Demonstrating resilience in times of volatility

Annual Report 2020

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

We remain steadfast in our commitment to enrich the lives of our customers and being a responsible participant in the communities we operate in.

Our global reach

International

Diverse network in more than 31 countries across three continents.

Connected

Global reach with over 5,400 touchpoints supported by 28,000 employees, providing premium financial services to more than 25 million customers.

Leading

Number one bank in the Middle East and Africa (MEA) and one of the leading banks in the Middle East, Africa and Southeast Asia (MEASEA).

Highly-rated and recognised

Most valuable banking brand in MEA, with solid financial strength and top-tier credit ratings.

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Established in 1964 as the first Qatari-owned bank, we are the largest bank in MEA and one of the leading banks in MEASEA. We are a trusted financial partner to a growing number of customers in more than 31 countries across three continents.

Our aim is to leverage the strength of our relationships and the diversity of our footprint to fuel growth across multiple regions and create long-term sustainable value for individuals, institutions, countries, communities and our shareholders.

Read more about our **Strategy** on page 20

Net profit -16%
QR12.0 bn

Operating income +1%
QR25.4 bn

Assets +9%
QR1,025 bn

Earnings per share -18%
QR1.19

Read more in our **Financial statements** section on page 98

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. 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 H A Al-Jufairi
- > Member of the Group Board Audit and Compliance Committee
- > BOD member since 2019

Chairman of the Board of Directors' statement

Supporting our stakeholders in the midst of challenges and delivering strong results in times of continued uncertainty will keep us firmly on our growth trajectory.

QR1.19
earnings per share

15.4%
return on equity

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

> "Our preparedness and quick response to the COVID-19 pandemic supported our stakeholders and the government's initiatives to get the economy back on an early recovery path."

2020 witnessed important developments stemming from the exceptional aftermath of COVID-19 that negatively impacted countries around the world. Global supply chains were disrupted, with aggregate demand coming to a standstill. The negative demand shock from the pandemic pushed commodity prices, including oil, to multi-decade lows. However, we have been able to address these challenges and keep our long-standing commitment to our shareholders, customers and communities to get back on a strong recovery path.

Due to QNB's leading position in Qatar, given its leading market share in the banking sector, the Group played a vital role in the implementation of the government's stimulus package to enhance economic activities such as deferring some loan payments and boosting concessional financing for small and medium-sized enterprises.

QNB worked tirelessly to accommodate to the new reality. We protected the bank from potential risks and service disruptions. At the same time, we assumed our market-leading role by supporting our customers and communities where we operate to overcome these challenges. Our robust governance framework ensured the continuation of our business as a going concern. QNB focused on cementing the philosophy of corporate governance into all its practices and emphasised the key governance principles of accountability, transparency, independence and fairness. This has helped us ensure compliance on a Group-wide level with each of the requirements imposed by local regulators and authorities.

Our prudent approach to risk management allowed us to maintain the high quality of our portfolio, maintain business continuity across our operations and to protect QNB Group against increased cybersecurity threats. In order to ensure sustainable profitable growth for our stakeholders, we took conservative and precautionary measures to shield the Group from further volatility that may originate from the uncertainty of the ongoing pandemic.

Developments during 2020 have accelerated trends in shifting customer behaviours from physical to remote channels, requiring creativity to leapfrog and adjust to new realities. We saw it as a necessity to create new experiences through digitisation and automation across all channels. With this in mind, we kept innovation and efficiency at the top of our agenda as we responded to the crisis. This allowed us to explore new sources of revenue and reduce our operating costs, positively impacting the bottom-line.

This year confirmed our long-held conviction that banking is more than just acting as a financial intermediary. We need to continuously think about what we can deliver beyond profit, ensuring that we protect our customers, our employees, our community and our environment. With this in mind, we aim to create meaningful impact and deliver long-term value for all our stakeholders through our focus on sustainability. The pandemic has made clear that sustainability is not just a trend, but rather a strategic imperative of our responsibility towards the environment we operate in.

During 2020, QNB Group demonstrated resilience in times of uncertainty, with a robust net profit of QR12.0 billion and our operating income increased by 1% to QR25.4 billion. As a result, QNB has been able to consolidate its position as one of the world's top 40 banks in terms of market capitalisation, reaching QR164.7 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 45% of the nominal value of the share, equating to QR0.45 per share.

I want to express my gratitude towards our customers, partners and shareholders. Furthermore, I would like to highlight that these results would have not have been possible without the dedication and commitment of our employees across the network. I am very proud of how our people demonstrated flexibility, energy, drive and determination to respond to the challenges brought by the COVID-19 pandemic, while providing seamless service to our customers and other stakeholders. This deserves my highest commendation.

Looking ahead, our strategy to become a leading MEASEA bank has not changed. Our long-term goal of sustainable, profitable growth remains. Our strategy is based on positioning the bank for future growth opportunities by focusing on two key pillars: protecting our market-leading position in Qatar and continuing our international growth.

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 Khalid Bin Khalifa Bin Abdul Aziz 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.


Our results this year would have not been possible without the dedication and commitment of our employees across the network.

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Group Chief Executive Officer's statement

QNB Group demonstrated strength and resilience to continue to deliver profitable growth.

QR1,025 bn
assets +9%

QR738.7 bn
deposits +8%

2.1%
non-performing loans

24.3%
cost to income ratio

19.1%
capital adequacy ratio

Mr. Abdulla Mubarak Al-Khalifa
Group Chief Executive Officer

> "We remained steadfast in our focus to not only ensure the safety of our customers – both offline and online – but also to support them in navigating through the crisis."

> "For the first time in our history we surpassed the trillion riyal watermark in total assets."

As we publish this report, the world remains in the midst of the COVID-19 pandemic. After more than a year since the first cases were reported, it has significantly re-framed the environment we operate in. The pandemic added another layer of complexity to the challenges faced by banks globally, accelerating major trends that were already taking place, including key topics such as credit quality, liquidity, core profitability, digitisation, cyber security and sustainability.

Protecting our stakeholders
When the true scale of the nature of the pandemic revealed itself in the beginning of the year, we re-prioritised the way we look at our business, focusing on the very basic question of how do we protect our customers, our employees and our community.

With income losses compounding on top of quarantines and health issues, we are conscious that this year was life-changing for some of our customers. Throughout the pandemic, we remained steadfast in our focus to not only ensure the safety of our customers – both offline and online – but also to support them in navigating through the crisis.

Within the bank, business disruptions and lockdowns have put our business continuity plans and capabilities to the test. To protect our employees and create a safe working environment, appropriate protective measures were implemented, including providing our teams with the necessary equipment, system access and data solutions to enable the majority of the workforce to effectively work from home.

QNB Group has an unparalleled opportunity to make every community we operate in a better place. Throughout our footprint, we actively reached out to help those most in need during this challenging year. For example, we donated medical equipment to various hospitals in both Turkey and Egypt as part of our social responsibility programme initiatives.

Demonstrating resilience in a challenging environment
The COVID-19 pandemic caused a contraction in global GDP, with some industries such as transport, retail and hospitality facing substantial challenges. Additionally, oil exporting countries were affected by a dual shock: the pandemic itself and a significant decline in crude oil prices. During this period, Brent prices collapsed from highs of USD69 per barrel in January to a low of USD19 in April, later stabilising to around USD40 towards the second half of the year.

Despite these headwinds, I am very pleased at the solid performance delivered by QNB Group. I am proud to announce that QNB, for the first time in its history and as the first bank in the region, surpassed the trillion-riyal watermark in total assets. This for us is a considerable milestone in our growth journey. Total assets grew to QR1.0 trillion, up 9% from last year. This was driven by an 7% growth in loans and 8% in deposits. Our net profit for 2020 was QR12.0 billion. 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 27%.

Considering the global economic conditions, QNB Group, following its conservative approach towards building adequate reserves against potential loan losses, opted to increase loan loss provisions by QAR2.6 billion. This assisted in protecting the group from any adverse impacts to the portfolio.

To cushion the impact on the bottom line from the pandemic, we conducted an operational rationalisation exercise throughout the Group to improve our operating efficiency and reduce our expenses. This helped reduce the cost-to-income ratio from 25.9% last year to 24.3%.

On the funding side, we put all efforts and commendably managed our liquidity position during this difficult period. We were able to leverage our existing relationships and access new sources of funding. In May, we were the first institution in the MENA region to re-open the corporate bond market after the global outbreak of the pandemic. In October, we issued our first green bond at the London Stock Exchange. Finally, in November, we successfully closed the syndication of a dual-tranche USD3.5 billion unsecured term loan facility. This is a reflection of the strong demand from top-tier global banks to continue to partner with QNB and the investor community's confidence in our strategy and strength of our financial position. Together with the strength of our brand, customer relationships and loan book, we successfully maintained our top-tier credit ratings from leading international rating agencies.

Delivering operational excellence throughout our business
Throughout the year, we worked tirelessly to accommodate the new realities of our corporate customers, whilst at the same time protecting the bank from potential risks and service disruptions. We worked closely with the different authorities throughout our network to roll out supportive actions to help our clients navigate through the pandemic, ranging from extension of loan payments to interest-free loans to reductions in fees. As in previous years, the bulk of our business focuses on large, well-established corporates.

While larger corporates were able to navigate this period of uncertainty quite well, we are conscious that globally, small and medium companies (SMEs) have had a harder time. To support SMEs during the difficult market environment, the bank rapidly enhanced its e-channel capabilities, reduced fees charged to clients on various services and waived-off minimum balance charges. Supported by our innovative product offering and best-in-class services, we are able to support SMEs to take their products and services online and transform their business.

In our retail business, the commitment to innovation, quality and technology allowed us to quickly adapt and continue to offer the highest levels of service with minimal interruption during the COVID-19 pandemic. We introduced new payment solutions and technologies that are safe, secure and offer greater convenience. We also offered our customers additional flexibility in our lending offering through credit products and card services to support them throughout this difficult period. This allowed us to deliver a strong performance in our retail business.

In a rapidly changing investment landscape influenced by prolonged uncertainty and higher risks, our asset management business was able to identify and provide higher yielding and innovative products to our clients. Our engaging communication with clients and robust product performance ensured that we did not have any material outflows throughout the year.

Investing for the future
The events of 2020 have accelerated the already elevated pace of change in the financial services sector. COVID-19 has led to significant changes in the way customers want to engage with the bank, creating the need to implement, in a short period of time, creative solutions to continue meeting their needs. QNB's innovative culture has helped us respond to the wide-reaching impact of the pandemic through technological advances and enhancements.

Investing for the future also means invigorating our responsibility towards environmental, social and corporate governance (ESG) 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. Throughout 2020, we proactively engaged and disclosed our ESG performance to several ESG rating agencies and indices, successfully improving our ratings and becoming a constituent of the FTSE4Good Index. We also issued our first green bond, the largest conventional green bond in the region and first from Qatar, at USD600 million. Our achievements are a signal to our stakeholders that we have developed a meaningful sustainability strategy that supports a transition towards a low-carbon economy.

This unrelenting focus on continuously improving the value we give to our customers is reflected in our strong brand performance. This year, QNB was once again recognised as the most valuable banking brand in the Middle East and Africa, increasing our brand value to more than USD6 billion in The Banker's Brand Finance® Global 500 2020 report.

Globally, cyber threat levels have increased since COVID-19 as result of increased remote working and digitisation of products and services. Since the outbreak of the pandemic, the number and sophistication of attacks targeting financial institutions has increased considerably. As we consider cybersecurity a top priority, we continued our investments to ensure that QNB systems are continuously tested and monitored. Furthermore, we aim to ensure that our customers and employees are aware of how to handle cybersecurity risks and are thus adequately protected.

Looking beyond
Next year, we will continue to operate in a challenging environment. Nevertheless, we are optimistic that we already entered a recovery path. Although the COVID-19 pandemic has accelerated some ongoing trends in banking, we will need to continue to adapt to this "new normal". We remain committed to our strategy to become a leading MEASEA bank. Our strategy is based on positioning the bank for future growth opportunities by transitioning towards a more fee-rich model with higher margin businesses and focusing on two key pillars: protecting our market-leading position in Qatar and continuing our international growth.

I would like to finish off by thanking each and every employee for their courageous effort in these trying times. Their commitment to continuing to provide our customers the outstanding service they have come to expect from QNB is truly exemplary. I would also like to thank our customers, who have understood, trusted and stuck with us throughout this voyage. Finally, I would like to thank the Chairman and the Board of Directors for their guidance and support. QNB is in a good position to continue on its growth journey thanks to their leadership.

I am a strong believer in concerted efforts to execute and work together towards a common goal. I am also confident that the continuity of our efforts will demonstrate resilience and have a positive impact in providing 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 across our network. We are proud of our Qatari heritage and of the continuing contribution we make to the region and beyond.

Our businesses

Wholesale and Commercial Banking

A comprehensive suite of wholesale, commercial and Small and Medium Enterprise (SME) 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 30

Retail Banking

A broad array of retail banking products and services across a multichannel network with more than 1,045 branches and an ATM network of more than 4,391 machines*. These include premium banking services through QNB First and QNB First Plus, designed for our affluent clients.

*Including subsidiaries and associates

Read more about our **Retail Banking** on page 38

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 42

International Business

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

Read more about our **International Business** on page 44

Our financial strength

Assets	Earnings per share
USD281.6 bn	USD0.33
Net profit	**Capital adequacy ratio (Basel III)**
USD3.3 bn	19.1%

Our top-tier credit ratings

Long Term		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%

Our success story

Established in 1964 as the first Qatari-owned bank, QNB is strongly influenced by our Qatari heritage. Looking back at our achievements inspires us to continue playing a leading role in our nation's future. We firmly believe in supporting and investing in the Qatari people in order to move forward with confidence and determination.

> "As the largest bank in MEA and one of the leading banks in MEASEA, we are a trusted financial partner to millions of customers in more than 31 countries across three continents."

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

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

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Strategic report

Operating environment

A once-in-a-century event, the COVID-19 pandemic placed immense stress on economies and banking systems worldwide, yet our key markets demonstrated resilience and successfully weathered the storm.

> "Global GDP contracted by 4.3% versus 2019, with the second quarter posting the sharpest and deepest slowdown on record."

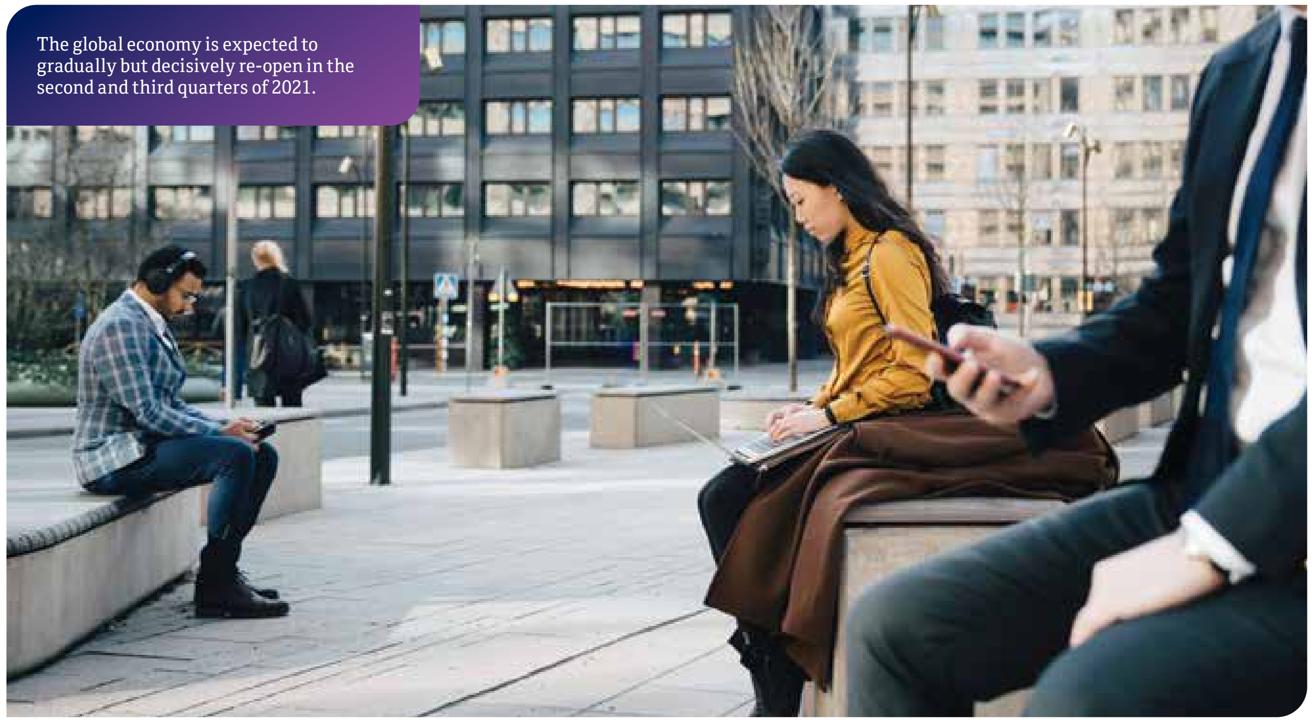
Global economic developments

2020 started on a positive note for the global economy. Sentiment was positive while an overall increase in economic activity was setting the stage for another year of moderate expansion. However, global conditions took a dramatic turn for the worse with the spread of the COVID-19 pandemic. A once-in-a-century event, the pandemic led to the imposition of strict initial lockdowns and social distancing measures across all continents, in a synchronized movement that produced the largest economic shock since World War II.

At the peak of the first wave of the pandemic in the second quarter, when heightened uncertainty prevailed and healthcare authorities were still preparing appropriate responses, lockdowns and social distancing on a global scale produced a sudden halt to the global economic activity, bringing both supply and demand to a near standstill. Global GDP contracted by 4.3% versus 2019, with the second quarter posting the sharpest and deepest slowdown on record. Global trade dried up, with flows plummeting to 17% below its recent peak. Similarly, the fallout from COVID-19 produced tremendous stress on commodity markets. The negative demand shock from the pandemic triggered deflationary pressures that rapidly pushed commodity prices to multi-decade lows. During this period, crude oil was particularly affected, with Brent prices collapsing from highs of USD69 per barrel in January to a low of USD19 in April.

However, there was no shortage of government monetary, fiscal and regulatory actions taken to respond to the economic consequences of the pandemic. Major central banks cut policy rates aggressively and supported the financial system with massive injections of liquidity, preventing a disorderly dislocation of credit and equity markets. Moreover, fiscal policy became paramount as demands for financial relief surged, with governments around the world extending more than USD12 trillion in grants, subsidies and direct transfers to strained corporates and households.

Aggressive policy stimulus packages and the partial re-opening of economies from strict lockdowns produced a rebound in the third quarter, from a sharp but deep contraction to a strong initial recovery phase, within a longer lasting period of economic normalisation. During this recovery phase, a broad-based stabilisation took place globally. Trade rebounded quickly and investors' risk appetite slowly returned. Commodity prices also recovered substantially, with some cyclically sensitive base and precious metals rising above pre-pandemic levels. Crude oil prices partially bounced back, with Brent recovering to around USD40 per barrel over the second half of the year.



The global economy is expected to gradually but decisively re-open in the second and third quarters of 2021.

Global and regional economic outlook

While the global economy is still recovering from the depths of the second quarter shock, a full economic normalisation will likely require several quarters, with pre-pandemic levels of economic activity expected to be reached again only in 2022. Significant risks remain on the horizon. The second wave of COVID-19 cases across different countries and regions may create a "double-dip recession" or "stop-and-go" activity patterns that can derail the current recovery. Additionally, a profusion of high and rising political, geopolitical and other tail risks are still threatening global economic conditions, making investor and consumer sentiment vulnerable to bad news. This includes protectionism and trade tensions amongst major economies, broad-based strategic rivalry between the US and China, growing debt and the overall excess of global liquidity.

Nevertheless, a major tailwind for the global economy emerged in late 2020. After months of research and unprecedented mobilization of resources, several COVID-19 vaccines were set for emergency use authorization on the back of outstanding results from phase 3 efficacy trials. Hence, assuming no major problems in the mass production and distribution of approved vaccines, the global economy is expected to gradually but decisively re-open in the second and third quarters of 2021. This should accelerate the recovery and limit potential damages from an eventual double dip recession.

In the absence of further pandemic-related shocks or other significant headwinds, we expect global GDP to grow by 5.2% in 2021, after the extremely weak turn out of -4.3% in 2020. Importantly, however, the recovery is expected to be rather uneven, with performance varying markedly by country depending on the magnitude of the initial shock, the strength of domestic institutions as well as the policy room available to government authorities.

Emerging Asia is set to continue to be the most dynamic region in the world with GDP growth expected at 8.0% in 2021, from -1.7% in 2020. The first region affected by the pandemic, Emerging Asia was also the most efficient and effective in containing the virus, leading to more limited or shorter lockdowns and an earlier normalisation. After weeks of a hard lockdown in January and February, and with support from domestic monetary and fiscal measures, the Chinese economy rapidly recovered. China's GDP is set to grow by 8.2% in 2021, after a still positive performance of 1.9% growth in 2020. The Chinese economic recovery is providing an additional support to the fast-growing economies of the Association of Southeast Asian Nations (ASEAN), which are not only starting to enjoy the tailwinds from more positive demographic trends but also the benefits of corporate supply chain diversification plans. The ASEAN-5 economies (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) are expected to grow by 6.2% in 2021, from -3.4% this year.

The US is another major pillar of the global economy that is expected to lead the recovery process. While the COVID-19 disruption was significant, US authorities were quick to launch a "whatever it takes" response to the crisis, with unprecedented mobilization of resources and strong stimulus actions from both the Federal Reserve and the Treasury. GDP growth is expected to be solid at 3.1% in 2021, from -4.3% in 2020.

The Euro area was also seriously affected by the pandemic, where the impact varied significantly by country. As such, the economic policy response was more challenging than in other regions due to the lack of monetary policy space and institutional difficulties for additional fiscal stimulus within the Euro area framework. However, the fiscal package proposed by the European Commission was ground-breaking and will contribute to a much-needed recovery in 2021. We expect the Euro area to grow by 5.0% in 2021, from -7.5% in 2020.

In the Middle East and North Africa (MENA), economic dynamics must be differentiated between net oil importing countries and net oil exporting countries. Oil importing countries were not only affected by the slowdown in activity due to the pandemic but also the European recession impacted their hospitality and manufacturing sectors. A gradual re-opening of the global economy, official international financial support and appropriate policy responses are set to drive a recovery this year, with GDP growth expected at 5.2%, from -5.1% in 2020.

The oil exporting countries of the Gulf were affected by a double shock of the pandemic itself and a significant decline in crude oil prices. Despite the effect of lockdowns, diminished tourism, reduced capital spending and oil output cuts on growth, the Gulf countries responded well to the pandemic. Robust healthcare infrastructure provided safety for residents. Moreover, fiscal buffers allowed for significant government stimulus and a smooth transition towards a full-fledged recovery. Business conditions started to improve in Q3 and growth shows positive trends and prospects for 2021. A 5.6% GDP growth is expected for the Gulf economies in 2021, from -5.5% this year.

Operating environment
continued

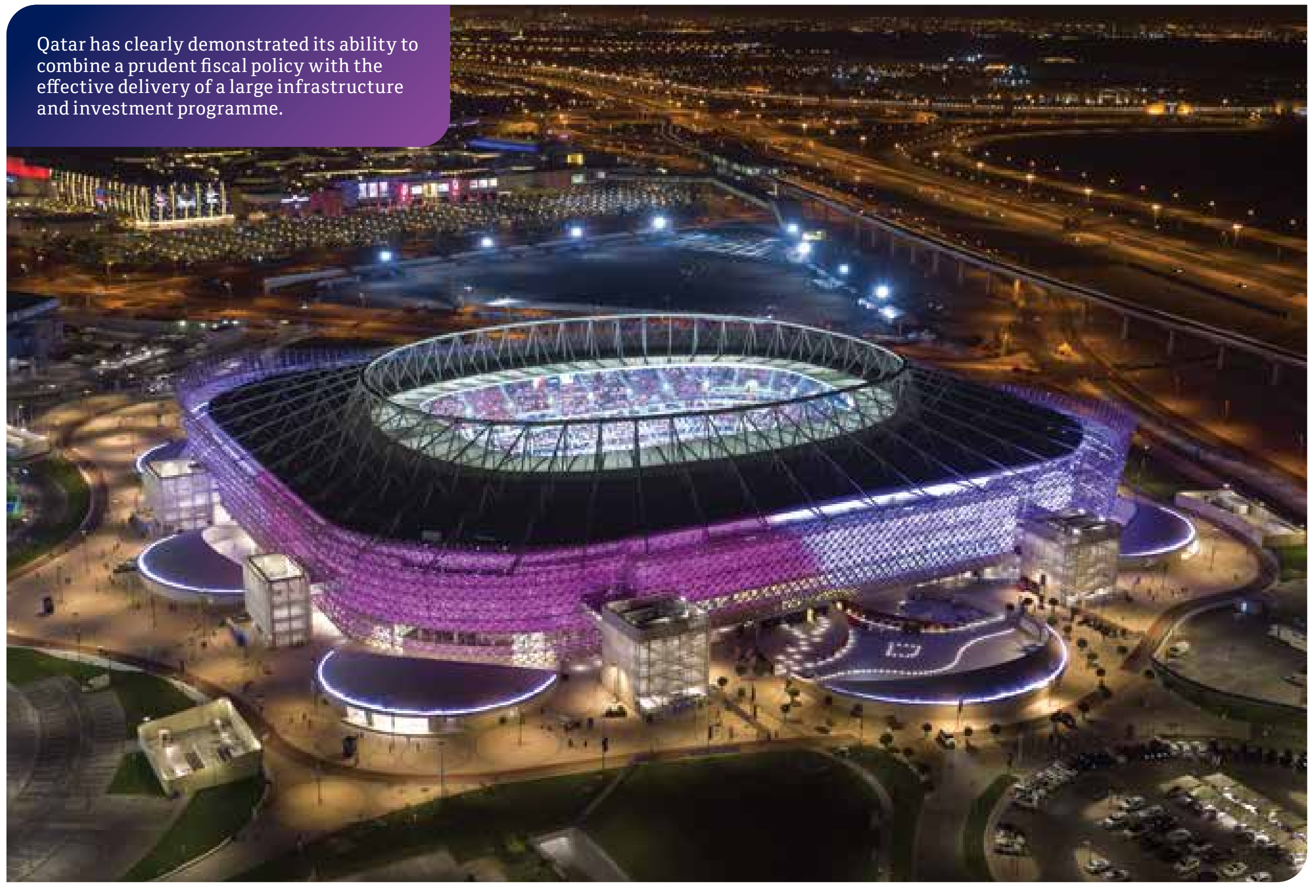
> "Qatar's economy successfully weathered the storm and activity rebounded in mid-2020."

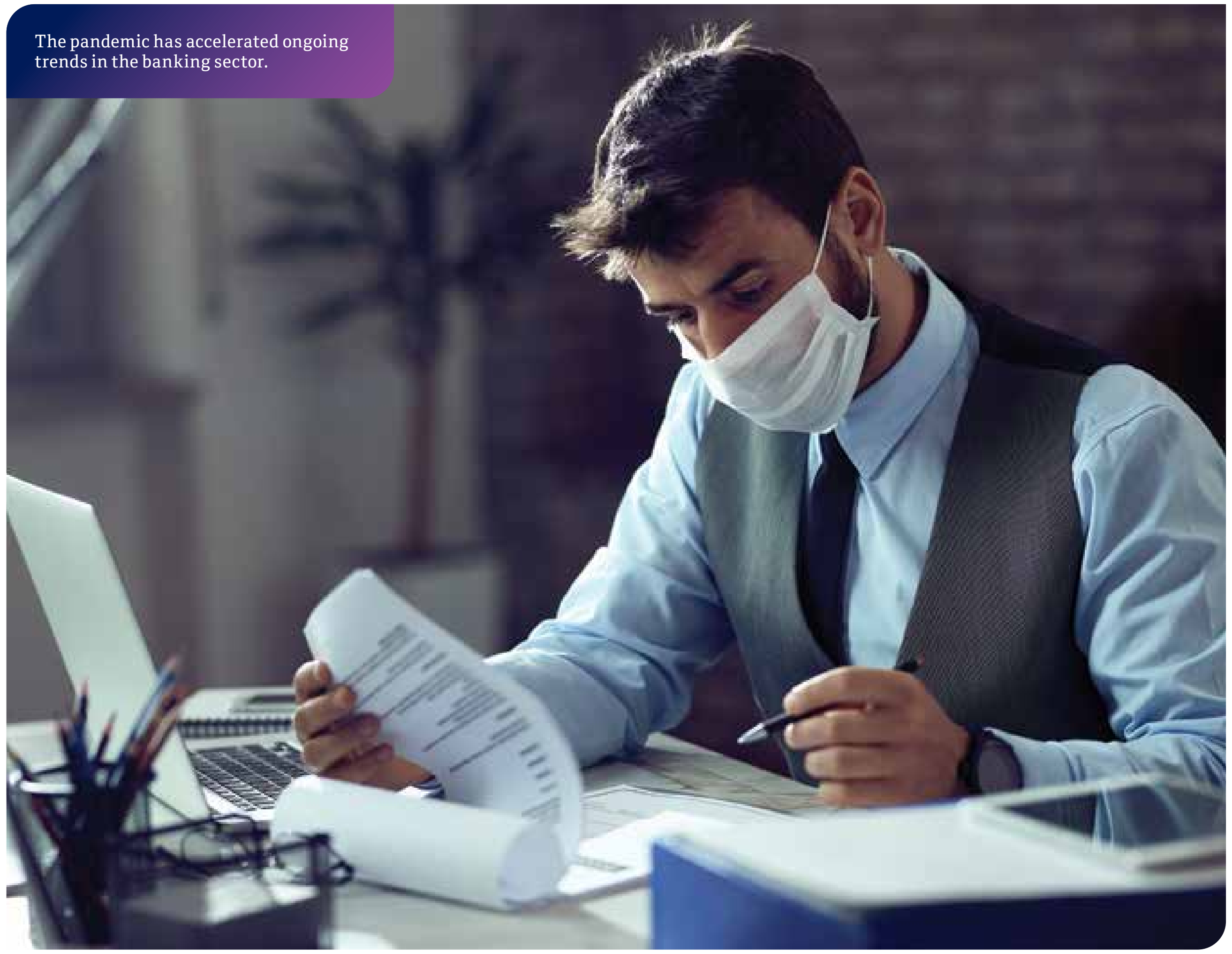
Economic prospects for Qatar
Qatar took all necessary precautionary measures to protect its population and economy from COVID-19. Qatar's economy successfully weathered the storm and activity rebounded in mid-2020. The government's QR75 billion stimulus and support package included targeted measures to defer taxes and fees, defer loan payments, boost concessional financing for small and medium-sized enterprises (SMEs), additional investments in the local equity market, and the provision of additional liquidity to the banking system.

Qatar has also clearly demonstrated its ability to combine a prudent fiscal policy with the effective delivery of a large infrastructure and investment programme to execute the National Development Strategy and the 2022 FIFA World Cup®. This is laying the foundation for continued GDP growth over the medium and long-term through both diversification and stronger private sector growth.

Moving forward, private sector growth will be boosted by continued structural reforms, including public-private partnerships, ownership liberalisation, foreign direct investment promotion, labour reforms, the permanent residency programme and several other initiatives to support SMEs as well as self-sufficiency in strategic sectors.

Tailwinds from investment in increasing hydrocarbon production will also drive economic growth. Six new LNG liquefaction trains are planned to increase Qatar's LNG production by 64% to 126 million tonnes per annum (MTPA) by 2027. Positive spill-overs from increased hydrocarbon production will combine with diversification efforts and structural reforms to boost activity and output in the construction, manufacturing and services sectors.


Qatar has clearly demonstrated its ability to combine a prudent fiscal policy with the effective delivery of a large infrastructure and investment programme.


The pandemic has accelerated ongoing trends in the banking sector.

Banking sector
The COVID-19 pandemic added another layer of complexity to the challenges faced by the banking sector globally. Before the pandemic, while banks were generally in good health and well capitalised, returns and profitability were under pressure. This was particularly apparent in advanced economies, where growth has been subdued for years, with low or even negative interest rates. The COVID-19 pandemic has accelerated major trends that were already taking place, including in key topics such as credit quality, core profitability, digitisation, cyber security and sustainability.

The imposition of lockdowns and social distancing measures placed significant strain on the balance sheet of corporates and income of households, impacting credit quality. Banks across the world responded with considerable increases to their provisions versus 2019 levels. Lower interest rates and liquidity injections flattened yield curves in key markets, creating additional headwinds on the core profitability of banks.

Additionally, the pandemic has accelerated ongoing trends in the banking sector. Social distancing measures have forced changes in habits for both retail and corporate customers, hastening the shift towards digitisation. With the advent of remote working and the increased use of digital products and services, cyber and fraud risk became a critical threat for banks to manage. Finally, COVID-19 further accelerated the focus on sustainability, with investors and other stakeholders placing greater emphasis on ESG matters.

In Qatar, the domestic banking system remains resilient with significant growth, ample liquidity, high asset quality, more than adequate levels of capitalisation and robust profitability. Total assets of the local banking sector were up by over 9% year-on-year as of November 2020, driven mainly by the government support measures and a pickup in business activity following the pandemic. Banks remain well capitalised with capital adequacy ratio (CAR) well above Basel III guidelines. Asset quality also remains high with relatively low non-performing loans (NPLs), leading to a solid overall sector profitability.

QNB Group strategy

To maintain our position as one of the leading MEASEA banks, we will focus on sustainable growth while prudently managing our risks.

"We will continue to improve our business by enhancing transparency, accountability and collaboration across the Group."

The COVID-19 pandemic was a once-in-a-century event that has changed the world as well as the banking industry. We, like other financial institutions, have been exposed to global and regional trends that were amplified and accelerated by this event. We have reacted quickly with adequate measures and have demonstrated resilience to navigate through the volatility.

Despite the challenges that we are exposed to, our strategy to become a leading MEASEA bank has not changed. Our long-term goal of sustainable, profitable growth remains. Our strategy is based on positioning the bank for future growth opportunities by transitioning to a fee-rich model with higher margin businesses and focusing on two key pillars: protecting our market-leading position in Qatar and continuing our international growth.

To achieve these objectives, we are reinforcing our position in Qatar by retaining our market share and profitability. Over the years, we have supported the government in its efforts to diversify and grow the country's economy and have provided financing for many major projects in the construction, transport, food security and infrastructure sectors.

On the international stage, we have firmly established QNB as one of the leading banks in MEASEA through organic and inorganic growth. Our group-wide corporate strategy is complemented by domestic country strategies across our network. These domestic strategies are aligned with the group-wide strategy, and therefore contribute to the overall growth and profit targets. 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 are considered on an opportunistic basis and only if strategically suitable.

We have defined innovation and sustainability as key components of our overall group-wide strategy to remain relevant to our stakeholders and strengthen our business resilience in the long-term.

Our innovation approach aims to explore new ideas to deliver outstanding products to customers and markets in a profitable way. We have defined Open Banking, Platforms, Robotics Process Automation (RPA), Big Data and Analytics, Artificial Intelligence (AI) as well as digitisation and automation as strategic themes of our innovation programme.

We recognise an increasing demand from our stakeholders regarding ESG related topics. Our approach to sustainability is therefore fully integrated into our strategy. Our sustainability approach 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, strengthening our brand and improving our performance.

On an annual basis, the Group's vision and strategic objectives are cascaded down across all of QNB's divisions and subsidiaries and reflected in their yearly business plans and business targets. These targets are tracked on an on-going basis through QNB's performance management approach.

Creating and delivering value

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

Our vision

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

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
USD6 billion

Capital strength
> **19.1%**
Capital adequacy ratio

Employees
> **28,000** employees
> Highly diverse talent pool

Our strategy

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.

Creating and delivering value
continued

> "Our ability to successfully create value is enabled by our capital strength, risk appetite, network, brand and drive for continuous improvement."

Creating meaningful value for our customers, employees, communities and shareholders is a fundamental part our mission at QNB. 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 an important contributor to the local, national and regional economies in which we operate. We do not limit this engagement to financial contribution alone; we also support them towards economic growth and financial inclusion. At the same time, we offer fulfilling careers and development opportunities for our employees across all our operations, who are an intrinsic part of our business.

Our ability to successfully create value is enabled by our capital strength, risk appetite, network, brand and drive for continuous improvement. Our presence in markets that are often neglected or underserved by global banks gives us a distinct competitive advantage as a gateway to MEASEA. 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 strong ratings from the leading rating agencies, including Standard & Poor's (A), Moody's (Aa3), Fitch (A+) and Capital Intelligence (AA-). These rankings reflect consistently high profitability, strong asset quality, solid capitalisation, the diversity of our portfolio, and the strength of our management.

An expanding international presence
Active in more than 31 countries across the Middle East, Africa, Asia 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 market 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.

Innovation
We consider innovation as an important element to deliver our aspiration and strategy. We are always exploring new ways of working, aiming to improve our services and offer our customers the outstanding experience they expect.

Innovation remains a key focus of our efforts and is driven by the changing expectations of our customers. We view innovation as a vital tool to achieve a cultural transformation towards becoming a more dynamic, flexible and market-driven 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 USD6 billion in The Banker's Brand Finance® Global 500 2020 report. Our Brand Strength Index (BSI) increased to 82 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 the industry awards we win every year.

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 channels > 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	> Strong and stable returns > Robust 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 28,000 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 2,100 suppliers to support our business	> Timely payment > Fair and transparent tender process > New business opportunities	> Bidding and tendering > Supplier e-portal > Supplier audits

Future-proofing our business

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

> "Our innovative culture has helped us respond to the wide reaching impact of COVID-19."

The events of 2020 have accelerated the already elevated pace of change in the financial services sector. COVID-19 has led to significant changes in the way customers want to engage with the bank, creating the need to implement, in a short period of time, creative solutions to continue meeting their needs. Protecting the health and safety of our customers remains of the utmost importance in parallel to supporting their banking needs.

Our innovative culture has helped us respond to the wide reaching impact of COVID-19. The previously commenced strategic initiatives aiming to digitise the interaction with our customers and employees allowed us to quickly respond the challenges of social distancing and lockdown from the pandemic. We therefore have been able to leap frog the delivery of key milestones to support the evolving needs of our customers. Our relentless innovation efforts have already borne fruit and we are starting to reap the benefits from the synergies across the network.

Our group-wide innovation centre QNBeyond has successfully completed two waves of employee bootcamps. The competition created momentum over the organisation. Throughout the bootcamp process, employees got the chance to elaborate on their ideas and come up with valid business propositions. These bootcamps resulted in the selection of five successful teams who will incubate their ideas in the Group's innovation centre. In addition, QNBeyond's accelerator programme has on-boarded eleven new Fintechs, which are at the forefront of progressive thinking on how banking, and the needs of our customers, will evolve.

In parallel, we have continued to leverage our group-wide approach to innovation that encompasses the harmonisation of governance, our operating model and innovation process across our network. QNB's group-wide approach to innovation fostered collaboration, supported the cross-pollination of ideas and enabled the scale-up of opportunities across the network. This enabled us to focus on strategic themes across the network that we believe can create lasting value and "move the needle" through additional revenue opportunities or efficiencies at scale. Our strategic themes address Open Banking, Platforms, Robotics Process Automation (RPA), Big Data and Analytics, Artificial Intelligence (AI) as well as digitisation and automation.

Looking ahead 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 of our customers today and into the future.

We have continued to leverage our group-wide approach to innovation.

Case examples of our strategic innovation themes

Platforms

We are actively exploring the use of platforms in a two-pronged approach: marketplace platforms, to introduce the Group to new revenue opportunities, and processing platforms, to improve the efficiency of our operations and reduce costs. An example of this approach includes several proof-of-concepts (POCs) conducted in 2020 with leading trade finance platforms, allowing a more seamless digital experience for our customers in completing their transactions.

In addition, we started exploring opportunities across our three main countries of operation to leverage an innovative payment infrastructure based on Blockchain technology. This platform will enable our customers who operate across multiple countries to send money across borders instantly at a fraction of current costs. We expect the go-live in the coming year.

Robotics Process Automation

QNB Finansbank has already automated more than 50 processes across several functions including corporate banking, retail, treasury, finance and human resources. In Qatar, we capitalised on our initial RPA roll out in 2019 and decided to scale up our efforts this year across treasury operations, merchant service, retail, custody and fund administration.

QNB ALAHLI successfully introduced RPA in two key areas: deposits and payroll management. The programme has already achieved significant reduction in processing time while increasing customer satisfaction and reducing complaints. Further benefits are expected in the future as we have identified a multitude of additional eligible processes across the network with potential for automation.

Digitisation and automation

We accelerated the roll out of our Trade Portal in Qatar, a platform to facilitate trade finance transactions. This initiative was complemented with a partnership with QPost that allows customers to send and receive their trade documentation without the need to visit a branch. Through this solution, we were able to support our customers in critical sectors of the economy such as a Fast Moving Consumer Goods (FMCG) and Pharmaceuticals and ensure an uninterrupted supply of food and medical goods in the country.

We also fast-tracked a number of contact-less transaction solutions to provide our customers with safe and secure channels to transact. This included accelerating the roll out of QNB's contact-less cards and the introduction of innovative card-less ATMs.

Big Data, analytics and AI

We ran a series of proof-of-concepts (POCs) leveraging Big Data and Analytics as well as AI to develop several models around predictive banking use cases. One of these POCs focused on identifying and anticipating customer needs to offer more personalised offers. Another POC was around improving our cash management practices. Through more accurate prediction of withdrawals and deposits across our branch network, AI has helped us identify ways to optimise our cash supply and reduce operating costs associated with holding and handling cash.

Delivering sustainable results

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

28,000
employees worldwide

1,045
branches

4,391
ATMs

20%
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 a solid reputation with investors and markets.

With strong credit ratings from the major international rating 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.

From an ESG perspective, we are ranked as the leading financial institution in Qatar by ESG Invest. We also actively disclosed our sustainability performance to a number of global ESG focused ratings agencies. As a result, our ESG ratings with several rating agencies has improved.

These ratings provide us with a competitive advantage to access global capital markets for wholesale funding, enabling us to continue our growth and expansion plans as per 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 people, 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 we strengthened our public commitment to sustainability by submitting our inaugural 'Communication on Progress' to the United Nations Global Compact (UNGC) and signed the UN75's Statement from Business Leaders for Renewed Global Cooperation. This statement reaffirms our support for operating as an accountable, ethical, inclusive and transparent organisation.

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 banks 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. We continued the senior management engagement and discussion forums that we initiated last year to the extent possible under the new pandemic circumstances. We held remote engagement sessions with our teams, continuing to nurture our culture while working from home.

Attracting and retaining superior talent in Qatar and across our diverse international network remains essential. In 2020, 41% of our workforce was female, as a result of our proactive approach to promoting female inclusion in the workforce. In addition, we employ over 75 different nationalities across our operations. Mutual trust, integrity, respect, loyalty and meritocracy underpin our culture.

Our Qatarisation drive, which supports the 2030 National Vision (QNV 2030), has created a local Qatari workforce of 58.8% – one of the highest in the Qatari banking sector.

Thanks to this focus on employee development and engagement, our turnover is one of the lowest in the industry: in 2020 it stood at only 3.05%.

Our employees are paramount to our business success.

Local Qatari workforce (%)

2020	58.8
2019	54.9
2018	53.8

Earnings per share (QR)

2020	1.19
2019	1.45
2018	1.44

4. To be a leading brand
QNB enjoys an award-winning brand that reflects our values and commitment to deliver outstanding banking services to our customers. Thanks to our creative, but disciplined 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 2020 report. We have recorded a significant improvement in our brand rankings both globally and within the banking sector.

This year we maintained our brand's presence across our international growth markets and maintained several high-profile, global sporting sponsorships. These have helped raise our brand value to USD6.03 billion – a 20% increase from 2019. Our Brand Strength Index (BSI) also increased to 82 out of 100.

5. To enhance long-term shareholder value through sustainable, profitable growth
We continue to experience growth across assets, loans, deposits and operating income. This reflects our success in maintaining sustainable growth across a number of operational revenue segments. In addition, and in response to current economic conditions, we renewed our focus on operational efficiency and this resulted in our cost to income ratio decreasing to 24.3% in 2020, from 25.9% in 2019. This is considered one of the best ratios among large financial institutions in the MEASEA region.

This performance has been achieved through 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 advantage of opportunities within, across, and beyond our network. Further details can be found in the Group Chief Financial Officer's report on page 96.

Operational performance

QNB Annual Report 2020

Wholesale and Commercial Banking

Overcoming challenges and providing seamless infrastructure support and assistance for our clients is the underpinning factor that enables QNB to maintain its market-leading franchise in Qatar.

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.

Domestic corporate
QNB's loan book in 2020 was robust and continued to be resilient despite the volatility and uncertainty caused by the COVID-19 pandemic. This was due to the underlying quality and commitment of our client base to meet their obligations. QNB maintained its position as a market-leading franchise in Qatar, growing its assets and liabilities while keeping the non-performing loan (NPL) ratio low.

Worldwide, the pandemic-induced lockdowns and changing customer behaviours put the business models and revenue-generating capabilities of some of our clients under pressure. Particularly affected were the travel, hospitality and retail sectors, while the contracting sector continued with minimal disruption. We worked tirelessly to accommodate to the new realities of our customers, whilst at the same time protecting the bank from potential risks and service disruptions. Throughout 2020, we took proactive steps to ensure an adequate service infrastructure for our clients, while at the same time providing a secure technology platform for our employees. This allowed us to seamlessly manage client relationships during the pandemic.

Qatar Central Bank (QCB), through its stimulus and support packages, ensured stability and continuity. This enabled us to launch a series of supportive actions to help our clients navigate through the pandemic. These included:

> extension/deferral of loan payments for affected industries;

> provision of lower interest rates for the duration of the pandemic; and

> interest-free loans to cover operational expenditures such as salaries and rents within certain guidelines through a Qatar Development Bank (QDB) programme.

As in previous years, construction, transport, 2022 FIFA World Cup® infrastructure and food security continued to be the four sectors that provided the bulk of our domestic activity in 2020. The construction sector remained relatively unscathed during the pandemic, as the sector had well-defined strategic projects that progressed as per schedule, with all the necessary support being provided by the bank.

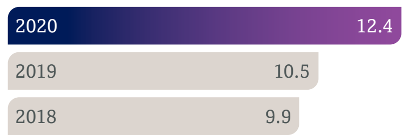
In line with our commitment to sustainability, we are supporting a number of green projects. The multi-billion Gewan Island project in Doha is designed to reduce urban heat by incorporating green roofs, shading and reflective surfaces. In addition, we are involved in some of the most iconic projects in Lusail, one of the first truly smart cities in the region. The financing of Lusail's twin tower highlights our endeavor to offer an integrated product suite covering the whole supply chain, ranging from the developer, suppliers, main contractor and sub-contractors.

In 2020, transport has also been a major sector of activity for us and we are playing a major role in the financing of the Hamad International Airport (HIA) expansion. The HIA expansion project involves extension of the terminal buildings, allowing for extra passenger traffic, as well as programmes to create more runway space and aircraft storage, alongside additional cargo capacity.

Most of the 2022 FIFA World Cup® stadiums are nearing completion. Our domestic corporate team at QNB remained an active participant in many of the key projects created to deliver the event, including the Education City stadium. The completed stadium was scheduled to host several tournaments and events throughout 2020, including the participation of international football clubs, however, this was postponed due to the pandemic.

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. QNB also financed several pharmaceutical companies and medical suppliers in 2020, assisting the government's public health initiatives to supply personal protection equipment, testing kits and critical equipment to combat the COVID-19 pandemic.

Qatar Corporate banking revenue (QR billion)



"Construction, transport, 2022 FIFA World Cup® infrastructure and food security were the four sectors that provided the bulk of our domestic activity in 2020."

Looking ahead towards the next few years, perhaps the most significant project coming in the pipeline is Qatar Petroleum's multibillion-dollar North Field development, which is set to increase Qatar's liquefied natural gas (LNG) capacity by more than 64% – from 77 million tonnes currently to 126 million tonnes per annum through several milestones over the next years.

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 2020, we engaged in advanced discussions with a range of international specialist contractors with tenders and awards for 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 materials 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.

SME
A vibrant SME sector is a major source of employment and innovation, catalysing productivity, economic growth and diversification. Lack of access to affordable credit is often cited as one of the key challenges facing small and medium-sized enterprises (SMEs) across the globe. Recognising this need, QNB has significantly invested in building its capabilities to become a one stop shop for our customers. Supported by our innovative product offering and experienced relationship managers, we are able to support SMEs across all stages of growth, from initial start-up to expansion.

QNB is fully committed to, and supports the goals of Qatar's National Vision 2030. The primary goal is to diversify the economy by strengthening the private sector. As a financial intermediary, we act as a key facilitator to nurture the growth of the private sector and SMEs.

SMEs in the MENA region represent about 80-90% of registered companies and 45% of new jobs created, according to research from the International Monetary Fund. 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 in those economies.

The COVID-19 pandemic brought some very unique and tough challenges to our SME customers. Globally, SMEs are navigating a long list of disruptions, ranging from dramatic loss of income in some sectors due to enforced lockdowns, interrupted supply chains, difficulty in managing

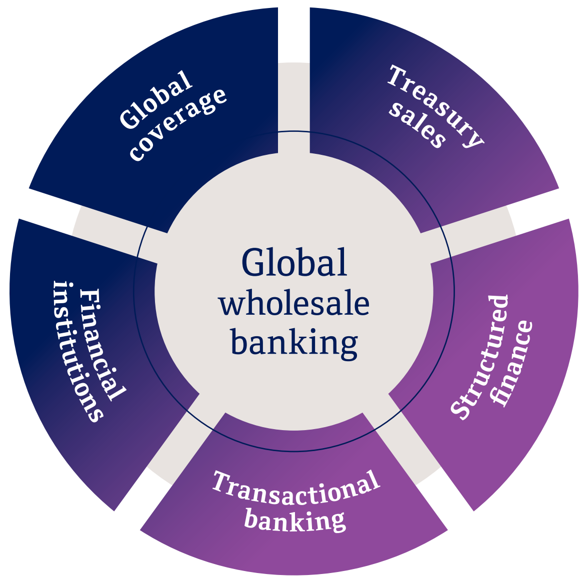
We are positioned as the gateway to the Middle East and Africa across the globe

> 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; and

> most creditworthy institution for wholesale treasury requirements in MEA.



Wholesale and Commercial Banking
continued

1,143%
growth in e-commerce volumes in Qatar

39%
growth in SME deposits in Qatar

"We established a proactive programme to assist and support our SME customers through these tough times, all whilst protecting the bank."

working from home arrangements and lower consumer confidence. Some sectors, such as tourism, transportation and retail, have been particularly affected, with SMEs more vulnerable to liquidity pressures than larger, more established companies.

To support SMEs during the difficult market environment in 2020, the bank rapidly enhanced its e-channels capabilities, reduced fees charged to clients on various services and waived-off minimum balance charges. More specifically, we established a proactive programme to assist and support our SME customers through these tough times, all whilst protecting the bank. These support measures included:

- postponement of all SME loans and documentation credit facilities for 3 months at a 0% rate during the height of the pandemic;
- further postponement for an additional 3 months at a discounted rate;
- adjustment of banking fees in order to provide relief to companies which were struggling with liquidity;
- several initiatives to enable all transactions to be performed remotely without the need to come to branches; and
- serving our customers while taking precautionary measures through our branches globally and our SME Centre in Qatar.

In addition to the aforementioned initiatives, we participated in Qatar Development Bank's (QDB) National Response Guarantee Programme. The program was a 100% guarantee scheme launched by the Government of Qatar. The aim was to mitigate COVID-19 impacts by relieving the most critical short-term payments faced by private sector employers, such as staff payroll and rental fees. Over the course of the programme, we received more than 1,477 applications, for which we charged 0% interest within the first year grace period. The success of this programme, jointly with the continued implementation of the Worker Protection Scheme (WPS), reflects the commitment of the State of Qatar's goal of protecting the human rights of workers by ensuring a healthy relationship between employers and employees and securing the financial inclusion of all its residents.

In response to new customer requirements for "social distancing" at retail outlets, we further strengthened our product suite that allows small businesses to take their products and services online. Our e-commerce platform, QNB Simplify, is a cost effective digital platform for SMEs to have an online presence, leveraging QNB's technical expertise and cloud resources. This platform was a powerful tool for our SME clients to support their digital transition to meet the changing needs of their customers by allowing them to go online. Consequently, our e-commerce volumes in Qatar have grown in excess of 1,143% this year.

To further protect the bank and enhance our resilience, we implemented new collection procedures and took some targeted actions at protecting the credit quality and our loan book. Further information on how we managed our credit portfolio can be found in the Credit Risk section on page 50.

In Turkey, QNB Finansbank has shown resilience in the SME segment. Our customer-centric proposition, which includes digital transformation and channel migration, has been pivotal to our success. We deepened our relationships with our customers to understand their needs and to better anticipate their cash flow requirements during the pandemic. Where required, we also restructured existing credit facilities to accommodate reduced trading activity. We also continued to build-out our telephone banking channel to enable our customers to complete their banking transactions without having to enter a branch. Our "SME Easy Line" provided customers with real-time support and allowed them to carry out transactions over the phone securely and effectively.

Digital transformation within our SME business remains a key focus for QNB Finsansbank. We are now able to provide our more than 20,000 active digital SME customers with access to free enterprise resource management solutions to run their businesses more efficiently. Our partnerships with third party digital service providers

Awards

Best bank in Qatar
- Euromoney

Leader in Trade for Qatar
- Global Trade Review

"Throughout the year we remained active in helping our customers to better develop and manage their finances effectively."

strengthened our product suite and enabled us to offer our customers solutions to improve their sales performance. As a result of our efforts we were recognised as the "Best SME Bank in Central and Eastern Europe" at the Euromoney 2020 Excellence Awards.

In Egypt, QNB ALAHLI reinforced its leading position in the SME segment by expanding its offering to include financial advisory services and new digital applications to facilitate safe and convenient engagement between the bank and its customers. This ensured that we remained relevant to our customers and were able to provide them with a dedicated and uninterrupted service during the pandemic. Our effort to support and advance the SME segment in Egypt was also acknowledged through a series of high-profile awards. In 2020, we were ranked as the best bank for SMEs by Global Banking and Finance Review, International Finance Magazine and Capital Finance International Magazine.

Looking ahead, 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. Envisaging a post-pandemic new normal, we aim to further strengthen our product lineup that allows our customers to seamlessly interact not only with the bank – but also with their own customers – remotely and securely.

International corporate

We remain the partner of choice for large corporate clients and financial institutions as the gateway to MEASEA. We do this by leveraging the depth and diversity of our international presence to provide a wealth of new and exciting opportunities for our customers across all our markets.

Businesses across the globe have been severely impacted by the large-scale lockdowns, leading to widespread business disruptions. With the high level of uncertainty and business restrictions continuing for most of 2020, business establishments have been in dire need for additional working capital, facility extensions and restructurings for business continuity.

In these challenging times, QNB has worked diligently with its multinational clients to assist them to cope with the effects of COVID-19 on their businesses, by arranging facility extensions or restructurings as needed and by playing an advisory role for their immediate corporate finance needs. We continued to work seamlessly during the initial lockdowns to provide the needed banking services. For example, during the initial stages of the pandemic, we closed a USD400 million 5-year term loan facility for a top Indian utility provider. The deal was mandated, credit-approved and closed in Singapore in in just a matter of weeks, and raised QNB's profile as a lead arranger in the Asian loan markets. In several of our international branches, we also helped our customers navigate through the pandemic by deferring maturities for up to six months, alleviating their immediate liquidity pressures.

The COVID-19 pandemic has brought to the forefront the importance of reliable and effective digital financial services platforms for both financial institutions and the customers using them. QNB has stepped up its digital acceleration to provide varied solutions to our international corporate clients. Across the network, we focused on accelerating the migration of corporate customers to our online platform. This proved very effective to meet the needs of our customers during the pandemic period, all the while complying with the local requirements on lockdowns and curfews. Additionally, we have commenced to leverage big data and analytics to a much greater scale, generating additional insights to more effectively identify and address our clients' needs.

In Europe, we witnessed a strong increase in deposits from large corporates, attracted a number of new clients and delivered a resilient performance in treasury and trade finance. In the UK, we have significantly enhanced our loan book, particularly in both the real estate and energy sectors. We also started engaging with our clients to assist them with the practical challenge of transitioning away from the LIBOR standard.

This year QNB Finansbank continued to strengthen both its market position and portfolio in Turkey, even with the

Wholesale and Commercial Banking
continued

volatility and economic downturn brought on by the onset of the pandemic. We were able to deliver strong double-digit loan and deposit growth, thanks to both our increasing market share and to an overall expansion of the market driven by the government's fiscal stimulus. As in Qatar, our main focus revolved around a tireless effort to reach out to our Turkish corporate clients, understanding their needs and helping them cope with their specific challenges. Additionally, this year we successfully rolled out our Global Account Management model for multinational corporations in Turkey, enabling them to generate new business opportunities, while at the same time providing better customer service. This model continues to provide excellent support for an increasing number of key clients, helping to deepen relationships, create cross-selling opportunities and to generate new business.

In Egypt, our subsidiary QNB ALAHLI continued to maintain its leadership in the Egyptian corporate banking market. We played major roles in large-ticket transactions in sectors such as food and beverages, oil and gas, and contracting. In line with our sustainability aspirations, we also had a noticeable role in financing renewable energy developments. To ensure the business continuity of some of our clients affected by the pandemic, QNB ALAHLI led, managed and participated in a number of debt restructuring transactions with other local banks, including a participation in Egypt's largest corporate bond issuance.

Even as we expand our international corporate banking business, our conservative lending policies are aimed at protecting the bank from mounting credit risks in international markets. QNB has adopted a cautious approach in opening credit lines to new customers and for pandemic-affected industries. Throughout the network and across our subsidiaries, we implemented additional risk management tools to maintain our corporate portfolio asset quality with enhanced early warning and risk monitoring initiatives.

Looking forward, we will continue to build upon our strong franchise and established relationships to drive the contribution of our international business. We will do this by deepening the cooperation across our network to further penetrate existing clients and generate new relationships.

Global transaction banking
We offer trade finance as well as cash management solutions, catering to the needs of local and multinational corporations across our network. Innovation and digitisation are our top priorities to drive customer centricity, while at the same time ensuring compliance with regulatory requirements in a fast-moving world of growing complexity.
We do this by investing in new, cutting-edge technologies.

As a result of the protectionist policies and global trade wars, companies are having to review their dependence on large scale global supply chains by building a domestic network of suppliers. The COVID-19 pandemic added momentum to retreat further away from global economic integration, towards de-globalisation, as economies went into lockdowns. Nevertheless, the importance of unrestricted global trade flows was critical during the pandemic to ensure global supply for essential goods, such as food, medical and pharmaceutical supplies, as well as electronic equipment. Although global trade had severely suffered at the onset of the pandemic, recovery is underway and is expected to be a key driver for the stabilisation of the global economy going forward.

In QNB Group, we continue to see trade finance and cash management solutions as core to our offering for

We are committed to the UN Sustainability Development Goals, supporting initiatives such as Qatar Rail.

221%
growth in customers using our Trade Portal platform

our customers. As part of our strategy, we are aiming towards a greater emphasis on balance-sheet-light solutions through contingent liabilities. Furthermore, our increased level of guarantee issuances and strong performances in the Middle East were growth drivers of our transaction banking revenues. As part of our response to the pandemic, we demonstrated flexibility in assisting our customers to cope with its adverse impact, while at the same time ensuring adequate risk management.

To facilitate and assist our customers throughout the pandemic, we further enhanced our digital capabilities and introduced better connectivity for all customers across the whole of QNB Group's footprint. One of our goals was to make business easier by reducing complexity and driving the efficiency of transacting remotely. As a result, we accelerated the pace of customer on-boarding to our electronic channels. Our "Trade Finance Portal" offering is a uniquely integrated e-business solution that offers importers and exporters a fully-featured platform to seamlessly complete their local and international trade transactions. The usage of this platform grew by 221% during 2020, leading to the generation of new businesses across QNB's international network. In order to quickly and efficiently educate and communicate to a large number of customers, we set up specific webinars and remote video sessions to help them navigate through the widening capabilities offered by this platform. The initiative was well received, and we have seen increasing momentum since the launch of the webinars. To supplement the ability to do business remotely and seamlessly, we also implemented a remote Letter of Credit delivery service.

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**

Liquidity and cash management were critical solutions to support businesses to continue to operate across various industries and sectors facing shutdowns. Solutions for working capital, cash flow and cash pooling, as well as asset liability optimisation became critical for our customers. Our advisory role helped our corporate customers navigate through times of uncertainty and volatility. We assisted our clients to optimise their balance sheet to ensure the longevity of business through cash conversion cycle optimisation.

We implemented QNB's new cash management portal in Qatar this year. This platform will enable us to further expand our international businesses, allowing us to achieve our vision of becoming a leading MEASEA bank and support Qatar's National Vision 2030, by nurturing the country's private sector companies. Amongst various other functions, the new comprehensive digital cash management platform has automated domestic and international payments processing, electronic statement downloading capabilities and can be fully integrated with our clients' ERP systems in a secure IT environment. The new global system can handle high volumes and improve efficiency via a fast transaction processing architecture. Due to these investments, we have already witnessed a significant growth in usage of our cash management portal in Qatar. This one-stop-shop reduces the time needed to complete transaction input and authorisation and removes any need to use several different portals. We plan to continue rolling out the platform throughout our international network in 2021.

Looking ahead, we plan to continue the roll out of the SWIFT Global Payments Initiative (GPI), spearheaded by QNB Finansbank in Turkey. This will enable us to make international payments faster, easier and provide more transparency to our corporate clients about the status of their international payments processing. The project aims to improve customer experience in cross-border payments, by increasing their speed and traceability. We will continue the close monitoring of the end-to-end customer experience, to ensure improvements in our product offerings and delivery platforms and standardisation across the network.

Global structured finance
Despite the business disruption and lockdown challenges in 2020, our expertise in structured financing services helped more customers

Wholesale and Commercial Banking
continued

achieve success in a growing range of significant corporate financing deals in both primary and secondary transactions, including syndication, project finance, acquisition finance, asset backed and real estate finance. We have product coverage focused in the Middle East, Southeast Asia, Europe and Africa, which is supported by hubs in Singapore, London and satellite teams in our subsidiaries and associates. We cover both conventional and Islamic facilities in markets where QNB has a presence.

This year, we announced the successful closing of the syndication for a global dual-tranche USD3.5 billion unsecured term loan facility for QNB. The syndication was well supported by 34 international banks. The closing of this syndication is exceptional in that it is the largest 5-year syndication and the first dual tranche ever issued in the Middle Eastern region. This tranche also attracted the interest of global banks and helped us further broaden our investor base. The issuance was substantially oversubscribed which, despite the challenges of COVID-19, demonstrates our standing as a high quality issuer.

With Qatar's Public-Private Partnership Law being passed in early 2020 and the identification of a number of sectors open for partnerships, there has been a growth in activity and the number of transactions coming to market.

As a response to the pandemic, we adjusted our risk appetite and took a more selective approach in project and asset backed financing, to maintain the high quality of our lending book. However, we continued an active involvement in lending to syndication, export credit agency and acquisition finance transactions at all levels. We are covering a variety of sectors, including energy, infrastructure, telecommunications, real estate and utilities.

We continued to participate in the financing of projects that supported Turkey's growth and development, and in 2020 received awards in the following categories: "Infrastructure Finance Deal of the Year", "Project Finance Deal of the Year", and "Syndicated Loan Deal of the Year" at the Bonds and Loans Awards.

As in previous years and in line with the bank's commitment to support sustainable financing, we continued to be involved in an increasing number of green financing transactions. We are actively working towards getting involved in additional projects in the region, Europe and Asia.

A recovery in 2021 is expected to witness an increase in syndications and project financings coming to market as uncertainties lift, corporate confidence in investment returns and markets return to normalcy. More remote and online transactions are likely, as businesses get more confident with such operational models. We will strive to continue to capitalise on our international network to seek out and support additional opportunities. QNB's new branch in Hong Kong will provide greater access to China, where we expect to see a significant growth in activity.

Treasury and Financial Institutions
Our treasury function consists of three key activities: treasury trading, treasury sales and correspondent banking. Our treasury trading business includes asset and liability management, foreign exchange, fixed income and hedging. Treasury sales focuses on corporate, high net worth individuals and institutional customers offering a comprehensive range of treasury products and services, including advisory, investment and hedging solutions across the bank's global network.

Our correspondent banking services consist of multi-currency services for payments, cash management and trade finance as well as custody and brokerage. These services are offered to a vast array of international financial institutions, providing them with direct access to the Qatari market. With QNB Group's reach to more than 31 countries, we are well poised to provide sustainable and uninterrupted correspondent banking solutions in places where counterparts require local expertise and market intelligence from a top-rated bank.

The COVID-19 pandemic has placed the global financial system under severe strain, facing its biggest challenge since the global financial crisis. Globally, markets witnessed acute liquidity stress, resulting in governments and central banks unleashing unprecedented fiscal and monetary stimulus packages, amounting to trillions of dollars. As a result, these extraordinary measures ensured the smooth functioning of global financial markets. In addition to this, the MENA region had been significantly impacted by the drop in oil prices, bringing about additional liquidity pressures. This has put banks in the region under liquidity constraints and forced them to look closely at their funding resources as well as to assess their resilience in meeting their funding needs.

Notwithstanding these challenges, QNB has demonstrated resilience and very effectively managed its liquidity position during the difficult period caused by COVID-19. During the surge of the pandemic in May, QNB was the first financial institution in the MENA region to re-open the market with a USD1 billion corporate bond issuance. We were able to effectively leverage our existing relationships and access new sources of funding. The bank continues to attract an extremely broad international investor base, with funding raised from across the globe in multiple currencies across the full tenor range. We are proud that we did not need to use any recourse from the Qatar Central Bank (QCB), even though such a window of emergency funding was available to all banks in Qatar.

The pandemic has accelerated the drive towards sustainability, leading to a carbon-neutral economy. As part of our ongoing sustainability journey, QNB was well positioned to capitalise on this global trend. We successfully completed our first green benchmark bond issuance and first ever green bond issued by a Qatari bank. Under the EMTN Programme, a USD600 million tranche in the form of Senior Unsecured Notes was issued with a maturity of 5 years and listed on the London Stock Exchange (LSE) under the Sustainable Bond Market segment. The proceeds from this green bond issuance were used to finance and/or refinance assets in verified Eligible Green Projects. Issuing a sustainable finance debt instrument sends a signal to the international investor community that we have developed a meaningful sustainability strategy. The listing of the green bond on the LSE has allowed us to access a new global investor pool of capital that supports the transition towards a sustainable and low-carbon economy.

To ensure QNB's funding base is spread across various geographies in terms of currencies, tenors and product mix, during 2020 QNB also secured USD1.3 billion from two Formosa transactions. Finally, the certificate of deposit balances on our books remained stable throughout 2020, showing the trust and confidence that investors have in QNB.

The correspondent banking landscape has witnessed challenges triggered by the pandemic with a major shift in liquidity and portfolio flows across regions globally. Liquidity was quickly withdrawn towards safe havens, leaving emerging markets in a drought. QNB's strong financial metrics, capital position and balance sheet health enabled us to overcome these challenges. We were able to ensure the continuity of our liquidity position by leveraging the robust relationships of our correspondent banking networking partners across the globe. This allowed us to continue the growth of our balance sheet in line with our strategic aspirations.

These achievements reflect the Group's capability to diversify its funding sources by entering new debt markets, and extending the maturity profile, hence reinforcing the trust of international investors in QNB Group's strength and strategy.

Furthermore, QNB has been able to overcome operational challenges due to COVID-19. To maintain the safety of the team and ensure business continuity, QNB's team operated from both the traditional office location and multiple disaster recovery sites during the pandemic period. This successfully ensured a seamless continuity of operations and services to our internal and external clients. Additionally, we added senior expertise to our international teams, improving the oversight and interactions with our subsidiaries and international branches.

By year-end 2021, banks worldwide will be shifting to a new way of pricing, aiming to maintain the stability and flexibility provided by the London Inter-bank Offered Rate (Libor). One of the priority projects for the bank in 2020 and going forward to 2021 is the transition away from Libor. QNB is currently upgrading its systems to be able to meet the requirements of the post-Libor market to price all its products with the new benchmarks. We have been engaging with our clients and updating contractual terms, with the expected completion of this project slated for mid-2021. We are already in full transition to a new market norm, and as an example, this year we priced a transaction in a Libor-alternate format called Secured Overnight Financing Rate (SOFR).

QNB Capital
We remain the established leader of the investment banking market in Qatar, with the largest team of highly experienced financial advisory and investment banking professionals. We provide a range of advisory services, including M&A, equity, debt and project advisory. Our first-class research capabilities and sector knowledge, coupled with our trusted relationships in the Qatari corporate environment, give us a distinct competitive advantage in both the domestic and regional markets. With a proven track record of high-profile transactions and regional expertise across multiple countries, sectors and markets, we continue to assist QNB to grow its brand while boosting its financial performance.

Despite ongoing challenges faced by companies and the overall economy, we have continued to see an increase in advisory services for businesses preparing for an Initial Public Offering (IPO). In 2020, QNB Capital acted as the sole listing and offering advisor for QLM Life & Medical Insurance Company QPSC, one of the leading life and medical insurance companies in Qatar, on its IPO of 210 million shares, representing 60% of the shares of the company. The IPO was the only IPO of the year in the Qatar market. 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 2020.

These included:

> USD1 billion bond issue for QNB in February 2020;

> USD10 billion triple bond issue for the State of Qatar in April 2020 (5, 10, and 30 years);

> USD1 billion bond issue for QNB in May 2020;

> USD600 million green bond issue for QNB in September 2020;

> USD500 million bond issue for Ahli Bank in September 2020;

> USD500 million bond issue for Commercial Bank in September 2020; and

> USD750 million sukuk issue for Masraf Al Rayan in September 2020.

With the creation of Qatar's first free-zone and the launch of the Investment Promotion Agency in 2019, we expect to witness a significant increase in foreign direct investment that will benefit the overall economy and continue to support our business in the coming years. Furthermore, with the enactment of Qatar's new PPP law, we anticipate an increase in PPP initiatives in Qatar in 2021, fuelled by additional opportunities as the 2022 FIFA World Cup® approaches. We expect new tourist attractions and a number of iconic infrastructure projects to provide opportunities for private sector investors to work with the Qatar Government to further support the country in preparation for the event and for the future beyond.

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

Advisory services

Retail Banking

By providing an outstanding banking experience, listening to our customers and rewarding loyalty, we are well-positioned to remain the bank of choice of our customers across our international footprint.

What we do

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

- 52 branches in Qatar and 993 abroad;
- more than 478 ATMs in Qatar – the largest network in the country – and 3,913 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.

The once-in-a-century COVID-19 pandemic put considerable strain on some of our customers throughout the network. With job and income losses compounding on top of quarantines and health issues, we are conscious that this year was a life-changing year for some of our customers. The lockdowns have accelerated trends in shifting customer behaviours from physical to remote channels, requiring radical creativity to leapfrog and adjust to new realities. This requires banks to create new experiences through digitisation and automation across all channels. As such, we have kept this at the top of our minds as we responded to the crisis.

The commitment to innovation, quality and technology allowed us to quickly adapt and continue to offer the highest levels of service with minimal interruption during the COVID-19 pandemic. We introduced new payment solutions and technologies that are safe, secure and offer greater convenience to our customers. We also offered our customers additional flexibility and credit products to support them throughout this difficult period.

The 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.

In 2020, we maintained our leading market share in personal loans in Qatar. Our deposit growth, which was up 22%, was driven by our entrenched customer relationships and trusted brand.

In Egypt, we expanded and enhanced our product offering and as a result acquired 211,000 new clients, with many coming from underrepresented segments of the economy. This was aided by an increased awareness and requirement of health-conscious customers wanting to move away from cash and additional financial inclusion initiatives launched by the Central Bank of Egypt.

In Turkey, we maintained our strong position in retail banking and introduced several new products, including a payroll solution for many of the leading international companies.

Our ATMs were reconfigured to allow cash withdrawals via QR codes, thus eliminating any contact.

Due to changing customer behaviours, we enhanced our online e-commerce and contactless capabilities.

7%
growth in QNB ALAHLI retail deposits

16%
growth in digital bank customers in Turkey

98%
digital transactions in Qatar

Digital growth
We have a strong digital strategy, driven by the voice of our customers, which aims to differentiate us from our competitors. The investments that we have made over the past few years have paid off, allowing us to continue to serve customers remotely in a safe and secure fashion. During the pandemic, we ramped up our digital migration efforts, achieving strong growth in internet and mobile banking usage across our entire network.

In Qatar, more than 83% 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 32% to reach 2.4 million. Even with such a large increase in customer numbers, we were able to maintain very high customer satisfaction, with our Net Promoter Score averaging 56 for 2020 in Qatar and 48 in Turkey. Furthermore, nearly 98% of all retail transactions in Qatar were through digital and remote channels.

In 2020, we further enhanced our mobile and online banking functionalities, deployed self-service solutions and expanded our offering to more network countries. We were the first bank to roll out WhatsApp banking in Qatar, providing yet another way for customers to interact remotely and securely with the bank. Through this channel, our customers are able to access information on the bank's products and services quickly and in a familiar platform. They can also message the bank's customer service agents for real-time support.

We also enhanced our mobile wallet and have commenced issuing cards through our Ooredoo Mobile Money (OMM) solution, further supporting the State of Qatar's ambition of increasing financial inclusion and ensuring workers are paid their salaries on time and without delay. These enhancements have minimised the need for customers to physically visit our branches.

To further reduce branch traffic and to provide our customers with additional access points, we increased our fleet of Interactive Teller Machines and rolled out additional self-service cheque depositor machines. Our ATMs were also reconfigured to allow cash withdrawals via contactless cards and QR codes, thus eliminating any contact with the machines and minimising possible contagion.

We have also launched MPay in Qatar, which is our mobile payment clearing and switching solution. Through this solution, our customers are able to initiate fund transfers on their mobile banking application, using their phone numbers instead of their account numbers.

Retail Banking
continued

Awards

Best digital bank in Qatar
- Global Business Outlook

Most innovative loan offering in Qatar
- Global Business Outlook

Best use of technology in customer service - financial services industries
- Stevie Awards

Best Digital Strategy
- European Customer Centricity Awards

Best website in banking finance
- Golden Spider Web Awards

Best digital wallet of the year in the Middle East
- Digital Banker

Best self service banking in the Middle East
- Digital Banker

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

Premium services
Providing our premium customers with seamless, high-quality banking services is one of our core propositions. We are the market leader in the premium segment and through our innovative business model, are able to offer our customers exclusive products, services and privileges. This includes dedicated relationship managers at branches, priority transactions, and preferential rates on our products.

Despite the adverse effects of COVID-19, we recorded growth in both customer numbers and account openings in 2020. QNB First customers in Qatar increased by 5%, while those in our international branches grew by 1%. We experienced strong growth in deposits (both domestic and international), with an increase of 20%. We rolled out a new incentive structure for our sales force as well as several customer-facing retention and acquisition campaigns. We also extended our lifestyle privileges with our partners who provide exclusive offers in more than 20 major cities worldwide.

Our salary acquisition campaign, which was rolled out in the first half of the year, was well received and cemented our leadership position in Qatar. Another significant campaign was the medical professional programme, which recognises the sacrifices made by our healthcare professionals over the last few months. Upon joining the programme, medical professionals are granted access to a number of exclusive financial solutions, including a distinctive credit card and a selection of premium banking facilities.

As a pioneer in the market for cross-border financial services, we launched a new awareness campaign for customers who were looking to open accounts and invest in real estate in selected markets across our global network. We continued to build on our successful cross-border programme, which now allows our customers to bank in Tunisia by opening an account with QNB Tunisia from Qatar. This exclusive service complements the existing package of other cross-border offerings we have in Turkey, Egypt, Jordan, Lebanon, Kuwait, Oman, the UK, and France.

In Egypt, we launched the World Elite MasterCard for our QNB First customers. This is the highest tier of Mastercard products and provides our customers with unique travel, lifestyle, and insurance benefits.

In Turkey, we have expanded the functionality of QNB First Digital, our mobile banking platform aimed at our premium customers. Customers are now able to access several services at their own convenience and benefit from preferential rates. QNB First Digital was also awarded a Gold rating at the Annual Stevie Awards for the best use of technology in customer service in the Turkish financial services industry. We also introduced new investment and asset management products, effectively doubling our retail Assets under Management (AuM) volumes and increasing our investment product revenue.

Our cards business
We remain the market leader in the provision of end-to-end card and payments services in Qatar. Our efforts are primarily focused on the domestic market and providing our customers with convenient and safe channels to transact. This is achieved through a combination of market-leading features and benefits in technology, products and services.

Due to the pandemic, card spend was impacted by the limited international and domestic travel, coupled with reduced commercial activity because of lockdowns worldwide. Card spend and merchant activity picked up in the second half of the year as lockdown measures gradually eased.

Due to changing customer behaviours caused by the pandemic with our customers unable to transact via traditional physical channels, we enhanced and increased our online e-commerce and contactless capabilities and usage. Through our prudent application of risk and control measures as well as proactive portfolio monitoring, we have been able to achieve this growth while maintaining a very low number of fraud events and similar to last year's levels. This migration to e-commerce was supported by a customer education and awareness programme that ran over the course of the year.

Our "Stay Safe" campaign, launched during the pandemic, encouraged and rewarded customers to use their credit cards online and with PIN-less contactless transactions. To further support safe and contactless transactions, we also obtained approval from QCB to increase the PIN-less thresholds for our credit and debit card transactions. All card related initiatives rolled out during the year were aimed at providing our customers with safe and secure channels, while still maintaining our high customer service, risk and security standards. The ability to quickly rollout these new features was enabled by our ongoing investments in technology and support infrastructure.

Our Smart Instalment Plan, launched last year, proved to be a critical lifeline for many of our customers to navigate through the period of uncertainty during the pandemic. This plan allowed interest-free monthly re-payment instalments for high-value purchases of up to QR100,000.

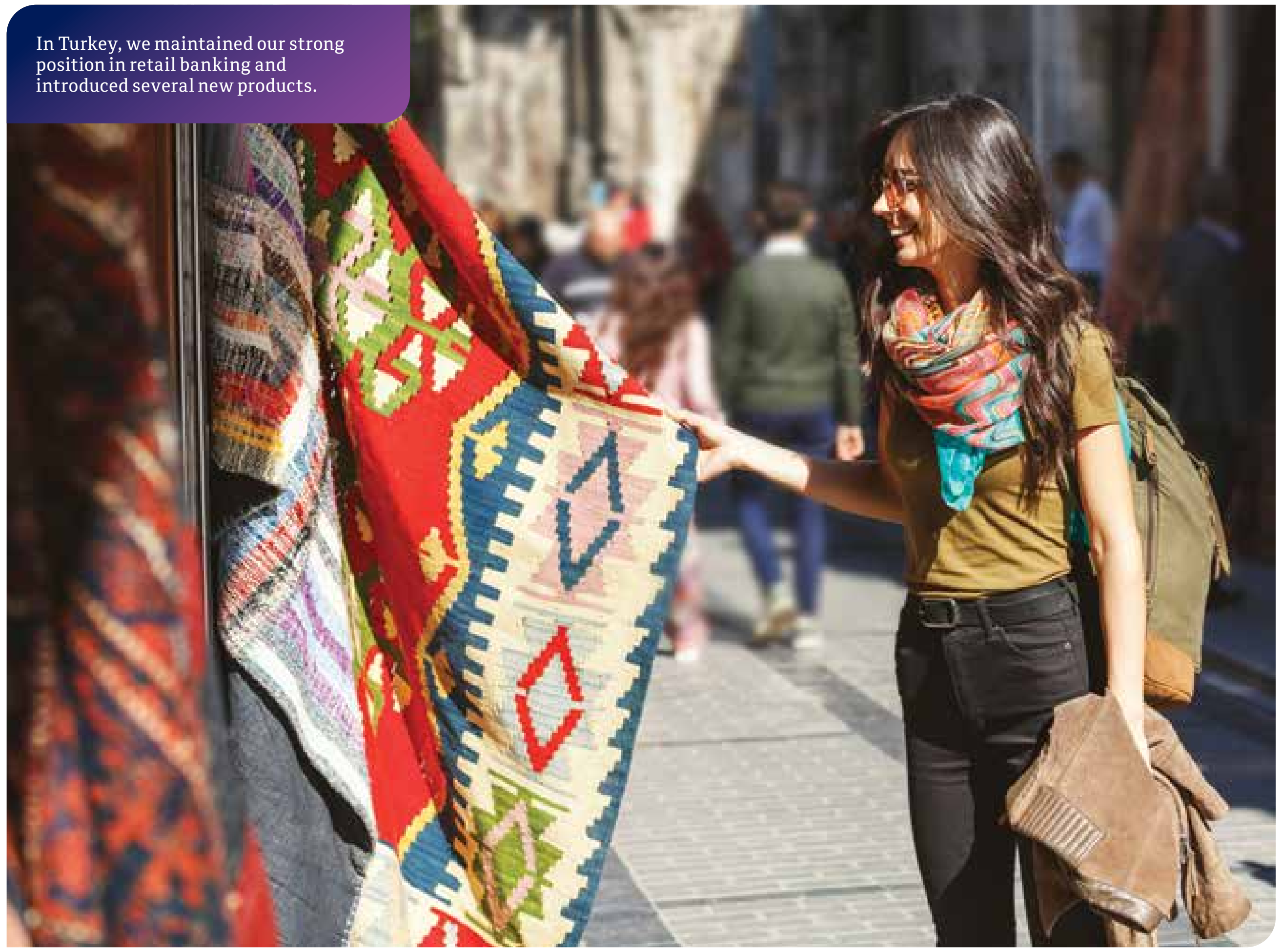
We also continued to roll out numerous improvements to our product bench and operational processes. Aligned with the Group's sustainability focus, we were the first bank in the market to roll-out a paper-less POS receipt solution. Through this solution, customers now have the option to not receive a printed receipt after a purchase, thus reducing paper waste and sources of contagion. During the year, we also continued to work closely with Qatar Rail and the Ministry of Transport and Communication for payment acceptance of Travel Cards. We anticipate volume growth from this channel as the rail network grows to include more stations.

In both Egypt and Turkey, in support of the governments' drive to go cashless, we increased the range of our contactless wearables, leveraging the latest tap and pay contactless technology. This has provided our customers with safer and more convenient payment options.

Looking ahead
Looking ahead, we aim to continue the drive for innovation. We will do this by introducing new automated solutions at the front-end of our customer interactions across all channels. This will include further digitised solutions of our cards, cashless services, internet and mobile banking, and a further drive for branch automation.

With the approach of the 2022 FIFA World Cup® in Qatar, we are also working with a number of providers to expand our payment platform infrastructure and enhance our acceptance and issuance capabilities. We will also enhance our WhatsApp offering to include an AI enabled chat-bot that can provide our customers with additional information on our financial products and services.

In Turkey, we maintained our strong position in retail banking and introduced several new products.



Asset and Wealth Management

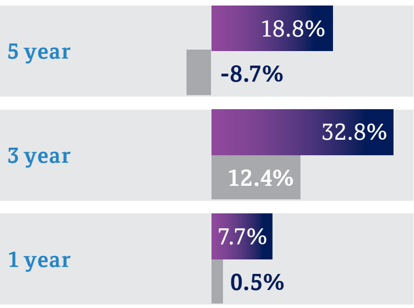
As the leading wealth manager in Qatar, we are a critical conduit for institutional investors and high net worth clients for investment both into the local economy as well as into the wider international arena.

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 managing mutual funds and multiple discretionary portfolios covering a variety of asset classes and geographies, serving high net worth individuals with our private banking offering, as well as offering brokerage and custody services.

"Our engaging communication with clients and robust product performance ensured that we did not have any material outflows throughout the year."

Performance of Al Watani Fund 1 (%)



Performance of Al Watani Fund 1 (31 Dec 2020)

Performance of Standard & Poor's Qatar Domestic Index (Custom) (31 Dec 2020)

Asset management

The COVID-19 pandemic was an exceptional event for the financial markets, creating volatility, high levels of uncertainty and unprecedented responses from central banks and regulators. This has presented major challenges for asset managers, creating a "new normal" and forcing them to adapt and re-configure their business models.

In a rapidly changing investment landscape influenced by prolonged uncertainty and higher risks, our asset management business was able to identify and provide high-yielding innovative products to our clients. This has helped our clients navigate the market volatility and access better investment opportunities. Our engaging communication with clients and robust product performance ensured that we did not have any material outflows throughout the year. It also enabled us to attract more subscriptions to our investment products, even during the height of the market downturn in March.

During the year, we launched a series of new themed products to capture significant market trends and offer our clients higher yields. As such, to offer our clients higher returns, we made our first successful foray into reverse convertibles. Declining interest rates globally in key international debt markets provided an opportunity for us to have a competitive offering to our international investors with exposure to our Middle East and North Africa fixed income products. We also launched a medical devices themed product, aimed at capturing the opportunities from companies that are working hard to combat not only the pandemic, but also the long-term trend of an ageing population. Further, in response to the continued demand for Sharia-compliant products, we launched a Sharia equity investment product to attract new clients and widen our investor base.

In line with our strategy, we continued to build our product origination and distribution capabilities by building further synergies with our international subsidiaries. We adopted a series of initiatives, including streamlining the international product pool, adopting a common standard for product profitability and creating a new global product development committee. These have helped us to broaden our product offering in most jurisdictions while also lowering our administration costs.

Looking into 2021, we aim to further enhance our product development and distribution capabilities. This will boost our ability to remain a top-quartile performing player, broaden our reach and further attract new investors across our network.

Private banking

QNB Private Banking offers customised investment solutions and bespoke wealth management services to high and ultra-high net-worth clients, with access to world-class investment products. To complement our investment solutions, a broad range of personal banking services provide our clients the utmost convenience and flexibility. With in-depth market insight and a responsive team, we have a well-established global network supported by private banking services in Switzerland, France, Singapore and the UK.

Despite the operational challenges created by the pandemic, our private banking team was able to provide continuous support to our clients. This was facilitated by multiple service channels and platforms to meet the needs of our high-net worth clients. This resulted in an increase in our client base by 3% and an 19% increase in the private banking loan book in 2020.

Notwithstanding the volatility of the markets, we worked tirelessly with our clients as they continued their transition from deposit products to a range of more advanced hybrid and fixed-income products designed to enhance yield. As a testament to the quality of our services, QNB was awarded the "Best Private Bank in the Middle East" by Asiamoney magazine and the "Best Private Bank in the Middle East and Qatar" by Global Finance in 2020.

Drawing on the global resources and expertise of the Group, we are the only bank in Qatar to offer the QNB Mastercard® World Elite™ Exclusive Metal credit card, one of the world's most prestigious credit cards. This card is available by invitation only, and brings exclusive rewards as well as unique experiences in world-class venues that only our high net-worth customers can access.

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. In 2021, we are looking at further developing our private banking value proposition by providing a global private banking offering through our offices in France, Singapore, Switzerland and the UK.

19%
growth of Private Banking loans in Qatar

Awards

Best private bank in the Middle East
- Asia money magazine

Best brokerage house in Qatar
- International Finance magazine

Most innovative mobile trading application in Qatar
- International Finance magazine

Best private bank in the Middle East
- Global Finance

Best private bank in Qatar
- Global Finance

Brokerage and custody services

QNB Financial Services (QNBFS) is our award-winning leading brokerage service in Qatar. We remained the number one institutional broker in Qatar, with a 55% market share of the Qatar Stock Exchange (QSE) institutional business and a 100% market share of listed bond and T-bill transactions. Besides providing access to the QSE, we also connect local 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.

The COVID-19 pandemic shook global stock markets, with market volatility spilling over across the globe, including QSE. The Qatar government's measures to protect the domestic markets from the adverse impacts of COVID-19 included an additional QR10 billion investment announcement by the government into QSE. This provided market liquidity and was a catalyst for the mid-year market rally.

QNBFS continued its strong ongoing relationship with the QSE, acting as both a trusted partner and adviser even during the pandemic period. Beyond providing in-depth market intelligence and equity research, we connect major global institutions and brokers with key Qatari companies. We also extended our equity research coverage to Omani equities in 2020. In total, we cover the Qatari, Kuwaiti and Omani equity markets. We were awarded the Best Brokerage House in Qatar by "International Finance" as a recognition of our achievements.

In February 2020, QNBFS received its license approval from the Qatar Financial Markets Authority (QFMA) to provide liquidity provisioning (LP) services and has successfully on-boarded several major clients. The aim is to ensure greater price stability and improved liquidity in the Qatari stock market. To further build-up our capabilities in this area, we have recruited a strong, experienced LP/Market Making trading and risk team. We have also enhanced our front, middle, and back office systems to accommodate our market making and liquidity provisioning services. As a result of this initiative, our customers have seen a considerable improvement in the liquidity of their shares, significant reduction in their bid-ask spreads and increased foreign flows.

In 2021, we expect to expand our international equity and fixed income trading desk.

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 have successfully on-boarded a global custodian and are currently in discussions for a broader engagement. 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.

We continued to benefit from the ISAE 3402 Type I and II external audit assurance certification, which encourage an increasing number of international custodians to use QNB as their custodian for the securities listed on QSE. We also remain actively engaged with the Qatar Central Securities Depository to advocate for the adoption of best practices in servicing international clients who invest in Qatar.

International Business

Capitalising on our strong network, we were able to contribute to the resilience of QNB.

What we do

We are the primary link between QNB's Head Office in Qatar and the international branches, responsible for delivering QNB's vision of accelerating international growth. Our mission is to connect, enable and deliver sustainable, profitable growth. We aim to ensure we are effectively leveraging our brand as well as to create competitive advantages as a Group by creating synergies and cross-pollination across our network. We do this by striving for excellence in the execution of our strategy and by embedding a consistent culture of regulatory compliance, governance and risk management while ensuring we have best-in-class processes and technologies.

"We support our network by leveraging the global functions and capabilities across all dimensions."

International Business net profit (QR billion)

2020	3.22
2019	4.95
2018	5.06

Responding to the pandemic
As the COVID-19 virus spread across the globe, the impact on our international network and business was different by region and country. While certain countries and businesses went early on into a full lockdown and halted economic activity, other countries underwent less stringent constraints. In short, the countries we operate in experienced varying levels of pandemic severities, resulting in different mitigation measures imposed by the local authorities.

COVID-19 disruptions required significant efforts as we had to adapt to challenges the new reality brought to us. We had to align Head Office governance, policy and actions with local regulations and requirements across the network to cater for business continuity, all while ensuring the safety and security of our branches, subsidiaries and employees.

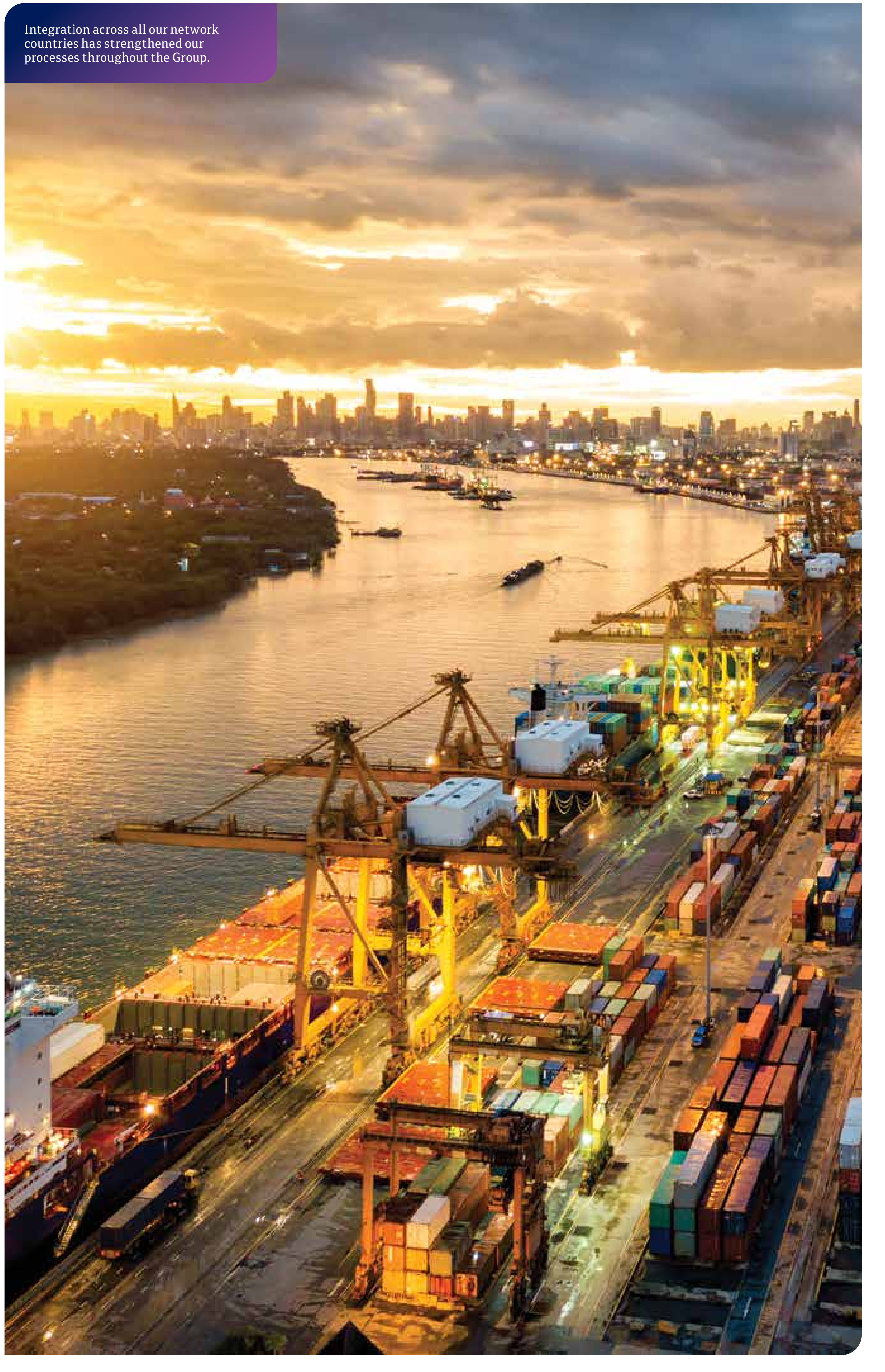
Driving integration and governance
QNB's International Business Division is the primary link between the Head Office functions and the international network. On an ongoing basis, we ensure that the strategic objectives of our local businesses are aligned with our overall group-wide corporate aspiration and strategy. This starts with the business plans, budgets and targets of each of our network countries. At the same time, we monitor the progress and achievement of their financial and non-financial targets, assess performance against the plan and coordinate intervention on a timely basis if, as and when required.

However, we do not limit ourselves only to financials, but see intrinsic value generation in the creation of non-financial synergies, such as common and integrated governance, risk and control frameworks, capabilities related to people, processes and systems but also the harmonisation of culture. We support our network by leveraging the global functions and capabilities across all dimensions. We do this by ensuring alignment between group-wide standards and adoption of those standards within the international network, all while ensuring the adoption of local regulations and requirements. This ensures that we consistently leverage our global capabilities with regards to systems, processes, people as well as products and services.

Investing in the future
Going forward, we will continue to face an environment of uncertainty and volatility with regards to how long the COVID-19 pandemic will last. The risk and diverse evolution of a new wave of infections across the globe is continuing to place pressure on our customers globally.

In this context, we will continue our efforts to streamline our operations globally, ensuring that we not only improve the consistency of how we interact with customers across the world, but also maintain a control environment in line with our brand and risk appetite.

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.

Risk

Risk management

QNB applies a disciplined approach to risk at every level, with a world-class governance structure supported by local expertise and robust central oversight.

"Every employee in the Group is responsible for identifying, assessing and controlling potential risks when carrying out his/her duties."

Risk is an integral part of our business and decision-making process. QNB Group's sustainable performance relies on our ability to successfully manage risk at all levels. The risk function is split between Group Credit Risk, headed by the Group Chief Credit Officer (GCCO) and Group Risk, headed by the Group Chief Risk Officer (GCRO). Both functions report directly to the Group Chief Executive Officer (GCEO). The GCRO also has a reporting line to the Group Board Risk Committee (GBRC), ensuring that the bank has a robust risk management governance framework and maintains the appropriate balance between risk and reward.

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

In 2020, Group Risk managed the COVID-19 business continuity and crisis management effort in line with regulatory guidelines and compliance. This covered all business, risk, control, employee and support related matters. Our response to the pandemic is captured throughout the report in each of the relevant chapters.

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 ensures alignment with the Group's vision and strategy by tracking current performance against risk appetite targets. The RAS also 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 best-practice risk management principles that govern our overall approach to risk management and our risk culture. This approach is actively enforced through the Three Lines of Defence model. We believe that risk management is the responsibility of all employees across the bank as the First Line of Defence. The risk function has been active in raising this awareness and reinforcing individual accountability as the Second Line of Defence.

Risk governance

Best in class risk management is considered fundamental to QNB Group's efforts to maximise profitability. Every employee in the Group is responsible for identifying, assessing and controlling potential risks when carrying out his/her 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). The BOD receives regular updates on the Group's risk profile. This includes, but is not limited to, changes to the Group's operating environment, risk appetite, financial (capital, liquidity, earnings) and non-financial risks as well as advances in the area of cybersecurity.

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 adequate early warning indicators and timely decision making."

While the BOD retains overall responsibility, the authority for the day-to-day management of risk has been delegated to the aforementioned management functions and committees.

The BOD assumes full responsibility for the development of strategic plans and the acceptance and control of risks implied in delivering these strategies. This includes the implementation of appropriate restrictions and controls 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. A comprehensive control framework has been designed and implemented and detailed monthly reports are submitted to the GALCO.

The BOD also supervises other financial and non-financial 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 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. The division, which is headed by the GCRO, 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. 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. Ultimately, the GMRC bears the executive authority vested to deal with the various risk aspects at Group level.

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 adequate early warning indicators and timely decision making.

We have a strong country and cross-border risk framework. 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.

Risk Culture

We actively promote a risk-minded culture across the organisation. To do this, we have embedded specific risk management metrics into all our employee's performance scorecards. Each risk function is involved in defining these metrics annually and in providing oversight by evaluating and rating them throughout the year through our performance management process. Our metrics are broad and touch on all risk disciplines, including, for example, Operational Risk and Information Security. In addition, employees are required to complete mandatory risk related training each year to ensure a thorough understanding of the bank's policies and procedures.

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.

"As a response to the COVID-19 outbreak, we revised and tightened our lending criteria for specific sectors and increased our governance and frequency of oversight of our subsidiaries."

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

Policies and procedures for the approval and review of credit facilities are robustly applied and updated regularly. The bank has an integrated process covering credit initiation, rating validation, analytics, approvals, credit administration, 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. Following the integration of sustainability requirements within our Wholesale Credit Policy in 2019, we have further incorporated ESG due diligence into our existing credit risk management framework. We have done this through the roll-out of a group-wide Environmental and Social Risk Management (ESRM) Policy Framework. Our ESRM enables the bank to proactively identify and manage exposure to environmental and social (E&S) risks. Our ESRM clearly articulates exclusions, sectors deemed high risk, prohibited activities and risk categorisation. This overarching group-wide ESRM Policy Framework is further supported by aligned ESRM policies in our major subsidiaries to cater for local specificities.

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

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 regulations, including high collateral coverage requirements for commercial properties and restricted salary multiples for residential mortgages. 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.

Navigating the credit portfolio through the pandemic

Across our network, an unprecedented slowdown in economic activity as a result of the pandemic put significant strain on our corporate clients and their supply chains.

As a response to the COVID-19 outbreak, we revised and tightened our lending criteria for specific sectors and increased our governance and frequency of oversight of our subsidiaries by tightening our regional Delegation of Authority (DOA) for credit limits. This applies to new applications and new customers as well as the extension and refinancing at maturity for existing customers. Furthermore, we introduced stricter controls around the utilisation of uncommitted facilities and revised our process for the utilisation and draw down of committed facilities. Our recently implemented a traffic light Management Information (MI) approach to credit risk monitoring provided us with the means to monitor our credit exposure on a real time basis for our key industries and segments. In addition, we performed extensive stress testing on deposit and loan balances in sectors most impacted by the pandemic. Despite the majority of our credit teams working from home, we were able to maintain our turnaround times and satisfactorily support our business teams.

In some of our operating jurisdictions, such as Turkey and Egypt, our business benefitted from regulatory forbearance, which saw a relaxation of loan classification requirements until the end of 2020. These measures successfully assisted our customers to better weather the impact of the pandemic, while maintaining the bank's capital and liquidity position well above regulatory requirements in our operating jurisdictions.

Credit governance is further strengthened by our close collaboration with Strategic Risk Management to set, monitor, and evolve our risk acceptance criteria.

As a result of the rigorous controls we have previously put in place to manage our credit risk, our high-quality diversified portfolio and proactive measures taken throughout the year, we were able to maintain our NPL ratio at 2.1%.

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 loan 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.

International credit governance and regulation

Complementing our credit risk functions in Head Office and our 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 the Head Office function 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 regular oversight, decision and review/credit audit functions, we have delegated authorities to our subsidiaries whose strong asset quality reflects the strength of our underwriting standards. To further harmonise our processes, standards and disciplined, high-performance culture, we have continued with our strategy of placing Head Office credit team members into key positions across the international network. The establishment of our single point of contact for all credit-related internal audit recommendations has served us well. Through this, we are able to ensure that audit items are successfully implemented, and that best practices are applied across the network. Elsewhere, to ensure appropriate risk ratings and requisite provisions across our network, we reviewed and benchmarked international branches' local regulatory requirements and IFRS 9 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 maintain tight 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, we continued to standardise our credit processes across the network. Credit functions from our international branches now complete their independent analysis and administration work using a universal format, increasing efficiency and continuity, and reducing duplication.

Other enhancements in 2020 include the roll-out of a credit decision platform to improve the effectiveness of our credit origination and decision framework. Through this platform, we now have a standardised means to collect, analyse, and store credit data. Following the adoption of service level agreements across our divisions and branches, we have seen a significant reduction in turnaround times, while simultaneously maintaining our high underwriting standards.

Looking ahead

While the future remains unclear and dependent on the scale and speed of the COVID-19 evolution and the timing of an economic recovery, we are confident that our conservative and prudent approach to credit extension, and current level of credit coverage, provides us with a strong framework to protect the interests of all our stakeholders.

Strategic risk

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

Fully loaded CET1 ratio (%)

2020	14.0
2019	13.7
2018	13.4

Liquidity coverage ratio (%)

2020	164
2019	160
2018	124

0.058%
VaR limit as a percentage of capital

The strategic risk function manages strategic, enterprise, credit portfolio, market, Asset and Liability Management (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 the bank 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 2020, we focused our efforts on protecting the Group's capital and liquidity position while simultaneously ensuring that our customers have access to credit. We did this through enacting a series of proactive measures to mitigate the impact of COVID-19 on our operations. This included tightening liquidity controls and increasing the frequency of monitoring of our key sources of funding. We immediately reduced our risk appetite for at-risk sectors and performed extensive stress testing on deposit and loan balances, targeting the sectors most impacted by the pandemic. Our pre-emptive actions ensured that we were able to maintain our capital and liquidity ratios well above regulatory requirements across our entire network without having to take advantage of relaxations in regulatory requirements.

As part of our ongoing programme to strengthen our risk and control environment, we continued to improve our ALM infrastructure across the Group. This has included extending the ALM functionality available to our subsidiaries and branches. We continue to improve the robustness and analytic capabilities of our IFRS 9 related processes, enhancements that have proved to be opportune given the increased reporting necessitated by COVID-19 related economic disruption.

In addition, the team has been driving the Bank's preparation for the LIBOR transition. LIBOR, a global reference rate used by financial market participants across the globe, is expected to be phased out by the 31 December 2021. Group Strategic Risk is coordinating the activities of the relevant divisions and international entities affected by this change. This aims to ensure that the bank's employees and customers are aware of the implications, and that operationally QNB will be in a position to re-price and book alternative reference rate (ARR) related transactions well in advance of the cessation date. From the bank's perspective, changes to legal documentation, system capabilities, operational and financial reporting processes are either underway or completed. Customers have been engaged and customer-facing and support teams have been trained to enable them to support our customers through the transition.

Market risk
Oversight of market risk is delegated by the BOD to the 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. 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 is very risk averse. Our Value at Risk (VaR) limit as a proportion of capital stands at 0.058% while average VaR utilisation is at 5.94% of its limit.

Liquidity risk
To ensure a sustainable, profitable business and to retain the confidence of the financial markets, the prudent management of liquidity is essential. The responsibility for liquidity management ultimately 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 way the bank is perceived in the market. We maintain a comprehensive liquidity control framework to manage the

> "Our pre-emptive actions ensured that we were able to maintain our capital ratios well above regulatory requirements without having to take advantage of relaxations in certain regulatory requirements."

Group's liquidity and funding risk in a robust manner. Through this framework, we help to 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 our ability to operate in a more stressed economic situation. The results of this process helps us to determine and plan how to allocate our capital and liquidity in the most efficient way. Through this, we ensure that the bank maintains healthy risk metrics in line with our approved Group risk appetite and regulatory limits. Our Interest Rate Risk in the Banking Book (IRRBB) framework provides us with a means to measure, calculate, report and hedge interest rate risk, ensuring compliance with regulation and simultaneously optimising regulatory capital requirements.

Data culture
Data control and analysis are essential in virtually every business. Collecting, analysing and deploying data enables us to make better decisions and manage uncertainty. 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 data culture grows across the bank and our data management accelerates, we remain focused on the quality of our data, ensuring 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 strategic partner delivering added value to the organisation. We pride ourselves on adopting a proactive approach to Risk management, alerting management on issues before losses materialise and recommending pragmatic remedial actions.

We have enhanced our early warning risk indicators to provide senior leadership with timely insight into risks across the business. Furthermore, we enhanced our stress testing processes and reporting dashboards to strengthen our risk monitoring capabilities.

In 2020, we upgraded and re-calibrated our internal risk rating system, increasing the effectiveness of our credit origination and decision framework. We also initiated a project to integrate our customer's behavioural data into our liquidity and risk calculations. This behavioural data, which includes spending and payment patterns, when combined with financial information, provides us with a more comprehensive view of our customers.

Looking ahead
As we move into 2021, we remain cautiously aware of the uncertainties ahead. We will maintain our conservative approach to risk management and will continue to seek to strengthen our risk and control environment while diversifying our funding mix. In parallel, we will closely monitor both external developments and internal initiatives to support the LIBOR transition as we seek to prudently migrate our legacy portfolio and ensure the bank has the systems, products and processes to thrive in post LIBOR markets.

Operational risk and cybersecurity

Our high-quality framework and efficient management of operational risk and cybersecurity supported the Group's resilience during the pandemic.

> "Our pre-emptive contact tracing protocols allowed us to maintain the percentage of active COVID-19 cases within our workforce to well below national levels."

Ensuring business continuity
2020 proved to be a very challenging year for banks worldwide. Business disruptions and lockdowns have put our business continuity plans and capabilities to the test. A number of early measures were put in place at the onset of COVID-19. This included a mass roll-out of remote access and the implementation of a split between Office and Working from Home (WFH) approach. As a result, we were able to maintain staff productivity and customer satisfaction at prior year levels, even with many of our employees WFH. In addition, we established health and safety protocols for all premises and locations, including third parties and contracted workers. The protocols include social distancing measures, new safety signage, the installation of sanitisers and distribution of masks and gloves across all our physical locations. This ensures a safe environment for our customers, employees, and contractors, at all times whilst on QNB property.

During the pandemic, we closely monitored our business continuity management and disaster recovery efforts across the Group and put task forces in place to ensure compliance with ever-evolving government regulatory requirements across our network. In addition, our pre-emptive contact tracing protocols implemented across all our global locations allowed us to maintain the percentage of active COVID-19 cases within our workforce to well below national levels.

In 2020, we successfully undertook our re-certification assessment for ISO 22301, to assess the preparedness of our systems against disruptive incidents. This re-certification is a testament to our strong governance and policy framework, executive level sponsorship and the successful implementation of our three lines of defence model that delegates responsibility for business continuity related matters across the Group.

Continuously improving frameworks for Operational Risk
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 internal processes, people and systems or from external events. As we continue to grow in size and influence across an expanding international 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:

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

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

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

We successfully undertook our re-certification assessment for ISO 22301, to assess the preparedness of our systems against disruptive incidents.

We have strengthened our risk culture, driving transparency and accountability.

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 during our regular Operational Risk Committee meetings, where all seven risks are routinely analysed and day-to-day issues are resolved. In 2020, we continued to enhance our operational risk management approach by embedding our third-party risk management (TPRM) framework. In addition to reviewing all newly on-boarded third party contracts, we also reviewed a large number of legacy contracts, paying particular attention to those involving labour services. For all labour service providers, we conducted a detailed review of their internal process and procedures, including those around fair working practices to ensure that our expectations are clearly set out. To further strengthen our TPRM framework, we are also in the process of publishing a Supplier Code of Conduct, which will define the ethical business principles that we expect our suppliers to maintain.

We continued to enhance our Group Operational Risk Framework, which has raised risk awareness levels across the bank and helped us to strengthen our risk culture, driving transparency and accountability. Our Event Loss Data Management (ELDM) process, which is fully aligned with international standards, provides us with a consistent approach to the management of Operational Risk events, encompassing their classification, escalation, capture and reporting. These processes improve our ability to capture data, giving us a deeper and more comprehensive view of our risks. In 2020, we recorded 100 events, which was a 3% decrease against the previous year. This reduction was a result of increased training and awareness on Operational Risk matters across the Group.

All this is underpinned by our people and the technology we use. We have a strong knowledgeable team with global banking experience, supported by a series of ongoing professional training initiatives and awareness programmes. Our systems and tools are state-of-the art. We have enhanced and standardised our reporting of fraudulent transaction activities across the Group, which is now in line with international reporting standards.

In 2021, 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.

Operational risk and cybersecurity
continued

86%
decrease in fraud losses

Managing the increasing cybersecurity threats
The banking sector is a high-profile target for cyber criminals, with increased threats and attacks being more frequent and sophisticated than ever. Globally, cyber threat levels have increased since COVID-19 as result of increased remote working and digitisation of products and services. Studies show that since the pandemic began, attacks targeting financial institutions have increased four-fold, while more than 80% of banks in the study have reported an increase in the number and sophistication of cyberattacks.

For that reason, we consider cybersecurity as a top priority and a top concern for our institution, including our Board and C-suite. The creation of new digital customer experiences and other technological innovations has raised the importance of cybersecurity to the highest levels. In order to ensure that our cybersecurity strategy remains agile, while simultaneously balancing risk appetite, security and user convenience, we have established a Group Cybersecurity Committee (GCSC), chaired by the GCEO. The Group Chief Information Security Officer provides regular updates on the cybersecurity programme, presents key risks, and makes recommendations when a change of strategy or critical decisions are required. Through the GCSC, we develop and monitor the implementation of our IT security and cybersecurity governance and framework, including strategy, policies, controls, capabilities, budget, skills and roles and responsibilities across the Group.

We maintain a robust cybersecurity strategy and this continues to be a key 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 processes. Each of these pillars needs to be strong and continually strengthened to support and protect the bank, and we invest in each respectively.

The COVID-19 pandemic emphasises the need for strong control and immediate action. We are working relentlessly to integrate cybersecurity into our overall risk efforts, to consistently address inherent risks in this area. At the beginning of the pandemic, we worked tirelessly to securely transition from the office to WFH to enable the continuation of business activities. This was achieved through setting up a secured video conferencing system and rolling out a secure remote access solution. Our ability to rapidly and seamlessly scale up our WFH capabilities is attributed to the architecture and infrastructure we established in 2017 as part of our business continuity planning and smart working capabilities.

In parallel, we continued our investment in both detective and preventive controls by enhancing our intrusion and malware recognition capabilities. Our Information Security policy is available to all staff through our intranet portal. It was updated this year to include new regulatory requirements introduced in our operating markets.

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 conducted extensive Blue Team/Red Team exercises and stress tested our ability to safeguard critical assets using first-hand knowledge 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. The bank utilises the Council of Registered Ethical Security Testers (CREST), who are certified vendors to conduct penetration testing on all internet facing websites and mobile applications, at least twice a year and upon every major system release. In line with the experience of other financial institutions during the pandemic, we have seen an increase in the number of cyberattacks against the bank, and our security operations centre has been on heightened alert during that period.

Our three pillars of cybersecurity

Technology → People → Process

We invested in both detection and preventive controls by enhancing our intrusion and malware recognition capabilities.

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

The pandemic increased social engineering and phishing attack risks, as both customers and employees are engaging remotely with the bank on an unprecedented scale. As a result, we continued to educate our customers and employees by rolling out a number training and awareness programmes, thereby improving our first line of defence against cyber threats. We also conducted mandatory computer based training for IT Security, for all employees. This training and assessment is updated on an annual basis. Employees are also trained on escalation procedures in the event of a cyber-security incident.

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. The certification covers the ISMS, including all data stored and transacted through the banks data centres, via electronic and customer care channels.

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 GCSC members. Any recommendations made by the internal audit division in the reports are followed 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.

Corporate governance

QNB Annual Report 2020

Corporate governance

QNB's corporate governance framework relies upon the principles of transparency and accountability, which promote a compliance culture at all levels of the organisation and business operations.

> "Effective corporate governance is not an end in itself; it is a means to the proper functioning of a financial institution devoted to its investors and stakeholders."

> "QNB Group's approach to corporate governance is founded upon a rich legacy of fair, ethical and transparent governance practices set by the Board and Executive Management."

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 project 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 and insights into the formation of the the Board of Directors (BOD), their related committees, their powers and responsibilities, Executive Management and other key corporate governance components.

The BOD and Executive Management believe that corporate governance is an essential element to enhance shareholder confidence, specifically that of minority shareholders and stakeholders. By increasing the level of transparency of ownership and control, QNB enhances investors' outlook about the bank. In addition, the implementation of effective monitoring systems for governance and strategic business management further boosts investors' trust.

A separate Corporate Governance Report is issued by QNB Group, as a supplement to the 2020 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.

Board of Directors composition

According to QNB's Articles of Association, ten (10) members of the BOD are elected or nominated for three years 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 (5) of these members while the other shareholders have the right to elect the remaining five (5) members. During the Annual General Assembly meeting of February 2019, five elected Board members were appointed for a 3-year term from 2019 to early 2022. The BOD members shall elect its Chairman and Vice-Chairman among its members by a majority secret vote of the Board.

The Board's roles and responsibilities

The Board of 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 and 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 and Executive Management team.

> "Even through the COVID-19 situation witnessed, QNB focused on prioritising and embedding the philosophy of corporate governance into all its practices."

The Board has also adopted the Board Charter, which is reviewed annually and provides a framework on how the Board operates as well as the type of decisions to be taken by the Board and which decision 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.

Group Board Executive Committee (GBEC) primary responsibilities:

> review and endorse Board 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 QNB Group 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, products alignment, and resources 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.

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		Group Board committees: GBEC	GBNRGPC	GBRC	GBACC
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 Jabor 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				●

Corporate governance
continued

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 fit-and-proper 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 incentives guidelines and ensure that the remuneration of the Board of Directors and Executive Management are in line with the criteria and limits set forth by QCB and Commercial Companies Law; and

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

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 Group risk appetite and portfolio strategies recommended by the Group Management Risk Committee (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 implementation of policies pertaining to the bank's internal control system;

> evaluate the monitoring process made by 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 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 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;

> appoint or remove the Group Chief Audit Executive;

> 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 as 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;

> appoint or remove the Group Chief Compliance Officer;

> ensure the efficiency of the compliance function in detecting the 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) on money laundering recommendations;

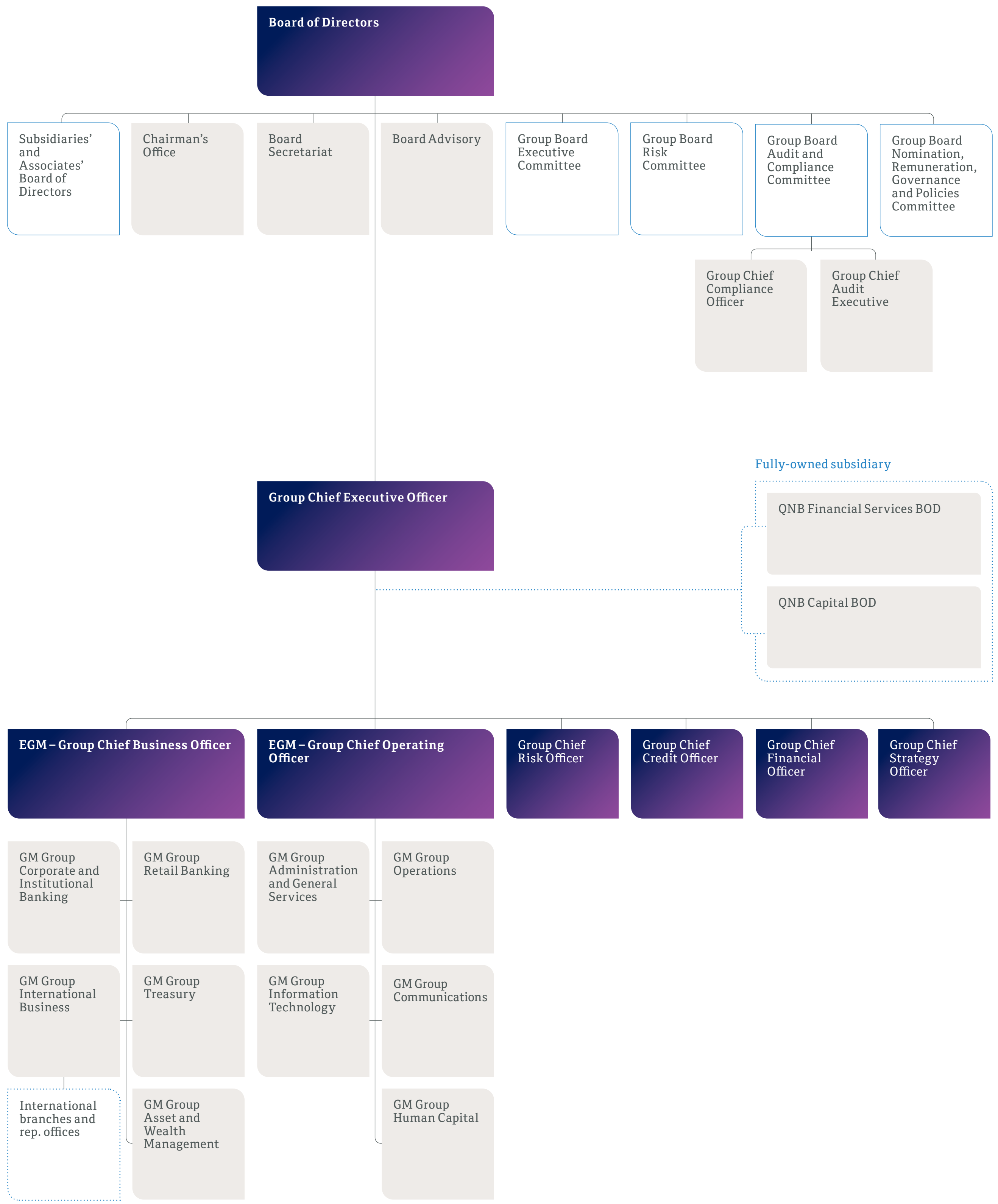
> ensure there is an effective framework in place across the Group for managing and monitoring financial crime compliance related risks, in line with regulatory requirements and international leading practices;

> 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.

Number of meetings	Board	GBRC	GBACC	GBEC	GBNRGPC
1	14/01/2020	25/02/2020	04/01/2020	25/02/2020	25/02/2020
2	25/02/2020	12/05/2020	18/02/2020	12/05/2020	12/05/2020
3	12/05/2020	14/07/2020	12/04/2020	14/07/2020	14/07/2020
4	14/07/2020	16/09/2020	05/05/2020	16/09/2020	16/09/2020
5	16/09/2020	22/11/2020	12/07/2020	22/11/2020	22/11/2020
6	29/11/2020	-	24/08/2020	-	-
7	-	-	11/10/2020	-	-
8	-	-	17/11/2020	-	-
Total	6	5	8	5	5
Attendance (avg. %)	93%	93%	100%	93%	93%

QNB Group organisation structure



Corporate governance
continued

> "The remuneration system forms a key component of the governance and incentive structure to promote good performance, convey acceptable risk-taking behaviour and reinforce the bank's operating and risk culture."

Board meetings
In 2020, 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.

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.

Consequently, there is a separate 'QNB Group Remuneration Policy for Board, Executive Management & Employees' that defines the mechanism whereby the remuneration is directly linked to the effort and performance at both department and employee levels including that of the Board, through the achievement of assigned goals and objectives in accordance with the profitability, risk assessment and the overall performance of the Group.

This policy is applicable to the Chairman, Board members, Senior Executive Management and employees of QNB Group.

The BOD will follow regulatory guidelines and leading practices on compensation and remuneration. 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.

The remuneration policy for QNB BOD members is duly acknowledged to be in line with QCB instructions and QFMA requirements. The BOD will present at the annual general assembly meeting for approval, the remuneration/salaries, fees (if any), amounts received for technical or administrative work or other material advantages received for approval, in accordance with the Commercial Companies Law, QCB and QFMA instructions.

In accordance with applicable laws and regulations, such as the Commercial Companies Law provisions, as well as the QCB circular related to the remuneration of the Board of Directors' Chairman and members and QFMA requirements, QNB Group's adopted remuneration policy for the BOD is in line with the said regulations. The Group's Articles of Association have established a framework for the Board members' remuneration that is far below the limits referred to in the Commercial Companies Law.

Management committees membership structure (Tier 1 and Tier 2)

● Chairman
✸ Vice Chairman
□ Member
○ Non-voting member
♦ Secretary

Management committee membership	Group Managment 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							○				
AGM – Governance & Group Project Portfolio Management					♦						
Group General Counsel										○	
Group Chief Information Security Officer									♦		
Senior Credit Officer		♦									
Head of Infrastructure					□						
Head of Development and User Services					□						
Head of Global Cash Management						♦					
Group Head of Tenders and Contracts Admin										♦	
EM – International HR Integration								□♦			
Number of meetings held during 2020	**4**	**33**	**12**	**4**	**4**	**10**	**4**	**4**	**4**	*****	**12**

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

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).

The Group Chief Compliance Officer and the Group Chief Audit Executive report directly to the Board through the GBACC.

In November 2020, the GBNRGPC approved the resignation of Group Chief Credit Officer from her role. Following this resignation, Group Chief Risk Officer will take over the responsibility as Group Chief Credit Officer together with her current role, subject to obtaining the relevant regulatory approvals.

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, Cyber Security, 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 & 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.

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

Committed to maintaining an effective corporate governance ethos

As part of reinforcing its robust corporate governance culture across the Group, QNB undertook a significant number of developments during 2020, which served to fortify the Bank's corporate governance measures and practices. The following sections outline some of the central corporate governance enhancement measures.

Strengthened governance: Board of Directors' independency assessment

The success of QNB Group's Corporate Governance Framework is highly dependent on the Board, their actions, initiatives, and behaviour. Therefore, during 2020, QNB conducted a comprehensive evaluation of Board member independency and executive to non-executive stipulations in adherence with QCB and QFMA regulation and requirements. This evaluation, conducted on an annual basis, examined required Board member independency aspects to ensure QNB's compliance with regulatory requirements.

The independency assessment conducted ensured regulators that our Board fulfilled their stipulated criterions of independence. QNB Group's Board of Directors remains compliant with QCB and QFMA requirements every step of the way.

Assessed governance at the top

QNB seeks to continuously improve and measure Board engagement and effectiveness throughout the year, and the 'annual Board self-assessment survey' is a key governance tool that provides the Board with a practical engagement opportunity to share any recommendations or considerations they may have on overall Board governance. Consequently, QNB reviews, through this exercise, the performance of the Board as a whole and as individual members, including the flow of information to the Board from Board committees and from management and examines committee actions and initiatives to increasing the effectiveness of the Board.

During 2020, the Group's compliance division coordinated efforts for this assessment exercise, reviewed all submitted Board member self-assessment surveys, and then conducted a thorough analysis. The findings were shared with the Board and Senior Management for retrospection and feedback.

The Board annual assessments gauge the operative nature of BOD engagement, composition, culture, and effectiveness and allows QNB to examine and determine whether its Directors are working together effectively and making sure that Board members have an avenue for discussing any issues and considerations. As such, the self-assessment process (at collective and individual levels) provides much needed contemplation into the dynamics of Board member interaction, and the ways through which their interaction fulfils QNB's strategic business goals.

Revitalised governance by maintaining comprehensive Board documentation

Maintaining updated and unified Board-related documentation is a fundamental part of the Group's commitment to defining the roles of Directors and the Board as a whole. Furthermore, the statement of the roles and responsibilities of BOD members through the Board Charter and policy works to deter conflicts from arising between Directors, and facilitates cooperation between them during decision-making.

In 2020, the Group fronted the process to periodically review and update the Board Charter and related policy and processes. Since robust Board documentation is an essential component of good governance and QNB's proper functioning, QNB on an ongoing basis reviews and updates Board documentation as may be required. Furthermore, stakeholders and shareholders are able to view the Board Charter on the QNB website. QNB Group is committed to forming an adaptive corporate governance structure that factors in QFMA's, QCB's and other leading requirements and practices on corporate governance.

Enhanced corporate governance measures at overseas entities

QNB has established effective communication channels and governance oversight mechanisms with its overseas entities, which includes overseas branches, subsidiaries and affiliates. The aim is to ensure alignment between Head Office's corporate governance practices and that of our overseas operations. The Group also maintains a set of corporate governance guidelines that assist international branches and subsidiaries in integrating QNB Head Office policies into their own framework. QNB's governance strategy thus extends sound corporate governance practices downstream for overseas entities to follow, while keeping in mind and taking into account alignments with their own respective jurisdictional regulatory requirements.

In 2020, we released an updated set of corporate governance guidelines for overseas branches and subsidiaries 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. The guidelines set out the process, criteria and minimum requirements for effective governance. The guidelines also outline the mechanisms for effective supervision and monitoring of the relationship between QNB Head Office and the overseas entities. These guidelines offer flexibility to take into consideration any divergence of the applicable laws and regulatory instructions of the countries where the entity operates. Oversight measures are set in place to help direct QNB's international network of branches and subsidiaries policy alignment efforts. QNB's aim is to achieve appropriate governance homogeneity across the board, and maintain a proper chain of Group oversight across all levels of operation.

Supported QNB's representatives to subsidiaries

QNB Group (as the holding company) nominates representatives at the Board level of each QNB entity/subsidiary. This helps align interests, mitigates associated risks, aids promulgation of seamless governance measures, protects QNB stakeholders including shareholders and creates an adequate setting for sustainable development across QNB Group's international network. This also harmonises QNB Group's strategic objectives and corporate governance culture with that of its subsidiaries. These QNB representatives on subsidiary boards thus help maintain an optimal synergy between Head Office and subsidiaries to protect QNB's interests and foster an adequate control environment.

QNB annually undertakes a performance assessment of Board representatives in QNB subsidiaries. Group Compliance Division in collaboration with required stakeholders facilitates this exercise by evaluating the performance of QNB representatives positioned across the subsidiaries. Doing so allows QNB to view and analyse the representatives' use of escalation channels, as to see whether they have sought out communication properly and in a timely manner. It also helps assess the implementation of directives, performance and deficiencies remediation. The Group-wide oversight framework established at subsidiaries to report directly to QNB


QNB is committed to the highest standards of professionalism, fairness and integrity in all business dealings.

Qatar's Board (as the parent company) was examined and appraised.

Promoted integrity: conflict of interest and insider trading
It is essential for QNB to be able to identify actual and/or potential conflict of interest situations and manage them fairly and appropriately. In this context, cognizant Board members, senior management, employees, and third-party vendors are obligated to raise or disclose potential conflicts of interest at QNB Group in line with the associated policy, so as to allow the Group to adequately address, identify and manage such conflicts.

The established Conflict of Interest and Insider Dealing Policy at QNB guides all employees and personnel from top management to entry-level employees, as they make every effort to meet their obligations to shareholders, clients, personnel and all stakeholders. The policy addresses potential conflicts of interest between QNB and its employees, contains prohibitions, restrictions and disclosure requirements to ultimately protect the Group's reputation. It lays out the expectations that the Group has for each banking area and function and provides the information and the resources needed to conduct business ethically and in compliance with laws and regulations everywhere the Group operates. QNB expects relevant employees to participate in the requirements related to conflicts management, conflict of interest and insider training related topics. These are crucial steps to ensure employees are able to identify and escalate conflict of interest and related situations within the Group. This helps promote integrity across the bank.

Focused on openness, disclosure and transparency
QNB believes that reliable information is an invaluable asset that works towards ensuring the long-term sustainability of the Group. QNB's governance components set clear standards for promoting transparency and disclosure and encourages equality and justice among shareholders and more generally all stakeholders. In this regard, QNB maintains a 'Disclosure and Transparency Policy' to further our reputation for fairness and with guidelines to disclose financial, strategic, governance and performance information.

This policy incorporates both regulatory requirements and international best practices offering stakeholders and shareholders the information needed for 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 prosperous investor relationships. The goal behind maintaining sound disclosure and transparency practices is to ensure that necessary information is made available to required stakeholders (including disclosure requirements specified by regulators) in a timely, accurate, cost-effective and understandable manner.


Proper disclosure and transparency of information impacts QNB's trustworthiness.

Disclosure and transparency components also incorporate relevant ESG information that investors and other stakeholders increasingly seek. Adhering to these standards will positively encourage more investors to consider adding well-governed companies to their investment portfolios.

Maintained a safe environment for encouraging whistle-blowing
QNB is committed to establishing the highest standards of openness, probity and accountability. Whistle-blowing is an important element of corporate governance and transparency thereto. In line with this commitment, QNB encourages personnel with genuine concerns, about any aspect of the Group's work to come forward and voice those concerns; via safe and confidential whistle-blowing channels established.

Strengthened anti-bribery and corruption measures
At QNB, an emphasis on the way of doing things is just as important as what to do. The bank seeks to create a work place environment where each employee achieves the highest business and personal standards. 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 and in implementing and enforcing effective systems to counter bribery and corruption.

In addition, QNB maintains a robust Anti-Bribery and Corruption policy that applies to the entire QNB Group workforce, in terms of all dealings and transactions in all countries where QNB operates. The entire QNB workforce, including others acting on behalf of QNB Group, are required to read, understand, and abide by this policy. In addition, QNB Group Board members and Senior Executives are required to enforce the policy. Where QNB Group engages third parties such as agents, distributors or joint venture partners, it has the obligation to complete sufficient due diligence when entering into arrangements to ensure that they are not acting corruptly. This allows QNB to periodically monitor their on-going compliance.

Enhanced internal controls: new internal control charter
QNB's internal control environment provides reasonable assurances regarding the achievement of objectives relating to operations, risk management, reporting and compliance. In 2020, QNB set out the enhanced internal control charter, which clearly sets internal control processes and procedures. Sound internal control processes help ensure the effectiveness of the bank activities, aids maintenance of reliable financial management information and upholds compliance. The internal control charter lays down the components of internal controls and risk management.

Supported innovation in governance aspects
Innovation lies at the core of the QNB Group's overall strategy. In order to promote creativity and support new initiatives, internal control segments at QNB work with the business to provide them with the necessary tools to help accelerate their initiatives. As such, the business segment is provided with guidance on all new proposed initiatives, products and services from a regulatory and internal controls perspective as well as by liaising with the regulators to obtain the necessary approvals and feedback.

Management assessment of internal control over financial reporting

"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."

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


The Group has established ICOFR with the aim of providing reasonable but not absolute assurance against material misstatements.


The system of ICOFR consists of a large number of internal controls and procedures aimed at minimising the risk of misstatement of the consolidated financial statements.

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

Organisation 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 organisation.

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 minimising 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 authorisation of transactions.

Measuring design, implementation and operating effectiveness of internal control
For the financial year 2020, 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 31 December, 2020.

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 Corporate Governance Code for Companies and Legal entities 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 2020 (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 2021 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.

The Board of Directors is also responsible for compliance with all laws and regulations applicable to its activities.

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 the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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 2020 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 summarised in the Risk & Control Matrix ("RCM");
- entity-level controls documentation and related risks and controls as summarised in the RCM;
- information Technology risks and controls as summarised in the RCM;
- disclosure controls as summarised in the RCM.

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

> inspected 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 2020.

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.

14 January 2021
Doha
State of Qatar

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

Group Compliance

At QNB, there is a focus towards implementing more effective and dynamic compliance measures across the Group to ensure enhanced compliance monitoring and awareness.

> "The tone at the top sets out QNB's desire and commitment towards honesty and integrity whilst ensuring professional standards within the Group."

Tone at the top
One of the most critical responsibilities for the Board and Executive Management at QNB Group is to instil a culture of ethical and professional behaviour. The tone at the top sets out QNB's desire and commitment towards honesty and integrity whilst ensuring professional standards within the Group. Starting from the Board of Directors, QNB Group continuously encourages its senior members to act as role models for others to follow as the tone at the top has a trickledown effect on all employees within the Group. This also serves as an effective risk mitigation tool against fraud, corruption and bribery, insider dealing, conflict of interest, etc.

During 2020, QNB Group set up and/or enhanced robust governance related policies and procedures, including (but not limited to) areas such as the 'Board Policy', 'Anti-Bribery and Corruption Policy', 'Conflict of Interest & Insider Dealing Policy', 'Transparency and Disclosure Policy', 'AML & CFT Policy', 'Know Your Customer (KYC) Policy', 'Stakeholders' Rights Policy', 'Fraud Control Policy', 'Data Protection Policy', 'Code of Conduct (Ethics)', 'Internal Controls Policy', 'Outsourcing and Vendor Management Policy', 'Management Succession Policy', 'Chinese Walls Policy', 'Remuneration Policy', 'Internal Control Charter' and 'Whistleblowing Policy' with a view to promote ethical and professional behaviour, control, curb and report unethical behaviour; including but not limited to fraud, corruption, embezzlement, bribery, 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 Group's code of ethics, which all employees at the Group are bound to comply with, and to provide an overview on the deterrents in place at QNB Group regarding unethical behaviour.

The spirit of compliance and ethical behaviour
Instilling a strong compliance culture is a priority on the agenda for the Board of Directors and the Executive Management. This is disseminated across QNB Group through various initiatives such as policies and procedures, circulars, staff trainings, awareness sessions, brochures, etc. A Code of Ethics and Conduct is also in place, which sets the expectations from all QNB Employees in terms of values and code of conduct of business. It also serves as a reference point when dealing with entities and personnel, especially colleagues, customers, suppliers and regulators. It is applicable to all staff at QNB and in subsidiaries where QNB has a controlling interest. The Code covers requirements that the Bank employees should be aware of and comply within the conduct of their daily business activities.

Enriched framework and tools to strengthen the financial crime compliance structure
QNB, through its Group Compliance Division, maintains an Anti-Money Laundering and Combating Terrorism Financing (AML/CTF) framework to fend off financial crimes and related corruption in its many forms. The framework outlines all the proper detection systems and controls designed to deter illicit funds from flowing into the bank's system. In essence, Group Compliance uses the framework to identify QNB customers, conduct regular reviews of their accounts and to monitor and report any suspicious transactions made using a QNB account.

In line with the New AML/CTF Law of 2019 and related instructions issued by Qatar Central Bank in May 2020, Group Compliance Division at QNB has ensured the review and updating of impacted policies and procedures to ensure compliance with the legislative changes. Furthermore, guidance has been developed and training conducted to ensure the embedding of the requirements of the new AML/CTF Law.

The risk-based approach is a fundamental pillar in ensuring a robust and effective AML/CTF programme. Therefore, QNB ensures that identifying, assessing and understanding money laundering and terrorist financing (ML/TF) risks


A strong compliance culture is disseminated through various initiatives such as policies and procedures, circulars, staff trainings, awareness sessions and brochures.

forms an integral part of the ML/TF risk management for Head Office and overseas branches and subsidiaries. Money laundering and terrorist financing risk assessments assist QNB Group in implementing appropriate and efficient control measures in order to protect the Bank from being exposed to the ML/TF risks. Group Compliance continues to effectively discharge its robust oversight responsibility by conducting periodic reviews (on-site and off-site) with a focus on evaluating and assessing the AML/CTF measures that overseas entities have in place and to ensure that these comply with Head Office and local jurisdiction applicable regulations.

The COVID-19 pandemic presented unique and unparalleled challenges, however, in order to ensure that our employees are equipped to deal with the latest and sophisticated money laundering schemes, we ensured that relevant trainings continued and were delivered via online channels. As part of implementing a risk based and robust training framework, during the COVID-19 period, the bank developed specialised training to address the ML/TF risks associated with the impact of the pandemic.

Creating a robust Know Your Customer (KYC) framework is fundamental in preventing QNB from being used, intentionally or unintentionally, by criminal elements for money laundering and terrorist financing. As part of ensuring an efficient KYC regime, QNB has updated the KYC policies and procedures to be in line with the new AML/CTF Law. Furthermore, we provided a risk based guidance to the front-line teams in dealing with the KYC challenges posed by the COVID-19 pandemic. The Group's compliance function continues to oversee the implementation of the global KYC platform across QNB Group to ensure an accurate view of the quality of the customers' KYC information and to enhance the profiling and monitoring processes.

Strengthening the sanctions compliance framework
QNB continuously maintained efforts to enhance its robust Sanctions Compliance Programme to meet the growing sanctions regulations and challenges, without disrupting customer service and ensuring the bank's reputation. An integrated Sanctions Compliance Programme includes rigorous and cost effective controls that satisfy the needs of both regulators and customers and ensures effective prevention and timely detection of business risk exposure to terrorism and proliferation financing, while achieving full compliance with major global sanctions programs imposed by the United Nations (UN), European Union (EU), United States of America (USA), United Kingdom HM Treasury (UK HMT), Qatar and other jurisdictions where QNB has established operations.

Considering technology as an essential factor in establishing a strong and sustainable Sanctions Compliance Programme, QNB assessed and adopted additional sanctions related systems, to help prevent any potential sanction exposure to the business and thus help us to stay compliant with rigorous requirements in terms of customer and transactions screening against global watch lists.

Collaboration with financial crime advisors resulted in a complete new approach and update of QNB's sanctions training program and following industry standards requirements. This led QNB to implement more interactive materials for employee awareness on sanction matters and utilised remote platforms (eLearning) and making training assessments mandatory as part of the sanctions training. In addition, training materials were tailored and customised to clearly address different sanctions risk exposures by different business lines and for a more comprehensive understanding of the related risks.

Enforcement of a robust fraud control framework
QNB's Fraud Control Unit, reporting under the Group Compliance Division, has established a comprehensive fraud control framework, and put in place a programme and investigative capabilities, demonstrating the expectations of the Board of Directors and Executive Management and their commitment towards high integrity and ethical values regarding fraud risk management.

QNB's existing group-wide Anti-Fraud Policy has been complemented with a Group Fraud Investigations Policy, rolled-out during H1 2020 and covering the entire QNB Group. During 2020, the Fraud Control Unit extended the support and guidance to seven QNB subsidiaries, to build the fraud control framework to ensure alignment and consistency with Group Fraud Policy framework and standards.

The COVID-19 pandemic presented unique and unparalleled challenges, due to not only the impact and scope, but also due to the extended length of time which business processes will have to be managed in their current state. In order to assess the risk influence of the processes that have been modified to ensure business continuity and/or have been under various levels of stress; a comprehensive risk identification and

Group Compliance
continued

> "During the COVID-19 period, the bank developed specialised training to address the ML/TF risks associated with the impact of the pandemic."

control assessment of the modified and under-stress processes was conducted. The Fraud Control Unit, together with Group Operational Risk Division at QNB, reviewed more than 360 changed/stressed processes. The impacted businesses and process owners incorporated feedback to mitigate adequately the fraud risks within the new control environment.

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 well-embedded fraud reporting mechanisms for international branches and subsidiaries and rolled out e-learning fraud awareness trainings for employees across the Group. In total, more than 2,600 employees across the Group successfully completed the e-learning program during 2020.

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. Reports and comprehensive recommendations are shared with appropriate levels of management, so that proper corrective actions could be taken, including discipline, remediation asset recovery, training, civil action, and/or criminal referral.

Tax reporting: enabling transparent and effective tax information exchange across QNB Group
Customer tax transparency requirements are constantly evolving around the world and, digitisation of the administration of tax has increased QNB's tax compliance burden. Non-compliance could expose the Group to financial losses, penalties and/or reputational damage caused by failing to comply with regulatory requirements implemented by tax authorities.

QNB applies the letter and spirit of the law in all regions where we operate. The Tax Compliance Unit within Group Compliance Division continues to strengthen QNB's processes to help ensure that QNB's banking services are not associated with any arrangements known or suspected to facilitate tax evasion. The Tax Compliance Unit at QNB applies global initiatives to improve tax transparency and compliance requirements across QNB Group such as the US Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS).

The international regulations highlighted above are designed to put in place adequate agreements between countries to exchange customers' information, aimed primarily at combatting tax evasion, in some cases by using aggressive tax planning or intermediaries. In 2020, we successfully led comprehensive initiatives and remediation programs to ensure that the required FATCA and CRS identification and due diligence processes and reportable data set to the regulatory authorities in Qatar and to applicable jurisdictions in overseas branches and subsidiaries was complete, accurate and duly submitted, and in spite of COVID-19 situation.

Enhancement of internal controls over financial reporting (ICOFR) process
QNB Group has integrated risk management and internal control over financial reporting into its business processes. As defined in the COSO framework, internal control is an aggregation of components such as a control environment, risk assessment, control activities, information and communication and monitoring. At QNB, Group Compliance Division is responsible for establishing a strong control environment over QNB's financial reporting processes as per criteria set in the COSO, Internal Control-Integrated Framework. Subsequently, Group Compliance Division has led the ICOFR Management Assessment for 2020 in coordination with the key stakeholders of QNB Group.

Global data protection and privacy programme
At QNB, there is a strong commitment starting from the top to protect personal data, which is fundamental to QNB Group in achieving its long-term vision. The Data Protection Team within Group Compliance Division at QNB are responsible for the overall data privacy activities and compliance of information processed.


We were regularly in touch with QCB and other regulatory body officials in order to collaborate regarding QNB's response to the COVID-19 pandemic.

> "QNB's data protection strategic roadmap in the near to medium-term is heavily focused on investing in resources and adopting a strong privacy-by-design approach."

The Group Data Protection Framework is based upon international best standards, key regulations such as General Data Protection Regulation (GDPR) and Qatar Law No. 13 Promulgating the Protection of the Privacy of Personal Data. The framework is forward looking and adaptable to QNB Group as the business expands globally. The framework is not tied to any specific regulation; rather it takes into account the highest cross-border data protection requirements and applies it to QNB standards.

QNB also maintains a specialised data protection and privacy system that automates the foundations of a robust privacy framework, which includes the automation of a data register, cross border data transfer flow maps, processing activities and data protection impact assessments. QNB's data protection strategic roadmap in the near to medium-term is heavily focused on investing in resources and adopting a strong privacy-by-design approach. QNB will continuously review the operating model, ensuring governance, technical and security measures, and data subject rights are adhered to in accordance with QNB vision and corporate governance standards.

Relationships with regulators
QNB Group Compliance acts as a medium for all communication between the bank and the regulatory authorities. During 2020, with the COVID-19 situation, Group Compliance further exerted its efforts to strengthen the bank's crucial relationship with the regulators. The major interaction of the bank with these regulators includes: inquiries raised by the business; follow-up/feedback on new circulars; and reporting of regulatory requirements, etc. Additionally, in order to support the business, Group Compliance helped obtain the necessary regulatory approvals from QCB, QFMA, QFCRA and any other relevant authorities for offering new products and services as well as the enhancement of the bank's existing products and services suite. QNB also has in place a robust and proficient mechanism to review, analyse and monitor implementation of any new regulations, as may be required.

Enriched compliance monitoring and oversight
Group Compliance has established the compliance self-assessment framework ("the framework"), built based on the roles and responsibilities assigned to Group Compliance as per the QNB Group Board approved compliance charter. The framework is defined as a set of components, mechanism and controls adopted by

Group Compliance
continued

> "QNB places critical importance on compliance related trainings, which forms an integral part of the business for the purposes of introducing and maintaining a positive and effective compliance culture across the Group."

Group Compliance for the sake of minimising QNB's compliance risks exposure as per the regulatory requirements. It includes mapping and prioritising risks to their applicable owners, appropriately allocating resources to perform risk mitigation, to enhance QNB's compliance risk mitigation strategy using divisions and subsidiaries feedback to the framework components, and for spreading the compliance environment within QNB Group. Additionally, in light of the COVID-19 pandemic, Group Compliance has further strengthened its Compliance Self-Awareness Questionnaire (CSAQ), which is a key component of the framework in a way to better reflect the compliance risks that may face the divisions/subsidiaries domestically and branches/subsidiaries internationally.

Compliance monitoring programme (CMP)
Due to the increased regulatory scrutiny and enhanced oversight by the regulators worldwide in recent times, it is imperative that QNB Group maintains a robust mechanism in order to ensure compliance with the ever changing and complex regulatory landscape. In this regard, in 2020, and as part of ongoing initiatives, the bank enhanced its compliance monitoring programme (CMP) template(s) to improve the quality of data captured within. The program serves a dual role; warranting proper oversight, and being a proficient tool to address and comply with all new regulatory requirements. The CMP aids in the effective monitoring of compliance risks and in developing a strong compliance culture by holistically assessing where the key risks are, and what mitigating actions are undertaken. In this regard, the enhanced CMP was rolled out across the Group.

Compliance training and awareness programs to QNB employees
QNB places critical importance on compliance related trainings, which forms an integral part of the business for the purposes of introducing and maintaining a positive and effective compliance culture across the Group. This helps ensure that the Group operates safely and efficiently whilst following the relevant laws and regulations. In this regard, QNB reviews, adopts and implements the regulatory requirements, including but not limited to those instructed by QCB, QFMA and QFCRA in addition to the FATF recommendation on 'Continuous Training and Education for Employees' at all levels of the organisation on an ongoing basis.

QNB Group maintains a robust CMP in order to ensure compliance with the ever-changing and complex regulatory landscape.

> "From a regulatory standpoint, QNB applied a proactive approach in ensuring regulatory compliance and maintaining strong second line of defence responsibilities during the COVID-19 pandemic."

Group Compliance is highly committed towards the implementation of a robust compliance training programme, which has been rolled out across QNB Group. The compliance trainings help employees stay abreast of latest requirements and increases their productivity with less supervision, whilst ensuring that they are aware of their roles and responsibilities taking into account all the relevant laws, regulations and internal policies. In light of COVID-19, QNB Group also fostered a top-down compliance culture, by providing diverse learning options to employees both domestically and at overseas branches by using a variety of training methods.

Initiatives and strategies implemented in light of COVID-19
From a regulatory standpoint, Group Compliance applied a proactive approach in ensuring regulatory compliance and maintaining strong second line of defence responsibilities during the COVID-19 pandemic. The supervisory approach focused on five pillars, namely: governance, people, processes, systems, and reporting. These pillars were aligned with QNB's proprietary Crisis Management Playbook in order to minimise the impact of COVID-19. The activities undertaken by QNB include, but are not limited to, the evaluation of all processes and procedures; and devising tactical and strategic allocations of resources to ensure compliance with instructions issued by the Supreme Committee for Crisis Management in the State of Qatar and other relevant regulatory authorities pertinent to QNB's international entities. Furthermore, we were regularly in touch with QCB and other regulatory body officials in order to collaborate with them regarding QNB's response to the COVID-19 pandemic, including serving our customers whilst ensuring the safety of QNB employees.

Core governance and compliance initiatives for domestic and overseas entities
QNB witnessed a substantial increase in regulatory oversight during 2020, especially from QCB and QFMA, coupled with the ever changing and extremely complex regulatory landscape. Nonetheless, QNB adapted to the new regulatory environment whilst ensuring that the compliance risks faced by the Group are below the maximum acceptable threshold levels. Compliance practices across the Group have been revitalised and dynamic efforts were taken to promote bolder and more efficient internal controls measures, well-structured risk management policies, and governance framework across QNB Group. Group Compliance has worked closely with its domestic subsidiaries (QNB Financial Services & QNB Capital) to provide support to the business from a compliance standpoint, especially in these challenging times.

QNB launched a number of new initiatives and monitoring tools focused on its overseas entities in 2020. The majority of the processes and tools were directed towards enhancing the monitoring and proper governance over the compliance activities and ensure the proper application of the regulatory requirements. Moreover, the supervision and monitoring tools related to overseas entities compliance activities were enhanced whereas the regular compliance monthly reports were amended to capture more value added data. QNB will continue to develop initiatives and monitoring tools to meet the ever changing needs, and of the regulatory requirements in the jurisdictions where QNB operates.

Building capabilities and skillsets within compliance
In order to provide a better working environment for its employees, QNB Group places significant importance on enhancing the skillsets and capabilities of its workforce. Hence, the compliance function employees are provided with continuous learning opportunities in the form of in-house and external compliance related international courses, in addition to financial support for relevant professional qualifications such as ACAMS, CISI, CIA, etc., which ensures increased morale in the workforce, coupled with enhanced productivity. QNB encourages its compliance employees to further enhance their skills, prepare themselves for progression, drive innovation and to further challenge themselves in their existing roles. QNB fosters and promotes a continuous learning environment for its employees. In this regard, QNB ensured that all its employees possess the necessary skills and experience to perform their duties effectively.

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 evaluating the effectiveness of risks, controls and governance frameworks across the Group, by performing a comprehensive and systematic programme of independent audits. Our work supports the proper functioning of the Group, 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 employees' development.

We do this by providing our stakeholders with a mix of assurance and advisory services, reviewing our systems and processes by offering insight to support ongoing improvement. We have full and unrestricted access to all the Group's records, documentation, systems, properties and personnel, including senior management and the BOD.

Our philosophy is to partner with the business, objectively influencing and challenging to facilitate the best results for the Group and its stakeholders across our footprint. The majority of our audit staff in Qatar are professionally qualified and hold globally-recognised certifications. Our team is composed of individuals with experience from leading financial institutions and audit firms across the globe.

Our experience and ongoing professional development provides us with the required competencies to tackle the growing sophistication and challenges of 21st century banking. It is vital that the audit team possesses a level of understanding that is equal to the business. 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. Under the IPPF framework, a qualified, independent assessor must conduct an external quality assessment of an internal audit activity at least once every five years. This assurance was provided in 2018 when the IIA conducted a comprehensive external quality assessment. This certified that we generally conform with the Standards and the IIA Code of Ethics.

Assurance to key stakeholders and regulators

The Group's Internal Audit division is headed by the Group Chief Audit Executive (GCAE), who reports to the BOD, through the GBACC, thus ensuring the independence of the audit function. 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 Group's audit function 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 on 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 senior management – by executing all our tasks with consistent objectivity, rigour and discipline, backed by a process of continuous improvement.

We continued to embed financial crime reviews in our audit processes throughout 2020 to address growing concerns from regulators about financial crime. This has ensured that sound controls are in place and operating effectively, and all applicable regulatory requirements are adequately incorporated in our policy and procedures and implemented accordingly. We have devoted increased resources to this area and enhanced the depth of controls testing carried out as well as the scope of coverage.

In line with relevant regulations and management control agreements, we provide support for our subsidiaries and affiliates. In addition to sharing knowledge and best practice, we deliver training programmes to raise control awareness and enhance risk culture and provide policy advice, alongside high-level assessments.

Tracking of audit items and ensuring management implementation of agreed action plans to address audit issues is facilitated using our Audit Management System (AMS). Dashboards provide the GBACC, GCEO and the GMRC with real-time information on open and overdue issues and highlight our follow-up activities. This information also apprises senior management, GBACC and the BOD on the implementation status of pending audit issues and is used as part of the bank-wide key performance indicators measures on the control environment. In addition, we report on total observations classified by risk category to senior management, GBACC and BOD on a semi-annual basis.

In 2020, we continued to prioritise reviews required by regulators. This includes Financial Crime reviews (AML/CTF and Sanctions Risks) and the Internal Capital Adequacy Assessment Process (ICAAP) for the Group. Additionally, we performed regulator mandated reviews and reconciliation of collaterals with records maintained by relevant authorities such as the Land Registry Department under the Ministry of Justice and QSE respectively.

We also enhanced our information technology and information security audit methodology. This is an integral part of our internal audit methodology and aims at ensuring the alignment of audit practices in the assessment of information and communication technology as well as information security risk. The methodology encompasses concepts and guidelines from global and regional stakeholders, such as ISACA, an international professional association focused on IT governance, and the European Banking Authority. As an example, we reviewed the information security readiness relating to cyber security, for the banking services that will be provided during the upcoming 2022 FIFA World Cup®. Furthermore, we have reviewed our data classification and protection measures across the bank to ensure compliance with GDPR.

Advisory services, insight and analysis

The valuable insights we gain through our unbiased and objective analysis of our operations enables us to help the bank improve its systems and processes.

In response to the emerging risks and challenges associated with COVID-19, and in line with the recognised best practices, we issued a set of recommendations to critical functions of the bank on areas and activities that require additional focus and attention.

As an independent reviewer, we participate in the review of new and updated policies in an advisory capacity. The main objectives of the review are to ensure that the policies address and mitigate key business, IT and regulatory risk factors. By utilising the combined technical knowledge of the business and our seasoned IT auditors, our policies can be effectively benchmarked against industry best-practice.

We also supported the rollout of major IT projects by advising on key risks and controls. At the same time, we participated in the bi-annual Business Continuity Management (BCM) exercise by reviewing, and assessing the results. We continue to provide IT and information security with regular feedback and insight on the BCM process.

Enhanced Group governance framework

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

The audit team also ensured the effective implementation of the QNB Group international governance framework. This included, but was not limited to, reviewing the audit universes, risk assessments and annual audit plans' development and implementation of our international subsidiaries.

Audit programmes and techniques

In light of COVID-19, we adjusted our operating model and annual audit plans across the Group. We introduced split office and remote working arrangements. Despite the travel restrictions, we nevertheless were able to closely connect with and work alongside our internal audit teams in our international branches. Emerging and higher risk areas were prioritised and remote audit techniques and analytical processes focusing on key risks were implemented.

Other enhancements included:

> enhancing our audit programmes and audit implementation scripts to cover gaps and inadequacy of system-level controls;

> reviewing the adoption of IFRS 9 by QNB Group's international branches; and

> implementing advanced sampling techniques to increase the assurance gained through controls testing.

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 for all employees across the network. The training includes:

> overview of individual responsibilities over the control environment and risk management;

> Basel Committee Three Lines of Control approach;

> overview of the key banking risks and the internal control framework and assurance structure;

> insights on key risks as a result of COVID-19 and how to maintain sound internal controls;

> common and repeated audit findings covering respective functions and key processes; and

> key technology and information security risks and controls.

Promoting transparency

We believe that greater transparency brings more accountability and improved stakeholder confidence. For that reason, we continue to improve communication on our activities throughout the business. Final audit reports incorporating audit issues, management 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.

Looking ahead

The accelerated use of digital channels by customers, increased transaction volumes, cyber security and privacy, and focus on customer experience has resulted in the rapid evolution and growth of the Group's IT infrastructure. To remain relevant and continue adding value we have adapted and evolved our internal assurance approach in response to the major technology ecosystem changes that are reshaping the demands on internal auditors.

In addition, we will continue to deepen and harmonise the coverage of financial crime risks across the Group to align with regulatory expectations.

We will continue to keep a watchful eye on all emerging and systemic risks that have the potential to affect the performance of the Group, 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 continue to expand our control awareness and risk culture programmes.

Sustainability

QNB Annual Report 2020

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 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;

> financial inclusion, accessibility, and education;

> digital innovation and transformation;

> responsible customer communication and marketing;

> customer privacy and data security; 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.

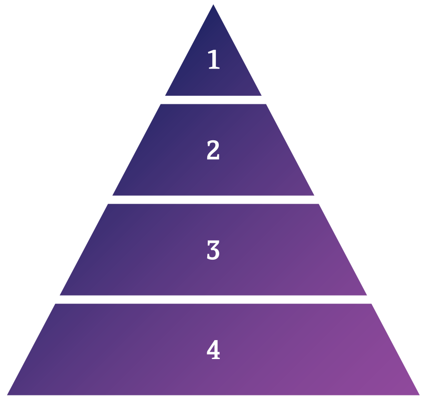
QNB's material topic identified within beyond banking is:

> community investment and socio-economic development.

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, including climate related issues. When required, the SC reports key risks and opportunities to the Board of Directors via the 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's 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



*The Group Sustainability Team disseminates strategy, policy and priority initiatives to Subsidiaries' Sustainability Teams.

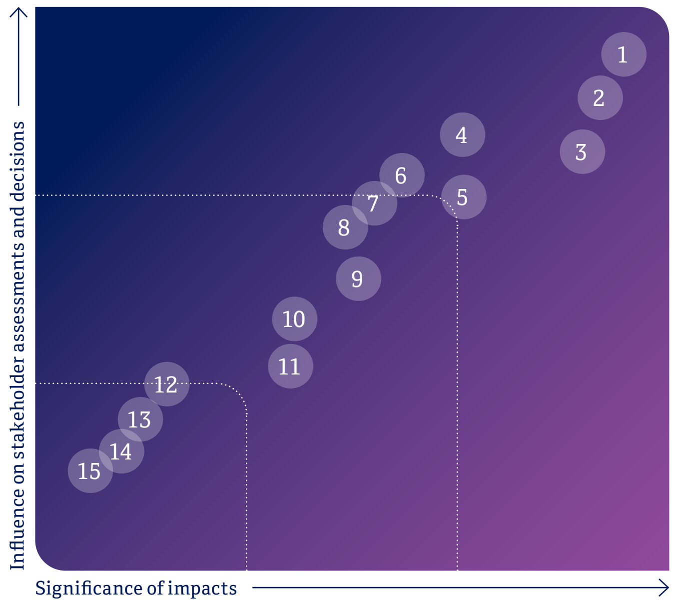
Materiality assessment

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.

In 2020, we revisited and reassessed our material topics to address the rapidly and dynamically evolving operating environment. While our topics have been reprioritised, they remain aligned with the objectives of the United Nations Sustainable Development Goals, Qatar National Vision 2030, and the QSE 'Guidance on ESG Reporting'. Our approach to materiality provides the foundation of our sustainability strategy and ensures that we address the issues of most relevance to all our stakeholders.

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.

QNB Group materiality matrix



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

Sustainability
continued

In cooperation with | Supported by | Developed by

GEFF Green Economy Financing Facility · AFD · European Investment Bank · European Bank for Reconstruction and Development

Case study
Supporting the shift in energy mix

> "We are delighted to have successfully closed Egypt's first P2P solar project financing transaction in energy intensive sectors; none of this would have been possible had it not been for QNB ALAHLI's extensive experience in project finance and focus on sustainable development."
>
> Yassin Abdel-Ghaffar, the Owner and Chairman of SolarizEgypt

QNB ALAHLI is playing a leading role in the Egyptian solar energy market by supporting solar developers and providing them with innovative financing and advisory solutions. For example, we supported our client, SolarizEgypt, to build a 7MW ground mounted solar power plant located at El Ain El Sokhna. The transaction was financed under the Green Economy Financing Facility "GEFF", a sustainable financing program that encourages green and sustainable investments, and which is offered by the European Bank for Reconstruction and Development (EBRD) and backed by the European Union (EU). QNB ALAHLI is the first bank in Egypt to participate with the EBRD and EU in this programme.

SolarizEgypt completed the construction of the solar power plant in early 2020. Over its 25-year lifetime the power plant is estimated to generate and sell approximately 294 GWh of electricity. Once connected to the grid, the plant will result in an estimated reduction in CO2 emissions equivalent to 170,868 tonnes per annum, which is equivalent to around 730,000 trees planted over the lifetime of the plant. The solar plant project has also been recognised as the Middle East Region project of the year by the Association of Energy Engineers.

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

Human Development | Environmental Development | Economic Development | Social Development

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

Sustainable Development Goals: 1 No poverty; 2 Zero hunger; 3 Good health and well-being; 4 Quality education; 5 Gender equality; 6 Clean water and sanitation; 7 Affordable and clean energy; 8 Decent work and economic growth; 9 Industry, innovation and infrastructure; 10 Reduced inequalities; 11 Sustainable cities and communities; 12 Responsible consumption and production; 13 Climate action; 14 Life below water; 15 Life on land; 16 Peace, justice and strong institutions; 17 Partnerships for the goals

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

UNSDG	QNB's Material Topics	UNSDG	QNB's Material Topics
8	Financial stability and systemic risk management	12, 16	Responsible customer communication and marketing
16	Governance, compliance and risk management	4, 8	Talent attraction, development and retention
8	Financial performance	5, 8, 10, 16	Diversity and inclusion
9, 16	Customer privacy and data security	1, 2, 4, 8	Community investment and socio-economic development
9	Customer experience	1, 8, 10	Financial inclusion, accessibility and education
8, 9, 10	Digital innovation and transformation	1, 2, 8, 10, 16	Responsible procurement and supply chain
8, 9, 11, 13	Sustainable investment, lending, products and services	8, 12, 13	Environmental impact of operations
8, 9	Supporting SMEs and entrepreneurship		

WE SUPPORT UN GLOBAL COMPACT

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

United Nations Global Compact (UNGC)

As part of our commitment to sustainable business practices, QNB 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. This year, we published our first annual 'Communication on Progress' (COP) to report progress against these topics. We recognise the importance of greater transparency and accountability from public and private institutions. Therefore, in addition to our inaugural COP disclosure, we joined other UNGC network participants and demonstrated our support for inclusive multilateralism by signing a Statement from Business Leaders for Renewed Global Cooperation. This statement reaffirms that we support the principles of operating as an accountable, ethical, inclusive and transparent organisation. Our statement was presented to the UN Secretary-General as part of the official UN75 commemorations.

Environmental and Social Risk Management (ESRM)

Following the integration of sustainability requirements within our Wholesale Credit Policy in 2019, we have now further incorporated ESG due diligence through the group wide ESRM Policy Framework. Our ESRM enables the bank to proactively identify and manage exposure to environmental and social (E&S) risks. Our ESRM clearly articulates exclusions, sectors deemed high risk, prohibited activities and risk categorisation.

This overarching group wide ESRM Policy Framework is further supported by aligned ESRM policies in our major subsidiaries to cater for local specificities.

ESG reporting and disclosures

To promote transparency in the banking sector, we report our sustainability performance annually and 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 is a signatory to the United Nations Sustainable Stock Exchange Initiative. In the spirit of transparency, our performance data is publicly available.

Throughout 2020, we proactively engaged and disclosed our ESG performance to several ESG rating agencies and indices. This year we are ranked number one in Qatar by ESG Invest, the investment research arm of Sustainability Excellence, a leading ESG ratings agency in the region; we maintained our leadership position on the Qatar Stock Exchange for ESG disclosure; improved our ESG ratings from S&P's SAM Corporate Sustainability Assessment (CSA) and Sustainalytics; and we qualified for the FTSE4Good Index. 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*.

We maintained our leadership position on the Qatar Stock Exchange for ESG disclosure.

QNB became a constituent of the FTSE4Good Index.

"The Statement is a resounding endorsement of inclusive multilateralism. In no uncertain terms, it says that cooperation must cross borders, sectors and generations for us to adapt to changing circumstances."

Sanda Ojiambo, CEO and Executive Director of the UN Global Compact

Green bond

This year we established our Green, Social and Sustainability Bond Framework in full alignment with International Capital Markets Association (ICMA) Green Bond Principles, Social Bond Principles and Sustainability Bond Principles.

As per industry practice, we obtained a Second Party Opinion (SPO) confirming that our framework was impactful and aligned with the above ICMA principles and guidelines. In addition, we also conducted a Third Party Pre-Issuance Review of our Green Bond portfolio.

Our green bond issuance, at USD600 million, was the first for a Qatari bank, and at the time of issuance, the largest by a financial services company in the region. The bond was listed on the London Stock Exchange (LSE) under the Sustainable Bond Market segment and the proceeds of the issuance were allocated towards financing and/or refinancing eligible green assets. We received subscriptions in excess of USD1.8 billion, demonstrating investor's confidence in our solid financial fundamentals and strong financial performance. The issuance was part of our ongoing commitment to support the transition towards a greener economy, our sustainable finance objectives, and the ambitions of QNV 2030.

2020 highlights

During 2020, we have delivered and initiated a number of projects to improve our sustainability

For example, we:
- established our group wide ESRM policy framework system to identify, categorise and manage E&S risks;
- issued the largest conventional green bond in the region and first from Qatar, at USD600 million;
- strengthened our public commitment to sustainability by submitting our inaugural 'Communication on Progress' to the UNGC and signed UN75's Statement from Business Leaders for Renewed Global Cooperation;
- maintained or improved our ESG ratings from CDP, MSCI, S&P's SAM Corporate Sustainability Assessment (CSA) and Sustainalytics;
- topped the leader board for ESG disclosure at the Qatar Stock Exchange for the second consecutive year;
- became a constituent of the FTSE4Good Index; and
- published our second Sustainability Report in accordance with the GRI Standards, including disclosure of our green lending portfolio.

Beyond banking – Corporate social responsibility

We believe that to truly create long-term value, we need to develop our society through close working partnerships that help communities emerge stronger, healthier and more prosperous.

> "Our work in society helps to stimulate and strengthen communities, creating new opportunities and bringing greater insight."

The devastating social impact on communities across the world from COVID-19 has brought corporate social responsibility (CSR) to the forefront, as governments rushed towards supporting households and businesses impacted by the pandemic. Financial institutions have played a key role as a vital intermediary in transferring the government initiatives and directives to businesses impacted by COVID-19, mainly through loan extensions, restructurings, additional financings, amongst various other support initiatives. QNB has taken its community development role even further by supporting our customers and communities to weather the challenges brought by the pandemic and bounce back on a quick recovery path.

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 bank. 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 the communities in which we operate 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. This was especially true during the pandemic period as we assisted our customers overcome various challenges, through technological enhancements and a wide range of financing options.

With around 75 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 causes 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:

We believe that supporting the communities in which we have a presence not only benefits society, but also encourages the long-term profitability of the bank.

QNB sponsored the Qatar Maritime and Logistics Summit 2020.

> "QNB Group has an unparalleled opportunity to make every community in which we are present a better place."

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

- promoting our tradition and culture: QNB was the diamond sponsor of the 'Amir's Sword Camel Race Festival'. QNB sponsors this annual event, not only as sport, but also as an integral part of Qatar's tradition and culture;
- enhancing Qatar's position as a world-class destination for international events: QNB was the official sponsor of the 2020 'Doha Jewellery and Watches Exhibition' organised by Qatar Tourism Authority. This sponsorship highlights QNB's ongoing efforts to support the local economy by promoting emerging Qatari jewellery designers and enhancing Qatar's position as a world-class destination for international events; and
- providing talented musicians a global platform: QNB Finansbank sponsored the ÇEV Concert in January 2020, a highly acclaimed musical event. Through this concert, 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
Supporting the economies in which we operate provides an opportunity for the overall development of society. In 2020, we did this through:

- supporting the Qatar National Vision 2030: QNB was the strategic partner of 'Conference on Development of Public-Private Partnership' as part of our efforts to create a sound and transparent economic environment;
- creating a commercial and logistics hub for the region: QNB sponsored the 'Qatar Maritime and Logistics Summit 2020' as part of our effort to support the country's aims to promote Qatar's ports and logistics sectors. This also contributed to achieving the Ministry of Transport and Communications' strategic plan aimed to transform Qatar into a vital commercial and logistics hub in the region;
- combating financial crime through cybersecurity: QNB Group was the diamond sponsor of the 2020 'Compliance and Combating Financial Crime Forum'. This sponsorship comes as part of the Group's commitment to combating the increasing spread of financial crimes, especially the increasing resort to cybercrime that accompanies the accelerating digitisation of the financial sector. QNB is also firmly committed to the compliance culture in Qatar and internationally, ensuring the combating of fraud and the enhancement of security and accountability across its international operations; and

Beyond banking – Corporate social responsibility
continued

> "To ensure social distancing and maintain a safe atmosphere, several initiatives were implemented for our customers visiting our branches globally."

- showcasing national products overseas: QNB sponsored the 'Made in Qatar 2020' exhibition in Kuwait as part of its keenness to support events that promote national products and contribute to developing economic growth in the country. It also reflects the bank's commitment towards bolstering local industry, enhancing Qatari entrepreneurs and promoting the locally manufactured products outside the country.

Health and environment
Promoting good health and improving our environment are two vitally important areas of CSR for us. To further these causes in 2020, we:

- contributed to advancing healthcare research: QNB was the official sponsor of the 'International Primary Health Care Conference'. This sponsorship comes as part of QNB's support of Qatar's health sector to advance research, develop primary healthcare facilities and broaden services provided to our communities;
- enhanced cancer awareness: The ongoing support and cooperation with Qatar Cancer Society (QCS) reflects the bank's keenness to enhance QCS' programs to promote a culture of effective early detection – a key element to reach a conscious society without fears about cancer – and in implementation of local programmes in the health sector. In Egypt, an agreement was signed with the National Cancer Institute Breast Cancer Hospital for the renovation and development of the sterilisation unit;
- contributed and supported COVID-19 pandemic relief efforts: QNB Finansbank donated medical equipment to various hospitals across Turkey as part of its social responsibility programme initiatives. QNB Finansbank also donated monetarily to pandemic aid through government initiatives; and
- supported healthcare services and facilities: QNB ALAHLI donated medical devices to four hospitals that provide free of charge services in Egypt. Additionally, we donated to the establishment of an outpatient room in Magdy Yacoub Heart Foundation Hospital.

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 did this through:

- supporting the SME sector during COVID-19: During the initial COVID-19 outbreak, QNB was the first bank after the announcement of the National Response Programme to offer some relief to customers impacted by the outbreak. An awareness campaign was launched across Qatar, Turkey, Egypt and Indonesia, sharing tips, suggestions and information about COVID-19 to our SME customers;
- ensuring the safety our customers and employees: As part of our social responsibility efforts to ensure social distancing and maintain a safe atmosphere, several initiatives were implemented to make sure our customers are safe in our branches;
- generating innovative ideas to respond to the pandemic: QNB launched an internal staff campaign directed towards collecting customer-centric ideas from staff and opportunities to enhance our customer experience during the pandemic;
- supporting various government COVID-19 initiatives: As part of its efforts to recover from the impacts of COVID-19, QNB made a financial contribution to the 'Support and Contribution Initiative Committee' in Qatar. QNB ALAHLI also participated in the Central Bank of Egypt's 'Egyptian Banks Initiative', to support the economy to face the pandemic crisis and to support those affected by COVID-19; and
- supporting underprivileged sections of society: During the COVID-19 pandemic, QNB Indonesia cooperated with an online crowdfunding platform, Yayasan Benih Baik Indonesia (BenihBaik.com), to distribute basic commodities packages to more than 900 underprivileged families in the greater Jakarta area. QNB Tunisia organised its 5th 'Warm Winter' campaign in January 2020, which was designated this year to more than 64 children of the SOS Mahress village, confirming once again our commitment to the societies in which we operate. QNB ALAHLI worked with the Al Esaweya village in the Sohag Governorate, providing a medical convoy and support for 22 houses in urgent need for roofing, furniture and renovation.

QNB supports Qatar's health sector to advance research, develop primary healthcare facilities and broaden services.

> "We aim to highlight to the younger generation the importance of money management and investing concepts."

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. Prior to the pandemic, QNB:

- supported major international sporting events: QNB was the national sponsor of the FINA/CNSG Marathon Swim World Series 2020, as part of its efforts to be at the forefront in supporting national and international sporting events in Qatar; and
- supported heritage sports: QNB was the official Sponsor of the 'HH The Amir Sword' equestrian festival, in our effort to support heritage sports and to preserve the sport of our fathers and ancestors.

Youth and education
Our future lies in the hands of our youth, and educating the next generation is key to developing a knowledge-based economy and society. As a bank, 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 and events included:

- providing financial education: The 'QAn' initiative was launched in partnership with Kidzania Qatar to teach kids how to start their own business. We provided guidance and mentorship as part of bank's responsibility to teach the younger generation on financial education;
- developing the skills of our young employees: As part of our ongoing efforts to develop the skills of our employees, QNB sponsored QDB's Kawader program, which aims to broaden the knowledge and experience of the participating employees;
- supporting the development of business incubators: For the second year in a row, QNB ALAHLI partnered with the Central Bank of Egypt and Nile University in the 'NilePreneur Initiative', aiming to enhance the ecosystem for entrepreneurs in Egypt; and
- preparing for careers of the future by encouraging science and mathematics: QNB Finansbank's 'Tiny Hands' coding programme trained children from 8 to 14 years old on computer skills, introducing them to programming and raising the awareness of code literacy. The aim was to implement an 8-hour training programme for 3,000 students in 22 cities across Turkey. Additionally, QNB Finansbank was the main sponsor of the 'Tales Mathematics Museum' held in January, where we arranged student visits to the math museum and increased excitement around this discipline.

Financial statements

Group Chief Financial Officer's report

The strength of our business model has delivered resilient results for QNB Group despite macro-economic challenges.

Net profit (QR billion)

2020	12.0
2019	14.4
2018	13.8

Total assets (QR billion)

2020	1,025
2019	945
2018	862

Loans and advances (QR billion)

2020	723.8
2019	678.7
2018	617.1

Customer deposits (QR billion)

2020	738.7
2019	684.5
2018	620.6

Performance highlights
The year presented several challenges, including headwinds from the global pandemic combined with increased concern for the health and safety of our employees, customers and other stakeholders. Despite these headwinds, QNB Group demonstrated resilience and continued to exhibit robust financial performance. As a result of our disciplined approach towards executing our strategy, we have delivered sustainable revenue growth, reduced the cost of funds in line with market trends, significantly improved efficiency in our operations and continued our conservative stance of building adequate provisioning buffers for preserving the asset quality.

Our unwavering commitment to our clients and their trust has resulted in QNB Group reporting another set of strong operating results:

> net profit reached QR12.0 billion;
> total assets reached QR1,025 billion, up by 9% from December 2019;
> net loans and advances increased to QR723.8 billion, up by 7% from December 2019; and
> customer deposits increased to QR738.7 billion, up by 8% from December 2019.

As a result of the impact of weaker economic environment amid the pandemic, QNB Group continued its conservative stance towards credit provisioning and maintains an industry-leading 100% provision against non-performing loans. The Group efficiently managed the non-performing loans ratio at 2.1%, one of the lowest among banks in the MEA region. In addition, we have increased expected credit losses reserve on our overall loan portfolio. While this has impacted the reported profitability for 2020, it has nonetheless strengthened QNB to continue on its growth journey when economic conditions improve.

In 2020 we undertook an extensive review of our cost base and further instilled cost-discipline and operational excellence across the franchise. This, coupled with strong revenue growth, resulted in the reduction of our best-in-class efficiency ratio to 24.3%.

Our largest international franchise, QNB Finansbank in Turkey, increased its total assets in local currency terms by 25%. Despite challenging economic conditions throughout the year, loans grew by 25% and liquidity was strengthened with deposits increasing by 21%. QNB Finansbank is poised to take advantage of the economic upswing as conditions improve.

QNB ALAHLI in Egypt has posted another set of stellar results. Total assets grew in local currency terms by 6%, primarily from loan growth of 6%. The profitability remained broadly stable, due to cost discipline and targeted lending despite competition in the industry.

QNB Group continues to deliver sustainable value to our shareholders on account of our diverse banking products and services, capital strength and first-class external credit ratings.

Ensuring robust capitalisation
This year, our total equity increased to QR96.9 billion, up by 2% from December 2019. The bank's Capital Adequacy Ratio (CAR), at 19.1%, is comfortably higher than both QCB and Basel III requirements. The Group is well capitalised and comfortably exceeds other regulatory liquidity and leverage ratios. In addition, we continued to build investor confidence by participating in a number of virtual investor roadshows by promoting greater transparency and disclosure.

Diversifying our liquidity
It is an essential part of our strategy to mitigate risk by diversifying our funding in terms of currency, geography, product and tenor. In 2020, we continued on this journey in the wholesale markets and in September, we successfully launched the first USD600 million green bond by a Qatari issuer and the largest green bond transaction from a financial institution in Middle East. Earlier in the year, we also issued a USD600 million Formosa bond in January and USD1 billion each in February and May. Coupled with the ground breaking USD3.5 billion dual-tranche transaction in November, these deals are a testament to the trust international investors hold in QNB Group and in our continued financial strength.

International loans and advances (%)

2020	25
2019	27
2018	29

International customer deposits (%)

2020	41
2019	46
2018	44

International net profit (%)

2020	27
2019	35
2018	37

QNB Group follows a very conservative approach to manage its liquidity needs and a prudent liquidity management policy is in place to address business requirements. QNB Group was successful in managing liquidity by continuing to attract cost-effective customer deposits. These efforts resulted in customer funding increasing by 8% to reach QR738.7 billion from December 2019. This led to a reduction in the loan to deposit ratio to 98.0%, compared with 99.2% in December 2019, demonstrating the success of QNB's strategy to continue to strengthen its liquidity position.

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 26% of total assets, giving QNB Group ample reserves to take advantage of business opportunities.

Looking forward to growth
While the global pandemic has caused uncertainty in the global economic outlook, we continue to consolidate our position as one of the leading banks in the MEASEA region. With the encouraging news of vaccines and the strong spirit of our employees and customers in dealing with the new normal, we are optimistic in the recovery. Across our network, our relentless focus on delivering value for our clients continues to be the main pillar on which we intend to take QNB Group on its next phase of growth.

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 2020, 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 2020, 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 COVID-19 pandemic has significantly impacted the management's determination of ECL. The assumptions regarding the economic outlook are more uncertain which increases the level of judgement required by the Group in calculating the ECL, and the associated audit risk. > The Group's financial assets, both on and off-balance sheet, subject to credit risk were QAR 1,197,617 million, as at 31 December 2020, hence a material portion of the consolidated statement of financial position. Furthermore, the total impairment recognised by the Group on these financial assets amounted to QAR 6,037 million, in the year ended 31 December 2020, which represents 50% 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 the provision calculations, including selection of methods, models, assumptions and data sources in light of the impact of the COVID-19 pandemic. > 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, including the impact of the COVID-19 pandemic. > 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 including the impact of the COVID-19 pandemic. > Assessing the completeness, accuracy and relevance of the input data used. > Evaluating the appropriateness and testing the mathematical accuracy of ECL models applied. > Evaluating the reasonableness of and testing the post-model adjustments particularly in light of the volatility caused due to impact of the COVID-19 pandemic. > 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 Bank's consolidated financial statements and our auditor's report thereon. Prior to the date of this auditor's report, we obtained the report of the Board of Directors which forms part of the Annual Report, and the remaining sections of the Annual Report are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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 2020.

14 January 2021
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 2020
(All amounts are shown in thousands of Qatari Riyals)

	Notes	2020	2019
ASSETS			
Cash and balances with central banks	8	81,550,978	62,155,228
Due from banks	9	65,127,820	79,316,258
Loans and advances to customers	10	723,795,174	678,681,835
Investment securities	11	123,383,569	95,899,182
Investments in associates	12	7,064,652	7,116,602
Property and equipment	13	5,405,040	5,377,742
Intangible assets	14	3,946,963	3,993,218
Other assets	15	14,740,864	12,157,626
Total assets		**1,025,015,060**	**944,697,691**
LIABILITIES			
Due to banks	16	87,953,723	78,383,845
Customer deposits	17	738,737,586	684,488,921
Debt securities	18	42,573,503	33,778,250
Other borrowings	19	27,901,487	25,266,611
Other liabilities	20	30,947,042	28,060,896
Total liabilities		**928,113,341**	**849,978,523**
EQUITY			
Issued capital	22	9,236,429	9,236,429
Legal reserve	22	25,326,037	25,326,037
Risk reserve	22	9,000,000	8,500,000
Fair value reserve	22	(1,811,051)	(1,347,274)
Foreign currency translation reserve	22	(18,617,295)	(16,439,210)
Other reserves	22	166,050	263,729
Retained earnings	22	52,509,508	48,059,481
Total equity attributable to equity holders of the bank		**75,809,678**	**73,599,192**
Non-controlling interests	23	1,092,041	1,119,976
Instruments eligible for additional Tier 1 Capital	24	20,000,000	20,000,000
Total equity		**96,901,719**	**94,719,168**
Total liabilities and equity		**1,025,015,060**	**944,697,691**

These consolidated financial statements were approved by the Board of Directors on 12 January 2021 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 41 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 2020
(All amounts are shown in thousands of Qatari Riyals)

	Notes	2020	2019
Interest income	25	43,773,079	53,078,766
Interest expense	26	(22,777,721)	(32,882,296)
Net interest income		**20,995,358**	**20,196,470**
Fee and commission income	27	3,971,535	4,840,852
Fee and commission expense		(955,431)	(1,127,815)
Net fee and commission income		**3,016,104**	**3,713,037**
Net foreign exchange gain	28	1,150,875	1,097,998
Income from investment securities	29	205,607	98,926
Other operating income		62,282	129,024
Operating income		**25,430,226**	**25,235,455**
Staff expenses	30	(3,399,935)	(3,495,149)
Depreciation	13	(664,164)	(706,563)
Other expenses	31	(2,141,391)	(2,434,785)
Net ECL / impairment losses on loans and advances to customers	10	(5,825,419)	(3,176,853)
Net ECL / impairment (losses) / recoveries on investment securities		(69,004)	26,997
Net ECL / impairment losses on other financial assets		(142,783)	(139,944)
Amortisation of intangible assets		(76,804)	(73,958)
Other (provisions) / recoveries		(36,161)	7,109
		(12,355,661)	**(9,993,146)**
Share of results of associates	12	109,734	400,826
Profit before income taxes		**13,184,299**	**15,643,135**
Income tax expense	32	(1,101,638)	(1,182,335)
Profit for the year		**12,082,661**	**14,460,800**
Attributable to:			
Equity holders of the Bank		12,002,867	14,350,860
Non-controlling interests		79,794	109,940
Profit for the year		**12,082,661**	**14,460,800**
Basic and diluted earnings per share (QR)	33	1.19	1.45

The attached notes 1 to 41 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 2020
(All amounts are shown in thousands of Qatari Riyals)

	2020	2019
Profit for the year	**12,082,661**	**14,460,800**
Other comprehensive income that is or may be reclassified to the consolidated income statement in subsequent periods:		
Foreign currency translation differences for foreign operations	(2,274,562)	(183,895)
Share of other comprehensive income of associates	(97,059)	(420,538)
Effective portion of changes in fair value of cash flow hedges	216,006	(1,030,336)
Effective portion of changes in fair value of net investment in foreign operations	(785,132)	202,567
Investments in debt instruments measured at FVOCI		
- Net change in fair value	248,203	310,994
- Net amount transferred to income statement	(67,359)	(18,635)
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	(95,320)	166,368
Total other comprehensive loss for the year, net of income tax	**(2,855,223)**	**(973,475)**
Total comprehensive income for the year	**9,227,438**	**13,487,325**
Attributable to:		
Equity holders of the Bank	9,244,555	13,333,554
Non-controlling interests	(17,117)	153,771
Total comprehensive income for the year	**9,227,438**	**13,487,325**

The attached notes 1 to 41 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 2020

(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 2020	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
Total comprehensive income for the year											
Profit for the year	–	–	–	–	–	–	12,002,867	12,002,867	79,794	–	12,082,661
Total other comprehensive loss	–	–	–	(482,548)	(2,178,085)	(97,679)	–	(2,758,312)	(96,911)	–	(2,855,223)
Total comprehensive income for the year	**–**	**–**	**–**	**(482,548)**	**(2,178,085)**	**(97,679)**	**12,002,867**	**9,244,555**	**(17,117)**	**–**	**9,227,438**
Reclassification of net change in fair value of equity instruments upon derecognition	–	–	–	18,771	–	–	(18,771)	–	–	–	–
Transfer to risk reserve	–	–	500,000	–	–	–	(500,000)	–	–	–	–
Transfer to social and sports fund	–	–	–	–	–	–	(219,467)	(219,467)	–	–	(219,467)
Transactions recognised directly in equity											
Dividend for the year 2019 (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)
Other movements	–	–	–	–	–	–	(272,745)	(272,745)	(10,818)	–	(283,563)
Total transactions recognised directly in equity	**–**	**–**	**–**	**–**	**–**	**–**	**(6,814,602)**	**(6,814,602)**	**(10,818)**	**–**	**(6,825,420)**
Balance at 31 December 2020	**9,236,429**	**25,326,037**	**9,000,000**	**(1,811,051)**	**(18,617,295)**	**166,050**	**52,509,508**	**75,809,678**	**1,092,041**	**20,000,000**	**96,901,719**
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 (loss) / 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	–	–	–	–	–	–	(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**

The attached notes 1 to 41 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 2020
(All amounts are shown in thousands of Qatari Riyals)

	Notes	2020	2019
Cash flows from operating activities			
Profit before income taxes		13,184,299	15,643,135
Adjustments for:			
Interest income		(43,773,079)	(53,078,766)
Interest expense		22,777,721	32,882,296
Depreciation	13	664,164	706,563
Net ECL / impairment losses on loans and advances to customers	10	5,825,419	3,176,853
Net ECL / impairment losses / (recoveries) on investment securities		69,004	(26,997)
Net ECL / impairment losses on other financial assets		142,783	139,944
Other provisions		93,162	64,421
Dividend income	29	(48,365)	(59,453)
Net gain on sale of property and equipment		(17,881)	(1,601)
Net gain on sale of investment securities	29	(120,745)	(26,469)
Amortisation of intangible assets		76,804	73,958
Net amortisation of premium or discount on investments		(1,629,308)	(270,579)
Net share of results of associates		(63,830)	(289,376)
		(2,819,852)	**(1,066,071)**
Changes in:			
Due from banks		1,558,999	(3,042,785)
Loans and advances to customers		(56,876,857)	(95,666,699)
Other assets		(6,135,498)	(22,659,757)
Due to banks		11,825,389	8,562,002
Customer deposits		57,835,092	105,825,967
Other liabilities		2,227,437	5,007,536
Cash from / (used in) operations		**7,614,710**	**(3,039,807)**
Interest received		35,952,097	51,551,246
Interest paid		(17,964,730)	(33,048,128)
Dividends received		48,365	59,453
Income tax paid		(864,513)	(701,655)
Other provisions paid		(44,880)	(10,129)
Net cash from operating activities		**24,741,049**	**14,810,980**
Cash flows from investing activities			
Acquisition of investment securities		(111,997,115)	(45,576,479)
Proceeds from sale / redemption of investment securities		85,139,198	41,752,268
Additions to property and equipment	13	(1,167,928)	(928,273)
Proceeds from disposal of property and equipment		20,681	4,669
Net cash used in investing activities		**(28,005,164)**	**(4,747,815)**
Cash flows from financing activities			
Payment of coupon on instruments eligible for Additional Tier 1 Capital		(1,000,000)	(532,500)
Proceeds from issuance of debt securities	18	12,142,592	9,764,304
Repayment of debt securities	18	(3,815,091)	(1,842,580)
Proceeds from issuance of other borrowings	19	17,710,213	12,314,000
Repayment of other borrowings	19	(15,325,322)	(11,732,186)
Payment of lease liabilities		(274,052)	(313,349)
Dividends paid		(5,533,350)	(5,538,478)
Net cash from financing activities		**3,904,990**	**2,119,211**
Net increase in cash and cash equivalents		**640,875**	**12,182,376**
Effects of exchange rate fluctuations on cash held		(885,380)	(1,266,393)
Cash and cash equivalents at 1 January		102,727,845	91,811,862
Cash and cash equivalents at 31 December	39	**102,483,340**	**102,727,845**

The attached notes 1 to 41 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 2020
(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 new standards 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.

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.

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.

3. Significant accounting policies (continued)

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 prices). For unlisted investments, the Group recognises any change in the fair value, when they have reliable indicators to support such a change.

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

Assets and long positions are measured at bid price; liabilities and short positions are measured at 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.

3. Significant accounting policies (continued)

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.

When discounting future cash flows, the original effective interest rate or an approximation thereof is used for most financial assets.

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.

Financial guarantee contracts held
The Group assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. If the Group determines that the guarantee is an integral element of the financial asset, then the Group considers the effect of the protection when measuring the fair value of the financial asset and when measuring ECL.

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.

3. Significant accounting policies (continued)

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.

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.

For the purpose of evaluation of hedge effectiveness, the Group has applied relief required under IBOR Reforms Phase 1 amendments and assumed that benchmark interest rates will continue to be available.

Qatar National Bank (Q.P.S.C.)
Notes to the Consolidated Financial Statements
As at and for the year ended 31 December 2020
(All amounts are shown in thousands of Qatari Riyals)

3. Significant accounting policies (continued)

Fair value hedges

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

Cash flow hedges

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

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognised in other comprehensive income from the period when the hedge was effective is reclassified from equity to the consolidated income statement as a reclassification adjustment when the forecast transaction occurs and affects the consolidated income statement. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to the consolidated income statement as a reclassification adjustment.

Hedges of a net investment in foreign operation

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

Other non-trading derivatives

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

(ii) Derivatives held for trading purposes

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

i) Property and equipment

(i) Recognition and measurement

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

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

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

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

(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.

3. Significant accounting policies (continued)

(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.

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.

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3. Significant accounting policies (continued)

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.

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.

(All amounts are shown in thousands of Qatari Riyals)

3. Significant accounting policies (continued)

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

Other 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 parent company operations inside Qatar are not subject to income tax. QNB Capital LLC's operations are subject to tax as per the Qatar Financial Centre Authority tax regulations. QNB Financial Services Limited's operations are subject to income tax based on non-resident share of owners in the parent company. Deferred tax assets are recognised for deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent it is probable that taxable profit will be available to utilise these. Deferred tax liabilities are recognised for taxable temporary differences. Deferred tax assets and liabilities are measured using tax rates 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.

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 Qatar Central Bank (QCB) instructions, the Group should dispose of any land and properties acquired against settlement of debts, for Qatar operations, 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.

3. Significant accounting policies (continued)

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

aa) Leases
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.

ab) New amendments to standards
The following amendments to IFRS have been applied by the Group in preparation of these consolidated financial statements. The below were effective from 1 January 2020:

Amendment to Standards	Effective date
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
Definition of a Business (Amendments to IFRS 3)	1 January 2020
Interest Rate Benchmark Reform - Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020

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

ac) Standards issued but not yet effective
The forthcoming requirements of new Standard and amendments to existing Standards are applicable for future reporting periods. The Group will adopt these on annual periods beginning on or after the effective date.

Standards / Amendment to Standards	Effective date
COVID-19-Related Rent Concessions (Amendment to IFRS 16)	1 January 2021
Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021
Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
Annual Improvements to IFRS Standards 2018 - 2020	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts	1 January 2023

Effective from 1 January 2020, the Group has implemented amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures relating to interest rate benchmark reforms. The amendments (referred as Phase I of IBOR transition project) addresses the hedge accounting requirements arising before IBOR and proposed a hedging relief for such hedges.

The Group has applied the hedging relief available under the amendments such as relief on forward looking analysis during the period of uncertainty.

(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	
	2020	**2019**
Cash and balances with central banks (excluding cash on hand)	66,049,493	50,772,107
Due from banks	65,127,820	79,316,258
Loans and advances to customers	723,795,174	678,681,835
Investment securities (debt)	121,839,906	94,222,970
Other assets	7,671,361	7,577,005
	984,483,754	**910,570,175**
Guarantees	60,184,700	61,020,768
Letters of credit	37,708,265	30,505,313
Unutilised credit facilities	115,240,205	111,978,300
Total	**1,197,616,924**	**1,114,074,556**

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 2020	Net maximum exposure 2020	Gross maximum exposure 2019	Net maximum exposure 2019
Government	157,656,180	–	164,008,234	–
Government agencies	249,102,348	75,783,276	214,324,185	79,775,387
Industry	44,036,895	40,069,292	42,467,380	38,499,777
Commercial	97,181,489	85,704,903	81,579,975	74,023,156
Services	287,566,118	244,100,255	259,926,970	220,380,874
Contracting	13,900,905	10,561,389	12,399,068	9,059,552
Real Estate	60,562,802	35,958,273	61,376,412	36,771,883
Personal	71,994,217	53,859,187	69,260,871	51,125,841
Others	2,482,800	697,669	5,227,080	3,441,949
Guarantees	60,184,700	60,184,700	61,020,768	61,020,768
Letters of credit	37,708,265	37,708,265	30,505,313	30,505,313
Unutilised credit facilities	115,240,205	115,240,205	111,978,300	111,978,300
Total	**1,197,616,924**	**759,867,414**	**1,114,074,556**	**716,582,800**

(All amounts are shown in thousands of Qatari Riyals)

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.

	2020			
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	119,749,876	–	–	119,749,876
Sub-investment grade - ORR 5 to 7	10,257,906	1,244,050	–	11,501,956
Substandard - ORR 8	–	–	–	–
Doubtful - ORR 9	–	–	–	–
Loss - ORR 10	–	–	–	–
	130,007,782	**1,244,050**	**–**	**131,251,832**
Loss allowance				(74,519)
Carrying amount				**131,177,313**

	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**

	2020			
Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Investment grade - ORR 1 to 4	544,251,471	379,150	–	544,630,621
Sub-investment grade - ORR 5 to 7	142,131,978	42,781,074	–	184,913,052
Substandard - ORR 8	–	–	4,631,148	4,631,148
Doubtful - ORR 9	–	–	2,065,130	2,065,130
Loss - ORR 10	–	–	9,114,862	9,114,862
	686,383,449	**43,160,224**	**15,811,140**	**745,354,813**
Loss allowance				(21,559,639)
Carrying amount				**723,795,174**

4. Financial risk management (continued)

	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**

	2020			
Investment securities (debt)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Investment grade - ORR 1 to 4	98,057,603	–	–	98,057,603
Sub-investment grade - ORR 5 to 7	23,723,890	145,620	–	23,869,510
Substandard - ORR 8	–	–	–	–
Doubtful - ORR 9	–	–	–	–
Loss - ORR 10	–	–	72,432	72,432
	121,781,493	**145,620**	**72,432**	**121,999,545**
Loss allowance				(178,581)
Carrying amount				**121,820,964**

	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**

	2020			
Loan commitments and financial guarantees	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Investment grade - ORR 1 to 4	122,665,676	99,431	–	122,765,107
Sub-investment grade - ORR 5 to 7	84,682,129	5,859,007	–	90,541,136
Substandard - ORR 8	–	–	56,274	56,274
Doubtful - ORR 9	–	–	33,706	33,706
Loss - ORR 10	–	–	283,738	283,738
	207,347,805	**5,958,438**	**373,718**	**213,679,961**
Loss allowance				(546,791)
Carrying amount				**213,133,170**

4. Financial risk management (continued)

	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	3,038,509	–	79,395,491
Substandard - ORR 8	–	–	41,009	41,009
Doubtful - ORR 9	–	–	26,345	26,345
Loss - ORR 10	–	–	167,238	167,238
	200,547,325	**3,169,622**	**234,592**	**203,951,539**
Loss allowance				(447,159)
Carrying amount				**203,504,380**

Write off
Financial assets are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are recognised when cash is received. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Write-offs are subject to regulatory approvals, if any.

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, beyond what was observed in markets, where QNB Group is present. 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 2020 is QR7,623 million (2019: QR8,226 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 2020 is QR469.0 million (2019: QR763.0 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 (SICR) based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

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

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

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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 are 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 macro-economic factors on historical default rates. In case none of the above macro-economic 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 macro-economic 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 as well as risk drivers for a range of scenarios (for Qatar as at 31 December 2020: Oil $19 - $44.9 price/barrel, GDP -1.5% to -4.4%, Inflation 0.7% to 1.9% etc. 2019: Oil $60 - $62 price/barrel, GDP 1.3% to 3.5%, Inflation 1.9% - 2.2% 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 2020, were 55% to Base Case, 45% to Downside and 0% Upside Case (2019: 80% to Base Case and 10% each to Downside and Upside Case).

The table below shows the loss allowance on loans and advances to customers assuming each forward-looking scenario (e.g. base, upside and downside) were weighted 100% instead of applying scenario probability weights across the three scenarios.

	2020	2019
100% Base case, loss allowance would be higher / (lower) by	(295,000)	(56,000)
100% Upside case, loss allowance would be higher / (lower) by	(824,000)	(348,000)
100% Downside case, loss allowance would be higher / (lower) by	557,000	317,000

These estimates are based on comparisons performed during the year.

4. Financial risk management (continued)

Measurement of ECL

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

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

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

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

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

LGD estimation includes:

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

	2020			
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	41,651	9,572	–	51,223
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
ECL / impairment allowance for the year, net	14,441	11,058	–	25,499
Amounts written off	–	–	–	–
Foreign currency translation	(2,391)	188	–	(2,203)
Balance at 31 December	**53,701**	**20,818**	**–**	**74,519**

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4. Financial risk management (continued)

	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**

	2020			
Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total ECL / impairment**
Balance at 1 January	1,246,620	2,694,380	12,835,228	16,776,228
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(82,829)	82,829	–	–
Transfers to Stage 3	–	(396,954)	396,954	–
ECL / impairment allowance for the year, net	370,228	988,612	5,513,855	6,872,695
Amounts written off	–	–	(1,318,718)	(1,318,718)
Foreign currency translation	(106,068)	(182,216)	(482,282)	(770,566)
Balance at 31 December	**1,427,951**	**3,186,651**	**16,945,037**	**21,559,639**

	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**

	2020			
Investment securities (debt)	**Stage 1**	**Stage 2**	**Stage 3**	**Total ECL / impairment**
Balance at 1 January	56,902	5,291	76,600	138,793
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(6,593)	6,593	–	–
Transfers to Stage 3	–	(177)	177	–
ECL / impairment allowance for the year, net	28,596	13,512	26,896	69,004
Amounts written off	–	–	(27,237)	(27,237)
Foreign currency translation	(2,170)	–	191	(1,979)
Balance at 31 December	**76,735**	**25,219**	**76,627**	**178,581**

4. Financial risk management (continued)

	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**

	2020			
Loan commitments and financial guarantees	Stage 1	Stage 2	Stage 3	Total ECL / impairment
Balance at 1 January	213,251	75,150	158,758	447,159
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(719)	719	–	–
Transfers to Stage 3	–	(1,070)	1,070	–
ECL / impairment allowance for the year, net	67,109	68,662	(18,487)	117,284
Amounts written off	–	–	–	–
Foreign currency translation	(3,626)	(5,991)	(8,035)	(17,652)
Balance at 31 December	**276,015**	**137,470**	**133,306**	**546,791**

	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**

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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	
		2020	2019
Market indices			
Qatar exchange	±5	**11,888**	**12,030**

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 2020:						
Assets	288,052,794	431,128,086	119,991,589	46,411,911	139,430,680	1,025,015,060
Liabilities and equity	276,328,203	444,731,503	120,270,161	46,270,348	137,414,845	1,025,015,060
Net exposure	**11,724,591**	**(13,603,417)**	**(278,572)**	**141,563**	**2,015,835**	**–**
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**	**–**

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	
		2020	2019
Currency			
US$	+2	(272,068)	250,979
Euro	+3	(8,357)	(26,367)
Pound Sterling	+2	2,831	2,320
Egyptian Pound	+3	524	1,889
Turkish Lira	+3	6,398	(223,062)
Other currencies	+3	53,553	243,945
US$	–2	272,068	(250,979)
Euro	–3	8,357	26,367
Pound Sterling	–2	(2,831)	(2,320)
Egyptian Pound	–3	(524)	(1,889)
Turkish Lira	–3	(6,398)	223,062
Other currencies	–3	(53,553)	(243,945)

(All amounts are shown in thousands of Qatari Riyals)

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 2020:							
Cash and balances with central banks	27,913,197	–	–	–	53,637,781	81,550,978	
Due from banks	57,910,813	1,811,574	278,110	–	5,127,323	65,127,820	0.74%
Loans and Advances	481,221,081	171,410,130	40,293,352	7,350,037	23,520,574	723,795,174	4.90%
Investments	43,757,356	20,376,037	37,344,273	18,592,815	10,377,740	130,448,221	8.33%
Other assets	–	–	–	–	24,092,867	24,092,867	
Total assets	**610,802,447**	**193,597,741**	**77,915,735**	**25,942,852**	**116,756,285**	**1,025,015,060**	
Due to banks	59,817,908	23,769,263	4,129,419	5,665	231,468	87,953,723	1.50%
Customer deposits	463,524,570	138,948,148	39,292,749	8,177,172	88,794,947	738,737,586	2.69%
Debt securities	11,121,418	3,652,247	15,058,930	12,138,464	602,444	42,573,503	3.35%
Other borrowings	27,844,912	7,296	22,294	–	26,985	27,901,487	1.63%
Other liabilities	–	–	–	–	30,947,042	30,947,042	
Total equity	–	–	–	–	96,901,719	96,901,719	
Total liabilities and equity	**562,308,808**	**166,376,954**	**58,503,392**	**20,321,301**	**217,504,605**	**1,025,015,060**	
Balance sheet items	48,493,639	27,220,787	19,412,343	5,621,551	(100,748,320)	–	
Off-balance sheet items	19,196,470	(5,504,942)	(14,933,201)	3,454,500	(2,212,827)	–	
Interest rate sensitivity gap	**67,690,109**	**21,715,845**	**4,479,142**	**9,076,051**	**(102,961,147)**	**–**	
Cumulative interest rate sensitivity gap	**67,690,109**	**89,405,954**	**93,885,096**	**102,961,147**	**–**	**–**	
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	314,734,420	294,586,032	39,689,596	10,464,870	19,206,917	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	**416,085,840**	**314,899,814**	**80,933,028**	**30,033,680**	**102,745,329**	**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	(123,423,198)	168,098,494	20,223,478	22,049,500	(86,948,274)	–	
Off-balance sheet items	27,463,563	436,924	(22,111,109)	(5,500,542)	(288,836)	–	
Interest rate sensitivity gap	**(95,959,635)**	**168,535,418**	**(1,887,631)**	**16,548,958**	**(87,237,110)**	**–**	
Cumulative interest rate sensitivity gap	**(95,959,635)**	**72,575,783**	**70,688,152**	**87,237,110**	**–**	**–**	

Other assets includes property and equipment and intangible assets.

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.

2020	Increase in basis points	Sensitivity of net interest income	Decrease in basis points	Sensitivity of net interest income
Currency				
Qatari Riyal	10	105,138	10	(105,138)
US$	10	12,930	10	(12,930)
Euro	10	(13,010)	10	13,010
Pound Sterling	10	1,789	10	(1,789)
Other currencies	10	6,407	10	(6,407)

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

Inter Bank Offered Rate (IBOR) reforms

Overview

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. There is uncertainty over the timing and the methods of transition in some jurisdictions that the Group operates in. The Group anticipates that IBOR reform will impact its risk management and hedge accounting.

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by the IBOR regulators. In response to the announcements, the Group has set up an IBOR Steering Committee comprised of the various work streams including risk management, tax, treasury, legal, accounting and systems. The programme is under the governance of the Group Chief Business Officer. The aim is to effect an orderly transition of legacy transactions onto risk free rate based repricing indicies, and to enable a smooth adoption for new transactions. The IBOR Steering Committee oversights the IBOR transition process in its entirety, including product development, legal considerations, system enhancements, operational readiness, staff awareness and customer communication. The Group aims to finalise its transition and fall back plans by the end of first half of 2021.

Derivatives

The Group holds interest rate swaps for risk management purposes which are designated in cash flow hedging relationships. The interest rate swaps have floating legs that are indexed principally to LIBOR. The Group's derivative instruments are governed by contracts based on the International Swaps and Derivatives Association (ISDA)'s master agreements. The Group is monitoring developments with regards to IBOR related amendments to the ISDA protocol.

Hedge Accounting

The Group has evaluated the extent to which its cash flow hedging relationships are subject to uncertainty driven by IBOR reform as at 31 December 2020. The Group's hedged items and hedging instruments continue to be indexed principally to LIBOR. These benchmark rates are quoted each day and the IBOR cash flows are exchanged with counterparties as usual.

The Group's LIBOR cash flow hedging relationships extend beyond the anticipated cessation date for LIBOR. The Group expects that USD and GBP LIBOR may be discontinued after the end of 2021. The preferred alternative reference rate is the Sterling Overnight Index Average (SONIA) for GBP LIBOR and Secured Overnight Financing Rate (SOFR) for USD LIBOR.

(All amounts are shown in thousands of Qatari Riyals)

4. Financial risk management (continued)

However, there is uncertainty about when and how replacement may occur with respect to the relevant hedged items and hedging instruments. Such uncertainty may impact the hedging relationship. The Group applies the amendments to IFRS 9 to those hedging relationships directly affected by IBOR reform.

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.

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 2020:						
Cash and balances with central banks	40,951,732	–	–	–	40,599,246	81,550,978
Due from banks	53,606,418	7,925,190	1,405,589	2,190,623	–	65,127,820
Loans and advances to customers	96,407,324	25,020,417	58,500,313	187,861,136	356,005,984	723,795,174
Investments	3,832,435	7,517,728	16,533,277	42,687,748	59,877,033	130,448,221
Other assets	13,033,236	400,910	1,189,723	8,155,930	1,313,068	24,092,867
Total assets	**207,831,145**	**40,864,245**	**77,628,902**	**240,895,437**	**457,795,331**	**1,025,015,060**
Due to banks	23,702,869	16,190,259	23,620,314	22,227,774	2,212,507	87,953,723
Customer deposits	250,649,193	69,455,430	133,060,377	265,922,482	19,650,104	738,737,586
Debt securities	265,737	124,271	10,846,133	19,196,973	12,140,389	42,573,503
Other borrowings	70,160	7,376	11,320,290	16,503,661	–	27,901,487
Other liabilities and equity	19,415,527	1,359,028	1,887,587	4,124,076	101,062,543	127,848,761
Total liabilities and equity	**294,103,486**	**87,136,364**	**180,734,701**	**327,974,966**	**135,065,543**	**1,025,015,060**
On-balance sheet gap	**(86,272,341)**	**(46,272,119)**	**(103,105,799)**	**(87,079,529)**	**322,729,788**	**–**
Contingent and other items	**91,989,521**	**32,750,242**	**46,088,632**	**35,885,268**	**21,928,438**	**228,642,101**
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	14,709,275	10,263,612	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**	**143,258,095**	**256,398,124**	**137,160,079**	**944,697,691**
On-balance sheet gap	**(111,466,653)**	**(44,845,475)**	**(62,137,325)**	**(85,967,287)**	**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**

Other assets includes property and equipment and intangible assets.

The liquidity coverage ratio maintained by the Group as at 31 December 2020 is 164% (2019: 160%), as against the minimum requirement of 100% for the year ended 31 December 2020 (100% for 31 December 2019) 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 2020:						
Due to banks	27,921,155	16,397,513	24,266,902	23,004,504	2,298,600	93,888,674
Customer deposits	251,734,678	70,401,504	135,982,400	271,009,133	29,714,887	758,842,602
Debt securities	274,054	439,565	10,992,312	20,976,693	12,571,513	45,254,137
Other borrowings	70,160	74,363	11,484,876	17,148,926	–	28,778,325
Lease liabilities	14,319	19,276	79,309	483,868	87,546	684,318
Derivative financial instruments						
- Contractual amounts payable - forward contracts	52,047,998	42,126,509	10,898,287	346,771	–	105,419,565
- Contractual amounts receivable - forward contracts	(50,816,106)	(41,427,002)	(10,665,689)	(365,760)	–	(103,274,557)
- Contractual amounts payable / (receivable) - others	(660,045)	(259,796)	1,258,229	625,052	(9,383,836)	(8,420,396)
Total liabilities	**280,586,213**	**87,771,932**	**184,296,626**	**333,229,187**	**35,288,710**	**921,172,668**
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	14,734,958	11,225,314	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**	**143,180,738**	**269,479,797**	**39,241,297**	**846,387,511**

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.

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

	2020	2019
Common Equity Tier 1 (CET 1) capital	73,485,795	70,452,080
Eligible Additional Tier 1 (AT1) capital instruments	20,000,000	20,000,000
Additional Tier 1 capital	84,021	91,848
Additional Tier 2 capital	5,267,427	4,373,999
Total eligible capital	**98,837,243**	**94,917,927**
Risk weighted assets for credit risk	446,945,612	426,134,253
Risk weighted assets for market risk	5,265,239	5,660,334
Risk weighted assets for operational risk	43,095,707	41,698,671
Total risk weighted assets	**495,306,558**	**473,493,258**
CET 1 ratio*	**14.0%**	**13.7%**
Tier 1 capital ratio*	**18.1%**	**18.0%**
Total capital ratio*	**19.1%**	**18.9%**

* 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%

Pursuant to Qatar Central Bank circular number 24/2019, there is no material change to the Group's current ICAAP charge based on revised IRRBB rules which are effective from 30 June 2020.

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) Allowances for credit losses

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.

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5. Use of estimates and judgements (continued)

(ii) 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.

(iii) 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 2020:				
Derivative assets held for risk management	50	5,505,932	–	5,505,982
Investment securities	35,860,571	1,202,063	–	37,062,634
Total	**35,860,621**	**6,707,995**	**–**	**42,568,616**
Derivative liabilities held for risk management	1,430	5,856,817	–	5,858,247
Total	**1,430**	**5,856,817**	**–**	**5,858,247**
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**

There have been no transfers between Level 1 and Level 2 (2019: 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.

(All amounts are shown in thousands of Qatari Riyals)

5. Use of estimates and judgements (continued)

b) Critical accounting judgements in applying the Group's accounting policies

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) 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.

(ix) Provision for employee's end of service benefits
The Group measures its obligation for the post-employment benefits of its employees based on the provisions of the Qatar Labour Law and contractual obligations. These results are not materially different from the requirements of IAS 19.

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.

6. Operating segments (continued)

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

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

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

	Qatar operations					
	Corporate banking	Consumer banking	Asset and wealth management	International banking	Unallocated and intra–group transactions	Total
As at 31 December 2020:						
Revenue:						
Net interest income	10,988,233	669,620	994,925	8,287,177	55,403	20,995,358
Net fee and commission income	676,021	173,901	264,423	1,892,894	8,865	3,016,104
Net foreign exchange gain	627,078	168,772	118,768	232,843	3,414	1,150,875
Income from investment securities	37,313	–	(1,145)	169,439	–	205,607
Other operating income	3,834	13	611	55,851	1,973	62,282
Share of results of associates	58,789	–	–	50,945	–	109,734
Total segment revenue	**12,391,268**	**1,012,306**	**1,377,582**	**10,689,149**	**69,655**	**25,539,960**
Reportable segment profit	**7,492,405**	**330,395**	**1,222,221**	**3,224,195**	**(266,349)**	**12,002,867**
Reportable segment investments	76,462,342	–	566	46,920,661	–	123,383,569
Reportable segment loans and advances	504,772,502	9,378,067	31,257,900	178,386,705	–	723,795,174
Reportable segment customer deposits	348,398,614	32,998,292	53,607,586	303,733,094	–	738,737,586
Reportable segment assets	691,408,086	34,046,785	55,317,688	548,181,974	(303,939,473)	1,025,015,060
As at 31 December 2019:						
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

(All amounts are shown in thousands of Qatari Riyals)

7. Financial assets and liabilities

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

	Fair value through profit or loss - mandatory		Fair value through other comprehensive income				
	Debt instruments	Equity instruments	Debt instruments	Equity instruments	Amortised cost	Total carrying amount	Fair value
As at 31 December 2020:							
Cash and balances with central banks	–	–	–	–	81,550,978	81,550,978	81,550,978
Due from banks	–	–	–	–	65,127,820	65,127,820	65,127,820
Loans and advances	–	–	–	–	723,795,174	723,795,174	722,138,187
Investment securities:							
- At fair value	142,661	146,257	35,376,310	1,397,406	–	37,062,634	37,062,634
- At amortised cost	–	–	–	–	86,320,935	86,320,935	87,771,854
Total	**142,661**	**146,257**	**35,376,310**	**1,397,406**	**956,794,907**	**993,857,541**	**993,651,473**
Due to banks	–	–	–	–	87,953,723	87,953,723	87,953,723
Customer deposits	–	–	–	–	738,737,586	738,737,586	738,759,706
Debt securities	–	–	–	–	42,573,503	42,573,503	42,510,124
Other borrowings	–	–	–	–	27,901,487	27,901,487	27,908,762
Total	**–**	**–**	**–**	**–**	**897,166,299**	**897,166,299**	**897,132,315**

	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	–	–	–	–	678,681,835	678,681,835	678,703,447
Investment securities:							
- At fair value	138,386	83,726	36,108,707	1,592,486	–	37,923,305	37,395,303
- At amortised cost	–	–	–	–	57,975,877	57,975,877	58,073,807
Total	**138,386**	**83,726**	**36,108,707**	**1,592,486**	**878,129,198**	**916,052,503**	**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**

8. Cash and balances with central banks

	2020	2019
Cash	15,501,485	11,383,121
Cash reserve with Qatar Central Bank	20,271,711	18,388,171
Other balances with Qatar Central Bank	19,561,356	10,434,210
Balances with other central banks	26,209,313	21,947,048
Accrued interest	11,947	4,328
Allowance for impairment	(4,834)	(1,650)
Total	**81,550,978**	**62,155,228**

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 QR20,328 million (2019: QR14,674 million) which cannot be used to fund the Group's day-to-day operations.

9. Due from banks

	2020	2019
Current accounts	9,896,494	7,897,882
Placements	55,001,394	71,209,408
Accrued interest	299,617	258,541
Allowance for impairment	(69,685)	(49,573)
Total	**65,127,820**	**79,316,258**

10. Loans and advances to customers

a) By type

	2020	2019
Loans	670,910,892	619,408,159
Overdrafts	64,138,497	66,557,462
Bills discounted	3,033,856	3,457,913
	738,083,245	**689,423,534**
Accrued interest	7,336,182	6,083,121
Deferred profit	(64,614)	(48,592)
Expected credit losses - performing loans and advances to customers - Stage 1 and 2	(4,614,602)	(3,941,000)
Impairment on non-performing loans and advances to customers - Stage 3	(16,945,037)	(12,835,228)
Net loans and advances to customers	**723,795,174**	**678,681,835**

The aggregate amount of non-performing loans and advances to customers amounted to QR15,811 million, which represents 2.1% of total loans and advances (2019: QR12,839 million, 1.9% of total loans and advances to customers).

Allowance for impairment of loans and advances to customers includes QR2,383 million of interest in suspense (2019: QR1,586 million).

(All amounts are shown in thousands of Qatari Riyals)

10. Loans and advances to customers (continued)

b) By industry

	Loans and advances	Overdrafts	Bills discounted	Total
As at 31 December 2020:				
Government	45,650,497	27,835,403	–	73,485,900
Government agencies	180,190,591	2,321,686	–	182,512,277
Industry	41,203,052	3,901,566	281,393	45,386,011
Commercial	95,508,163	4,079,141	620,983	100,208,287
Services	177,330,495	8,812,058	1,125,452	187,268,005
Contracting	13,516,947	726,524	88,826	14,332,297
Real estate	58,889,991	3,165,284	386,992	62,442,267
Personal	63,568,670	13,167,073	489,067	77,224,810
Others	2,388,668	129,762	41,143	2,559,573
Total	**678,247,074**	**64,138,497**	**3,033,856**	**745,419,427**
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**

The amounts include interest receivable and exclude ECL / impairment and deferred profit.

c) ECL / impairment of loans and advances to customers

	Corporate lending	Small business lending	Consumer lending	Residential mortgages	Total
Balance as at 1 January 2020	9,878,877	2,657,388	4,177,912	62,051	16,776,228
Foreign currency translation	(243,254)	(343,934)	(182,464)	(914)	(770,566)
Allowances made during the year	7,735,291	567,458	818,797	8,497	9,130,043
Recoveries during the year	(1,657,172)	(212,377)	(382,387)	(5,412)	(2,257,348)
Written off / transfers during the year	(1,046,129)	(246,137)	(26,427)	(25)	(1,318,718)
Balance as at 31 December 2020	**14,667,613**	**2,422,398**	**4,405,431**	**64,197**	**21,559,639**
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**

ECL / impairment allowance and recoveries for the year includes interest in suspense and recoveries of balances previously written off amounting to QR1,047 million (2019: QR353 million).

10. Loans and advances to customers (continued)

d) Net ECL / impairment during the year

	2020	2019
Corporate lending	(5,263,009)	(2,584,744)
Small business lending	(334,026)	(532,561)
Consumer lending	(225,379)	(56,794)
Residential mortgages	(3,005)	(2,754)
Total	**(5,825,419)**	**(3,176,853)**

Impairment loss excludes interest in suspense.

11. Investment securities

	Notes	2020	2019
Investments measured at fair value through profit or loss (FVPL)	11a	288,918	222,112
Investments measured at fair value through other comprehensive income (FVOCI)	11b	36,267,165	37,173,191
Investments measured at amortised cost (AC), net	11c	85,058,061	57,128,169
Accrued interest		1,769,425	1,375,710
Total		**123,383,569**	**95,899,182**

The carrying amount and fair value of securities under repurchase agreements amounted to QR37,611 million and QR38,869 million respectively (2019: QR29,446 million and QR30,209 million respectively).

a) Investments measured at fair value through profit or loss

	2020		2019	
	Quoted	Unquoted	Quoted	Unquoted
Mutual funds and equities	146,257	–	83,726	–
Debt securities	142,661	–	138,386	–
Total	**288,918**	**–**	**222,112**	**–**

b) Investments measured at fair value through other comprehensive income

	2020		2019	
	Quoted	Unquoted	Quoted	Unquoted
Mutual fund and equities	1,133,336	264,070	1,279,722	312,764
State of Qatar debt securities	21,561,136	–	24,271,686	–
Other debt securities	13,308,623	–	11,309,019	–
Total	**36,003,095**	**264,070**	**36,860,427**	**312,764**

Fixed rate securities amounted to QR32,492 million (2019: QR33,058 million) and floating rate securities amounted to QR2,378million (2019: QR2,523 million).

The above is net of impairment allowance in respect of debt securities amounting to QR Nil million (2019: QR15.1 million).

Expected credit loss of QR18.9 million (2019: QR8.0 million), pertaining to FVOCI debt securities is part of fair value reserve in equity.

11. Investment securities (continued)

c) Investments measured at amortised cost

	2020		2019	
	Quoted	Unquoted	Quoted	Unquoted
By issuer				
State of Qatar debt securities	13,617,892	–	13,279,553	–
Other debt securities	36,432,645	35,007,524	40,432,972	3,415,644
Total	**50,050,537**	**35,007,524**	**53,712,525**	**3,415,644**
By interest rate				
Fixed rate securities	45,539,963	3,988,964	48,929,345	3,415,644
Floating rate securities	4,510,574	31,018,560	4,783,180	–
Total	**50,050,537**	**35,007,524**	**53,712,525**	**3,415,644**

The above is net of impairment allowance in respect of debt securities amounting to QR159.6 million (2019: QR115.7 million).

12. Investments in associates

	2020	2019
Balance as at 1 January	7,116,602	7,682,698
Foreign currency translation	(24,742)	(13,634)
Share of results	109,734	400,826
Cash dividend	(45,904)	(111,450)
Other movements / disposals	(91,038)	(841,838)
Balance as at 31 December	**7,064,652**	**7,116,602**

			Ownership %	
Name of associate	Country	Principal business	2020	2019
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 / (loss)	Market price per share (QR)
Balance as at 30 September 2020					
Housing Bank for Trade and Finance	41,463,774	35,559,028	5,904,746	82,713	17.25
Commercial Bank International	18,268,642	15,786,401	2,482,241	(4,879)	0.67
Ecobank Transnational Incorporated	88,985,277	82,298,599	6,686,678	(27,306)	0.04
Balance as at 31 December 2019					
Housing Bank for Trade and Finance	43,332,929	37,562,485	5,770,444	140,954	28.00
Commercial Bank International	18,106,255	15,646,078	2,460,177	61,732	0.95
Ecobank Transnational Incorporated	86,065,730	79,200,559	6,865,171	135,011	0.06

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13. Property and equipment

	Land and buildings	Leasehold improvements	Equipment and furniture	Motor vehicles	Total
2020					
Cost:					
Balance as at 1 January	4,911,932	995,620	3,380,777	63,810	9,352,139
Additions	664,146	41,793	427,645	34,344	1,167,928
Disposals	(65,573)	(3,931)	(14,767)	(1,768)	(86,039)
Foreign currency translation / others	(384,723)	(162,605)	(485,486)	(3,935)	(1,036,749)
	5,125,782	**870,877**	**3,308,169**	**92,451**	**9,397,279**
Accumulated depreciation:					
Balance as at 1 January	690,809	807,611	2,441,442	34,535	3,974,397
Charged during the year	258,703	51,200	338,722	15,539	664,164
Disposals	(65,071)	(3,363)	(13,399)	(1,406)	(83,239)
Foreign currency translation / others	(31,901)	(143,056)	(388,094)	(32)	(563,083)
	852,540	**712,392**	**2,378,671**	**48,636**	**3,992,239**
Net carrying amount	**4,273,242**	**158,485**	**929,498**	**43,815**	**5,405,040**
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	621,372	–	38,514	35,864	695,750
Additions	435,761	53,571	423,894	15,047	928,273
Disposals	(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	(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**

Details of right-of-use assets are as follows:

	Land and buildings	Equipment and furniture	Motor vehicles	Total
Balance as at 1 January 2020	572,689	23,497	23,343	619,529
Additions	204,102	6,547	14,389	225,038
Disposal	–	–	(16)	(16)
Depreciation	(204,833)	(16,005)	(13,608)	(234,446)
Foreign currency translation / others	(39,301)	(23)	(3,653)	(42,977)
Balance as at 31 December 2020	**532,657**	**14,016**	**20,455**	**567,128**

	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 2020	1,962,802	932,907	1,739,432	4,635,141
Foreign currency translation	35,516	–	–	35,516
Additions	–	–	13,458	13,458
Balance as at 31 December 2020	**1,998,318**	**932,907**	**1,752,890**	**4,684,115**
Accumulated amortisation				
Balance as at 1 January 2020	–	(555,861)	(86,062)	(641,923)
Foreign currency translation	–	–	–	–
Amortisation charge	–	(75,671)	(19,558)	(95,229)
Balance as at 31 December 2020	**–**	**(631,532)**	**(105,620)**	**(737,152)**
Net book value as at 31 December 2020	**1,998,318**	**301,375**	**1,647,270**	**3,946,963**
Net book value as at 31 December 2019	**1,962,802**	**377,046**	**1,653,370**	**3,993,218**

Impairment tests for goodwill and intangible assets with indefinite lives
Net book value of goodwill as at 31 December 2020 includes QR1.7 billion (2019: QR1.7 billion) in respect of QNB ALAHLI, QR89.6 million (2019: QR89.6 million) in respect of QNB Indonesia, QR111.9 million (2019: QR111.9 million) in respect of Mansour Bank and QR77.4 million (2019: 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 (2019:Nil).

The intangible assets with finite lives have a remaining amortisation period ranging between 3 to 5 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 25.03% (2019:14.93%) and a terminal growth rate of 2.5% (2019: 2%) were used to estimate the recoverable amount.

15. Other assets

	2020	2019
Prepaid expenses	565,094	574,514
Positive fair value of derivatives (note 36)	5,505,982	5,345,912
Sundry debtors	2,165,379	2,231,093
Deferred tax asset (note 32)	794,630	520,374
Others	3,485,733	3,485,733
Total	**14,740,864**	**12,157,626**

16. Due to banks

	2020	2019
Balances due to central banks	356,920	816,207
Current accounts	1,106,860	1,106,945
Deposits	54,693,992	50,487,004
Repurchase agreements	30,763,116	24,859,365
Interest payable	1,032,835	1,114,324
Total	**87,953,723**	**78,383,845**

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17. Customer deposits

a) By type

	2020	2019
Current and call accounts	139,931,016	107,529,863
Saving accounts	22,999,355	21,259,076
Time deposits	572,680,969	551,836,737
Interest payable	3,126,246	3,863,245
Total	**738,737,586**	**684,488,921**

b) By sector

	2020	2019
Government	19,646,918	14,023,638
Government agencies	151,562,428	177,065,885
Individuals	144,072,640	133,640,933
Corporate	420,329,354	355,895,220
Interest payable	3,126,246	3,863,245
Total	**738,737,586**	**684,488,921**

18. Debt securities

	2020	2019
Face value of bonds	41,945,617	33,532,208
Less: Unamortised premium / discount	6,187	(145,865)
Interest payable	621,699	391,907
Total	**42,573,503**	**33,778,250**

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

	2020	2019
Balance as at 1 January	33,778,250	26,209,791
Issuances during the year	12,142,592	9,764,304
Repayments	(3,815,091)	(1,842,580)
Interest accrued	621,699	391,907
Other movements	(153,947)	(745,172)
Balance as at 31 December	**42,573,503**	**33,778,250**

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	2020	2019
2020	–	4,202,852
2021	11,236,141	10,295,912
2022	5,754,534	5,774,121
2023	1,552,207	1,451,387
2024	6,084,829	6,073,851
2025	5,805,403	–
2027	3,634,133	–
2028	770,673	698,212
2047	2,654,252	2,527,357
2048	2,897,031	2,754,558
2060	2,184,300	–
Total	**42,573,503**	**33,778,250**

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 3.35% p.a in 2020 (2019: QR3.71% 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:

	2020	2019
Balance as at 1 January	25,266,611	25,109,644
Issuances during the year	17,710,213	12,314,000
Repayments	(15,325,322)	(11,732,186)
Other movements	217,774	(479,684)
Interest accrued	32,211	54,837
Balance as at 31 December	**27,901,487**	**25,266,611**

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

Year of maturity	2020	2019
2020	–	14,999,592
2021	11,397,826	8,990,679
2022	2,049,829	1,168,249
2023	8,868,859	79,205
2024	133,376	25,479
2025	5,451,597	3,407
Total	**27,901,487**	**25,266,611**

The above are mainly denominated in USD, EUR and comprise of fixed and floating interest rates. The interest rate paid on the above averaged 1.63% p.a in 2020 (2019: 2.33% 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 (2019: EUR2.0 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.

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20. Other liabilities

	2020	2019
Expense payable	1,029,343	1,083,681
Other provisions (note 21)	352,296	349,987
Tax payable	908,725	447,685
Negative fair value of derivatives (note 36)	5,858,247	4,711,860
Unearned revenue	2,029,475	2,003,244
Social and sports fund	219,467	234,947
Deferred tax liability (note 32)	52,577	–
Margin accounts	1,280,110	1,107,798
Allowance for impairment for loan commitments and financial guarantees	546,791	447,159
Lease liabilities (note 20.1)	677,443	598,635
Others	17,992,568	17,075,900
Total	**30,947,042**	**28,060,896**

20.1 Lease liabilities include current and non-current liabilities amounting to QR111.8 million (2019: QR117.5 million) and QR565.7million (2019: QR481.2 million), respectively.

21. Other provisions

	Staff indemnity	Legal provision	Total 2020	Total 2019
Balance as at 1 January	268,213	81,774	349,987	321,173
Foreign currency translation	(33,217)	(12,756)	(45,973)	(25,478)
Provisions made during the year	56,390	36,772	93,162	64,421
	291,386	**105,790**	**397,176**	**360,116**
Provisions paid and written off during the year	(36,690)	(8,190)	(44,880)	(10,129)
Balance as at 31 December	**254,696**	**97,600**	**352,296**	**349,987**

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.

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 2020	Total 2019
Balance as at 1 January	(100,616)	(1,405,869)	159,211	(1,347,274)	(973,557)
Foreign currency translation	–	49,285	1,214	50,499	(19,403)
Revaluation impact	(785,132)	166,721	152,437	(465,974)	(335,695)
Reclassified to income statement	–	–	(67,038)	(67,038)	(18,415)
Other movements	–	(35)	18,771	18,736	(204)
Net movement during the year	(785,132)	166,686	104,170	(514,276)	(354,314)
Balance as at 31 December	**(885,748)**	**(1,189,898)**	**264,595**	**(1,811,051)**	**(1,347,274)**

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:

	2020	2019
General reserve	1,777,179	1,783,913
Share of changes recognised directly in associates' equity, excluding share of profit	(1,611,129)	(1,520,184)
Total	**166,050**	**263,729**

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 45% of the nominal share value (QR0.45 per share) for the year ended 31 December 2020 (2019: cash dividend 60% of the nominal share value (QR0.60 per share)). The amounts are subject to the approval of the General Assembly.

23. Non-controlling interests

Represents the non-controlling interest in QNB Syria amounting to 49.2% of the share capital, 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. 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

	2020	2019
Due from central banks	244,449	507,458
Due from banks	1,744,987	5,090,489
Debt securities	6,825,450	6,394,199
Loans and advances	34,958,193	41,086,620
Total	**43,773,079**	**53,078,766**

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

	2020	2019
Financial assets measured at amortised cost	42,158,214	51,431,106
Financial assets measured at fair value	1,614,865	1,647,660
Total	**43,773,079**	**53,078,766**

26. Interest expense

	2020	2019
Due to banks	5,229,367	7,904,205
Customer deposits	14,882,168	22,211,539
Debt securities	1,339,881	1,441,483
Others	1,326,305	1,325,069
Total	**22,777,721**	**32,882,296**

Others include interest expense related to leased liabilities amounting to QR50.4 million (2019: QR58.2 million)

27. Fee and commission income

	2020	2019
Loans and advances	509,433	605,494
Off-balance sheet items	595,703	611,154
Bank services	2,325,109	3,061,484
Investment activities for customers	315,360	343,214
Others	225,930	219,506
Total	**3,971,535**	**4,840,852**

28. Net foreign exchange gain

	2020	2019
Dealing in foreign currencies	824,587	959,442
Revaluation of assets and liabilities	357,507	(56,977)
Revaluation of derivatives	(31,219)	195,533
Total	**1,150,875**	**1,097,998**

29. Income from investment securities

	2020	2019
Net gain on sale of investments measured at amortised cost	5,072	790
Net gain from sale of investments measured at fair value	115,673	25,679
Dividend income	48,365	59,453
Changes in fair value of financial assets measured at fair value through profit or loss	36,497	13,004
Total	**205,607**	**98,926**

30. Staff expenses

	2020	2019
Staff costs	3,293,846	3,390,192
Staff pension fund costs	49,699	46,629
Staff indemnity costs	56,390	58,328
Total	**3,399,935**	**3,495,149**

31. Other expenses

	2020	2019
Training	45,281	69,520
Advertising	461,199	561,566
Professional fees	234,147	235,063
Communication and insurance	249,024	241,730
Occupancy and maintenance	353,498	363,786
Computer and IT costs	412,669	396,047
Printing and stationery	52,612	59,017
Directors' fees	11,740	11,740
Others	321,221	496,316
Total	**2,141,391**	**2,434,785**

Occupancy costs include expenses related to leases other than interest expense amounting to QR29.0 million (2019: QR 29.8 million).

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32. Income taxes

	2020	2019
Current income tax	1,363,252	869,720
Deferred tax (benefit) / expense	(252,430)	301,163
Adjustments to prior periods corporate taxes	(9,184)	11,452
Income tax expense	**1,101,638**	**1,182,335**

Profit before tax	**13,184,299**	**15,643,135**
Less: Profit not subject to tax	(9,670,331)	(10,847,126)
Profit subject to tax	**3,513,968**	**4,796,009**
Effective tax rate	23.48%	22.34%
Tax calculated based on the current tax rate (effective rate)	825,098	1,071,566
Effect of income not subject to taxation	(45,187)	(103,417)
Effect of expenses not deductible for tax purposes	330,911	202,734
Adjustments to prior periods corporate taxes	(9,184)	11,452
Income tax expense	**1,101,638**	**1,182,335**

Movement in deferred tax asset

As at and for the year ended		**Recognised in**		**Deferred tax**		
31 December 2020	**Net balance as at 1 January 2020**	**income statement**	**other comprehensive income**	**Net**	**Asset**	**Liability**
Expected credit losses	454,310	176,309	–	630,619	674,372	(43,753)
Property and equipment	(56,876)	(11,277)	–	(68,153)	(68,153)	–
Employee related accruals	84,716	17,895	–	102,611	102,611	–
Unearned revenue	36,640	11,717	–	48,357	48,357	–
Investment securities	52,517	25,475	27,833	105,825	107,133	(1,308)
Tax losses carried forward	114,655	22,228	–	136,883	136,883	–
Others	(165,588)	10,083	(58,584)	(214,089)	(206,573)	(7,516)
Deferred tax assets / (liabilities)	**520,374**	**252,430**	**(30,751)**	**742,053**	**794,630**	**(52,577)**

As at and for the year ended		**Recognised in**		**Deferred tax**		
31 December 2019	**Net balance as at 1 January 2019**	**income statement**	**other comprehensive income**	**Net**	**Asset**	**Liability**
Expected credit losses	633,919	(179,609)	–	454,310	454,310	–
Property and equipment	(49,505)	(7,371)	–	(56,876)	(56,876)	–
Employee related accruals	81,153	3,563	–	84,716	84,716	–
Unearned revenue	21,304	15,336	–	36,640	36,640	–
Investment securities	(174,837)	114,606	112,748	52,517	52,517	–
Tax losses carried forward	102,075	12,580	–	114,655	114,655	–
Others	103,070	(260,268)	(8,390)	(165,588)	(165,588)	–
Deferred tax assets / (liabilities)	**717,179**	**(301,163)**	**104,358**	**520,374**	**520,374**	**–**

(All amounts are shown in thousands of Qatari Riyals)

32. Income taxes (continued)

Expiry of deferred tax recognised on carried forward tax losses	2020	2019
2020 - 2024	45,992	102,584
2025 - 2029	68,826	–
Never Expire	22,065	12,071
	136,883	**114,655**

There are no material tax assessments pending as at 31 December 2020 (2019: 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.

	2020	2019
Profit for the year attributable to equity holders of the Bank	12,002,867	14,350,860
Less: Dividend appropriation for instruments eligible for Additional Tier 1 Capital	(1,000,000)	(1,000,000)
Net profit for the year attributable to equity holders of the Bank	**11,002,867**	**13,350,860**
Weighted average number of shares	9,236,428,570	9,236,428,570
Earnings per share (QR) – basic and diluted	**1.19**	**1.45**

34. Contingent liabilities

	2020	2019
Unutilised credit facilities	115,535,472	112,224,237
Guarantees	60,337,801	61,154,915
Letters of credit	37,806,688	30,572,387
Others	14,962,140	16,750,687
Total	**228,642,101**	**220,702,226**

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.

35. Geographical distribution

	Qatar	Other GCC countries	Europe	North America	Others	Total
Balance as at 31 December 2020:						
Cash and balances with central banks	52,069,158	1,429,236	15,054,329	–	12,998,255	81,550,978
Due from banks	13,860,731	623,601	31,266,802	7,655,564	11,721,122	65,127,820
Loans and advances to customers	545,408,469	13,933,760	96,389,901	4,607,258	63,455,786	723,795,174
Investments	69,671,383	6,034,051	19,977,703	1,245,664	33,519,420	130,448,221
	681,009,741	**22,020,648**	**162,688,735**	**13,508,486**	**121,694,583**	**1,000,922,193**
Other assets						24,092,867
Total assets						**1,025,015,060**
Due to banks	10,082,122	8,580,814	48,062,555	2,773,708	18,454,524	87,953,723
Customer deposits	435,004,492	17,917,746	177,405,654	1,089,829	107,319,865	738,737,586
Debt securities	–	–	26,088,384	–	16,485,119	42,573,503
Other borrowings	–	–	24,568,488	–	3,332,999	27,901,487
	445,086,614	**26,498,560**	**276,125,081**	**3,863,537**	**145,592,507**	**897,166,299**
Other liabilities						30,947,042
Total equity						96,901,719
Total liabilities and equity						**1,025,015,060**
Guarantees	30,927,007	1,203,718	20,361,706	–	7,845,370	60,337,801
Letters of credit	32,967,276	173,817	3,141,292	–	1,524,303	37,806,688
Unutilised credit facilities	34,587,599	3,125,047	67,018,756	–	10,804,070	115,535,472
Balance as 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

Other assets includes property and equipment and intangible assets.

(All amounts are shown in thousands of Qatari Riyals)

36. Derivatives

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

				Notional / expected amount by term to maturity				
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	More than 5 years	Notional amount subject to IBOR transition
As at 31 December 2020:								
Derivatives held for trading:								
Forward foreign exchange contracts	306,946	300,540	108,994,615	96,169,195	11,717,873	1,107,547	–	–
Interest rate swaps	809,914	779,661	60,637,262	3,195,172	3,161,294	20,705,310	33,575,486	38,205,884
Cross currency swaps	1,358,252	2,260,225	72,536,317	64,843,169	2,715,130	4,940,965	37,053	3,408,753
Options	79,040	14,406	2,978,280	2,178,342	799,938	–	–	–
Derivatives held as cash flow hedges:								
Interest rate swaps	170,212	1,540,668	49,967,471	–	1,436,418	25,147,802	23,383,251	45,715,685
Cross currency swaps	1,162,590	524,069	40,419,593	340,177	1,366,275	21,365,788	17,347,353	37,537,823
Derivatives held as fair value hedges:								
Interest rate swaps	155,914	330,070	8,881,438	79,919	240,723	6,635,572	1,925,224	4,440,719
Cross currency swaps	1,463,114	108,608	7,485,704	950,103	2,672,328	3,769,121	94,152	2,399,455
Total	**5,505,982**	**5,858,247**	**351,900,680**	**167,756,077**	**24,109,979**	**83,672,105**	**76,362,519**	**131,708,319**

				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**

Cash collaterals given for derivative transactions amounted to QR7,632 million (2019: QR4,955 million) which is included under due from banks in note 9. Collaterals received for derivative transactions amounted to QR4,340 million (2019: QR3,007 million) which is included under due to banks in note 16.

36. Derivatives (continued)

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

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

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

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

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

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

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

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

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

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

37. Mutual funds

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

	2020	2019
Funds marketed	**78,538**	**70,448**

37. Mutual funds (continued)

The Group's investment activities also include management of certain investment funds. As at 31 December 2020, third party funds under management amounted to QR 20,984 million (2019: QR20,392 million). The consolidated financial statements of these funds are not consolidated with the financial statements of the Group as these funds have no recourse to the general assets of the Group and the Group has no recourse to the assets of the funds. However, the Group's share of equity in these funds is included in the investment securities of the Group.

38. Related parties

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

	2020	2019
Statement of financial position items		
Loans and advances	2,933,737	3,237,684
Deposits	1,383,123	1,292,434
Contingent liabilities and other commitments	81,658	70,317
Income statement items		
Interest and commission income	130,951	143,642
Interest and commission expense	32,145	12,474

	2020	2019
Associates		
Due from banks	1,512,004	1,580,722
Interest and commission income	56,832	68,973
Due to banks	1,708	185,873
Interest and commission expense	156	1,277

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.

	2020	2019
Compensation of key management personnel is as follows:		
Salaries and other benefits	43,287	37,132
End of service indemnity benefits	1,169	1,006

39. Cash and cash equivalents

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

	2020	2019
Cash and balances with central banks	40,951,732	29,092,901
Due from banks maturing in three months	61,531,608	73,634,944
Total	**102,483,340**	**102,727,845**

Cash and balances with central banks do not include mandatory reserve deposits.

Qatar National Bank (Q.P.S.C.)
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40. Impact of COVID-19

The coronavirus ("COVID-19") pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment.

QNB Group is closely monitoring the situation and has activated its business continuity planning and other risk management practices to manage the potential business disruption COVID-19 outbreak may have on its operations and financial performance.

QNB Group's operations are partially concentrated in economies that are relatively dependent on the price of crude oil. During the current year, the uncertainties caused by COVID-19, and the changes in oil prices have required the Group to update the inputs and assumptions used for the determination of expected credit losses ("ECLs") accordingly and the Group has updated the same as at 31 December 2020. ECLs were estimated based on a range of forecast economic conditions as at that date and the Group has considered the impact of volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

This volatility has been reflected through adjustment in the methods of scenario construction and the underlying weightages assigned to these scenarios. The forward-looking factors used are determined from statistical distribution of credit cycle index (CCI) factors, which can be derived from a number of historical observed factors such as risk yields, credit growth, credit spreads or defaults. These are disclosed in note 4 b Credit Risk.

QNB Group also updated the relevant forward-looking information of QNB Group's international operations with respect to the weightings of the relevant macro-economic scenarios relative to the economic climate of the respective market in which it operates.

The Group has delayed repayments of certain customers for the period and the resulting modification loss on these exposures is not considered material for the Group. In accordance with IASB guidance, the extension of payment relief does not automatically trigger a significant increase in credit risk and a stage migration for the purpose of calculating expected credit losses, as these are measures are being made available to assist borrowers affected by COVID-19 outbreak to resume regular payments.

QNB Group has given specific consideration to the relevant impact of COVID-19 on the qualitative and quantitative factors when determining the significant increase in credit risk and assessing the indicators of impairment for the exposures in potentially affected sectors. This has resulted in staging downgrade of certain exposures and recognition of relevant ECLs and impairment allowances as disclosed in note 4 and note 10.

The Group has investments in associates which were tested for impairment during the period, due to market volatility arising from economic conditions due to global pandemic. The Group has performed an impairment testing, and based on results of the test, the recoverable amounts were higher than the carrying amounts at end of the reporting period, and hence no impairment is deemed to be required.

The Group has considered the potential impacts of the current economic volatility in determination of the reported amounts of the financial and non-financial assets and these are considered to represent management's best assessment based on observable information. Markets however remain volatile and the recorded amounts remain sensitive to market fluctuations.

41. 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:

	2020	2019
ASSETS		
Cash and balances with central banks	59,671,077	42,161,348
Due from banks	63,629,676	77,037,107
Loans and advances to customers	603,336,365	560,229,043
Investment securities	83,967,228	56,466,045
Investments in subsidiaries and associates	31,589,794	31,143,470
Property and equipment	2,417,955	2,136,601
Other assets	10,414,573	7,936,046
Total assets	**855,026,668**	**777,109,660**
LIABILITIES		
Due to banks	116,230,401	95,360,753
Customer deposits	600,794,225	549,862,180
Other borrowings	24,095,827	21,954,781
Other liabilities	15,609,505	13,763,850
Total liabilities	**756,729,958**	**680,941,564**
EQUITY		
Issued capital	9,236,429	9,236,429
Legal reserve	25,326,037	25,326,037
Risk reserve	9,000,000	8,500,000
Fair value reserve	(1,535,400)	(1,211,457)
Foreign currency translation reserve	(1,572,120)	(1,481,249)
Other reserves	158,905	249,850
Retained earnings	37,682,859	35,548,486
Total equity attributable to equity holders of the Bank	**78,296,710**	**76,168,096**
Instruments eligible for Additional Tier 1 Capital	20,000,000	20,000,000
Total equity	**98,296,710**	**96,168,096**
Total liabilities and equity	**855,026,668**	**777,109,660**

Qatar National Bank (Q.P.S.C.)
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(ii) Income statement for the year ended 31 December:

	2020	2019
Interest income	25,819,879	29,522,226
Interest expense	(12,092,328)	(16,840,378)
Net interest income	**13,727,551**	**12,681,848**
Fee and commission income	1,683,327	1,960,073
Fee and commission expense	(460,722)	(513,226)
Net fee and commission income	**1,222,605**	**1,446,847**
Net foreign exchange gain	1,004,489	963,525
Income from investment securities	477,718	257,859
Other operating income	4,784	1,591
Operating income	**16,437,147**	**15,351,670**
Staff expenses	(1,538,468)	(1,575,904)
Depreciation	(243,164)	(256,496)
Other expenses	(818,415)	(838,184)
Net ECL / impairment losses on loans and advances to customers	(4,380,253)	(1,680,206)
Net ECL / impairment (losses) / recoveries on investment securities	(71,449)	1,987
Net ECL / impairment losses on other financial assets	(108,773)	(129,984)
Other provisions	(10,309)	(2,637)
Profit before income taxes	**9,266,316**	**10,870,246**
Income tax expense	(55,608)	(99,951)
Profit for the year	**9,210,708**	**10,770,295**

(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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