QNB

Placing society at the heart of our business

Annual Report 2019

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

For the past 55 years, we have been creating opportunities to enrich the lives of our customers, locally, and in the communities of the countries we operate in.

Our global reach

International
Over the past 55 years we have built a strong international network with a diverse presence in more than 31 countries across three continents.

Connected
Our global reach, 5,400 touchpoints and the support of 29,000 highly-skilled employees, provide our 25 million customers with a world-class service.

Leading
Not only are we the number one bank in the Middle East and Africa (MEA), ranked first across all financial metrics, but we are also recognised as one of the leading banks in the Middle East, Africa and Southeast Asia (MEASEA).

Highly-rated and recognised
We remain the most valuable banking brand in MEA worth USD5 billion, with solid financial strength and top-tier credit ratings.

Contents

Today, we are one of the leading banks in MEASEA and a trusted financial partner to a growing number of customers in more than 31 countries.

Our strong international network has expanded through controlled, sustainable growth. This has enabled us to harness the power of our relationships and the diversity of our footprint to fuel growth across multiple, strategically-selected regions, creating long-term sustainable value for individuals, institutions, countries, communities and our shareholders.

Read more about our **Strategy** on page 27

Net profit +4%
QR14.4 bn

Operating income +4%
QR25.6 bn
Operating income includes share of results of associates

Assets +10%
QR944.7 bn

Earnings per share +1%
QR1.45

Read more in our **Financial statements** section on page 96

Board of Directors

H.E. Mr. Ali Shareef Al-Emadi

> Chairman of the Board of Directors (BOD) since 2013

H.E. Sheikh Fahad Bin Faisal Bin Thani Al-Thani

> Vice Chairman of the Board of Directors since 2019
> Chairman of the Group Board Audit and Compliance Committee
> BOD member since 2019

H.E. Sheikh Abdulrahman Bin Saud Bin Fahad Al-Thani

> Member of the Group Board Nomination, Remuneration, Governance and Policies Committee
> BOD member since 2016

H.E. Sheikh Hamad Bin Jabor Bin Jassim Al-Thani

> Chairman of the Group Board Executive Committee
> Member of the Group Board Nomination, Remuneration, Governance and Policies Committee
> BOD member since 2004

Mr. Ali Hussain Ali Al-Sada

> Member of the Group Board Risk Committee
> Member of the Group Board Executive Committee
> BOD member since 1998

Mr. Bader Abdullah Darwish Fakhroo

> Member of the Group Board Risk Committee
> Member of the Group Board Executive Committee
> BOD member since 2001

H.E. Mr. Fahad Mohammed Fahad Buzwair

> Chairman of the Group Board Nomination, Remuneration, Governance and Policies Committee
> BOD member since 2001

Mr. Mansoor Ebrahim Al-Mahmoud

> Chairman of the Group Board Risk Committee
> BOD member since 2004

Mr. Abdulrahman Mohammed Y Jolo

> Member of the Group Board Audit and Compliance Committee
> BOD member since 2019

Mr. Adil Hassan HA Al-Jufairi

> Member of the Group Board Audit and Compliance Committee
> BOD member since 2019

Chairman of the Board of Directors' statement

Strong governance remains the bedrock of our long-term prosperity, driving another year of sustainable profitable growth.

4%
growth in net profit

QR1.45
earnings per share

20.2%
return on equity

QR190.2 bn
market capitalisation

H.E. Mr. Ali Shareef Al-Emadi
Chairman of the Board of Directors

> "Our ongoing success has been driven by robust governance, a clear strategy, solid risk management and disciplined execution."

I am pleased to introduce QNB Group's Annual Report for 2019 on behalf of the Board of Directors. With a genuine focus on creating lasting value for our shareholders, customers and communities, we have helped to deliver another year of strong performance for the bank.

The Board has the ultimate responsibility to nurture the Group's culture and values, and ensure that all our colleagues reflect our culture and behave in accordance to our values. The Board also works closely with QNB's executive management to promote an open and transparent culture that benefits both the bank and our stakeholders.

People remain the cornerstone of our success. I would like to take this opportunity to recognise the energy, drive and ambition of all our employees across our growing footprint.

Robust governance, a clear strategy, solid risk management and disciplined execution have driven our success. The strength and experience of the Group's Board members, combined with the expertise of our executive leadership and talented employees, continues to transform our business, embedding a culture of transparency, accountability, and collaboration. This is underpinned by our strict adherence to good governance across our network. In 2019, we continued to elevate our governance standards while investing in frameworks and tools to augment our risk management capabilities to ensure a consistent, group-wide approach. As cyber risk remains a critical focus point for us, we continued to expand our cybersecurity capabilities to keep up with constantly evolving threats.

The rapid pace of innovation and digital transformation is forcing the banking sector to change and evolve. The Group truly believes that innovation is a key component to realise its vision to become one of the leading banks in MEASEA, not only helping drive greater value, but also ensuring that its business is fit and ready for the future. The launch of our global innovation centre this year should help us to capitalise on those initiatives in the future.

As well as creating value for our customers, it is important that we also seek to contribute and support society in the countries where QNB operates. We believe that by placing society at the heart of our business, we create meaningful value for our stakeholders and deliver sustainable, long-term value for our shareholders. This year, we became a signatory of the United Nations Global Compact, cementing our commitment to sustainability. We believe sound governance, tireless innovation and sustainable development are fundamental to our long-term prosperity.

Globally, the macroeconomic conditions were challenging. These included challenges such as lower global growth, US-China trade tensions, the escalation of political and geopolitical risks as well as demanding and stringent regulatory requirements. Despite these headwinds, our strong fundamentals kept us on our strategic track. QNB demonstrated sustainable growth momentum in 2019, with a 4% growth in net profit to QR14.4 billion. We also continued to demonstrate strong growth in earnings per share, reaching QR1.45.

As a result, QNB has further consolidated its position as one of the world's top 40 banks in terms of market capitalisation, reaching QR190.2 billion.

To reward our shareholders, the Board of Directors is recommending to the General Assembly the distribution of a cash dividend at the ratio of 60% of the nominal value of the share, equating to QR0.60 per share.

Our expertise, alongside the range of products and services we offer, works to empower and support a diverse range of stakeholders – from individuals, entrepreneurs and SMEs through to large corporates and governments. In doing so, we make it easier for them to prosper, promoting more informed decision-making and enabling them to better achieve their ambitions. This, in turn, contributes to socio-economic development, international trade, and financial security.

Looking ahead, next year marks the culmination of our latest five-year strategy, which has been a fundamental guide in our success story. We will be reviewing this strategy in order to set our course for the next five years, leveraging upon our strengths to continue to deliver value to our shareholders.

On behalf of the Board of Directors, I express our deep gratitude to His Highness the Amir, Sheikh Tamim Bin Hamad Al-Thani, for the support and guidance he provides on an ongoing basis. The Board also expresses its appreciation for His Excellency Sheikh Abdullah Bin Nasser Bin Khalifa Al-Thani, the Prime Minister and Minister of the Interior, for his constant support. Our appreciation is also extended to His Excellency Sheikh Abdullah Bin Saud Al-Thani, the Governor of Qatar Central Bank, for his dedicated efforts to promote and enhance Qatar's banking sector.

Finally, I want to offer our grateful thanks to our customers, partners and employees. With your ongoing support, together with our clear strategy for diversification and growth, we remain confident that we will continue to generate long-term sustainable shareholder returns and to make a positive contribution to the many societies in which we operate.

Our products and services support SMEs, enabling them to prosper and in turn contribute to the socio-economic development of the regions we operate in.

Group Chief Executive Officer's statement

For 55 years, QNB has helped drive prosperity to our communities where we operate in and aided our stakeholders in achieving their targets.

QR944.7 bn
assets +10%

QR684.5 bn
deposits +10%

25.9%
cost to income ratio

18.9%
capital adequacy ratio

Mr. Abdulla Mubarak Al-Khalifa
Group Chief Executive Officer

> "By enriching society and helping more people achieve their ambitions, we are creating a more sustainable foundation for growth, enabling customers to lead more fulfilling lives."

For the past 55 years, QNB has delivered exceptional service and created lasting value for our stakeholders. By placing society at the heart of our business, not only have we delivered a robust financial performance, but we have also helped drive prosperity to our stakeholders. We believe that by enriching the society and helping more people and businesses achieve their ambitions, we are creating a more sustainable foundation for growth.

In my first full year as the Group's chief executive, I met with many of our colleagues throughout the bank about how we can better serve our clients and wider society. I have also encouraged all of the bank's C-suite to do the same. This has helped us to continue to get closer to the daily issues we as an organisation face and build upon our 'one family' culture. This year, the employee engagement survey placed us 10% above the MENA commercial bank benchmark. While this demonstrates a clear advantage over our regional peers, it also shows that we still have room for improvement. This will continue into 2020 and beyond.

In the following pages, I am delighted to share some of our achievements in 2019. These have helped to protect our leading market position in Qatar and to further continue our international growth.

Strong results
The global economy is in a synchronised slowdown, with GDP growth registering its slowest pace since the global financial crisis, estimated to be at 3.0%. The weaker global macroeconomic environment has produced headwinds for the banking industry, but it remains in good health. With oil prices averaging around USD65/barrel throughout the year, the Qatari economy remained resilient and recorded a fiscal surplus.

With assets of more than QR944.7 billion, our profitability for 2019 was QR14.4 billion (up 4% on last year). This was driven by a 10% growth in loans and 10% in deposits. Our international presence in more than 31 countries spanning three continents has allowed us to better mitigate risk by diversifying our exposure across multiple countries. The profit contribution of our international operations was 34.5%.

Our efficiency efforts continue to bear fruit, with a strong cost to income ratio at 25.9%. This was attributable to our strong focus on cost control, automation, streamlining processes, and complemented by concerted efforts to improve the share of wallet and profitability per client.

Managing risk is an integral part of our business and decision-making process. QNB Group's sustainable performance depends on our ability to successfully manage risk at all levels. This year, we fortified our governance across the Group by strengthening oversight at Group level and ensuring collaboration through further extension of our matrix organisation across our international subsidiaries. As a result, we have greater cohesion and alignment across our network that allows us to act as one team.

The banking sector is a high-profile target for cyber criminals, with threats to even the most advanced systems being more frequent and sophisticated than ever. For that reason, we maintain a robust cybersecurity strategy and this area remains a constant area of focus. We continued to invest and enhance our capabilities in this area to strengthen our defences.

As part of our continuing drive for improvement, this year we continued on our journey to standardise all credit processes across the network, increasing efficiency and allowing us to better manage our risk. Our prudent and cautious approach to credit risk has helped us maintain a high asset quality, with our non-performing loans among the lowest in the region, at 1.9%.

We continue to distinguish ourselves from the competition through top-tier credit ratings from leading international rating agencies. In addition, we were once again recognised as the most valuable banking brand in the Middle East and Africa, with a brand value of USD5.0 billion.

Operational excellence
Following the success of the 2019 IAAF World Athletics Championships and the FIFA Club World Cup, the excitement continues to build for the 2022 FIFA World Cup. QNB remains actively involved in a range of ongoing projects in preparation for the event. We retained our leading position in corporate banking domestically, with a significant focus on transport, food security sectors and 2022 FIFA World Cup infrastructure. QNB Capital acted as the sole listing adviser and offering manager for Baladna Food Industries' initial public offering (IPO), Qatar's largest producer of dairy products. The QR1.43 billion IPO was the largest since the QAMCO IPO in 2018.

In our domestic retail business, performance across 2019 was equally strong. All our debit, credit and pre-paid cards now offer the option of contactless payment, and we have supplied vendors with thousands of new Point of Sale (PoS) terminals. As a result, we maintained our market-leading position in card provision in Qatar. We are also leading the way in introducing new payment solutions and technologies that are safe, secure and offer greater convenience to our customers.

In Asset and Wealth Management, the strength of our reputation, expert team, advisory capability and high-performing range of products served to further deepen relationships with our clients. This year we attracted more investments into the fixed income space and expanded our UCITS fund platform with the introduction of a Global Sukuk fund, further enhancing our Sharia-compliant offering.

Internationally, we operate as a full-service financial institution in our core markets in Turkey and Egypt. In addition, we have continued to enhance our specialised wholesale banking proposition across a range of frontier and emerging markets. Our growing presence in more developed economies was bolstered by a regulatory approval for a branch in Hong Kong. Our presence in this important financial hub will significantly enhance our ability to serve East Asia, contributing to the expansion of our network, reach and reputation.

Innovation
Being innovative is fundamental to unlocking shareholder value and is one of the pillars to deliver upon our strategy. Innovation concerns every single one of us while becoming part of our DNA across all levels. We have taken steps to embrace the change to become a part of the future of banking even if it means to disrupt ourselves. For this purpose, we established our global innovation centre, QNBeyond. This will help us future-proof our business to be the bank of choice for millions of customers today and into the future.

Sustainable performance
While delivering durable financial performance, we profoundly abide by our responsibility in environmental, social and corporate governance matters. We have continued to strengthen our sustainability programme, which is aligned with the Qatar National Vision 2030 and the United Nations Sustainable Development Goals. This plays an important role in our approach to financing and how we operate as a business, ensuring we work in the most ethical and efficient way.

Throughout 2019, we continued to roll out the sustainability programme and delivered a number of key initiatives. For example, we published our first sustainability report, became a signatory of the United Nations Global Compact, headed the leaderboard for ESG disclosure at the Qatar Stock Exchange and developed our green and social bond framework. As a result of these efforts, I am pleased we were endorsed with an 'A' sustainability rating by MSCI, the global index provider.

Looking beyond
Without timely and successful execution, we will not be able to follow through on our defined strategy and reach our aspirations. Therefore, I am a strong believer in concerted efforts to execute and work together towards a common goal.

Building on this year's success, in 2020 we will continue to invest in technology and innovation to ensure we provide the best and most secure products and services to our customers, no matter where they are. Naturally, investment in our flourishing domestic business will continue so that we remain firmly in a market-leading position. At the same time, we will carry on capitalising on the opportunities beyond our borders, prudently growing our international network to uncover more opportunities and further diversify our portfolio.

On this occasion, I would like to thank our customers and employees, who have relentlessly contributed to QNB's sustainable growth and helped us deliver a consistently strong performance. Your enduring support on our journey to become a leading MEASEA bank means we remain well-positioned to continue to provide long-term sustainable value to all our stakeholders.

QNB at a glance

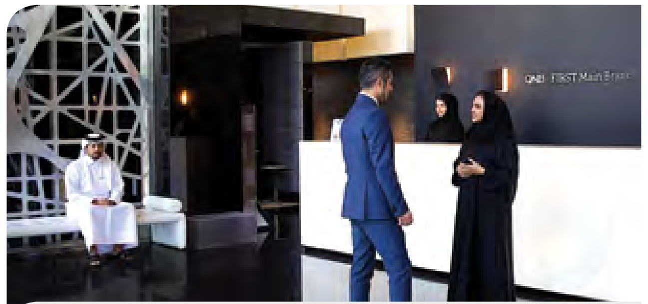
QNB is a highly-rated bank with a significant international presence, serving more than 25 million customers in more than 31 countries. We are proud of our Qatari heritage and of the continuing substantial contribution we make to the region and beyond.

Our businesses

Wholesale and Commercial Banking

A comprehensive suite of wholesale and commercial banking products and services. These include structured finance, project finance, transaction banking, financial institutions, treasury, investment banking and advisory services.

Read more about our **Wholesale and Commercial Banking** on page 32



Retail Banking

A broad array of retail banking products and services across a multichannel network with more than 1,113 branches and an ATM network of more than 4,335 machines*. These include premium banking services through QNB First and QNB First Plus, designed for our more affluent clients.

*Including subsidiaries and associates

Read more about our **Retail Banking** on page 42

Asset and Wealth Management

A broad collection of onshore and offshore private banking and asset management products, with a bespoke relationship-driven approach for our institutional, high-net and ultra-high-net-worth clients. These offerings are complemented by brokerage and custody services in our major markets.

Read more about our **Asset and Wealth Management** on page 46

International Business

Leading the expansion of QNB's global presence and enabling international cooperation, consistency and unrivalled customer service by providing oversight and best practice sharing among international units.

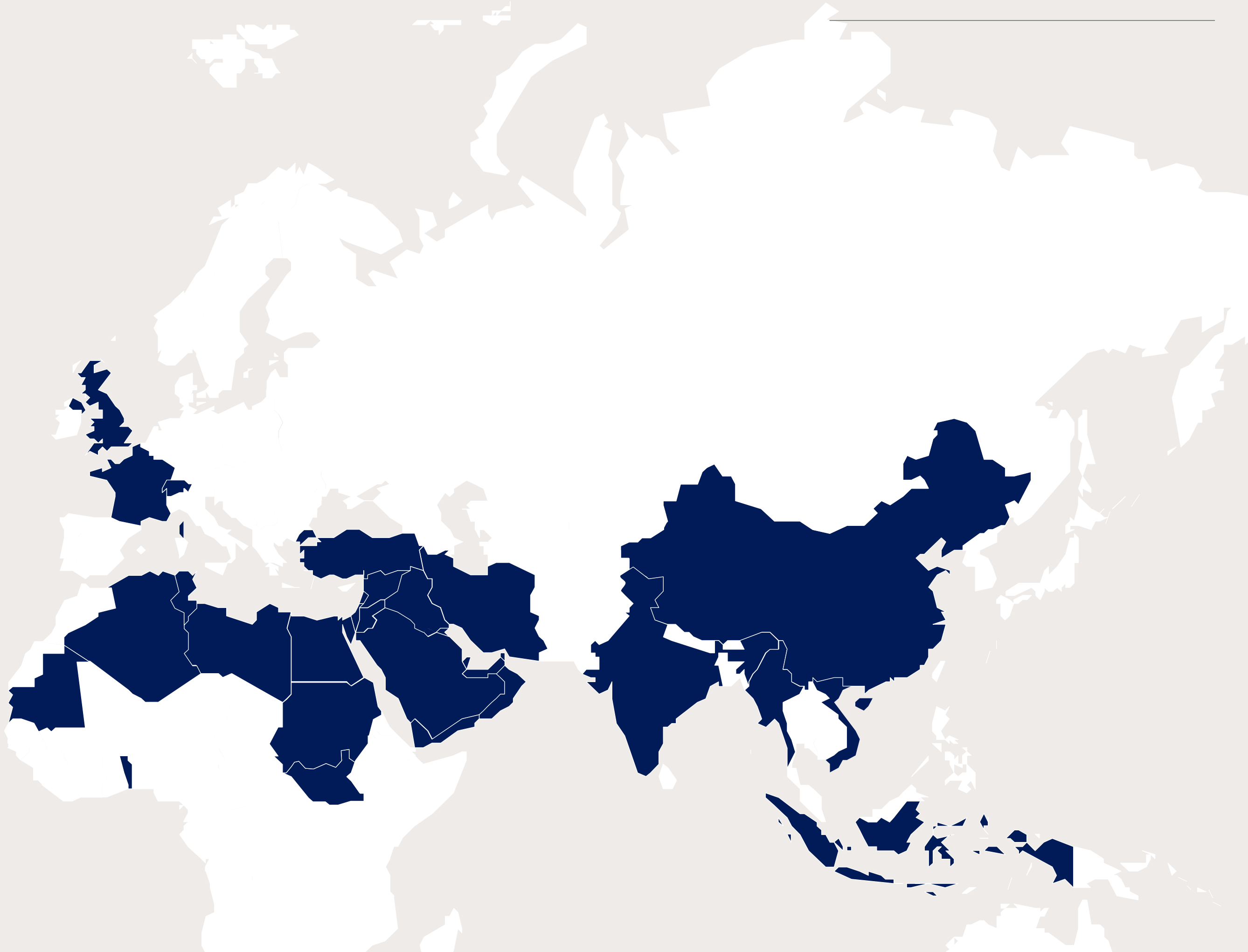
Read more about our **International Business** on page 48

Our financial strength

Assets **USD259.5 bn**	Earnings per share **USD0.4**
Net profit **USD3.9 bn**	Capital adequacy ratio (Basel III) **18.9%**
Net profit growth **4%**	

Our top-tier credit ratings

	Outlook
Moody's **Aa3**	Stable
Standard & Poor's **A**	Stable
Fitch **A+**	Stable
Capital Intelligence **AA-**	Stable



Our subsidiaries and associates

Name	% stake
QNB Finansbank (Turkey)	99.88%
QNB ALAHLI (Egypt)	95%
QNB Indonesia	92%
QNB Tunisia	99.99%
QNB Syria	51%
QNB Suisse (Switzerland)	100%
QNB Capital LLC (Qatar)	100%
QNB Financial Services (Qatar)	100%

Name	% stake
Mansour Bank (Iraq)	54%
Commercial Bank International (CBI) (UAE)	40%
Housing Bank for Trade and Finance (HBTF) (Jordan)	35%
Ecobank Transnational Incorporated (Ecobank) (Togo)	20%
Al Jazeera Finance Company (Qatar)	20%

QNB at a glance
continued

Established in 1964 as the first Qatari-owned bank, QNB is the leading financial institution in the Middle East and Africa (MEA). QNB Group today is present in more than 31 countries spanning across three continents, with more than 29,000 employees serving 25 million customers.

> "Over the past 10 years we have expanded our international network to become the leading financial institution in the Middle East and Africa (MEA)."

Our heritage

1964
First Qatari-owned bank established



1973
Introduction of the Qatari Riyal

1976
QNB opens its first overseas branch with the opening of a branch in London

1997
Public listing on Qatar Stock Exchange

بورصة قطر
Qatar Stock Exchange

2007
Began a 10-year expansion phase with the opening of branches and offices in 15 countries and 8 acquisitions


QNB Kuwait


QNB Switzerland


QNB Indonesia

2013
Acquisition of NSGB in Egypt

2015
Largest bank in the MEA region across all financial metrics

2016
Acquisition of Finansbank in Turkey

Group overview
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Strategic report

With strong leadership and a clear focus on our strategy, we continue on a journey of growth and remain one of the leading banks in MEASEA.

Operating environment

Despite a challenging global macroeconomic environment, we are well-positioned to achieve our growth targets.

The global economy is in a synchronised slowdown, with GDP growth registering its slowest pace since the global financial crisis.

Global GDP growth is expected to be 3.0% in 2019, down from 3.6% in 2018. The slowdown is a result of increasing trade protectionism, elevated geopolitical uncertainty and structural factors such as ageing populations and weak productivity growth in advanced economies. Loose monetary policy on a global level has kept growth stronger than it would have otherwise been, but is becoming less effective without support from fiscal stimulus and structural reforms. Looking ahead, global GDP growth is expected to experience a moderate acceleration to 3.4% in 2020, according to the IMF.

Banking sector resilient but with challenges
The weaker global macroeconomic environment has affected the global banking industry, but it remains in good health. Banks are in general well capitalised, but returns and profitability are being undermined by global interest rates staying lower for longer. There are five main factors affecting the global banking industry:

> global economic tailwinds have been replaced by headwinds as the US fiscal stimulus has faded and the drag from the US-China trade has increased;

> major central banks have switched from tightening policy to loosening policy, putting pressures on interest margins in the banking sector;

> the rapid pace of innovation and digital transformation is changing the way banking is done. New non-bank incumbents, such as BigTech companies, FinTech and digital platform companies are increasing competition and eroding margins;

> increasing regulatory requirements, such as IFRS 9, PSD2, GDPR and Basel IV uncertainties are driving complexity, administrative burden, and risk cost on banks; and

> environmental, social and governance (ESG) related topics are becoming a significant part of the long-term strategy for incumbents. Disclosure on sustainability towards stakeholders (regulators, analysts, investors, applicants, suppliers, etc.) has become a driver to support business resilience and sustainable financial performance.

In Qatar, the financial sector remained resilient and healthy. Increased focus on cost-efficiency and the impulse from a strong economy has led to all local publicly listed banks posting year-on-year profit growth as of Q3 2019. The banking system is well capitalised with banks' capital adequacy ratio at 17%, well above Basel III guidelines. Asset quality also is high with non-performing loans at 1.9%. From a shareholder perspective, profitability remains solid with returns on equity of over 15%.

Global financial conditions
The US GDP maintained momentum in the first half of 2019, supported by buoyant employment and consumption resulting from the fading effects of the 2017 Tax Cuts and Jobs Act. However, investment growth slowed significantly, held back by the drag from trade tensions and past increases in interest rates. Growth is estimated to have fallen from 2.9% in 2018 to 2.4% in 2019, before moderating further to 2.1% in 2020.

Following a long round of tightening monetary policy, the US Fed enacted a dovish pivot and began cutting interest rates. Further cuts are expected as leading indicators suggest that the US economy is likely to weaken further.

In Europe, the European Central Bank decided to provide further monetary policy stimulus to the Euro area in September. The decision came as the Euro area is adversely affected by three key macroeconomic developments, including:

> a more protracted and region-wide growth slowdown;

> muted inflation and inflationary pressures; and

> the persistency of significant risks to the outlook.

Chinese GDP growth is experiencing a structural slowdown as policymakers seek to rebalance the economy from being driven by debt-financed investment to a more consumer-driven growth model. Chinese policymakers are reining in the accumulation of debt while providing policy stimulus to support activity in the face of escalating tariffs and weaker external demand.

Next phase of infrastructure projects in Lusail City, Qatar.

"Non-hydrocarbon GDP growth in Qatar will accelerate, driven by positive spill-overs from higher gas production, fuelling manufacturing and services."

The trade war between the US and China remains both a headwind and a downside risk to the global growth outlook. Notably, the IMF has explicitly estimated the impact of the measures implemented up to October 2019 in the US-China trade war as causing a reduction of 0.8% in the level of global GDP by 2020.

Global oil markets
Slower global growth this year has weakened the outlook for oil demand and prices. Oil prices came under pressure in 2019 with average prices around USD65/b for the year; an overall decrease of around 10% versus 2018's average of USD72/b. On the demand side, global growth has slowed despite a recent US-Fed driven loosening of global financial conditions and both fiscal and monetary stimulus in China. On the supply side, easing of bottlenecks have facilitated a record level of output from shale in the US, which has outweighed a range of shortfalls in supply from other countries, including:

> US sanctions on Iran;

> Russia and the Organization of the Petroleum Exporting Countries (OPEC+) agreeing an extension of their production cuts into 2020; and

> attacks on key oil production and refining facilities in Saudi Arabia.

Looking into 2020, we forecast supply being held back to offset weaker demand, maintaining the average oil price around USD65/b.

Operating environment
continued

Middle East and North Africa (MENA)
Growth in the MENA region moderated to 0.1% in 2019 versus 1.1% in 2018, according to the IMF.

MENA oil exporters are adjusting to lower and more volatile oil prices, with oil GDP declining due to the extension of the OPEC+ agreement. Lower oil prices and production have also been a headwind for non-oil GDP, with less revenue available to support fiscal stimulus and investment plans.

The Gulf Area has seen a real GDP growth of around 0.7% in 2019. Oil exporters suffered from weaker oil prices, which lowered export revenues and created tighter liquidity and fiscal constraints. However, governments are pressing ahead with their diversification strategies and investments, supporting the development of the non-hydrocarbon sector by nurturing private sector engagement. Looking ahead, real GDP growth is expected to pick up to around 2.5% in 2020.

GDP growth in MENA oil importers is being supported by lower inflation and looser global financial conditions. Growth is projected to pick up to 2.7% in 2020. However, geopolitical tensions are weighing on the region's outlook.

Qatar
Qatar's economic performance remained resilient. GDP growth is expected to accelerate in 2020 as tailwinds from increasing gas production more than offset the slower growth of construction. Non-hydrocarbon GDP growth will accelerate, driven by positive spill-overs from higher gas production, fuelling manufacturing and services. The focus on the next phase of infrastructure and project spending will turn to further expansions of Lusail City, Qatar Rail, Hamad International Airport and Hamad Port.

The current account is expected to rise further due to buoyant exports driven by higher oil prices and resilient LNG demand in Asia. Likewise, the 2019 fiscal surplus is set to continue on to 2020.

Turkey
The recovery of the Turkish economy continued during the second half of 2019 and we forecast GDP growth of 0.6% in 2019 before an acceleration to 4.6% in 2020. In 2019, the annualised current account balance turned to surplus, supported by tourist arrivals, which have reached a new historic peak. The annual rate of price inflation decreased significantly during 2019 from over 20% in late 2018, which allowed the central bank (CBRT) to cut the policy rate substantially by over 1,200bps. With the leadership of state banks, loan growth has been recovering. Under the New Economy Programme for 2020-2022, the government is targeting GDP growth at 5% for the upcoming years, with inflation at 5% and contained current account and fiscal deficits.

Egypt
Egyptian GDP growth has accelerated to an estimated 5.5% in 2019 as structural reforms have improved business conditions. The Central Bank of Egypt has been able to lower interest rates as inflation moderated in response to relative currency stability. Historically, low unemployment and the ending of energy subsidy reforms will also help support a gradual recovery in private sector consumption. We forecast GDP growth increasing to 5.9% in 2020.

Egyptian GDP growth accelerated, with recovery in private sector consumption.

MEASEA markets remain the focal point for QNB Group's long-term global growth.

> "Governments are pressing ahead with their diversification strategies and investments, supporting the development of the non-hydrocarbon sector by nurturing private sector engagement."

Southeast Asia
ASEAN-5's strong performance held up well with GDP growth estimated at 4.8% in 2019. Lower global interest rates have allowed central banks in the region to loosen monetary policy, supporting domestic demand. The US-China trade war is a threat for intra-regional trade, but an opportunity for FDI and trade with the US, particularly for Vietnam and the Philippines. Together, these factors will support a modest pickup in GDP growth to 4.9% in 2020.

Indonesia, ASEAN's largest economy, saw GDP growth ease in 2019 to an estimated 4.9% as the government reined in investment to control the current account deficit. Going forward, GDP growth is expected to pick up to 5.2% in 2020, driven by private consumption and strong commodity export revenues.

Expansion
MEASEA markets will remain the focal point for QNB Group's long-term global growth. These regions require further investment and trade flows to support the building of the foundation for socio-economic development, such as infrastructure, including transport, real estate, power, telecoms, healthcare, education and tourism. By strategically positioning our business across these markets, we are securing our vision to become a leading bank in MEASEA.

We believe that through our own network, as well as through our partners and alliances, we have the necessary local knowledge, expertise and understanding of the risks and opportunities, to successfully create and capture significant value. This positively contributes to QNB's growth and adds additional strength to the Group by diversifying our sources of revenue and profit.

Creating and delivering value

Our capital strength, brand recognition and top-tier ratings enable us to deliver real, sustainable value to our customers and communities.

Our competitive strengths | Enhance our strategic and operational model | Creating sustainable value for stakeholders

Our competitive strengths

Strong ratings
> Moody's – Aa3
> Standard & Poor's – A
> Fitch – A+
> Capital Intelligence – AA-

International presence
> Presence in more than
31 countries

Brand recognition
> Brand value of more than
USD5 billion

Capital strength
> **18.9%**
capital adequacy ratio

Employees
> **29,000** employees
> Highly diverse talent pool

Enhance our strategic and operational model

QNB

Our vision is to become a leading bank in the Middle East, Africa and Southeast Asia (MEASEA)

Our businesses

- Wholesale and Commercial Banking
- Retail Banking
- Asset and Wealth Management
- International Business

Which is delivered through

Protecting our market-leading position in Qatar

> Maintain our market share and profitability in the public sector.
> Grow our market share and profitability from the private sector and individuals.

Accelerating international growth

> Build a specialised international wholesale bank.
> Significantly focus and scale up current international footprint.
> Selectively explore inorganic opportunities.

Supported by a strategy of sustainable financial performance

Sustainable finance
Sustainable finance integrates environmental, social and governance (ESG) criteria into our business and investment decisions for the lasting benefit of our clients and society as a whole.

Sustainable operations
Sustainable operations is the integration of ESG criteria into our business operations and across our supply chain to ensure we operate ethically and efficiently.

Beyond banking
Beyond banking refers to QNB's Corporate Social Responsibility (CSR) activities in the communities where we operate.

Creating sustainable value for stakeholders

Customers
60%
net promoter score (Qatar)

Investors
QR1.45
earnings per share

Employees
59.0%
employee engagement score (Qatar)

Suppliers
3,000+
suppliers engaged with the Group

Creating and delivering value
continued

> "We do not limit our engagement to financial contribution alone; we also bring a socio-economic contribution to the countries and communities in which we operate, supporting economic growth and financial inclusion."

QNB is committed to creating and delivering long-term, sustainable value for our customers, employees, communities and shareholders. Our diverse banking services, capital strength, and a wide-reaching international footprint provide a firm foundation on which we can generate growth and prosperity.

We do this by:

> continuing to diversify our sources of earnings to reduce our relative exposure to any single market;

> growing our loan book while maintaining high asset quality;

> maintaining a high operating efficiency;

> preserving a strong capital adequacy ratio; and

> enhancing long-term shareholder value through dividends and growth in earnings per share.

QNB is also an important contributor to local, national and regional economies. We do not limit our engagement to financial contribution alone; we also bring a social contribution to the countries and communities in which we operate, supporting economic growth and financial inclusion. At the same time, we offer fulfilling careers and development opportunities for our highly-skilled employees across all our operations, who are an intrinsic part of our value chain.

Our ability to successfully create and deliver value is further powered by our strength, our expanding international footprint, a drive for continuous improvement and brand awareness. Our presence in markets that are often neglected or underserved by global banks gives us a distinct competitive advantage. This enables us to facilitate trade and investment flows between Asia, Africa and Europe, thus creating value for our clients.

Solid capital strength and ratings
Our extensive experience in our core markets and prudent attitude to risk allows us to maintain a strong balance sheet. We have both the capital and agility to take immediate advantage of any opportunities we see in our markets.

We are also bolstered by stable ratings from the leading rating agencies, including Standard & Poor's (A), Moody's (Aa3), Fitch (A+) and Capital Intelligence (AA-). These rankings reflect the quality of our assets, the diversity of our portfolio and the strength of our management.

An expanding international presence
Active in more than 31 countries across Asia, Africa and Europe, we operate as a full-service financial institution in our core markets of Qatar, Turkey and Egypt, and as a wholesale commercial bank across a range of frontier and emerging markets in MEASEA. We also have a growing presence in developed economies, such as the UK, France, Switzerland and Singapore. As our network grows, so do the number and scale of opportunities where we can capture relevant share and risk-adjusted returns.

Sustainability
We believe that successful financial performance is driven by a disciplined approach to sustainable financing, sustainable operations and beyond banking (community investments). Sustainable finance integrates environmental, social and governance (ESG) criteria into our business and investment decisions for the lasting benefit of our clients and society. We want to foster a financial marketplace that contributes to sustainable development and value creation in the economic, environmental and social sectors, providing value and prosperity for all.

Stakeholders	Needs and expectations	QNB engagement channels
Customers We operate in more than 31 countries serving over 25 million people and businesses	> Customer service and satisfaction > Easy-to-use digital and mobile banking > Competitive rates and fees	> Annual customer satisfaction survey > Customer Care Centre > Mobile and online banking > Complaints management
Investors QNB is owned 50% by Qatar Investment Authority and 50% by the public	> Increasing share price and dividends > Strong corporate governance, risk management and ratings > Transparency and disclosure	> Board of Directors' meetings > Public reports > Quarterly analyst calls > Investor days and roadshows
Employees Our workforce consists of more than 29,000 employees globally	> Competitive salaries, benefits and rewards > Professional development > Fairness and equal opportunity	> Employee engagement survey > Learning and development programmes > Training needs analysis
Regulators and government We adhere to local regulations and laws in all markets	> Compliance with all legal and regulatory requirements > Robust anti-corruption and bribery measures > Strong risk management and governance	> Public disclosures (e.g., Annual and Corporate Governance Report) > Group Compliance and Audit teams
Society We recognise the ESG challenges facing society	> Creating employment opportunities > Making a positive contribution to the challenges facing society > Addressing climate change risks and opportunities	> Products and services with environmental or social benefits > CSR activities > HR recruitment teams
Suppliers We engage more than 3,000 suppliers to support our business	> Timely payment > Fair and transparent tender process > New business opportunities	> Bidding and tendering > Supplier e-portal > Supplier audits

Innovation
We consider innovation as an important element to deliver our aspiration and strategy.

Innovation, particularly in the digital sphere, remains a key focus and is driven by the changing expectations and needs of our corporate, institutional and individual customers. While we seek to improve the overall customer experience through new products and services, we are capitalising upon our innovation platform to explore new ways of working.

Furthermore, we view innovation as a vital tool to achieve a cultural transformation towards becoming a more agile and dynamic institution.

Brand recognition
QNB was once again recognised as the most valuable banking brand in the Middle East and Africa, increasing its brand value to more than USD5 billion in The Banker's Brand Finance® Global 500 2019 report. Our Brand Strength Index (BSI) increased to 79 out of 100, driven by our strong financial performance and growing international footprint. Our reputation is further enhanced by the regional and international recognition we receive through a string of industry awards every year.

Future-proofing our business

Being innovative is fundamental to unlocking shareholder value and is one of the pillars to deliver upon our strategy. Innovation concerns every single one of us while becoming part of our DNA across all levels.

> “One of the most significant milestones this year was the launch of our global innovation centre, QNBeyond.”

Shaping the future of banking
The competitive intensity is growing exponentially and becoming more challenging every day in almost every sector. Uber has disrupted the taxi business while Airbnb reinvented the way people accommodate. The increase in customers’ expectations, the rapid pace of innovation and digital transformation are pressuring the banking sector and thus, us as an established incumbent as well. New entrants like FinTech start-ups and non-bank incumbents such as BigTech companies are challenging the way we conduct our business with much better customer experience, competitive prices and state-of-the-art technology.

These new insurgent companies are being created and are experimenting at a pace and scale we have not seen before. On the other hand, new solutions like artificial intelligence, robotics and platform businesses improve efficiency, lower costs substantially and open up new revenue opportunities as well.

We have accepted this challenge and taken steps to embrace the change to become a part of the future of banking even if it means to disrupt ourselves.

We launched our innovation programme in 2017 as being innovative is fundamental to unlocking shareholder value and helping us realise our vision to become one of the leading banks in MEASEA. We also recognise innovation as one of the pillars that constitutes our strategy, supported by dedicated resources who are committed to unlocking new opportunities, delivering value and embedding an innovation mindset into the fabric of our organisational culture. For us, innovation concerns every employee and thus needs to become part of our DNA across all levels. Our innovation journey aims to reinvent ourselves and to future-proof our business.

We envision this mindset will also change the way we work as an organisation and as a team. We aim to create an innovation culture that allows us to work in a dynamic, flexible and agile way. We believe this will allow us to adapt faster to the changing needs of the market and our customers. Moreover, it will also help employees feel more connected and engaged with their work environment while providing higher degrees of freedom. This will lead to stronger professional, as well as personal, satisfaction.

QNBeyond: QNB’s global innovation centre
In 2019, we continued to generate momentum on our innovation programme across the Group. One of the most significant milestones this year was the launch of our global innovation centre, QNBeyond. There is no question that banking as we know today is definitely going to change. The million dollar question is in which direction it is going to evolve into. QNBeyond was established to address specifically this question. QNBeyond’s main mandate is to explore different territories as much and as fast as possible in order to stay relevant in the future of banking.

QNBeyond is an inter-disciplinary team consisting of people specialised in domains like customer experience, user experience, data science, product development, design thinking as well as startup engagement. The team structure enables us to work in an agile scheme and come together in different combinations as matrix project teams, which enables us to explore many ideas simultaneously with a small team which we believe is the secret ingredient behind the success of innovative organisations.

We decided to launch QNBeyond in Turkey as we see the largest innovation potential in this market across our network to drive innovation. Turkey has built a vibrant FinTech community, has a large talent pool we can source from and is well advanced with regards to digitisation and automation. This makes it the ideal location for QNB Group’s first foray into incubation and acceleration.

We view QNBeyond as a representation of the progressive thinking and our drive for innovation in QNB across the Group. We aim to improve the banking experience for the next generation and delight our customers.

QNBeyond is an inter-disciplinary team consisting of people specialised in domains like customer experience, user experience, data science, product development, design thinking as well as start-up engagement.

Our innovation approach
With this in place, we follow a three-pronged approach to innovation: employee-led, market-led and collaboration with startups/FinTechs.

Through employee-led innovation, we aim to leverage our pool of 29,000 employees to generate new ideas as we believe that our employees are well placed to spot market trends and identify customer needs. They are at the forefront of the business and understand customer behaviours, so are naturally well-positioned to come up with ideas that can add value to all stakeholders.

We established an innovation process where employees across the Group can submit ideas to our innovation team which are validated, sharpened and tested for feasibility. A good example is the Innovation Bootcamp which we started this year in Turkey. The competition created a great buzz all over the organisation. Throughout the bootcamp process, employees got the chance to elaborate on their ideas and come up with valid business propositions.

With the employee-led approach, the inspiration is mostly coming from either customers or bank employees which naturally leads us to ideas more in the vicinity of today’s banking. In order to be able to think more out of the box, we are, in parallel, looking at market-led innovation, which means that we are following trends in the industry and other markets to see what could be relevant for us as QNB Group. In order to push our boundaries even further, it is necessary to collaborate with people who can bring in a different perspective, who think and work different than us. That’s why we believe working closely with startups and FinTechs is the best way to fulfil this need. To do this in a more structured way, in 2019, we have launched our accelerator via QNBeyond. Through the four-month accelerator programme, we have collaborated with eight startups. We have unlocked several opportunities to co-build new products such as a next-generation social money transfer app.

Future-proofing our business
continued

It is important to highlight that our innovation work is not focused on minor incremental improvements but rather the creation of lasting strategic value. We aim to focus predominantly on strategic themes that 'move the needle' and generate scale. Examples are platforms, artificial intelligence, open banking, digitisation and automation leveraging robotic process automation (RPA) and machine learning.

Embedding the innovation culture
In its third edition this year, QNB held its annual innovation conference in Doha with around 650 attendees. The conference emphasised the need to embrace innovation to stay at par or ahead of competition. Another theme was the transformation towards an innovation culture. FinTech companies from across the globe were invited to showcase the latest trends in banking including artificial intelligence, blockchain, robotics and virtual reality.

Initiatives in these trends have enabled QNB to find new, more efficient ways of engaging with our customers, leverage data to better manage our risks and find faster, lower cost ways of meeting our customers' needs today and into the future.

Looking ahead to 2020 and beyond, we will continue our relentless pursuit of innovation. Our focus on value creation and future-proofing our business will ensure we remain the bank of choice for millions of customers today and into the future.

Examples of our innovation projects

Robotic Process Automation (RPA)

Robotic Process Automation (RPA) is a key innovation theme for QNB and 2019 marked the first RPA installation in Doha. Since installation, the robot has achieved a 92% reduction in processing time while reducing processing errors to almost zero. With this success, planning for subsequent applications is well underway.

Digital platforms

Customers are demanding better and easier access to financial services, challenging the way in which they have traditionally engaged with us. Digital platforms provide new ways to address this challenge. In 2019, QNB added two platforms to our global offering providing efficient, convenient tools for our corporate customers to manage their trade finance needs.

Artificial intelligence-based solutions

A better understanding of our customers leads to delivering better customer experiences, thus, optimising the use of data becomes fundamental to our business success. We have been trialling artificial intelligence-based solutions to build rich, data-based insights to help in anticipating and delivering on the evolving needs of our customers.

QNB Group strategy

To maintain our position as one of the leading MEASEA banks, we remain committed to our strategy of considered growth and sustainable banking.

> "We have firmly established QNB as one of the leading banks in MEASEA."

Our long-term goal is sustainable, profitable growth. To deliver this, we provide sustainable financing while ensuring sustainable operations. This year, we are reaching the conclusion of our most recent five-year strategic plan, which has served to guide our successful growth both at home and abroad. This strategy focused on two key pillars: protecting our market-leading position in Qatar; and continuing our international growth.

To achieve these objectives, we reinforced our position in Qatar by retaining our market share and profitability. We played a significant role in helping the government in its efforts to diversify and grow the country's economy and continued to support many major projects in the construction, transport and infrastructure sectors. In our support for SMEs, we stepped up our efforts to encourage more entrepreneurs to successfully enter the market, creating businesses that bring benefits to the local economy and to society as a whole.

On the international stage, we have firmly established QNB as one of the leading banks in MEASEA. We plan to continue to expand and diversify our revenues to deliver greater and more sustainable earnings to our shareholders while carefully managing our risk. By capitalising on synergies in Qatar and across our entire network, we continuously improve efficiency to increase profitability.

While we are ambitious, we are also prudent. For that reason, plans for potential organic expansion or acquisitions are always carefully scrutinised. The macroeconomic outlook, banking sector attractiveness (penetration and growth potential), the ability to follow QNB's existing customers, our risk appetite and the regulatory requirements for market entry are all taken into consideration in every case. Potential acquisitions will be on an opportunistic basis and only if strategically suitable.

The financial services industry is evolving and is at the cusp of a paradigm shift due to disruption and disintermediation by non-financial players. In response, we have defined innovation as a key strategic component. We view this as an additional revenue-generating opportunity and have created a group-wide innovation programme. Our mission is to incubate an innovation culture through an employee-led component, as well as to identify new trends in technology through a market-led element.

Our vision

Our vision is to become a leading bank in the Middle East, Africa and Southeast Asia (MEASEA).

This is supported by
Sustainable finance + sustainable operations + beyond banking

This allows
Sustainable financial performance

This is delivered through

Protecting our market-leading position in Qatar

- Maintain our market share and profitability in the public sector.
- Grow our market share and profitability from the private sector and individuals.

Accelerating international growth

- Build a specialised international wholesale bank.
- Significantly focus and scale up current international footprint.
- Selectively explore inorganic opportunities.

Delivering sustainable results

Five key performance aspirations support our strategy and empower our growth and international reputation.

29,000
employees worldwide

1,113
branches

4,335
ATMs

19%
growth in brand value year-on-year

10%
above Middle East benchmark for employee engagement

> "From individuals to the largest global corporations, we ensure each receives excellent value from us and that we always appropriately support their needs and guide them in their financial and business aspirations."

1. To maintain a strong rating
QNB Group is a highly-rated bank, demonstrating a financial strength that continues to attract institutional, corporate and individual customers and reinforcing our solid reputation with investors and markets.

With strong credit ratings from the major international agencies such as Moody's, Standard & Poor's and Fitch, QNB is the highest-rated bank in Qatar. This is a testament to our capital strength, strategy, governance, prudent risk management, business and operating model. It also provides us with a competitive advantage to access global capital markets for wholesale funding, enabling us to continue our growth and expansion plans in line with our strategy.

2. To be a financial institution of choice
Our goal is to be a valued participant in the economies and business landscape across every region in which we operate.

We provide an unrivalled customer experience, making the entire process of banking easier, safer and more efficient for those who bank with us, no matter where they are in the world. From individuals to the largest global corporations, we ensure each receives excellent value from us and that we always appropriately support their needs and guide them in their financial and business aspirations.

The quality of our Executive Management team, robust cost controls, market-leading capital ratios, ethical approach to banking, and strong and growing relationships with both the public and private sectors, help to make QNB Group the first choice for prospective customers. Another reason is our dedication to sustainability. We are committed to the UN's Sustainable Development Goals by focusing on sustainable financing and sustainable operations. This year QNB became a signatory of the United Nations Global Compact and its guiding principles for sustainable development.

3. To be an employer of choice
Our employees are paramount to our business success. By fostering a high-performance culture, investing in ongoing training and development, and by encouraging loyalty and respect, we empower and reward our employees.

Regularly placed among the top employers in the Middle East, our most recent employee engagement survey placed us 10% above the MENA commercial bank benchmark. In comparison to regional and industry benchmarks, QNB is above or in line with most performance metrics such as collaboration, brand recognition and work-life balance.

Attracting and retaining superior talent in Qatar and across our diverse international network remains essential. We employ 39% women and over 80 different nationalities across our operations. Our culture is underpinned by mutual trust, integrity, respect, loyalty and meritocracy.

Our Qatarisation drive, which supports the 2030 National Vision (QNV 2030), has created a local Qatari workforce of 54.9% – one of the highest in the Qatari banking sector. A series of initiatives support our Qatarisation drive:

> Kawader – a five-month development programme for fresh graduates;

> international mobility programmes such as QNB Ambassador (six-month secondment) and QNB Envoy (24-month assignment);

> a successful intern programme, where we onboarded 66 interns from local universities in Qatar; and

> a partnership with Carnegie Mellon University in Qatar for cooperation in the field of training, education and community work.

Thanks to this focus on employee development and engagement, our turnover is one of the lowest in the industry and continues to fall: in 2019 it stood at only 6.1%.

Our employees are paramount to our business success.

Local Qatari workforce (%)

2019	54.9
2018	53.8
2017	53.7

Earnings per share (QR)

2019	1.45
2018	1.44
2017	1.40

4. To be a leading brand
QNB enjoys an award-winning brand platform that reflects our values, commitment and excellence to deliver outstanding banking services to our customers. Thanks to our creative approach towards continuously building our brand image and values, we have once again cemented our status as the Middle East and Africa's most valuable banking brand in The Banker's Brand Finance® Global 500 2019 report.

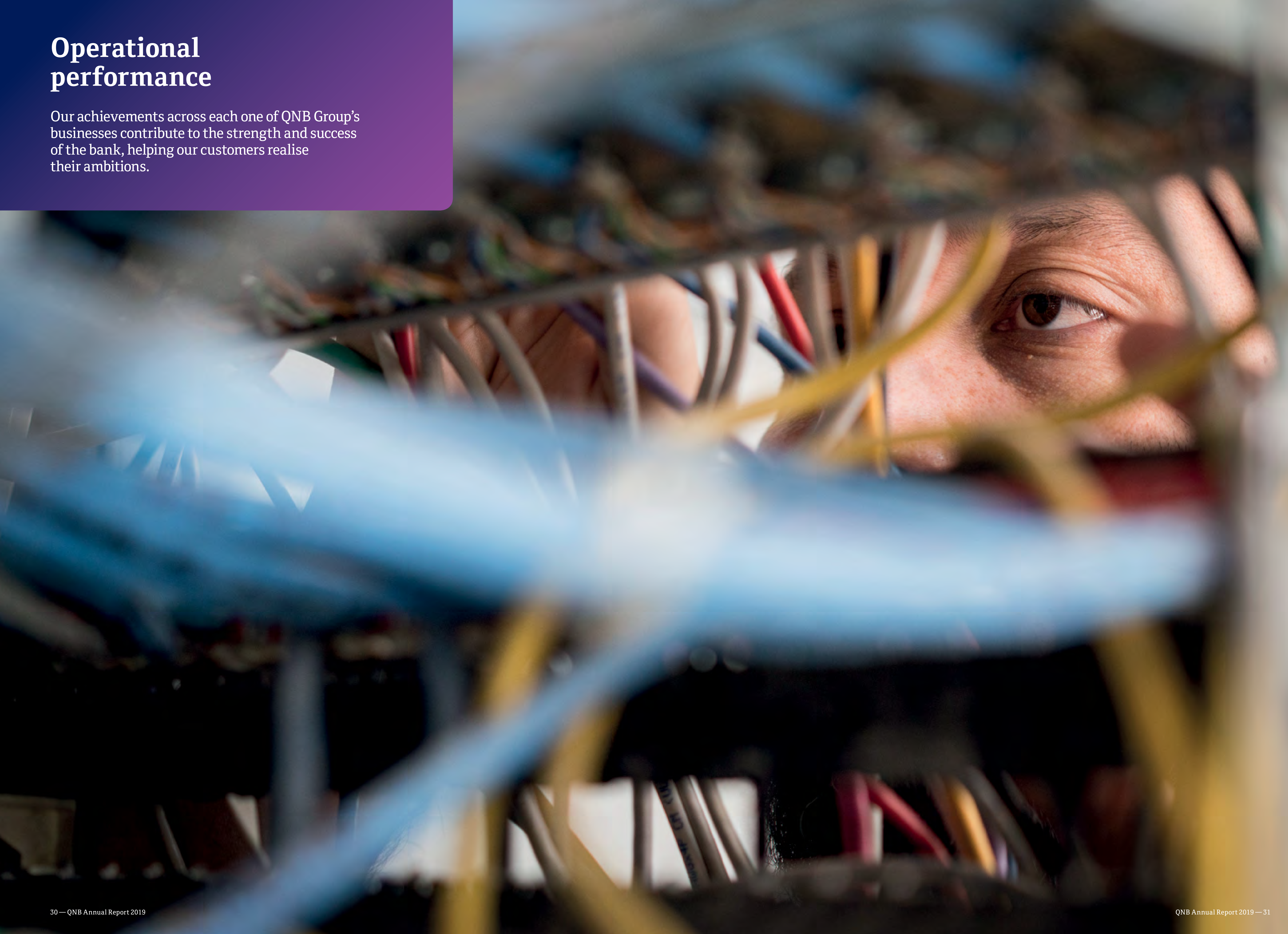
This year we have developed our brand's presence across international growth markets and maintained several high-profile, global sporting sponsorships, including our global brand ambassador, football star Neymar Jr. These have helped raise our brand value to USD5 billion – a 19% increase from 2018. Our Brand Strength Index (BSI) has also increased to 79 out of 100.

5. To enhance long-term shareholder value through sustainable, profitable growth
We continue to experience growth across assets, loans, deposits and net profit. We do this by successfully executing our strategy of controlled expansion and leveraging our competitive advantage. The strength of our capital allows us to grow our balance sheet in a controlled way and take opportunities within, across, and beyond our network.

Our geographic diversification and expansion have resulted in a profit contribution from the international network of 34.5%. Further details can be found in the Group Chief Financial Officer's report on page 96.

Operational performance

Our achievements across each one of QNB Group's businesses contribute to the strength and success of the bank, helping our customers realise their ambitions.



Wholesale and Commercial Banking

The strength of our performance is driven by the depth of our experience, robust cross-network collaboration, and unparalleled client support.

What we do

We provide a selection of products and services created for our diverse customer base. They are tailored to specific individual industry sectors and customer needs and help to ensure a strong competitive advantage.

These include:

> wholesale, commercial and SME banking services;

> structured finance, including syndication and distribution, project and acquisition finance and asset-backed and real estate finance;

> transaction banking, consisting of global trade services and cash management;

> financial institutions, comprising of an extensive correspondent banking network;

> a full suite of treasury products and services; and

> investment banking via QNB Capital, offering comprehensive corporate advisory services covering all aspects of corporate finance.

How this supports our strategy

Protect leading market position in Qatar

Accelerate international growth

Read more about our **strategy** on page 27

Domestic corporate
A strong performance from a diverse range of projects in 2019 has helped QNB maintain its market-leading position in Qatar, growing assets and liabilities while keeping our non-performing loans (NPL) ratios low.

Construction, transport, 2022 FIFA World Cup infrastructure and food security were the four sectors that provided the bulk of our domestic activity in 2019.

Perhaps the most significant project coming in the pipeline over the next years is Qatar Petroleum's multi-billion-dollar North Field development, which is set to increase Qatar's liquefied natural gas (LNG) capacity by more than 64% – from 77 million tonnes at present to 126 million tonnes over the next four years.

LNG is the cleanest-burning fossil fuel and the increased use of natural gas can significantly improve local air quality and public heath as well as reduce carbon dioxide (CO_2) emissions, helping to combat global warming.

The size and scale of the undertaking, which began gathering pace last year, is immense and our corporate banking team has been integral to the project since its inception. In 2019, we engaged in advanced discussions with a range of international specialist contractors with tenders and major contracts in engineering, procurement, construction and installation.

As well as the design and construction of mega-trains, which liquefy and purify natural gas, other essential projects include eight offshore rigs, storage facilities, a supply of new LNG tankers and significant infrastructure and site support. Much of the raw material required for the expansion will be sourced directly from local suppliers, and we expect a significant boost for the non-hydrocarbon sectors with the creation of more than 60,000 blue and white-collar jobs over the next few years. The project will continue the momentum set in place by the preparations for the 2022 FIFA World Cup, providing further strength to the local economy.

This year, two more of the eight world-class stadiums were inaugurated. Al Janoub Stadium, designed by Zaha Hadid, and Education City stadium now join Khalifa International as fully-operational venues in preparation for the 2022 FIFA World Cup. Our domestic corporate team at QNB remained an active participant in many of the key projects created to deliver the event, including the construction of the Education City stadium.

Elsewhere, we saw the opening of the much-anticipated National Museum of Qatar, and continued our involvement in the creation of Lusail, one of the first truly smart cities in the region. Work has started on the commercial boulevard of the new city, where some 20 buildings are to be constructed.

Lusail is an example of one of a growing number of projects in which we are involved with a focus on sustainability. QNB Group is committed to the UN Sustainability Development Goals and we are continuing our efforts to develop sustainable finance initiatives, increasing the number of green projects and reshaping our credit policies.

One of the green projects we are supporting is the multi-billion Gewan Island project in Doha, which will accommodate 3,500 residents in 639 apartments, 41 waterfront villas, 26 beachfront villas, and six island villas. With a substantial space assigned for retail, the island will also require new road networks. Its design incorporates a number of sustainability features to reduce the use of vehicles and encourage walking and biking through dedicated pedestrian and cycling networks. It is also designed to reduce urban heat by incorporating green roofs, shading and reflective surfaces.

We are committed to the UN Sustainability Development Goals, supporting green finance initiatives such as Lusail.

Qatar Corporate banking revenue (QR billion)

2019	10.5
2018	9.9
2017	9.2

"Construction, transport, 2022 FIFA World Cup infrastructure and food security were the four sectors that provided the bulk of our domestic activity in 2019."

Transport has been another major sector of activity for us in 2019. We are involved in the expansion of Hamad International Airport in Doha, supporting projects to extend the terminal buildings, allowing for extra passenger traffic, as well as programmes to create more runway space and aircraft storage, alongside additional cargo capacity.

We also supported both Qatar Rail and its nominated contractors in the opening of the first underground line of the new Doha Metro system. We were the first bank to open a new branch within the flagship Msheireb Metro Station, at the heart of the underground network. As well as the official acquiring bank for all Travel Card and Fare Media payments, QNB also has a 20-year partnership supporting operation and maintenance financing.

Finally, we continued to actively support greater self-sufficiency in a number of food security initiatives. Our involvement has helped to strengthen local food production, boost storage capabilities, and improve international trade and logistics.

Wholesale and Commercial Banking
continued

"QNB supported Baladna's rapid expansion, helping secure Qatar's self-sufficiency in dairy products."

Case study
Baladna Food Industries

Supporting food security and sustainability projects in Qatar is something for which QNB has developed a strong reputation. Perhaps the most public example of our support is for Baladna Food Industries, the largest producer of fresh dairy products in the country.

In one of the most hotly-anticipated initial public offerings in Qatar's history, QNB acted as the sole listing adviser and offering manager for the transaction, which raised more than QR1.4 billion.

The interest reflects the success behind the venture, which flourished following the 2017 blockade. By working in partnership with Baladna, QNB supported its rapid expansion, helping secure Qatar's self-sufficiency in dairy products.

The company now houses a herd of around 18,000 Holstein cows in two farms spread over an area of more than two million square metres.

In 2019, Baladna expanded beyond dairy and into juice production and now exports a range of its products to several overseas markets.

"We look forward to continued growth as Baladna leads the way towards real sustainability for Qatar as part of the Qatar National Food Security Programme," says Kamel Abdallah, the company's CEO.

6%
growth in SME deposits in Qatar

"Supporting financial education and inclusion is the backbone of our success in this area and throughout the year we remained active in helping our customers to better develop and manage their finances effectively."

SME

QNB remains dedicated to nurturing growth in the private sector through its ongoing support for small to medium-sized enterprises (SMEs). In Qatar, the sector represents a critical component in the development of the national economy and its move towards greater diversity and self-sufficiency. Our support for SMEs elsewhere in our network, such as in Turkey and Egypt, plays a vital role in economic growth and stability as well as boosting employment opportunities.

SMEs in the MENA region represent about 96% of registered companies and nearly half of employment, according to research from the International Monetary Fund, and that was reflected by a surge of growth in our core markets over the past few years.

Our mission is to be the trusted partner for these businesses in their journey from start-up to corporate. We are already the bank of choice for SMEs in Qatar, leading the market with the depth and variety of our experience and a strong suite of tailored services and financing programmes. However, because we place long-term value ahead of short-term profit, our relationship with our customers is more than just financial. With our team of dedicated relationship managers and industry insight and expertise, we ensure the SMEs which bank with us are best connected and supported. In 2019, the number of new businesses opening accounts continued to grow.

Speed and efficiency are vital for any dynamic business. That is why in 2019, working collaboratively across our internal teams, we simplified the account opening process in Qatar, cutting the time it takes to open an account from days to just a few hours. Following the revamp of our range of credit cards, we also saw a considerable increase in customer penetration.

In keeping with the changes in the way our customers interact with our retailers and the desire for 'anywhere-anytime' shopping, we have introduced new products and risk frameworks that allow small businesses to take their products and services online. Our e-commerce platform, QNB Simplify, has proved to be a powerful tool for SMEs.

It offers them a faster route to market, allowing their business to set up and generate sales more efficiently and with greater speed. Consequently, e-commerce volumes have grown in excess of 23% this year.

Supporting financial education and inclusion is the backbone of our success in this area. Throughout the year we remained active in helping our customers to better develop and manage their finances effectively. This included workshops covering a variety of topics, from cash management and technological developments to new regulations and compliance issues. These workshops also teach customers about international trade, allowing SMEs to better tap the international market. For example, this year we supported a local franchise of a café chain to open their first location in Kuwait, paving the way to further grow and develop their business.

Working in partnership with Qatar Development Bank, our mission is to encourage and empower entrepreneurs and innovators to contribute to the diversification and growth of the Qatari economy. Our goal is to help establish businesses that are not only commercially viable and can successfully navigate market volatility, but also that will be long-lasting and contribute positively to a sustainable society. Looking ahead, our focus will be on continuing to support the market in the trading, education, healthcare, manufacturing and tourism sectors.

In Turkey, QNB Finansbank has shown resilience in the SME segment, successfully improving our competitive position. We gained market share in both cash and non-cash SME loans against our peer group banks as well as the overall market.

Aiming to deliver sustainable and profitable growth; new customer acquisition and deepening relations with SME clients in Turkey were at the forefront of our 2019 strategy. This led to double-digit growth in the number of SME clients where QNB Finansbank was the main bank for their overall banking needs (as measured by our share of their cash flow and penetration of cash flow products).

The bank also invested significantly in improving its SME platform to ensure the sustainability of its strong performance. Credit scorecards for all SME segments were redeveloped and launched during 2019, improving our predictive capabilities by taking into consideration behavioural changes of our customers.

Wholesale and Commercial Banking
continued

We also continued our initiatives on digitisation of SMEs. We launched a new platform where customers can use services provided by QNB Finansbank and its partners to digitise their own businesses, called 'Digital Bridge'. The first offering in the programme was the e-transformation package which includes e-invoice, e-archive, e-waybill and an e-ledger provided by eFinans as the solution partner. The launch was extremely successful, generating very strong demand from SMEs of different sizes. Moreover, the success of the launch has further created demand from solution providers in various sectors that would like to offer their services to SMEs through the Digital Bridge.

In Egypt, QNB ALAHLI focused on increasing the financial literacy of our clients by providing them with basic and simple products containing added value for both the businesses as well as their owners. This year, we entered into several partnerships supporting SMEs, including agreements with the Industrial Development Authority to fund specific projects in industrial complexes, the Credit Guarantee Company to obtain the necessary collateral and simplify the loan application process, and with the Cairo Company for Investment, Urban, and Industrial Development to fund the industrial units within the new leather manufacturing city in Robiki, among others.

QNB ALAHLI has also participated in the Nile University's Creative Design Incubator, the NilePreneurs initiative, establishing two business development service centres. These centres aim to provide non-financial services to complement the traditional financial services provided to our clients.

These improvements have allowed QNB ALAHLI to achieve the Central Bank of Egypt's (CBE) 20% commitment for the SME portfolio out of the bank's total facilities. Recognising the achievement, CBE awarded us with a shield of honour for becoming the first major bank in Egypt to reach and exceed the required portfolio share, a full year ahead of the set date.

Looking ahead and realising the importance of this segment, we will continue to position ourselves as the preferred partner for SMEs in Qatar, Turkey and Egypt, while further leveraging our leading position to enhance the overall customer experience.

International corporate
By leveraging the depth and diversity of our international footprint, this year we provided a wealth of new and exciting opportunities for our customers across all our markets. As a result, we remain the partner of choice for large corporate clients and financial institutions seeking to connect to the Middle East, Africa and Southeast Asia markets.

Despite a number of macroeconomic headwinds and competitive pressures across our markets, we continued to diversify our revenue pool and grow our commission income in many of our markets this year.

Working with our Singapore office, China's Fosun International engaged QNB as the sole Mandated Lead Arranger and book runner for a USD100 million syndicated term loan. The award was a result of QNB Group's superior reach and capability which enabled Fosun, one of China's largest privately-owned companies with a market capitalisation of more than USD11 billion, to expand its relationship with other financial institutions in the region.

In the Middle East, our success this year has been driven largely by infrastructure and transport projects in Kuwait and Oman. By leveraging the network and working alongside QNB Finansbank, we were able to assist a Turkish construction company in their successful bid for work in the construction of Kuwait International Airport's new terminal. We also continued to work closely with the Kuwait government on transport projects, while in Oman our corporate loan portfolio was boosted through the provision of credit facilities for large transport and energy clients.

We are positioned as the gateway to the Middle East and Africa across the globe

> QNB as the MEA gateway for trade and cash.

> Global customer service providing access in frontier and emerging markets.

> Access across MEA by ensuring global coverage with top-rated institutions.

> Most creditworthy institution for wholesale treasury requirements in MEA.

Case study
Helping farmers to grow

"By recognising the value created by the agricultural sector, our support enables farmers to grow and strengthen their contributions to the Turkish economy."

Supporting small to medium-sized enterprises is a primary objective for QNB Group. Encouraging their growth and promoting financial inclusion helps to create economic diversification, drive success and support job creation.

In Turkey, QNB Finansbank has partnered with the European Fund for Southeast Europe (EFSE) to boost agricultural businesses as part of our mission to foster economic development and prosperity in the region. Launched in 2016, the project initially reached around 1,500 farmers and covered eight cities.

In 2019, we expanded the initiative and now offer our series of tailored workshops to thousands of farmers in 13 cities. The events, run by experts, help agriculturalists manage their finances more efficiently, benefiting both their businesses and the local economy. They cover a range of subjects from budgeting and revenue generation, to pest control methods and seed planting.

In addition to the workshops, we have also facilitated seminars for local agricultural unions and cooperatives, and continue to lead the way in the development of reports on trends and best practices in various agrarian subsectors.

As a result, we have significantly helped farmers to achieve greater success while strengthening our reputation in the agricultural sector and our support for SMEs across Turkey.

Wholesale and Commercial Banking
continued

10%
growth in corporate loans in Turkey

10%
growth in corporate loans in Egypt

In Europe, we delivered a strong performance in treasury and trade finance, attracting a number of new clients with a growing number of additional transactions in the pipeline. We were particularly active in both real estate and energy sectors in the UK, where we have significantly enhanced our loan book. While credit quality remained positive, we faced difficulties in pricing with negative Euribor rates due to the ECB's expansionary monetary policy.

In a challenging market environment, our teams in Turkey continued to gain market share against competitors while preserving asset quality with prudent risk management practices. We focused on digital development and innovation by creating unique solutions catering for the specific needs of our Turkish corporate and SME customers, such as the 'Digital Bridge'. Moreover, to cement our strong partnerships with our customers, this year we continued to host our 'İstanbul Meetings' event, a two-times Stevie Award winner.

In Egypt, we have continued to support different business sectors in 2019 by maintaining very strong and long-standing relationships with prominent Egyptian and multinational companies. Building from last year's success, where QNB ALAHLI was the first bank to finance the first on-grid Independent Power Producer (IPP) rooftop industrial solar power plant in Egypt, this year we increased our financing envelope for sustainable projects to EGP120 million. We have also played an important role in supporting the Government's plan towards the development and construction of new cities, participating in the financing of some of the major contractors. The strong corporate customer relationships, prudent credit decisions and balance sheet management resulted in a very strong performance from our Egyptian business, with one of the lowest NPL ratios in the local market, in addition to being the largest privately-owned bank in terms of total loan portfolio.

Looking ahead, we expect a significant growth in opportunities in our international corporate businesses with the opening of our office in Hong Kong next year.

QNB's global transaction banking strengths

- Investment in technology for the latest format/standards
- Leading domestic presence in Qatar
- Leading regional presence and growing international network
- Ability to support high-volume transactions via automation
- Comprehensive product offering to support trade and investment flows
- Experienced transaction banking teams located in key hubs and markets
- Strong credit ratings
- Multitude of proprietary and multi-bank channels

Global transaction banking

We offer cash management and trade finance products through our proprietary and multi-banking remote electronic channels. Our full line-up of transaction banking products and services is designed to meet the needs of local, as well as multinational, corporations. We pride ourselves on taking a proactive business development approach to make cash-management easier and helping our customers run their companies with greater efficiency.

Innovation, compliance and data protection are among our top priorities, so we are committed to investing in new, cutting-edge technologies that ensure our compliance with customer and regulatory requirements. Moreover, our robust governance policies are consistently updated to comply with the latest legislation and regulatory requirements.

98%
growth in bill discounting revenue in Qatar

25%
growth in customers using our Trade Portal platform

In 2019, we increased revenues, enhanced our digital capabilities, and introduced better connectivity for all of our customers across the entire QNB Group footprint. The growth in revenues was mainly driven by bill discounting and strong performances in Europe and Asia.

One of our goals is to make business easier for clients by reducing complexity and driving efficiency. So, in 2019, we launched a new corporate banking cash management portal in Qatar. This scalable and automated solution enables full integration with clients' Enterprise Resource Planning (ERP) systems to streamline their operations and drive efficiency. The new portal offers greater functionality and ease of use with a more responsive design, supports both English and Arabic languages and is compatible with the latest browser technologies. This one-stop-shop reduces the time needed to complete transactions and removes any need to use several different portals. We plan on continuing to roll out the platform throughout our international network in 2020.

We have also continued to on-board customers to our Trade Portal platform in several countries, leading to the generation of new businesses across QNB's international network.

During the year, in compliance with the Payment Service Directive (PSD2) Regulatory Technical Standards (RTS), we have implemented various new solutions, including a new Open Banking API platform in our Paris and London branches. Our PSD2-compliant Open Banking platform permits QNB to share customer data and receive payment instructions via a dedicated standard interface from third-party providers (TPPs) if the customer has given prior consent for the same. Furthermore, as part of the PSD2 Strong Customer Authentication regulation, we further enhanced the security of all of our electronic payment processing channels in the EU.

As part of the Open Banking process, we created a so-called sandbox – a type of secure software testing environment – to provide a real-time API testing facility for the licensed FinTech companies in the EU. This platform enables third-party developers to test their applications automatically with our Open Banking APIs in London and Paris. Once the Open Banking platforms generate enough business opportunities in the EU, we plan to capitalise on our investment into this technology and roll out Open Banking to our wider network.

In a further digital enhancement, we participated in business origination platforms that offer a single window for customers seeking to access trade finance marketplaces all in one place, enabling the facilitation and origination of transactions, including bids, simply and securely.

Looking ahead, we plan to roll out the SWIFT Global Payments Initiative (GPI), spearheaded by QNB Finansbank in Turkey, to make international payments faster, easier and more secure for our corporate clients. Once implemented in 2020, the project aims to improve customer experience in cross-border payments by increasing their speed and traceability.

QNB ALAHLI was the first bank to finance the first on-grid IPP rooftop industrial solar power plant in Egypt.

Wholesale and Commercial Banking
continued

Awards

Bank of the Year in the Middle East
– The Banker

Bank of the Year in Qatar
– The Banker

Bank of the Year in Egypt
– The Banker

Best Investment Bank in Qatar
– Global Finance magazine

Best project finance deal
– EMEA Project Finance Awards

Project & Infrastructure Finance Deal of the Year
– IFN (Islamic Finance News) Awards

Turkish Deal of the Year
– PFI Awards

Europe Road Deal of the Year
– IJ Global

Best Trade Finance Bank in Qatar
– Global Trade Review

> "In line with the bank's commitment to support sustainable financing, we continue to be involved in an increasing number of green financing transactions."

Global structured finance
Throughout 2019, our unrivalled expertise in syndication, structured and project financing services helped more customers achieve success in a growing range of significant capital projects and major corporate financing deals.

With product coverage focused in the Middle East, Southeast Asia, Europe and Africa, we are supported by hubs in Singapore and London, and satellite teams in our subsidiaries and associates. We cover both conventional and Islamic facilities in markets where QNB has a presence.

In 2019, our focus on Project Finance increased. We developed an active involvement in lending to project and structured finance transactions at all levels and covering a variety of sectors, including power, oil and gas, petrochemicals, infrastructure, telecommunications and utilities. The number of transactions in syndication and structured finance also grew, with significant mandates in real-estate and asset-backed financing as well as in Export Credit Agency financing. The bulk of our work continues to be spread across our network in Qatar, Oman, Turkey, France and the UK, as well as several key projects in the Asian markets such as China, India, Singapore and Indonesia.

In addition, there has been a growth in activity in our work with several government-related entities and a rise in the number of public-private partnerships, both in Qatar and in the region.

Meanwhile, in line with the bank's commitment to support sustainable financing, we continue to be involved in an increasing number of green financing transactions. This year, one of our most significant green projects was in the UK, while QNB also provided funding for energy efficiency and renewable energy projects in other markets. While sustainable financing is already well-established in Europe, it is becoming increasingly important elsewhere.

Looking ahead, the establishment of QNB's presence in Hong Kong will provide greater access to China, where we expect to see a significant growth in activity. At the same time, we will continue to capitalise on our international network to seek out and support additional opportunities.

Treasury
We offer a comprehensive range of treasury products and services across the bank's global network, including advisory, investment and hedging solutions to our diverse customer base. The ongoing development of our structured products capability together with continual enhancements to the treasury system allows us to offer bespoke support wherever required.

Our treasury function is split into two key activities – trading and sales. Trading activities consist of asset and liability management, foreign exchange, fixed income and hedging. Meanwhile, sales are focused on corporate, high net worth individuals and institutional customers.

The bank continues to have good access to funding and maintains a strong and robust liquidity profile, as reflected by all key ratios. QNB Group follows a very conservative approach to managing its liquidity needs and a prudent liquidity management programme is in place to address urgent and exceptional business requirements. The Group's approach is to ensure self-funding of all QNB branches and relevant network countries, and an autonomous asset and liability management, complemented by a proactive treasury sales approach. In Turkey, for example, amidst ongoing market volatility, QNB Finansbank issued a USD500 million senior unsecured bond in Q1, which was well received by the market. QNB Finansbank also converted some of their Tier 2 to AT1, and repriced residual Tier 2 at tight market pricing with a maturity extension.

At QNB, we always maintain a very healthy liquidity buffer, both in local and major currencies. This is to ensure the Group's Capital Adequacy Ratio (CAR) is higher than the regulatory minimum requirements of the Qatar Central Bank and Basel Committee, as well as to sustain the continued growth of our book.

Our well-established and diverse international wholesale funding platform consists of deposits, structured deposits, Certificates of Deposit (CDs) and both public and private placement bond issuance under our Euro Medium-Term Note (EMTN) programme. The bank continues to attract an extremely broad investor base, and liabilities are raised in many currencies across the full tenor range, with global participation from investors.

QNB's funding base is spread across various geographies in terms of currencies, tenors and product mix. Total issuance during 2019 exceeded USD3.7 billion, with private placements of USD1.87 billion and public issuance of USD1.85 billion, including a new Formosa transaction.

This reflects the Group's success in diversifying funding sources by entering new debt markets, sourcing sustainable long-term funding, extending the maturity profile of funding sources and the trust of international investors in QNB Group's strength and strategy.

QNB Capital
We remain the established leader in the Qatari investment banking market, with the largest dedicated team of financial advisory and investment banking professionals. With in-depth experience across multiple countries and markets, we continue to help QNB grow its brand while boosting its financial performance.

In 2019, our investment banking team supported a range of diverse domestic and international clients on a number of mandates and with a comprehensive range of advisory services, including mergers and acquisitions, equity and debt capital markets and project finance.

We continued to act as a key adviser for the government on a range of initiatives to help the diversification of the economy, such as self-sufficiency and private sector development.

With the creation of Qatar's first free-zone and the launch of the Investment Promotion Agency this year, we expect a significant increase in foreign direct investment that will continue to support this drive.

This year has also seen an increase in businesses seeking support in preparing for an Initial Public Offering (IPO). Perhaps the largest and most anticipated was that of Baladna Q.P.S.C., Qatar's largest producer of fresh dairy and beverage products. QNB Capital acted as the sole listing advisor and offering manager to bring the business to market. The QR1.426 billion IPO is the largest since last year's QAMCO IPO.

In the debt capital market space, QNB Capital remained active, and acted on a number of significant and high-profile bond transactions over the course of 2019. These included:

> USD500 million Sukuk issue for Qatar International Islamic Bank;
> USD500 million bond issue for QNB Finansbank;
> USD12 billion triple bond issue for the State of Qatar (5, 10, and 30 years);
> USD750 million bond issue for Qatar Islamic Bank;
> USD1 billion bond issue for QNB;
> USD500 million Sukuk issue for Warba Bank;
> USD500 million bond issue for Ahli Bank QSC;
> USD500 million Sukuk issue for Masraf Al Rayan; and
> USD300 million AT1 Sukuk issue for Qatar International Islamic bank.

While there has been an increase in the number of Public Private Partnership initiatives under discussion, particularly in the healthcare, education and tourism sectors, the market is still relatively young. We expect it to mature over the next few years, fuelled in part by the relaxation of foreign ownership and the strength of Qatar's economy.

QNB Capital's mission is to remain the investment bank of choice for Qatari and regional clients

Advisory services

Strengths

> Regional expertise with one of the best investment banking teams in the GCC.
> Proven track record on high-profile transactions.
> Depth of advisory services, including M&A, equity, debt and project advisory.
> First-class research capabilities and sector knowledge.
> Unsurpassed experience and trusted relationships in the Qatari corporate environment.
> Established European real estate investment management capabilities.

Retail Banking

By listening to our customers, rewarding loyalty and providing an outstanding banking experience, we are well-positioned to maintain our growth across our growing international footprint.

What we do

Retail Banking offers a comprehensive suite of products and services with an integrated, multichannel distribution network, including:

> 60 branches in Qatar and 1,053 abroad;

> more than 466 ATMs in Qatar – the largest network in the country – and 3,869 abroad;

> innovative and user-friendly internet and mobile banking platforms;

> market-leading premium proposition through the QNB First and QNB First Plus services; and

> international retail offering through the QNB First Global Recognition programme with global account access across our international network.

How this supports our strategy

Protect leading market position in Qatar

Accelerate international growth

Read more about our **strategy** on page 27

The strong performance of our retail banking business is a testament to the execution of our long-term strategy, the quality of our offering and the experience of our workforce. Moreover, it highlights the commitment and dedication we have for improving and enriching the banking experience across every one of our growing number of touchpoints. By connecting customers to our range of best-in-class products and services, providing unrivalled support across domestic and international markets, and rewarding their loyalty, we continue to be the bank of choice for millions of customers.

We are leading the way in introducing new payment solutions and technologies that are safe, secure and offer greater convenience to our customers. For that reason, innovation and finding new ways to better support the evolving needs of our customers remains at the forefront of our thinking.

In 2019, the segment profit of our retail banking business in Qatar rose by 84%. Net interest income was also up by 27%, driven by low-cost deposit growth which has improved our margins. Meanwhile, our cost-to-income has also fallen from last year on the back of good revenue growth, strong cost management and our focus on improving efficiency. We also maintained our market share in personal loans.

In Egypt, QNB ALAHLI contributed to the overall society and specifically to individuals by actively participating in CBE's Mortgage Finance Fund initiative. This initiative provides financing for residential units for mid and lower income clients. As a result, QNB ALAHLI expanded its mortgage portfolio by 30% this year.

In Indonesia, we have started a cooperation with several insurance partners this year to provide bancassurance services as part of our value proposition. Together with new investment products, we expect to see additional growth in the customer base and fee income.

Digital growth

We have a strong digital strategy, driven by the voice of our customers, which aims to differentiate us from our competitors.

We continue to see strong growth in the internet and mobile banking penetration across our entire network. In Qatar, more than three-quarters of our customers now bank through our digital channels, while in Turkey, our digital bank Enpara continued to attract new customers, growing its customer base by 43% to reach 1.8 million. Furthermore, 97% of all retail transactions in Qatar were through digital and remote channels.

We are continuously enhancing our mobile platforms, delivering more functionality. This year, we have simplified money transfers by introducing QR codes, extended our mobile banking services to instantly and conveniently manage funds across some of our international branches and added our new Cash@Speed service to the QNB Mobile Banking app. The Cash@Speed product provides customers with instant cash advances and allows them to transfer money to any Qatari mobile phone number to be withdrawn at any QNB ATM.

Reflecting the increasing popularity of investing online, we were the first bank in Qatar to introduce an electronic Initial Public Offering (e-IPO) as part of our digital services. The application allows customers to subscribe themselves and their families to Qatar Stock Exchange IPOs online. This provides a faster and easier process for potential investors, enabling them to scan and upload all necessary documents in a matter of minutes, 24/7. The launch was hugely successful, with thousands of customers using the new e-IPO function for the Baladna Food Industries IPO.

This year, we also expanded our partnership with Western Union, allowing our customers to send money to even more countries.

10%
growth in QNB ALAHLI retail deposits

15%
growth in digital bank customers in Turkey

97%
digital transactions in Qatar


Strong growth in mobile banking across our networks.

Awards

Best Mobile Banking Application
– Arab Digital Banking Excellence

Best Digital Bank in the Arab Gulf Region
– Arab Digital Banking Excellence

Domestic Retail Bank of the Year in Qatar
– Asian Banking and Finance Magazine

Digital Banking Initiative of the Year in Qatar
– Asian Banking and Finance Magazine

Mortgage and Home Loan Product of the Year in Qatar
– Asian Banking and Finance Magazine

Best Biometrics Initiative, Application or Program in Qatar
– The Asian Banker

"By connecting customers to our range of world-class products, we continue to be the bank of choice for millions of customers."

As we believe that customers' time is precious, our mobile services also help customers reduce queueing time at branches. Our remote queueing service allows customers to select an appointment time and avoid waiting in branches. This application currently provides details of both the closest as well as the least-busy branches. We have also reduced our customers' waiting times by expanding the levels of service across our Interactive Teller Machines. We introduced the universal teller concept, deployed more staff and extended the opening hours of the units to match its popularity among our customers. Our cross-trained tellers can now perform most of the functions customers demand at their branch. As a result, we have further reduced the in-branch servicing time as well as footfall for teller transactions.

In Egypt, our digital investments are beginning to pay off, where we achieved a marked increase in internet and mobile banking customers, reaching almost one million. Additionally, we increased the penetration of our other products, where our mVisa solution reached more than 150,000 users and our e-wallet solution reached more than 100,000 users. QNB ALAHLI's mVisa application is a simple, fast and secure way of instant payment to merchants or individuals using a smartphone, while the e-wallet solution is a safe and convenient method to pay bills and transfer money to any mobile wallet in Egypt.

Premium services

Our international footprint continues to grow with the ambitions and lifestyles of many of our most valued customers. Providing them with seamless, high-quality banking services is one of our core strengths.

We do this through QNB First and QNB First Plus, which deliver a global premium banking experience. With our global recognition programme, customers can open accounts in several of our international markets and have access to services such as cross-border mortgages and emergency cash as well as being supported by a team of dedicated relationship managers.

Both customer numbers and account openings continued to rise in 2019, supporting an increase in profits. QNB First customers in Qatar increased by 10%, while those in our international branches grew by 10%. We experienced strong growth in both domestic and international loans and deposits, with a jump of 27% in non-residential accounts.

Our cross-border mortgage offering, complemented by our real estate advisory service, is available in the UK, France, Lebanon, Turkey, Egypt and Jordan. This year, we further enhanced our presence in Turkey with an agreement with a major Turkish real estate company with a strong portfolio of high-end properties in sought-after locations.

We have a full international team in place collaborating and regularly sharing best practices and insights. One of our main objectives this year was to revamp our premium banking propositions in Turkey and Egypt to become part of the global QNB First proposition. This involved renovating a number of flagship branches in Turkey and launching a new mobile banking platform specifically designed for the QNB First segment. This has given way to a double-digit increase in our premium banking customer base and assets under management in Turkey. Similarly, we have opened several dedicated lounges for our premium customers in Egypt.

Retail Banking
continued

> “The Mobile Money Wallet has enabled our staff to receive their salaries on same day, without limitations of salary amount.”
> – QNB SME client

Case study
Helping our clients manage their payroll

As a bank, we are committed to supporting a healthy relationship between employers and employees while helping to secure financial inclusion for all. That is why we are proud of our work to ensure the rights of workers are protected and they receive their income in a transparent and timely manner.

As more companies take advantage of the Ooredoo Mobile Money Wallet through QNB to distribute salaries electronically, more employees benefit. Introduced to support the introduction of the Wage Protection System (WPS) four years ago, the application has been a huge success, ensuring workers are paid their salary on time and without any delay.

Feedback from employers and employees has been overwhelmingly positive, with many praising the efficiency of the service, which has made the entire process simpler, more accountable and more transparent.

According to one of our customers: “Mobile Money Wallet helped my organisation in distributing salaries in an orderly way. It made it an easy process for both the organisation and the staff members. Also, it was helpful for keeping a record of the previous month’s salaries for each employee.”

This solution offers a comprehensive suite of financial services such as remittance, payroll, bill payments, mobile top-ups and peer-to-peer payments, cash withdrawal and transfers. Another client stated that: “This service has saved time for many employees, as they are now transferring their salaries easily to their country without going to the exchange companies and standing there for a long time.” This year more than six million transactions were performed using the wallet.

Our cards business
Our performance across 2019 ensured we maintained our position as the market leader in card provision in Qatar. The investment in technology and the enhancement of our products and services have underpinned our profitability, while our relentless focus on providing an outstanding customer experience continues to attract new clients and retain existing ones.

We continued to strengthen our cards base, attracting more customers into the market. We saw a significant rise in total spend, boosted in part by our highly attractive loyalty scheme. This has been driven by the level of service and banking experience we offer our customers, who strongly value our products and the support we provide.

In 2019, credit card volumes increased by 13% in Qatar, while debit card growth rose by 8%. By growing faster than our competitors and capturing higher market share, we have extended our leadership as the largest cards and payments business. We also lead the market in terms of technology, product features and benefits.

The widespread introduction of contactless payment across Qatar this year has also contributed to greater spend on cards. All our debit, credit and pre-paid cards now offer the option of contactless payment. As part of our move to upgrade our entire card suite, we invested in instant card issuance capabilities across the country to help seamlessly replace older cards quickly and easily. At the same time, we supplied merchants with thousands of new point of sale (PoS) terminals able to process both contact and contactless transactions. This makes payment easier and faster without compromising on security and protection. It also opens the way for customers to pay using their smartphones or wearable technology, such as smart watches, rings and wristbands.

More customers benefited from our Smart Instalment Plan. The service continues to grow in popularity, allowing them to spread the cost of their payments on high-value purchases of up to QR100,000 across interest-free monthly instalments using QNB Internet Banking.

With the opening of Doha Metro and the roll-out of the city’s new tram service, we remain the sole provider to Qatar Rail and the Ministry of Transport for payment acceptance for Travel Cards.

With the approach of the 2022 FIFA World Cup in Qatar, we are also working with a number of providers to support payment acceptance for the event and beyond. We are also proud to have facilitated a seamless payment experience by enabling mobile app-based payments via QR code for the national taxi network.

In Turkey, QNB Finansbank signed a deal with Turkish Airlines and launched Miles&Smiles co-branded credit card programme. It is now widely considered to be the best loyalty card programme for the affluent and private banking customer segment in the country.

In a clear indication of QNB ALAHLI’s success in the Egyptian market, the bank has reached more than 1.5 million cards. This product has been complemented by Visa and Mastercard business cards, further expanding the diversity of our products to meet our customers’ increasing requirements.

Looking ahead
To help customers become better at budgeting and managing their money for their long-term financial goals, we are working on the launch of a personal finance management tool which will be rolled out in 2020. Meanwhile, we will continue to enhance the QNB Explorer mobile application adding extra awards and privileges for QNB First and QNB First Plus members.

QNB Finansbank launched the Miles&Smiles co-branded credit card programme with Turkish Airlines.

Group overview
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Asset and Wealth Management

Our award-winning wealth management services continue to stimulate growth and investment at local and international levels and solidify our leading reputation and growing market share.

What we do

QNB Group's Asset and Wealth Management (AWM) provides an end-to-end advisory service for clients to help them effectively manage their wealth. This ranges from serving high-net-worth individuals with our private banking offering, through to managing mutual funds covering a variety of asset classes, to our expanding brokerage offering and custody services.

How this supports our strategy

Protect leading market position in Qatar

Accelerate international growth

Read more about our **strategy** on page 27

Asset management
Despite the enduring effect of the volatile conditions which were witnessed in equity markets in 2018 and a hesitant domestic Qatari market in 2019, we have seen continuing support from our institutional client relationships, while also successfully maintaining a strong contribution from our individual clients.

In 2019, we saw an increase in the level of international activity, driven in particular by Turkey and Singapore, as clients sought to capitalise on new investment opportunities. Declining interest rates globally and the resulting negative yield environment in the key international debt markets provided an opportunity for us to offer enhanced returns to our international investors with Middle East and North Africa fixed income products. In response to growing demand for fixed income, we expanded our UCITS-compliant fund platform with the introduction of a Global Sukuk fund, further enhancing our Sharia-compliant offering.

This allowed us to attract more investments into the fixed income space than into equity. For the first time, this included an investment mandate from a prominent Far Eastern sovereign investor in a landmark deal originated by our Singapore hub. This was augmented with a significant incremental investment from one of our existing regional clients outside Qatar.

In 2019, we also saw a distinct move away from equity investment opportunities focused predominantly on geography, in favour of those related to sector specialisation. As a result, we further developed our open-architecture third-party investment platform to offer clients thematic funds, such as robotics, security, and medical devices.

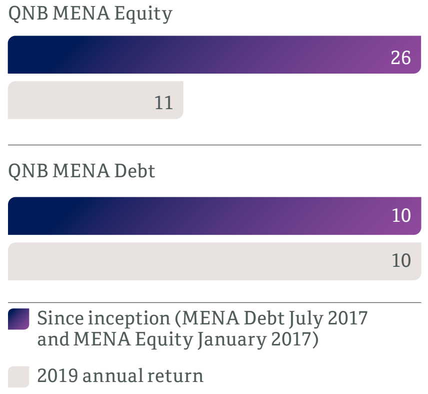
Following the success of the Eurobond issuance by QNB Finansbank in Turkey, we have included it in our platform for Qatari clients. Turkey has also become an important investment destination for our Qatar and Singapore-based clients. In 2019, we saw increasing investment flows into the country in both fixed income and real estate investment and expect this to continue.

Looking into 2020, we plan to establish an infrastructure fund to attract both local and foreign investment, as the Qatar Government moves closer towards its stated aim of developing more private-public partnerships. We will also continue to develop new investment products and further improve our internal systems and processes. This will boost our capability and further support our relationship managers to enhance the service to our clients.

Private banking
Relatively low global interest rates, continuing challenges in the regional real estate market, and more sophisticated financial strategies encouraged many of our clients to take advantage of more lucrative investment opportunities in 2019. The strength of our reputation, expert team and carefully curated range of products served to further strengthen the appetite of our ultra-high and high-net-worth clients in this regard. We were able to offer a comprehensive range of tailored international investment opportunities thanks to our well-established global network, in-depth market insight, and highly-skilled and responsive team. In this, we were supported by our private banking services in Switzerland, France and the UK.

28%
growth in Private Banking assets under management in Qatar

Performance of QNB MENA Equity and QNB MENA Debt funds (%)



Awards

Broker of the Year in Qatar – Global Investor magazine

> "We have seen continuing support from our institutional client relationships while also successfully maintaining a strong contribution from our individual clients."

We worked closely with our clients as they continued in their transition from deposit products to a range of more advanced hybrid and fixed-income products designed to enhance yield. As a result, our investment assets under management increased by 28% this year.

As our clients become increasingly demanding in their investment strategies, we are active in providing them with leverage to optimise cash flow and generate greater returns. This is a growing area of focus for our operations in Qatar and across QNB Group as a whole.

Looking ahead, we plan to promote investment awareness through an increased number of events in Qatar and across the international stage in 2020. This will be supported by the recruitment of a number of additional specialised financial advisers who will further enhance our team and generate additional revenue for the bank.

Brokerage and custody services
Through QNB Financial Services, our fully-owned award-winning subsidiary, we provide the leading brokerage service in Qatar. In 2019, we maintained a strong performance in the institutional investment market, allowing us to once again grow our market share to 31%.

Besides providing access to the Qatar Stock Exchange (QSE), we also connect investors to a range of international markets. We provide investment opportunities and solutions across a range of diverse products and markets, capitalising on the in-depth knowledge and experience of our team to deliver first-rate services.

To broaden our service offering and to improve the market liquidity, in 2019 we created a new department dedicated to leading the way as a market maker and liquidity provider. To support the move, we have recruited a strong, experienced team to boost liquidity by ensuring share trades are quick and easy by improving the order book and narrowing the bid-ask spread. We have also enhanced our front, mid, and back office systems to accommodate our market-making and liquidity-provisioning services.

Naturally, we have a strong ongoing relationship with QSE, acting as both trusted partner and adviser. This year, we once again supported QSE at international investment events that act as a showcase for Qatar's leading businesses. These annual forums allow us to highlight and encourage greater and more diverse investment opportunities. As well as providing in-depth market intelligence and equity research, our unmatched corporate access encourages major global institutions and brokers to use us to connect with key Qatari companies.

The success of our business continues to be recognised through industry awards. This year we were recognised as Broker of the Year – Qatar by the Global Investor magazine for 2019.

In our custody business, we are moving beyond serving purely domestic clients to focus on attracting global custodians and capture greater market share of global investment flows into Qatar.

We are already in discussions to onboard a global custodian and are confident about delivering strong growth in this area within the next 12 months. To support this, we have reviewed our structure as well as our people, processes and technology to ensure we uphold the very high standards our customers and regulators expect from QNB Group. At the same time, we reviewed our cross-border security agency services as part of this custody offering.

International Business

Expansion and consolidation have fortified our International Business, providing additional strength to our network and driving solid, sustainable growth.

What we do

We are responsible for delivering QNB's vision of accelerating international growth in coordination with all business and support functions. We ensure that we diversify QNB Group's revenue streams and manage the control environment. Our mission is to connect, enable and deliver sustainable, profitable growth.

We have a clear line of sight across the entirety of QNB's international branch operations and subsidiaries. We work to ensure we are effectively leveraging our brand, our expanding international network and our competitive advantages as a Group. We do this by striving for excellence in the execution of our strategy and by embedding a consistent culture of best practice, regulatory compliance, governance and risk management while ensuring we have best-in-class processes and technologies.

How this supports our strategy

Accelerate international growth

Read more about our **strategy** on page 27

As our international network continues to expand, offering greater benefits to a wider customer base, so too does our contribution to QNB Group. In 2019, International Business delivered 34.5% to the bank's net profits. We have been growing our businesses by serving new corporate and retail banking customers within the region and beyond.

Expanding our reach
We expanded and consolidated our international presence in 2019, the Group has obtained the regulatory approvals from Hong Kong Money Authority to open a branch in Hong Kong, set to open in 2020. Our presence in this important hub will significantly enhance our activities in the region, supporting our existing operations in China and Singapore, further bolstering the reputation and reach of QNB Group. Notwithstanding the tensions seen this year, growth in both Hong Kong and the region is expected to continue, driven by trade opportunities, direct investments, and large infrastructure spending opportunities. The Hong Kong branch will offer the opportunity to leverage QNB's in-depth expertise to capture investment and trade flows in this promising market.

A significant volume of Hong Kong's trade flows through countries where QNB Group is present. Hong Kong is the gateway for QNB Group's clients to China and wider Asia and is the first stop for globalising Chinese corporates. Moreover, the branch can further assist Chinese investments in the Middle East and Africa. The bank is already actively supporting clients in the Far East, and with the addition of Hong Kong, we will be able to strengthen our existing relationships and build new relationships in other markets in the region.

Leveraging our footprint
We continued our focus on providing our customers with a high-quality, seamless banking experience throughout our network. In Indonesia, we onboarded a new leadership team to reinvigorate our products and services in the country. With the move into new headquarters and by streamlining branches, we successfully reduced costs, creating greater efficiencies. We also refreshed the composition of the Board, introduced stronger risk and governance protocols and boosted engagement with Head Office in Qatar. As a result, we have seen a significant rise in operating profit and positive customer feedback.

QNB's upcoming Hong Kong branch will leverage QNB's in-depth expertise in the region.

Integration across all our network countries has strengthened our processes throughout the Group.

34.5%
share of QNB Group net profit

International Business net profit (QR billion)

2019	4.95
2018	5.06
2017	4.76

> "We expanded our international presence with the award of a licence for our branch in Hong Kong, planned for opening in 2020."

In Europe, we continued to upgrade our capabilities with additional recruitment and have enhanced our systems and applications to meet stringent regulatory requirements. Our strategy in this region is to continue to focus on building strategic relationships with key clients by positioning ourselves as their gateway to MEASEA.

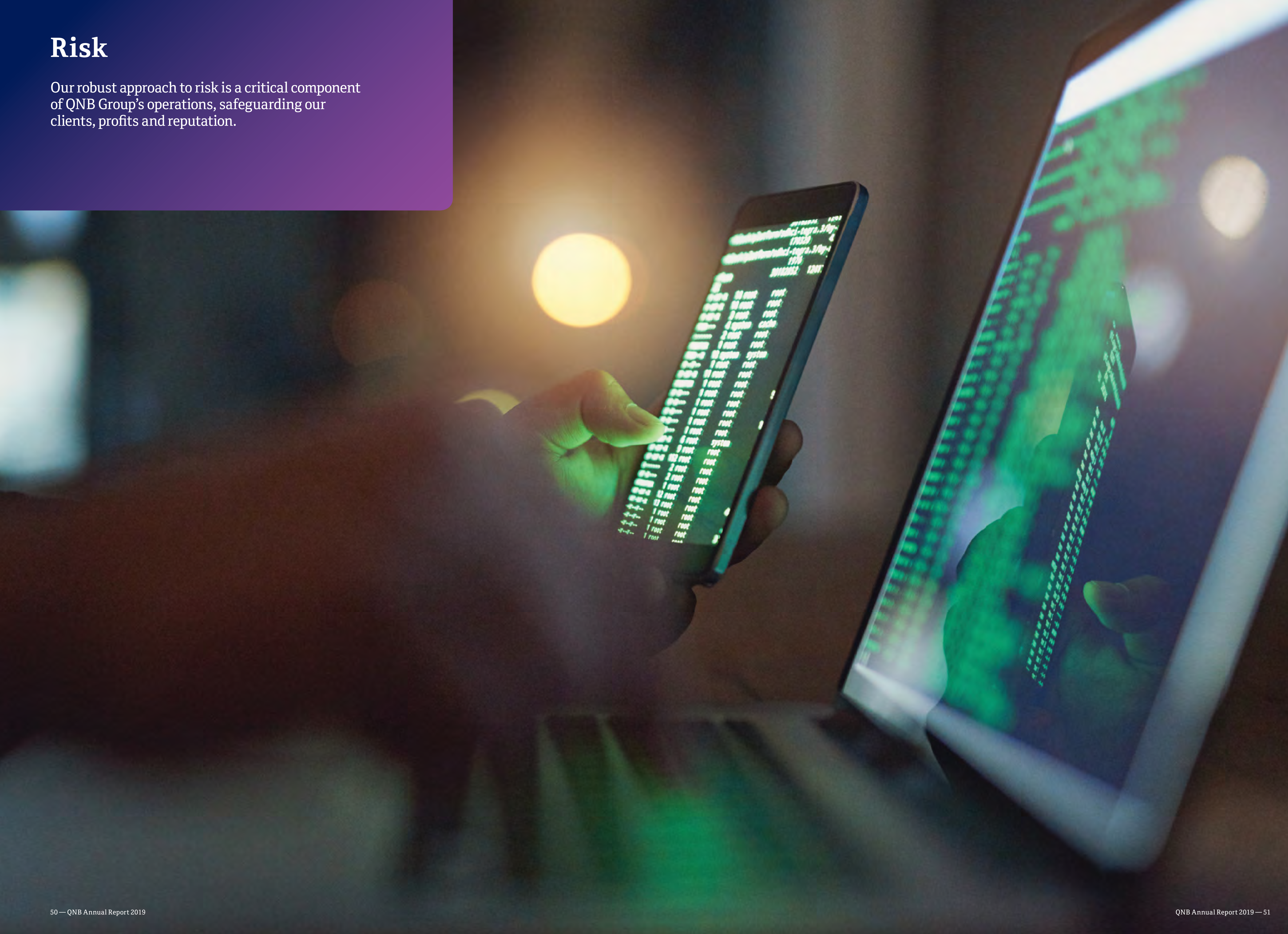
Driving integration
Last year's drive for integration across all our network countries has significantly strengthened our processes throughout the Group. We now have a much deeper level of organisational consistency and co-operation that has enabled us to capture additional revenue from increased trade between Qatar and, in particular, Turkey, Europe, Asia and Africa. It has also fortified our governance and risk structures and built greater awareness and engagement around both.

To support best practices and ensure a consistently high-level of customer service, all our relationship managers in our international branches have embarked on a two-year training programme to develop their skills in planning, account portfolio management, and working as a trusted adviser.

From a revenue perspective, we leveraged the Group's wholesale and retail banking capabilities and expertise to enhance our customer propositions in several of our international markets. By connecting the local transaction banking capabilities of our subsidiaries into the Group, we were able to connect and expand the service to the global network. This allows us to capture additional revenue opportunities from the trade among our network countries.

Risk

Our robust approach to risk is a critical component of QNB Group's operations, safeguarding our clients, profits and reputation.



Risk management

We are resolute in our disciplined approach to risk at every level, with a world-class governance structure supported by local expertise and robust central oversight.

> "We are forward-looking with a much stronger and better aligned international outlook."

Risk is an integral part of our business and decision-making process. QNB Group's sustainable performance depends on our ability to successfully manage risk at all levels. From an organisational perspective, the risk function is split between Group Credit Risk, headed by the Group Chief Credit Officer and Group Risk, headed by the Group Chief Risk Officer. Both functions report directly to the Group Chief Executive Officer (GCEO). As a result, we have a robust risk management governance framework that ensures we maintain a crucial balance between risk and reward.

QNB's risk profile and appetite are approved by the Board of Directors (BOD) and Group Board Risk Committee (GBRC) and then cascaded down to every division, department and employee.

This year, we have continued to refine our IFRS 9 processes in Qatar while rolling them out in the various jurisdictions in which QNB is active, but which are operating to different regulatory standards and timelines. This has enhanced our coordination across our finance, risk and business units and supported a review of our provisioning models. We fortified governance across the Group by strengthening oversight at Group level, reinforcing reporting lines at local, regional and international level. As a result, we are now more forward-looking with a much stronger and aligned international outlook.

Risk appetite
QNB Group's Risk Appetite Statement (RAS) is central to the Group's integrated approach to risk management and articulates the risk culture, governance and boundaries of QNB Group. The RAS provides a framework for QNB Group's attitude towards risk taking and is reviewed, reassessed and agreed alongside QNB Group's strategic and financial planning process. Our Group risk appetite is in accordance with risk management principles that govern our overall approach to risk management and our risk culture.

We believe that risk management is the responsibility of all employees across the bank and have been active in raising awareness and reinforcing individual accountability through a focus on the Three Lines of Defence model.

The RAS ensures alignment with the Group's vision and strategy by tracking current performance against risk appetite targets. In addition, QNB Group ensures regulatory compliance at a country level in line with risk management best practices.

In line with Basel guidelines, the Group has adopted the 'Three Lines of Defence/ Control' model.

1. Business and process functions

Responsible and accountable for identifying, assessing and controlling the risks of their activities.

2. Risk and control functions

Introduce policies and systems to ensure that the risks in the business and process units have been appropriately identified and managed.

3. Internal audit function

Independently assesses the effectiveness of the processes created in the first and second lines of control.

Provides assurance on these processes and value-added recommendations to improve the process and promote best practice.

> "We continue to improve our frameworks for risk identification to ensure timely early warning indicators and decision making."

Risk governance
QNB's risk exposures are mitigated through various mechanisms for risk assessment and control. Risk management is considered a fundamental element for QNB Group to ensure continued profitability and every employee in the Group is responsible for dealing with potential risks when carrying out their duties.

The BOD assumes the ultimate responsibility for monitoring QNB Group's risks through the GBRC in coordination with the GCEO, the Group Management Risk Committee (GMRC), the Group Credit Committee (GCC), the Group Operational Risk Committee (GORC) and the Group Assets and Liabilities Committee (GALCO). While the BOD retains overall responsibility, the authority for the day-to-day management of the risks has been delegated to the various management functions and committees.

The BOD assumes full responsibility for the development of strategic risks and the application of the relevant principles, frameworks and policies. This includes the implementation of appropriate restrictions with respect to products, issuer, geographic location and maturity. However, separate and independent entities responsible for the management and control of certain risks are nominated and predefined. Accordingly, QNB Group's treasury function is responsible for the Group's commitment to trading restrictions imposed by the BOD with second line oversight being provided by Risk Management and third line by the Group Internal Audit Division. A comprehensive control framework has been designed and implemented and detailed monthly reports are submitted to the GALCO.

The BOD also supervises the credit, market and operational risks affecting the Group. The BOD has determined the objectives and framework of the Group's risk management policy. As such, the Bank monitors its risks on a daily basis through the various committees based on the objectives and mechanisms identified by the Board.

The Group Risk Division, headed by the Group Chief Risk Officer, undertakes the implementation of the policy. Risk management policies and procedures are established in order to identify, assess and monitor the risk at Group level. The GMRC is considered the ultimate executive authority vested to deal with the various risk aspects at Group level. Group Risk Division undertakes the formulation and review of the risk management strategy, defines the risk management policies, evaluates the activities of risk management and control mechanisms, and assesses and determines the Group's operational, credit, market, strategic, legal, reputational and other risks. Group Risk also ensures the implementation of operational plans to monitor and manage these risks, reviews and monitors cases of fraud and operating losses and oversees the legal disputes at all levels.

Risk identification, monitoring and control
The identification of principal risks is a process overseen by Group Risk. The material risks are regularly reported to the GBRC and GMRC, together with a regular evaluation of the effectiveness of the risk operating controls. The day-to-day governance is delegated through an Enterprise Risk Management (ERM) oversight structure and a robust risk control framework.

This framework consists of a comprehensive set of policies, standards, procedures and processes designed to identify, measure, monitor, mitigate and report risk in a consistent and effective manner across the Group. The framework is essential to support our strategic objectives and acts as a platform for our growth. We continue to improve our frameworks for risk identification to ensure timely early warning indicators and decision making. In particular, we have a strong country and cross-border risk framework that enables us to measure and track country exposures against Board-approved limits.

Our centralised approach to risk management is complemented by local expertise and knowledge and every employee in the Group is responsible for highlighting and dealing with potential risks in the course of their work. To reinforce this, and to ensure all our regional hubs and territories embrace a consistent approach, we continue to rotate Group-level representatives of our Credit, Market, Liquidity and Operational Risk teams throughout our branches and representative offices to train and advise staff. The two placement programmes, the secondment programme and the ambassador programme, encourage and empower staff to undertake their roles with a deeper understanding of their risk mitigation, reporting and escalation obligations.

Credit risk

Through high-quality oversight and working collaboratively across the Group, we carefully manage our credit risk exposure, helping to maximise our risk-adjusted rate of return.

NPLs over gross loans (%)

2019	1.9
2018	1.9
2017	1.8

"Formal sustainability requirements are now integrated within our wholesale credit policy and we have incorporated ESG due diligence into our credit review practices."

Credit risk is considered to be the most significant risk category faced by QNB Group. As a result, credit risk is managed by a separate division from our other risk types.

We employ a framework of models, policies and procedures to measure and facilitate the management of credit risk. We ensure a strict segregation of duties between front-line transaction originators and the credit risk function as reviewers and approvers. Our credit exposure limits are approved within a set credit approval and authority framework.

Loan approval and review policies and procedures are robustly applied and updated regularly. The bank has an integrated process covering credit initiation, rating validation, analytics, approvals, credit administration and documentation, model risk validation controls, collateral management and limits monitoring at multiple levels.

Wholesale borrowers are assessed through a combination of expert judgement, experience and analysis together with the use of credit models. Credit applications pass through multiple levels of review and validation. Formal sustainability requirements are now integrated within our wholesale credit policy and we have incorporated ESG due diligence into our credit review practices.

As well as regulatory-mandated exposure limits, the bank imposes its own internal limits on obligor groups and individual obligors, reinforced by portfolio limits, which are expressed in terms of sector, country, rating, etc.

The bank's credit policy includes restrictions and prohibitions on lending to several sectors, while lending to the real estate sector is subject to tight internal lending criteria and QCB regulation, including high collateral coverage requirements and restricted salary multiples. Furthermore, many of the largest exposures benefit from the State of Qatar's Government guarantees and support, with the majority (by value) of real estate projects funded by the bank being Government infrastructure segment-related projects.

As per QCB regulations, obligors that do not fulfil their commitments in conformity with their contracts for a period of three months or more, or if there are other indicators of significant credit deterioration, then such accounts are classified as substandard (>= three months), doubtful (>= six months) or bad (>= nine months).

We hold provisions at minimum QCB levels or higher on non-performing assets. IFRS 9 has been fully implemented and staging classifications, expected credit loss (ECL) data and commentary are included in every credit paper. Although permitted under QCB regulations, QNB follows a conservative approach to calculating provisions and does not generally take collateral into account when calculating provisions on non-performing loans.

QCB performs regular reviews on watch-list and non-performing portfolios and requires the bank's external auditors to review and report on 100% of the bank's non-performing loans over QR100,000 in Qatar.

We continue to evolve and grow our organisational structure to ensure greater alignment in credit risk across QNB Group's global footprint. This has strengthened our collective knowledge, experience and skill set and we now employ more than 20 nationalities working across the team. We are proud to focus on developing Qatari talent in particular, and enjoy a Qatarisation ratio of more than 35% in Head Office. We have created a bespoke continuous professional development plan for each Qatari, including secondments to other areas of the bank and internal and external training courses.

Thanks to continuous improvements and rigour in managing our credit risks, this year we have continued to maintain a high-quality, diversified portfolio, as demonstrated by the Group's continued low NPL ratio of 1.9%.


We focus on developing Qatari talent by creating bespoke professional development plans for each employee.

International credit governance and regulation
As well as having a full credit risk function in our Head Office and subsidiaries, we also have local credit risk teams of varying sizes in our international branches. In addition to complying with local country regulations, the international branch credit teams have reporting lines into Head Office and are managed as an extension of the centralised credit team.

Credit governance is further strengthened by our close collaboration with Strategic Risk Management to set, monitor, and evolve our risk acceptance criteria across our markets and in line with both Group and individual branch strategies.

While Head Office continues to perform an oversight and decision review function across our subsidiaries, in 2019 we increased delegated authorities to those subsidiaries whose strong asset quality reflects the strength of their underwriting standards. To further harmonise our processes, standards and disciplined, high-performance culture, we have continued with our strategy of placing Head Office credit staff into key positions across the network.

This year, we also established a single point of contact for all credit-related internal audit recommendations, ensuring they are successfully implemented, and that best practice is applied across the network.

From a regulatory perspective, we were active in providing assurance around our credit policies and processes to regulators in Hong Kong in support of our successful application to open a branch in the region.

Elsewhere, to ensure appropriate risk ratings and requisite provisions across our network, we reviewed and benchmarked international branches' local regulatory requirements and IFRS standards on impairments and write-offs against those in Qatar.

Meanwhile, following guidance from QCB and in line with the Basel framework for measuring and controlling large exposures, we reinforced our controls and monitoring for financial institutions and subsidiaries to ensure effective, ongoing compliance in this area.

Process enhancements
As part of our continuing drive for consistency, this year we ensured all credit processes were standardised across the network. Credit functions at branch level now complete their independent analysis and administration work using a universal format, increasing efficiency and continuity, and reducing duplication.

We further enhanced the retail scorecard for personal loans booking in Qatar by compiling portfolio data and leveraging infrastructure and expertise from our larger retail subsidiary in Turkey. Other enhancements in 2019 included our credit risk dashboard, which we have improved by providing automated and integrated portfolio level data for our branches and subsidiaries.

Turnaround times also continued to advance, and we introduced common service level agreements in all our offices to speed up the end-to-end credit process, while maintaining underwriting standards. These started being rolled out to subsidiaries in Q4 2019. This was supported by the aligning of credit rating models in QNB Tunisia and QNB Indonesia.

Finally, we improved existing escalation procedures to enable us to better assess material variations to standard International Swaps and Derivatives Association (ISDA) documentation and Credit Support Annex (CSA) terms which are critical to mitigating potential risks from foreign exchange and derivative trades with our interbank peers and large corporates.

Strategic risk

Our sophisticated strategic risk capabilities enhance our capacity for growth and safeguard our future.

Fully loaded CET1 ratio (%)

2019	13.7
2018	13.4
2017	14.0

Liquidity coverage ratio (%)

2019	160.0
2018	124.0
2017	135.0

During the past year, we continued to advance standards in the risk control and monitoring framework across the Group, through the harmonisation of governance, policy, frameworks and reporting standards.

The strategic risk function manages strategic, enterprise, credit portfolio, market, ALM and liquidity risks. The team is also responsible for setting standards, performing and overseeing risk measurement, monitoring and control, stress testing and scenario analysis.

As QNB Group expands its international footprint, we continually support our requirement to service an ever more diverse and complex regulatory landscape. We provide insights, recommendations and support in all areas of prudential interaction, most notably with respect to emerging risks and changes to the bank's risk profile, the Internal Capital Adequacy Assessment Process (ICAAP), recovery planning, capital planning and in formulating responses to regulatory consultative exercises.

In 2019, we refined and standardised our risk appetite and policies across the international network, centralising standards, coordinating our strategic objectives and aligning risk-taking behaviour while strengthening governance. This has given us better oversight at the centre, enabling us to maintain compliance and boost risk awareness and discipline.

As part of our ongoing change programme, we improved the methodology for risk-adjusted pricing implemented last year and rolled it out to all branches across the network. One of these improvements was the roll-out of our online Risk-Adjusted Return on Capital calculator. Meanwhile, we extended the coverage of our Asset and Liability Management (ALM) system to our entire international branch network.

The bank continued its programme to embed IFRS 9, which provides an additional buffer for long-term earnings stability. Introduced last year, the impairment model impacts not only our balance sheet but also our accounting systems and processes. This year, we worked across all our international jurisdictions, which have different deadlines and requirements, to ensure the seamless implementation of the new regulations.

Market risk
Oversight of market risk is delegated by the BOD to the Group Assets and Liabilities Committee (GALCO). Market risk exposures primarily relate to interest rate risk in the banking book and FX risks that generally arise as a result of the bank's day-to-day business activities and client facilitation activities. Our market risk function monitors all market risks within the GALCO-approved delegated authority limits and product mandates. The market risk limits are set at very conservative levels to reflect a limited appetite for this type of risk exposure.

From a market risk perspective, QNB takes a very cautious position. Our Value at Risk (VaR) limit as a proportion of capital stands at 0.06%, while average VaR utilisation is at 11.0% of its limit. We are proud of the significant progress that we have made in strengthening our risk control and monitoring framework and being awarded 'The Achievement in Market Risk Management in the Middle East and Africa' by The Asian Banker.

0.06%
VaR limit as a percentage of capital

Awards

The Achievement in Market Risk Management in the Middle East and Africa
– The Asian Banker

Liquidity risk
To ensure a sustainable, profitable business and to retain the confidence of the financial markets, the prudent management of liquidity is essential. Ultimate responsibility for liquidity management resides with the BOD, with day-to-day management oversight being delegated to the GALCO.

The risk management oversight process provides assurance that the Group's resources are sufficient in amount and diversity. This allows for planned and unplanned increases in funding requirements to be accommodated routinely without material adverse impact on earnings or on the bank's perception in the market.

We maintain a strong liquidity control framework to manage the Group's liquidity and funding risk in a robust manner. Through this framework, we control and optimise the risk-return profile of the Group.

Stress testing and ICAAP
Maintaining sustainable resources across our network of countries in order to withstand unforeseen macroeconomic headwinds and shocks remains paramount. ICAAP is an integral part of assessing the capital adequacy of the bank, providing a forward-looking evaluation of QNB Group's ability to operate in a more stressed economic situation.

The results of this process help us to determine and plan how to position QNB Group's capitalisation and liquidity in the strongest possible way. Through this, we ensure that we maintain healthy risk metrics in line with our approved Group risk appetite and regulatory limits.

In 2019, we improved our stress testing and scenario generation capabilities adding greater levels of sophistication to the process, adopting a tailored approach to each jurisdiction in which we operate.

Data culture
Data control and analysis are essential in virtually every business. Collecting, analysing and deploying data enables us to make better decisions and increase our value proposition. It provides us with a much deeper level of insight into our customers, allowing us to deepen our relationships with them and provide a more personalised and efficient level of service. Introducing data analytics into our core processes and interactions also serves to strengthen our risk management.

As a data culture grows across the bank and our data management accelerates, we remain focused on the quality of our data, ensuring robust regulatory compliance and security.

Improved risk management and monitoring
We continued to develop a stronger risk control and monitoring framework that reinforces our value not just as a control function, but also as a proactive strategic partner delivering added value to the organisation.

To ensure we provide better intelligence and greater insight around developing risks, in 2019 we embarked on the process of establishing a more robust set of early warning indicators, adapted and tailored to each specific market. At the same time, we rolled out a series of new risk dashboards, designed to provide senior leadership with more timely metrics and insight into risk across the business. These enhancements have been used to support and inform a more proactive and forward-looking view towards assessing the impact of emerging risks upon the portfolio, through bespoke scenario analysis and the introduction of top-level risk alerts for executive management. These concise snapshots are issued whenever we anticipate a development that may potentially help or hinder the bank, giving the BOD more time and information to help guide agile decision-making.

Looking ahead
As we move into 2020, our focus is predominantly on building continuous improvement across all aspects of the risk management portfolio, including emerging regulatory challenges, such as Pillar II risks. We will enhance and expand our risk models and controls where appropriate and develop processes and governance around our increasingly sophisticated behavioural modelling capabilities.

Operational risk and cybersecurity

Our high-quality framework and efficient management of operational risk supports our strategy, protecting our customers and our reputation.

QNB considers operational risk as a separate and distinct risk category. We define operational risk as the risk of loss as a result of inadequate or failed internal processes, people and systems or from external events.

As we continue to grow in size and influence across an expanding regulatory landscape, it is important to ensure that our operational risk approach and framework properly reflects the increasing sophistication of the business and remains of high quality.

To that end, our mandate is to:

> promote a Group-wide operational risk awareness and management culture, further contributing to process efficiency and efficacy;

> establish a set of fundamental standards for operational risk management across QNB, leading to the avoidance of unexpected and catastrophic losses and the minimisation of expected losses;

> ensure that business objectives are pursued in a risk-controlled manner; and

> ensure consistency with relevant best practices and compliance with regulatory (quantitative and qualitative) requirements.

We have classified our seven principal operational risks as:

> **internal fraud** – misappropriation of assets, tax evasion, intentional mismarking of positions, bribery;

> **external fraud** – theft of information, hacking damage, third-party theft and forgery;

> **employment practices and workplace safety** – discrimination, workers' compensation, employee health and safety;

> **clients, products and business practice** – market manipulation, antitrust, improper trade, product defects, fiduciary breaches, account churning;

> **damage to physical assets** – natural disasters, terrorism, vandalism;

> **business disruption and system failures** – utility disruptions, software failures, hardware failures; and

> **execution, delivery and process management** – data entry errors, accounting errors, failed mandatory reporting, negligent loss of client assets.

Risk governance is discussed at our regular Operational Risk Committee meetings, where all seven risks are routinely analysed and day-to-day issues are resolved.

We continued to build on our expertise and best practice following the introduction of the new operational risk management system and, in 2019, we introduced a comprehensive third-party risk management (TPRM) approach. This enables us to effectively oversee each one of our diverse range of third-party suppliers and provide us with a comprehensive risk and performance assessment.

The introduction of a strengthened Group Operational Risk Framework and a fully-revised policy also helped our risk profile in 2019. There are seven key components of the risk framework which significantly enhance our ability to capture data, giving us a deeper and more comprehensive view of our risks. These are Event Loss Data Management (ELDM), Risk and Control Self-Assessment (RCSA), Risk Mitigating Actions (RMA), Risk Appetite and Key Risk Indicators (KRIs), control framework, policy and governance, and risk reporting and analysis.

Our ELDM process is fully-aligned with international standards, providing better analysis of all operational risk events and their potential impact on the bank, customers, regulators and reputation.

This year we significantly improved our RCSA methodology, which now forms the core of an 'interconnected' framework. Meanwhile, our RMAs form the foundation of our proactive approach to operational risk management, helping to identify and resolve control gaps or weakness and reduce unacceptable risk exposures. They also promote transparency and provide clear accountability and responsibility to mitigate operational risks. Using this framework has raised risk awareness levels across the bank and helped us to strengthen our risk culture, driving transparency and accountability.

> "We are investing even more time and money to ensure that QNB systems are adequately monitored and protected."

All this is underpinned by our people and the technology we use. We have a strong, knowledgeable team with international expertise and global bank experience, supported by a series of ongoing professional training initiatives and awareness programmes. Our systems and tools are state-of-the-art. For example, our sophisticated card fraud monitoring system provides increased protection for our customers while significantly reducing the risk of loss.

Meanwhile, our approach to business continuity management remains best-in-class and has been recognised with an ISO 22301 certification.

In 2020, we will continue to build on our successes, sharing best practice and insights, while strengthening governance and oversight across our entire network to ensure a consistent and robust approach to risk management.

Cybersecurity

The banking sector is a high-profile target for cyber criminals, with threats to even the most advanced systems being more frequent and sophisticated than ever. For that reason, we maintain a robust cybersecurity strategy and this remains a constant area of focus.

We place the highest priority on continuous enhancements to our IT security systems and our processes to safeguard our data. There are three key pillars which support our approach: technology, people and process. Each of these pillars needs to be strong and continually strengthened to support and protect the bank, and we invest in each accordingly.

QNB Group operates the latest technological platforms to support the proactive detection and prevention of malicious activities and attacks, many of which have become large in scale and extremely damaging to the companies involved. Once again in 2019, we continued our investment in both detective and preventive controls. With the continued growth of digital and open banking, we are investing even more time and money to ensure that QNB systems are adequately tested, monitored and protected.

We strengthened our internal Red Team capabilities to assess the robustness of our security measures. This allowed us to stress test our ability to safeguard critical assets using first-hand experience of cyberattacks. We simulate the tactics, techniques and procedures of a real-world targeted attack, without the negative consequences, significantly improving the effectiveness of our information security programme.

A training and awareness programme was rolled out to our customers and the entire employee base, highlighting issues such as social engineering and phishing attacks, improving the first line of defence against cyber threats. We have also complemented our capabilities by establishing and leveraging partnerships with the various law enforcement agencies and peer organisations across our markets.

QNB maintains an ISO 27001 certification, which is an independently certified methodology used to operate, monitor and improve the information security management systems (ISMS) in the bank. Complementing the ISMS, QNB's Security Operations Centre enables us to immediately identify and block malicious activities 24 hours a day, 365 days a year.

QNB Group's independent internal audit division includes a specialist team qualified in performing audits of information technology and information security, including data security. This team conducts annual risk-based audits covering these areas including review of related policies and procedures. The outcome is reported to the bank's independent Group Board Audit and Compliance Committee (GBACC), Executive Management and Group Cybersecurity Committee members. Any recommendations made in the reports are followed up by the internal audit division through to resolution.

In the coming year, we will continue to build and enhance our strategy and defences to ensure that any investments are in line with upcoming cyber threats.

Our three pillars of cybersecurity

Technology → People → Process

Corporate governance

QNB Group operates a corporate governance framework that ensures we are compliant across jurisdictions where we operate and are effectively able to manage risks.

Corporate governance

QNB's corporate governance framework is fundamental to the success of our business, reinforcing the trust in our brand that allows QNB to deliver sustainable and comprehensive change.

"Good corporate governance facilitates effective and prudent management that can deliver long-term success for the Group and maintains a culture that is in line with QNB Group's values."

Corporate governance has an important role in promoting sustainable economic growth by building investor confidence and strengthening financial markets. At QNB Group, corporate governance is not simply an exercise in regulatory compliance, but a means to demonstrate robust implementation of sound governance practices.

We have a robust set of corporate governance measures in place across the Group that combine all aspects of internal control, risk and compliance. These help us to successfully navigate the constantly changing regulatory landscape, allowing us to meet our customers' expectations and deliver sustainable value to our stakeholders.

Corporate governance practices are aimed at promoting overall transparency, explaining the rationale behind the decision-making processes, insights into the formation of the Board of Directors (including their related committees, powers and responsibilities), Executive Management responsibilities and other key corporate governance components.

A separate Corporate Governance Report is issued by QNB Group, as a supplement to the 2019 Annual Report, reflecting QNB Group's efforts to comply with the supervisory and regulatory requirements issued by Qatar Central Bank (QCB), Qatar Financial Markets Authority (QFMA), the Commercial Companies Law and all relevant regulatory authorities across our operating footprint.

"The Board of Directors remains committed to maintaining the overall bank soundness and working in the interests of not only shareholders but also towards our depositors and other stakeholders."

Board of Directors composition
According to QNB's Articles of Association, ten members of the BOD are elected or nominated for a three-year term, renewable for the same period. The major shareholder in QNB, which is the Government of Qatar, through the Qatar Investment Authority (QIA) (holding 50% equity stake), is entitled to appoint five of these members while the other shareholders have the right to elect the remaining five members. The BOD members elect its Chairman and Vice-Chairman among its members by a majority secret vote of the Board.

During the QNB Annual General Assembly Meeting held on 10 February 2019, Board elections were held in line with the regulatory requirements on Board composition, wherein five members were elected to the QNB Group Board of Directors representing the private sector and five were appointed through the Qatar Investment Authority (QIA). The Board members were elected for a three-year term from 2019 to early 2022.

The Board's roles and responsibilities
The Directors have a vital role of overseeing the bank's management and business strategies to achieve long-term value creation. Selecting a well-qualified Group Chief Executive Officer (GCEO) to lead the bank, monitoring and evaluating the GCEO's performance, and overseeing the GCEO succession-planning process are some of the most important functions of the Board.

The BOD is responsible for the leadership, oversight, control, development and long-term success of the Group. They are also responsible for instilling the appropriate culture, values and behaviour throughout the organisation as entrusted by the shareholders.

Tasks delegation and segregation of duties
A balance between the roles and responsibilities of the BOD and Executive Management is achieved through segregation of duties. The BOD provides overall strategic direction and oversight through the review and approval of major strategic initiatives, policies and objectives, while day-to-day management of QNB Group is entrusted to the GCEO.

The Board delegates to the GCEO, and through the GCEO to other Executive Management, the authority and responsibility for operating the bank's daily business. BOD members exercise vigorous and diligent oversight of the bank's affairs, including key areas such as strategy and risk, but they do not manage or micromanage the bank's business by performing or duplicating the tasks of the GCEO or Executive Management team.

The Board has also adopted a Board Charter, reviewed annually, which provides a framework on how the Board operates, as well as the type of decisions to be taken by the Board and which decisions should be delegated to management with periodic reports submitted to the Board on the exercise of the delegated powers. The Board Charter can be found on QNB Group's website and is also available in print to any shareholder upon request.

Board committees
As per corporate governance practices and regulatory requirements, the BOD of QNB Group has established committees to assist in carrying out its supervisory responsibilities.

Each BOD committee is assigned to handle one or more of the tasks of the BOD. The responsibilities of the BOD committees are duly documented in the terms of reference, which are approved by the BOD.

QNB Group BOD committees are as follows:

1. Group Board Executive Committee (GBEC)
2. Group Board Nomination, Remuneration, Governance and Policies Committee (GBNRGPC)
3. Group Board Risk Committee (GBRC)
4. Group Board Audit and Compliance Committee (GBACC)

Composition of the BOD committees

Board of Directors		GBEC	GBNRGPC	GBRC	GBACC
		Group Board committees			
Chairman	H.E. Mr. Ali Shareef Al-Emadi				
Vice Chairman	H.E. Sheikh Fahad Bin Faisal Bin Thani Al-Thani (GBACC Chairman)				●
Members	H.E. Sheikh Abdulrahman Bin Saud Bin Fahad Al-Thani		●		
	H.E. Sheikh Hamad Bin Jaber Bin Jassim Al-Thani (GBEC Chairman)	●	●		
	Mr. Ali Hussain Ali Al-Sada	●		●	
	Mr. Bader Abdullah Darwish Fakhroo	●		●	
	H.E. Mr. Fahad Mohammed Fahad Buzwair (GBNRGPC Chairman)		●		
	Mr. Mansoor Ebrahim Al-Mahmoud (GBRC Chairman)			●	
	Mr. Abdulrahman Mohammed Y Jolo				●
	Mr. Adil Hassan H A Al-Jufairi				●

"QNB Group is committed to maintaining the highest levels of fairness, integrity and responsibility in achieving our obligations towards shareholders and, more generally, the financial community."

Group Board Executive Committee (GBEC) primary responsibilities

> Review and endorse the Board's approval of the long-term strategy, annual business plans and budgets of QNB Group based on economic and market conditions and Board of Directors' directives;

> Review and approve credit proposals as per the approved authority matrix;

> Review and approve QNB corporate social responsibility strategy in light of QNB brand values across the Group;

> Review and consolidate marketing and communication plans and resource distribution plans to efficiently and effectively align them to support QNB business development and growth;

> Review and consolidate business developments, product alignments and resource distribution across QNB Group; and

> Review and recommend the action to be taken on impaired loans in line with the delegated limits and authorities as approved by the BOD and in line with QCB regulations.

Group Board Nomination, Remuneration, Governance and Policies Committee (GBNRGPC) primary responsibilities

> Identify and assess eligible and qualified candidates for the BOD and Executive Management positions according to the criteria set by the committee in addition to the independent/non-executives' requirements;

> Monitor the induction, training and continuous professional development of Directors pertaining to corporate governance matters;

> Approve and review the Group's remuneration and incentive guidelines and ensure that the remuneration of the Board of Directors and Executive Management is in line with the criteria and limits set forth by QCB and Commercial Companies Law;

> Direct and oversee the preparation and update of the Corporate Governance Manual in collaboration with the Executive Management and GBACC; and

> Appraise the Board of Directors of key sustainability-related risks and opportunities.

Group Board Risk Committee (GBRC) primary responsibilities

- Review and endorse the Board's approval of the risk management strategy of the Group as well as the Group's risk appetite and portfolio strategies recommended by the GMRC and review any changes in risk strategy/risk appetite arising;
- Approve risk frameworks, policies and control structures in accordance with the approved strategy and oversee the implementation of policies pertaining to the bank's internal control system;
- Evaluate the monitoring process made by the GMRC on Group entities in the identification of operational, credit, market, strategic, legal and reputational risks and action plans implemented to monitor and manage these risks;
- Ensure that there is no material impact/risk identified by the GMRC related to anti-money laundering and terrorist financing as well as the 'know your customer' requirements; and
- Review any breaches of risk limits or internal control failures (if any) and review investigation results performed by the GMRC.

Group Board Audit and Compliance Committee (GBACC) primary responsibilities

- Review and endorse the annual financial statements and consider whether they are complete, consistent and reflect appropriate accounting standards and principles before submission to the BOD for final approval;
- Review with management and the external auditors all matters required to be communicated or disclosed under generally accepted auditing standards or regulatory requirements;
- Consider, with internal and external auditors, any fraud, illegal acts or deficiencies in internal control or other similar areas;
- Review with Group Compliance and external auditors any fines imposed by the regulators and/or other bodies;
- Review and approve the charter, plans, activities, staffing and organisational structure of the Group Internal Audit Division;
- Ensure there are no unjustified restrictions or limitations on the functioning of Group Internal Audit, as well as on internal audit's access to the Group's records, documents, personnel and when required in performance of their functions;
- Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing and other applicable standards and best practices;
- Ensure the efficiency of the compliance function in detecting the related deviations and breaches within the Group, and ensure the non-existence of any factors that would impact its independency and objectivity as well as proper reporting of the compliance function with appropriate consideration to Basel Committee requirements and FATF (Financial Action Task Force) recommendations related to managing financial crimes;
- Review and approve the charter, plans, activities, staffing and organisational structure of Group Compliance Division;
- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of investigations and follow-up (including disciplinary action) of any instances of non-compliance within the Group;
- Evaluate the critical issues reports, submitted by Group Chief Compliance Officer and Group Chief Audit Executive, including those critical issues related to QNB Group subsidiaries; and
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the Group, including non-audit services.

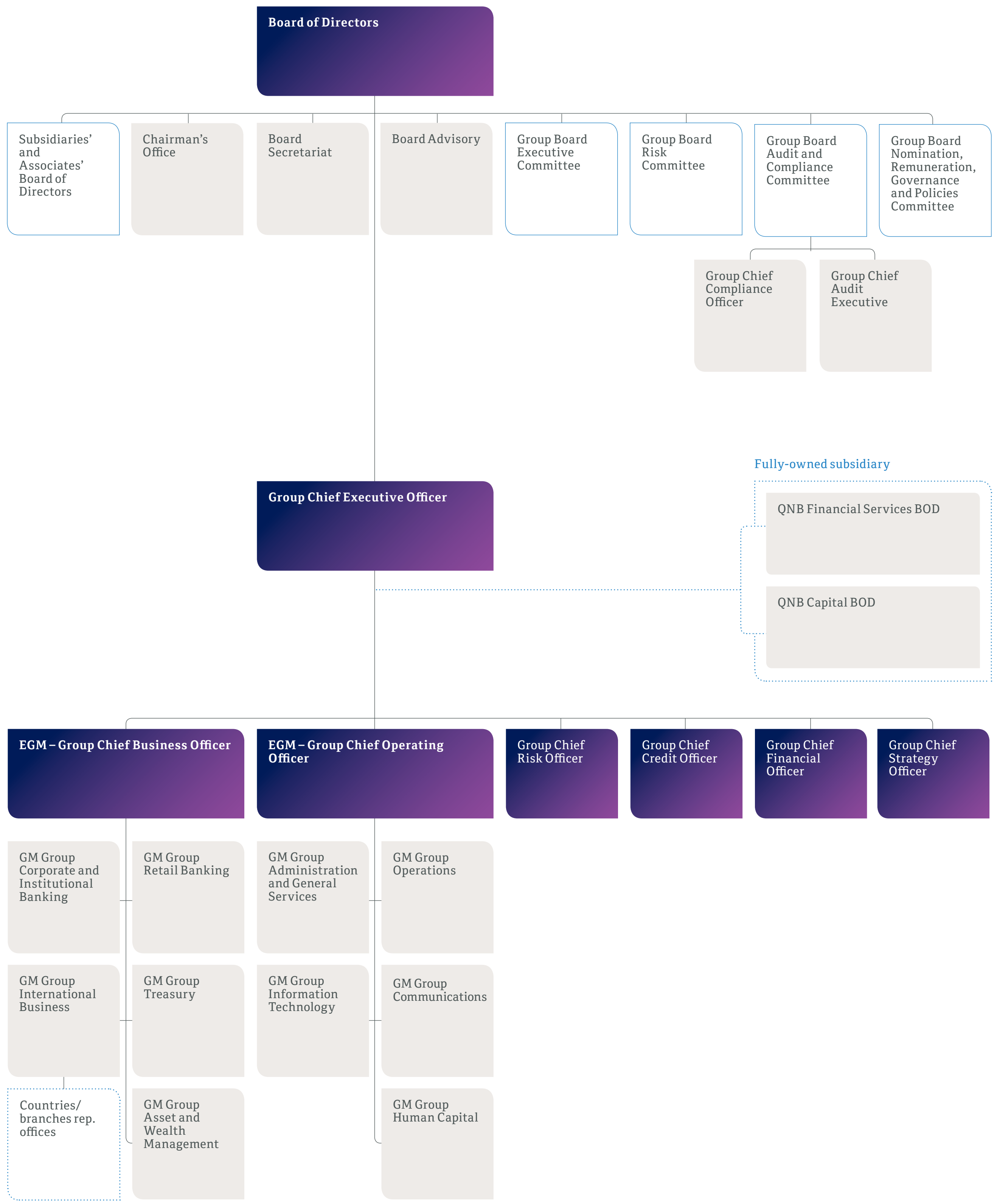
Board meetings

In 2019, the BOD held six meetings. According to QNB Group's Articles of Association, the Board should hold at least six meetings during the year. The meetings are held regularly or when called for by the Chairman or by two Board members. The invitation for the Board meeting should be communicated to all members at least one week prior to the meeting. In this regard, any member can add a subject to the meeting's agenda. The Group's Articles of Association also provide detailed information on the attendance, quorum, voting and meeting requirements.

In line with QFMA requirements, QNB Articles of Association article (28) states that an absent member may, by written request to the Chairman, delegate any other Board member to represent him/her in attendance and voting. A Board member cannot represent more than one member. The Board should periodically meet in order to ensure that it is adequately fulfilling its roles and responsibilities.

Number of meetings	Board-level	GBRC	GBACC	GBEC	GBNRGPC
1	15 Jan 2019	19 Mar 2019	15 Jan 2019	19 Mar 2019	19 Mar 2019
2	10 Feb 2019	21 May 2019	06 Mar 2019	21 May 2019	21 May 2019
3	19 Mar 2019	16 Jul 2019	09 Apr 2019	16 Jul 2019	16 Jul 2019
4	21 May 2019	20 Nov 2019	05 May 2019	20 Nov 2019	20 Nov 2019
5	16 Jul 2019		10 Jul 2019		
6	26 Nov 2019		12 Sep 2019		
7			09 Oct 2019		
8			17 Nov 2019		
Total	6	4	8	4	4

QNB Group organisation structure



Corporate governance
continued

Board of Directors and Executive Management members' remuneration
The remuneration system within the Group forms a key component of the governance and incentive structure through which the Board and Executive Management promote good performance, convey acceptable risk-taking behaviour and reinforce the bank's operating and risk culture. The Board, through its Group Board Nomination, Remuneration, Governance and Policies Committee (GBNRGPC) (by delegation) is responsible for the overall oversight of management's implementation of the remuneration system for the entire bank.

The GBNRGPC regularly monitors and reviews outcomes to assess whether the bank-wide remuneration system is creating the desired incentives for managing risk, capital and liquidity. The Board reviews the remuneration plans, processes and outcomes on an annual basis. In accordance with applicable laws and regulations related to the remuneration of the Board of Directors and QFMA requirements, QNB Group adopted a special remuneration policy for the BOD whereby the Group's Articles of Association have established a framework for the Board Members' remuneration, which is far below the limits referred to in the Commercial Companies Law.

The remuneration policy of the BOD members was duly acknowledged to be in line with QCB instructions; whereas the remuneration of the BOD members is presented on an annual basis to the General Assembly for approval. The GBNRGPC defines a specific policy for remuneration of the Executive Management before presenting it to the BOD for approval. The policy defines a mechanism whereby the remuneration is directly linked to the effort and performance at both department and employee levels, through the achievement of assigned goals and objectives in accordance with the profitability, risk assessment and the overall performance of the Group.

Executive Management team
The GCEO is aided by a seasoned and experienced Executive Management team. Six executives report directly to the GCEO:

> the Executive General Manager – Group Chief Business Officer (EGM – GCBO);

> the Executive General Manager – Group Chief Operating Officer (EGM – GCOO);

> the General Manager – Group Chief Risk Officer (GM – GCRO);

> the General Manager – Group Chief Credit Officer (GM – GCCO);

> the General Manager – Group Chief Financial Officer (GM – GCFO); and

> the General Manager – Group Chief Strategy Officer (GM – GCSO).

Our Executive Management team has 29% female representation, one of the highest for any major bank in the region and demonstrating our commitment to enhancing gender diversity at senior positions.

To ensure independence, the Group Chief Compliance Officer and the Group Chief Audit Executive report directly to the Board through the GBACC.

There are a number of management committees attended by Executive Management in order to effectively and efficiently handle the responsibilities and run the day-to-day activities of the bank. Management committees are endowed with full executive powers to take decisions and actions related to their field, scope and structured hierarchy.

Currently, the management committees established at Head Office are structured as follows:

> Tier 1 'Executive Committees', the 'decision-making' committees (which include ALCO, CPC, Credit, Cybersecurity, Risk, Senior Management and Strategy) will report to the Board via Board of Directors' relevant committee;

> Tier 2 'Management Committees', the 'working committees' (which include Business Development, IT, HR and Operations and Services) will report to the parent committee in Tier 1; and

> Senior Management Committee: chaired by the GCEO and represented by the six Chiefs (GCBO, GCOO, GCRO, GCCO, GCFO and GCSO). The committee discusses the critical topics and strategic matters related to QNB Group activities; oversees and monitors the activities related to the operations management committees (Tier 2); decision-making/preparation of Board decisions by collecting facts from related committees and providing opinions; monitors the capital and operating expenditure budget assigned to IT projects and services; reviews yearly the information technology strategy across the Group; and monitors the performance related to QNB divisions, branches and subsidiaries.

QNB Group subsidiaries form their respective management committees according to their own needs, size and nature taking into consideration the corporate governance framework of QNB Group. For supervision and coordination purposes, those committees report and coordinate directly with the correspondent GM at QNB Group Head Office level.

The overseas branches form one or more committees to strengthen the control environment in the various processes and banking activities. Such committees depend on the volume of business and the country risk where QNB Group operates and are decided by QNB management. The overseas branch committees report the critical issues handled by them to the relevant QNB Head Office division.

Management committees membership structure (Tier 1 and Tier 2)
● Chairman
✸ Vice Chairman
□ Member
○ Non-voting member
♦ Secretary

Management committee membership	Group Management Risk Committee	Group Credit Committee	Group Assets and Liabilities Committee	Group Strategy Committee	Group Information Technology Committee	Group Business Development Committee	Group Operations and Services Committee	Group Human Capital Committee	Group Cybersecurity Committee	Central Purchasing Committee	Senior Management Committee
GCEO	●	●	●	●					●	●	●
EGM – GCBO	□	□	□	✸		●			□	□	□
EGM – GCOO	□		□	□	●		●	●	✸	□	□
GM – GCRO	✸	□	□	□					□	□	□
GM – GCCO	□	✸	□	□						□	□
GM – GCFO	□		✸	□						✸	□
GM – GCSO	□		□	□	□	□		□			♦
GM – Group Chief Compliance Officer	○									○	
GM – Group Chief Audit Executive	○								○	○	
GM – Group Asset and Wealth Management		□				□					
GM – Group Communications						□					
GM – Group Corporate and Institutional Banking		□	□			✸	□				
GM – Group Administration and General Services					□		□				
GM – Group Human Capital								✸			
GM – Group Information Technology					✸		□		□		
GM – Group International Business Division		□			□	□	□	□			
GM – Group Retail Banking					□	□	□	□			
GM – Group Treasury			□			□					
GM – Group Operations					□		✸				
CEO – QNB Capital						□					
AGM – International Operations Affairs							○				
AGM – Treasury and Assets Operations							○				
AGM – Strategy and Business Development				♦							
AGM – Trading			♦								
AGM – Group Credit		□									
AGM – HC Strategy and Integration								□			
AGM – HC Services								□			
AGM – Operations Control and Excellence							♦□				
AGM – Group Operational Risk					□		○				
AGM – Group Strategic Risk Management	♦										
AGM – Central Operations							○				
Senior Credit Officer		♦									
Head of Infrastructure					□						
Head of Development and User Services					□						
Group General Counsel										○	
Group Chief Information Security Officer									♦		
EM – IT Strategy and Governance					♦						
Head of Global Cash Management						♦					
Head of Tenders and Contracts Admin										♦	
EM – International HR Integration								□♦			
Number of meetings held during 2019	4	38	11	4	4	11	4	4	3	•	12

• Due to business requirements, decisions by the CPC are taken through circulation and not through meetings.

Corporate governance
continued

Enriched corporate governance measures and practices
As part of reinforcing the robust corporate governance culture across the Group, QNB undertook a significant number of developments during 2019 and fortified its corporate governance measures and practices across all levels of the Group. The topics below summarise QNB's key activities in 2019 with respect to the enhancement of the corporate governance framework.

Bolstered governance – Board of Directors' independency assessment
QNB's BOD members are pivotal to the efficacy of the Group's corporate governance framework, as their diverse background, knowledge, competency and expertise builds a foundation whereon long-term success becomes a tangible commodity, then an attainable goal to achieve sustainable growth. The long-term success of the Group is dependent on a high-quality Board where the Directors are competent, well qualified, committed, with diverse backgrounds and who have independence of mind and perspectives.

During 2019, and in adherence with BOD independency and executive/non-executive stipulations of the QCB and QFMA, QNB conducted a comprehensive evaluation and assessment of the independence of QNB's Board of Directors (BOD).

Holistic governance – an intensive Board self-assessment
QNB seeks to continuously improve, embolden and measure Board engagement and effectiveness throughout the year. The annual Board self-assessment survey is a key governance tool that provides a practical engagement opportunity for the Board to share any recommendations or considerations they may have on governance and effectiveness. Group Compliance facilitates and coordinates the conduct of this thorough annual Board self-assessment to aid QNB Group's Board of Directors to review and optimise their holistic performance on an annual basis.

The self-assessment survey completed by the Board provides the Group with the ability to gauge the operative nature of the BOD's engagement, composition, culture and effectiveness. As such, the BOD self-assessment process provides much needed contemplation into the dynamics of Board member interaction, and the ways through which their interaction fulfils QNB's strategic business goals.

Board annual assessments are the key to making certain that fit and proper Directors are working together effectively, which constitutes in itself a real strategic asset to the Group.

Periodic review of Board charter and policies for effective governance
In line with good corporate governance practices, as well as regulatory requirements, during 2019, Group Compliance spearheaded and managed a number of reviews and subsequent updates of Board-related charters, policies and processes. Maintaining updated and unified Board-related documentation is a fundamental part of the Group's commitment to providing clarity on the roles of Directors and the Board as a whole. Furthermore, a concise overview or statement of the roles and responsibilities of BOD members in the Board charter and policy works to deter conflicts from arising between Directors and facilitates cooperation in decision-making.

The updates effected in Board-related charter, policies and processes align with required regulatory updates such as QFMA's Corporate Governance Code and QCB's guidelines on corporate governance. Regulators also expect financial institutions to keep their shareholders and stakeholders well-informed. Board responsibilities in this regard have been outlined which allow the Board to maintain effective lines of communication with stakeholders, understanding that organisational needs evolve as the size and scope of business operations expands.


QNB Group nominates representatives at the Board level of each QNB subsidiary.

QNB Group is committed to nurturing an adaptive and resilient corporate governance structure that factors in amendments to Board charters and policies where relevant regulatory and international leading practices necessitate it.

Enhanced and strategic corporate governance measures at overseas entities
As the Group grows in size and expands its operations to international markets by increasing the number of overseas branches and subsidiaries, the governance and decision-making interactions between entities becomes more challenging. As a result, QNB has established a foundation of corporate governance for overseas entities that aligns with the QNB Head Office governance structure. Furthermore, the Group also maintains a set of corporate governance guidelines that take into account the variety of regulatory challenges that may arise when international branches and subsidiaries integrate QNB Head Office policies and practices into their own.

In 2019, Group Compliance released an updated set of corporate governance guidelines for overseas branches to provide them with a set of practical guidelines and supervisory standards in the areas of corporate governance and to ensure that these align with Head Office requirements as well as local regulatory requirements.

Measures are also in place to oversee the adoption of the Group-wide policies and procedures across QNB entities to achieve appropriate governance consistency across the overseas branches and subsidiaries. The governance strategy for overseas entities provides insights in extending sound corporate governance practices and policies downstream to overseas branches and subsidiaries, to ensure appropriate control structures and arrangements, which would best contribute to an effective chain of Group oversight.

Evaluation of management at subsidiaries – QNB representatives' assessment
As part of its global network of activities, QNB maintains interests at several subsidiaries and consequently has frequent decision-making levels and interactions with its subsidiary network. This may give rise to a number of challenges with respect to strategic objectives, implementation and monitoring of plans, dissemination of corporate culture, risk management, reporting and mitigations of potential conflicts of interests, among other matters. With a view to mitigate associated risks and to aid seamless governance measures at subsidiaries, it is important for QNB Group (as the holding company) to nominate representatives at the Board level of each QNB entity/subsidiary in order to align interests, protect QNB stakeholders including shareholders and create an adequate setting for the sustainable development of the Group.

Consequently, QNB Group nominates executive managers from QNB Head Office to be representatives at the Board level of QNB subsidiaries, so as to harmonise QNB Group's strategic objectives and corporate governance culture with that of its subsidiaries. Furthermore, QNB representatives help maintain an optimal synergy between domestic and international divisions to protect QNB's interests and foster an adequate control environment overseas.

Group Compliance, in collaboration with required stakeholders, aims to facilitate governance and management at the subsidiary level through evaluating the performance of QNB representatives positioned across the subsidiary organisation. This performance evaluation, conducted on an annual basis, demonstrates how QNB representatives use the pre-established escalation channels and communication lines to follow-up on the implementation of directives, performance and deficiencies remediation. Additionally, the Group-wide oversight framework established at subsidiaries to report directly to QNB Group's Board (as the parent company) was examined and appraised.

Promoting integrity – conflict of interest and insider trading
QNB Group believes accountability in governance matters stems from commitment across the Group to adhering to principles of fairness and responsibility. Such commitment is achieved by the construction of ethically-focused policies such as the Conflict of Interest Insider Dealing Policy. It is essential that the bank is able to identify actual and potential conflicts of interest and manage them fairly and appropriately, to prevent against any situation adversely affecting the interests of QNB, its shareholders and stakeholders.

In this context, Board members, senior managers, employees, and third-party vendors are obligated to raise or disclose potential conflicts of interest at QNB Group in line with the associated policy, to allow the Group to adequately address, identify and manage such conflicts. The Group's reputation to conduct business ethically and in compliance with regulations is upheld by the Conflict of Interest and Insider Trading Policy. The established Conflict of Interest and Insider Dealing Policy guides all employees – from top management to entry-level employees – as they make every effort to meet their obligations to QNB's Board, shareholders, clients, personnel and all stakeholders.

The policy addresses potential conflicts of interest between QNB and its employees, contains prohibitions, restrictions and disclosure requirements that help identify and manage these risks, and ultimately protect the Group's reputation. It lays out the expectations that the Group has for each banking area and provides the information and the resources needed to conduct business ethically and in compliance with laws and regulations everywhere the Group operates.

Maintaining a foundation of openness, disclosure and transparency
QNB's governance components set clear standards in promoting transparency and disclosure and in encouraging the principles of equality and justice among shareholders and more generally, all stakeholders. In this regard, QNB maintains a Disclosure and Transparency Policy to ensure transparency and fairness across QNB Group to maintain and protect QNB Group's reputation.

This policy incorporates both regulatory requirements and international best practices to offer stakeholders and shareholders the information needed to make sound, well-informed investment decisions.

Furthermore, proper disclosure and transparency of information has unmeasurable impacts on QNB's ability to exhibit trustworthiness, avoid reputational harm, and cultivate investor relationships. The goal behind maintaining sound disclosure and transparency practices is to ensure that necessary information is disclosed and made available to required stakeholders (including disclosure requirements specified by regulators) in a timely, accurate, cost-effective and understandable manner.

Protecting shareholder rights
QNB Group is committed to protecting shareholder rights in accordance with the required by-laws, regulations and as part of its corporate governance framework. To accomplish this, the bank exercises diligence and care in conducting all its operations, including effective and efficient use of resources to maximise shareholder benefits.

QNB Group ensures that all shareholders are entitled to their rights fairly and equally and that they are protected against any violation to those rights. To ensure that shareholders' assets are protected against any misuse that may occur from the BOD, Executive Management or relevant stakeholders, QNB Group ensures that shareholder rights are duly adhered to. QNB ensures essential rights for QNB's shareholders, while maintaining a high level of integrity and equality in professional dealings with them, and in safeguarding shareholders from violation of their rights.

The protection of shareholder rights is central to corporate governance and is a key priority of companies operating worldwide.

QNB is committed to the highest standards of acting professionally, fairly and with integrity in all business dealings.

"QNB Group is of the belief that innovation leads to growth, efficiencies, increased competitive advantage and enhanced reputation."

Supporting innovation in governance
Innovation lies at the core of the Group's overall strategy. QNB Group is of the belief that innovation leads to growth, efficiencies, increased competitive advantage and enhanced reputation through implementation of robust, yet practical, governance measures. In order to promote creativity and support new initiatives, internal control teams work with the business to provide them with the necessary tools to accelerate in their ambitions. As such, internal control teams provide guidance to the business segments on all new proposed initiatives from a regulatory perspective as well as liaising with the regulators to obtain the necessary approvals and feedback.

Anti-bribery and corruption measures
QNB Group seeks to create a workplace where each employee achieves the highest business and personal integrity standards, and where everyone feels proud of the bank and their job.

It is QNB's policy to conduct all business in an honest and ethical manner. QNB Group takes a zero-tolerance approach to bribery and corruption. As such, QNB is committed to the highest standards of acting professionally, fairly and with integrity in all business dealings and relationships wherever it operates, and in implementing and enforcing effective systems to counter bribery and corruption.

Management assessment of internal control over financial reporting

General
The Board of Directors of Qatar National Bank (Q.P.S.C.) and its consolidated subsidiaries (together "the Group") is responsible for establishing and maintaining adequate internal control over financial reporting ("ICOFR") as required by Qatar Financial Markets Authority ("QFMA"). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Group's consolidated financial statements for external reporting purposes in accordance with International Financial Reporting Standards (IFRS) and the applicable provisions of Qatar Central Bank Regulations. ICOFR also includes our disclosure controls and procedures designed to prevent misstatements.

Risks in Financial Reporting
The main risks in financial reporting are that either the consolidated financial statements are not presented fairly due to inadvertent or intentional errors or the publication of consolidated financial statements is not done on a timely basis. A lack of fair presentation arises when one or more financial statement accounts or disclosures contain misstatements (or omissions) that are material. Misstatements are deemed material if they could, individually or collectively, influence economic decisions that users make on the basis of the consolidated financial statements.

To confine those risks of financial reporting, the Group has established ICOFR with the aim of providing reasonable but not absolute assurance against material misstatements. We have also assessed the design, implementation and operating effectiveness of the Group's ICOFR based on the criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO recommends the establishment of specific objectives to facilitate the design and evaluate the adequacy of a control system. As a result, in establishing ICOFR, management has adopted the following financial statement objectives:

> Existence/Occurrence – assets and liabilities exist and transactions have occurred;

> Completeness –all transactions are recorded, account balances are included in the consolidated financial statements;

> Valuation/Measurement – assets, liabilities and transactions are recorded in the financial reports at the appropriate amounts;

> Rights and Obligations and ownership – rights and obligations are appropriately recorded as assets and liabilities; and

> Presentation and disclosures – classification, disclosure and presentation of financial reporting is appropriate.

Organization of the Internal Control System

Functions Involved in the System of Internal Control over Financial Reporting
Controls within the system of ICOFR are performed by all business and support functions with an involvement in reviewing the reliability of the books and records that underlie the consolidated financial statements. As a result, the operation of ICOFR involves staff based in various functions across the organization.

Controls to Minimize the Risk of Financial Reporting Misstatement
The system of ICOFR consists of a large number of internal controls and procedures aimed at minimizing the risk of misstatement of the consolidated financial statements. Such controls are integrated into the operating process and include those which:

> are ongoing or permanent in nature such as supervision within written policies and procedures or segregation of duties;

> operate on a periodic basis such as those which are performed as part of the annual consolidated financial statement preparation process;

> are preventative or detective in nature;

> have a direct or indirect impact on the consolidated financial statements themselves. Controls which have an indirect effect on the consolidated financial statements include entity-level controls and Information Technology general controls such as system access and deployment controls whereas a control with a direct impact could be, for example, a reconciliation which directly supports a balance sheet line item; and

> feature automated and/or manual components. Automated controls are control functions embedded within system processes such as application enforced segregation of duty controls and interface checks over the completeness and accuracy of inputs. Manual internal controls are those operated by an individual or group of individuals such as authorization of transactions.

Measuring Design, Implementation and Operating Effectiveness of Internal Control
For the financial year 2019, the Group has undertaken a formal evaluation of the adequacy of the design, implementation and operating effectiveness of the system of ICOFR considering:

> The risk of misstatement of the consolidated financial statement line items, considering such factors as materiality and the susceptibility of the financial statement item to misstatement; and

> The susceptibility of identified controls to failure, considering such factors as the degree of automation, complexity, and risk of management override, competence of personnel and the level of judgement required.

These factors, in aggregate, determine the nature, timing and extent of evidence that management requires in order to assess whether the design, implementation and operating effectiveness of the system of ICOFR is effective. The evidence itself is generated from procedures integrated within the daily responsibilities of staff or from procedures implemented specifically for purposes of the ICOFR evaluation. Information from other sources also forms an important component of the evaluation since such evidence may either bring additional control issues to the attention of management or may corroborate findings.

The evaluation has included an assessment of the design, implementation, and operating effectiveness of controls within various processes including Treasury, Lending and Credit Risk Management, Human Resources and Payroll, General Ledger and Financial Reporting. The evaluation also included an assessment of the design, implementation, and operating effectiveness of Entity-Level Controls, Information Technology General Controls, and Disclosure Controls. As a result of the assessment of the design, implementation, and operating effectiveness of ICOFR, management did not identify any material weaknesses and concluded that ICOFR is appropriately designed, implemented, and operated effectively as of December 31, 2019.

Independent reasonable assurance report To the Shareholders of Qatar National Bank (Q.P.S.C.)

Report on Internal Controls over Financial Reporting
In accordance with Article 24 of the Governance Code for Companies Listed on the Main Market ("the Code") Issued by the Qatar Financial Markets Authority ("QFMA"), we were engaged by the Board of Directors of Qatar National Bank (Q.P.S.C.) ("the Bank") and its subsidiaries (together referred to as "the Group") to carry out a reasonable assurance engagement over Board of Directors' description of the processes and internal controls and assessment of the effectiveness of the design, implementation and operating effectiveness of the Group's internal controls over financial reporting (the 'ICOFR') as at 31 December 2019 (the "Statement").

Responsibilities of the Board of Directors
The Board of Directors of are responsible for fairly stating that the Statement is free from material misstatement, and for the information contained therein.

The Statement, which was signed by the Group CEO and shared with KPMG on 12 January 2020 and is to be included in the annual report of the Group, includes the following:

> the Board of Directors' assessment of the suitability of design, implementation and operating effectiveness of the ICOFR;

> the description of the process and internal controls over financial reporting for the processes of lending and credit risk management, treasury, tender, general ledger and financial reporting, information technology, entity-level controls, disclosure controls, and human resources;

> designing, implementing and testing controls to achieve the stated control objectives;

> identification of control gaps and failures, how they are remediated, and procedures set to prevent such failures or to close control gaps; and

> planning and performance of the management's testing, and identification of the control deficiencies.

The Board of Directors is responsible for establishing and maintaining internal controls over financial reporting based on the criteria established in Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO" or "COSO Framework").

This responsibility includes designing, implementing, maintaining and testing internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error. It also includes developing the control objectives in line with the COSO Framework; designing, implementing and testing controls to achieve the stated control objectives; selecting and applying policies, making judgements and estimates that are reasonable in the circumstances, and maintaining adequate records in relation to the appropriateness of the Group's ICOFR.

The Board of Directors is responsible for ensuring that management and staff involved with the preparation of the Statement are properly trained, systems are properly updated and that any changes in reporting encompass all significant business units.

Our Responsibilities
Our responsibility is to examine the Statement prepared by the Group and to issue a report thereon including an independent reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform our procedures to obtain reasonable assurance about whether the Statement is fairly presented, in all material respects, in accordance with the control objectives set out therein.

We apply International Standard on Quality Control 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of Parts A and B of the Code of Ethics for Professional Accountants, including independence, issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the Statement whether due to fraud or error.

Our engagement included assessing the appropriateness of the Group's ICOFR, and the suitability of the control objectives set out by the Group in preparing and presenting the Statement in the circumstances of the engagement. Furthermore, evaluating the overall presentation of the Statement, and whether the internal controls over financial reporting are suitably designed and implemented and are operating effectively as of 31 December 2019 based on the COSO Framework.

The procedures performed over the Statement include, but are not limited to, the following:

> Conducted inquiries with management of the Group to gain an understanding of the risk assessment and scoping exercise conducted by management;

> Examined the in-scope areas using materiality at the Group's consolidated financial statement level;

> Assessed the adequacy of the following:

- Process-level control documentation and related risks and controls as summarized in the Risk & Control Matrix ("RCM");
- Entity-level controls documentation and related risks and controls as summarized in the RCM;
- Information Technology risks and controls as summarized in the RCM;
- Disclosure controls as summarized in the RCM.

> Obtained an understanding of the methodology adopted by management for internal control design and implementation testing;

> Examined the walkthrough and design and implementation testing completed by management and conducted independent walkthrough testing, on a sample basis, as deemed necessary;

> Assessed the significance of any internal control weaknesses identified by management;

> Assessed the significance of any additional gaps identified through the procedures performed.

> Examined the management plans for testing the operating effectiveness to evaluate the reasonableness of tests with respect to the nature, extent and timing thereof, and whether the testing responsibilities have been appropriately assigned;

> Examined the management's testing documents to assess whether the operating effectiveness testing of key controls has been performed by the management in accordance with the management testing plan; and

> Re-performed tests on key controls to gain comfort on the management testing of operating effectiveness.

As part of this engagement, we have not performed any procedures by way of audit, review or verification of the Statement nor of the underlying records or other sources from which the Statement was extracted.

We have made such enquiries of the auditors of significant components within the Group concerned and have reviewed their work to the extent necessary to form our conclusion. We remain solely responsible for our conclusion.

Other information
The other information comprises the information to be included in the Bank's annual report which are expected to be made available to us after the date of this report. The Statement and our reasonable assurance report thereon will be included in the annual report. When we read 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.

Characteristics and Limitations of the Statement
The Group's internal controls over financial reporting, because of their nature, may not prevent or detect all errors or omissions in processing or reporting transactions and consequently cannot provide absolute assurance that the control objectives will be met.

Historic evaluation of design, implementation and operating effectiveness of an internal control system may not be relevant to future periods if there is a change in conditions or that the degree of compliance with policies and procedures may deteriorate.

The Statement is prepared to meet the common needs of a broad range of users and may not, therefore, include every aspect of the information that each individual user may consider important in its own particular environment.

Criteria
The criteria for this engagement are the control objectives set out therein against which the design, implementation and operating effectiveness of the controls is measured or evaluated. The control objectives have been internally developed by the Group, based on the criteria established in the COSO Framework.

Conclusions
Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

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

In our opinion, based on the results of our reasonable assurance procedures, the Board of Directors' Statement fairly presents that the Group's ICOFR was properly designed and implemented and are operating effectively as at 31 December 2019.

Restriction of Use of Our Report
Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the shareholders of the Bank and QFMA for any purpose or in any context. Any party other than the shareholders of the Bank and QFMA who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the shareholders of the Bank and QFMA for our work, for this independent reasonable assurance report, or for the conclusions we have reached.

Our report is released to the shareholders of the Bank and QFMA on the basis that it shall not be copied, referred to or disclosed, in whole (save for the Bank's own internal purposes) or in part, without our prior written consent.

19 January 2020
Doha
State of Qatar

Gopal Balasubramaniam
KPMG
Auditor's Registration No. 251
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Group Compliance

Compliance in the financial services sector is the key behind protecting investors and ensuring banks are efficient, transparent and fair, as well as reducing financial crimes and system threats.

> "Enhanced levels of compliance are hard to achieve without a strong culture starting right at the top, and as such QNB Group has in place a strong Spirit of Compliance model."

Promoting ethical and professional behaviour
The tone at the top sets out QNB's desire and commitment to honesty and integrity while ensuring high professional standards within the Group. Starting from the Board of Directors, QNB Group continuously encourages its senior members to be role models for others to follow. This also serves as an effective risk mitigation tool against fraud, corruption and bribery, insider dealing, conflicts of interest, and more.

During 2019, QNB Group set up and/or enhanced governance-related policies and procedures, including: the Board Policy; Anti-Bribery and Corruption Policy; Conflict of Interest and Insider Dealing Policy; Transparency and Disclosure Policy; Anti-Money Laundering and Combating the Finance of Terrorism Policy; Know Your Customer Policy; Stakeholders Rights Policy; Fraud Control Policy; Data Protection Policy; the Code of Conduct (Ethics); Internal Controls Policy; Outsourcing and Vendor Management Policy; Management Succession Policy; Chinese Walls Policy; and the Whistle-blowing Policy. The enhancements were designed to encourage employees to better control, curb and report unethical behaviour; including, but not limited to, bribery, fraud, corruption, embezzlement, insider trading, conflicts of interest, customer privacy violations, discrimination, harassment, violations of laws and misrepresentation of facts.

In addition to the documentation infrastructure in place, employees were also provided with tailored training courses on related aspects to drive the spirit of the code of conduct, which all employees at the Group must comply with.

Enhancing spirit of compliance and promoting ethical behaviour
A strong compliance culture is a priority for the Board of Directors and the Executive Management, who are committed to setting the tone from the top; this is disseminated across QNB Group through various initiatives, such as policies and procedures, circulars, staff trainings, awareness sessions, brochures, and so on. Furthermore, Group Compliance forms a key component within the Group for ensuring the enablement of the QNB Code of Ethics, which sets the expectations for all QNB employees in terms of values, code of conduct and business principles. The Code also covers all applicable laws and regulations that the bank employees should be aware of and comply with in the conduct of their daily business activities.

Enhanced frameworks and tools to strengthen financial crime compliance
The bank's Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) framework and related activities are strategically managed by Group Compliance, through robust systems and controls to detect and deter the flow of illicit funds through the bank's financial system. The AML/CFT framework is designed to accurately and regularly review accounts to identify, monitor and report any suspicious transactions. QNB has also implemented a robust customer transactions monitoring system, and Group Compliance conducts periodic risk-based reviews of the system in order to ensure the efficiency in mitigating the money laundering and terrorist financing risks.

In line with international best practice and in order to implement a robust and effective AML/CFT programme, Group Compliance ensures that identifying, assessing, and understanding money laundering and terrorist financing risks forms an integral part of risk management for Head Office, overseas branches and subsidiaries. Money laundering and terrorist financing risk assessments help in the prioritisation and efficient allocation of resources.

In order to prevent QNB from being used, intentionally or unintentionally, by criminal elements for money laundering and terrorist financing activities, it is important to create a robust know your customer (KYC) regime. As part of ensuring an efficient KYC regime, Group Compliance is overseeing the implementation of a global KYC platform across the Group to ensure an accurate view of the quality of the customers' KYC information and to enhance the profiling and monitoring processes.

In order to ensure that overseas branches and subsidiaries apply AML/CFT measures consistent with Head Office requirements, Group Compliance conducts periodic reviews (onsite and offsite) with the focus of evaluating and assessing the AML/CFT measures the overseas entities have in place and to ensure that these comply with applicable regulations.

Strengthening the sanctions compliance framework
A robust and effective sanctions compliance framework is a cornerstone of effective prevention, detection and mitigation of business risk against terrorism financing, financing of proliferation and sanctions of non-compliance with economic and trade global sanctions programmes imposed by the EU, UN, OFAC, UKHMT, and other regulatory entities. Commitment to establish and strengthen the sanctions compliance framework builds on the organisation's risk-based approach and is one of the most important factors in determining its success.

Apart from investing heavily in industry-standard solutions to detect, prevent and mitigate sanctions risk, Group Compliance increased its operational capabilities by building a strong and sustainable capacity plan to fully support QNB Group business initiatives such as ventures, new services and products. This was achieved through diligent investments in building a capacity plan for the sanctions team, acquiring subject matter experts with significant experience in the field and introducing strong operational performance and compliance metrics.

To ensure the right safeguards are in place and that sanctions policies and procedures are working, in 2019 Group Compliance conducted a number of sanctions reviews within critical functions such as the Operations and the Trade Finance teams and performed assessments across overseas branches and subsidiaries. The objective was to ensure that sanctions standards were being met across the Group, at the same level and in line with overall risk appetite. New initiatives have been launched including the establishment of a centralised communication channel for all global sanctions policy changes and trigger events that warrant assessment and further action.

Setting in motion the fraud control framework
A dedicated Fraud Control Unit is in place reporting into Group Compliance, with an established fraud control programme that reflects the expectations of the BOD and Executive Management. A Group-wide Anti-Fraud Policy is also in place, covering all international branches and subsidiaries, and our investigative capability is well embedded at Group level.

The Fraud Control Unit performs ongoing monitoring and investigation of alerts, referrals and exception reports to mitigate the risk of fraud events occurring or not being detected in a timely manner. The Fraud Control Unit has also rolled out an e-learning fraud awareness training module for employees across the Group.

During 2019, a new Enterprise Fraud System was successfully implemented and rolled out with a focus to cover the PSD2 fraud monitoring and reporting requirements for our businesses in the UK and France. Phase 2 of the project plan also began this year and is planned for delivery in 2020. This will cover online and offline screening of financial transactions, including non-monetary activities, across users, accounts, products and channels, to identify and prevent internal and external fraud across QNB Group.

Group Compliance
continued

The Fraud Control Unit has an established process for receiving, evaluating, and treating alerts and whistle-blowing concerns relating to potential fraud and unethical conduct. The unit conducts comprehensive investigations into all potential cases referred, taking into account the scope, severity, plausibility, and implications of the reported matter.

Tax transparency – effective implementation of Automatic Exchange of Information (AEOI) regimes across QNB Group
QNB Group, including its overseas branches and subsidiaries, operate under a wide range of legal and regulatory environments. In this regard, QNB Group is required to comply with domestic and international tax identification, reporting and information exchange practices of all countries in which it has business operations.

QNB Group understands the importance of being compliant with the tax regimes and works towards ensuring that the applicable procedures are appropriately implemented in line with regulations where we operate. The Tax Compliance Unit within Group Compliance is continuously working to improve QNB's processes to ensure QNB's banking services are not associated with any arrangements known or suspected to facilitate tax evasion or money laundering. The Tax Compliance Unit applies global initiatives to improve tax transparency across QNB Group such as:

> The US Foreign Account Tax Compliance Act (FATCA); and

> The OECD Standard for Automatic Exchange of Financial Account Information (also known as the Common Reporting Standard (CRS)).

An effective compliance programme should leverage existing financial crime compliance conduct and tax (including tax transparency regimes) procedures and controls, in order to address the risk of customer tax evasion and the facilitation thereof. As such, QNB maintains a robust anti-tax evasion compliance programme, which is in conjunction with the applicable guidance issued by the authorities in jurisdictions where QNB Group conducts business.

The Tax Compliance Unit is the main point of contact as subject matter experts in FATCA and CRS related queries. The team provides assistance to the different business units domestically and compliance officers at overseas branches and subsidiaries where it serves as the liaison point in FATCA/CRS implementation and reporting programmes. During 2019, the Tax Compliance Unit successfully led comprehensive initiatives and programmes to ensure that the required FATCA and CRS reportable data set by the regulatory authorities in Qatar, and by applicable jurisdictions in overseas branches and subsidiaries, was duly submitted.

Enhanced compliance monitoring and oversight
Group Compliance is responsible for engaging and coordinating with QNB business divisions, overseas branches and subsidiaries to ensure appropriate adherence to the regulatory standards. To effectively monitor compliance risks and develop a strong compliance culture, organisations require a comprehensive Compliance Monitoring Programme (CMP) that holistically assesses where the key risks are and what mitigating actions are undertaken. In this regard, Group Compliance has rolled out the enhanced CMP across QNB Group in order to effectively monitor the Group's compliance with all relevant regulatory requirements. Any shortfalls are immediately rectified with the support of the process owners and the related policies and procedures are updated.

Additionally, Group Compliance has established a robust mechanism for ensuring that all observations noted and reported during the compliance reviews are closed by the relevant process owners as per the agreed timelines and that any pending high-risk items are escalated to senior management in a timely manner or via a Quarterly Report Monitoring of the compliance observations.

Augmenting the capability and skill set of the Group Compliance team
QNB attaches great importance to the professional improvement of its employees and supports them in obtaining training, certifications and professional development opportunities to increase the work quality and ensure compliance with international standards. Employees within Group Compliance are encouraged to pursue continued development and obtain internationally-accepted certifications, professional qualifications and credentials in the field of financial crime, regulatory compliance and governance to help QNB Group make a difference in the industry. Group Compliance has ensured that all its employees possess the necessary skills and experience to perform their duties effectively. In order to further increase expertise and motivate employees, the bank also provides full study sponsorship for completing professional examinations, such as ACAMS, CISI, CIA, PMP, etc.

QNB Group embraces and emphasises the importance of compliance-related training as a key part for moulding QNB Group culture.

Compliance training programmes
QNB Group embraces and emphasises the importance of compliance-related training as a key part for moulding QNB Group culture and for nurturing a positive compliance environment. This approach serves to enhance awareness among employees and to protect QNB Group's reputation globally. We are also conscious of the fact that adequate training and development serves as an effective and essential mechanism in maintaining a committed and competent workforce. The compliance training programme provides guidelines and priorities to achieve QNB Group's strategic objectives of reducing reputational risk and increasing the operational effectiveness of handling compliance matters by proper allocation of resources. The training programme serves to highlight that compliance across the bank is not only the responsibility of Group Compliance, but also applies to each employee.

In 2019, Group Compliance developed a new training initiative called the 'Spirit of Compliance'. It covers a wide range of relevant topics such as the regulatory framework for QNB, recent regulatory developments, important compliance-related issues and identification/escalation of non-compliance issues. Additionally, Group Compliance has issued guidelines for the Retail and Corporate segments on the AML/CFT law requirements. This training involves face-to-face sessions, awareness emails and circulars. It is conducted according to a well-tailored frequency depending on the level of experience and nature of job requirements. In order to enforce the training requirements, the attendance and learning objectives are also embedded into individual KPIs, which ensure effective monitoring.

The compliance structure for data protection initiatives
The General Data Protection Regulation (GDPR) is an EU regulation that can affect organisations globally. The regulation aims to protect the fundamental rights to privacy for individuals by adopting principles, rules and the conditions that organisations must follow when processing personal data. In the past year, GDPR has come to prominence as regulators fined organisations that failed to comply with the requirements. Under the legislation, the regulators can fine organisations up to 4% of their global revenue.

Group Compliance have a dedicated Data Protection Team, including a Data Protection Officer, responsible for maintaining, developing and enhancing the privacy operating model throughout the Group. Data protection laws are complex and vary between jurisdictions, so it is important that any embedded framework is flexible to adapt and consider cross-jurisdictional laws. As a result, the Data Protection Team developed a robust framework using GDPR as the benchmark and the highest standard while equally taking into account local laws where applicable.

Group Internal Audit

Our robust internal audit capabilities protect and strengthen the bank, underpinning the confidence stakeholders have in our processes and controls.

The Group Internal Audit Division (GIAD) plays a vital role in ensuring the adoption of best practice and compliance across a multitude of often-complex regulatory environments. Our work helps to support the sustainability and prosperity of the bank, ensuring efficiency and effectiveness across our internal processes. It goes beyond financial risks and statements to consider wider issues such as reputation, risk awareness, growth, the environment and how we develop our employees.

We do this by providing our stakeholders, including home and host regulators, with a mix of assurance and advisory services, reviewing our systems and processes and offering insight and advice to help improve them. We have full and unrestricted access to all the Group's records, documentation, systems, properties and personnel, including Executive Management and the Board of Directors (BOD).

We enjoy a mature environment in audit and our philosophy is to act as a partner to the business, objectively influencing and challenging to facilitate the best results for the Group and its stakeholders in more than 31 countries across three continents. Our team is composed of individuals with experience from leading financial institutions and audit firms across the globe. More than 60% of our audit staff in Qatar are professionally qualified and hold globally-recognised professional certifications.

This year, we included more sophisticated and complex business issues, such as stress testing and financial modelling, in our training and continued to provide additional development opportunities through specialist placements.

These allow us to maintain the required competencies and expertise to better tackle the growing sophistication and challenges of 21st century banking. It is vital that the audit team possesses the level of understanding that is equal to the business. Thus, we continuously strive to ensure that our team has a very detailed knowledge of all the business lines and related risks.

QNB Group adheres to the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA), as well as Basel Committee recommendations and other leading standards. Last year, a comprehensive external quality assessment by the IIA certified that we conformed to the standards and code of ethics, while demonstrating a clear intent and commitment to achieve the core principles for the Professional Practice of Internal Auditing. Under the IPPF framework, an external quality assessment of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor from outside the organisation.

Assurance to key stakeholders and regulators

The division is headed by the Group Chief Audit Executive (GCAE), who reports to the BOD, through the GBACC, thus ensuring the functional independence of the division. The GCAE is nominated by the GBACC and the remuneration of the division is also determined on the basis of the GBACC's evaluation of the division's performance.

The division is responsible for audit and independent assurance covering all of the bank's divisions, branches and subsidiaries in all jurisdictions.

Our purpose is to provide:

- an independent assurance service to the BOD and the GBACC, to review the effectiveness of the Group's governance, risk management and control processes;
- advice to management on governance risks and controls; and
- coverage and assurance to key regulatory authorities in all jurisdictions.

We maintain and promote the confidence of all our stakeholders – including the BOD, home and host regulators and Executive Management – by executing all our tasks with consistent objectivity, rigour and discipline, backed by a process of continuous improvement.

In line with relevant regulations and management control agreements, we provide support for our subsidiaries and affiliates. As well as sharing knowledge and best practice, we deliver training programmes and provide policy advice, alongside high-level assessments.

With a growing concern among regulators about the risk from financial crime, in 2019 we have conducted several audit assignments in this area. This is to ensure that sound controls are in place and operating effectively, and all applicable regulatory requirements are adequately incorporated in our policy and procedures and are properly implemented.

In line with our regulatory authority's expectations and requirements, we have a detailed review of our ICAAP process for the Group and also assessed the Know Your Customer (KYC) and Anti-Money Laundering (AML) processes within QNB's local subsidiaries in Qatar. In coordination with the Ministry of Justice and Qatar Stock Exchange, we further analysed the real estate and shares collateral records of the bank and reconciled them with those kept by relevant authorities, such as the land registry department, and made recommendations for improvement.

We reviewed banking services security related to the upcoming 2022 FIFA World Cup and reviewed our data classification and protection measures across the bank including EU GDPR compliance.

Advisory services, insight and analysis

The valuable insight we gain through our unbiased and objective analysis of our operations enables us to help the bank improve its systems and processes. This year, for example, a study of the most common audit issues raised by our international branches over the past three years has helped us to identify ways to improve our risk mitigation actions and processes.

The team was instrumental in supporting four major IT projects, helping advise on key controls. At the same time, we participated in the half-yearly business continuity exercises and reviewed and assessed the results. We continue to provide IT and the Information Security teams with regular feedback and insight.

Enhanced Group governance framework

We continued to enhance and expand the Group's governance framework related to internal audit across the full extent of our network. Following a review this year, we optimised our internal audit processes in our subsidiaries in Qatar, in line with Basel and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) recommendations.

To ensure harmonisation of internal audit policies, methodologies and tools throughout the entire audit cycle, this year we developed a framework for the support and oversight of internal audit functions in QNB international subsidiaries. In addition, we ascertained the completeness of their audit universes and risk-based internal audit plans.

Elsewhere, we continued to expand the level of collaboration and support for internal audit teams in QNB's international branches. This included more frequent interactions with internal audit managers. The objective is to further improve processes and delivery to bring greater value to management and key stakeholders.

Audit programmes and techniques

We conform to the best professional practices for the provision of audit services across the Group. This year we:

- increased the focus on data analytics and expanded the audit assessment to cover the full portfolio or population whenever applicable. This provided extensive assurance on the businesses and processes covered;
- enhanced our retail audit programmes and audit implementation scripts to cover gaps and inadequacy of system-level controls. As a result, we improved evidentiary requirements for verification and assertion of cash and security processes;
- reviewed the adoption of IFRS 9 into QNB Group's international branches; and
- improved programmes related to high-risk areas and emerging topics such as financial crime risk across our footprint.

Group audit universe and coverage

We continuously review the group audit universe to ensure completeness and progressively update it with additional business expansions and emerging requirements. All the home and host mandatory and regulatory requirements are incorporated in the annual audit plan.

Promoting control awareness and risk culture

The services we provide in internal auditing are vital, and we add value to the organisation by helping to build an informed risk culture, raising control awareness of the issues we face across the business on a daily basis. We ensure continuous improvement of QNB Group's risk management framework by highlighting emerging risks and placing particular emphasis on systemic issues related to the various processes that we audit.

To support this initiative, we expanded our mandatory awareness programme on key risks and controls. As well as an evaluation test which staff must pass, covering international branches and specific HO departments, the training includes:

- COSO Internal Control Integrated Framework;
- Basel Committee Three Lines of Control Approach;
- key risks and controls related to applicable functions and entities; and
- common and repeated audit findings covering respective functions and key processes.

We also provided training to all GIAD staff on new technology-related developments and associated controls, as well as on data classification and protection.

Developing talent

We are committed to developing our Qatari employees through focused training and certification programmes. As well as on-the-job training, we promote job rotation, specialist online training and access to a variety of programmes offering professional certifications.

Promoting transparency

We believe that through greater transparency comes more accountability and improved stakeholder confidence. For that reason, we continue to improve communication about our activities throughout the business.

Final audit reports incorporating audit issues, management's action plans and target dates for implementation are regularly issued to the management, the GCEO and the GBACC. In addition, a quarterly report summarising activities and outcomes is also issued and discussed with the GBACC and the BOD.

We ensure timely and appropriate follow-up and validation of all pending audit issues including issues reported by the QCB and the external auditors. These are facilitated by the Audit Management System (AMS).

Improved dashboards provide the GBACC, GCEO and the GMRC with real-time information and highlight our follow-up activities. These also serve as an escalation to apprise the Executive Management, GBACC and the BOD on the implementation status to remediate pending audit issues, which are also used as part of the performance indicators for our control environment.

Looking ahead

In 2020, we will continue to strengthen our Group governance model with a particular focus on global IT and information security. A new audit methodology and framework will be rolled out to ensure the risk assessment and audit methodology is standardised across Head Office and subsidiaries.

We will continue to keep a careful watch on all relevant emerging and systemic risks that have the potential to impact the performance of the bank, ensuring the Board and senior management are apprised of the details in a timely manner.

As part of our ongoing commitment to developing our workforce, we will structure and expand our training and awareness programme on risks and controls for branch staff to enhance their competency and subject matter knowledge.

Sustainability

By carefully considering the impact of our operations and financing, we are helping to protect profits, people and the planet for good.

Sustainability

At QNB, we define sustainability as the delivery of long-term value in financial, environmental, social and ethical terms, for the benefit of our customers, shareholders, employees and communities.

QNB sustainability framework and strategy
Our sustainability framework consists of three pillars: sustainable finance, sustainable operations and beyond banking. All three pillars support QNB's goal of sustainable financial performance, by reducing risks, opening up new business opportunities and strengthening our brand. Under each pillar we have identified the sustainability topics most material to our business and stakeholders, along with a series of action plans to improve our performance.

Sustainable financial performance

Sustainable finance

Sustainable finance is the integration of ESG criteria into QNB's financing activities to deliver profit with purpose. Our ambition is to help customers manage their environmental and social risks, lend to businesses that contribute towards sustainable development goals, improve access to finance for SMEs and underserved groups, and provide a responsible customer service. Delivering sustainable finance is the most significant way in which QNB can support national and global sustainable development goals. Moreover, it enables us to reduce reputational risks in our portfolio and maximise business opportunities emerging from the transition to a greener, more inclusive economy.

QNB's material topics identified within sustainable finance are:

> sustainable investment, lending, products and services;

> supporting SMEs and entrepreneurship;

> supporting financial inclusion, accessibility, and education;

> digital innovation and transformation;

> responsible customer communication and marketing;

> data security and customer privacy; and

> customer experience.

Sustainable operations

Sustainable operations is the integration of ESG criteria into our business operations and across our supply chain to ensure we operate ethically and efficiently. Our ambition is to strengthen corporate governance and risk management practices, promote equality throughout our workforce and reduce carbon emissions generated by our operations. This approach keeps us compliant with increasing ESG-related regulations while helping QNB to be an employer of choice.

QNB's material topics identified within sustainable operations are:

> governance, compliance, and risk management;

> talent attraction, development and retention;

> diversity and inclusion;

> environmental impact of operations; and

> responsible procurement and supply chain.

Beyond banking

Beyond banking refers to QNB's Corporate Social Responsibility (CSR) activities in the communities in which we operate. Our ambition is to make a positive contribution towards wider society with an emphasis on education and financial literacy. In addition, we support and deliver a range of initiatives within our focus areas of social and humanitarian, arts and culture, health and environment, economic and international affairs, and sport.

QNB's material topic identified within beyond banking is:

> community investment and socio-economic development.

Developed by

Supported by

In cooperation with

“BariQ is the first and largest ‘bottle-to-bottle’ recycler of polyethylene terephthalate pellets in Egypt.”

Case study
Empowering the green economy in Egypt

Working together with the European Bank for Reconstruction and Development (EBRD) and the European Union, QNB ALAHLI has supported some 30 energy efficiency and renewable energy projects worth USD40 million as part of the Green Economy Financing Facility programme.

One of the firms which benefited is BariQ, the first and largest ‘bottle-to-bottle’ recycler of polyethylene terephthalate pellets in Egypt. BariQ takes bottles that would otherwise become a landfill and uses cutting-edge technology to recycle them into food-grade pellets used to create food containers. The financial and technical support enabled BariQ to become more competitive and access new markets. As a result of new energy-efficient machinery and process improvements, the business was able to increase productivity by 20%, cut electricity consumption by 50%, reduce CO_2 emissions by 192 tonnes, and save more than USD1 million a year in efficiencies.

This is just one of the many success stories that come from all the businesses that QNB ALAHLI has helped, including SMEs such as SolarizEgypt, which develops solar stations, and Bioenergy, which recycles municipal waste. In recognition of this performance, we received five awards from the EU and EBRD during 2019.

Sustainability
continued

Sustainability governance
The QNB Group sustainability programme is owned and governed by the QNB Group Strategy Committee (SC), chaired by the Group Chief Executive Officer and attended by the Group's Executive Management Team.

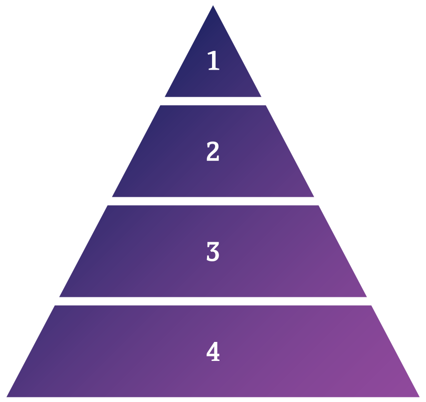
The SC is the decision-making body for all matters relating to the Group's sustainability programme. Responsibilities include reviewing the strategic framework and ambition, deciding on priority initiatives for implementation with accountable working groups, monitoring performance and assessing ESG-related risks and opportunities.

When required, the SC reports key risks and opportunities to the Board of Directors via the Group Board Nomination, Remuneration, Governance and Policies Committee (GBNRGPC). As a minimum, the Board of Directors receives an annual update on the overall execution of the Group's sustainability strategy and performance.

A designated Group Sustainability Team acts as an advisory body to the SC and senior management on all sustainability-related matters. The team also oversees working groups established to deliver priority initiatives and disseminates policy requirements and standards to the subsidiaries.

The Group sustainability policy is subject to annual review by the SC and applied to the entire Group including international branches and majority-controlled subsidiaries. It is the responsibility of the Group Sustainability Team to inform the subsidiaries of any revision or modification to the policy, for its correct local adoption in compliance with prevailing regulatory requirements.

1. Board of Directors (via GBNRGPC)
2. Group Strategy Committee
3. Group Sustainability Team*
4. Sustainability Working Groups



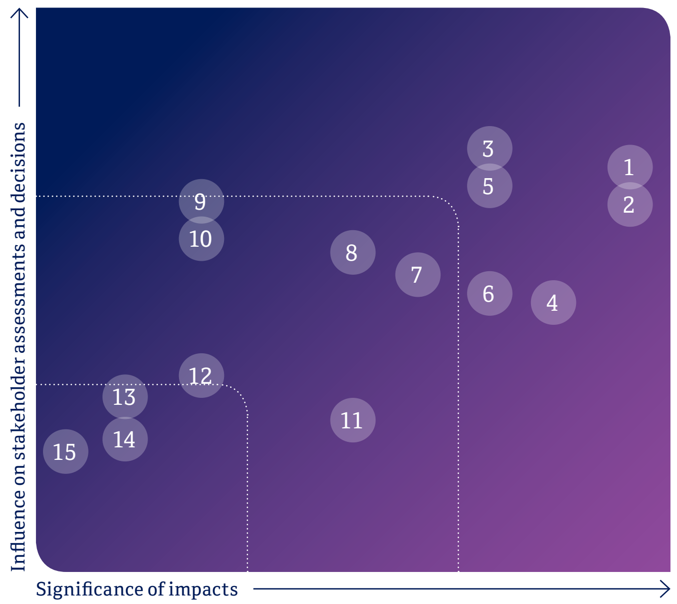
* It is the responsibility of the Group Sustainability Team to disseminate strategy, policy and priority initiatives to Subsidiaries' Sustainability Teams.

Materiality assessment
By identifying and prioritising our material sustainability topics, we are able to focus on what matters most to our business and stakeholders. In line with the materiality assessment process set out in the Global Reporting Initiative (GRI) Standards, QNB Group has compiled a comprehensive list of relevant economic, ethical, social and environmental impact areas.

Our Executive Management has reviewed the Group's materiality matrix to ensure that the range of issues included provides a complete representation of the organisation's significant sustainability impacts.

We have aligned our sustainability priorities with the objectives of the Qatar National Vision 2030, United Nations Sustainable Development Goals and the Qatar Stock Exchange 'Guidance on ESG Reporting'. This approach to materiality provides the foundation of our sustainability strategy and enables us to be confident that we address the topics of most relevance to our stakeholders.

QNB Group materiality matrix



Rank	Material topic
1.	Governance, compliance and risk management
2.	Financial performance
3.	Financial stability
4.	Customer experience
5.	Data security and customer privacy
6.	Talent attraction, development and retention
7.	Responsible customer communication and marketing
8.	Supporting SMEs and entrepreneurship
9.	Sustainable investment, lending, products and services
10.	Digital innovation and transformation
11.	Diversity and inclusion
12.	Community investment and socio-economic development
13.	Financial inclusion, accessibility and education
14.	Environmental impact of operations
15.	Responsible procurement and supply chain

National and international frameworks and commitments

We are committed to the objectives of the Qatar National Vision 2030, the United Nations Sustainable Development Goals and the United Nations Global Compact. Our sustainability strategy has been developed in line with these national and international frameworks.

Qatar National Vision (QNV2030)
The QNV2030 serves as a clear roadmap for Qatar's future, guiding economic, social, human and environmental development for the coming decade. The vision is supplemented by the National Development Strategy, with five-year plans to support its implementation.

We are committed to alignment with:

Qatar National Vision 2030 and National Development Strategy 2018–2022

United Nations Sustainable Development Goals (UNSDGs)
The UNSDGs are the principle global framework for sustainability. Their aim is to protect the planet, end poverty, fight inequalities and ensure prosperity. Launched in 2016, through to 2030, the 17 goals are underpinned by 169 targets.

United Nations Sustainable Development Goals

The table below shows how our most material sustainability topics align with the UNSDGs.

UNSDG	Objective	QNB's material topics (ranking)
8	Promote inclusive and sustainable economic growth, employment and decent work for all	> Financial performance and stability (#2, #3) > Supporting SMEs and entrepreneurship (#8) > Financial inclusion, accessibility and education (#13)
16	Promote just, peaceful, inclusive societies and institutions	> Governance, compliance and risk management (#1) > Customer experience (#4) > Responsible customer communication and marketing (#7)
4	Ensure inclusive and quality education for all and promote lifelong learning	> Talent attraction, development and retention (#6) > Community investment and socio-economic development (#12)
13	Take urgent action to combat climate change and its impacts	> Sustainable investment, lending, products and services (#9) > Environmental impact of operations (#14)
9	Build resilient infrastructure, promote sustainable industrialisation and foster innovation	> Data security and customer privacy (#5) > Digital innovation and transformation (#10)
5	Achieve gender equality and empower all women and girls	> Diversity and inclusion (#11)
12	Ensuring sustainable consumption and production by promoting resource efficiency and non-hazardous materials	> Responsible procurement and supply chain (#15)

Sustainability
continued

WE SUPPORT
UN GLOBAL COMPACT

As of 2019, QNB Group received an MSCI ESG Rating of 'A'.

MSCI
ESG RATINGS
CCC | B | BB | BBB | A | AA | AAA

United Nations Global Compact (UNGC)
As part of our commitment to sustainable business practices, QNB has joined the UNGC, the world's largest corporate sustainability initiative, promoting better business practices in the areas of human rights, labour, environment and anti-corruption. QNB will publish an annual 'Communication on Progress' to report progress against these topics.

ESG reporting and disclosures
To promote transparency in the banking sector, we report our sustainability performance annually, in accordance with the GRI Standards: core option and GRI G4 Financial Services Sector Disclosures.

Furthermore, we have pledged to disclose QNB's ESG performance to the Qatar Stock Exchange which became a signatory to the United Nations Sustainable Stock Exchange Initiative and released its 'Guidance to ESG reporting' to encourage voluntary disclosures by listed companies. In the spirit of transparency, QNB's performance data is publicly available.

In addition, throughout 2019 we proactively engaged and disclosed our ESG performance to several organisations including MSCI, FTSE Russell and the CDP (formerly Carbon Disclosure Project).

We have also been rated by external agencies for our performance in building a sustainable business. As of 2019, QNB Group received an MSCI ESG Rating of 'A'. MSCI ESG Research provides ESG Ratings on a scale of AAA (leader) to CCC (laggard), according to exposure to industry-specific ESG risks and the ability to manage those risks relative to peers[1].

For a comprehensive review of QNB Group's approach to sustainability and performance, please read our standalone Sustainability Report on our website at www.qnb.com.

2019 highlights
During 2019, we have delivered and initiated a number of projects to improve our sustainability performance. For example, we:

> approved QNB Group's Sustainability Policy, encompassing our organisational commitments to environmental, social and corporate governance business practices. These policy commitments formalise a consistent set of standards across the Group, further strengthening our long-term business resilience;

> published QNB's inaugural Sustainability Report in accordance with the GRI Standards, including disclosure of our green lending portfolio;

> developed the QNB Green, Social and Sustainability Bond Framework in line with the ICMA Green and Social Bond Principles;

> continued developing our approach to environmental and social risk management in lending, to enhance our due diligence credit processes and procedures;

> made our first formal public commitment to sustainability by becoming a signatory to the United Nations Global Compact;

> achieved 100% disclosure score from the Qatar Stock Exchange 'Sustainability and ESG Dashboard', to improve transparency of sustainability performance to the investor community; and

> revised the sustainability questions within our third-party risk management framework and undertook the first supply chain audit regarding fair and timely payment of low-income workforce.

1 The use by QNB of any MSCI ESG Research LLC or its affiliates ('MSCI') data, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement, recommendation, or promotion of QNB by MSCI. MSCI services and data are the property of MSCI or its information providers, and are provided 'as-is' and without warranty. MSCI names and logos are trademarks or service marks of MSCI.

"Qatar Sustainability Week delivered a range of initiatives designed to raise awareness of sustainability issues and promote actions to reduce our impacts."

Case study
Promoting a culture of sustainability in QNB

As part of an ongoing commitment to the environment, QNB sponsored the Qatar Sustainability Week, delivering a range of initiatives designed to raise awareness of sustainability issues and promote actions to reduce our impacts.

The bank highlighted the importance of addressing various environmental challenges to employees and customers in a week-long series of events across its offices. As well as demonstrating the latest plug-in hybrid cars from Porsche and Lexus, QNB signed a commitment to install electric vehicle charge points at our Head Office and selected branches.

Throughout QNB offices, new recycling bins were installed, while single-use plastic straws and cutlery were removed from onsite cafeterias and replaced with recyclable options manufactured by a local company. At the same time, a social media competition encouraged customers to do more about recycling waste and provided useful advice and support.

Beyond banking – Corporate social responsibility

We believe that long-term value is sustained by nurturing society and working in partnership with communities to help them grow stronger, healthier and more prosperous.

QNB Finansbank has been supporting highly-talented young Turkish musicians.

As a socially-responsible and sustainable bank, we believe that supporting the communities in which we have a presence not only benefits society, but also encourages the long-term profitability and the stability of the company. Our work in society helps to stimulate and strengthen communities, creating new opportunities and bringing greater insight.

Through the power of our people, our customers, services and products, QNB Group has an unparalleled opportunity to make every community we touch a better place. This, in turn, helps us to create an even stronger brand and deliver a better business performance.

Our people and CSR
Our goal is to enable economic and social empowerment through our services across our footprint, particularly in developing and emerging economies that are underserved by other banks. By helping individuals and companies achieve their aspirations, we help raise standards of living and encourage communities to come together for good.

This starts with our people. With around 80 different nationalities working together in more than 31 countries across three continents, we are proud of our diversity. We work in an atmosphere of mutual respect and support, and steadily apply the values that define the bank in our approach to doing business. All our employees are encouraged to participate in our CSR initiatives. Many choose to do so by contributing their time and expertise to worthy causes that the bank supports. Over the years, our volunteers have supported a wide range of community projects, including fundraising, keep-clean rallies, financial education initiatives, mentoring and training, coaching a children's sports team and even providing a warm meal to those less fortunate.

Our activities fall under six main areas of focus.

Camel Race at Al Shahaneya Racing club.

Arts and culture
Our cultural heritage helps to define who we are and what we want to become. This year, we were proud to add our support by:

> promoting our heritage: marking Qatar's National Day, QNB staff took part in the Darb Al Sai celebrations to connect the younger generation to their heritage through a series of interactive 3D experiences;

> sponsoring our history: with our annual support for the important and prestigious HH the Amir Sword – Camel Race at Al Shahaneya Racing club, we help to celebrate Qatar's rich heritage and history;

> encouraging economic growth: organised by the Qatar Tourism Authority (QTA), our ongoing sponsorship of the Doha Jewellery & Watches Exhibition 2019 supported emerging Qatari jewellery designers and promoted national economic growth; and

> bringing music to the world: QNB Finansbank was instrumental in supporting highly-talented young Turkish musicians raise their profile on the world stage. The event was broadcast across Turkey and attracted a variety of celebrities who joined the concerts.

Economic and international affairs
Financial empowerment is as important as enhancing our understanding of international affairs when it comes to helping both individuals and multinationals prosper. In 2019, we did this by:

> promoting localised service: by supporting Qatar Petroleum's Tawteen programme, launched by His Excellency Sheikh Abdullah Bin Nasser Bin Khalifa Al-Thani, the Prime Minister and Minister of the Interior, we helped to promote localisation for services and industries in the energy sector;

Qatar Information Technology Conference & Exhibition 2019 (QITCOM).

> supporting a knowledge-based economy: we sponsored ICC Qatar Trade Finance 2019 as part of our commitment to a knowledge-based economy both in Qatar and elsewhere. We were the official sponsor of this Trade Finance training workshop under the patronage of Qatar Chamber and ICC Qatar chairman Sheikh Khalifa bin Jassim Al-Thani;

> showcasing smart technology: the bank was the strategic sponsor of the Qatar Information Technology Conference & Exhibition 2019 (QITCOM), under the patronage of HH The Amir and organised by the Ministry of Transport and Communication. The international digital event showcases smart technology, industry specialists, key government decision-makers, and innovative technologies. Our support highlights our commitment to introducing new, innovative and cutting-edge technology solutions in Qatar;

> relieving traffic congestion and placing QNB on the metro map: QNB signed a major agreement with Qatar Rail, Qatar's Metro Station Company. As a result, one of the prominent metro stations will be named as 'QNB Station' in the new smart city of Lusail;

> supporting Egypt's digital economy: QNB ALAHLI sponsored Tech Invest 3 to build on our partnership with FEDCOC and promote 'Investing in Egypt's Future Digital Economy'; and

> sponsoring Tunisia's trade: QNB Tunisia was a diamond sponsor of the 21st International Forum of Maghreb Economists which focused on 'Tunisia and the new world trade order'.

21st International Forum of Maghreb Economists in Tunisia.

Beyond banking – Corporate social responsibility continued

Health and environment
Promoting good health and improving our environment are two vitally important areas of CSR for us. To further these causes in 2019 we:

> raised awareness about energy use: QNB was a diamond sponsor of the Tarsheed carnival 2019 Kahramaa, organised by the Qatar General Electricity and Water Corporation that raised awareness about the efficient use of electricity and water consumption;

> donated blood: staff from three of the bank's Doha offices made a significant contribution to blood bank stocks at Hamad Hospital Blood Donor Centre. QNB Indonesia launched a similar initiative in partnership with the Red Cross Indonesia;

> raised awareness about breast cancer: in Indonesia, our employees were encouraged to participate at a workshop with cancer survivors and a nutritionist, while women were given a free check-up via USG for early-detection screening. In Qatar, our staff handed out booklets and the Head Office was draped with a pink ribbon to mark Breast Cancer Awareness month;

> ran Sustainability Week 2019: QNB sponsored the annual Qatar Sustainability Week 2019 and organised multiple activities. New recycling bins were installed across the bank's offices and branches, low environmental impact food was provided to employees and electric/hybrid vehicles were offered for test drives to employees; and

> encouraged sustainable power: QNB ALAHLI is playing a leading role in the Egyptian solar energy market by encouraging small and medium-scale solar developments. Particular focus is given to integrating renewable energy in the industrial sectors, where QNB ALAHLI is proud to be the first bank in Egypt to finance an industrial rooftop solar installation, generating 1MW at a bottling plant in Sadat City.

International White Cane Day raising awareness about blindness.


Staff from QNB Indonesia donating blood.

Social and humanitarian
Our commitment to help build a better society, strengthen communities and contribute to a more sustainable world is unwavering. This year, we:

> distributed winter clothing and heating equipment: as part of the Warm Winter Campaign, QNB Tunisia staff partnered with the Nabeul Rotary Club to distribute winter clothing and heating equipment to low-income families and students in the Nabeul Governorate;

> raised awareness about blindness: working with the Qatar Social and Cultural Center for the Blind, we supported International White Cane Day to raise awareness about blindness and educate people about the basic skills to interact with those who have vision impairment;

> distributed gifts to cancer patients: QNB Kuwait team visited the Hussain Makki Hospital and Cancer Center to give gifts to patients; and

> enjoyed drawing with children: as part of the series of Ramadan Gathering activities, QNB Indonesia implemented an employee engagement activity with kids from SKK Melati and 'Let's Draw Together' community.

Sport
Sport provides a positive experience whether you are a participant or a spectator. It promotes a culture of cooperation, healthy competition, activity and fitness. This year, QNB:

> partnered with the International Association of Athletics Federations (IAAF): the bank signed an exclusive four-year contract to support the organisation of the 17th IAAF World Championships, and to sponsor the female athletes;

> sponsored the Asia Champions League: we supported the annual continental club football competition organised by the Asian Football Confederation as part of our commitment to support significant sporting events in the country;

> sponsored Qatar Stars League Management (QSLM): QNB supported the team that organises and manages the first division football championship in Qatar and the Qatar Cup in accordance with the Qatar Football Association (QFA), FIFA and the AFC; and

> promoted the Sultan Qaboos Cup for 2019: QNB Oman sponsored the Oman Football Association (OFA) to support football and the collaboration the sport brings in Oman.

Youth and education
Our future lies in the hands of our youth and in their education. This year we launched our educational strategy and, as part of QNB Group's commitment to CSR, the Group is launching a long-term strategic financial educational plan as part of its support for the communities in which it operates.

17th IAAF World Championships.


Tiny hands are coding 2019: providing computer skills to children from 22 cities in Turkey.


QNB handed out colouring stories for kids explaining saving, spending and sharing at Hamad International Airport.

Our goal is to educate children on financial values such as saving, spending and sharing. Additionally, we aim to highlight to the younger generation the importance of money management and investing concepts.

This year's campaign was entitled 'Children are the future investors' and main events included:

> Global Money Week: QNB organised a tour of 15 schools in Qatar and held a series of lectures and activities on the theme 'Save, Share, & Spend'. These activities encouraged children to manage their money and plan to ensure a stable financial future. Hosted in Qatar National Library, the campaign sought to develop and build the financial awareness and ensure the essential financial skills to prepare the younger generation for the financial challenges in the future;

> Kidzania summer camp: teaching kids how to open their own business at Kidzania world and benefit from it for a more prosperous future;

> Tiny hands are coding 2019: this campaign provided computer skills to 3,000 children from 8 to 14-years-old across 22 cities in Turkey. It introduced them to programming and raised the awareness of code literacy;

> Hamad International Airport Eid campaign: QNB handed out colouring stories for kids that explained saving, spending and sharing as part of its awareness campaign at Hamad International Airport; and

> TED success is everywhere: Increasing the academic success and cultural development of primary school children in Ankara and Adana. QNB worked with TED (Turkish Education Association) and MEB (Ministry of National Education) to help schoolchildren succeed in tennis, basketball and volleyball tournaments in Turkey.

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Financial statements

Group Chief Financial Officer's report

QNB continued to invest in industry-leading and client-centric product offerings to exceed the customer requirements across our network. We have delivered to our shareholders another year of stellar results in 2019.

Net profit (QR billion)

2019	14.4
2018	13.8
2017	13.1

Total assets (QR billion)

2019	944.7
2018	862.2
2017	811.1

Loans and advances (QR billion)

2019	678.7
2018	617.1
2017	584.3

Customer deposits (QR billion)

2019	684.5
2018	620.6
2017	585.5

QNB Group has continued its strong financial performance throughout 2019. As a result of our disciplined approach towards executing our strategy, we delivered sustainable revenue growth, maintained efficiency in our expenditure and preserved asset quality while maintaining strong liquidity.

QNB Group has established itself as the trusted partner for a growing number of institutional and individual clients keen to collaborate with us on their growth journey. We continued to focus all our efforts on our customers' evolving needs to drive sustainable income growth across the franchise. We invested in digital channels to offer enhanced convenience to better serve our customers. As a result, QNB Group is reporting another year of strong growth:

- net profit reached QR14.4 billion, up by 4% from last year;
- operating income reached QR25.6 billion, up by 4% from last year;
- total assets reached QR944.7 billion, up by 10% from December 2018;
- net loans and advances increased to QR678.7 billion, up by 10% from December 2018; and
- customer deposits increased to QR684.5 billion, up by 10% from December 2018.

Our continuous cost improvement efforts have helped optimise our operational costs while delivering greater efficiencies across the network. The focus on cost discipline, automation and operational excellence has resulted in QNB being able to maintain an industry-leading efficiency ratio of 25.9%. This reflects the sustainable profitability of the QNB network.

The Group effectively managed to maintain the non-performing loans ratio at 1.9%, one of the lowest among banks in the MEA region. This highlights the quality of our portfolio and our proactive approach to credit risk management. The Group continues its prudent policy with regards to non-performing loans with a coverage ratio (Stage 3 only) of 100%.

Our largest international franchise, QNB Finansbank in Turkey, increased its total assets in local currency terms by 15%. This was driven by loan growth of 17% and deposit growth of 22%. QNB Finansbank continues to post impressive results, with profitability up 12% in local currency, building a robust base for future growth.

QNB ALAHLI in Egypt has posted another set of stellar results. Total assets grew by 6% in local currency terms, primarily from loan growth of 13%. Strong profit growth of 24% was a testament of robust operating revenue and stringent cost discipline.

Enhancing shareholder value through robust capitalisation and liquidity

Our diverse banking products and services, capital strength and top-tier external credit rating allowed us to continue to deliver sustainable value to our shareholders. These attributes are supported by an expanding international presence that allows us to continue to diversify our sources of revenue and risk, thus reducing exposure to any single geography. QNB's strong equity base increased 7% to QR94.7 billion, building a platform for sustained growth.

International loans and advances (%)

2019	27
2018	29
2017	33

International customer deposits (%)

2019	46
2018	44
2017	44

International net profit (%)

2019	35
2018	37
2017	36

While global macroeconomic headwinds continued, QNB Group's resilience has been demonstrated by exceeding the regulatory liquidity, capital and leverage ratios required by the Qatar Central Bank (QCB) and Basel III. The Group is well capitalised in order to support our ongoing expansion efforts, with the Group's Capital Adequacy Ratio (CAR) at 18.9%.

QNB Group maintains a very high balance of short-term liquid assets, comprising of cash and balances with banks, time placements and investment securities, representing 25% of total assets, giving QNB Group ample reserves to take advantage of business opportunities.

It is an essential part of our strategy to mitigate risk by diversifying our funding in terms of currency, geography, product and tenor. In 2019, we successfully closed the syndication of EUR2.0 billion three-year senior unsecured term loan facility, completed a USD1.0 billion bond issuance and issued a USD850 million Formosa bond under our Medium Term Note programme. These deals are a testament of the trust from our international investors, substantiating our financial strength and commitment to promoting greater transparency.

QNB Group applies a prudent liquidity management approach to address business requirements. This resulted in QNB Group being successful in attracting lower cost wholesale deposits, with funding increasing by 10% to reach QR684.5 billion.

Looking forward

Low inflation has allowed major central banks, particularly the US Fed and the ECB, to begin easing monetary policy in order to stimulate economic growth. This has spill over effects and provides central banks across emerging markets with space to run easier monetary policy. As a result, we expect a modest acceleration in global GDP growth to around 3.4% in 2020, up from 3.0% in 2019.

Easier monetary policy means that the outlook for global interest rates is now lower than it was a year ago. This will exert negative pressure on banks' margins at a global level. However, this is not expected to materially affect QNB due to our flexibility and ability to diversify funding across tenor, currency, geography and product.


QNB Hong Kong will allow us to take advantage of growing investment links between the Middle East and South East Asia.

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 2019, 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 2019, 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.

Qatar National Bank (Q.P.S.C.)
Independent auditor's report
To the shareholders of Qatar National Bank (Q.P.S.C.)

Description of key audit matters	How the matter was addressed in our audit
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 1,131,488 million, as at 31 December 2019 (2018: QAR 1,042,044 million) 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 3,290 million, in the year ended 31 December 2019 (2018: QAR 3,007 million), which represents 23% 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 processes, systems and controls implemented, including controls over ECL model development. > Identifying and testing the relevant controls. > Involving information risk management (IRM) specialists to test IT systems and relevant controls. > Evaluating the reasonableness of management's key judgements and estimates made in ECL calculations, including selection of methods, models, assumptions and data sources. > Involving Financial Risk Management (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. > for evaluating the appropriateness and testing the mathematical accuracy of ECL models applied > 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 the input data used. > 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 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 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.
- 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.

Qatar National Bank (Q.P.S.C.)
Independent auditor's report
To the shareholders of Qatar National Bank (Q.P.S.C.)

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 2019.

16 January 2020
Doha
State of Qatar

Gopal Balasubramaniam
Qatar Auditor's Registry Number 251
KPMG
Licensed by QFMA: External Auditor's
License No. 120153

Qatar National Bank (Q.P.S.C.)
Consolidated Statement of Financial Position
As at 31 December 2019
(All amounts are shown in thousands of Qatari Riyals)

	Notes	2019	2018
ASSETS			
Cash and balances with central banks	8	62,155,228	64,691,667
Due from banks	9	79,316,258	61,748,844
Loans and advances to customers	10	678,681,835	617,125,304
Investment securities	11	95,899,182	87,387,823
Investments in associates	12	7,116,602	7,682,698
Property and equipment	13	5,377,742	4,697,205
Intangible assets	14	3,993,218	3,880,970
Other assets	15	12,157,626	14,983,088
Total assets		**944,697,691**	**862,197,599**
LIABILITIES			
Due to banks	16	78,383,845	74,137,901
Customer deposits	17	684,488,921	620,587,594
Debt securities	18	33,778,250	26,209,791
Other borrowings	19	25,266,611	25,109,644
Other liabilities	20	28,060,896	27,877,948
Total liabilities		**849,978,523**	**773,922,878**
EQUITY			
Issued capital	22	9,236,429	9,236,429
Legal reserve	22	25,326,037	25,326,037
Risk reserve	22	8,500,000	8,000,000
Fair value reserve	22	(1,347,274)	(973,557)
Foreign currency translation reserve	22	(16,439,210)	(16,209,852)
Other reserves	22	263,729	683,722
Retained earnings	22	48,059,481	41,206,855
Total equity attributable to equity holders of the bank		**73,599,192**	**67,269,634**
Non–controlling interests	23	1,119,976	1,005,087
Instruments eligible for additional Tier 1 Capital	24	20,000,000	20,000,000
Total equity		**94,719,168**	**88,274,721**
Total liabilities and equity		**944,697,691**	**862,197,599**

These consolidated financial statements were approved by the Board of Directors on 14 January 2020 and were signed on its behalf by:

Ali Shareef Al-Emadi
Chairman of the Board of Directors

Abdulla Mubarak Al-Khalifa
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 2019
(All amounts are shown in thousands of Qatari Riyals)

	Notes	2019	2018
Interest income	25	53,078,766	50,744,709
Interest expense	26	(32,882,296)	(31,711,804)
Net interest income		**20,196,470**	**19,032,905**
Fee and commission income	27	4,840,852	4,608,417
Fee and commission expense		(1,127,815)	(965,929)
Net fee and commission income		**3,713,037**	**3,642,488**
Net foreign exchange gain	28	1,097,998	1,189,480
Income from investment securities	29	98,926	122,051
Other operating income		129,024	77,772
Operating income		**25,235,455**	**24,064,696**
Staff expenses	30	(3,495,149)	(3,321,504)
Depreciation	13	(706,563)	(440,822)
Other expenses	31	(2,434,785)	(2,581,815)
Net ECL/impairment losses on loans and advances to customers	10	(3,176,853)	(3,040,565)
Net ECL/impairment recoveries/(losses) on investment securities	11	26,997	(14,646)
Net ECL/impairment recoveries/(losses) on other financial assets		(139,944)	48,057
Amortisation of intangible assets		(73,958)	(70,562)
Other provisions/(recoveries)		7,109	(109,587)
		(9,993,146)	**(9,531,444)**
Share of results of associates	12	400,826	485,215
Profit before income taxes		**15,643,135**	**15,018,467**
Income tax expense	32	(1,182,335)	(1,135,130)
Profit for the year		**14,460,800**	**13,883,337**
Attributable to:			
Equity holders of the Bank		14,350,860	13,788,131
Non–controlling interests		109,940	95,206
Profit for the year		**14,460,800**	**13,883,337**
Basic and diluted earnings per share (QR)	33	1.45	1.44

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 2019
(All amounts are shown in thousands of Qatari Riyals)

	2019	2018
Profit for the year	**14,460,800**	**13,883,337**
Other comprehensive income that is or may be reclassified to the consolidated income statement in subsequent periods:		
Foreign currency translation differences for foreign operations	(183,895)	(3,982,990)
Share of other comprehensive income of associates	(420,538)	(146,931)
Effective portion of changes in fair value of cash flow hedges	(1,030,336)	(193,623)
Effective portion of changes in fair value of net investment in foreign operations	202,567	478,830
Investments in debt instruments measured at FVOCI		
– Net change in fair value	310,994	(415,949)
– Net amount transferred to income statement	(18,635)	(14,462)
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	166,368	222,247
Total other comprehensive income for the year, net of income tax	**(973,475)**	**(4,052,878)**
Total comprehensive income for the year	**13,487,325**	**9,830,459**
Attributable to:		
Equity holders of the Bank	13,333,554	9,791,351
Non-controlling interests	153,771	39,108
Total comprehensive income for the year	**13,487,325**	**9,830,459**

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 2019

(All amounts are shown in thousands of Qatari Riyals)

	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
Balance at 1 January 2019	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
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	14,350,860	14,350,860	109,940	–	14,460,800
Total other comprehensive income	–	–	–	(372,729)	(224,584)	(419,993)	–	(1,017,306)	43,831	–	(973,475)
Total comprehensive income for the year	**–**	**–**	**–**	**(372,729)**	**(224,584)**	**(419,993)**	**14,350,860**	**13,333,554**	**153,771**	**–**	**13,487,325**
Reclassification of net change in fair value of equity instruments upon derecognition	–	–	–	(988)	–	–	988	–	–	–	–
Transfer to risk reserve	–	–	500,000	–	–	–	(500,000)	–	–	–	–
Transfer to social and sports fund	–	–	–	–	–	–	(234,947)	(234,947)	–	–	(234,947)
Transactions recognised directly in equity											
Dividend for the year 2018 (note 22)	–	–	–	–	–	–	(5,541,857)	(5,541,857)	–	–	(5,541,857)
Dividend appropriation for instruments eligible for additional capital	–	–	–	–	–	–	(1,000,000)	(1,000,000)	–	–	(1,000,000)
Net movement in non-controlling interests	–	–	–	–	(4,774)	–	7,283	2,509	(2,509)	–	–
Other movements	–	–	–	–	–	–	(229,701)	(229,701)	(36,373)	–	(266,074)
Total transactions recognised directly in equity	**–**	**–**	**–**	**–**	**(4,774)**	**–**	**(6,764,275)**	**(6,769,049)**	**(38,882)**	**–**	**(6,807,931)**
Balance at 31 December 2019	**9,236,429**	**25,326,037**	**8,500,000**	**(1,347,274)**	**(16,439,210)**	**263,729**	**48,059,481**	**73,599,192**	**1,119,976**	**20,000,000**	**94,719,168**
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 instruments 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	–	–	–	–	–	–	(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**

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 2019
(All amounts are shown in thousands of Qatari Riyals)

	Notes	2019	2018
Cash flows from operating activities			
Profit before income taxes		15,643,135	15,018,467
Adjustments for:			
Interest income		(53,078,766)	(50,744,709)
Interest expense		32,882,296	31,711,804
Depreciation	13	706,563	440,822
Net ECL/impairment losses on loans and advances to customers	10	3,176,853	3,040,565
Net ECL/impairment recoveries/(losses) on investment securities		(26,997)	14,646
Net ECL/impairment recoveries/(losses) on other financial assets		139,944	(48,057)
Other provisions		64,421	104,188
Dividend income	29	(59,453)	(105,392)
Net gain on sale of property and equipment		(1,601)	(11,057)
Net gain on sale of investment securities	29	(26,469)	(13,954)
Amortisation of intangible assets		73,958	70,562
Net amortisation of premium or discount on investments		(270,579)	(19,952)
Net share of results of associates		(289,376)	(335,937)
		(1,066,071)	**(878,004)**
Changes in:			
Due from banks		(3,042,785)	487,869
Loans and advances to customers		(95,666,699)	(70,738,714)
Other assets		(22,659,757)	(4,390,693)
Due to banks		8,562,002	12,378,475
Customer deposits		105,825,967	55,574,804
Other liabilities		5,007,536	10,941,414
Cash (used in)/from operations		**(3,039,807)**	**3,375,151**
Interest received		51,551,246	49,843,084
Interest paid		(33,048,128)	(31,034,032)
Dividends received		59,453	105,392
Income tax paid		(701,655)	(868,474)
Other provisions paid		(10,129)	(49,634)
Net cash from operating activities		**14,810,980**	**21,371,487**
Cash flows from investing activities			
Acquisition of investment securities		(45,576,479)	(65,880,410)
Proceeds from sale/redemption of investment securities		41,752,268	75,013,056
Additions to property and equipment	13	(928,273)	(1,221,108)
Proceeds from disposal of property and equipment		4,669	11,722
Net cash (used in)/from investing activities		**(4,747,815)**	**7,923,260**
Cash flows from financing activities			
Proceeds from issuance of instruments eligible for Additional Tier 1 Capital	24	–	10,000,000
Payment of coupon on instruments eligible for Additional Tier 1 Capital		(532,500)	(450,000)
Proceeds from issuance of debt securities	18	9,764,304	11,591,005
Repayment of debt securities	18	(1,842,580)	(10,418,447)
Proceeds from issuance of other borrowings	19	12,314,000	15,260,224
Repayment of other borrowings	19	(11,732,186)	(13,528,893)
Payment of lease liabilities		(313,349)	–
Dividends paid		(5,538,478)	(5,546,000)
Net cash from financing activities		**2,119,211**	**6,907,889**
Net increase in cash and cash equivalents		**12,182,376**	**36,202,636**
Effects of exchange rate fluctuations on cash held		(1,266,393)	(1,880,649)
Cash and cash equivalents at 1 January		91,811,862	57,489,875
Cash and cash equivalents at 31 December	39	**102,727,845**	**91,811,862**

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

Qatar National Bank (Q.P.S.C.)
Notes to the Consolidated Financial Statements
As at and for the year ended 31 December 2019
(All amounts are shown in thousands of Qatari Riyals)

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 Amiri 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	92.5
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')
> Other financial assets designated at fair value through profit or loss ('FVPL')
> Financial investment measured at fair value through other comprehensive income ('FVOCI')
> 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 16 on 1 January 2019, as described in note 3(ab).

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 recognised, 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.

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.

Qatar National Bank (Q.P.S.C.)
Notes to the Consolidated Financial Statements
As at and for the year ended 31 December 2019
(All amounts are shown in thousands of Qatari Riyals)

3. Significant accounting policies (continued)

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 Expected Credit Losses ('ECL') or 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.

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 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, are included in other comprehensive income.

3. Significant accounting policies (continued)

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

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

Exchange differences arising from the above process are reported in shareholders' equity as 'foreign currency translation reserve'.

When a foreign operation is disposed of, or partially disposed of when the 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
On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVPL.

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

3. Significant accounting policies (continued)

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.

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, except in case of equity investment securities designated as at FVOCI, where this difference is recognised in OCI and 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.

3. Significant accounting policies (continued)

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.

Financial liabilities

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

(iv) Modification of financial assets and liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

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 ECL/impairment losses. In other cases, it is presented as interest income.

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 ECL/impairment loss. The calculation of effective interest rate includes all fees paid or received that are an integral part of the effective interest rate.

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.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price). 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.

3. Significant accounting policies (continued)

Assets and long positions are measured at bid price; liabilities and short positions are measured at ask 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 include 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) Expected credit losses (ECL)/impairment

The Group recognises loss allowances for expected credit losses (ECL)/impairment 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 ECL/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.

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/impairment 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.

3. Significant accounting policies (continued)

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

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.

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

> Interest revenue using the effective interest method;
> ECL/impairment 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 ECL/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.

3. Significant accounting policies (continued)

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.

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 profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in 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.

3. Significant accounting policies (continued)

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.

(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.

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.

3. Significant accounting policies (continued)

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.

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.

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.

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.

(All amounts are shown in thousands of Qatari Riyals)

3. Significant accounting policies (continued)

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.

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

Other 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, except in the case of equity securities designated as at FVOCI, where any cumulative gain/loss recognised in OCI 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. The amount of the tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes. 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 at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

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.

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.

3. Significant accounting policies (continued)

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) Leases

Policy applicable from 1 January 2019
At inception of a contract, the Group assesses whether a contract is, or contains, a lease based on if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group has decided to separate the lease and non-lease component in the underlying contracts based on their relative standalone prices.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any prepaid and accrued lease expenses. The right-of-use asset is subsequently depreciated using the straight-line method 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. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and is adjusted for extension in lease terms or cancellation of the leases.

The lease liability is initially measured at the present value of the lease payments which are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate, which is based on the weighted average rate applied in the Group's principal markets adjusted for the nature of the asset, lease term, security and any other relevant assumptions. The lease liability is subsequently measured at amortised cost using the effective interest method. The finance cost incurred related to the lease liabilities is included in the 'interest expense' in the consolidated income statement.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets (where the leased asset value is less than USD10,000) and short-term leases (where the lease term is less than 12 months). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the consolidated statement of financial position. The deferred tax impact, if any, is recognised in accordance with the relevant tax regulations and is accounted under IAS 12.

Policy applicable before 1 January 2019
For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease. As a lessee the Group classified all leases as operating leases under IAS 17. Payments made under operating leases were recognised in consolidated income statement on a straight-line basis over the term of the lease.

ab) 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 2019:

Standard	Effective date
IFRIC 23 Uncertainty over income tax treatments	1 January 2019
IFRS 16 Leases	1 January 2019
Prepayment features with negative compensation (amendments to IFRS 9)	1 January 2019

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.

3. Significant accounting policies (continued)

IFRS 16 Leases
IFRS 16 was issued in January 2016. It has resulted in almost all leases being recognised on the statement of financial position by the lessee, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to control the use of leased item) and a financial liability to pay rentals are recognised.

The Group has applied the standard from its mandatory adoption date of 1 January 2019. The Group has applied the simplified transition approach and has not restated comparative amounts, prior to the date of adoption of the standard. At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

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 a 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), unless then the Group has elected to use the short-term or low-value lease exemption; and

> exclude initial direct costs from the measurement of right-of-use asset at the date of initial application.

The Group's activities as a lessor are not material and hence, do not have any significant impact on its consolidated financial statements.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate as at 1 January 2019, which is based on the weighted average rate applied in the Group's principal markets adjusted for the nature of the asset, lease term, security and any other relevant assumptions.

The following amounts have been recognised under the new standard and included within the respective headings of the consolidated statement of financial position and consolidated income statement:

	1 January 2019
Right-of-use assets	695,750
Lease liabilities	645,188
Lease commitments for short-term leases and low-value assets (recognition exemption)	32,952
Operating lease commitments at 31 December 2018 under IAS 17 discounted using the incremental borrowing rate at 1 January 2019	677,688
Finance lease liabilities recognised as at 31 December 2018	–
– Recognition exemption for leases of low-value assets	(8,223)
– Recognition exemption for leases with less than 12 months of lease term at transition	(24,884)
– Extension options reasonably certain to be exercised	607
Lease liabilities recognised at 1 January 2019	**645,188**

ac) Standards issued but not yet effective
IFRS 17 Insurance Contracts is effective from 1 January 2021. The Group is currently evaluating the impact of this new standard. The Group will adopt this new standard on the effective date.

Qatar National Bank (Q.P.S.C.)
Notes to the Consolidated Financial Statements
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(All amounts are shown in thousands of Qatari Riyals)

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.

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.

4. Financial risk management (continued)

b) Credit risk
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	
	2019	2018
Cash and balances with central banks (excluding cash on hand)	50,772,107	55,274,311
Due from banks	79,316,258	61,748,844
Loans and advances to customers	678,681,835	617,125,304
Investment securities (debt)	94,222,970	86,006,592
Other assets	7,577,005	11,531,256
	910,570,175	**831,686,307**
Guarantees	61,020,768	62,286,901
Letters of credit	30,505,313	24,948,543
Unutilised credit facilities	111,978,300	106,442,290
Total	**1,114,074,556**	**1,025,364,041**

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 2019	Net maximum exposure 2019	Gross maximum exposure 2018	Net maximum exposure 2018
Government	164,008,234	–	198,287,572	–
Government agencies	214,324,185	79,775,387	201,738,302	59,563,581
Industry	42,467,380	38,499,777	37,812,830	32,090,033
Commercial	81,579,975	74,023,156	34,758,440	20,921,871
Services	259,926,970	220,380,874	214,163,203	151,601,894
Contracting	12,399,068	9,059,552	12,345,445	8,824,126
Real Estate	61,376,412	36,771,883	58,460,481	34,566,784
Personal	69,260,871	51,125,841	60,860,897	45,522,982
Others	5,227,080	3,441,949	13,259,137	11,011,287
Guarantees	61,020,768	61,020,768	62,286,901	62,286,901
Letters of credit	30,505,313	30,505,313	24,948,543	24,948,543
Unutilised credit facilities	111,978,300	111,978,300	106,442,290	106,442,290
Total	**1,114,074,556**	**716,582,800**	**1,025,364,041**	**557,780,292**

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4. Financial risk management (continued)

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 watch list 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.

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

	2019			
Cash and balances with central banks (excluding cash on hand) and due from banks	Stage 1	Stage 2	Stage 3	Total
Investment grade – ORR 1 to 4	119,562,250	–	–	119,562,250
Sub-investment grade – ORR 5 to 7	10,162,997	414,341	–	10,577,338
Substandard – ORR 8	–	–	–	–
Doubtful – ORR 9	–	–	–	–
Loss – ORR 10	–	–	–	–
	129,725,247	**414,341**	**–**	130,139,588
Loss allowance				(51,223)
Carrying amount				**130,088,365**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Investment grade – ORR 1 to 4	104,993,120	–	–	104,993,120
Sub-investment grade – ORR 5 to 7	12,091,415	181	–	12,091,596
Substandard – ORR 8	–	–	–	–
Doubtful – ORR 9	–	–	–	–
Loss – ORR 10	–	–	–	–
	117,084,535	**181**	**–**	117,084,716
Loss allowance				(61,561)
Carrying amount				**117,023,155**

	2019			
Loans and advances to customers	Stage 1	Stage 2	Stage 3	Total
Investment grade - ORR 1 to 4	498,521,095	429,476	–	498,950,571
Sub-investment grade - ORR 5 to 7	151,126,754	32,541,660	–	183,668,414
Substandard - ORR 8	–	–	2,797,370	2,797,370
Doubtful - ORR 9	–	–	1,758,488	1,758,488
Loss - ORR 10	–	–	8,283,220	8,283,220
	649,647,849	**32,971,136**	**12,839,078**	695,458,063
Loss allowance				(16,776,228)
Carrying amount				**678,681,835**

(All amounts are shown in thousands of Qatari Riyals)

4. Financial risk management (continued)

	2018			
	Stage 1	Stage 2	Stage 3	Total
Investment grade - ORR 1 to 4	461,308,367	1,603,743	–	462,912,110
Sub-investment grade - ORR 5 to 7	138,230,286	19,938,095	–	158,168,381
Substandard - ORR 8	–	–	3,015,175	3,015,175
Doubtful - ORR 9	–	–	1,211,061	1,211,061
Loss - ORR 10	–	–	7,961,307	7,961,307
	599,538,653	**21,541,838**	**12,187,543**	633,268,034
Loss allowance				(16,142,730)
Carrying amount				**617,125,304**

	2019			
Investment securities (debt)	Stage 1	Stage 2	Stage 3	Total
Investment grade - ORR 1 to 4	68,319,306	–	–	68,319,306
Sub-investment grade - ORR 5 to 7	25,904,966	58,074	–	25,963,040
Substandard – ORR 8	–	–	–	–
Doubtful – ORR 9	–	–	–	–
Loss – ORR 10	–	–	71,372	71,372
	94,224,272	**58,074**	**71,372**	94,353,718
Loss allowance				(138,793)
Carrying amount				**94,214,925**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Investment grade – ORR 1 to 4	61,980,906	–	–	61,980,906
Sub-investment grade – ORR 5 to 7	23,997,766	124,759	–	24,122,525
Substandard – ORR 8	–	–	–	–
Doubtful – ORR 9	–	–	–	–
Loss – ORR 10	–	–	65,674	65,674
	85,978,672	**124,759**	**65,674**	86,169,105
Loss allowance				(181,612)
Carrying amount				**85,987,493**

	2019			
Loan commitments and financial guarantees	Stage 1	Stage 2	Stage 3	Total
Investment grade - ORR 1 to 4	124,190,343	131,113	–	124,321,456
Sub-investment grade - ORR 5 to 7	76,356,982	3,038,510	–	79,395,492
Substandard - ORR 8	–	–	41,009	41,009
Doubtful - ORR 9	–	–	26,345	26,345
Loss - ORR 10	–	–	167,238	167,238
	200,547,325	**3,169,623**	**234,592**	203,951,540
Loss allowance				(447,159)
Carrying amount				**203,504,381**

4. Financial risk management (continued)

	2018			
	Stage 1	Stage 2	Stage 3	Total
Investment grade – ORR 1 to 4	128,875,695	15,923	–	128,891,618
Sub-investment grade – ORR 5 to 7	63,445,144	1,385,588	–	64,830,732
Substandard – ORR 8	–	–	58,654	58,654
Doubtful – ORR 9	–	–	57,626	57,626
Loss – ORR 10	–	–	133,264	133,264
	192,320,839	**1,401,511**	**249,544**	193,971,894
Loss allowance				(294,160)
Carrying amount				**193,677,734**

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 2019 is QR 8,226 million (2018: QR4,807 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 2019 is QR 763.0 million (2018: QR21.7 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 macroeconomic factors, across various geographies in which the Group has exposures.

(All amounts are shown in thousands of Qatari Riyals)

4. Financial risk management (continued)

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.

Incorporation of forward-looking information

The Group employs statistical models to incorporate macroeconomic factors on historical default rates. In case none of the above macroeconomic parameters are statistically significant or the results of forecasted PDs 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 as at 31 December 2019: Oil $60 - $62 price/barrel, GDP 1.3% - 3.5%, Inflation 1.9% - 2.2% etc. 2018: 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 2019, were 80% to Base Case and 10% each to Downside and Upside Case (2018: 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); and
> exposure at default (EAD).

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

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

4. Financial risk management (continued)

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 realised 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 gradings;
> 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.

	2019			
Cash and balances with central banks (excluding cash on hand) and due from banks	Stage 1	Stage 2	Stage 3	Total ECL/ impairment
Balance at 1 January	61,555	6	–	61,561
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
ECL/impairment allowance for the year, net	(17,683)	9,183	–	(8,500)
Amounts written off	–	–	–	–
Foreign currency translation	(2,221)	383	–	(1,838)
Balance at 31 December	**41,651**	**9,572**	**–**	**51,223**

	2018			
	Stage 1	Stage 2	Stage 3	Total ECL/ impairment
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	–	–	–	–
ECL/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**

(All amounts are shown in thousands of Qatari Riyals)

4. Financial risk management (continued)

	2019			
Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total ECL/ impairment**
Balance at 1 January	1,668,145	1,785,141	12,689,444	16,142,730
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(483,182)	483,182	–	–
Transfers to Stage 3	–	(434,741)	434,741	–
ECL/impairment allowance for the year, net	104,774	1,010,425	2,415,033	3,530,232
Amounts written off	–	(70,560)	(2,511,742)	(2,582,302)
Foreign currency translation	(43,117)	(79,067)	(192,248)	(314,432)
Balance at 31 December	**1,246,620**	**2,694,380**	**12,835,228**	**16,776,228**

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total ECL/ impairment**
Balance at 1 January	26,124	13,032	11,661,599	11,700,755
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	–
ECL/impairment allowance for the year, net	340,383	340,721	2,643,099	3,324,203
Amounts written off	–	–	(1,481,219)	(1,481,219)
Foreign currency translation	(274,078)	(155,293)	(1,220,563)	(1,649,934)
Balance at 31 December	**1,668,145**	**1,785,141**	**12,689,444**	**16,142,730**

	2019			
Investment securities (debt)	**Stage 1**	**Stage 2**	**Stage 3**	**Total ECL/ impairment**
Balance at 1 January	98,817	6,567	76,228	181,612
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
ECL/impairment allowance for the year, net	(25,758)	(1,276)	37	(26,997)
Amounts written off	–	–	–	–
Foreign currency translation	(16,157)	–	335	(15,822)
Balance at 31 December	**56,902**	**5,291**	**76,600**	**138,793**

4. Financial risk management (continued)

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total ECL/ impairment**
Balance at 1 January	–	–	79,562	79,562
Impact of initial application	82,408	4,289	–	86,697
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
ECL/impairment allowance for the year, net	16,327	(1,645)	(36)	14,646
Amounts written off	–	–	(2,772)	(2,772)
Foreign currency translation	82	3,923	(526)	3,479
Balance at 31 December	**98,817**	**6,567**	**76,228**	**181,612**

	2019			
Loan commitments and financial guarantees	**Stage 1**	**Stage 2**	**Stage 3**	**Total ECL/ impairment**
Balance at 1 January	131,183	34,458	128,519	294,160
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(281)	281	–	–
Transfers to Stage 3	–	–	–	–
ECL/impairment allowance for the year, net	81,625	40,530	26,289	148,444
Amounts written off	–	–	–	–
Foreign currency translation	724	(119)	3,950	4,555
Balance at 31 December	**213,251**	**75,150**	**158,758**	**447,159**

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total ECL/ impairment**
Balance at 1 January	3,781	2,289	71,115	77,185
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	–
ECL/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)
Balance at 31 December	**131,183**	**34,458**	**128,519**	**294,160**

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 2019	2018
Market indices			
Qatar exchange	±5	**12,030**	**12,696**

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
As at 31 December 2019:						
Assets	259,030,482	428,136,888	92,391,751	40,013,408	125,125,162	944,697,691
Liabilities and equity	271,575,578	415,587,961	93,270,657	39,897,393	124,366,102	944,697,691
Net exposure	**(12,545,096)**	**12,548,927**	**(878,906)**	**116,015**	**759,060**	**–**
As 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**	**–**

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 2019	2018
Currency			
US$	+2	250,979	(2,178,841)
Euro	+3	(26,367)	(28,109)
Pound Sterling	+2	2,320	2,257
Egyptian Pound	+3	1,889	(27,049)
Turkish Lira	+3	(223,062)	(7,219)
Other currencies	+3	243,945	238,346
US$	-2	(250,979)	2,178,841
Euro	-3	26,367	28,109
Pound Sterling	-2	(2,320)	(2,257)
Egyptian Pound	-3	(1,889)	27,049
Turkish Lira	-3	223,062	7,219
Other currencies	-3	(243,945)	(238,346)

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4. Financial risk management (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 based on the 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
As at 31 December 2019:							
Cash and balances with central banks	17,495,569	–	–	–	44,659,659	62,155,228	
Due from banks	69,804,742	1,985,070	344,803	–	7,181,643	79,316,258	1.90%
Loans and advances to customers	324,253,404	294,586,032	39,689,596	10,464,870	9,687,933	678,681,835	5.79%
Investments	14,051,109	18,328,712	40,898,629	19,568,810	10,168,524	103,015,784	7.61%
Other assets	–	–	–	–	21,528,586	21,528,586	
Total assets	**425,604,824**	**314,899,814**	**80,933,028**	**30,033,680**	**93,226,345**	**944,697,691**	
Due to banks	56,959,334	15,718,633	5,219,229	125,270	361,379	78,383,845	2.85%
Customer deposits	446,770,569	127,443,716	42,233,376	1,881,007	66,160,253	684,488,921	3.18%
Debt securities	10,881,397	3,353,333	13,231,955	5,974,496	337,069	33,778,250	3.71%
Other borrowings	24,897,738	285,638	24,990	3,407	54,838	25,266,611	2.33%
Other liabilities	–	–	–	–	28,060,896	28,060,896	
Total equity	–	–	–	–	94,719,168	94,719,168	
Total liabilities and equity	**539,509,038**	**146,801,320**	**60,709,550**	**7,984,180**	**189,693,603**	**944,697,691**	
Balance sheet items	(113,904,214)	168,098,494	20,223,478	22,049,500	(96,467,258)	–	
Off-balance sheet items	27,463,563	436,924	(22,111,109)	(5,500,542)	(288,836)	–	
Interest rate sensitivity gap	**(86,440,651)**	**168,535,418**	**(1,887,631)**	**16,548,958**	**(96,756,094)**	**–**	
Cumulative interest rate sensitivity gap	**(86,440,651)**	**82,094,767**	**80,207,136**	**96,756,094**	**–**	**–**	
As 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	–	6,975,256	61,748,844	2.59%
Loans and advances to customers	347,254,319	202,078,769	32,086,014	23,178,998	12,527,204	617,125,304	6.33%
Investments	17,694,566	22,502,831	26,882,886	17,990,486	9,999,752	95,070,521	7.92%
Other assets	–	–	–	–	23,561,263	23,561,263	
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	4,630,337	74,137,901	3.12%
Customer deposits	422,802,650	92,463,171	39,929,050	983,886	64,408,837	620,587,594	3.64%
Debt securities	8,505,693	1,819,236	9,959,779	5,653,200	271,883	26,209,791	3.93%
Other borrowings	22,379,991	2,346,533	239,474	71,703	71,943	25,109,644	2.21%
Other liabilities	–	–	–	–	27,877,948	27,877,948	
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**	**–**	**–**	

Other assets includes property and equipment and intangible assets.

(All amounts are shown in thousands of Qatari Riyals)

4. Financial risk management (continued)

Interest rate sensitivity

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.

2019	Increase in basis points	Sensitivity of net interest income	Decrease in basis points	Sensitivity of net interest income
Currency				
Qatari Riyal	10	66,099	10	(66,099)
US$	10	10,082	10	(10,082)
Euro	10	(31,081)	10	31,081
Pound Sterling	10	(9,757)	10	9,757
Other currencies	10	(9,058)	10	9,058

2018	Increase in basis points	Sensitivity of net interest income	Decrease in basis points	Sensitivity of net interest income
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

Inter Bank Offered Rate (IBOR) reforms

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. There is uncertainty as to the timing and the methods of transition for replacing existing benchmark interbank offered rates (IBORs) with alternative rates.

As a result of these uncertainties, significant accounting judgement is involved in determining whether certain hedge accounting relationships that hedge the variability of foreign exchange and interest rate risk due to expected changes in IBORs continue to qualify for hedge accounting as at 31 December 2019. IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. Therefore, the Group believes the current market structure supports the continuation of hedge accounting as at 31 December 2019.

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.

4. Financial risk management (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
As at 31 December 2019:						
Cash and balances with central banks	29,092,901	–	–	–	33,062,327	62,155,228
Due from banks	68,909,726	4,725,218	2,693,873	2,987,441	–	79,316,258
Loans and advances to customers	104,432,188	22,589,555	62,657,526	122,613,168	366,389,398	678,681,835
Investments	5,345,760	5,789,086	13,932,774	37,223,631	40,724,533	103,015,784
Other assets	10,016,942	667,889	1,836,597	7,606,597	1,400,561	21,528,586
Total assets	**217,797,517**	**33,771,748**	**81,120,770**	**170,430,837**	**441,576,819**	**944,697,691**
Due to banks	34,392,714	11,446,168	9,025,511	20,502,229	3,017,223	78,383,845
Customer deposits	277,834,764	65,785,376	112,165,785	199,446,406	29,256,590	684,488,921
Debt securities	–	102,761	4,100,091	23,595,271	5,980,127	33,778,250
Other borrowings	156,544	133,773	1,967,525	23,005,362	3,407	25,266,611
Other liabilities and equity	16,880,148	1,149,145	3,257,433	2,590,606	98,902,732	122,780,064
Total liabilities and equity	**329,264,170**	**78,617,223**	**130,516,345**	**269,139,874**	**137,160,079**	**944,697,691**
On-balance sheet gap	**(111,466,653)**	**(44,845,475)**	**(49,395,575)**	**(98,709,037)**	**304,416,740**	**–**
Contingent and other items	**88,187,326**	**32,639,092**	**45,123,379**	**34,637,691**	**20,114,738**	**220,702,226**
As 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	2,256,775	2,285,290	-	61,748,844
Loans and advances to customers	94,321,698	28,093,488	81,552,646	148,186,895	264,970,577	617,125,304
Investments	9,243,975	6,801,919	19,911,383	31,114,941	27,998,303	95,070,521
Other assets	10,464,394	1,513,499	2,664,374	7,599,201	1,319,795	23,561,263
Total assets	**203,093,629**	**39,157,206**	**106,385,178**	**189,186,327**	**324,375,259**	**862,197,599**
Due to banks	31,867,576	8,806,629	11,029,018	18,106,958	4,327,720	74,137,901
Customer deposits	257,203,759	66,541,481	101,485,462	184,651,974	10,704,918	620,587,594
Debt securities	228,416	361,989	1,678,494	18,074,973	5,865,919	26,209,791
Other borrowings	110,037	113,358	11,821,884	13,052,988	11,377	25,109,644
Other liabilities and equity	17,719,884	1,542,290	3,372,133	3,297,380	90,220,982	116,152,669
Total liabilities and equity	**307,129,672**	**77,365,747**	**129,386,991**	**237,184,273**	**111,130,916**	**862,197,599**
On-balance sheet gap	**(104,036,043)**	**(38,208,541)**	**(23,001,813)**	**(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**

Other assets includes property and equipment and intangible assets.

The liquidity coverage ratio maintained by the Group as at 31 December 2019 is 160% (2018: 124%), as against the minimum requirement of 100% for the year ended 31 December 2019 (100% for 31 December 2018) as per QCB regulations.

4. Financial risk management (continued)

Maturity analysis of undiscounted cash flows

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
As at 31 December 2019:						
Due to banks	35,229,809	11,669,449	10,326,572	25,145,486	3,179,135	85,550,451
Customer deposits	279,333,207	67,547,995	115,477,188	207,733,934	29,256,609	699,348,933
Debt securities	10,732	724,096	4,308,238	23,931,561	7,942,468	36,917,095
Other borrowings	156,544	297,955	1,993,208	23,967,064	3,407	26,418,178
Lease liabilities	33,116	19,213	89,405	481,456	99,071	722,261
Derivative financial instruments						
– Contractual amounts payable – forward contracts	31,061,132	31,282,040	10,914,088	623,023	–	73,880,283
– Contractual amounts receivable – forward contracts	(31,617,923)	(30,804,938)	(12,595,435)	(553,074)	–	(75,571,370)
– Contractual amounts payable/ (receivable) – others	54,448	(511,196)	(74,276)	892,097	(1,239,393)	(878,320)
Total liabilities	**314,261,065**	**80,224,614**	**130,438,988**	**282,221,547**	**39,241,297**	**846,387,511**
As 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
– Contractual amounts receivable – forward contracts	(40,821,504)	(11,346,000)	(8,807,341)	(500,591)	–	(61,475,436)
– Contractual amounts 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**

e) Operational risks

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.

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4. Financial risk management (continued)

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

	2019	2018
Common Equity Tier 1 (CET 1) Capital	70,452,080	61,915,347
Eligible Additional Tier 1 (AT1) Capital Instruments	20,000,000	20,000,000
Additional Tier 1 Capital	91,848	90,609
Additional Tier 2 Capital	4,373,999	3,839,001
Total eligible capital	**94,917,927**	**85,844,957**
Risk weighted assets for credit risk	426,134,253	383,098,110
Risk weighted assets for market risk	5,660,334	1,984,934
Risk weighted assets for operational risk	41,698,671	36,920,366
Total risk weighted assets	**473,493,258**	**422,003,410**
CET 1 ratio*	**13.7%**	**13.4%**
Tier 1 Capital ratio*	**18.0%**	**18.1%**
Total Capital ratio*	**18.9%**	**19.0%**

* The above ratios are calculated 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%	2.5%	0.0%	**11.00%**
Minimum limit for Tier 1 Capital ratio	8.0%	2.5%	2.5%	0.0%	**13.00%**
Minimum limit for Total Capital ratio	10.0%	2.5%	2.5%	1.0%	**16.00%**

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 expected credit losses/impairment

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/impairment.

5. Use of estimates and judgements (continued)

(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.

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
As at 31 December 2019:				
Derivative assets held for risk management	710	5,345,202	–	5,345,912
Investment securities	36,533,925	1,389,380	–	37,923,305
Total	**36,534,635**	**6,734,582**	**–**	**43,269,217**
Derivative liabilities held for risk management	1,650	4,710,210	–	4,711,860
Total	**1,650**	**4,710,210**	**–**	**4,711,860**
As at 31 December 2018:				
Derivative assets held for risk management	1,856	9,248,712	–	9,250,568
Investment securities	28,795,168	3,088,091	–	31,883,259
Total	**28,797,024**	**12,336,803**	**–**	**41,133,827**
Derivative liabilities held for risk management	2,115	5,798,148	–	5,800,263
Total	**2,115**	**5,798,148**	**–**	**5,800,263**

There have been no transfers between Level 1 and Level 2 (2018: Nil).

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.

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5. Use of estimates and judgements (continued)

(ii) Financial asset and liability classification
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 7 for further information.

(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) ECL/impairment of investments in equity and debt securities
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/impairment. Refer to note 4 Inputs, assumptions and techniques used for estimating ECL/impairment of financial assets for more information.

(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 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.

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.

6. Operating segments (continued)

	Qatar operations					
	Corporate banking	Consumer banking	Asset and wealth management	International banking	Unallocated and intra-group transactions	Total
As at 31 December 2019:						
External revenue:						
Net interest income	8,896,838	694,795	849,888	9,693,595	61,354	20,196,470
Net fee and commission income	708,045	292,936	239,949	2,475,589	(3,482)	3,713,037
Net foreign exchange gain	544,922	144,059	184,202	214,410	10,405	1,097,998
Income from investment securities	45,043	–	1,074	52,809	–	98,926
Other operating income	80	7	164	127,272	1,501	129,024
Share of results of associates	343,389	–	–	57,437	–	400,826
Total segment revenue	**10,538,317**	**1,131,797**	**1,275,277**	**12,621,112**	**69,778**	**25,636,281**
Reportable segment profit	**8,487,522**	**461,323**	**912,552**	**4,952,961**	**(463,498)**	**14,350,860**
Reportable segment investments	50,996,572	–	–	44,902,610	–	95,899,182
Reportable segment loans and advances	461,654,689	10,957,163	26,147,377	179,922,606	–	678,681,835
Reportable segment customer deposits	287,156,409	27,034,029	55,957,715	314,340,768	–	684,488,921
Reportable segment assets	642,515,357	28,499,720	58,037,154	474,326,706	(258,681,246)	944,697,691
As 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	49,824,495	–	13,318	37,550,010	–	87,387,823
Reportable segment loans and advances	404,360,021	10,816,756	24,016,125	177,932,402	–	617,125,304
Reportable segment customer deposits	271,714,377	25,243,536	52,615,366	271,014,315	–	620,587,594
Reportable segment assets	577,199,037	26,675,049	53,767,192	419,449,923	(214,893,602)	862,197,599

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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				
	Debt instruments	Equity instruments	Debt instruments	Equity instruments	Amortised cost	Total carrying amount	Fair value
As at 31 December 2019:							
Cash and balances with central banks	–	–	–	–	62,155,228	62,155,228	62,155,228
Due from banks	–	–	–	–	79,316,258	79,316,258	79,316,258
Loans and advances to customers	–	–	–	–	678,681,835	678,681,835	678,703,447
Investment securities:							
– At fair value	138,386	83,726	35,580,705	1,592,486	–	37,395,303	37,395,303
– At amortised cost	–	–	–	–	57,128,169	57,128,169	58,073,807
Total	**138,386**	**83,726**	**35,580,705**	**1,592,486**	**877,281,490**	**914,676,793**	**915,644,043**
Due to banks	–	–	–	–	78,383,845	78,383,845	78,383,845
Customer deposits	–	–	–	–	684,488,921	684,488,921	684,518,917
Debt securities	–	–	–	–	33,778,250	33,778,250	33,802,231
Other borrowings	–	–	–	–	25,266,611	25,266,611	25,286,366
Total	**–**	**–**	**–**	**–**	**821,917,627**	**821,917,627**	**821,991,359**

	Fair value through profit or loss – mandatory		Fair value through other comprehensive income				
	Debt instruments	Equity instruments	Debt instruments	Equity instruments	Amortised cost	Total carrying amount	Fair value
As at 31 December 2018:							
Cash and balances with central banks	–	–	–	–	64,691,667	64,691,667	64,691,667
Due from banks	–	–	–	–	61,748,844	61,748,844	61,748,844
Loans and advances to customers	–	–	–	–	617,125,304	617,125,304	614,614,788
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
Total	**16,045**	**47,606**	**30,154,095**	**1,333,625**	**798,466,444**	**830,017,815**	**826,841,490**
Due to banks	–	–	–	–	74,137,901	74,137,901	74,137,901
Customer deposits	–	–	–	–	620,587,594	620,587,594	620,647,621
Debt securities	–	–	–	–	26,209,791	26,209,791	26,491,207
Other borrowings	–	–	–	–	25,109,644	25,109,644	24,821,430
Total	**–**	**–**	**–**	**–**	**746,044,930**	**746,044,930**	**746,098,159**

(All amounts are shown in thousands of Qatari Riyals)

8. Cash and balances with central banks

	2019	2018
Cash	11,383,121	9,417,356
Cash reserve with Qatar Central Bank	18,388,171	17,549,716
Other balances with Qatar Central Bank	10,434,210	14,435,443
Balances with other central banks	21,947,048	23,299,609
Accrued interest	4,328	–
Allowance for impairment	(1,650)	(10,457)
Total	**62,155,228**	**64,691,667**

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 QR14,674 million (2018: QR12,537 million) which cannot be used to fund the Group's day-to-day operations.

9. Due from banks

	2019	2018
Current accounts	7,897,882	7,910,408
Placements	71,209,408	52,603,516
Loans	–	646,274
Accrued interest	258,541	639,750
Allowance for impairment	(49,573)	(51,104)
Total	**79,316,258**	**61,748,844**

10. Loans and advances to customers

a) By type

	2019	2018
Loans	619,408,159	552,423,916
Overdrafts	66,557,462	73,086,770
Bills discounted	3,457,913	3,156,311
	689,423,534	**628,666,997**
Accrued interest	6,083,121	4,618,607
Deferred profit	(48,592)	(17,570)
Expected credit losses - performing loans and advances to customers - Stage 1 and 2	(3,941,000)	(3,453,286)
Impairment on non-performing loans and advances to customers - Stage 3	(12,835,228)	(12,689,444)
Net loans and advances to customers	**678,681,835**	**617,125,304**

The aggregate amount of non-performing loans and advances to customers amounted to QR12,839 million, which represents 1.9% of total loans and advances (2018: QR12,188 million, 1.9% of total loans and advances to customers).

Allowance for impairment of loans and advances to customers includes QR1,586 million of interest in suspense (2018: QR1,346 million).

10. Loans and advances to customers (continued)

b) By industry

	Loans and advances	Overdrafts	Bills discounted	Total
As at 31 December 2019:				
Government	47,371,288	32,014,628	–	79,385,916
Government agencies	156,828,214	2,408,311	–	159,236,525
Industry	40,102,327	2,847,624	327,544	43,277,495
Commercial	84,269,946	2,743,135	663,578	87,676,659
Services	163,938,730	7,282,577	1,291,045	172,512,352
Contracting	11,985,213	538,757	95,510	12,619,480
Real estate	59,387,538	2,669,577	473,259	62,530,374
Personal	56,603,907	15,825,725	566,711	72,996,343
Others	5,004,117	227,128	40,266	5,271,511
Total	**625,491,280**	**66,557,462**	**3,457,913**	**695,506,655**
As at 31 December 2018:				
Government	81,635,302	45,776,363	–	127,411,665
Government agencies	140,277,236	2,390,483	–	142,667,719
Industry	37,938,162	1,985,933	349,159	40,273,254
Commercial	35,368,030	1,224,014	231,927	36,823,971
Services	133,179,069	6,965,560	1,319,836	141,464,465
Contracting	12,635,405	611,677	115,901	13,362,983
Real estate	56,474,127	2,891,224	519,408	59,884,759
Personal	54,219,221	10,983,313	571,156	65,773,690
Others	5,315,971	258,203	48,924	5,623,098
Total	**557,042,523**	**73,086,770**	**3,156,311**	**633,285,604**

The amounts include interest receivable and exclude ECL/impairment and deferred profit.

c) Impairment of loans and advances to customers

	Corporate lending	Small business lending	Consumer lending	Residential mortgages	Total
Balance as at 1 January 2019	9,026,423	2,591,209	4,463,245	61,853	16,142,730
Foreign currency translation	8,079	(192,537)	(129,780)	(194)	(314,432)
Allowances made during the year	2,905,593	733,833	492,417	4,926	4,136,769
Recoveries during the year	(167,250)	(150,581)	(286,614)	(2,092)	(606,537)
Written off/transfers during the year	(1,893,968)	(324,536)	(361,356)	(2,442)	(2,582,302)
Balance as at 31 December 2019	**9,878,877**	**2,657,388**	**4,177,912**	**62,051**	**16,776,228**
Balance as at 1 January 2018	5,640,810	1,813,632	4,175,754	70,559	11,700,755
Impact on initial application of IFRS 9	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**

10. Loans and advances to customers (continued)

d) Net ECL/impairment during the year

	2019	2018
Corporate lending	(2,584,744)	(1,856,699)
Small business lending	(532,561)	(769,961)
Consumer lending	(56,794)	(427,409)
Residential mortgages	(2,754)	13,504
Total	**(3,176,853)**	**(3,040,565)**

Impairment loss excludes interest in suspense.

11. Investment securities

	Notes	2019	2018
Investments measured at fair value through profit or loss (FVPL)	11a	222,112	63,651
Investments measured at fair value through other comprehensive income (FVOCI)	11b	37,173,191	31,487,720
Investments measured at amortised cost (AC), net	11c	57,128,169	54,900,629
Accrued interest		1,375,710	935,823
Total		**95,899,182**	**87,387,823**

The carrying amount and fair value of securities under repurchase agreements amounted to QR29,446 million and QR30,209 million respectively (2018: QR27,000 million and QR26,996 million respectively).

a) Investments measured at fair value through profit or loss

	2019		2018	
	Quoted	Unquoted	Quoted	Unquoted
Mutual funds and equities	83,726	–	47,606	–
Debt securities	138,386	–	16,045	–
Total	**222,112**	**–**	**63,651**	**–**

b) Investments measured at fair value through other comprehensive income

	2019		2018	
	Quoted	Unquoted	Quoted	Unquoted
Mutual fund and equities	1,279,722	312,764	1,179,124	154,501
State of Qatar debt securities	24,271,686	–	21,040,379	–
Other debt securities	11,309,019	–	9,111,007	2,709
Total	**36,860,427**	**312,764**	**31,330,510**	**157,210**

Fixed rate securities amounted to QR33,058 million (2018: QR27,729 million) and floating rate securities amounted to QR2,523million (2018: QR2,425 million).

The above is net of impairment allowance in respect of debt securities amounting to QR15.1 million (2018: QR15.1 million).

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11. Investment securities (continued)

c) Investments measured at amortised cost

	2019		2018	
	Quoted	Unquoted	Quoted	Unquoted
By issuer				
State of Qatar debt securities	13,279,553	–	11,013,953	–
Other debt securities	40,432,972	3,415,644	41,546,814	2,339,862
Total	**53,712,525**	**3,415,644**	**52,560,767**	**2,339,862**
By interest rate				
Fixed rate securities	48,929,345	3,415,644	47,680,991	2,339,862
Floating rate securities	4,783,180	–	4,879,776	–
Total	**53,712,525**	**3,415,644**	**52,560,767**	**2,339,862**

The above is net of impairment allowance in respect of debt securities amounting to QR115.7 million (2018: QR147.5 million).

12. Investments in associates

	2019	2018
Balance as at 1 January	7,682,698	7,411,867
Foreign currency translation	(13,634)	(43,289)
Share of results	400,826	485,215
Cash dividend	(111,450)	(149,278)
Other movements/disposals	(841,838)	(21,817)
Balance as at 31 December	**7,116,602**	**7,682,698**

			Ownership %	
	Country	Principal business	2019	2018
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
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

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)
As at 30 September 2019					
Housing Bank for Trade and Finance	43,541,989	37,867,571	5,674,418	140,954	30.08
Commercial Bank International	20,241,884	17,763,417	2,478,467	61,732	0.74
Ecobank Transnational Incorporated	82,173,009	75,534,881	6,638,128	135,011	0.10
As at 31 December 2018					
Housing Bank for Trade and Finance	42,582,140	37,040,876	5,541,264	194,403	43.00
Commercial Bank International	20,063,050	17,606,480	2,456,570	91,548	0.91
Ecobank Transnational Incorporated	82,210,485	75,612,111	6,598,374	156,489	0.21

(All amounts are shown in thousands of Qatari Riyals)

13. Property and equipment

	Land and buildings	Leasehold improvements	Equipment and furniture	Motor vehicles	Total
Balance as at 31 December 2019					
Cost:					
Balance as at 1 January	4,030,160	990,386	3,110,516	16,096	8,147,158
Recognition of right-of-use assets on initial application of IFRS 16 (note 3 (ab))	621,372	–	38,514	35,864	695,750
Additions	435,761	53,571	423,894	15,047	928,273
Disposals/written off	(2,313)	(18,972)	(21,079)	(325)	(42,689)
Foreign currency translation / others	(173,048)	(29,365)	(171,068)	(2,872)	(376,353)
	4,911,932	**995,620**	**3,380,777**	**63,810**	**9,352,139**
Accumulated depreciation:					
Balance as at 1 January	414,539	781,500	2,241,961	11,953	3,449,953
Charged during the year	274,324	68,870	341,231	22,138	706,563
Disposals/written off	(674)	(18,541)	(20,117)	(289)	(39,621)
Foreign currency translation / others	2,620	(24,218)	(121,633)	733	(142,498)
	690,809	**807,611**	**2,441,442**	**34,535**	**3,974,397**
Net carrying amount	**4,221,123**	**188,009**	**939,335**	**29,275**	**5,377,742**
Balance as at 31 December 2018					
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 / 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 / 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**

Information about leases for which the Group is a lessee is presented below:

Right-of-use assets	Land and buildings	Equipment and furniture	Motor vehicles	Total
Recognition of right-of-use asset at 1 January 2019	621,372	38,514	35,864	695,750
Additions	199,493	2,195	11,775	213,463
Depreciation	(226,788)	(17,233)	(20,636)	(264,657)
Foreign currency translation / others	(21,388)	21	(3,660)	(25,027)
Balance as at 31 December 2019	**572,689**	**23,497**	**23,343**	**619,529**

14. Intangible assets

	Goodwill	Core deposit intangibles	Operating licence	Total
Cost				
Balance as at 1 January 2019	1,786,039	932,907	1,711,614	4,430,560
Foreign currency translation	176,763	–	–	176,763
Additions	–	–	27,818	27,818
Balance as at 31 December 2019	**1,962,802**	**932,907**	**1,739,432**	**4,635,141**
Accumulated amortisation				
Balance as at 1 January 2019	–	(480,396)	(69,194)	(549,590)
Foreign currency translation	–	–	–	–
Amortisation charge	–	(75,465)	(16,868)	(92,333)
Balance as at 31 December 2019	**–**	**(555,861)**	**(86,062)**	**(641,923)**
Net book value as at 31 December 2019	**1,962,802**	**377,046**	**1,653,370**	**3,993,218**
Net book value as at 31 December 2018	**1,786,039**	**452,511**	**1,642,420**	**3,880,970**

Impairment tests for goodwill and intangible assets with indefinite lives

Net book value of goodwill as at 31 December 2019 includes QR1.7 billion (2018: QR1.5 billion) in respect of QNB ALAHLI, QR89.6 million (2018: QR89.6 million) in respect of QNB Indonesia, QR111.9 million (2018: QR111.9 million) in respect of Mansour Bank and QR77.4 million (2018: 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 (2018:Nil).

The intangible assets with finite lives have a remaining amortisation period ranging between 9 to 10 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 14.93% (2018: 22.6%) and a terminal growth rate of 2% (2018: 2%) were used to estimate the recoverable amount.

15. Other assets

	2019	2018
Prepaid expenses	574,514	564,075
Positive fair value of derivatives (note 36)	5,345,912	9,250,568
Sundry debtors	2,231,093	2,280,688
Others	4,006,107	2,887,757
Total	**12,157,626**	**14,983,088**

16. Due to banks

	2019	2018
Balances due to central banks	816,207	1,625,401
Current accounts	1,106,945	2,364,050
Deposits	50,487,004	47,737,357
Repurchase agreements	24,859,365	21,402,836
Interest payable	1,114,324	1,008,257
Total	**78,383,845**	**74,137,901**

(All amounts are shown in thousands of Qatari Riyals)

17. Customer deposits

a) By type

	2019	2018
Current and call accounts	107,529,863	101,295,756
Saving accounts	21,259,076	14,558,191
Time deposits	551,836,737	500,911,558
Interest payable	3,863,245	3,822,089
Total	**684,488,921**	**620,587,594**

b) By sector

	2019	2018
Government	14,023,638	26,489,820
Government agencies	177,065,885	162,021,569
Individuals	133,640,933	113,866,251
Corporate	355,895,221	314,387,865
Interest payable	3,863,244	3,822,089
Total	**684,488,921**	**620,587,594**

18. Debt securities

	2019	2018
Face value of bonds	33,532,208	26,226,674
Less: unamortised discount	(145,865)	(288,766)
Interest payable	391,907	271,883
Total	**33,778,250**	**26,209,791**

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

	2019	2018
Balance as at 1 January	26,209,791	26,707,284
Issuances during the year	9,764,304	11,591,005
Repayments	(1,842,580)	(10,418,447)
Interest accrued	391,907	271,883
Other movements	(745,172)	(1,941,934)
Balance as at 31 December	**33,778,250**	**26,209,791**

18. Debt securities (continued)

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

Year of maturity	2019	2018
2019	–	2,268,899
2020	4,202,852	4,210,609
2021	10,295,912	10,273,687
2022	5,774,121	2,505,612
2023	1,451,387	1,085,065
2024	6,073,851	138,298
2028	698,212	702,100
2047	2,527,357	2,406,483
2048	2,754,558	2,619,038
Total	**33,778,250**	**26,209,791**

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 3.71% p.a in 2019 (2018: 3.93% 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:

	2019	2018
Balance as at 1 January	25,109,644	24,079,316
Issuances during the year	12,314,000	15,260,224
Repayments	(11,732,186)	(13,528,893)
Other movements	(479,684)	(772,946)
Interest accrued	54,837	71,943
Balance as at 31 December	**25,266,611**	**25,109,644**

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

Year of maturity	2019	2018
2019	–	12,045,279
2020	2,257,842	191,027
2021	13,558,778	12,749,577
2022	9,341,900	74,784
2023	79,205	37,600
2024	25,479	11,307
2025	3,407	70
Total	**25,266,611**	**25,109,644**

The above are mainly denominated in USD, EUR and comprise of fixed and floating interest rates. The interest rate paid on the above averaged 2.33% p.a in 2019 (2018: 2.21% 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 EUR2.0 billion (2018: EUR 2.25 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

	2019	2018
Expense payable	1,083,681	1,000,936
Other provisions (note 21)	349,987	321,173
Tax payable	447,685	318,386
Negative fair value of derivatives (note 36)	4,711,860	5,800,263
Unearned revenue	2,003,244	2,116,344
Social and sports fund	234,947	218,327
Deferred tax liability	91,819	110,194
Margin accounts	1,107,798	1,136,107
Allowance for impairment for loan commitments and financial guarantees	447,159	294,160
Lease liabilities (note 20.1)	598,635	–
Others	16,984,081	16,562,058
Total	**28,060,896**	**27,877,948**

20.1 Lease liabilities include current and non-current liabilities amounting to QR117.5 million and QR481.2 million, respectively.

21. Other provisions

	Staff indemnity	Legal provision	Total 2019	Total 2018
Balance as at 1 January	237,781	83,392	321,173	329,568
Foreign currency translation	(19,135)	(6,343)	(25,478)	(62,505)
Provisions made during the year	58,328	6,093	64,421	104,188
	276,974	**83,142**	**360,116**	**371,251**
Provisions paid and written off during the year	(8,761)	(1,368)	(10,129)	(50,078)
Balance as at 31 December	**268,213**	**81,774**	**349,987**	**321,173**

22. Equity

a) Issued capital

The authorised, issued and fully paid up share capital of the Bank totalling QR9,236 million consists of 9,236,428,570 ordinary shares of QR1 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.

On 10 February 2019, at the Extraordinary General Meeting of the Bank, the shareholders approved the par value of the ordinary share to be QR1 instead of QR10, as per the instructions of Qatar Financial Markets Authority (QFMA), and amendment of the related Articles of Association. The share split was implemented on 12 June 2019 and has led to an increase in the number of authorised and outstanding shares from 923,642,857 to 9,236,428,570. Consequently, Earnings Per Share for comparative periods has been restated to reflect this.

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.

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.

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22. Equity (continued)

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 operation	Cash flow hedges	FVOCI	Total 2019	Total 2018
Balance as at 1 January	(303,183)	(376,317)	(294,057)	(973,557)	(1,169,875)
Changes due to adoption of IFRS 9:					
– Transfer to amortised cost	–	–	–	–	264,057
– Transfer to retained earnings	–	–	–	–	(143,520)
Foreign currency translation	–	(42,872)	23,469	(19,403)	(70,904)
Revaluation impact	202,567	(987,464)	449,202	(335,695)	161,652
Reclassified to income statement	–	–	(18,415)	(18,415)	(14,101)
Other movements	–	784	(988)	(204)	(866)
Net movement during the year	202,567	(986,680)	429,799	(354,314)	146,685
Balance as at 31 December	**(100,616)**	**(1,405,869)**	**159,211**	**(1,347,274)**	**(973,557)**

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:

	2019	2018
General reserve	1,783,913	1,803,866
Share of changes recognised directly in associates' equity, excluding share of profit	(1,520,184)	(1,120,144)
Total	**263,729**	**683,722**

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.

h) Proposed dividend

The Board of Directors have proposed a cash dividend of 60% of the nominal share value (QR0.60 per share) for the year ended 31 December 2019 (2018: cash dividend 60% of the nominal share value (QR0.60 per share post-split)). 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, 7.5% of QNB Indonesia, 45.8% of Al-Mansour Investment Bank, 0.01% of QNB Tunisia, 5.0% of QNB ALAHLI and 0.12% of 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 the 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

	2019	2018
Due from central banks	507,458	276,900
Due from banks	5,090,489	6,312,049
Debt securities	6,394,199	6,794,949
Loans and advances	41,086,620	37,360,811
Total	**53,078,766**	**50,744,709**

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

	2019	2018
Financial assets measured at amortised cost	51,431,106	49,350,428
Financial assets measured at fair value	1,647,660	1,394,281
Total	**53,078,766**	**50,744,709**

26. Interest expense

	2019	2018
Due to banks	7,904,205	9,881,484
Customer deposits	22,211,539	19,639,938
Debt securities	1,441,483	1,019,767
Others	1,325,069	1,170,615
Total	**32,882,296**	**31,711,804**

Others include interest expense related to leased liabilities amounting to QR58.2 million (2018: QR Nil)

27. Fee and commission income

	2019	2018
Loans and advances	605,494	882,542
Off-balance sheet items	611,154	609,858
Bank services	3,061,484	2,639,620
Investment activities for customers	343,214	335,614
Others	219,506	140,783
Total	**4,840,852**	**4,608,417**

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28. Net foreign exchange gain

	2019	2018
Dealing in foreign currencies	959,442	560,592
Revaluation of assets and liabilities	(56,977)	(1,704,277)
Revaluation of derivatives	195,533	2,333,165
Total	**1,097,998**	**1,189,480**

29. Income from investment securities

	2019	2018
Net gain/(loss) on sale of investments measured at amortised cost	790	(508)
Net gain from sale of investments measured at fair value	25,679	14,462
Dividend income	59,453	105,392
Changes in fair value of financial assets measured at fair value through profit or loss	13,004	2,705
Total	**98,926**	**122,051**

30. Staff expenses

	2019	2018
Staff costs	3,390,192	3,218,939
Staff pension fund costs	46,629	45,374
Staff indemnity costs	58,328	57,191
Total	**3,495,149**	**3,321,504**

31. Other expenses

	2019	2018
Training	69,520	67,234
Advertising	561,566	525,073
Professional fees	235,063	243,170
Communication and insurance	241,730	240,210
Occupancy and maintenance	363,786	599,741
Computer and IT costs	396,047	366,934
Printing and stationery	59,017	51,229
Directors' fees	11,740	11,740
Others	496,316	476,484
Total	**2,434,785**	**2,581,815**

Occupany costs include expenses related to leases other than interest expense amounting to QR29.8 million.

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32. Income taxes

	2019	2018
Current income tax	869,720	1,249,168
Deferred tax benefit	301,163	(120,853)
Adjustments to prior periods corporate taxes	11,452	6,815
Income tax expense	**1,182,335**	**1,135,130**
Profit before tax	**15,643,135**	**15,018,467**
Less: Profit not subject to tax	(10,847,126)	(10,104,063)
Profit subject to tax	**4,796,009**	**4,914,404**
Effective tax rate applicable in overseas jurisdictions	22.34%	22.41%
Tax calculated based on the current tax rate (effective rate)	1,071,566	1,101,485
Effect of income not subject to taxation	(103,417)	(39,197)
Effect of expenses not deductible for tax purposes	202,734	66,027
Adjustments to prior periods corporate taxes	11,452	6,815
Income tax expense	**1,182,335**	**1,135,130**

Movement in deferred tax asset

	2019	2018
Balance as at 1 January	723,003	227,501
Impact of initial application of IFRS 9	–	479,646
Deferred tax recognised in consolidated income statement		
Loans and advances to customers	(169,619)	131,753
Property and equipment	(7,371)	(5,906)
Employee related accruals	3,563	25,636
Unearned revenue	15,336	2,486
Others	(143,072)	(33,116)
	(301,163)	**120,853**
Deferred tax recognised in consolidated statement of comprehensive income		
Effect on fair value reserve	112,748	38,935
Others	9,287	(11,053)
	122,035	**27,882**
Foreign exchange translation	(17,677)	(132,879)
Balance as at 31 December	**526,198**	**723,003**

There are no material tax assessments pending as at 31 December 2019 (2018: Nil).

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.

	2019	2018
Profit for the year attributable to equity holders of the Bank	14,350,860	13,788,131
Less: Dividend appropriation for instruments eligible for Additional Tier 1 Capital	(1,000,000)	(532,500)
Net profit for the year attributable to equity holders of the Bank	**13,350,860**	**13,255,631**
Weighted average number of shares	9,236,428,570	9,236,428,570
Earnings per share (QR) – basic and diluted	**1.45**	**1.44**

The Earnings Per Share for the comparative period has been restated to reflect the share split as disclosed in note 22(a).

34. Contingent liabilities

	2019	2018
Unutilised credit facilities	112,224,237	106,459,940
Guarantees	61,154,915	62,525,170
Letters of credit	30,572,387	24,986,784
Others	16,750,687	18,321,994
Total	**220,702,226**	**212,293,888**

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.

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35. Geographical distribution

	Qatar	Other GCC countries	Europe	North America	Others	Total
At 31 December 2019:						
Cash and balances with central banks	37,888,809	2,290,127	12,062,921	–	9,913,371	62,155,228
Due from banks	26,050,999	240,618	36,022,080	7,417,259	9,585,302	79,316,258
Loans and advances to customers	498,759,229	16,413,154	97,050,649	4,207,754	62,251,049	678,681,835
Investments	43,269,224	5,837,848	20,197,501	993,599	32,717,612	103,015,784
	605,968,261	**24,781,747**	**165,333,151**	**12,618,612**	**114,467,334**	**923,169,105**
Other assets						21,528,586
Total assets						**944,697,691**
Due to banks	16,734,495	5,713,488	43,743,195	1,814,458	10,378,209	78,383,845
Customer deposits	370,148,153	19,254,049	175,686,427	701,471	118,698,821	684,488,921
Debt securities	–	–	20,844,312	–	12,933,938	33,778,250
Other borrowings	–	–	23,049,925	–	2,216,686	25,266,611
	386,882,648	**24,967,537**	**263,323,859**	**2,515,929**	**144,227,654**	**821,917,627**
Other liabilities						28,060,896
Total equity						94,719,168
Total liabilities and equity						**944,697,691**
Guarantees	28,613,850	1,379,519	21,811,937	–	9,349,609	61,154,915
Letters of credit	24,932,091	303,874	3,004,575	–	2,331,847	30,572,387
Unutilised credit facilities	32,764,055	2,636,134	61,369,628	–	15,454,420	112,224,237
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	14,719,801	408,349	33,488,244	8,043,438	5,089,013	61,748,844
Loans and advances to customers	439,192,902	19,533,175	100,652,961	3,790,415	53,955,851	617,125,304
Investments	39,944,361	6,231,471	17,097,515	604,223	31,192,952	95,070,521
	531,496,886	**28,691,825**	**165,520,252**	**12,438,076**	**100,489,299**	**838,636,336**
Other assets						23,561,263
Total assets						**862,197,599**
Due to banks	12,834,918	4,016,315	43,862,121	2,422,476	11,002,071	74,137,901
Customer deposits	349,573,279	12,909,457	171,323,071	697,564	86,084,222	620,587,594
Debt securities	–	–	12,598,479	–	13,611,312	26,209,791
Other borrowings	–	–	24,425,180	–	684,464	25,109,644
	362,408,197	**16,925,772**	**252,208,852**	**3,120,040**	**111,382,070**	**746,044,930**
Other liabilities						27,877,948
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

Other assets includes property and equipment and intangible assets.

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
As at 31 December 2019:							
Derivatives held for trading:							
Forward foreign exchange contracts	215,696	251,844	77,598,841	64,294,406	12,128,325	1,176,110	–
Interest rate swaps	528,400	490,113	57,805,217	3,255,447	5,748,122	18,016,999	30,784,649
Futures	–	265	120,608	115,105	5,503	–	–
Cross currency swaps	1,720,810	1,623,458	54,688,335	39,036,026	5,681,609	9,930,182	40,518
Options	94,429	21,281	8,103,039	4,563,499	3,008,294	531,246	–
Derivatives held as cash flow hedges:							
Interest rate swaps	233,449	1,668,856	75,120,136	5,692,333	2,280,504	45,125,612	22,021,687
Cross currency swaps	804,374	234,309	9,451,587	1,225,176	3,485,493	4,669,587	71,331
Derivatives held as fair value hedges:							
Interest rate swaps	67,202	223,334	11,243,461	304,618	448,675	8,096,449	2,393,719
Cross currency swaps	1,681,552	198,400	11,300,885	1,529,814	1,785,062	7,557,326	428,683
Total	**5,345,912**	**4,711,860**	**305,432,109**	**120,016,424**	**34,571,587**	**95,103,511**	**55,740,587**
As 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	–
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**

Cash collaterals given for derivative transactions amounted to QR4,955 million (2018: QR3,184 million) which is included under Due from Banks in Note 9. Collaterals received for derivative transactions amounted to QR3,007 million (2018: QR4,717 million) which is included under Due to Banks in Note 16.

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.

36. Derivatives (continued)

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 predetermined 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.

37. Mutual funds

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

	2019	2018
Funds marketed	**70,448**	**85,851**

The Group's investment activities also include management of certain investment funds. As at 31 December 2019, third party funds under management amounted to QR 20,392 million (2018: QR15,345 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.

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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:

	2019	2018
Statement of financial position items		
Loans and advances	3,237,684	3,028,379
Deposits	1,292,434	431,693
Contingent liabilities and other commitments	70,317	84,541
Income statement items		
Interest and commission income	143,642	141,972
Interest and commission expense	12,474	4,907

	2019	2018
Associates		
Due from banks	1,580,722	1,179,715
Interest and commission income	68,973	56,205
Due to banks	185,873	183,664
Interest and commission expense	1,277	2,346

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

	2019	2018
Compensation of key management personnel is as follows:		
Salaries and other benefits	37,132	46,054
End of service indemnity benefits	1,006	1,135

39. Cash and cash equivalents

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

	2019	2018
Cash and balances with central banks	29,092,901	34,605,083
Due from banks maturing in three months	73,634,944	57,206,779
Total	**102,727,845**	**91,811,862**

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.

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:

	2019	2018
ASSETS		
Cash and balances with central banks	42,161,348	43,317,083
Due from banks	77,037,107	60,558,857
Loans and advances to customers	560,229,043	509,999,964
Investment securities	56,466,045	53,142,397
Investments in subsidiaries and associates	31,143,470	31,597,126
Property and equipment	2,136,601	1,783,192
Other assets	7,936,046	6,676,093
Total assets	**777,109,660**	**707,074,712**
LIABILITIES		
Due to banks	95,360,753	83,532,096
Customer deposits	549,862,180	495,322,387
Other borrowings	21,954,781	22,099,419
Other liabilities	13,763,850	14,121,686
Total liabilities	**680,941,564**	**615,075,588**
EQUITY		
Issued capital	9,236,429	9,236,429
Legal reserve	25,326,037	25,326,037
Risk reserve	8,500,000	8,000,000
Fair value reserve	(1,211,457)	(1,197,947)
Foreign currency translation reserve	(1,481,249)	(1,533,678)
Other reserves	249,850	649,890
Retained earnings	35,548,486	31,518,393
Total equity attributable to equity holders of the Bank	**76,168,096**	**71,999,124**
Instruments eligible for Additional Tier 1 Capital	20,000,000	20,000,000
Total equity	**96,168,096**	**91,999,124**
Total liabilities and equity	**777,109,660**	**707,074,712**

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(ii) Income statement for the year ended 31 December:

	2019	2018
Interest income	29,522,226	25,465,815
Interest expense	(16,840,378)	(13,858,403)
Net interest income	**12,681,848**	**11,607,412**
Fee and commission income	1,960,073	1,752,935
Fee and commission expense	(513,226)	(443,357)
Net fee and commission income	**1,446,847**	**1,309,578**
Net foreign exchange gain	963,525	799,054
Income from investment securities	257,859	403,382
Other operating income	1,591	792
Operating income	**15,351,670**	**14,120,218**
Staff expenses	(1,575,904)	(1,533,472)
Depreciation	(256,496)	(175,220)
Other expenses	(838,184)	(869,855)
Net ECL/impairment losses on loans and advances to customers	(1,680,206)	(1,285,514)
Net ECL/impairment recoveries/(losses) on investment securities	1,987	4,589
Net ECL/impairment recoveries on other financial assets	(129,984)	6,124
Other provisions	(2,637)	(21,106)
Profit before income taxes	**10,870,246**	**10,245,764**
Income tax expense	(99,951)	(75,529)
Profit for the year	**10,770,295**	**10,170,235**

(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.

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