Consolidated Financial Statements

For the Year Ended

31 December 2018

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Qatar National Bank (Q.P.S.C.)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Qatar National Bank (Q.P.S.C.) (the 'Bank') and its subsidiaries (together the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters (continued)

Description of key audit matters	How the matter was addressed in our audit
Transition to IFRS 9 "Financial Instruments" - refer to notes 3(c), 3(g), 3(p), 3(r), 3(aa) and 4(b) in the consolidated financial statements	
We focused on this area because: • IFRS 9 "Financial Instruments" ('IFRS 9'), which the Group adopted on 1 January 2018: - resulted in increase in complex accounting requirements, including new estimates and judgements underlying the determination of adjustments on transition; - resulted in new accounting policies, including transition option elections and practical expedients; and - significant change in processes, data and controls that have not been subject to testing previously. • The adjustment made to retained earnings upon transition to IFRS 9 was a QAR 4,059 million debit, which represents 4.6% of the total equity of the Group as at 31 December 2018, hence a material portion of the consolidated statement of financial position.	Our audit procedures in this area included the following, among others: • Evaluating the appropriateness of management's selection of accounting policies based on the requirements of IFRS 9, our business understanding, and industry practice. • Considering the appropriateness of the transition approach and practical expedients applied. • Evaluating management's process for identifying contracts to be assessed based on the selected transition approach and any practical expedients applied. • Evaluating the reasonableness of management's key assumptions/ judgements over classification and measurement decisions. • Considering management's process and the controls implemented to ensure the completeness and accuracy of the transition adjustments. • Identifying and testing the relevant controls over the transition process. • Evaluating the reasonableness of management's key judgements and estimates made in preparing the transition adjustments, specifically related to classification, measurement and expected credit loss ('ECL') of financial assets. • Involving Information Risk Management (IRM) specialists to test new IT systems and relevant controls. • Involving financial risk management specialists to challenge key assumptions/judgements relating to: credit risk grading, significant increase in credit risk, definition of default, probability of default, macro-economic variables, and recovery rates.

Key Audit Matters (continued)

	• Involving valuation specialists to evaluate the inputs, assumptions and techniques used by the valuers engaged by the Group for the valuation of real estate collateral, relating to the determination of ECL. • Evaluating the completeness, accuracy and relevance of data used in preparing the transition adjustments. • Assessing the adequacy of the Group's disclosures in relation to first time application of IFRS 9 by reference to the requirements of the relevant accounting standards and QCB regulations.
Impairment of financial assets - refer to notes 4(b), 8, 9, 10, 11, 15 and 20 in the consolidated financial statements	
We focused on this area because: • Impairment of financial assets involves: - complex accounting requirements, including assumptions, estimates and judgements underlying the determination of impairment; - ECL modelling risk over methodology and design decisions; - susceptibility to management bias when making judgements to determine expected credit loss outcomes; and - complex disclosure requirements. • The Group's financial assets, both on and off balance sheet, subject to credit risk were QAR 1,030,494 million, as at 31 December 2018, hence a material portion of the consolidated statement of financial position. Furthermore the total impairment recognized by the Group on these financial assets amounted to QAR 3,007 million, in the year ended 31 December 2018, which represents 21.7% of the net profit of the Group, hence a material portion of the consolidated statement of income.	Our audit procedures in this area included the following, among others: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, our business understanding, and industry practice. • Confirming our understanding of management's new or revised processes, systems and controls implemented, including controls over ECL model development. • Identifying and tested the relevant controls. • Involving information risk management (IRM) specialists to test new IT systems and relevant controls. • Evaluating the reasonableness of management's key judgements and estimates made in provision calculations, including selection of methods, models, assumptions and data sources. • Involving FRM specialists to challenge significant assumptions / judgements relating to credit risk grading, significant increase in credit risk, definition of default, probability of default, macro-economic variables, and recovery rates.

Key Audit Matters (continued)

	• Involving valuation specialists to evaluate the inputs, assumptions and techniques used by the valuers engaged by the Group for the valuation of real estate collateral, relating to the determination of ECL. • Assessing the completeness, accuracy and relevance of data. • Evaluating the appropriateness and testing the mathematical accuracy of ECL models applied. • Evaluating the reasonableness of and testing the post-model adjustments. • Performing detailed credit risk assessment of a sample of performing and non-performing loans and advances in line with QCB regulations. • Assessing the adequacy of the Group's disclosures in relation to IFRS 9 by reference to the requirements of the relevant accounting standards and QCB regulations.

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 16 January 2018, expressed an unmodified audit opinion thereon.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Bank's annual report (the "Annual Report"), but does not include the Bank's consolidated financial statements and our auditor's report thereon. Prior to the date of this auditor's report, we obtained the report of the Board of Directors which forms part of the Annual Report, and the remaining sections of the Annual Report are expected to be made available to us after 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 identified above and when it becomes available, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

When we read the remaining sections of the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors.

Responsibilities of the Board of Directors for the Consolidated Financial Statements

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

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

Auditor's responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

Auditor's responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

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

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations we considered necessary for the purposes of our audit. The Bank has maintained proper accounting records and its consolidated financial statements are in agreement therewith. We have read the report of the Board of Directors to be included in the Annual Report and the financial information contained therein is in agreement with the books and records of the Bank. We are not aware of any violations of the applicable provisions of the Qatar Central Bank Law No. 13 of 2012 and of the Qatar Commercial Companies Law No. 11 of 2015 or the terms of the Bank's Articles of Association and the amendments thereto, having occurred during the year which might have had a material effect on the Bank's consolidated financial position or performance as at and for the year ended 31 December 2018.

17 January 2019
Doha
State of Qatar

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Qatar National Bank (Q.P.S.C.)
Consolidated Statement of Financial Position
As at 31 December 2018

	Notes	2018 QR000	2017 QR000
ASSETS			
Cash and Balances with Central Banks	8	64,691,667	52,768,616
Due from Banks	9	61,109,094	43,630,943
Loans and Advances to Customers	10	612,506,697	584,319,216
Investment Securities	11	86,452,000	97,234,282
Investments in Associates	12	7,682,698	7,411,867
Property and Equipment	13	4,697,205	4,538,364
Intangible Assets	14	3,880,970	3,833,339
Other Assets	15	21,177,268	17,341,363
Total Assets		**862,197,599**	**811,077,990**
LIABILITIES			
Due to Banks	16	73,129,644	67,741,685
Customer Deposits	17	616,765,505	585,523,114
Debt Securities	18	25,937,908	26,707,284
Other Borrowings	19	25,037,701	24,079,316
Other Liabilities	20	33,052,120	28,280,251
Total Liabilities		**773,922,878**	**732,331,650**
EQUITY			
Issued Capital	22	9,236,429	9,236,429
Legal Reserve	22	25,326,037	25,326,037
Risk Reserve	22	8,000,000	7,500,000
Fair Value Reserve	22	(973,557)	(1,169,875)
Foreign Currency Translation Reserve	22	(16,209,852)	(12,369,012)
Other Reserves	22	683,722	832,429
Retained Earnings	22	41,206,855	38,397,772
Total Equity Attributable to Equity Holders of the Bank		**67,269,634**	**67,753,780**
Non - Controlling Interests	23	1,005,087	992,560
Instruments Eligible for Additional Tier 1 Capital	24	20,000,000	10,000,000
Total Equity		**88,274,721**	**78,746,340**
Total Liabilities and Equity		**862,197,599**	**811,077,990**

These consolidated financial statements were approved by the Board of Directors on 15 January 2019 and were signed on its behalf by:

Ali Shareef Al-Emadi
Chairman of the Board of Directors

A.Khalifa

Abdulla Mubarak Al-Khalifa
Acting Group Chief Executive Officer

The attached notes 1 to 40 form an integral part of these consolidated financial statements.

Qatar National Bank (Q.P.S.C.)

Consolidated Income Statement

For the Year Ended 31 December 2018

	Notes	2018 QR000	2017 QR000
Interest Income	25	50,744,709	41,958,662
Interest Expense	26	(31,711,804)	(24,070,437)
Net Interest Income		**19,032,905**	**17,888,225**
Fee and Commission Income	27	4,608,417	4,245,918
Fee and Commission Expense		(965,929)	(602,632)
Net Fee and Commission Income		**3,642,488**	**3,643,286**
Net Foreign Exchange Gain	28	1,189,480	874,319
Income from Investment Securities	29	122,051	318,230
Other Operating Income		77,772	82,272
Operating Income		**24,064,696**	**22,806,332**
Staff Expenses	30	(3,321,504)	(3,433,558)
Depreciation	13	(440,822)	(489,261)
Other Expenses	31	(2,581,815)	(2,751,564)
Net Impairment Losses on Loans and Advances to Customers	10	(3,040,565)	(2,014,419)
Net Impairment Losses on Investment Securities	11	(14,646)	(44,429)
Net Impairment Recoveries on Other Financial Assets		48,057	-
Amortisation of Intangible Assets		(70,562)	(71,377)
Other Provisions		(109,587)	(68,049)
		(9,531,444)	**(8,872,657)**
Share of Results of Associates	12	485,215	120,960
Profit Before Income Taxes		**15,018,467**	**14,054,635**
Income Tax Expense	32	(1,135,130)	(913,565)
Profit for the Year		**13,883,337**	**13,141,070**
Attributable to:			
Equity Holders of the Bank		13,788,131	13,128,138
Non - Controlling Interests		95,206	12,932
Profit for the Year		**13,883,337**	**13,141,070**
Basic and Diluted Earnings Per Share (QR)	33	14.4	13.7

The attached notes 1 to 40 form an integral part of these consolidated financial statements.

Qatar National Bank (Q.P.S.C.)

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2018

	2018 QR000	2017 QR000
Profit for the Year	**13,883,337**	**13,141,070**
Other Comprehensive Income that is or may be Reclassified to the Consolidated Income Statement in Subsequent Periods:		
Foreign Currency Translation Differences for Foreign Operations	(3,982,990)	(608,587)
Share of Other Comprehensive Income of Associates	(146,931)	223,755
Effective Portion of Changes in Fair Value of Cash Flow Hedges	(193,623)	338,891
Effective Portion of Changes in Fair Value of Net Investment in Foreign Operations	478,830	(1,363,943)
Investments in Debt Instruments Measured at FVOCI (IFRS 9)		
Net Change in Fair Value	(415,949)	-
Net Amount Transferred to Income Statement	(14,462)	-
Available-for-Sale Investment Securities (IAS 39)		
Net Change in Fair Value	-	46,161
Net Amount Transferred to Income Statement	-	(213,497)
Other Comprehensive Income that will not be Reclassified to the Consolidated Income Statement in Subsequent Periods:		
Net Change in Fair Value of Investments in Equity Instruments Designated at FVOCI (IFRS 9)	222,247	-
Total Other Comprehensive Income for the Year, net of Income Tax	**(4,052,878)**	**(1,577,220)**
Total Comprehensive Income for the Year	**9,830,459**	**11,563,850**
Attributable to:		
Equity Holders of the Bank	9,791,351	11,393,552
Non - Controlling Interests	39,108	170,298
Total Comprehensive Income for the Year	**9,830,459**	**11,563,850**

The attached notes 1 to 40 form an integral part of these consolidated financial statements.

Qatar National Bank (Q.P.S.C.)
Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2018

	Equity Attributable to Equity Holders of the Bank										
	Issued Capital	**Legal Reserve**	**Risk Reserve**	**Fair Value Reserve**	**Foreign Currency Translation Reserve**	**Other Reserves**	**Retained Earnings**	**Equity Attributable to Equity Holders of the Bank**	**Non Controlling Interests**	**Instruments Eligible for Additional Tier 1 Capital**	**Total**
	QR000	**QR000**	**QR000**	**QR000**	**QR000**	**QR000**	**QR000**	**QR000**	**QR000**	**QR000**	**QR000**
Balance at 1 January 2018	9,236,429	25,326,037	7,500,000	(1,169,875)	(12,369,012)	832,429	38,397,772	67,753,780	992,560	10,000,000	78,746,340
Impact of Adopting IFRS 9, net of tax	-	-	-	120,537	-	-	(4,059,280)	(3,938,743)	(23,396)	-	(3,962,139)
Restated Balance at 1 January 2018	**9,236,429**	**25,326,037**	**7,500,000**	**(1,049,338)**	**(12,369,012)**	**832,429**	**34,338,492**	**63,815,037**	**969,164**	**10,000,000**	**74,784,201**
Total Comprehensive Income for the Year											
Profit for the Year	-	-	-	-	-	-	13,788,131	13,788,131	95,206	-	13,883,337
Total Other Comprehensive Income	-	-	-	76,647	(3,924,801)	(148,626)	-	(3,996,780)	(56,098)	-	(4,052,878)
Total Comprehensive Income for the Year	**-**	**-**	**-**	**76,647**	**(3,924,801)**	**(148,626)**	**13,788,131**	**9,791,351**	**39,108**	**-**	**9,830,459**
Reclassification of Net Change in Fair Value of Equity Instrument upon Derecognition	-	-	-	-	-	-	820	820	-	-	820
Transfer to Risk Reserve	-	-	500,000	-	-	-	(500,000)	-	-	-	-
Transfer to Social and Sports Fund	-	-	-	-	-	-	(218,327)	(218,327)	-	-	(218,327)
Transactions Recognised Directly in Equity											
Dividend for the Year 2017 (Note 22)	-	-	-	-	-	-	(5,541,857)	(5,541,857)	-	-	(5,541,857)
Issuance of Instrument Eligible for Additional Capital (Note 24)	-	-	-	-	-	-	-	-	-	10,000,000	10,000,000
Dividend Appropriation for Instruments Eligible for Additional Capital	-	-	-	-	-	-	(532,500)	(532,500)	-	-	(532,500)
Net Movement in Non-controlling Interests	-	-	-	(866)	83,961	(81)	84,563	167,577	(3,185)	-	164,392
Other Movements	-	-	-	-	-	-	(212,467)	(212,467)	-	-	(212,467)
Total Transactions Recognised Directly in Equity	**-**	**-**	**-**	**(866)**	**83,961**	**(81)**	**(6,202,261)**	**(6,119,247)**	**(3,185)**	**10,000,000**	**3,877,568**
Balance at 31 December 2018	**9,236,429**	**25,326,037**	**8,000,000**	**(973,557)**	**(16,209,852)**	**683,722**	**41,206,855**	**67,269,634**	**1,005,087**	**20,000,000**	**88,274,721**
Balance at 1 January 2017	8,396,753	24,486,361	7,000,000	24,456	(11,604,928)	608,600	31,112,008	60,023,250	830,168	10,000,000	70,853,418
Total Comprehensive Income for the Year											
Profit for the Year	-	-	-	-	-	-	13,128,138	13,128,138	12,932	-	13,141,070
Total Other Comprehensive Income	-	-	-	(1,194,331)	(764,084)	223,829	-	(1,734,586)	157,366	-	(1,577,220)
Total Comprehensive Income for the Year	**-**	**-**	**-**	**(1,194,331)**	**(764,084)**	**223,829**	**13,128,138**	**11,393,552**	**170,298**	**-**	**11,563,850**
Transfer to Legal Reserve for the Year 2016	-	839,676	-	-	-	-	(839,676)	-	-	-	-
Transfer to Risk Reserve	-	-	500,000	-	-	-	(500,000)	-	-	-	-
Transfer to Social and Sports Fund	-	-	-	-	-	-	(209,324)	(209,324)	-	-	(209,324)
Transactions Recognised Directly in Equity											
Dividend for the Year 2016	-	-	-	-	-	-	(2,938,864)	(2,938,864)	-	-	(2,938,864)
Bonus Shares for the Year 2016	839,676	-	-	-	-	-	(839,676)	-	-	-	-
Dividend Appropriation for Instrument Eligible for Additional Capital	-	-	-	-	-	-	(450,000)	(450,000)	-	-	(450,000)
Net Movement in Non-controlling Interests	-	-	-	-	-	-	-	-	(7,906)	-	(7,906)
Other Movements	-	-	-	-	-	-	(64,834)	(64,834)	-	-	(64,834)
Total Transactions Recognised Directly in Equity	**839,676**	**-**	**-**	**-**	**-**	**-**	**(4,293,374)**	**(3,453,698)**	**(7,906)**	**-**	**(3,461,604)**
Balance at 31 December 2017	**9,236,429**	**25,326,037**	**7,500,000**	**(1,169,875)**	**(12,369,012)**	**832,429**	**38,397,772**	**67,753,780**	**992,560**	**10,000,000**	**78,746,340**

The attached notes 1 to 40 form an integral part of these consolidated financial statements.

Qatar National Bank (Q.P.S.C.)

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2018

	Notes	2018 QR000	2017 QR000
Cash Flows from Operating Activities			
Profit Before Income Taxes		15,018,467	14,054,635
Adjustments for:			
Interest Income		(50,744,709)	(41,958,662)
Interest Expense		31,711,804	24,070,437
Depreciation	13	440,822	489,261
Net Impairment Losses on Loans and Advances to Customers	10	3,040,565	2,014,419
Net Impairment Losses on Investment Securities		14,646	44,429
Net Impairment Recoveries on Other Financial Assets		(48,057)	-
Other Provisions		104,188	72,052
Dividend Income	29	(105,392)	(104,733)
Net Gain on Sale of Property and Equipment		(11,057)	(9,266)
Net Gain on Sale of Investment Securities	29	(13,954)	(213,497)
Amortisation of Intangible Assets		70,562	71,377
Net Amortisation of Premium or Discount on Investments		(19,952)	(11,606)
Net Share of Results of Associates		(335,937)	25,411
		(878,004)	**(1,455,743)**
Changes in:			
Due from Banks		487,869	(3,831,699)
Loans and Advances to Customers		(70,738,714)	(68,598,794)
Other Assets		(4,390,693)	(1,647,937)
Due to Banks		12,378,475	6,868,281
Customer Deposits		55,574,804	74,000,655
Other Liabilities		10,941,414	2,711,283
Cash from Operations		**3,375,151**	**8,046,046**
Interest Received		49,843,084	41,074,906
Interest Paid		(31,034,032)	(23,211,230)
Dividends Received		105,392	104,733
Income Tax Paid		(868,474)	(713,603)
Other Provisions Paid		(49,634)	(48,313)
Net Cash from Operating Activities		**21,371,487**	**25,252,539**
Cash Flows from Investing Activities			
Acquisition of Investment Securities		(65,880,410)	(79,576,452)
Proceeds from Sale / Redemption of Investment Securities		75,013,056	62,712,207
Investments in Associates	12	-	(8,124)
Additions to Property and Equipment	13	(1,221,108)	(867,040)
Proceeds from Disposal of Property and Equipment		11,722	11,294
Net Cash from / (used in) Investing Activities		**7,923,260**	**(17,728,115)**
Cash Flows from Financing Activities			
Proceeds from Issuance of Instrument Eligible for Additional Tier 1 Capital	24	10,000,000	-
Payment of Coupon on Instrument Eligible for Additional Tier 1 Capital		(450,000)	(450,000)
Proceeds from Issuance of Debt Securities	18	11,591,005	5,534,904
Repayment of Debt Securities	18	(10,418,447)	(5,254,720)
Proceeds from Issuance of Other Borrowings	19	15,260,224	3,124,001
Repayment of Other Borrowings	19	(13,528,893)	(2,661,108)
Dividends Paid		(5,546,000)	(2,930,666)
Net Cash from / (used in) Financing Activities		**6,907,889**	**(2,637,589)**
Net Increase in Cash and Cash Equivalents		**36,202,636**	**4,886,835**
Effects of Exchange Rate Fluctuations on Cash Held		(1,880,649)	(261,007)
Cash and Cash Equivalents at 1 January		57,489,875	52,864,047
Cash and Cash Equivalents at 31 December	39	**91,811,862**	**57,489,875**

The attached notes 1 to 40 form an integral part of these consolidated financial statements.

1. REPORTING ENTITY

Qatar National Bank (Q.P.S.C.) ('QNB' or 'the Bank' or 'the Parent Bank') was incorporated in the State of Qatar on 6 June 1964 as a Joint Stock Company under Emiri Decree No. 7 issued in 1964. The registered office of the Bank is in Doha, State of Qatar.

The Bank together with its subsidiaries (together referred to as the 'Group') is engaged in conventional and Islamic banking activities operating through its branches, associates and subsidiaries.

The principal subsidiaries of the Group are as follows:

Name of subsidiary	Country of Incorporation	Year of Incorporation/ Acquisition	Ownership %
QNB International Holdings Limited	Luxembourg	2004	100%
CSI QNB Property	France	2008	100%
QNB Capital LLC	Qatar	2008	100%
QNB Suisse S.A.	Switzerland	2009	100%
QNB Syria	Syria	2009	50.8%
QNB Finance Ltd.	Cayman Islands	2010	100%
QNB Indonesia	Indonesia	2011	91.0%
QNB Financial Services	Qatar	2011	100%
Al-Mansour Investment Bank	Iraq	2012	54.2%
QNB India Private Limited	India	2013	100%
QNB Tunisia	Tunisia	2013	99.99%
QNB ALAHLI	Egypt	2013	95.0%
QNB Finansbank	Turkey	2016	99.88%
QNB (Derivatives) Limited	Cayman Islands	2017	100%

2. BASIS OF PREPARATION

a) Statement of Compliance

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

b) Basis of Measurements

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

- Derivative Financial instruments
- Investments measured at fair value through profit or loss ('FVPL') (2018) / Held for trading financial investments (2017)
- Other Financial assets designated at fair value through profit or loss ('FVPL')
- Financial investment measured at fair value through other comprehensive income ('FVOCI') (2018) / Available-for-sale financial investments (2017)
- Recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships to the extent of risks being hedged.

c) Functional and Presentation Currency

These consolidated financial statements are presented in Qatari Riyals ('QR'), which is the Bank's functional and presentation currency. Except as otherwise indicated, financial information presented in QR has been rounded to the nearest thousands.

d) Use of Estimates and Judgements

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the effects of adoption of IFRS 9 and IFRS 15 on 1 January 2018, as described in note 3(aa).

a) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at the end of the reporting period.

(i) Business Combinations

For acquisitions meeting the definition of a business under IFRS 3, the acquisition method of accounting is used as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the total of:
- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interest in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired, including any assets which the acquiree has not previously recognized, and liabilities assumed.

When this total is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the consolidated income statement.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the consolidated income statement.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date at fair value and any resulting gain or loss is recognised in the consolidated income statement. It is then considered in the determination of goodwill.

(ii) Subsidiaries

Subsidiaries are all entities (including structured entities) controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Control is achieved when the Group is exposed, 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 accounting policies of subsidiaries have been aligned to the Group accounting policies.

(iii) Loss of Control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated income statement. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group’s accounting policy for financial instruments, depending on the level of influence retained.

(iv) Non-Controlling Interests and Transactions therewith

The Group has elected to measure the non-controlling interests in the acquiree at the proportionate share of the acquiree’s identifiable net assets. Interests in the equity of subsidiaries not attributable to the Bank are reported in the consolidated equity as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as profit or loss attributable to non-controlling interests. Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interest to have a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Basis of Consolidation (continued)

(iv) Non-Controlling Interests and Transactions therewith (continued)

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are transferred to the consolidated income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is transferred to the consolidated income statement where appropriate.

(v) Transactions Eliminated on Consolidation

Intra-group balances, transactions and unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated only to the extent that there is no impairment.

(vi) Associates

Associates 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 are accounted using the equity method of accounting and are initially recognised at cost (including transaction costs directly related to acquisition of investment in the associate). The Group’s investment in associates includes goodwill (net of any accumulated impairment losses) identified on acquisition.

The Group’s share of its associates’ post-acquisition profits or losses is recognised in the consolidated income statement; its share of post-acquisition movements in other comprehensive income of the associate 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 associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Dilution gains and losses in associates are recognised in the consolidated income statement.

For preparation of the consolidated financial statements, equal accounting policies for similar transactions and other events in similar circumstances are used.

The Group’s share of the results of associates is based on the financial statements made up to a date not earlier than three months before the date of the consolidated statement of financial position, adjusted to conform with the accounting policies of the Group. Intergroup gains on transactions are eliminated to the extent of the Group’s interest in the investee.

(vii) Funds Management

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

b) Foreign Currency

(i) Foreign Currency Transactions and Balances

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Foreign Currency (continued)

(i) Foreign Currency Transactions and Balances (continued)

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate on that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated into the functional currency at the spot exchange rate on 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 on the date of the transaction. Foreign currency differences resulting from the settlement of foreign currency transactions and arising on translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Changes in the fair value of investment securities denominated in a foreign currency classified as measured at FVOCI (2018) / available-for-sale (2017) are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of security. Translation differences related to changes in amortised cost are recognised in the consolidated income statement, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets, such as equity instruments classified as measured at FVOCI (2018) / available-for-sale (2017), are included in other comprehensive income.

(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 shareholders' equity as 'foreign currency translation reserve'.

When a foreign operation is disposed of, or partially disposed of when control is not retained, 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 currency translation reserve in equity.

c) Financial Assets and Financial Liabilities

(i) Recognition

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 and Initial Measurement

Financial Assets

Policy applicable from 1 January 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Financial Assets and Financial Liabilities (continued)

(ii) Classification and Initial Measurement (continued)

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

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

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 FVPL 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 a financial 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; and
- 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 FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of 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.

In assessing whether the contractual cash flows are solely payments of principal and interest, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Financial Assets and Financial Liabilities (continued)

(ii) Classification and Initial Measurement (continued)

Policy applicable up to 31 December 2017

At inception or on initial recognition, a financial asset is classified in one of the following categories:
- Held-for-trading;
- Designated as at fair value through profit or loss;
- Loans and receivables;
- Held to maturity; or
- Available-for-sale

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to the consolidated income statement over the remaining life of the investment, using the effective interest rate method. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the consolidated income statement.

Financial Liabilities

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

(iii) Derecognition

Financial Assets

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 in the statement of financial position.

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) and any cumulative gain or loss that had been recognised in OCI is recognised in the consolidated income statement.

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.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, 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.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Financial Assets and Financial Liabilities (continued)

(iii) Derecognition (Continued)

Financial Liabilities

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

(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.

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 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 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

- Amortised Cost Measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate 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. For presentation purposes, accrued interest is disclosed under other assets / liabilities.

- 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 market of the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability which the Group has access to as at that date. The fair value of a liability reflects its non-performance risk.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Financial Assets and Financial Liabilities (continued)

(vi) Measurement Principles (continued)

The Group measures the fair value of listed investments at the market bid price for the investment. For unlisted investments, the Group recognises any change in the fair value, when they have reliable indicators to support such a change.

The fair value of investments in mutual funds and portfolios whose units are unlisted are measured at the net asset value adjusted for market characteristics reported as at the end of the reporting period.

Assets and long positions are measured at bid price; liabilities and short positions are measured at asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and includes adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

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

No impairment loss is recognised on equity instruments. Impairment and ECL are used interchangeably throughout these consolidated financial statements.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Financial Assets and Financial Liabilities (continued)

(vii) Impairment (continued)

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.

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 up to 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 financial 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 the consolidated income statement and reflected in an allowance account against loans and advances to customers when it pertains to loans and advances originated by the Group. Impairment of held to maturity investment securities are recorded and disclosed under a separate impairment allowance account.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Financial Assets and Financial Liabilities (continued)

(vii) Impairment (continued)

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to the consolidated income statement as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to the consolidated income statement 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 the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss in respect of a financial asset carried at amortised cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

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

d) Cash and Cash Equivalents

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

e) Due from banks

Due from banks are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Due from banks are initially measured at cost, being the fair value of the consideration given. Following the initial recognition, due from banks are stated at amortised cost.

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 FVPL, which are measured at fair value with changes recognised immediately in the consolidated income statement. Following the initial recognition, loans and advances are stated at the amortised cost.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group’s consolidated financial statements.

g) Investment Securities

Policy applicable from 1 January 2018

The ‘investment securities’ include:
- 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 FVPL or designated as at FVPL; these are measured at fair value with fair value changes recognised immediately in consolidated income statement;
- Debt securities measured at FVOCI; and
- Equity investment securities designated as at FVOCI.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Investment Securities (continued)

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in the consolidated income statement in the same manner as for financial assets measured at amortised cost:
- Interest revenue using the effective interest method;
- Expected Credit Loss (ECL) 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 reclassified to consolidated income statement and no impairment is recognised in consolidated income statement. Dividends are 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 up to 31 December 2017

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

(i) Held to Maturity Investments

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. Held to maturity investments are carried at amortised cost using the effective interest rate method.

(ii) Available-for-Sale 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 asset. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost less impairment, and all other available-for-sale investments are carried at fair value.

Interest income is recognised in the consolidated income statement using the effective interest rate method. Foreign exchange gains or losses on available-for-sale debt securities are recognised in the consolidated income statement.

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

(iii) Held-for-trading Investments

Held-for-trading investments are non-derivative investments that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at fair value through 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 on the statement of financial position. The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging derivative instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and on an ongoing basis. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Derivatives (continued)

(i) Derivatives Held for Risk management Purposes and Hedge Accounting (continued)

- 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 the consolidated income statement, 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 rate method is used, is amortised to the consolidated income statement as part of the recalculated effective interest rate of the item over its remaining life.

- Cash Flow Hedges
When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect the consolidated income statement, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income in the hedging reserve. The amount recognised in other comprehensive income is reclassified to the consolidated income statement as a reclassification adjustment in the same period as the hedged cash flows affect the consolidated income statement 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 the consolidated income statement.

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 the consolidated income statement as a reclassification adjustment when the forecast transaction occurs and affects the consolidated income statement. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to the consolidated income statement as a reclassification adjustment.

- Hedges of a Net Investment in Foreign Operation
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the consolidated income statement.

- Other Non-Trading Derivatives
When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in the consolidated income statement.

(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 the reporting date and the corresponding fair value changes are taken to the consolidated income statement.

i) Property and Equipment

(i) Recognition and Measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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 the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Property and Equipment (continued)

(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 the consolidated income statement 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 the consolidated income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment as this closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset and is based on cost of the asset less its estimated residual value. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

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

	Years
Buildings	10 to 50
Equipment and Furniture	3 to 12
Motor Vehicles	4 to 7
Leasehold Improvements	4 to 10

Freehold land is stated at cost.

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

j) Intangible Assets

Goodwill that arises upon the acquisition of subsidiaries is included under intangible assets. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. Intangible assets also include Core Deposit Intangibles (‘CDI’) acquired in a business combination which are recognised at fair value at the acquisition date. CDI has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of CDI and licences over their estimated useful life ranging between 6 and 12 years. Intangible assets (such as operating licenses) with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the Cash Generating Unit (‘CGU’) level.

k) Impairment of Non-Financial Assets

The carrying amounts of the Group’s non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are 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.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflow from continuing use, that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated, so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to the groups of CGUs that are expected to benefit from the synergies of the combination.

The Group’s corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Impairment of Non-Financial Assets (continued)

Impairment losses are recognised in the consolidated income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date, for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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 Guarantees

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

n) Employee Benefits

Defined Benefit Plan - Expatriate Employees
The Group makes a provision for all termination indemnity payable to employees in accordance with its regulations, calculated on the basis of the individual's final salary and period of service at the end of the reporting period. The expected costs of these benefits are accrued over the period of employment. The provision for employees' termination benefits is included in other provisions within other liabilities.

Defined Contribution Scheme - Qatari Employees
With respect to Qatari employees, the Group makes a contribution to the State administered Qatari Pension Fund calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions. The cost is considered as part of staff expenses and is disclosed in note 30.

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 shareholders. Dividends for the year that are declared after the end of the reporting period are dealt as a separate disclosure.

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 the net carrying amount of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Interest Income and Expense (continued)

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 and related hedged items, related to hedge ineffectiveness, 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.

q) Fee and Commission Income and Expense

Fee 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 fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised over time 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 over time on a straight-line basis over the commitment period. In case of these services, the control is considered to be transferred over time as the customer is benefited from these services over the tenure of the service period. Other fee and commission expense relate mainly to transaction and service fee, which are recognised in the consolidated income statement as an expense as the services are received.

r) Income from Investment Securities

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

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 income is established.

t) Taxation

Taxes are calculated based on tax laws and regulations in jurisdictions in which the Group operates. A tax provision is made based on an evaluation of the expected tax liability. The Group operations inside Qatar are not subject to income tax, except for QNB Capital LLC whose profits are subject to tax as per the Qatar Financial Centre Authority tax regulations. Deferred tax assets are recognised for deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent it is probable that taxable profit will be available to utilise these. Deferred tax liabilities are recognised for taxable temporary differences. Deferred tax assets and liabilities are measured using tax rates and applicable legislation enacted as at the reporting date.

u) Earnings per Share

The Group presents basic and diluted earnings per share ('EPS') data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to equity holders of the Bank, further adjusted for the dividend appropriation for instruments eligible for additional Tier 1 Capital, if any, by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to equity holders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

v) Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group management committees to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

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, corporates and other institutions. These assets and any income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group.

x) Repossessed Collateral

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

According to QCB instructions, the Group should dispose of any land and properties acquired against settlement of debts within a period not exceeding three years from the date of acquisition although this period can be extended after obtaining approval from QCB.

y) Comparatives

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

z) Appropriations for Instruments Eligible for Additional Capital

Appropriations for Instruments Eligible for Additional Capital are treated as dividends.

aa) New Standards and Amendments to Standards

The following amendments to IFRS and new IFRSs have been applied by the Group in preparation of these consolidated financial statements. The below were effective from 1 January 2018:

Standard	**Effective date**
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

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 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'.

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 (FVPL). 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

aa) New Standards and Amendments to Standards

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 measuring 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 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 according to QCB's instructions.

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) Comparative periods have not been restated. 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.

(All amounts are shown in thousands of Qatari Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

aa) New Standards and Amendments to Standards (continued)

(i) IFRS 9 Financial Instruments (continued)

Impact of adopting IFRS 9

The impact of adopting IFRS 9 has been shown as below:

	Retained Earnings	Non-Controlling Interest	Fair value reserve
Closing balance under IAS 39 (31 December 2017)	38,397,772	992,560	(1,169,875)
Impact of reclassification and remeasurements:			
Reclassification of AFS Debt Securities to Amortised Cost	-	5,656	264,057
Reclassification of AFS Equity Securities to FVOCI	153,649	-	(153,649)
Reclassification of AFS Equity Securities to FVPL	4,912	-	(4,912)
	158,561	5,656	105,496
Impact of recognition of Expected Credit Losses (ECL), net of tax	(4,217,841)	(29,052)	15,041
	34,338,492	**969,164**	**(1,049,338)**

Classification and Measurement of Financial Instruments

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

	IAS 39	IFRS 9	IAS 39	Impact of IFRS 9		IFRS 9
	Measurement Category		Carrying Amount	Reclassifica-tions*	Remeasure-ments*	Carrying Amount
Financial assets						
Cash and Balances with Central Banks	AC (L&R)(1)	AC(2)	52,768,616	-	-	52,768,616
Due from Banks	AC (L&R)(1)	AC(2)	43,630,943	-	(49,219)	43,581,724
Loans and Advances to Customers	AC (L&R)(1)	AC(2)	584,309,707	-	(4,248,925)	580,060,782
Loans and Advances to Customers	FVPL (HFT)(3)	FVPL (M)(4)	9,509	-	-	9,509
Investment Securities - debt	AFS(6)	FVOCI (7)	49,735,508	(8,826,542)	-	40,908,966
Investment Securities - debt	AFS(6)	AC(2)	-	9,117,773	-	9,117,773
Investment Securities - debt	HTM(8)	AC(2)	45,431,131	-	(69,308)	45,361,823
Investment Securities - debt	FVPL (HFT)(3)	FVPL (D) (5)	50,521	-	-	50,521
Investment Securities - equity	AFS(6)	FVOCI (7)	1,972,573	(14,429)	-	1,958,144
Investment Securities - equity	AFS(6)	FVPL (D) (5)	-	14,429	-	14,429
Investment Securities - equity	FVPL (HFT)(3)	FVPL (D) (5)	44,549	-	-	44,549

(1) Amortised Cost (Loans and Receivables)
(2) Amortised Cost
(3) Fair Value Through Profit or Loss (Held for Trading)
(4) Fair Value Through Profit or Loss (Mandatory)
(5) Fair Value Through Profit or Loss (Designated)
(6) Available-for-Sale
(7) Fair Value Through Other Comprehensive Income
(8) Held to Maturity

* Remeasurements are related to ECL adjustments, while reclassifications include adjustments for changes in the basis of measurement.

Financial Liabilities

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

During the first year of transition to IFRS9, the Group updated the Day 1 ECL opening adjustment which was published in the interim condensed consolidated financial statements from QR2.7 billion to QR4.2 billion, through adjusting retained earnings by QR1.5 billion. This was a result of certain correction made to the underlying loan data that was used to estimate ECL as of 1 January 2018.

(All amounts are shown in thousands of Qatari Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

aa) New Standards and Amendments to Standards (continued)

(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.

ab) 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
The Group will adopt IFRS 16 Leases on its mandatory adoption date of 1 January 2019. The new standard will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group intends to apply the simplified transition approach and does not expect to restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured on transition as if the new rules had always been applied.

The Group expects to recognise right-of-use assets and lease liabilities of approximately QR663.0 million on 1 January 2019. In addition, the Group expects that net profit after tax will decrease by approximately QR29.0 million for 2019 as a result of adopting the new rules. Interest expense is expected to increase by approximately QR54.0 million, as the interest on the lease liability will be part of interest expense, other expenses will decrease by QR240.0 million as operating lease payments are currently classified in other expenses, however depreciation will increase by QR215.0 million due to amortization of the right-of-use assets.

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 on initial application date is less than 12 months or leases are of low value items (USD10,000 or less), then the Group has elected to use the short-term lease exemption; and
- exclude initial direct costs from the measurement of right-of-use asset at the date of initial application.

4. FINANCIAL RISK MANAGEMENT

I. Financial Instruments

Definition and Classification

Financial instruments cover all financial assets and liabilities of the Group. Financial assets include cash balances, on demand balances and placements with banks, investment securities, loans and advances to customers and banks and certain other financial assets. Financial liabilities include customer deposits, due to banks and certain other financial liabilities. Financial instruments also include contingent liabilities and commitments included in off-balance sheet items and derivative financial instruments.

Note 3 explains the accounting policies used to recognise and measure the major financial instruments and their related income and expense.

II. Risk Management

a) Risk Management Framework

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

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

Risk Management Structure

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

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

Risk Measurement and Reporting Systems

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries.

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

Internal Audit

Risk management processes throughout the Group are audited by the Group Internal Audit function, as part of each audit which examines both the adequacy and compliance with the procedures, in addition to the specific audit of the Group risk function itself as per the approved audit plan. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Group Board Audit and Compliance Committee.

Risk Mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks and exposures arising from forecast transactions. The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group. The effectiveness of all hedge relationships is monitored by Risk Management on a monthly basis. In a situation of hedge ineffectiveness, the Group will enter into a new hedge relationship to mitigate risk on a continuous basis.

(All amounts are shown in thousands of Qatari Riyals)

4. FINANCIAL RISK MANAGEMENT (Continued)

b) Credit Risk (continued)

The Group manages its credit risk exposure through diversification of its investments, capital markets and lending and financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains collaterals where appropriate. The types of collaterals obtained may include cash, treasury bills and bonds, mortgages over real estate properties and pledges over shares.

The Group uses the same credit risk procedures when entering into derivative transactions as it does for traditional lending products.

Note 10 discloses the distribution of loans and advances and financing activities by industry wise sector. Note 35 discloses the geographical distribution of the Group's assets and liabilities.

The table below shows the maximum exposure to credit risk on the consolidated statement of financial position and certain off-balance sheet items. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross Maximum Exposure	
	2018	2017
Cash and Balances with Central Banks (Excluding Cash on Hand)	55,274,311	45,559,487
Due from Banks	61,109,094	43,630,943
Loans and Advances to Customers	612,506,697	584,319,216
Investment Securities (Debt)	85,070,769	95,217,160
Other Assets	17,725,436	12,948,480
	831,686,307	**781,675,286**
Guarantees	62,286,901	62,920,381
Letters of Credit	24,948,543	31,272,727
Unutilised Credit Facilities	106,442,290	111,957,226
Total	**1,025,364,041**	**987,825,620**

Risk Concentration for Maximum Exposure to Credit Risk by Industry Sector

An industry sector analysis of the Group's financial assets and contingent liabilities, before and after taking into account collateral held or other credit enhancements, is as follows:

	Gross Maximum Exposure 2018	Net Maximum Exposure 2018	Gross Maximum Exposure 2017	Net Maximum Exposure 2017
Government	198,287,572	-	213,182,340	-
Government Agencies	201,738,302	59,563,581	188,052,349	57,591,253
Industry	37,812,830	32,090,033	43,418,570	38,101,126
Commercial	34,758,440	20,921,871	25,107,342	12,920,612
Services	214,163,203	151,601,894	158,601,175	115,380,362
Contracting	12,345,445	8,824,126	17,183,030	13,210,054
Real Estate	58,460,481	34,566,784	57,134,479	36,366,527
Personal	60,860,897	45,522,982	66,850,949	49,680,743
Others	13,259,137	11,011,287	12,145,052	9,630,883
Guarantees	62,286,901	62,286,901	62,920,381	62,920,381
Letters of credit	24,948,543	24,948,543	31,272,727	31,272,727
Unutilised Credit Facilities	106,442,290	106,442,290	111,957,226	111,957,226
Total	**1,025,364,041**	**557,780,292**	**987,825,620**	**539,031,894**

Credit Quality

The credit quality of financial assets is managed by the Group using internal and external credit risk ratings. The Group follows an internal obligor risk rating (ORR) mechanism for grading relationships across its credit portfolio. The Group utilises a ten-scale credit rating system with positive and negative modifiers, giving a total scale range of 22, of which 19 (with positive and negative modifiers) relate to performing and three to non-performing. Within performing, ORR 1 to 4- represents investment grade, ORR 5+ to 7+ represents sub-investment grade and 7 and 7- represent watchlist. ORR 8 to 10 represents sub-standard, doubtful and loss respectively. All credits are assigned a rating in accordance with the defined criteria. The Group endeavours continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group. All lending relationships are reviewed at least once in a year and more frequently in the case of non-performing assets.

(All amounts are shown in thousands of Qatari Riyals)

4. FINANCIAL RISK MANAGEMENT (Continued)

b) Credit Risk (continued)

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

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	104,993,120	-	-	104,993,120	77,872,360
Sub-investment Grade - ORR 5 to 7	12,091,415	181	-	12,091,596	11,912,090
Substandard - ORR 8	-	-	-	-	-
Doubtful ORR 9	-	-	-	-	-
Loss - ORR 10	-	-	-	-	-
	117,084,535	**181**	**-**	**117,084,716**	**89,784,450**
Loss Allowance				(61,561)	-
Carrying Amount				**117,023,155**	**89,784,450**

Loans and Advances to Customers

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Investment Grade - ORR 1 to 4	461,308,367	1,603,743	-	462,912,110	423,378,767
Sub-investment Grade - ORR 5 to 7	138,230,286	19,938,095	-	158,168,381	165,649,578
Substandard - ORR 8	-	-	3,015,175	3,015,175	3,191,639
Doubtful ORR 9	-	-	1,211,061	1,211,061	1,272,991
Loss - ORR 10	-	-	7,961,307	7,961,307	5,988,145
	599,538,653	**21,541,838**	**12,187,543**	**633,268,034**	**599,481,120**
Loss Allowance				(16,142,730)	(11,700,755)
Carrying Amount				**617,125,304**	**587,780,365**

Investment Securities (Debt)

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Investment Grade - ORR 1 to 4	61,980,906	-	-	61,980,906	70,651,586
Sub-investment Grade - ORR 5 to 7	23,997,766	124,759	-	24,122,525	25,859,241
Substandard - ORR 8	-	-	-	-	-
Doubtful ORR 9	-	-	-	-	-
Loss - ORR 10	-	-	65,674	65,674	55,272
	85,978,672	**124,759**	**65,674**	**86,169,105**	**96,566,099**
Loss Allowance				(181,612)	(79,562)
Carrying Amount				**85,987,493**	**96,486,537**

Loan commitments and Financial Guarantees

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Investment Grade - ORR 1 to 4	128,875,695	15,923	-	128,891,618	141,516,479
Sub-investment Grade - ORR 5 to 7	63,445,144	1,385,588	-	64,830,732	64,654,562
Substandard - ORR 8	-	-	58,654	58,654	31,443
Doubtful ORR 9	-	-	57,626	57,626	3,436
Loss - ORR 10	-	-	133,264	133,264	21,599
	192,320,839	**1,401,511**	**249,544**	**193,971,894**	**206,227,519**
Loss Allowance				(294,160)	(77,185)
Carrying Amount				**193,677,734**	**206,150,334**

4. FINANCIAL RISK MANAGEMENT (Continued)

b) Credit Risk (continued)

Collateral

The Group obtains collateral and other credit enhancements in ordinary course of business from counterparties. On an overall basis, during the year there was no material deterioration in the quality of collateral held by the Group. In addition, there were no changes in collateral policies of the Group.

The value of the collateral held against credit-impaired loans and advances as at 31 December 2018 is QR4,807 million (2017: QR4,114 million). The Group has a policy of Loan to Value (LTV) ratio of 60%.

The contractual amount of financial assets written off during the year, subject to enforcement activity as at 31 December 2018 is QR21.7 million (2017: QR253.8 million).

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.

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.

4. FINANCIAL RISK MANAGEMENT (Continued)

b) Credit Risk (continued)

Incorporation of forward-looking information

The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the above macro - economic parameters are statistically significant or the results of forecasted PD's are too much deviated from the present forecast of the economic conditions, qualitative PD overlay shall be used by management after analysing the portfolio as per the diagnostic tool.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group uses mathematical function which links the credit cycle index (CCI) with PD as a key input to ECL. These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Forecasts of these economic variables (the "base economic scenario") are provided by the Group's Economics team on a quarterly basis and provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime of instrument, a mean reversion approach has been used.

Scenarios are incorporated through the forward looking factors selected which are essentially credit cycle index factors (CCI) that are conditioned and then used as an input to the various ECL components. The CCI calculation is derived through the construction of suitable credit cycles based on economic variables that can be used as proxy to describe credit activities within each country of operation. CCI can be derived from a number of historical factors, such as risky yields, credit growth, credit spreads, default or NPL rates data. Interdependency exists between macro-economic factors (for Qatar: Oil $60 - $69 price/barrel, GDP 2.6% - 2.9%, Inflation 1.9% - 3.9% etc.) and the CCI, given its integral part in driving the economic or business cycles. The weightings assigned to each macro-economic scenario based on CCI, as at 31 December 2018, were 80% to Base Case and 10% each to Downside and Upside Case.

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);
- 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.
3) 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.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:
- credit risk grading's;
- product type; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments. Comparative amounts represent allowance account for credit losses and reflect measurement basis under IAS 39.

(All amounts are shown in thousands of Qatari Riyals)

4. FINANCIAL RISK MANAGEMENT (Continued)

b) Credit Risk (continued)

Cash and Balances with Central Banks (Excluding Cash on Hand) and Due from Banks

	2018				2017
	Stage 1	Stage 2	Stage 3	Total ECL	Total
Balance at 1 January	-	-	-	-	-
Impact of Initial Application	49,169	50	-	49,219	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Impairment Allowance for the Year, net	21,585	(44)	-	21,541	-
Amounts Written Off	-	-	-	-	-
Foreign Currency Translation	(9,199)	-	-	(9,199)	-
Balance at 31 December	**61,555**	**6**	**-**	**61,561**	**-**

Loans and Advances to Customers

	2018				2017
	Stage 1	Stage 2	Stage 3	Total ECL	Total
Balance at 1 January	26,124	13,032	11,661,599	11,700,755	10,783,868
Impact of Initial Application	1,789,935	2,458,990	-	4,248,925	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	(214,219)	214,219	-	-	-
Transfers to Stage 3	-	(1,086,528)	1,086,528	-	-
Impairment Allowance for the Year, net	340,383	340,721	2,643,099	3,324,203	2,216,675
Amounts Written Off	-	-	(1,481,219)	(1,481,219)	(1,028,660)
Foreign Currency Translation	(274,078)	(155,293)	(1,220,563)	(1,649,934)	(271,128)
Balance at 31 December	**1,668,145**	**1,785,141**	**12,689,444**	**16,142,730**	**11,700,755**

Investment Securities (Debt)

	2018				2017
	Stage 1	Stage 2	Stage 3	Total ECL	Total
Balance at 1 January	-	-	79,562	79,562	68,332
Impact of Initial Application	82,408	4,289	-	86,697	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Impairment Allowance for the Year, net	16,327	(1,645)	(36)	14,646	9,165
Amounts Written Off	-	-	(2,772)	(2,772)	-
Foreign Currency Translation	82	3,923	(526)	3,479	2,065
Balance at 31 December	**98,817**	**6,567**	**76,228**	**181,612**	**79,562**

Loan Commitments and Financial Guarantees

	2018				2017
	Stage 1	Stage 2	Stage 3	Total ECL	Total
Balance at 1 January	3,781	2,289	71,115	77,185	79,926
Impact of Initial Application	305,189	31,310	-	336,499	-
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	(11,759)	11,759	-	-	-
Transfers to Stage 3	-	(1,353)	1,353	-	-
Impairment Allowance for the Year, net	(103,265)	(4,352)	38,019	(69,598)	-
Amounts Written Off	-	-	-	-	-
Foreign Currency Translation	(62,763)	(5,195)	18,032	(49,926)	(2,741)
Balance at 31 December	**131,183**	**34,458**	**128,519**	**294,160**	**77,185**

(All amounts are shown in thousands of Qatari Riyals)

4. FINANCIAL RISK MANAGEMENT (Continued)

c) Market Risk

The Group takes on exposure to market risks from interest rates, foreign exchange rates and equity prices due to general and specific market movements. The Group applies an internal methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Group has a set of limits on the value of risk that may be accepted, which is monitored on a daily basis.

Equity Price Risk

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

	Change in Equity Price	Effect on Other Comprehensive Income	
	%	2018	2017
Market Indices			
Qatar Exchange	±5	12,696	17,577

Foreign Exchange Risk

The Group takes on exposure to the effect of fluctuations in prevailing foreign currency exchange rates on its financial position. The Group has a set of limits on the level of currency exposure, which are monitored daily. The Group has the following significant net exposures denominated in foreign currencies which are subject to market risk:

	QR	US$	Euro	Pound Sterling	Other Currencies	Total
At 31 December 2018:						
Assets	333,474,378	293,402,377	83,387,854	32,765,611	119,167,379	**862,197,599**
Liabilities and Equity	224,280,614	402,344,429	84,324,824	32,652,785	118,594,947	**862,197,599**
Net Exposure	**109,193,764**	**(108,942,052)**	**(936,970)**	**112,826**	**572,432**	**-**
At 31 December 2017:						
Assets	328,100,962	265,479,108	64,065,334	27,775,804	125,656,782	**811,077,990**
Liabilities and Equity	222,933,823	372,874,037	64,413,639	27,831,034	123,025,457	**811,077,990**
Net Exposure	**105,167,139**	**(107,394,929)**	**(348,305)**	**(55,230)**	**2,631,325**	**-**

The table below indicates the effect of a reasonably possible movement of the currency rate against the Qatari Riyal on the income statement, with all other variables held constant:

	Change in Currency Rate	Effect on Consolidated Income Statement	
Currency	**%**	**2018**	**2017**
US$	+2	(2,178,841)	(2,147,899)
Euro	+3	(28,109)	(10,449)
Pound Sterling	+2	2,257	(1,105)
Egyptian Pound	+3	(27,049)	(11,334)
Turkish Lira	+3	(7,219)	6,912
Other Currencies	+3	51,441	83,362
US$	-2	2,178,841	2,147,899
Euro	-3	28,109	10,449
Pound Sterling	-2	(2,257)	1,105
Egyptian Pound	-3	27,049	11,334
Turkish Lira	-3	7,219	(6,912)
Other Currencies	-3	(51,441)	(83,362)

(All amounts are shown in thousands of Qatari Riyals)

4. FINANCIAL RISK MANAGEMENT (Continued)

c) Market Risk (continued)

Interest rate risk

Interest rate risk reflects the risk of a change in interest rates, which might affect future earnings or the fair value of financial instruments. Exposure to interest rate risk is managed by the Group using, asset and liability management and, where appropriate, various derivatives. Maturities of assets and liabilities have been determined on the basis of contractual pricing. The following table summarises the repricing profile of the Group's assets, liabilities and off-balance sheet exposures:

	Within 3 Months	3 - 12 Months	1 - 5 Years	More than 5 Years	Non-Interest Sensitive	Total	Effective Interest Rate
At 31 December 2018:							
Cash and Balances with Central Banks	21,045,846	-	-	-	43,645,821	64,691,667	
Due from Banks	53,324,518	1,008,621	440,449	-	6,335,506	61,109,094	2.59%
Loans and Advances	347,254,319	202,078,769	32,086,014	23,178,998	7,908,597	612,506,697	6.33%
Investments	17,694,566	22,502,831	26,882,886	17,990,486	9,063,929	94,134,698	7.92%
Other Assets	-	-	-	-	29,755,443	29,755,443	
Total Assets	**439,319,249**	**225,590,221**	**59,409,349**	**41,169,484**	**96,709,296**	**862,197,599**	
Due to Banks	47,879,167	10,358,612	11,084,153	185,632	3,622,080	73,129,644	3.12%
Customer Deposits	422,802,650	92,463,171	39,929,050	983,886	60,586,748	616,765,505	3.64%
Debt Securities	8,505,693	1,819,236	9,959,779	5,653,200	-	25,937,908	3.93%
Other Borrowings	22,379,991	2,346,533	239,474	71,703	-	25,037,701	2.21%
Other Liabilities	-	-	-	-	33,052,120	33,052,120	
Total Equity	-	-	-	-	88,274,721	88,274,721	
Total Liabilities and Equity	**501,567,501**	**106,987,552**	**61,212,456**	**6,894,421**	**185,535,669**	**862,197,599**	
Balance Sheet Items	(62,248,252)	118,602,669	(1,803,107)	34,275,063	(88,826,373)	-	
Off-Balance Sheet Items	39,722,883	(1,344,119)	(27,905,583)	(6,638,545)	(3,834,636)	-	
Interest Rate Sensitivity Gap	**(22,525,369)**	**117,258,550**	**(29,708,690)**	**27,636,518**	**(92,661,009)**	**-**	
Cumulative Interest Rate Sensitivity Gap	**(22,525,369)**	**94,733,181**	**65,024,491**	**92,661,009**	**-**	**-**	
At 31 December 2017:							
Cash and Balances with Central Banks	14,164,506	-	-	-	38,604,110	52,768,616	
Due from Banks	40,018,017	495,099	105,419	-	3,012,408	43,630,943	1.98%
Loans and Advances	317,328,404	82,612,278	161,180,198	15,787,499	7,410,837	584,319,216	5.74%
Investments	15,585,217	15,815,118	45,695,526	18,121,299	9,428,989	104,646,149	7.45%
Other Assets	-	-	-	-	25,713,066	25,713,066	
Total Assets	**387,096,144**	**98,922,495**	**206,981,143**	**33,908,798**	**84,169,410**	**811,077,990**	
Due to Banks	48,404,402	12,728,361	2,754,830	640,842	3,213,250	67,741,685	2.51%
Customer Deposits	372,119,181	88,611,970	60,829,420	1,643,281	62,319,262	585,523,114	2.92%
Debt Securities	10,063,498	5,551,313	8,819,071	2,273,402	-	26,707,284	3.92%
Other Borrowings	21,079,581	79,134	2,902,659	17,942	-	24,079,316	1.99%
Other Liabilities	-	-	-	-	28,280,251	28,280,251	
Total Equity	-	-	-	-	78,746,340	78,746,340	
Total Liabilities and Equity	**451,666,662**	**106,970,778**	**75,305,980**	**4,575,467**	**172,559,103**	**811,077,990**	
Balance Sheet Items	(64,570,518)	(8,048,283)	131,675,163	29,333,331	(88,389,693)	-	
Off-Balance Sheet Items	43,816,675	(5,402,532)	(27,455,769)	(7,773,732)	(3,184,642)	-	
Interest Rate Sensitivity Gap	**(20,753,843)**	**(13,450,815)**	**104,219,394**	**21,559,599**	**(91,574,335)**	**-**	
Cumulative Interest Rate Sensitivity Gap	**(20,753,843)**	**(34,204,658)**	**70,014,736**	**91,574,335**	**-**	**-**	

Other assets includes property and equipment and intangible assets.

(All amounts are shown in thousands of Qatari Riyals)

4. FINANCIAL RISK MANAGEMENT (Continued)

c) Market Risk (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a possible and reasonable change in interest rates, with all other variables held constant, of the Group's consolidated income statement. The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate of non-trading financial assets and financial liabilities including the effect of hedging instruments.

	Increase in Basis Points	**Sensitivity of Net Interest Income**	**Decrease in Basis Points**	**Sensitivity of Net Interest Income**
2018				
Currency				
Qatari Riyal	10	106,441	10	(106,441)
US$	10	(42,538)	10	42,538
Euro	10	(23,892)	10	23,892
Pound Sterling	10	(2,005)	10	2,005
Other Currencies	10	(1,110)	10	1,110

	Increase in Basis Points	**Sensitivity of Net Interest Income**	**Decrease in Basis Points**	**Sensitivity of Net Interest Income**
2017				
Currency				
Qatari Riyal	10	36,908	10	(36,908)
US$	10	(38,281)	10	38,281
Euro	10	(20,318)	10	20,318
Pound Sterling	10	(1,600)	10	1,600
Other Currencies	10	1,045	10	(1,045)

d) Liquidity Risk

Liquidity risk is the risk that an institution will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to cease immediately. To mitigate this risk, the Group has a diversification of funding sources and a diversified portfolio of high quality liquid assets and readily marketable securities.

(All amounts are shown in thousands of Qatari Riyals)

4. FINANCIAL RISK MANAGEMENT (Continued)

d) Liquidity Risk (continued)

The table below summarises 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 the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

	Within 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	More than 5 Years	Total
At 31 December 2018:						
Cash and Balances with Central Banks	34,605,083	-	-	-	30,086,584	64,691,667
Due from Banks	54,458,479	2,748,300	1,617,025	2,285,290	-	61,109,094
Loans and Advances	94,321,698	28,093,488	76,934,039	148,186,895	264,970,577	612,506,697
Investments	9,243,975	6,801,919	18,975,560	31,114,941	27,998,303	94,134,698
Other Assets	16,658,574	1,513,499	2,664,374	7,599,201	1,319,795	29,755,443
Total Assets	**209,287,809**	**39,157,206**	**100,190,998**	**189,186,327**	**324,375,259**	**862,197,599**
Due to Banks	31,867,576	7,798,372	11,029,018	18,106,958	4,327,720	73,129,644
Customer Deposits	257,203,759	62,719,392	101,485,462	184,651,974	10,704,918	616,765,505
Debt Securities	228,416	90,106	1,678,494	18,074,973	5,865,919	25,937,908
Other Borrowings	110,037	41,415	11,821,884	13,052,988	11,377	25,037,701
Other Liabilities and Equity	22,894,056	1,542,290	3,372,133	3,297,380	90,220,982	121,326,841
Total Liabilities and Equity	**312,303,844**	**72,191,575**	**129,386,991**	**237,184,273**	**111,130,916**	**862,197,599**
On-Balance Sheet Gap	**(103,016,035)**	**(33,034,369)**	**(29,195,993)**	**(47,997,946)**	**213,244,343**	**-**
Contingent and Other Items	**85,563,318**	**27,893,001**	**45,554,371**	**35,400,089**	**17,883,109**	**212,293,888**
At 31 December 2017:						
Cash and Balances with Central Banks	18,321,271	-	-	-	34,447,345	52,768,616
Due from Banks	38,131,249	1,037,355	3,508,502	953,837	-	43,630,943
Loans and Advances	72,836,013	31,135,814	82,190,604	293,019,785	105,137,000	584,319,216
Investments	5,247,895	7,451,744	12,180,066	49,612,036	30,154,408	104,646,149
Other Assets	14,205,671	706,561	1,881,563	7,246,295	1,672,976	25,713,066
Total Assets	**148,742,099**	**40,331,474**	**99,760,735**	**350,831,953**	**171,411,729**	**811,077,990**
Due to Banks	40,930,590	5,550,785	9,589,716	7,861,422	3,809,172	67,741,685
Customer Deposits	256,676,823	75,943,944	119,743,982	126,475,172	6,683,193	585,523,114
Debt Securities	-	3,429,046	6,993,873	13,825,412	2,458,953	26,707,284
Other Borrowings	147,869	10,997,392	2,958,472	9,975,583	-	24,079,316
Other Liabilities and Equity	16,484,975	2,509,163	4,401,440	3,894,031	79,736,982	107,026,591
Total Liabilities and Equity	**314,240,257**	**98,430,330**	**143,687,483**	**162,031,620**	**92,688,300**	**811,077,990**
On-Balance Sheet Gap	**(165,498,158)**	**(58,098,856)**	**(43,926,748)**	**188,800,333**	**78,723,429**	**-**
Contingent and Other Items	**73,731,186**	**32,345,953**	**63,052,952**	**42,223,679**	**20,807,027**	**232,160,797**

Other assets includes property and equipment and intangible assets.

The liquidity coverage ratio maintained by the Group as at 31 December 2018 is 124% (2017: 135%), as against the minimum requirement of 100% for the year ended 31 December 2018 (90% for 31 December 2017) as per QCB regulations.

(All amounts are shown in thousands of Qatari Riyals)

4. FINANCIAL RISK MANAGEMENT (Continued)

d) Liquidity Risk (continued)

Maturity analysis of undiscounted cashflows

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

	Within 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years	Total
At 31 December 2018:						
Due to Banks	32,016,285	7,992,659	11,683,029	19,776,932	4,665,282	76,134,187
Customer Deposits	258,684,522	64,710,484	108,203,982	193,492,053	11,679,066	636,770,107
Debt Securities	237,192	404,008	2,294,986	18,921,506	6,516,709	28,374,401
Other Borrowings	110,894	184,597	11,926,940	13,208,175	11,465	25,442,071
Derivative Financial Instruments						
- Contractual Amounts						
Payable - Forward Contracts	40,783,729	11,323,844	8,808,390	563,881	-	61,479,844
Receivable - Forward Contracts	(40,821,504)	(11,346,000)	(8,807,341)	(500,591)	-	(61,475,436)
Payable/(Receivable) - Others	118,605	(336,404)	(524,086)	(314,733)	(1,220,010)	(2,276,628)
Total Liabilities	**291,129,723**	**72,933,188**	**133,585,900**	**245,147,223**	**21,652,512**	**764,448,546**
At 31 December 2017:						
Due to Banks	40,990,566	6,480,832	9,624,159	8,585,442	4,091,492	69,772,491
Customer Deposits	257,835,572	80,295,146	122,896,938	129,991,963	7,699,675	598,719,294
Debt Securities	34,560	3,901,000	7,486,275	14,708,153	2,917,026	29,047,014
Other Borrowings	148,230	11,107,075	3,099,242	10,062,198	-	24,416,745
Derivative Financial Instruments						
- Contractual Amounts						
Payable - Forward Contracts	28,019,172	16,730,376	19,914,626	1,506,866	-	66,171,040
Receivable - Forward Contracts	(27,812,752)	(16,406,071)	(19,361,822)	(1,434,783)	-	(65,015,428)
Payable/(Receivable) - Others	(91,920)	(22,544)	(318,366)	271,743	(535,526)	(696,613)
Total Liabilities	**299,123,428**	**102,085,814**	**143,341,052**	**163,691,582**	**14,172,667**	**722,414,543**

(All amounts are shown in thousands of Qatari Riyals)

4. FINANCIAL RISK MANAGEMENT (Continued)

e) Operational Risk

Operational risk is the risk of direct or indirect loss due to an event or action causing failure of technology, process infrastructure, personnel and other risks having an operational risk impact. The Group seeks to minimise actual or potential losses from operational risk failure through a framework of policies and procedures that identify, assess, control, manage and report those risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

f) Other Risks

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

The Group provides custody and corporate administration to third parties in relation to mutual funds marketed or managed by the Group. These services give rise to legal and operational risk. Such risks are mitigated through detailed daily procedures and internal audits to assure compliance. Note 37 lists the funds marketed by the Group.

g) Capital Management

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by Qatar Central Bank in supervising the Group.

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

Capital Adequacy

	2018	**2017**
Common Equity Tier 1 (CET 1) Capital	61,915,347	63,105,668
Eligible Additional Tier 1 (AT1) Capital Instruments	20,000,000	10,000,000
Additional Tier 1 Capital	90,609	87,561
Additional Tier 2 Capital	3,839,001	68,996
Total Eligible Capital	**85,844,957**	**73,262,225**
Risk Weighted Assets for Credit Risk	383,098,110	374,210,046
Risk Weighted Assets for Market Risk	1,984,934	3,786,487
Risk Weighted Assets for Operational Risk	36,920,366	32,690,877
Total Risk Weighted Assets	**422,003,410**	**410,687,410**
CET 1 Ratio*	**13.4%**	**14.0%**
Tier 1 Capital Ratio*	**18.1%**	**16.5%**
Total Capital Ratio*	**19.0%**	**16.5%**

*The above ratios are calculated based on Total Eligible Capital, net of proposed dividends.

The minimum requirements for Capital Adequacy Ratio under Basel III for QNB as per QCB regulations are as follows:

	Without Capital Conservation Buffer	**Capital Conservation Buffer**	**Additional DSIB charge**	**ICAAP Capital Charge**	**Total**
Minimum limit for CET 1 ratio	6.0%	2.5%	1.88%	0.0%	**10.38%**
Minimum limit for Tier 1 capital ratio	8.0%	2.5%	1.88%	0.0%	**12.38%**
Minimum limit for Total capital ratio	10.0%	2.5%	1.88%	1.0%	**15.38%**

Upon the adoption of IFRS 9 on 1 January 2018, the CET 1 ratio changed from 14.02% to 12.96%, while the total capital ratio changed from 16.49% to 16.43%.

5. USE OF ESTIMATES AND JUDGEMENTS

a) Key Sources of Estimation Uncertainty

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

i) Going concern

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

(ii) Allowances for Credit Losses

Policy applicable from 1 January 2018

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

Policy applicable up to 31 December 2017

Assets accounted at amortised cost are evaluated for impairment on the basis described in the accounting policies. The specific counterparty component of the total allowances for impairment, applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function. Minimum impairments on specific counterparties are determined based on the QCB regulations.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances to customers and investment securities measured at amortised cost with similar credit risk characteristics, when there is objective evidence to suggest that they contain impaired financial assets, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

(iii) Determining Fair Value

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 policies. 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.

b) Critical Accounting Judgements in Applying the Group's Accounting Policies

(i) Valuation of Financial Instruments

The Group's accounting policy on fair value measurements is discussed in the significant accounting policies section. The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, 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 where all significant inputs are directly or indirectly observable from market data.

(All amounts are shown in thousands of Qatari Riyals)

5. USE OF ESTIMATES AND JUDGEMENTS (Continued)

b) Critical Accounting Judgements in Applying the Group's Accounting Policies (continued)

(i) Valuation of Financial Instruments (continued)

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where 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 valued based on quoted prices for similar instruments where 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, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

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

	Level 1	Level 2	Level 3	Total
At 31 December 2018:				
Derivative Assets Held for Risk Management	1,856	9,248,712	-	9,250,568
Investment Securities	28,463,280	3,088,091	-	31,551,371
Total	**28,465,136**	**12,336,803**	**-**	**40,801,939**
Derivative Liabilities Held for Risk Management	2,115	5,798,148	-	5,800,263
Total	**2,115**	**5,798,148**	**-**	**5,800,263**
At 31 December 2017:				
Derivative Assets Held for Risk Management	945	5,760,291	-	5,761,236
Loans and Advances to Customers designated at FVPL	-	9,509	-	9,509
Investment Securities	40,769,976	10,830,829	-	51,600,805
Total	**40,770,921**	**16,600,629**	**-**	**57,371,550**
Derivative Liabilities Held for Risk Management	361	3,342,645	-	3,343,006
Total	**361**	**3,342,645**	**-**	**3,343,006**

There have been no transfers between Level 1 and Level 2 (2017: Nil).

The above table does not include QR202.3 million as at 31 December 2017 of available-for-sale equity investments that were measures at cost.

Financial assets and liabilities not measured at fair value, for which fair value is disclosed, would be largely classified as Level 2 in fair value hierarchy.

(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 (aa) for further information.

5. USE OF ESTIMATES AND JUDGEMENTS (Continued)

b) Critical Accounting Judgements in Applying the Group's Accounting Policies (continued)

(ii) Financial Asset and Liability Classification (continued)

Policy applicable up to 31 December 2017

The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:
- In classifying financial assets or liabilities as trading, the Group has determined that it meets the description of trading assets and liabilities set out in accounting policies.
- In designating financial assets at fair value through profit or loss, the Group has determined that it has met one of the criteria for this designation set out in accounting policies.
- In classifying financial assets as held to maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policies.

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

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

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

(iv) Impairment of Investments in Equity and Debt Securities

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 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 and technical or commercial obsolescence.

(vi) Useful Lives of Intangible Assets
The Group's management determines the estimated useful life of its intangible assets for calculating amortisation. This estimate is determined after considering the expected economic benefits to be received from the use of intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually. 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.

(vii) Impairment of non-financial assets
The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. All non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset and choose a suitable discount rate in order to calculate the present value of those cash flows.

(viii) Funds Management
All the funds are governed by the respective regulations where the appointment and removal of fund managers is controlled through respective regulations and the Group's aggregate economic interest in each fund is not significant. As a result, the Group has concluded that it acts as an agent for the investors in these funds, and therefore has not consolidated these funds.

(All amounts are shown in thousands of Qatari Riyals)

6. OPERATING SEGMENTS

The Group organises and manages its operations through four main business segments, as described below, which are the Group's strategic business units. For each strategic business units, the Group management committee reviews internal management reports on at least a quarterly basis. The strategic business units offer different products and services and are managed separately because they require different strategies.

Corporate Banking

Corporate banking includes loans, deposits, investment and advisory services and other products and services with corporate customers and undertaking the Group's funding and centralised risk management activities through borrowings, issue of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities.

Consumer banking

Consumer banking includes loans, deposits and other diversified range of products and services to retail customers.

Asset and Wealth Management

Assets and wealth management includes loans, deposits, assets management, brokerage and custody services to high net worth customers.

International Banking

International banking includes loans, deposits and other products and services with corporate and individual customers in the Group's international locations.

	Qatar Operations					
	Corporate Banking	**Consumer Banking**	**Asset and Wealth Management**	**International Banking**	**Unallocated and Intra-group Transactions**	**Total**
At 31 December 2018:						
External Revenue:						
Net Interest Income	8,209,709	546,579	610,069	9,581,833	84,715	19,032,905
Net Fee and Commission Income	693,939	215,614	247,000	2,479,764	6,171	3,642,488
Net Foreign Exchange Gain	475,998	98,730	109,888	500,118	4,746	1,189,480
Income from Investment Securities	95,523	-	-	26,528	-	122,051
Other Operating Income	717	3	539	76,513	-	77,772
Share of Results of Associates	448,595	-	-	36,620	-	485,215
Total Segment Revenue	**9,924,481**	**860,926**	**967,496**	**12,701,376**	**95,632**	**24,549,911**
Reportable Segment Profit	**8,058,666**	**250,905**	**765,867**	**5,055,052**	**(342,359)**	**13,788,131**
Reportable Segment Investments	49,290,932	-	13,175	37,147,893	-	86,452,000
Reportable Segment Loans and Advances	401,333,763	10,735,803	23,836,387	176,600,744	-	612,506,697
Reportable Segment Customer Deposits	270,040,936	25,088,066	52,291,317	269,345,186	-	616,765,505
Reportable Segment Assets	577,199,037	26,675,049	53,767,192	419,449,923	(214,893,602)	862,197,599
At 31 December 2017:						
External Revenue:						
Net Interest Income	7,846,341	512,835	543,214	8,911,092	74,743	17,888,225
Net Fee and Commission Income	690,934	227,092	260,770	2,470,224	(5,734)	3,643,286
Net Foreign Exchange Gain	330,844	98,235	120,665	318,682	5,893	874,319
Income from Investment Securities	276,215	-	-	42,015	-	318,230
Other Operating Income	78	4	1	82,189	-	82,272
Share of Results of Associates	77,756	-	-	43,204	-	120,960
Total Segment Revenue	**9,222,168**	**838,166**	**924,650**	**11,867,406**	**74,902**	**22,927,292**
Reportable Segment Profit	**7,962,598**	**153,293**	**512,900**	**4,755,175**	**(255,828)**	**13,128,138**
Reportable Segment Investments	63,452,345	-	14,854	33,767,083	-	97,234,282
Reportable Segment Loans and Advances	360,447,446	10,068,609	21,160,141	192,643,020	-	584,319,216
Reportable Segment Customer Deposits	252,756,620	24,532,520	47,910,191	260,323,783	-	585,523,114
Reportable Segment Assets	519,989,202	24,051,004	53,489,724	394,540,345	(180,992,285)	811,077,990

(All amounts are shown in thousands of Qatari Riyals)

7. FINANCIAL ASSETS AND LIABILITIES

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

	Fair value through profit or loss - mandatory		Fair value through other comprehensive income		Amortised Cost	Total Carrying Amount	Fair Value
	Debt instruments	Equity instruments	Debt instruments	Equity instruments			
At 31 December 2018:							
Cash and Balances with Central Banks	-	-	-	-	64,691,667	64,691,667	64,691,667
Due from Banks	-	-	-	-	61,109,094	61,109,094	61,109,094
Loans and Advances	-	-	-	-	612,506,697	612,506,697	609,996,181
Investment Securities:							
At Fair Value	16,045	47,606	30,154,095	1,333,625	-	31,551,371	31,551,371
At Amortised Cost	-	-	-	-	54,900,629	54,900,629	54,234,820
	16,045	**47,606**	**30,154,095**	**1,333,625**	**793,208,087**	**824,759,458**	**821,583,133**
Due to Banks	-	-	-	-	73,129,644	73,129,644	73,129,644
Customer Deposits	-	-	-	-	616,765,505	616,765,505	616,825,532
Debt Securities	-	-	-	-	25,937,908	25,937,908	26,219,324
Other Borrowings	-	-	-	-	25,037,701	25,037,701	24,749,487
	-	**-**	**-**	**-**	**740,870,758**	**740,870,758**	**740,923,987**

	FVPL / Held for Trading	Held to Maturity	Loans and Receivables	Available-for-sale	Other Amortised Cost	Total Carrying Amount	Fair Value
At 31 December 2017:							
Cash and Balances with Central Banks	-	-	52,768,616	-	-	52,768,616	52,768,616
Due from Banks	-	-	-	-	43,630,943	43,630,943	43,630,943
Loans and Advances	9,509	-	584,309,707	-	-	584,319,216	584,595,104
Investment Securities:							
At Fair Value	95,070	-	-	51,708,081	-	51,803,151	51,803,151
At Amortised Cost	-	45,431,131	-	-	-	45,431,131	46,089,759
	104,579	**45,431,131**	**637,078,323**	**51,708,081**	**43,630,943**	**777,953,057**	**778,887,573**
Due to Banks	-	-	-	-	67,741,685	67,741,685	66,907,578
Customer Deposits	-	-	-	-	585,523,114	585,523,114	585,523,114
Debt Securities	-	-	-	-	26,707,284	26,707,284	26,513,979
Other Borrowings	-	-	-	-	24,079,316	24,079,316	24,077,365
	-	**-**	**-**	**-**	**704,051,399**	**704,051,399**	**703,022,036**

The above table includes QR202.3 million as at 31 December 2017 of equity investment securities in both the carrying amount and fair value columns that were measured at cost and for which disclosure of fair value was not provided.

(All amounts are shown in thousands of Qatari Riyals)

8. CASH AND BALANCES WITH CENTRAL BANKS	**2018**	**2017**
Cash	9,417,356	7,209,129
Cash Reserve with Qatar Central Bank	17,549,716	17,289,898
Other Balances with Qatar Central Bank	14,435,443	1,175,939
Balances with Other Central Banks	23,299,609	27,093,650
Allowance for Impairment	(10,457)	-
Total	**64,691,667**	**52,768,616**

Cash reserve with Qatar Central Bank is a mandatory reserve and cannot be used to fund the Group's day-to-day operations. Balances with Other Central Banks include mandatory reserves amounting to QR12,537 million (2017: QR17,157 million) which cannot be used to fund the Group's day-to-day operations.

9. DUE FROM BANKS	**2018**	**2017**
Current Accounts	7,910,408	6,755,995
Placements	52,603,516	35,823,561
Loans	646,274	1,051,387
Allowance for Impairment	(51,104)	-
Total	**61,109,094**	**43,630,943**

10. LOANS AND ADVANCES TO CUSTOMERS	**2018**	**2017**
a) By Type		
Loans	552,423,916	545,931,252
Overdrafts	73,086,770	47,505,368
Bills Discounted	3,156,311	2,632,912
	628,666,997	**596,069,532**
Deferred Profit	(17,570)	(49,561)
Allowance for Impairment of Loans and Advances to Customers	(16,142,730)	(11,700,755)
Net Loans and Advances to Customers	**612,506,697**	**584,319,216**

Net Loans and Advances includes QR Nil designated as fair value through profit or loss ('FVPL') (2017: QR9.5 million).

The aggregate amount of non-performing loans and advances to customers amounted to QR12,188 million, which represents 1.9% of total loans and advances (2017: QR10,453 million, 1.8% of total loans and advances to customers).

Allowance for impairment of loans and advances to customers includes QR1,346 million of interest in suspense (2017: QR1,090 million).

b) By Industry

At 31 December 2018:	**Loans and Advances**	**Overdrafts**	**Bills Discounted**	**Total**
Government	80,958,439	45,776,363	-	126,734,802
Government Agencies	139,114,155	2,390,483	-	141,504,638
Industry	37,623,605	1,985,933	349,159	39,958,697
Commercial	35,074,783	1,224,014	231,927	36,530,724
Services	132,074,841	6,965,560	1,319,836	140,360,237
Contracting	12,530,641	611,677	115,901	13,258,219
Real Estate	56,005,883	2,891,224	519,408	59,416,515
Personal	53,769,673	10,983,313	571,156	65,324,142
Others	5,271,896	258,203	48,924	5,579,023
Total	**552,423,916**	**73,086,770**	**3,156,311**	**628,666,997**

At 31 December 2017:	**Loans and Advances**	**Overdrafts**	**Bills Discounted**	**Total**
Government	111,750,172	22,511,117	-	134,261,289
Government Agencies	133,289,348	3,738,649	-	137,027,997
Industry	40,907,083	2,159,505	351,982	43,418,570
Commercial	23,655,044	1,248,761	203,537	25,107,342
Services	103,757,862	5,477,427	892,777	110,128,066
Contracting	16,189,102	854,630	139,298	17,183,030
Real Estate	53,829,615	2,841,691	463,173	57,134,479
Personal	57,882,005	8,427,002	541,942	66,850,949
Others	4,671,021	246,586	40,203	4,957,810
Total	**545,931,252**	**47,505,368**	**2,632,912**	**596,069,532**

The amounts above include figures before subtracting impairment and deferred profit.

(All amounts are shown in thousands of Qatari Riyals)

10. LOANS AND ADVANCES TO CUSTOMERS (Continued)

c) Impairment on Loans and Advances to Customers

	Corporate Lending	Small Business Lending	Consumer Lending	Residential Mortgages	Total
Balance as at 1 January 2018	5,640,810	1,813,632	4,175,754	70,559	11,700,755
Impact of IFRS 9 Initial Application	3,126,095	489,785	625,046	7,999	4,248,925
Foreign Currency Translation	(571,309)	(518,884)	(556,447)	(3,294)	(1,649,934)
Allowances Made during the Year	2,623,894	998,221	886,867	818	4,509,800
Recoveries during the Year	(657,978)	(191,452)	(321,938)	(14,229)	(1,185,597)
Written off / Transfers during the Year	(1,135,089)	(93)	(346,037)	-	(1,481,219)
Balance as at 31 December 2018	**9,026,423**	**2,591,209**	**4,463,245**	**61,853**	**16,142,730**
Balance as at 1 January 2017	5,571,293	1,408,915	3,724,065	79,595	10,783,868
Foreign Currency Translation	(63,722)	(84,931)	(121,894)	(581)	(271,128)
Allowances Made during the Year	1,665,142	897,672	1,213,412	6,101	3,782,327
Recoveries during the Year	(1,045,880)	(191,174)	(315,104)	(13,494)	(1,565,652)
Written off / Transfers during the Year	(486,023)	(216,850)	(324,725)	(1,062)	(1,028,660)
Balance as at 31 December 2017	**5,640,810**	**1,813,632**	**4,175,754**	**70,559**	**11,700,755**

d) Net Impairment during the Year	**2018**	**2017**
Corporate Lending	(1,856,699)	(528,314)
Small Business Lending	(769,961)	(677,913)
Consumer Lending	(427,409)	(815,666)
Residential Mortgages	13,504	7,474
Total	**(3,040,565)**	**(2,014,419)**

Impairment loss excludes interest in suspense.

11. INVESTMENT SECURITIES	**Notes**	**2018**	**2017**
Investments measured at Fair Value Through Profit or Loss (FVPL)	11a	63,651	-
Investments measured at Fair Value Through Other Comprehensive Income (FVOCI)	11b	31,487,720	-
Investments measured at Amortised Cost (AC), net	11c	54,900,629	-
Held for Trading Financial Investments		-	95,070
Available-for-Sale Financial Investments	11d	-	51,708,081
Held to Maturity Financial Investments	11e	-	45,431,131
Total		**86,452,000**	**97,234,282**

The carrying amount and fair value of securities under repurchase agreements amounted to QR27,000 million and QR26,996 million respectively (2017: QR22,278 million and QR22,343 million respectively).

The impairment charge on the investment securities for the year amounts to QR14.6 million. (2017: QR44.4 million).

a) Investments measured at Fair Value Through Profit or Loss	**2018**	
	Quoted	**Unquoted**
Mutual Funds and Equities	47,606	-
Debt Securities	16,045	-
Total	**63,651**	**-**

b) Investments measured at Fair Value Through Other Comprehensive Income	**2018**	
	Quoted	**Unquoted**
Mutual Funds and Equities	1,179,124	154,501
State of Qatar Debt Securities	21,040,379	-
Other Debt Securities	9,111,007	2,709
Total	**31,330,510**	**157,210**

Fixed rate securities and floating rate securities amounted to QR27,729 million and QR2,425 million respectively.
The above is net of impairment allowance in respect of debt securities amounting to QR15.1 million.

(All amounts are shown in thousands of Qatari Riyals)

11. INVESTMENT SECURITIES (Continued)

c) Investments measured at Amortised Cost	2018	
	Quoted	Unquoted
By Issuer		
State of Qatar Debt Securities	11,013,953	-
Other Debt Securities	41,546,814	2,339,862
Total	**52,560,767**	**2,339,862**
By Interest Rate		
Fixed Rate Securities	47,680,991	2,339,862
Floating Rate Securities	4,879,776	-
Total	**52,560,767**	**2,339,862**

The above is net of impairment allowance in respect of debt securities amounting to QR147.5 million.

d) Available-for-Sale Financial Investments	2017	
	Quoted	Unquoted
Equities	910,508	187,770
State of Qatar Debt Securities	31,276,605	-
Other Debt Securities	18,327,449	131,454
Mutual Funds	859,719	14,576
Total	**51,374,281**	**333,800**

Fixed rate securities and floating rate securities amounted to QR45,248 million and QR4,489 million respectively.

The above is net of impairment allowance in respect of debt securities amounting to QR17.8 million.

e) Held to Maturity Financial Investments	2017	
	Quoted	Unquoted
By Issuer		
State of Qatar Debt Securities	12,307,843	-
Other Debt Securities	30,257,738	2,865,550
Total	**42,565,581**	**2,865,550**
By Interest Rate		
Fixed Rate Securities	39,307,745	2,865,550
Floating Rate Securities	3,257,836	-
Total	**42,565,581**	**2,865,550**

The above is net of impairment allowance in respect of debt securities amounting to QR61.7 million.

12. INVESTMENTS IN ASSOCIATES

	2018	2017
Balance as at 1 January	7,411,867	7,340,355
Foreign Currency Translation	(43,289)	10,556
Investments Acquired during the Year	-	8,124
Share of results	485,215	120,960
Cash Dividend	(149,278)	(146,371)
Other Movements	(21,817)	78,243
Balance as at 31 December	**7,682,698**	**7,411,867**

Name of Associate	Country	Principal busines	Ownership % 2018	Ownership % 2017
Housing Bank for Trade and Finance	Jordan	Banking	34.5	34.5
Al Jazeera Finance Company	Qatar	Financing	20.0	20.0
Commercial Bank International	UAE	Banking	40.0	40.0
Bank of Commerce and Development	Libya	Banking	49.0	49.0
Senouhi Company for Construction Materials	Egypt	Construction	23.0	23.0
Ecobank Transnational Incorporated	Togo	Banking	20.1	20.1
Bantas	Turkey	Security Services	33.3	33.3
Cigna Finans	Turkey	Pension Fund	49.0	49.0

(All amounts are shown in thousands of Qatari Riyals)

12. INVESTMENTS IN ASSOCIATES (Continued)

The table below shows the summarised financial information of the Group's investment in direct and material Associates:

	Total Assets	Total Liabilities	Equity	Group's Share of Profit	Market Price per Share (QR)
Balance as at 30 September 2018					
Housing Bank for Trade and Finance	42,059,256	36,567,789	5,491,467	194,403	42.92
Commercial Bank International	19,444,959	17,103,333	2,341,626	91,548	0.62
Ecobank Transnational Incorporated	79,629,752	72,266,251	7,363,501	156,489	0.20
Al Jazeera Finance Company	1,333,177	405,167	928,010	(1,065)	Not listed
Balance as at 31 December 2017					
Housing Bank for Trade and Finance	41,749,496	36,028,079	5,721,417	205,800	43.00
Commercial Bank International	19,272,116	16,951,304	2,320,812	43,689	0.91
Ecobank Transnational Incorporated	81,662,254	73,754,786	7,907,468	(192,757)	0.21
Al Jazeera Finance Company	1,329,023	402,138	926,885	10,728	Not listed

13. PROPERTY AND EQUIPMENT

Balance as at 31 December 2018	Land & Buildings	Leasehold Improvements	Equipment & Furniture	Motor Vehicles	Total
Cost:					
Balance as at 1 January	3,697,641	1,113,616	3,560,114	14,130	8,385,501
Additions	786,211	59,840	371,326	3,731	1,221,108
Disposals / Written off	(448)	(45,262)	(204,083)	(971)	(250,764)
Foreign Currency Translation and Others	(453,244)	(137,808)	(616,841)	(794)	(1,208,687)
	4,030,160	**990,386**	**3,110,516**	**16,096**	**8,147,158**
Accumulated Depreciation:					
Balance as at 1 January	391,851	873,072	2,569,630	12,584	3,847,137
Charged during the Year	48,469	79,663	311,414	1,276	440,822
Disposals / Written off	(42)	(46,539)	(202,415)	(1,103)	(250,099)
Foreign Currency Translation and Others	(25,739)	(124,696)	(436,668)	(804)	(587,907)
	414,539	**781,500**	**2,241,961**	**11,953**	**3,449,953**
Net Carrying Amount	**3,615,621**	**208,886**	**868,555**	**4,143**	**4,697,205**
Balance as at 31 December 2017					
Cost:					
Balance as at 1 January	3,373,125	1,049,710	3,293,750	14,595	7,731,180
Additions	330,936	99,009	436,959	136	867,040
Disposals	(3,549)	(1,543)	(23,956)	(486)	(29,534)
Foreign Currency Translation and Others	(2,871)	(33,560)	(146,639)	(115)	(183,185)
	3,697,641	**1,113,616**	**3,560,114**	**14,130**	**8,385,501**
Accumulated Depreciation:					
Balance as at 1 January	346,388	811,907	2,353,275	10,931	3,522,501
Charged during the Year	49,840	89,696	347,468	2,257	489,261
Disposals	(2,750)	(1,027)	(23,253)	(476)	(27,506)
Foreign Currency Translation and Others	(1,627)	(27,504)	(107,860)	(128)	(137,119)
	391,851	**873,072**	**2,569,630**	**12,584**	**3,847,137**
Net Carrying Amount	**3,305,790**	**240,544**	**990,484**	**1,546**	**4,538,364**

(All amounts are shown in thousands of Qatari Riyals)

14. INTANGIBLE ASSETS

	Goodwill	Core Deposit Intangibles	Operating licence	Total
Cost				
Balance as at 1 January 2018	1,798,421	933,133	1,563,022	4,294,576
Foreign Currency Translation	(12,382)	(226)	(551)	(13,159)
Additions	-	-	149,143	149,143
Balance as at 31 December 2018	**1,786,039**	**932,907**	**1,711,614**	**4,430,560**
Accumulated Amortisation				
Balance as at 1 January 2018	-	(405,153)	(56,084)	(461,237)
Foreign Currency Translation	-	226	358	584
Amortisation Charge	**-**	(75,469)	(13,468)	(88,937)
Balance as at 31 December 2018	**-**	**(480,396)**	**(69,194)**	**(549,590)**
Net Book Value as at 31 December 2018	**1,786,039**	**452,511**	**1,642,420**	**3,880,970**
Net Book Value as at 31 December 2017	**1,798,421**	**527,980**	**1,506,938**	**3,833,339**

Impairment Tests for Goodwill and Intangible Assets with Indefinite Lives

Net book value of goodwill as at 31 December 2018 includes QR1.5 billion (2017: QR1.5 billion) in respect of QNB ALAHLI, QR89.6 million (2017: QR89.6 million) in respect of QNB Indonesia, QR111.9 million (2017: QR111.9 million) in respect of Mansour Bank and QR77.4 million (2017: QR77.4 million) in respect of QNB Tunisia.

The Group performed its annual impairment test in accordance with its accounting policy and performed a sensitivity analysis of the underlying assumptions used in the value-in-use calculations. The recoverable amounts of cash-generating units were higher than the carrying amounts. Consequently, no impairment was considered necessary as at the end of the reporting period (2017:Nil).

The intangible assets with finite lives have a remaining amortisation period ranging between 10 to 11 years. Recoverable amount of goodwill and other intangible assets with indefinite useful life for QNB ALAHLI, which includes, corporate and consumer banking CGUs, is calculated using value-in-use method based on following inputs. A discount rate of 22.6% (2017: 24.8%) and a terminal growth rate of 2% (2017: 2%) were used to estimate the recoverable amount.

15. OTHER ASSETS

	2018	2017
Interest Receivable	6,194,180	5,324,546
Prepaid Expenses	564,075	649,410
Positive Fair Value of Derivatives (Note 36)	9,250,568	5,761,236
Sundry Debtors	2,280,688	1,862,698
Others	2,887,757	3,743,473
Total	**21,177,268**	**17,341,363**

16. DUE TO BANKS

	2018	2017
Balances Due to Central Banks	1,625,401	1,059,214
Current Accounts	2,364,050	2,139,927
Deposits	47,737,357	45,047,566
Repurchase Agreements	21,402,836	19,494,978
Total	**73,129,644**	**67,741,685**

17. CUSTOMER DEPOSITS

	2018	2017
a) By Type		
Current and Call Accounts	101,295,756	112,756,780
Saving Accounts	14,558,191	13,112,792
Time Deposits	500,911,558	459,653,542
Total	**616,765,505**	**585,523,114**

b) By Sector	**2018**	**2017**
Government	26,489,820	27,659,217
Government Agencies	162,021,569	171,692,128
Individuals	113,866,251	112,279,541
Corporate	314,387,865	273,892,228
Total	**616,765,505**	**585,523,114**

(All amounts are shown in thousands of Qatari Riyals)

18. DEBT SECURITIES

	2018	2017
Face value of bonds	26,226,674	26,762,015
Less: Unamortised discount	(288,766)	(54,731)
Total	**25,937,908**	**26,707,284**

The table below shows the debt securities issued by the Group as at the end of the reporting period:

	2018	2017
Balance as at 1 January	26,707,284	28,825,874
Issuances during the year	11,591,005	5,534,904
Repayments	(10,418,447)	(5,254,720)
Other movements	(1,941,934)	(2,398,774)
Balance as at 31 December	**25,937,908**	**26,707,284**

The table below shows the maturity profile of the debt securities outstanding as at the end of the reporting period.

Year of Maturity	2018	2017
2018	-	10,422,919
2019	1,997,016	1,732,497
2020	4,210,609	4,559,456
2021	10,273,687	4,811,736
2022	2,505,612	2,721,723
2023	1,085,065	-
2024	138,298	167,610
2028	702,100	-
2047	2,406,483	2,291,343
2048	2,619,038	-
Total	**25,937,908**	**26,707,284**

The above debt securities are denominated in USD, EUR, GBP, AUD and comprise of fixed and floating interest rates.
The interest rate paid on the above averaged 3.93% p.a in 2018 (2017: 3.92% p.a).

19. OTHER BORROWINGS

The table below shows the movement in other borrowings issued by the Group as at the end of the reporting period:

	2018	2017
Balance as at 1 January	24,079,316	23,728,887
Issuances during the year	15,260,224	3,124,001
Repayments	(13,528,893)	(2,661,108)
Other movements	(772,946)	(112,464)
Balance as at 31 December	**25,037,701**	**24,079,316**

The table below shows the maturity profile of the other borrowings outstanding as at the end of the reporting period.

Year of Maturity	2018	2017
2018	-	14,103,733
2019	11,973,336	9,860,709
2020	191,027	111,984
2021	12,749,577	2,838
2022	74,784	52
2023	37,600	-
2024	11,307	-
2025	70	-
Total	**25,037,701**	**24,079,316**

(All amounts are shown in thousands of Qatari Riyals)

19. OTHER BORROWINGS (Continued)

The above are mainly denominated in USD, EUR and comprise of fixed and floating interest rates. The interest rate paid on the above averaged 2.21% p.a in 2018 (2017: 1.99% p.a).

The Group hedges part of the currency risk of its net investment in foreign operations using foreign currency borrowings. Included in other borrowings was a borrowing of EUR2.25 billion designated as a hedge of the Group's net investment foreign operations, and is being used to hedge the Group's exposure to foreign exchange risk on this investment.

At the end of the reporting period, the net investment hedge was highly effective.

20. OTHER LIABILITIES	**2018**	**2017**
Interest Payable	5,590,145	4,912,373
Expense Payable	1,000,936	957,867
Other Provisions (Note 21)	321,173	329,568
Tax Payable	318,386	859,124
Negative Fair Value of Derivatives (Note 36)	5,800,263	3,343,006
Unearned Revenue	2,116,344	2,054,842
Social and Sports Fund	218,327	209,324
Deferred Tax Liability	110,194	128,569
Margin Accounts	1,136,107	923,127
Allowance for Impairment for Loan Commitments and Financial Guarantees	294,160	77,185
Others	16,146,085	14,485,266
Total	**33,052,120**	**28,280,251**

21. OTHER PROVISIONS

	Staff Indemnity	**Legal Provision**	**Total 2018**	**Total 2017**
Balance as at 1 January	283,970	45,598	329,568	286,719
Foreign Currency Translation	(53,863)	(8,642)	(62,505)	19,110
Provisions Made during the Year	57,191	46,997	104,188	72,052
	287,298	**83,953**	**371,251**	**377,881**
Provisions Paid and Written off during the Year	(49,517)	(561)	(50,078)	(48,313)
Balance as at 31 December	**237,781**	**83,392**	**321,173**	**329,568**

22. EQUITY

a) Issued Capital

The authorised, issued and fully paid up share capital of the Bank totalling QR9,236 million consists of 923,642,857 ordinary shares of QR10 each (2017: 923,642,857 shares of QR10 each). Qatar Investment Authority holds 50% of the ordinary shares of the Bank with the remaining 50% held by members of the public. All shares issued are of the same class and carry equal rights.

The table below shows the number of shares outstanding at the beginning and end of the year:

	2018	**2017**
Number of Shares Outstanding at the Beginning of the Year	923,642,857	839,675,325
Effect of Bonus Shares	-	83,967,532
Number of Shares Outstanding at the End of the Year	**923,642,857**	**923,642,857**

b) Legal Reserve

In accordance with Qatar Central Bank Law, at least 10% of the profit for the year is required to be transferred to the legal reserve until the reserve equals 100% of the paid up capital. This reserve is not available for distribution, except in circumstances specified in the Qatar Commercial Companies Law and after Qatar Central Bank approval. When bonus shares are proposed, an increase in the legal reserve is proposed equivalent to the increase in capital to enhance the financial position of the Group.

(All amounts are shown in thousands of Qatari Riyals)

22. EQUITY (Continued)

b) Legal Reserve (continued)

The proceeds received from the rights issue, net of any directly attributable transaction costs, are directly credited to share capital (nominal value of shares) and legal reserve (share premium on rights issue) when shares have been issued higher than their nominal value.

c) Risk Reserve

In accordance with Qatar Central Bank regulations, a risk reserve is made to cover contingencies on loans and advances and financing activities, with a minimum requirement of 2.5% of the total direct facilities after excluding provisions for credit losses, deferred profits, exposures granted to or guaranteed by the Government and exposures against cash collaterals.

d) Fair Value Reserve	**Hedges of a Net Investment in Foreign Operations**	**Cash Flow Hedges**	**FVOCI (2018) / Available-for sale (2017) Investments**	**Total 2018**	**Total 2017**
Balance as at 1 January	(782,013)	(182,529)	(205,333)	(1,169,875)	24,456
Changes due to adoption of IFRS 9:					
Transfer to Amortised cost	-	-	264,057	264,057	-
Transfer to Retained Earnings	-	-	(143,520)	(143,520)	-
Restated balance at beginning of the year	**(782,013)**	**(182,529)**	**(84,796)**	**(1,049,338)**	**24,456**
Foreign Currency Translation	-	(54,892)	(16,012)	(70,904)	(2,898)
Revaluation Impact	478,830	(138,930)	(178,248)	161,652	(977,936)
Reclassified to Income Statement	-	-	(14,101)	(14,101)	(213,497)
Other movements	-	34	(900)	(866)	-
Net Movement during the Year	478,830	(138,896)	(193,249)	146,685	(1,191,433)
Balance as at 31 December	**(303,183)**	**(376,317)**	**(294,057)**	**(973,557)**	**(1,169,875)**

e) Foreign Currency Translation Reserve

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

f) Other Reserves

Other reserves represent mainly a general reserve which, in accordance with the Bank's Articles of Association, shall be employed according to a resolution of the General Assembly upon the recommendation from the Board of Directors and after Qatar Central Bank approval. Currency translation adjustments and share of changes recognised directly in associates' equity are not available for distribution. Details of other reserves are as follows:

	2018	**2017**
General Reserve	1,803,866	1,930,179
Share of Changes Recognised Directly in Associates' Equity, excluding Share of Profit	(1,120,144)	(1,097,750)
Total	**683,722**	**832,429**

g) Retained Earnings

Retained earnings include the Group's share in profit of associates. These profits are distributable to the shareholders only to the extent of the cash received.

(All amounts are shown in thousands of Qatari Riyals)

22. EQUITY (Continued)

h) Proposed Dividend

The Board of Directors have proposed a cash dividend of 60% of the nominal share value (QR6.0 per share) for the year ended 31 December 2018 (2017: cash dividend 60% of the nominal share value (QR6.0 per share). The amounts are subject to the approval of the General Assembly.

23. NON-CONTROLLING INTERESTS

Represents the non - controlling interest in QNB Syria amounting to 49.2% of the share capital, 9.0% in QNB Indonesia, 45.8% in Al-Mansour Investment Bank, 0.01% in QNB Tunisia, 5.0% in QNB ALAHLI and 0.12% in QNB Finansbank.

24. INSTRUMENTS ELIGIBLE FOR ADDITIONAL TIER 1 CAPITAL

In 2016, QNB raised Additional Tier 1 Perpetual Capital ('Note') by issuing unsecured perpetual non-cumulative unlisted note for an amount of QR10 billion. Also during 2018, QNB issued another series of Additional Tier 1 Perpetual Capital ('Note') for an amount of QR10 billion with similar terms and conditions as described below.

The distributions (i.e. coupon payments) are discretionary and non-cumulative and payable annually until the first call date being six years from date of issuance.

These Notes rank junior to the QNB's existing unsubordinated obligations including existing depositors, pari-passu to all current and future subordinated obligations and senior to the ordinary shares issued by the Bank. These Notes have no fixed redemption date and the Bank can only redeem the Notes in the limited circumstances and other general redemption conditions solely at the Bank's discretion. The Bank might be required to write-off the Note, if a "loss absorption" event is triggered. These Notes have been classified within total equity.

25. INTEREST INCOME

	2018	2017
Due from Central Banks	276,900	128,644
Due from Banks	6,312,049	5,379,381
Debt Securities	6,794,949	5,432,370
Loans and Advances	37,360,811	31,018,267
Total	**50,744,709**	**41,958,662**

The amounts reported above include interest income, calculated using the effective interest method, that relate to the following items:

	2018	2017
Financial assets measured at amortised cost	49,350,428	40,615,714
Financial assets measured at fair value	1,394,281	1,342,948
Total	**50,744,709**	**41,958,662**

26. INTEREST EXPENSE

	2018	2017
Due to Banks	9,881,484	8,115,522
Customer Deposits	19,639,938	14,428,110
Debt Securities	1,019,767	1,023,957
Others	1,170,615	502,848
Total	**31,711,804**	**24,070,437**

(All amounts are shown in thousands of Qatari Riyals)

27. FEE AND COMMISSION INCOME	**2018**	**2017**
Loans and Advances	882,542	924,646
Off-Balance Sheet Items	609,858	638,099
Bank Services	2,639,620	2,118,892
Investment Activities for Customers	335,614	422,818
Others	140,783	141,463
Total	**4,608,417**	**4,245,918**

28. NET FOREIGN EXCHANGE GAIN	**2018**	**2017**
Dealing in Foreign Currencies	560,592	776,416
Revaluation of Assets and Liabilities	(1,704,277)	52,141
Revaluation of Derivatives	2,333,165	45,762
Total	**1,189,480**	**874,319**

29. INCOME FROM INVESTMENT SECURITIES	**2018**	**2017**
Net Loss on Sale of Investments Measured at Amortised Cost	(508)	-
Net Gain from Sale of Investments Measured at Fair Value	14,462	213,497
Dividend Income	105,392	104,733
Changes in fair value of financial assets measured at fair value through profit or loss	2,705	-
Total	**122,051**	**318,230**

30. STAFF EXPENSES	**2018**	**2017**
Staff Costs	3,218,939	3,329,411
Staff Pension Fund Costs	45,374	42,051
Staff Indemnity Costs	57,191	62,096
Total	**3,321,504**	**3,433,558**

31. OTHER EXPENSES	**2018**	**2017**
Training	67,234	61,067
Advertising	525,073	576,250
Professional Fees	243,170	274,395
Communication and Insurance	240,210	259,549
Occupancy and Maintenance	599,741	659,812
Computer and IT Costs	366,934	355,632
Printing and Stationary	51,229	52,759
Directors' Fees	11,740	11,740
Others	476,484	500,360
Total	**2,581,815**	**2,751,564**

(All amounts are shown in thousands of Qatari Riyals)

32. INCOME TAXES

	2018	2017
Current Income Tax	1,249,168	1,014,377
Deferred Tax Benefit	(120,853)	(105,124)
Adjustments to Prior Periods Corporate Taxes	6,815	4,312
Income Tax Expense	**1,135,130**	**913,565**
Profit Before Tax	**15,018,467**	**14,054,635**
Less: Profit not Subject to Tax	(10,104,063)	(9,560,794)
Profit Subject to Tax	**4,914,404**	**4,493,841**
Effective Tax Rate Applicable in Overseas Jurisdictions	22.41%	21.44%
Tax Calculated Based on the Current Tax Rate (Effective Rate)	1,101,485	963,480
Effect of Income not Subject to Taxation	(39,197)	(75,911)
Effect of Expenses not Deductible For Tax Purposes	66,027	21,684
Adjustments to Prior Periods Corporate Taxes	6,815	4,312
Income Tax Expense	**1,135,130**	**913,565**

Movement in Deferred Tax Asset

	2018	2017
Balance as at 1 January	227,501	217,827
Impact of initial application of IFRS 9	479,646	-
Deferred Tax Recognised in Consolidated Income Statement		
Loans and Advances to Customers	131,753	74,957
Property and Equipment	(5,906)	(7,594)
Employee Related Accruals	25,636	677
Unearned Revenue	2,486	15,952
Others	(33,116)	21,132
	120,853	105,124
Deferred tax recognised in consolidated statement of comprehensive income		
Effect on Fair Value Reserve	38,935	(100,782)
Others	(11,053)	10,603
	27,882	(90,179)
Foreign Exchange Translation	(132,879)	(5,271)
Balance at 31 December	**723,003**	**227,501**

There are no material tax assessments pending as at 31 December 2018 (2017: Nil).

(All amounts are shown in thousands of Qatari Riyals)

33. BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share for the Group is calculated by dividing profit for the year attributable to equity holders of the Bank, further adjusted for the dividend appropriation for instruments eligible for additional Tier 1 Capital, by the weighted average number of ordinary shares in issue during the year.

	2018	2017
Profit for the Year Attributable to Equity Holders of the Bank	13,788,131	13,128,138
Less: Dividend Appropriation for Instruments Eligible for Additional Tier 1 Capital	(532,500)	(450,000)
Net Profit for the Year Attributable to Equity Holders of the Bank	13,255,631	12,678,138
Weighted Average Number of Shares	923,642,857	923,642,857
Earnings Per Share (QR) - Basic and Diluted	**14.4**	**13.7**

34. CONTINGENT LIABILITIES

	2018	2017
Unutilised Credit Facilities	106,459,940	111,957,226
Guarantees	62,525,170	62,997,566
Letters of Credit	24,986,784	31,272,727
Others	18,321,994	25,933,278
Total	**212,293,888**	**232,160,797**

Unutilised Credit Facilities
Commitments to extend credit represent contractual commitments to make loans and revolving credits. The majority of these expire in the next year. Since commitments may expire without being drawn upon, the total contractual amounts do not necessarily represent future cash requirements.

Guarantees and Letters of Credit
Guarantees and letters of credit commit the Group to make payments on behalf of customers in the case of a specific event. Guarantees and standby letters of credit carry the same credit risk as loans.

(All amounts are shown in thousands of Qatari Riyals)

35. GEOGRAPHICAL DISTRIBUTION

	Qatar	Other GCC Countries	Europe	North America	Others	Total
At 31 December 2018:						
Cash and Balances with Central Banks	37,639,822	2,518,830	14,281,532	-	10,251,483	64,691,667
Due from Banks	14,567,296	404,118	33,141,288	7,960,104	5,036,288	61,109,094
Loans and Advances to Customers	435,905,953	19,386,987	99,899,668	3,762,047	53,552,042	612,506,697
Investments	39,551,170	6,170,132	16,929,216	598,275	30,885,905	94,134,698
	527,664,241	**28,480,067**	**164,251,704**	**12,320,426**	**99,725,718**	**832,442,156**
Other Assets						29,755,443
Total Assets						**862,197,599**
Due to Banks	12,660,366	3,961,694	43,265,607	2,389,531	10,852,446	73,129,644
Customer Deposits	347,420,319	12,829,950	170,267,923	693,268	85,554,045	616,765,505
Debt Securities	-	-	12,467,791	-	13,470,117	25,937,908
Other Borrowings	-	-	24,355,198	-	682,503	25,037,701
	360,080,685	**16,791,644**	**250,356,519**	**3,082,799**	**110,559,111**	**740,870,758**
Other Liabilities						33,052,120
Total Equity						88,274,721
Total Liabilities and Equity						**862,197,599**
Guarantees	31,962,276	1,321,650	21,629,264	-	7,611,980	62,525,170
Letters of Credit	20,233,093	361,621	2,262,960	-	2,129,110	24,986,784
Unutilised Credit Facilities	33,688,302	2,921,210	58,115,806	-	11,734,622	106,459,940
At 31 December 2017:						
Cash and Balances with Central Banks	23,533,488	1,473,364	15,614,094	-	12,147,670	52,768,616
Due from Banks	14,903,682	361,507	15,336,507	7,657,229	5,372,018	43,630,943
Loans and Advances to Customers	391,676,196	24,154,525	116,254,430	5,328,647	46,905,418	584,319,216
Investments	53,274,295	6,338,790	16,878,573	851,513	27,302,978	104,646,149
	483,387,661	**32,328,186**	**164,083,604**	**13,837,389**	**91,728,084**	**785,364,924**
Other Assets						25,713,066
Total Assets						**811,077,990**
Due to Banks	11,580,260	1,024,135	42,164,868	1,605,600	11,366,822	67,741,685
Customer Deposits	325,199,331	13,884,987	158,701,797	4,175,018	83,561,981	585,523,114
Debt Securities	-	-	15,603,401	-	11,103,883	26,707,284
Other Borrowings	-	-	13,162,061	-	10,917,255	24,079,316
	336,779,591	**14,909,122**	**229,632,127**	**5,780,618**	**116,949,941**	**704,051,399**
Other Liabilities						28,280,251
Total Equity						78,746,340
Total Liabilities and Equity						**811,077,990**
Guarantees	29,572,455	1,341,531	24,394,811	-	7,688,769	62,997,566
Letters of Credit	21,826,952	4,102,102	3,284,504	-	2,059,169	31,272,727
Unutilised Credit Facilities	34,743,731	3,532,734	60,746,268	-	12,934,493	111,957,226

Other assets includes property and equipment and intangible assets.

(All amounts are shown in thousands of Qatari Riyals)

36. DERIVATIVES

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, or market risk.

				Notional / Expected amount by term to maturity			
	Positive Fair Value	**Negative Fair Value**	**Notional Amount**	**Within 3 Months**	**3 - 12 Months**	**1-5 Years**	**More than 5 Years**
At 31 December 2018:							
Derivatives Held for Trading:							
Forward Foreign Exchange Contracts	353,974	343,361	64,625,846	54,197,444	9,363,930	1,064,472	-
Caps and Floors	-	-	-	-	-	-	-
Interest Rate Swaps	320,378	183,687	57,777,630	1,348,835	2,774,910	22,517,354	31,136,531
Futures	1,773	1,787	163,132	-	163,132	-	-
Credit Default Swaps	67	-	561,251	282,364	278,887	-	-
Cross Currency Swaps	3,284,634	3,608,321	58,928,756	29,924,395	15,644,567	13,257,509	102,285
Options	130,109	97,445	8,485,443	7,459,417	1,024,867	1,159	-
Derivatives Held as Cash Flow Hedges:							
Interest Rate Swaps	476,251	1,176,993	67,878,972	2,745,703	5,986,344	36,123,992	23,022,933
Cross Currency Swaps	1,804,111	157,209	11,581,424	1,913,682	3,263,322	6,186,768	217,652
Derivatives Held as Fair Value Hedges:							
Interest Rate Swaps	23,141	148,436	6,853,758	127,445	2,176,886	2,132,323	2,417,104
Cross Currency Swaps	2,856,130	83,024	12,734,457	986,103	3,146,935	8,187,604	413,815
Total	**9,250,568**	**5,800,263**	**289,590,669**	**98,985,388**	**43,823,780**	**89,471,181**	**57,310,320**
At 31 December 2017:							
Derivatives Held for Trading:							
Forward Foreign Exchange Contracts	122,134	160,268	66,312,385	44,943,711	19,897,849	1,470,825	-
Caps and Floors	12,164	12,164	1,066,708	371,518	-	695,190	-
Interest Rate Swaps	212,407	146,876	47,005,498	40,718	4,217,852	13,340,217	29,406,711
Futures	23	98	200,608	46,351	154,257	-	-
Credit Default Swaps	78	-	600,795	-	291,296	309,499	-
Cross Currency Swaps	2,160,207	1,722,990	95,071,824	44,449,010	30,367,165	19,731,769	523,880
Options	59,766	21,540	7,311,704	5,559,164	1,752,540	-	-
Derivatives Held as Cash Flow Hedges:							
Interest Rate Swaps	446,841	994,564	64,998,604	7,633,902	11,670,104	28,581,341	17,113,257
Cross Currency Swaps	839,466	67,299	13,215,632	638,120	2,561,379	10,016,133	-
Derivatives Held as Fair Value Hedges:							
Interest Rate Swaps	13,840	189,051	6,026,290	-	-	3,374,428	2,651,862
Cross Currency Swaps	1,894,310	28,156	13,198,026	1,819,575	2,387,081	8,905,885	85,485
Total	**5,761,236**	**3,343,006**	**315,008,074**	**105,502,069**	**73,299,523**	**86,425,287**	**49,781,195**

Cash collaterals given for derivative transactions amounted to QR3,184 million (2017: QR1,051million) which is included under Due from Banks in Note 9. Collaterals received for derivative transactions amounted to QR4,717 million (2017: QR2,788 million) which is included under Due to Banks in Note 16.

36. DERIVATIVES (Continued)

Swaps

Swaps are commitments to exchange one set of cash flows for another. In the case of interest rate swaps, counterparties generally exchange fixed and floating interest payments in a single currency without exchanging principal. In the case of currency swaps, fixed interest payments and principal are exchanged in different currencies. In the case of cross-currency interest rate swaps, principal, fixed and floating interest payments are exchanged in different currencies. In the case of credit default swaps the counterparties agree to make payments with respect to defined credit events based on specified notional amounts.

Forwards and futures

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and changes in future contract values are settled daily.

Forward rate agreements

Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement of the difference between a contracted interest rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Caps and floors

An interest rate cap or floor is a contractual arrangement under which the buyer receives money at the end of each specific period, in which the agreed interest rate exceeds or is below the agreed strike price of the cap or floor.

Derivatives Held for Hedging Purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves reducing the Group’s exposure to fluctuations in foreign exchange rates and interest rates to acceptable levels within the guidelines issued by the Qatar Central Bank. The Group has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Group has established a level of interest rate risk by setting limits on interest rate gaps for stipulated periods. Asset and liability interest rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce interest rate gaps within the established limits.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and interest rate risks. This is generally achieved by hedging specific transactions in the consolidated statement of financial position.

The Group uses interest rate swaps to hedge against the cash flow risk arising on certain floating rate liabilities. In such cases, the hedging relationship and objective, including details of the hedged items and hedging instruments, are formally documented and the transactions are accounted for as cash flow hedges.

The Group uses interest rate swap contracts to mitigate part of the risk of a potential increase in the fair value of its fixed rate customer’s deposits in foreign currencies to the extent caused by declining market interest rates. These transactions are accounted as fair value hedges.

Derivatives Held for Trading Purposes

Most of the Group’s derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products. The Group also uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

(All amounts are shown in thousands of Qatari Riyals)

37. MUTUAL FUNDS

As part of the Group's investment activities, the following mutual funds were marketed by the Group:

	2018	2017
Funds Marketed	85,851	336,828

The Group’s investment activities also include management of certain investment funds. As at 31 December 2018, third party funds under management amounted to QR15,345 million (2017: QR12,007 million). The consolidated financial statements of these funds are not consolidated with the financial statements of the Group as these funds have no recourse to the general assets of the Group and the Group has no recourse to the assets of the funds. However, the Group’s share of equity in these funds is included in the investment securities of the Group.

38. RELATED PARTIES

The Group has transactions in the ordinary course of business with directors, officers of the Group and entities over which they have significant influence and control. The key management personnel are those persons having authority and responsibility in making financial and operating decisions. At the statement of financial position date, such significant balances included:

	2018	2017
Statement of Financial Position Items		
Loans and Advances	3,028,379	3,395,869
Deposits	431,693	605,087
Contingent Liabilities and Other Commitments	84,541	79,177
Income Statement Items		
Interest and Commission Income	141,972	101,057
Interest and Commission Expense	4,907	2,115

Associates	**2018**	**2017**
Due from banks	1,179,715	1,118,482
Interest and Commission Income	56,205	18,581
Due to banks	183,664	294,711
Interest and Commission Expense	2,346	2,378

The Group also has significant commercial transactions with the Government of Qatar which are disclosed in notes 10 and 17. All the transactions with the related parties are substantially on the same terms, including interest rates and collateral, as those prevailing in comparable transactions with unrelated parties.

Compensation of key management personnel is as follows:	**2018**	**2017**
Salaries and Other Benefits	46,054	43,732
End of Service Indemnity Benefits	1,135	1,131

39. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flow, cash and cash equivalents comprise the following balances:

	2018	2017
Cash and Balances with Central Banks	34,605,083	18,321,271
Due from Banks Maturing in Three Months	57,206,779	39,168,604
Total	**91,811,862**	**57,489,875**

Cash and balances with Central Banks do not include mandatory reserve deposits.

40. COMPARATIVE FIGURES

Certain prior year amounts have been reclassified for better presentation in order to conform with the current year presentation.

Qatar National Bank (Q.P.S.C.)
Supplementary Information to the Consolidated Financial Statements
As at and For the Year Ended 31 December 2018

(All amounts are shown in thousands of Qatari Riyals)

PARENT COMPANY

The statement of financial position and income statement of the parent company are presented below:

(i) Statement of Financial Position as at 31 December:

	2018	2017
ASSETS		
Cash and Balances with Central Banks	43,317,083	27,338,069
Due from Banks	59,972,927	44,213,034
Loans and Advances to Customers	506,807,490	467,530,284
Investment Securities	52,828,233	66,386,574
Investments in Subsidiaries and Associates	31,597,126	31,751,837
Property and Equipment	1,783,192	1,739,336
Other Assets	10,768,661	10,733,311
Total Assets	**707,074,712**	**649,692,445**
LIABILITIES		
Due to Banks	82,683,574	71,736,982
Customer Deposits	492,282,065	461,472,568
Other Borrowings	22,033,806	20,658,072
Other Liabilities	17,768,283	15,245,829
Total Liabilities	**614,767,728**	**569,113,451**
EQUITY		
Issued Capital	9,236,429	9,236,429
Legal Reserve	25,326,037	25,326,037
Risk Reserve	8,000,000	7,500,000
Fair Value Reserve	(1,197,947)	(1,138,781)
Foreign Currency Translation Reserve	(1,533,678)	(1,159,742)
Other Reserves	649,890	672,284
Retained Earnings	31,826,253	30,142,767
Total Equity Attributable to Equity Holders of the Bank	**72,306,984**	**70,578,994**
Instruments Eligible for Additional Tier 1 Capital	20,000,000	10,000,000
Total Equity	**92,306,984**	**80,578,994**
Total Liabilities and Equity	**707,074,712**	**649,692,445**

(All amounts are shown in thousands of Qatari Riyals)

(ii) Income Statement for the Year Ended 31 December:

	2018	2017
Interest Income	25,465,815	20,148,689
Interest Expense	(13,858,403)	(9,052,822)
Net Interest Income	**11,607,412**	**11,095,867**
Fee and Commission Income	1,752,935	1,816,168
Fee and Commission Expense	(443,357)	(413,028)
Net Fee and Commission Income	**1,309,578**	**1,403,140**
Foreign Exchange Gain	799,054	622,894
Income from Investment Securities	403,382	294,854
Other Operating Income	792	85
Operating Income	**14,120,218**	**13,416,840**
Staff Expenses	(1,533,472)	(1,494,287)
Depreciation	(175,220)	(170,963)
Other Expenses	(869,855)	(866,032)
Net Impairment Losses on Loans and Advances to Customers	(1,285,514)	(559,427)
Net Impairment Recoveries / (Losses) on Investment Securities	4,589	(44,429)
Net Impairment Recoveries on Other Financial Assets	6,124	-
Other Provisions	(21,106)	(2,943)
Profit Before Income Taxes	**10,245,764**	**10,278,759**
Income Tax Expense	(75,529)	(153,868)
Profit for the Year	**10,170,235**	**10,124,891**

iii) Accounting Policies for Financial Information of the Parent Bank

Statement of financial position and income statement of the parent bank are prepared using the same accounting policies followed for the consolidated financial statements except for investment in subsidiaries and associates, which are not consolidated and carried at cost.