399)	(46,484)
Net impairment losses on loans and advances to customers	(822,184)	(1,525,644)
Net impairment reversal on other financial assets	111,108	-
Other expenses	(236,041)	(291,946)
Profit for the year	1,387,886	395,947

