Thinking beyond

Annual Report 2018

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

Our global reach

Leading
one of the leading banks in the Middle East, Africa and Southeast Asia.

#1 bank
in the Middle East and Africa across all financial metrics.

Diverse
international network with a presence in more than 31 countries across three continents.

Solid
financial strength with top-tier credit ratings.

5,600+
touchpoints supported by 30,000 employees.

Contents

We are already one of the leading banks in the Middle East, Africa and Southeast Asia (MEASEA) and a trusted financial partner to customers in more than 31 countries across three continents.

Our strong international network has expanded through controlled growth, helping us on our journey to become a global bank by 2030.

The depth of our connections and the diversity of our footprint enables growth across multiple, strategically-selected regions, creating long-term sustainable value for individuals, institutions, countries, communities and our shareholders.

Read more about our strategy on page 21

Net profit +5%

QR13.8 bn

Assets +6%

QR862.2 bn

Operating income +7%

QR24.5 bn

Operating income includes share of results of associates

Earnings per share +5%

QR14.4

Read more in our Financial statements section on page 86

Board of Directors

H.E. Mr. Ali Shareef Al-Emadi

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

H.E. Sheikh Abdullah Bin Mohammed Bin Saud Al-Thani

> Vice Chairman of the Board of Directors since 2016
> BOD member since 2015

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 Risk Committee
> 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

Mr. Fahad Mohammed Fahad Buzwair

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

Mr. Mansoor Ebrahim Al-Mahmoud

> Chairman of the Group Board Audit and Compliance Committee
> BOD member since 2004

Mr. Ahmad Yousuf Hussain Kamal

> Member of the Group Board Audit and Compliance Committee
> BOD member since 2016

Mr. Khaled Hamad Al-Hajeri

> Member of the Group Board Audit and Compliance Committee
> BOD member since 2016

Chairman of the Board of Directors' statement

Our profitable growth and performance are fuelled by our strong governance, strategy, leadership and disciplined execution.

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

"QNB maintained its strong profit growth momentum in 2018."

5%
growth in net profit

QR14.4
earnings per share

21%
return on equity

QR180.1 bn
market capitalisation

On behalf of the Board of Directors, I am pleased to introduce QNB Group's Annual Report for 2018.

I am also pleased – along with my fellow Board members – to be a part of our exciting journey to become one of the leading banks in MEASEA by 2020 and a global bank by 2030. To achieve this goal it will take responsible leadership, robust governance and the ability to think beyond the needs and expectations of today.

The strength and experience of the Group's Board members, combined with the expertise of our executive leadership, continues to transform our organisation, creating a culture of transparency, accountability and collaboration.

At the end of 2018, H.E. Mr. Ali Ahmed Al-Kuwari, the former GCEO of QNB, was appointed Minister of Commerce and Industry for the State of Qatar. Following our internal succession plans, the Board of Directors appointed Mr. Abdulla Mubarak Al-Khalifa, the former Chief Business Officer, as Acting Group Chief Executive Officer. The Group's Board of Directors is confident that under Mr. Abdulla's leadership, the bank will continue its growth trajectory and business performance. He will be supported by an experienced management team and talented employees, whose efforts and commitment are at the core of the Group's success. Thus, on behalf of the Board, I would like to thank H.E. Mr. Ali Ahmed Al-Kuwari for his significant contributions to the Group, and wish him well in his new role.

As part of QNB Group's continued drive to enhance its status as a global financial institution, the shareholders this year have approved the increase of the non-Qatari ownership limit from 25% to 49%. They also approved the increase of the single ownership limit from 2% to 5%, marking two important steps on the road to achieving our ambition of becoming a more dynamic and diverse bank. Another was to continue to strengthen our governance framework, improving controls, transparency and accountability throughout the Group. We see good governance as vital to our prosperity and reputation, especially as we continue to expand into new jurisdictions.

Risk management and awareness have also been enhanced, improving risk oversight and control, thus enhancing the speed and quality of decision making. We strive to create a risk culture in which every employee is responsible for potential risks in the course of their work, ultimately protecting the bank and delivering sustainable value to all our stakeholders.

Globally, the macroeconomic growth has been broadly supportive for QNB Group. Some of our network countries, however, have been exposed to headwinds, making the environment challenging for the Group.

Despite these headwinds, QNB maintained its strong growth momentum in 2018. The Group experienced the highest profit in its history, with a 5% growth in net profit to QR13.8 billion. We also continued to demonstrate strong growth in earnings per share, reaching QR14.4. This performance has been well received by the market, where QNB is now among the top 40 banks worldwide in terms of market capitalisation, reaching QR180.1 billion. To reward our shareholders, the Board of Directors is recommending to the General Assembly the distribution of a cash dividend at the ratio of 60% of the nominal value of the share, equating to QR6.0 per share.

QNB is an increasingly significant international bank with a deep-rooted Qatari heritage. Even as we continue to expand, we never lose sight of our domestic responsibilities. Throughout 2018, we once again demonstrated our commitment to the goals of the national economic diversification programme by playing an active part in enhancing the investment climate and the business environment in Qatar. We've worked hard to increase private sector contribution to the GDP, while promoting growth in the important non-oil sectors. We also continued to nurture and develop a wide range of SMEs.

Banking is, of course, more than just numbers. It is important for us to think about what we can deliver beyond profit, to ensure we are protecting our environment and our people, as well as our investments. Reflecting the increasing demand from investors, regulators, customers and our own staff, we have increased our emphasis on sustainable banking throughout the Group and bolstered our commitment to corporate responsibility. We were also keen to ensure that our approach to key environmental, social and governance issues and the development of sustainable financing and operations, contributes to the value of our business and supports the communities and economies in which we operate.

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

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

Below: We are the market leader in our home country, Qatar.

Group Chief Executive Officer's statement

By following our strategy and Thinking Beyond, QNB demonstrated strong, sustainable and profitable growth, delivering a solid performance for 2018.

Mr. Abdulla Mubarak Al-Khalifa
Acting Group Chief Executive Officer

"As a trusted, global brand, QNB offers valuable market insights and a range of quality products and services that benefit corporate, institutional and retail customers alike."

QR862.2 bn
assets +6%

QR616.8 bn
deposits +5%

25.8%
cost to income ratio

19.0%
capital adequacy ratio

I am delighted to share with you some of our achievements in 2018, which have helped propel QNB towards realising our long-term vision of becoming a global bank by 2030.

Our strong performance is a testament to our people, our adherence to a strong and clear strategy, and our philosophy of Thinking Beyond. This motivates us to strive to uncover new and exciting opportunities, unrestrained by borders or boundaries, from which all our stakeholders may benefit, both now and in the future.

Thinking Beyond is about harnessing our financial expertise and strength to build sustainable value. It is about realising the full potential of our performance aspirations: to maintain a strong rating, to be a financial institution of choice, to be an employer of choice, to be a leading brand and to enhance shareholder value through sustainable, profitable growth.

As a trusted, global brand, QNB offers valuable market insights and a range of quality products and services that benefit corporate, institutional and retail customers alike.

Strong results

This year has been a milestone for the State of Qatar's future economic development. The authorities have formulated and implemented several policy measures that will serve as a platform for long-term growth and further support the Qatar National Vision 2030. These included opening the economy by lifting restrictions on foreign ownership, facilitating clearer procedures for foreign investors keen to invest in the domestic market, establishing special economic zones and allowing visa-free access for 80 nationalities. This resulted in real GDP growth of 2.6% for 2018.

Across our network, the global macroeconomic backdrop has been broadly supportive of QNB, despite headwinds in some markets. Egypt's economy out-performed, supported by increased investments and exports, while Turkey experienced pressures on inflation, currency and its fiscal position.

Against this backdrop, QNB now has assets of QR862.2 billion (up 6% on last year), and our profitability for 2018 was QR13.8 billion (up 5% on last year). Moreover, loans and deposits grew by 5% and 5% consecutively. The growth in deposits was supported by the continued focus on diversifying our funding base, where we continued to attract a broad set of investors across several geographies.

At QNB, we always maintain a very healthy liquidity buffer in all markets where we operate, in local and major foreign currencies. We also remain opportunistic in international markets with respect to our wholesale funding platform, as witnessed by our strong liquidity position, with a loans-to-deposits ratio of 99.3%. We were able to ensure that we continue to be well capitalised, with a capital adequacy ratio of 19.0%. Our relentless focus on cost management and generating synergies from our network have also allowed us to improve our efficiency ratio to 25.8%.

These financial indicators demonstrate the strength of QNB Group, the largest financial institution in the Middle East and Africa. Our international presence in more than 31 countries across three continents allows us to better mitigate our risk by diversifying our exposure. The profit contribution of our international operations was 37% this year.

We were also recognised as the most valuable banking brand in the Middle East and Africa and as the second most valuable banking brand in the Middle East, Africa and Southeast Asia in The Banker's Brand Finance Global 500 2018 report. We are proud to have appointed the Brazilian football star, Neymar Jr., as our global brand ambassador.

Risk and control environment

Strengthening the risk management and compliance culture remains a top priority for the bank. This year we continued to invest on governance standards, frameworks and tools to enhance our risk management. These range from increasing the number and proficiency of credit risk staff, to improved risk modelling, to improvements on how we capture operational risk data and new enhancements in cybersecurity.

Together with our prudent risk management approach, these investments and enhanced capabilities have allowed us to maintain a high asset quality. This is demonstrated by our very low non-performing loan (NPL) ratio of 1.9% and enabled us to maintain top-tier credit ratings from international rating agencies.

With regard to financial conduct, we have zero tolerance for breaches of laws and regulations and consistently strive for the highest levels of ethical and professional behaviour. A central part of our mission is to effectively combat financial crime and prevent the use of our infrastructure for fraudulent activity. This year we have taken several strides to augment our compliance capabilities, putting in place new tools and processes.

Operational excellence

Following the success of the 2018 FIFA World Cup® in Russia, all eyes are now firmly fixed on Qatar. QNB is a significant source of support to our domestic economy as activity intensifies in preparation for the event.

Domestically, we maintained our leading position in corporate banking. This year our primary focus was on the utilities, transport and food security sectors as well as 2022 FIFA World Cup® infrastructure projects. We have also continued to support the SME sector, helping fuel growth in the economy.

By anticipating and successfully navigating the changes in the banking landscape, our Retail Banking division continues to prosper and grow, delivering world-class products and services to our customers. Our focus and investment remains on digital development and innovation. This year we enhanced almost every touch-point to deliver an even stronger customer experience, supported by our range of outstanding products and service.

Performance in Asset and Wealth Management has also been strong. We rebalanced our investment offering and have been rewarded with a wealth of opportunities in the region that have led to new and deepening client relationships. These improvements, together with the widening of the product range in Turkey and a buoyant domestic equity market, allowed us to set new records in assets under management.

From an international perspective, we continued our journey of controlled expansion. We opened new branches in Oman and Kuwait, while advancing plans for entering Hong Kong next year. By reinforcing our international presence and capitalising on synergies across our entire network, we have driven greater efficiencies, built greater consistency and solidified our specialised global wholesale business.

Sustainable performance

Sustainable principles are embedded in our approach to financing and how we operate as a business to deliver sustainable financial performance. Our comprehensive sustainability programme, launched last year, is aligned with the objectives of the Qatar National Vision 2030, United Nations Sustainable Development Goals and the sustainability criteria set forth by the Qatar Stock Exchange.

This year, we further developed the programme and widened our goals. We have improved the way in which we incorporate sustainability criteria in our lending approach while ensuring that we operate in the most ethical and efficient manner. We are still at the very early stages of this journey and are committed to deliver sustainable value for all our stakeholders.

Looking beyond

Looking into 2019 and beyond, we will continue to invest in our flourishing domestic business to maintain a market-leading position, while, at the same time, growing our international network to uncover more opportunities to further diversify sources of our business.

On this occasion, I would like to thank our customers and employees, whose combined efforts have contributed to QNB's sustainable growth and helped us deliver a consistently strong performance. Your enduring support on our journey to become a global bank means we are well-positioned to deliver long-term sustainable value to all of our stakeholders in 2019 and beyond.

QNB at a glance

QNB is a highly-rated bank with a significant international presence, serving 24 million customers across our network. We are proud of our Qatari heritage and of the continuing substantial contribution we make to the region and beyond.

Our heritage

Established in 1964 as the first Qatari-owned bank, QNB is the leading financial institution in the Middle East and Africa (MEA).

QNB Group today is present in more than 31 countries spanning across three continents, with more than 30,000 employees serving 24 million customers.

Our businesses

Wholesale and Commercial Banking

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

Read more about Wholesale and Commercial Banking on page 26

Retail Banking

A broad array of retail banking products and services across a multichannel network with more than 1,183 branches and an ATM network of more than 4,400 machines*. These include premium banking services through QNB First and QNB First Plus, designed for our more affluent clients.

*Including subsidiaries and associates

Read more about Retail Banking on page 36

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 presence markets.

Read more about Asset and Wealth Management on page 40

International Business

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

Read more about International Business on page 42

Our financial strength

Assets
USD236.8 bn

Net profit
USD3.8 bn

Net profit growth
5%

Earnings per share
USD3.9

Capital adequacy ratio
19.0%

Our top-tier credit ratings

	Outlook
Moody's **Aa3**	Stable
Standard & Poor's **A**	Stable
Fitch **A+**	Stable

Our subsidiaries and associates

Name	% stake
QNB Finansbank (Turkey)	99.88%
QNB ALAHLI (Egypt)	95%
QNB Indonesia	91%
QNB Tunisia	99.99%
QNB Syria	51%
QNB Suisse (Switzerland)	100%
QNB Capital LLC (Qatar)	100%
QNB Financial Services (Qatar)	100%
Mansour Bank (Iraq)	54%
Bank of Commerce and Development (Libya)	49%
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%

Strategic report

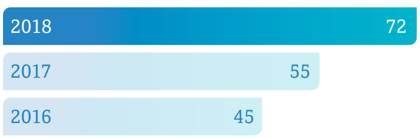
Through a resolute focus on our strategy, we are one of the leading banks in MEASEA and are well placed to realise our goal to become a global bank by 2030.

Operating environment

Despite a challenging environment in some of our key markets, we are well-positioned to achieve our growth targets.

GDP growth (%)

Brent oil price (USD/barrel)



Despite headwinds, the global macroeconomic backdrop has been broadly supportive for QNB Group with global growth registering its fastest pace since 2011.

Global growth is expected to be 3.7% in 2018, up from 3.6% in 2017. A booming US economy was the key driver of global macro momentum. Above-trend growth of 3.0% in the US was supported by tax cuts and still accommodative monetary policy. On a global level, monetary policy is still loose. The Bank of England kept interest rates at low levels, given the uncertainty of the political and economic situation in the UK. The ECB and Bank of Japan still have negative policy rates and continued with asset purchases under their quantitative easing programmes.

Global activity was further supported by China's 6.6% growth. The Chinese authorities' decision to allow its tightly managed currency, the RMB, to depreciate around 6% versus the US dollar further helped to ease the threat of rising tariffs imposed by the United States. China's policymakers top priority still remains to support the economy while trying to find a balance between growth and their other competing policy goals of deleveraging and exchange rate stability.

Looking ahead, global GDP growth is expected to remain around 3.7% in 2019. The US is forecasted to be the key driver of the slowdown with GDP growth set to moderate to 2.5% as the Federal Reserve is expected to deliver another three rate hikes by the end of 2019. Other major central banks in Europe, the UK and Japan are not expected to tighten their monetary policies at the same pace of the US. With quantitative easing coming to an end in the Eurozone, no imminent policy change is expected from the ECB before Q3 2019. Similarly, policy tightening is not in sight yet in Japan as Abenomics is likely 'here to stay' with loose monetary policy for the foreseeable future. Additionally, the impact on GDP growth in the US from 2017's tax cuts is expected to fade and the mounting trade dispute between the US and China might pose further downside risks to global growth. Chinese growth is also expected to slow but still remain solid. A mix of policy actions, including the recalibration of the official deleveraging campaign, substantial liquidity injections and additional stimuli to increase local government spending on infrastructure are expected to support growth in China of around 6.2% in 2019.

Oil prices were buoyant as the price recovery continued in 2018 with average prices around USD72/b for the year; an overall increase of 31% versus 2017's average. Solid global demand encountered shortfalls on the supply side, driven by the continuation of the OPEC cut agreement, supply disruptions in Venezuela, the reintroduction of US sanctions on Iran as well as infrastructure bottlenecks in US shale production until the third quarter of 2018. Since then, markets that were in balance faced additional supply with record-level outputs from shale in the US as well as oil from Russia and Saudi Arabia. Additional unexpected waivers from US sanctions on Iran added to additional excess supply. Looking into 2019, we anticipate cooling global demand and further production increases will impact oil prices. This lowers our average oil price forecast to around USD65/b.

Middle East and North Africa (MENA)
Growth in the MENA region moderated to 2.0% in 2018 versus 1.8% in 2017 according to the IMF. This has happened on the back of higher oil prices, a gradual recovery in tourism and further improvements in macroeconomic policy frameworks.

The IMF expects that overall growth in the MENA region will continue to moderate in 2019 to around 2.5%, as relatively high oil prices would maintain pressure on import bills and consequently the current account balances of net oil importers, adding pressure on government budgets. As a result, fiscal authorities would be required to further cut subsidies or restrain spending, which would weaken growth.

“The financial sector in Qatar remains resilient and healthy with credit continuing to flow, liquidity ample and profitability robust.”

The Turkish economy experienced strong and robust growth at the beginning of the year due to healthy private consumption, investments and supportive external demand. However, the Turkish Lira came under pressure primarily due to US imposed sanctions and tariffs hikes on its imports of Turkish steel and aluminium. The Lira’s depreciation caused a slowdown in domestic demand and raised inflationary pressures. This led to monetary policy intervention with a significant rate hike of the one-week repo rate. Tighter monetary policy has contributed to stabilise the currency and is expected to reduce further pressure on inflation. We also expect the current account deficit to further narrow in 2019 as external balances will improve. The recently unveiled new Economic Plan prioritises improvement in external imbalances and inflation through tight fiscal policy, so that a more balanced economic growth is warranted in the medium-long term.

Egypt is set to remain on a firm footing as the measures of the structural reforms continue to take effect. Egypt’s external vulnerabilities have eased with a narrowing current account deficit. Growth was positive at a multi-year high, supported by increased investments and exports. For 2019, we expect investments, exports and FDI to be sustained or even improve, which should further boost business sentiment and support growth of around 5.5%.

The Gulf Area has seen a reversal in activity with a combined real GDP growth of around 2.4% in 2018. Oil exporters benefited from higher oil prices which boosted export revenues and also eased liquidity and fiscal constraints. Looking ahead, the Gulf countries are likely to benefit from improving current and fiscal accounts. This will provide room for policy stimuli to diversify the economy and support the continued development of the non-hydrocarbon sector by nurturing private sector engagement. Real GDP growth is expected to be around 3.0% in 2019.

Below: We have supported the government in several large-ticket transactions to expand the oil and gas sector.

Operating environment
continued

Below: We signed a landmark deal with Qatar Rail to create a long-standing strategic partnership.

Qatar

Qatar's economic performance remained resilient in 2018. Growth in the hydrocarbon sector remained modest at 0.2% as a result of the OPEC production cut agreement and maintenance works on LNG infrastructure. The continued investment in infrastructure to support construction projects related to Qatar's National Vision 2030 and the 2022 FIFA World Cup® were one of the key drivers of a robust 5.0% non-hydrocarbon growth in 2018. The manufacturing sector also contributed significantly as projects aimed at greater self-sufficiency and food security started to take effect. Overall GDP remained solid at 2.6% in 2018.

Looking ahead, we expect that the end of maintenance work and temporary shutdowns would trigger a recovery in LNG output, while the OPEC cut agreement should moderately impact oil production output. These effects will lift the hydrocarbon output, leading to a 0.7% growth rate in 2019. The non-hydrocarbon sector is forecast to grow by 5.3% on the back of continued infrastructure spending as well as government policies to strengthen the private sector and boost self-sufficiency and food security. Sectors involved in logistics, manufacturing, transportation and food security are expected to be the key beneficiaries. Continued population growth will also spur additional domestic demand resulting in overall GDP growth of around 3.2% for 2019.

Southeast Asia

Supported by buoyant consumer demand, economic growth in the ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand and Vietnam) remains solid. Vietnam is expected to be the most likely beneficiary from the US-China trade war and might outperform other ASEAN economies in the near term.

“Globally, the overall profitability of the banking industry remains challenging.”

Indonesia, ASEAN’s largest economy and the country with the largest population in excess of 250 million, has been impacted by a stronger USD due to rising rates. This led to capital outflows and depreciation pressure on its currency, the rupiah, and forced the central bank to tighten monetary policy by 175bp in response. Solid consumer demand in ASEAN is nonetheless expected to sustain GDP growth close to a still healthy 5.2% in 2019, similar to 2018.

Banking sector resilient but with challenges

The global macroeconomic environment has also impacted the global banking industry. Overall, the banking industry is in good health. Banks are in general well capitalised and have addressed cost issues to improve efficiency. Nevertheless, the overall profitability of the industry is and remains challenging with performance being flat. Several aspects are driving this. Tighter US monetary policy put upward pressure on interest rates for short-term dollar funding. Further rate hikes are expected which will continue to compress margins and slow revenue growth. Additionally, the rapid pace of innovation and digital transformation is putting pressure on the banking sector. New non-bank incumbents, such as BigTech companies, FinTech and digital platform companies are increasing competition and eroding margins. Last but not least, increasing regulatory requirements, such as IFRS 9, PSD2, GDPR and Basel IV uncertainties are driving complexity, administrative burden, and risk cost on banks.

In Qatar, the financial sector remains resilient and healthy with credit continuing to flow, liquidity ample and asset quality and profitability robust. Despite the economic blockade, deposit and loan growth remained robust.

The banking system remains well capitalised with banks’ capital adequacy ratio (CAR) above 16%, and well above Basel III guidelines. Asset quality also remains high with non-performing loans (NPLs) steady at 1.7%. Profitability remains solid with returns on equity (ROE) close to 14%.

Expansion

MEASEA markets will remain the focal point for QNB Group’s long-term global growth. These regions require further investment and trade flows to support the building of the foundation for socio-economic development, such as infrastructure, including transport, real estate, power, telecoms, healthcare, education and tourism.

By strategically positioning our business towards and across these markets, we are securing our vision to become a leading bank in MEASEA by 2020. We believe that through our own network, as well as through our partners and alliances, we have the necessary local knowledge, expertise and understanding of the risks and opportunities to successfully create and capture significant value in those markets. This positively contributes to QNB’s growth and adds additional strength to the Group by diversifying our sources of revenue and profit.

Below: We have a presence in Indonesia, ASEAN’s largest economy and one of the most vibrant banking markets globally.

Creating and delivering value

As a strong international bank with top-tier ratings, QNB is able to deliver real, sustainable value to our customers and communities.

"Our ability to successfully create and deliver value is further powered by our strength, our expanding international footprint, a drive for continuous improvement and brand awareness."

QNB is committed to creating and delivering long-term, sustainable value for our customers, employees, communities and shareholders. Our diverse banking services, capital strength, and a wide-reaching international footprint provide a firm foundation on which we are able to 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 excellent asset quality;

> maintaining a high operating efficiency and eliminating unnecessary costs;

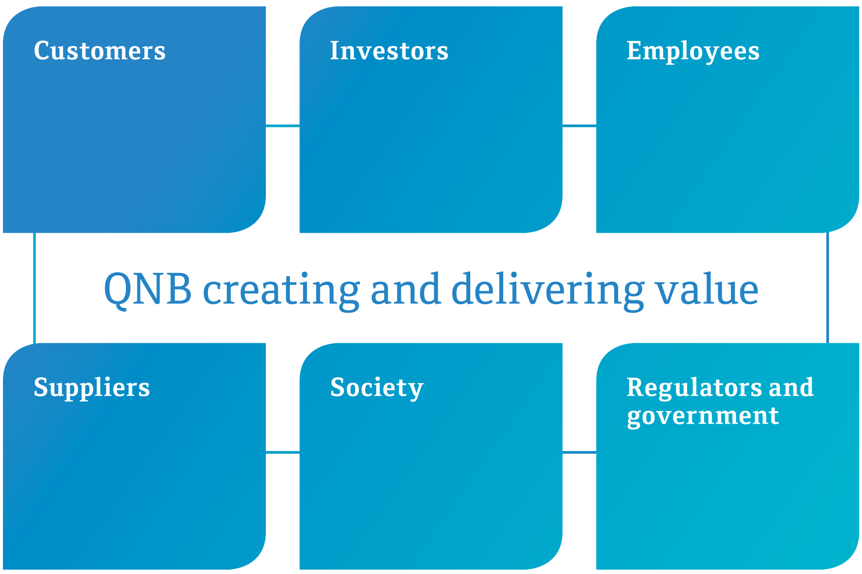
> preserving a strong capital adequacy ratio; and

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

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

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

Solid capital strength and ratings
Our extensive experience and prudent attitude to risk allows us to maintain a strong balance sheet. As a consequence, unlike many other banks, we have both the capital and agility to take immediate advantage of any opportunities we see in our markets. The bank also remains one of the highest-rated international banks with consistent scores and stable ratings from the leading rating agencies, including Standard & Poor's (A), Moody's (Aa3), Fitch (A+) and Capital Intelligence (AA-).



Above: We have embarked on an innovation journey that includes a series of initiatives around digitisation and automation, such as chatbots, facial recognition and artificial intelligence.

An expanding international presence

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

QNB's objective is to capture relevant share and risk-adjusted returns in markets that demonstrate strong macroeconomic and banking sector growth and a favourable regulatory environment. We will consider the potential of acquisitions on a purely opportunistic basis if suitable targets are available in these markets.

Innovation

We never stand still. We are always exploring new ways of working, while improving our products and services to ensure we are able to continue to offer our customers the outstanding experience they expect.

We continued to build on the momentum created last year with a commitment of accelerating the pace of innovation. We are always exploring new ways of improving our products, solutions and services to ensure we are able to offer customers outstanding experiences. This unwavering focus on customers is at the core of who we are as a bank. It drives the implementation of value-based innovations, encourages collaboration across all functions and fosters diversity of thoughts.

Our objective is to anchor the culture of innovation at QNB, where new ideas and opportunities are encouraged to be considered and developed across the business and from all disciplines.

We embrace innovation as a holistic approach, as both employee-driven and market-driven. In employee-driven innovation, we leverage our own employees to identify opportunities for innovation, from new ways of engaging with customers through to improvements in how we work. In market-driven innovation, we continuously scan the market for alliances with partners, incubators and start-ups, allowing us to keep abreast of the latest trends and technologies. We are engaged in a series of initiatives around robotics automation, chatbots, facial recognition and artificial intelligence with the aim of building our capabilities to remain competitive in a challenging and ever-evolving environment.

Brand recognition

QNB was once again recognised as the most valuable banking brand in the Middle East and Africa in The Banker's Brand Finance® Global 500 2018 report. The report also confirmed the bank as the second most valuable banking brand in Southeast Asia. We are proud to have appointed the Brazilian football star, Neymar Jr., as our global brand ambassador.

Our brand recognition is a powerful enabler for our business and reflects our strong and consistent financial performance and growth rates, supported by our international presence, which spans many of the world's leading financial centres, including London, Singapore, and Shanghai.

Meanwhile, we are also proud that we continue to receive a multitude of awards for our products and services from leading international bodies, a testament to our relentless focus on the developing needs of our customers.

Sustainable financial performance

We want to foster a financial marketplace that contributes to sustainable development and value creation in economic, environmental and social terms.

We believe that successful financial performance is driven by a disciplined approach to sustainable financing and sustainable operations.

Sustainable finance integrates environmental, social and governance (ESG) criteria into our business and investment decisions for the lasting benefit of our clients and society as a whole. We want to foster a financial marketplace that contributes to sustainable development and value creation in economic, environmental and social terms, improving efficiency, prosperity, and competitiveness for all.

Sustainable operations refers to managing our direct ESG impacts, ensuring we operate ethically and efficiently. Across the bank itself, we have introduced a raft of initiatives to improve our efficiency and reduce our environmental footprint. For example, in Egypt we have begun installing solar panels in branches, saving around 28% of the annual energy consumption in the selected branches. In Qatar, an LED lighting upgrade in QNB offices and branches has cut our power consumption and lowered demand for air conditioning from the resulting reduced heat, while all our paper and cardboard waste is now recycled to supply the carton packaging industry.

You can read more about our approach towards sustainability on page 72.

QNB Group's strategy

Our vision to become a leading MEASEA bank by 2020 and global bank by 2030 is founded on a strategy of sustainable growth.

"We plan to continue the expansion and diversification of our revenues to reduce concentration risk and drive greater earnings."

Our long-term goal is sustainable, profitable growth. We aim to do this by providing sustainable financing and ensuring sustainable operations. Our successful strategy remains in place and is fuelled by two key pillars: to protect our market-leading position in Qatar; and to accelerate our international growth so that we will be recognised as a global bank by 2030.

To do this we must cement our position in Qatar. Our aim is to retain our market share and profitability in the public sector, while at the same time focusing on growing our business and revenue from both the burgeoning private sector and from entrepreneurial individuals.

In the international arena, we are already one of the leading banks in MEASEA, which is a significant step in our journey. We plan to continue the expansion and diversification of our revenues to reduce concentration risk and drive greater earnings.

We have specific strategies in place for our core markets in Turkey and Egypt, which are major contributors to our vision. By capitalising on synergies here and across our entire network, we have been able to reduce costs, drive efficiency and build greater consistency, all of which helps to drive revenues and profitability.

These opportunities will be powered by building a specialised wholesale business through expansion into our regional hubs and origination centres, such as London, Singapore and Mumbai.

While we are ambitious, we are also prudent. To that end, any plans for expansion or acquisitions will always be carefully scrutinised. New markets of relevance would be considered from the following perspectives: the macroeconomic outlook, banking sector attractiveness (penetration and growth potential), the ability to follow QNB's existing customers, QNB's risk appetite and regulatory requirements for market entry. Potential acquisitions will be on an opportunistic basis and only if strategically suitable.

Finally, as technology and changing customer habits continue to disrupt the banking sector, we have complemented our existing strategy with innovation. From the creation of new banking apps and improvements in user experience, to using artificial intelligence, chatbots and digital technology, QNB fosters a culture of innovation across its footprint. We believe this is another important way to generate revenue and create an unrivalled and future-proof customer experience.

Our vision

Our vision to become a leading MEASEA bank by 2020 and global bank by 2030 is founded on a strategy of sustainable growth

This is supported by — **Sustainable finance + sustainable operations**

This allows — **Sustainable financial performance**

This is delivered through

Protecting our leading market 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.
- Expand asset and wealth management.
- Significantly focus and scale up current international footprint.
- Selectively explore inorganic opportunities.

Delivering sustainable results

Five key performance aspirations underpin QNB Group's strategy to fuel our ambition to be a global bank by 2030.

"QNB is the highest-rated bank in Qatar and one of the highest-rated banks in the world."

30,000
employees worldwide

1,183
branches

4,419
ATMs

11%
growth in brand value year-on-year

7%
above Middle East benchmark for employee engagement

1. To maintain a strong rating
QNB Group is a highly-rated bank, demonstrating a strength that continues to attract institutional, corporate and individual customers to bank with us, and for investors and markets to believe in us.

QNB is the highest-rated bank in Qatar and one of the highest-rated banks in the world with solid rankings from the major international agencies of Moody's, Standard & Poor's and Fitch. These ratings are a testament to our capital strength, strategy, governance, prudent risk management, business and operating model.

This provides us with a competitive advantage to access global capital markets for wholesale funding and enables us to continue our growth and expansion plans in line with our strategy.

2. To be a financial institution of choice
The quality of our Executive Management team, robust cost controls, market-leading capital ratios, ethical approach to banking and strong and growing relationships with both the public and private sectors, help make QNB Group the first choice for prospective customers. QNB is front of mind for those considering a financial partner and we are proud to remain the top-listed bank in Forbes' Top 100 Companies in the Arab World.

It is also important to us that customers and partners act as ambassadors for our business. We are committed to providing an unrivalled customer experience, making the entire process of banking easier, safer and more efficient, no matter where they are in the world.

From individuals to the largest global corporations, we aim to ensure each receives excellent value from us and that we always appropriately support their needs and guide them in their financial and business aspirations. We will achieve this by listening to and understanding our customers, encouraging innovation from within our business, working with external partners to develop new digital technology and ways of working, and providing ongoing training and career development for our employees.

Our goal is to be regarded as a valued participant and trusted partner in the economies and business landscape across every region in which we operate.

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.

Our annual employee engagement survey helps us understand what drives our employees and to create an engaging and motivating workplace for all. Our international mobility programme has continued to develop and we continue to foster a strong graduate training scheme.

Regularly placed among the top employers in the Middle East, our most recent employee engagement survey placed us 7% above the Middle East financial sector benchmark. In comparison to regional and industry benchmarks, QNB is above or in line with most performance metrics.

Attracting and retaining superior talent in Qatar and across our diverse international network remains paramount. We employ 48% women and some 81 different nationalities across our operations, driving a culture of mutual trust, innovation, loyalty, meritocracy and respect in our highly-diverse talent pool.

Our Qatarisation drive, which supports the 2030 National Vision (QNV 2030), has created a local Qatari workforce of 54.2% – one of the highest rates in the Qatari banking sector. A series of initiatives support our Qatarisation drive, including Kawader, a six to seven-month long development programme for third-year university students or fresh graduates; a successful intern programme, where we onboarded 146 interns from local universities in Qatar; and a MOU signed this year with Carnegie Mellon University in Qatar for cooperation in the field of training, education and community work. Thanks to this focus on employee development and engagement, our turnover is one of the lowest in the industry and continues to fall: in 2018 it stood at only 9.9%.

Right: Our goal is to deliver a global premium banking experience for our QNB First and QNB First Plus customers.

"Our goal is to be regarded as a valued participant and trusted partner in the economies and business landscape across every region in which we operate."

Local Qatari workforce (%)

2018	54.2
2017	53.7
2016	52.0

Profit contribution from international network (%)

2018	37
2017	36
2016	37

Following a detailed evaluation process in 2018, our Group Human Capital division was awarded the latest ISO standard – ISO9001-2015. This reflects the quality and consistency of all our HR policies, practices and procedures and demonstrates our ability to consistently provide products and services that match customer needs, while meeting applicable statutory and regulatory requirements.

4. To be a leading brand

QNB has once again been recognised as the most valuable banking brand in the Middle East and Africa region in The Banker's Brand Finance® Global 500 2018 report. Our brand value rose to USD4.2 billion – an 11% increase from last year. Our Brand Strength Index (BSI) has also increased by two percentage points to 78.4 out of 100.

In a new and significant milestone, this year we were also ranked the second most valuable banking brand in MEASEA. This recognition reflects QNB Group's sustainable financial performance, alongside our growing international presence.

5. To enhance long-term shareholder value through sustainable, profitable growth

We continue to experience growth across assets, loans, deposits and net profit. The strength of our capital allows us to grow our balance sheet in a controlled way and take opportunities within, across and beyond our network.

Our geographic diversification and expansion have resulted in a profit contribution from the international network of 37%.

We do this by successfully executing our strategy of controlled expansion and leveraging our competitive advantage. Further details can be found in the Group Chief Financial Officer's report on page 84.

Operational performance

The key achievements and developments across QNB Group's businesses highlight our strength, success and progress towards our goal of becoming a global bank by 2030.

Wholesale and Commercial Banking

The depth and diversity of our network has paved the way for more opportunities and greater rewards for the bank and our customers no matter where they are.

What we do

We provide a broad range of products and services created for our diverse customer base. They are tailored to specific 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;

> treasury, with a full suite of treasury products and services; and

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

How this supports our strategy

Protect leading market position in Qatar

Accelerate international growth

Read more on page 21

Domestic corporate

We are pleased to have once again delivered a robust performance that underlines the strength of our strategy, capabilities, and the diversity of our approach to domestic corporate banking. The quality and performance of our portfolio remains very high, and our NPL ratios remain low.

2018 has been a milestone year for the State of Qatar, where challenges have been transformed into opportunities. In many ways it has reinvigorated the market, fostering more innovation and creativity. It has fuelled a number of sizeable food security, tourism and infrastructure projects that QNB is instrumental in supporting. It has also provided fresh impetus to our national plans for economic diversification in the country, encouraging new investment opportunities.

The market in Qatar was further supported by a package of policy measures introduced by the Government this year. These included opening the economy to foreign investors by lifting restrictions on foreign ownership and facilitating clearer procedures for foreign investors who want to invest in the domestic market.

Our focus over the past year has been largely on the four key sectors in which we have been most active: utilities, transport, 2022 FIFA World Cup® infrastructure and food security.

We have experienced strong movement in the utilities sector across the year, in line with the QNV 2030 objective to diversify the economy in a sustainable way. Population growth and industrial expansion across Qatar have placed increased pressure on both the water and power supplies in the country as demand continues to rise. As a result, we have been closely involved in the Water Security Mega Reservoirs Project, which aims to deliver substantial quantities of fresh water without affecting the groundwater reserve.

In the transportation sector, we signed a landmark deal with Qatar Rail to create a long-standing strategic partnership and QNB is the official acquiring bank for all TravelCard and Fare Media payments. The agreement underscores the bank's commitment to supporting the country's economy by promoting this type of private sector project. Our support for the Qatar Rail project is facilitating a new and sustainable mode of transport for the country that will also bring long-term benefits for the environment. QNB has already helped the project by participating throughout the value chain, supporting not only Qatar Rail, but also its contractors and sub-contractors. This allows us to extract the most value from the project.

Following the success of the 2018 FIFA World Cup® hosted by Russia, the spotlight has firmly switched to Qatar, where preparations are well under way for this exciting and much-anticipated sporting event. Each of the eight world-class stadiums being constructed is designed to reflect the rich cultural heritage of Qatar and will remain magnets for future events following the tournament. To achieve this, their creation has been supported by a wealth of major ancillary projects that will ensure their success. QNB is an active participant across many of these projects ranging in scale and complexity, including highways, stadium construction and environmental activity. Improvements in roads, sewage and other basic infrastructure development projects will also help to drive greater economic diversification and significantly boost private sector engagement.

We are also involved in the creation of the iconic Katara twin tower hotel in Lusail, one of the first smart cities in the region. The Lusail project will significantly enhance people's lives and empower businesses through efficient and sustainable services delivered by an integrated information and communications infrastructure.

Above: Our support for the Qatar Rail project is facilitating a new and sustainable mode of transport for the country.

"Our focus over the past year has been largely on the four key sectors: utilities, transport, 2022 FIFA World Cup® infrastructure and food security."

Awards

Best Bank in Sustainability 2018
– New Age Banking Awards

Best Bank 2018
– New Age Banking Awards

Best Bank in Qatar 2018
– Euromoney magazine

Qatar's Best Bank for Asia
– Asiamoney magazine

Strongest Bank in Qatar
– World Union of Arab Bankers

The best bank for treasury and cash management in Qatar
– Global Finance

Best FX provider in Qatar
– Global Finance

Best Bank in the Middle East
– The Banker

Food security has also been an area in which we have had a growing involvement across 2018, facilitating a shift to greater self-sufficiency in Qatar. These projects have ranged in scale, but perhaps one of the most significant has been with Baladna, now the largest meat and dairy producer in Qatar. The farm, 55 miles outside Doha, made headlines when it began importing thousands of dairy cows from Europe, US and Australia to join its existing herd in a series of high-tech air-conditioned barns.

This year, in line with the Group's commitment to sustainable financing, we have increased the number of green projects we support and integrated a formal sustainability component to our wholesale credit policy, which requires additional due diligence and analysis for potential high-risk sectors.

Looking ahead, we will continue to support the economic development of the State of Qatar and its national projects. The announcement last year that the moratorium on the North Field development will be lifted will also rekindle the expansion of the hydrocarbon sector, driving another new phase of Qatar's development. The increase will boost Qatar's LNG capacity from 77 million tonnes currently to 110 million tonnes by 2024.

This increase in capacity will require huge investments in both onshore and offshore including the construction of three new LNG mega trains to process the gas. Beyond the direct impact on non-hydrocarbon GDP, this new investment phase, which should begin from 2020 onwards, will generate substantial multiplier effects for the wider economy.

Over the next few years, we expect to benefit from this expansion, particularly in relation to the industries supporting this growth. A number of significant power, steel and construction projects are already taking shape along with an uptick in service requirements.

Supporting an increase in LNG production will also help the environment. It has low particle emissions, low nitrogen oxide emissions and is low in sulphur, making it a much cleaner energy source that causes less air pollution than many other fossil fuel types.

Case study – Baladna Food Industries

Food security and sustainability is an important area of national focus, as Qatar seeks greater self-sufficiency. QNB has been at the forefront of supporting a range of these projects, including funding the expansion of Baladna Food Industries.

The company, which began as a sheep and goat farm, expanded into the dairy industry in 2017 by bringing in 4,000 Holstein Friesian cows purchased on a fast track basis. We have supported the second phase of their expansion, with the addition of 10,000 heads within the past 12 months to reach a total of 14,000 cows, including fully automated milking machinery, a pasteurisation plant and a bottling plant, as well as building two water treatment facilities and plants for feed storage.

The expansion entails the construction of more than 35 additional barns, which will be capable of comfortably housing more than 26,000 cows.

As a result, dairy factory production capacity has increased to 550 tons per day – close to being sufficient to meet all of the national demand – plus a 100 tons per day juices line. Together, we are supporting their vision to become a state of the art, fully integrated dairy company and the lead supplier of the food industry in Qatar.

We are supporting Baladna's vision to become a state of the art, fully integrated dairy company.

Right: QNB Finansbank is one of the leading banks in the SME sector in Turkey.

"As a financial intermediary, we view ourselves as a natural catalyst to nurture growth of the private sector, specifically SMEs."

SME banking
QNB is fully committed to, and supports, the goals of Qatar's National Vision 2030. As a financial intermediary, we view ourselves as a natural catalyst to nurture growth of the private sector, specifically SMEs. Over the past year, we have seen a surge in the numbers of SMEs in Qatar, as entrepreneurs step in to seize opportunities in the run up to the 2022 FIFA World Cup® and in the wake of the rise in projects supporting the growth in self-sufficiency.

Growth was most pronounced in the trading and industrial sectors of the SME business in 2018, with rising consumer demand in day-to-day commodities. Our portfolio also saw an increase in the hospitality sector, such as restaurants and cafés.

QNB has led the way in offering practical support and guidance to these fledgling companies to ensure they are market-ready. Since we place long-term value ahead of short-term profit, we carefully review every business before they become a client. Then, using our rich experience and detailed market insight, we work collaboratively to help create a solid and sustainable future for the business and their customers.

Working in parallel in a partnership with Qatar Development Bank, our mission is to encourage and empower entrepreneurs and innovators to contribute to the diversification and growth of the Qatari economy. Our goal is to help establish businesses that are not only commercially viable and can successfully navigate market volatility, but also that will be long lasting and contribute positively to a sustainable society.

Our expertise also benefits more seasoned SMEs, helping them to grow their businesses. We have seen many examples when their success has fuelled enough growth for them to transition into a long-term corporate banking client.

One tangible way we are helping SMEs to grow is through our QNB Simplify e-commerce platform in partnership with Mastercard and in collaboration with the Ministry of Transport and Communication's Digital Transformation of SMEs (DTSME) initiative. This service – the first of its kind in the country – provides a 360 degree toolset to build a shop, load products and allow companies to easily create a secure online portal for their services and accept payments immediately. This digital showcase – a virtual shop window – creates a dynamic platform with a potential to connect local businesses with new customers on a global scale. This platform, which reduces the need to invest in hefty web development costs, has garnered strong interest from our clients and is another benefit for those seeking a responsible banking partner to help them flourish.

In Turkey, QNB Finansbank maintained its stronghold as one of the leading banks in the SME and Agricultural Banking segments. In a year of macroeconomic volatility in Turkey and across emerging markets, the support we provided to SMEs to weather the market pressures was instrumental for the sustainable long-term economic development of the country. We have been one of the prominent participants of the Credit Guarantee Fund Programme both in 2017 and 2018 to align with the macro agenda of the country, having

Awards

Best SME bank in Egypt
– Global Banking and Finance

Best SME bank in Egypt
– Capital Finance International

Best SME bank in Egypt
– International Finance Magazine

Wholesale and Commercial Banking
continued

underwritten in excess of TRY10.2 billion (USD1.9 billion) in loans to SMEs. In the meantime, we have sustained the focus on our programme for improved credit quality through use of advanced analytics tools in credit scorecards, stronger collateralisation and better selection of clients through improved analytical decision-making. We are already seeing encouraging results of this approach through better credit quality compared to other market players in the current challenging economic cycle.

Moreover, we continue to invest with the aim of building a long-term sustainable business model. This year we have trained all of our relationship managers in Turkey in a '360 Degree Customer Relationship Management' course to better understand and provide tailored solutions to our clients. Supporting the Turkish SME's increasing preference for digital channels, our 'paperless branch' concept is in full force, with an expanding list of products and services available through digital channels.

In Egypt, we continued to enhance our value proposition designed to ensure an exceptional experience for our SME clients, from basic services to the most sophisticated operations. We have partnered with several financing programmes, such as the Micro, Small and Medium Enterprise Development Agency (MSMEDA), and signed a credit guarantee agreement with the Credit Guarantee Company (CGC), allowing us to extend our business into previously untapped sectors. QNB ALAHLI has also launched a mobile payment solution in cooperation with Visa International, allowing our clients to replace cash transactions with digital payments. These improvements have allowed us to build our SME portfolio to 23% of our total funded and unfunded book, surpassing the Central Bank of Egypt's 2019 target of 20%.

In 2019, we expect to continue to grow our portfolio by nurturing and supporting SMEs and their evolving needs. We plan to launch a new and improved suite of business credit cards that will provide SME customers with additional benefits and features, including expense tracking tools, international airport lounge access and reward points. We will also roll out a series of improvements and new features to our internet banking platform, making it easier, faster and more secure.

We are also strongly committed to helping SMEs across our international footprint, offering the same rich level of service and support alongside flexible and innovative products to help them prosper.

International corporate

Once again, our international business has benefited substantially from closer collaboration across our network, particularly in Turkey and Egypt. Growing interaction and deeper relationships have nourished growth, helping boost our contribution to the bank and providing new opportunities for our customers.

By leveraging the depth and diversity of our international presence, we have successfully offset any uncertainties that may have arisen as a result of last year's blockade in our home market in Qatar. Our network, financial strength and top-notch ratings make us an attractive partner for large corporate clients and financial institutions.

Our Global Account Management model continues to provide excellent support for a rising number of key clients, helping to deepen relationships, create cross-selling opportunities and build business. We rolled out our Global Account Management model for multinational corporations in Turkey, enabling them to generate new business opportunities while at the same time obtaining better customer service.

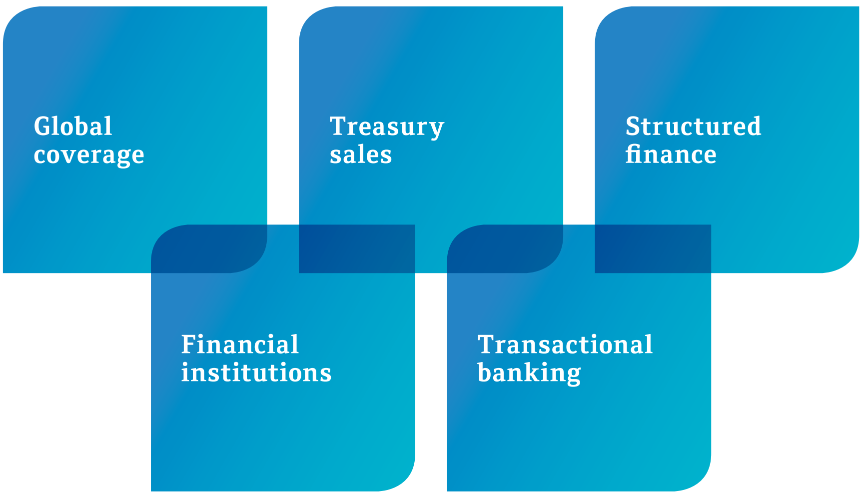
We are positioned as the gateway to the Middle East and Africa across the globe

> QNB as the MEA gateway for trade and cash

> Global customer service providing access in frontier and emerging markets

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

> Most creditworthy institution for wholesale treasury requirements in MEA



Global wholesale banking

17%

growth in corporate loans in Turkey

10%

growth in corporate deposits in Turkey

22%

growth in corporate loans in Egypt

7%

growth in corporate deposits in Egypt

"We have been involved in financing several major solar power projects as well as supporting a number of green building programmes."

In Turkey, QNB Finansbank was able to capitalise on QNB Group's top-tier ratings and balance sheet strength to create a competitive advantage and generate new business opportunities for both customers and the bank.

We continued to provide significant support to critical projects for Turkey's development, growing our project finance loans by 57%. QNB Finansbank's project financing portfolio comprises projects in infrastructure, energy, real estate and public-private partnerships (PPP). Additionally, we have leveraged the strength of QNB Group's international network, effectively increasing our market share in export transactions from 6.6% in 2017 to 7.5% this year. These improvements, together with the continuous focus in building long-term relationships with our clients, allowed us to record a corporate loan growth of 17% and deposit growth of 10% in local currency terms.

Similarly, we worked with QNB ALAHLI, our subsidiary in Egypt, to build wholesale finance capabilities by expanding the local project finance, trade, cash management and transaction banking. The focus in project finance has allowed the bank to maintain market leadership and capture several large-ticket transactions, ranging from supporting the government to expand the oil and gas sector to electricity generation and distribution projects. In Q1 2018, QNB ALAHLI closed one of the largest refinance facilities in the Egyptian market, arranging a USD220 million and EGP1.1 billion (USD56 million) multi-tranche facility for one of the largest fertiliser companies. The arranger included local, regional and multilateral institutions and we were chosen for the facility agency role.

Global transaction banking

Our global transaction banking arm demonstrated growth in selected business lines across 2018.

Two years after its introduction, the Wage Protection System (WPS) in Qatar, which requires employers to pay staff salaries through banks, continues to drive account openings and deliver new clients keen to draw on QNB's experience and knowledge in this sector. In 2018, we saw a 25% increase in our corporate WPS customers.

On the technology front, we have enhanced our payment-processing platform by implementing a single, centralised, multi-entity payments platform, Enterprise Payment Hub (EPH). The new solution, which integrates multiple banking channels, products and currencies, helps manage the payments life cycle and processes end-to-end, regardless of originating channels and back-end applications. This was rolled out in Qatar this year and will be rolled out across our international branch network in 2019.

EPH will enable the introduction of newer channels and services, through a reduced time to market and provide an innovative and responsive solution for customers. It will also have the benefit of reducing operational costs by streamlining and centralising QNB's payment processing globally into one payment processing layer across all QNB branches, improving Straight Through Processing (STP). This solution provides a built-in compliance pre-check and automates previously manual actions that led to human error.

Complementing the EPH, QNB is implementing a new corporate internet banking platform to better serve the expectations of our clients by

Right: As part of our commercial offering, we are focusing on the utilities sector in Qatar.

Wholesale and Commercial Banking
continued

27%
growth in customers using our Trade Portal platform

25%
growth in corporate WPS customers

expanding the geographical footprint, multi-platform and multi-channel availability, and complying to new regulatory reporting requirements.

QNB has embarked on a journey to become SWIFT Global Payments Innovation (GPI) compliant. This will enable clients' international payments to be executed in a faster and more transparent manner, allowing clients to fully track transactions end-to-end. QNB Finansbank will lead the way for QNB Group with a roll-out expected in early 2019.

These innovative solutions position us to meet the requirements of PSD2, the revised payment service directive being driven by the EU. The Phase 1 implementation, which focuses on transparency of charges and other regulatory requirements, was completed this year. Phase 2, which is compliance with the associated regulatory technical standards published in March 2018, will be completed over the next two years.

On the trade finance business, the implementation of our Trade Portal platform has successfully generated new business from our international network. The number of clients using the tool, which offers an integrated e-business solution providing importers and exporters with a fully-featured console to seamlessly complete international trade transactions, has increased by 27% in 2018.

We have increased our efforts to capture end-to-end flows between Turkey and QNB's network in Europe and the Middle East. These efforts have already yielded results, especially in the Middle East and Turkey trade corridor.

Elsewhere, throughout 2018, we introduced a range of new systems and software to augment our customer relationship management tools that have also further enhanced the strength of our hubs in the Middle East, Europe and Asia. Our focus in 2019 will be on embedding our new systems and continuing to build on our relationships across the network, as well as continuing to actively search for partnerships with online trade marketplaces to support business origination.

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**

"The bank continues to have good access to funding and maintains a strong and robust liquidity profile."

Awards

Best syndicated loan in Africa – EMEA Finance

Best project finance deal in Africa – EMEA Finance

Best Corporate Bank in Egypt – Global Banking and Finance

Global structured finance

QNB's structured finance solutions serve to meet the complex requirements of our customers in major capital projects and corporate financing. These include syndication, project and agency financing, acquisition financing, real estate and asset-backed financing.

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

The bulk of our extensive syndication work this year has been in the Middle East, Europe and Asia. Regionally, Oman has also provided a number of large project finance transactions in the renewable energy sector and we remain very active in Qatar, where contractor financing has been a particular focus.

This year, Export Credit Agency financing has driven several major projects, such as a multi-tier buyer's credit collaboration with the Italian export credit agency, SACE SpA, for the purchase of Italian goods by QNB Finansbank's customers. Elsewhere, our activities in asset-backed financing have once again been driven largely by aircraft financing.

We have been at the forefront of providing funding for a range of green transactions throughout the year, as we build on QNB Group's commitment to sustainable economic growth and financing.

As an example of this commitment, we have been involved in financing several renewable energy projects as well as supporting a number of green building programmes.

To further support sustainable development and in line with the bank's sustainability strategy, we have integrated the Equator Principles within our Wholesale Credit policy. This will strengthen our due diligence and support responsible risk decision-making. We are committed to adopting the Equator Principles and plan to become a formal signatory early in 2019.

Looking ahead, our plan in 2019 is to capitalise on our expertise and reach to capture further international business on the back of the expected economic growth in GCC, Asia, Europe and our other network markets.

Treasury

We offer a comprehensive range of treasury products and services across the bank's global network, including advisory, investment and hedging solutions to our diverse customer base. The ongoing development of our structured products capability together with continual enhancements to the treasury system allows us to offer bespoke support wherever required. Our treasury function is split into two key activities – trading and sales. Trading activities consist of asset and liability management, foreign exchange, fixed income and hedging. Meanwhile, sales are focused on corporate, high net worth individuals and institutional customers.

The bank continues to have good access to funding and maintains a strong and robust liquidity profile, as reflected by all key ratios. QNB Group follows a very conservative approach to managing its liquidity needs and a prudent liquidity management programme is in place to address urgent and exceptional business requirements.

The Group's approach is to ensure self-funding of all QNB branches/relevant network countries and an autonomous asset and liability management, complemented by a proactive treasury sales approach. In Turkey, for example, amidst turbulent market conditions, QNB Finansbank was able to raise more than USD200 million in financing from international markets by taking strength from the Group's credibility and prudent balance sheet.

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

Our well-established and diverse international wholesale funding platform consists of deposits, structured deposits, Certificates of Deposit (CDs) and both public and private placement bond issuance under our Euro Medium-Term Note (EMTN) programme. The bank continues to attract an extremely broad investor base, and liabilities are raised in many currencies across the full tenor range. The strong level of trust from our clients is highlighted by our growth in our CD book, up 30% this year, as well as in our interbank capacity level.

QNB's funding base is spread across various geographies in terms of currencies, tenors and product mix. This is demonstrated by our success in the international markets, where we facilitated two private placement deals totalling nearly USD2.3 billion, a new USD720 million issuance and USD1.5 billion refinancing and upsizing in Taiwan's Formosa market, launched our Kangaroo bond with a AUD700 million (USD494 million) dual-tranche transaction – the largest in the MENA market – and a series of large Dim Sum transactions totalling almost CNY5 billion (USD727 million).

Wholesale and Commercial Banking
continued

This reflects the Group's success in diversifying funding sources by entering new debt markets, sourcing sustainable long-term funding, extending the maturity profile of funding sources and the trust of international investors in the strong financial position of QNB Group and the strategy it pursues. We expect further landmark deals next year following on from a successful series of roadshows across markets in Europe and Asia.

QNB Capital
As the investment banking arm of QNB Group, we are the established leader in the Qatari corporate advisory market and increasingly active on the international stage, helping grow both the brand and financial performance.

Our corporate finance team has been busy with a range of diverse domestic and international clients, supporting them on a number of mandates and with a comprehensive range of advisory services, including mergers and acquisitions, equity and debt capital markets and project finance.

We have also provided strategic advice on corporate restructurings and real estate mandates.

The diversification of Qatar's economy remains a priority, and we act as a key adviser for the Government on a range of initiatives, such as self-sufficiency and private sector development. We also help to facilitate major new trading relationships with third-party investors and international governments.

QNB Capital acted as the sole listing advisor and offering manager on the initial public offer (IPO) of Qatar Aluminum Manufacturing Company Q.P.S.C. (QAMCO). The QR2.73 billion IPO of QAMCO was the largest IPO on the Qatar Stock Exchange since 2014 and was more than 2.5-times over-subscribed. This was a landmark transaction for Qatar which supports the further development of the local capital markets.

In the debt capital markets, QNB Capital has acted as a Joint Lead Manager and Bookrunner on a number of high-profile bond transactions. Some of the recent transactions on which QNB Capital was mandated include:

> USD12 billion multi-tranche sovereign bond issue for the State of Qatar;

> USD500 million bond issue for Commercial Bank of Qatar;

> USD500 million bond issue for Al Khaliji Bank; and

> AUD700 million (USD494 million) dual-tranche Kangaroo bond for QNB.

We anticipate an increase in PPP initiatives in Qatar in 2019 fuelled by opportunities as the date of the 2022 FIFA World Cup® approaches. We expect new tourist attractions and a number of iconic infrastructure projects to attract attention from investors seeking to work with the 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

Strengths

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

Case study – International Travel and Tourism

QNB is fully committed to supporting the goals of Qatar's National Vision 2030, whose objective is to diversify the economy by strengthening the private sector, specifically SMEs.

In business since 1999, International Travel and Tourism is a travel agency that offers ticketing for corporate customers and holiday packages for individuals. This type of business requires a strong and responsive banking relationship due to the strict, time-sensitive requirements from both IATA and their customers.

We have helped enable 30% growth in turnover in the past year alone.

We're proud to have supported International Travel and Tourism since its inception, with a tailored suite of products and a demonstrated commitment to deliver on the fast processing times for payments, letters of guarantee, etc. This has allowed them to provide a better service to their customers and avoid IATA penalties. We have also helped fuel their growth through financing, such as overdraft limits, giving them the required flexibility to operate in a competitive environment.

Our long-term support, convenient and seamless service has allowed them to flourish as a business. It has enabled them to grow their turnover by over 30% in the past year alone.

Retail Banking

Our innovative approach and unrivalled service allows customers to manage their finances safely and simply across multiple channels and borders.

What we do

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

> 61 branches in Qatar and 1,122 abroad;

> more than 850 branch staff in Qatar and 14,000 abroad;

> more than 448 ATMs in Qatar – the largest network in the country – and 3,971 abroad;

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

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

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

How this supports our strategy

Protect leading market position in Qatar

Accelerate international growth

Read more on page 21

By anticipating and successfully navigating the changes in the banking landscape, our retail business continues to prosper and grow, delivering world-class products and services to our customers.

Through innovation and enhancements across our product portfolio, including our digital onboarding capabilities, our client numbers have grown and our unrivalled and consistent customer experience continues to set us apart from our competitors.

Innovative digital growth

Over the last several years, we have been focusing on channel migration to improve proximity and customer experience. This initiative is already bearing fruit, with fewer than 5% of retail transactions taking place in our branches in Qatar in 2018. Moreover, internet and mobile application penetration has grown to 73% as more customers opt to carry out their banking online and on the go.

We have also extended our digital touchpoints. More than a third of our branches in Qatar now have the capability to process cheques electronically through ATMs and this will continue to grow in 2019. This year, we installed a new platform across our ATM network that provides touchscreen technology, enabling greater functionality. The upgrade, which is already active in around 20% of machines, will make the units easier to update, provide a better customer experience and increase the speed of their transactions. Furthermore, QNB is the only bank in Qatar to provide highly-versatile Interactive Teller Machine (ITMs). The ITMs assist customers with up to 95% of transactions, which would normally be completed by tellers inside a branch, allowing our customers to carry out secure banking transactions with a virtual teller. The success of the ITMs has prompted us to plan to deploy more across our high-footfall branches in 2019.

Upgrades to our mobile and internet platforms have also delivered greater agility, improving communication and interaction with our customers. This gives us the opportunity to refocus the function of our branch network so that it can act as a sales and advisory channel, complemented by value-adding activities for customers with less straightforward needs. We have introduced a new remote queuing service enabling customers to remotely pick a queue number for being attended to when they arrive at the branch. As another development, we have launched instant transfers between Qatar and India, which we expect to grow substantially in 2019 by extending the coverage across more jurisdictions.

In Turkey, by providing best in class mobile and internet banking services to our customers, we continued to maintain our focus on digitalisation and surpassed the 50% digital active customer ratio milestone, well above other market players. Additionally, to meet increasing customer expectations at branches, we further improved service levels by utilising digital approval processes in all key sales and operational branch transactions. Enpara.com, which celebrated its sixth anniversary as the first and only digital bank in Turkey, reached 1.25 million customers in 2018, achieving a 43% growth in its customer base.

In 2019, we will continue to enhance our services, building partnerships with third parties to develop our systems in preparation for open banking. QNB is already at the forefront of this activity in France and the UK as we develop new and innovative ways to better support the evolving needs of our customers while improving access to their financial data in line with the EU's PSD2 requirements.

Right: Mobile banking penetration is constantly growing as more customers opt to carry out their banking on the go.

"Despite our increasing use of innovative digital technology, we never forget that our success is driven by human touch."

10%
growth of QNB ALAHLI retail customer base

7%
growth of QNB Finansbank retail customer base

8%
growth of salaried customers in Qatar

A first-class customer experience

This year, we had an 8% increase in new accounts for salaried customers in Qatar due to our strong value proposition, including superior customer service and competitive pricing for loans. Meanwhile, we maintained our overall market share in deposits, all while offering one of the best loyalty programmes in the market.

In our foreign exchange business, we had a 30% increase in fee income due to increased volume fuelled, in part, by favourable seasonality effects. Profitability in our Qatar retail business has increased, driven by better credit management, lower provisions and better internal efficiency.

Acquiring new customers across segments of our retail business will continue to remain a focus. Leveraging QNB Finansbank's experience and capabilities, we will introduce an improved and enhanced credit scorecard system as part of our drive to improve efficiency, boost margins and optimise pricing across our products in 2019. This was one of the examples of how we are extracting value from and across our network.

Operating in one of the key markets for QNB Group, QNB Finansbank continued to grow its retail banking operations in Turkey in 2018. The bank maintained its strong position as one of the leading retail banks in Turkey thanks to strong market share gains in retail deposits, credit cards and general purpose loans.

Our success in this area stretches out across our entire international network and, in addition, we continue to be active in supporting our Envoy and Ambassador programmes that share learning and best practices with all our colleagues across borders. In our subsidiary in Indonesia, we have rolled out a series of initiatives aimed at improving our service to our retail clients, among them enhancements to mobile and internet banking, and connection to the new national payment gateway.

In Egypt, we enhanced our in-house customer profiling tool to assist front-line employees on how to best position our products to meet our clients' evolving lifestyle needs. We have been able to expand our customer base by coat-tailing on the success of our SME business, attracting the companies' owners and shareholders to our retail bank through a specially-designed facility. In conjunction with our network of 216 branches covering most of the Egyptian governorates, these achievements allowed us to achieve stellar growth in both retail loans and deposits in the highly competitive Egyptian market.

Despite our increasing use of innovative digital technology, we never forget that our success is driven by human touch. We are only as good as our service and our service is only as good as our people.

Below: In Egypt, our network of 216 branches cements our position as the second-largest privately-owned bank.

Below: Our global mortgage offering has attracted more customers seeking to buy properties abroad, particularly in France and the UK.

Apart from our regular workshops for branch staff that focus on delivering the best customer experience and regular updates on best practices, we have established a new induction training programme for staff to create extra value and impact. These modules provide staff with a deep-dive into all our services and the benefits they can bring. This helps employees better educate and inform customers and connect them with the right products as per their changing needs.

QNB First

Our goal is to deliver a global premium banking experience for our QNB First and QNB First Plus customers, no matter where they are located. Our customers are global citizens and the bank's growing international presence and reach serves to provide an even stronger platform to support their ambitions.

Under the global recognition programme, QNB's customers can open an account in several international markets such as the UK, France, Turkey, Egypt, Jordan, Kuwait, Oman and Lebanon, through a dedicated team in Qatar. Along with the account opening, the programme offers customers several services, including concierge services, cross-border mortgages and emergency cash services. This year, we expanded our global recognition programme to Turkey and enhanced services in Oman and Kuwait as well as in Qatar itself.

Cross-border account opening and cross-border mortgages form the backbone of our global services and we have seen growth in both areas. Our cross-border mortgage services, complemented by our real estate advisory service, are available in the UK, France, Lebanon, UAE, Turkey, Egypt and Jordan. This year, we have attracted more customers seeking to buy properties abroad, particularly in France and the UK but also, increasingly, in Turkey. We have also increased our digital platform capabilities in the UK, France, Oman and Kuwait with full functionalities.

We have seen a 38% growth in the number of non-residential cross border accounts in 2018, while overall QNB First achieved a growth of 13% in our customer base.

As our customer numbers continue to rise and account openings increase, we have enlarged the number of our relationship managers (RMs) to ensure that we continue to deliver the exceptional service our clients expect from a leading international bank. Customer numbers increased by 8% in Qatar, fuelling growth in current account numbers as well as in deposits.

Another way we have supported customers is through the QNB Explorer mobile application, launched last year. This app offers a growing range of rewards and services for QNB First customers as a part of our Lifestyle Privileges loyalty programme. This year, we further enhanced the functionality of the service and added substantially more partners to the programme. As a result, we have seen a 74% increase in users.

Affluent banking has always been one of the focus areas in retail banking in QNB Finansbank and we continued to develop our banking services and benefits catering to this segment. With a double-digit increase in our premium banking customer base in 2018, we continued to grow this segment with a focus to diversify our funding capabilities. In order to fully leverage our international customer base, we augmented our digital services with the launch of an English language version of our internet, mobile and SMS banking in Turkey. We have also assigned Arabic-speaking RMs to key branches in Turkey to cater for Qatari and Arabic-speaking customers. Through the integration of account opening, customers in Qatar are also now able to open an account in Turkey through an automated service. In early 2019, we aim to relaunch our affluent banking proposition as QNB

38%
growth in cross-border accounts

12%
growth in e-commerce transactions

Awards

Middle East Mortgage Product of the Year (QNB First Cross Border Service)
– The Asian Banker

Best Retail bank in Egypt
– Global Banking and Finance

Growing Acceptance Award
– Visa

Best Premium Solution in MENA Region 2018 (QNB First Plus Credit Card)
– Mastercard

Most Promising Innovative Influence on Cashless 2018
– Mastercard MEA Acquirers

Global Service Quality Performance Award
– Visa

Finansbank First, which will be fully integrated to QNB's international platform for premium banking services.

In Indonesia, we are carrying out a full revamp of our retail banking services with a focus on new products, customer service and efficiency through optimised channel management, which included the launch of our new internet banking service. We are now well placed to benefit from economic growth in the country.

With the rise of influence and spending power of the millennial generation, the bank is making much greater use of its social media channels to engage a new generation of customers. By creating and curating innovative content across platforms such as Facebook, Instagram, Snapchat and Twitter, we are able to reinforce our relevance and demonstrate the agility and insight sought by this highly-engaged customer segment.

Our card business

The performance of our card business is particularly strong, with growth in all areas with regards to value, volume and profitability. The products and services that were launched in previous years are showing positive yields, combined with new products, such as expanding our 'Smart Instalment Plan', which allows customers to convert high-value purchases made anywhere in the world to affordable monthly interest-free instalments using QNB Internet Banking. In addition, the contactless and mobile payment environment continues to grow across Qatar, reflected in the increase of the number of our enabled credit and debit cards. The economy has also experienced a surge in debit card payment, being driven by the rise in all areas of the vibrant e-commerce sector.

Supplementing our growing product suite, we continue to implement exclusive campaigns throughout the year to promote the acquisition and usage of our business through world-class partnerships and experiences. This year, we were proud to produce another very popular and collectable National Day card in Qatar. In 2019, we will introduce a range of multi-currency and reloadable cards to further enhance the experience for our international customers.

We have been instrumental in supporting electronic payments for Qatar Rail, which is set to open in 2019. We have also been active in other sectors, such as the expanding Woqod network of petrol stations, where we provided a convenient and seamless experience in paying for fuel using cards by integrating the mobile Woqod App to the QNB payment gateway, facilitating convenient bill payments and top-up of customers' fuel accounts.

Looking ahead

In 2019, innovation will remain a key focus for us. As consumer demand and changing technology drive the future of banking, we are developing new services and digital architecture to ensure QNB remains at the forefront of this evolution. The introduction of voice biometrics will amplify our already robust security measures for customers, while greater use of artificial intelligence (AI), facial recognition and the implementation of chatbots across our platforms will improve customer service and speed. These innovations will be supported by a full infrastructural roll-out of dual interface (contactless) credit, debit and prepaid products and acceptance points throughout Qatar. Also, in 2019, we will launch our premium affluent offering in Turkey as well as a full suite of personal banking products for customers in India.

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

Being one of two GCC markets included in the MSCI Emerging Markets index, we also play an important role in promoting Qatar as a high-quality investment destination.

How this supports our strategy

Protect leading market position in Qatar

Accelerate international growth

Read more on page 21

Asset management

As a result of the regional geopolitical challenges, we have revised the scope of our funds. We rebalanced our investment portfolio this year and have been rewarded with a wealth of opportunities in the region. Our efforts have been supported by our well-established 'Investment Strategy' and 'Middle Office' functions, which provide an enhanced level of control and appropriateness oversight in respect of the products and services offered to our clients.

We have enhanced the product suite of our UCITS fund platform for institutional and individual investors, launching two new funds, the 'Asia-Pacific ex-Japan' and 'Global Sukuk' funds. We also have broadened our international fund distribution capacity by means of a deeper engagement with overseas third-party distributors. We expect this engagement to develop further in the coming years as our UCITS funds become longer-established in terms of track record. These improvements, together with the fact that Qatar was one of the best-performing stock markets in the world, have been important growth drivers, increasing our assets under management (AUM).

Our QNB Finansinvest subsidiary offers investment solutions to our Turkish customers through a wide range of products, including tailored portfolio products, stocks, bonds, mutual funds, futures, options, leveraged/non-leveraged FX markets and international markets. Through a fully digitalised environment, our customers are able to open an account and access the investment world in under 15 minutes. These improvements have helped us acquire new customers and set new records for assets under management and revenues.

This year we widened our product range in Turkey by offering a platform allowing investors to trade Eurobonds globally and a new FX-denominated hedge fund. The fund creates a unique opportunity for QNB Finansbank's customers as it enables them to make investments in USD terms other than in deposit accounts. The fund will invest a minimum of 80% into Turkish Eurobonds issued by the Turkish government or the Turkish private sector, which offers our investors a tax advantage.

Over the coming years, we will continue to develop our distribution channel capacity, leveraging our relationships with other banks and insurance companies. We will also harness the power of our global network of branches and subsidiaries across the Group in order to enhance our ability to distribute investment products in Europe and Southeast Asia, thereby generating higher levels of growth for our customers and the bank's shareholders.

Looking ahead, we will be further enhancing our fund management system to provide clients with a more immediate and detailed visibility of the performance of their investments. This will include an innovative new dashboard giving easier access across multiple platforms.

Private banking

Throughout 2018, we continued to encourage our key clients to diversify into international markets. Our expert team, global experience and market insight means we are able to offer our clients an expansive list of tailored investment opportunities as they arise. Our position is strengthened by our network, particularly our private banking services in Switzerland, France and the UK. We have also been active in promoting investment in Qatar, where opportunities continue to grow as the nation and economy expand.

We are pleased with our performance over the year, with loans exhibiting robust growth of 11% above 2017. We also grew our customer base, with new account openings as new business owners and entrepreneurs take advantage of our specialist services and international reach. We are committed to retaining our leading market share in Qatar.

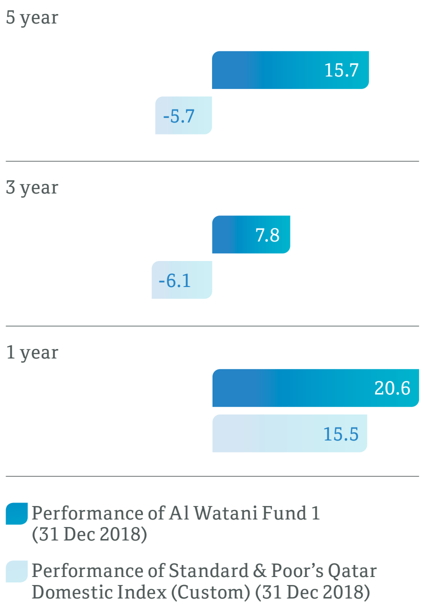
We will continue to build on these successes in 2019, when we will also be hosting a number of exclusive international investment events, specifically targeting investments into North America and Europe. These will give potential investors a snapshot of our capabilities and network strength and reinforce our position as a leading bank when it comes to carefully-tailored financial advice and support.

“We repositioned our investment portfolio this year and have been rewarded with a wealth of opportunities in the region.”

11%

growth of Private Banking loans in Qatar

Performance of Al Watani Fund 1 (%)



Awards

Best Net-worth-specific Services in Qatar
– Euromoney magazine

Best Broker in Qatar
– EMEA Finance Magazine

In addition to our existing concierge service, next year we plan to introduce a new private banking application, designed to reinforce our service to clients. The app, the first in Qatar, will link clients directly and immediately with their dedicated relationship manager anytime, anywhere. The secure link works in the same way as a direct messaging system at present and in later versions will be augmented to include greater interactivity, including video and secure document exchange.

By continuing to invest in our bespoke service, our goal is to grow our assets under management, encouraging a greater number of customers to take advantage of the international markets and diversify their investments.

Brokerage and custody services

We provide brokerage services in Qatar through our fully-owned subsidiary, QNB Financial Services. In addition to the Qatar Stock Exchange, we also provide access to several international markets. By doing this, 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.

This year, our retail business grew, reflecting a rise in investment opportunities as the country begins the countdown to the 2022 FIFA World Cup®. Moreover, the market was invigorated by the easing of foreign ownership restrictions, allowing international buyers to own up to a 49% stake in Qatari companies – up from a maximum of 25% last year. These tailwinds enabled the Qatar Stock Exchange to be one of the world’s top five performing stock markets this year, growing by 20.8% year-on-year, allowing us to deliver a strong performance.

Against this backdrop of increased investor interest, we upgraded our institutional trading system this year, making it one of the most advanced in the local market, and launched a mobile trading app with an upgrade to our online trading portal. All of this served to underpin QNB Financial Services as the premier brokerage firm in the country with a leading market share among institutional investors.

By introducing better digital functionality and an improved user experience, investors can execute and track their investments with greater ease. All our services are underpinned by award-winning market insight and research capabilities that provide clients with first-class intelligence on the markets in Qatar and across the GCC.

Once again, we remained a trusted partner to the Qatar Stock Exchange, supporting 2018’s international investment event in London. The annual event provides a global showcase for Qatar’s leading businesses. Backed by our in-depth market intelligence, it is a unique opportunity for us to highlight and encourage greater and more diverse investments. Besides our research, we have unmatched corporate access, encouraging major global institutions and brokers to use us to connect with key Qatari companies.

Our business continues to attract awards that reflect the success of our services. This year we were recognised as the Best Broker in Qatar by the influential EMEA Finance Magazine.

Launched five years ago, our custody business in Qatar has a substantial market share of the domestic custody market and is already contributing to the Group’s profitability. We continued to benefit from last year’s ISAE 3402 Type I external audit assurance certification exercise and completed ISAE 3402 Type II, which has encouraged a greater number of international custodians to use us as their custodian for the securities listed on the Qatar Exchange. We remain actively engaged with the Qatar Central Securities Depository to advocate for the adoption of best practices for servicing international clients investing in Qatar.

International Business

By connecting and enabling QNB Group's network, we help to generate sustainable growth across our international footprint that will strengthen our success.

What we do

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

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

How this supports our strategy

Accelerate international growth

Read more on page 21

Share of QNB Group net profit

37%

International Business net profit (QR billion)

As our international network continues to expand, offering greater benefits to a wider customer base, so too does our contribution to QNB Group. In 2018, International Business delivered 37% to the bank's net profits – an increase of 16 percentage points in the past six years. We have been growing our businesses by serving new corporate and retail banking customers within the region and beyond.

Branch expansion

We continued our journey of controlled expansion and more diversified revenue streams with the opening of new branches in Oman and Kuwait, while advancing plans for a branch in Hong Kong next year.

The new branch in Oman is located in Salalah, the country's second largest city with a vibrant and growing population. This is our first branch in this region of the country and gives us access to the growing market and business opportunities outside Muscat, the national capital. Our presence here will allow us to grow our corporate and retail services and expand our customer base while cementing QNB's strong brand reputation in the nation.

We were also the first foreign bank to be given permission to open a second branch in Kuwait, further strengthening in-country presence and opening up more opportunities for QNB Group.

Following last year's opening of our first branch in Mumbai, India, we continued to expand the product range available, allowing customers to take advantage of a full spectrum of products and services. The branch has already achieved our initial performance target ahead of schedule.

Right: In Indonesia, we have rolled out a series of initiatives aimed at improving our service to our retail clients.

Above: We continued our journey of expansion with the opening of a new branch in Salalah, Oman.

"We continued our journey of controlled expansion and more diversified revenue streams."

Business growth
We have seen significant growth in retail banking in both our London and Paris branches and the number of accounts opened has risen sharply.

In London, we have seen an increase of 30% in accounts, together with increased demand for real estate loans driven by exchange rate movements which have made some property deals more attractive. The launch of the regulated mortgage service in 2018, approved by the Financial Conduct Authority last year, means we are well placed to capture this growth. Our branch in Paris also had an exceptional performance in retail assets and liabilities during 2018, more than doubling the new-to-bank customers from the previous year.

Regulatory compliance
Operating in so many locations, we are faced with a multitude of regulators with differing and increasing regulatory requirements. In 2018, we increased headcount in our compliance and control function to ensure that, no matter which jurisdiction our offices are in, QNB continues to fully comply with local requirements. At the same time, we have improved the speed and effectiveness of our auditing capabilities across the network.

Information security and data protection is of vital importance to the bank and nothing is more important than ensuring our customers' information is secure and protected. In 2018, having already carried out significant preparations, we upgraded our systems and reinforced our approach to ensure compliance with the General Data and Protection Regulation (GDPR) introduced throughout the EU in May 2018. This was the largest change to data protection legislation in the past 20 years, giving individuals greater control over their data and providing regulators with unprecedented power to impose fines.

Network integration
We continue to drive integration projects across our network to maximise its value. We've done this in a number of ways.

First, we have established a deeper level of organisational consistency that has consolidated operations to improve efficiency, create savings and share best practices. We have also streamlined our global product offering and further enhanced the governance of our international subsidiaries.

From a revenue perspective, we leveraged the Group's wholesale banking capabilities and expertise to enhance the local wholesale propositions. By connecting the local transaction banking capabilities of our subsidiaries into the Group, we were able to connect and expand the service to the global network. This allows us to capture additional revenue opportunities from the trade between Turkey and Europe, Africa and Asia.

As a Group, we have also benefited from the reverse engineering and cross-pollination from QNB Finansbank's capabilities in the retail, cards and SME businesses, for example. To realise cost synergies across the Group, we have begun to introduce global standards around training, communication and the consolidation of our procurement capabilities.

Risk

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

Risk management

Our centralised approach to risk management is complemented by local expertise and a risk culture in which every employee is responsible for potential risks in the course of their work.

"We believe that risk management is the responsibility of all employees across the bank."

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

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

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

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

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

Risk governance

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

The BOD assumes the ultimate responsibility for monitoring QNB Group's risks through the GBRC in coordination with the GCEO, the Group Management Risk Committee (GMRC), the Group Credit Committee (GCC) and the Group Assets and Liabilities Committee (GALCO).

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

"The Risk Appetite Statement ensures alignment with the Group's vision and strategy by tracking current performance against risk appetite targets."

The BOD assumes full responsibility for the development of strategic risks and the application of the relevant principles, frameworks and policies. This includes the implementation of appropriate restrictions with respect to products, issuer, geographic location and maturity. However, separate and independent entities responsible for the management and control of certain risks are nominated and pre-defined. Accordingly, QNB Group's Treasury, Risk Management and Internal Audit divisions are responsible for the Group's commitment to trading restrictions imposed by the BOD. In this regard, detailed monthly reports are submitted to the GALCO.

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

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

Risk identification, monitoring and control

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

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

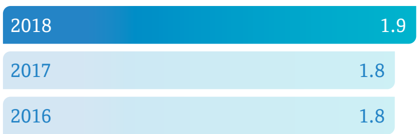
Our centralised approach to risk management is complemented by local expertise and knowledge and every employee in the Group is responsible for highlighting and dealing with potential risks in the course of their work. To reinforce this, and to ensure all our regional hubs and territories embrace a consistent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

Credit risk

The strength of our credit risk function has been further enhanced through a series of achievements designed to improve efficiency and oversight across our entire network.

> "Wholesale borrowers are assessed through a combination of expert judgement, experience and analysis together with the use of credit models."

Percentage of NPLs over gross loans



Credit risk is the most significant risk category managed by the Group. Reflecting this, credit risk is managed by a separate division from other risk types.

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

Last year, we expanded our Head Office credit review team, with a significant increase in international staff bringing in expertise familiar with the markets in which we operate. We now have more than 20 nationalities working in the team and a Qatarisation ratio of more than 30%.

As well as having a full credit risk function in our Head Office and subsidiaries, we 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 and are managed as an extension of the centralised credit team in Head Office.

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

Wholesale borrowers are assessed through a combination of expert judgement, experience and analysis together with the use of credit models. Credit applications pass through multiple levels of review and validation. In 2018, and in line with the bank's sustainability drive, we have integrated formal sustainability requirements within our Wholesale Credit policy, incorporating ESG due diligence into our credit review practices. Next year, we aim to begin implementing reporting in line with the Equator Principles.

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

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

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

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

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

We continue to maintain a high quality, diversified portfolio, as demonstrated by the Group's low NPL ratio, at 1.9%.

Professional development
Training and development remain an important factor in our continuous improvement drive. The Professional Development Programme ensures our trainee and junior staff benefit from a combination of on-the-job training (across different types of credit exposure), formal training sessions delivered by subject experts from our credit team senior members, secondments to other departments, and round table group discussions about specific interesting credit cases where the approach to analysis and decision methodology and rationale is dissected.

We further developed our specialist training programme for global credit staff, with colleagues from Tunisia and Turkey spending time with the Head Office credit team in Doha to greater enhance technical development and drive process synergies.

Meanwhile, the placement of Head Office credit staff in overseas branches and hubs is helping to drive consistency and collaboration. These employees, who continue to report to Head Office, are tasked with ensuring common standards in the processing of credit, to act as a point of reference to local staff and so achieve a better awareness of the bank's risk appetite, risk acceptance criteria and analytical approach/underwriting standards. This in turn will improve our time to market performance through better adherence of our 'right first time' philosophy.

Process improvements
In 2018, we improved the standards of credit submissions from all QNB branches and subsidiaries using a set of fit-for-purpose credit templates and financial spreading. This will help to speed up the process, reducing risk and improving customer service.

The successful implementation of credit provision regulations linked to IFRS 9 will ensure that we can proactively manage and monitor provisioning requirements and identify and recognise credit deterioration at an early stage.

We have also adopted a new ratings tool in both QNB ALAHLI and QNB Suisse. This has enhanced our ability to benchmark exposures in these countries against our global portfolio and ensure consistent ratings practices across our network.

This year, we created a dedicated international special credit and workout function, enabling us to take a more hands-on approach centrally to potential problem accounts and maximise recovery from distressed assets.

International credit governance
Also, in 2018, we launched a significant international credit governance project to further enhance our international integration. The aim is to produce a target governance model and a clearly-defined roadmap that will help to further integrate subsidiaries and standardise the structures, processes and credit operating model across the Group, as well as to cascade sector, geographic and product limits throughout the network. As a consequence, we have already begun to recruit additional talent to support this important project and expect overall headcount to increase by 6% to implement it effectively.

To further bolster our international credit governance, we created a monthly international portfolio monitoring and risk review committee covering all of our international operations by entity that will provide an in-depth review of a different international branch or subsidiary each month.

In addition, this year we carried out a successful audit of QNB Tunisia, QNB Indonesia and QNB ALAHLI. QNB Group Credit staff visited each country to review files and adherence to policies, credit administration procedures, documentation standards, early warning systems and reporting.

From a strategic perspective, we have undertaken a divisional restructuring which realigns job profiles in line with our Target Operating Model. This has created greater depth in the divisional job titles and grades, providing greater development opportunities and management experience to staff. The department structures within the Credit division now have a common grade and job hierarchy with each department separating domestic and international activities, although they share common operating standards.

The team has also contributed to the formulation and review of various Group strategic reviews, ensuring that appetite levels on a sector and risk rating basis are appropriate and that target clients are in line with wider QNB Group credit policy and strategy.

In retail, we have worked with the risk team from QNB Finansbank – one of the leaders in the field of retail scorecard methodology and systems – to create a new retail scorecard to be adopted and rolled out across the network. Smoother internal processes are expected to deliver faster decision times for customers applying for new retail loans.

For SMEs, we have introduced a new covenants and monitoring system and new early warning system to provide greater visibility and support for any emerging issues.

Below: As an employer of choice, training and development is at the heart of our employee value proposition.

Strategic risk

As we grow in complexity and sophistication, our strategic risk capabilities support our growth and safeguard our future.

"We made significant progress in developing an even stronger risk control and monitoring framework."

The strategic risk function manages strategic risk, market risk, liquidity risk and performs stress testing and scenario analysis. As the Group expands its international footprint, Group Risk continually supports our requirement to service an ever more diverse and complex regulatory landscape. We provide insights, recommendations and support in all areas of prudential interaction, most notably with respect to the Internal Capital Adequacy Assessment Process (ICAAP), Recovery Planning, capital planning and in formulating responses to regulatory consultative exercises.

Liquidity risk

QNB considers the prudent management of liquidity as essential in ensuring a sustainable and profitable business and in retaining the confidence of financial markets. Ultimate responsibility for liquidity management resides with the BOD, with day-to-day management oversight being delegated to the Group Assets and Liabilities Committee (ALCO).

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

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

Stress testing and ICAAP

QNB Group intends to maintain sustainable funding and liquidity across our network of countries in order to withstand unforeseen macroeconomic headwinds and shocks. The ICAAP process is an important component of assessing the capital adequacy of the Group, as well as providing a forward-looking assessment of QNB Group's ability to operate in a more stressed economic situation. The results of this process help us to determine and plan how to position QNB Group's capitalisation and liquidity in the strongest possible way. Through this, we ensure that we maintain healthy risk metrics in line with our approved Group risk appetite and regulatory limits.

Market risk

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

From a market risk perspective, QNB takes a very cautious position. Our Value at Risk (VaR) limit as a proportion of capital stands at 0.01%, while VaR utilisation is 37.0%.

Progress in 2018

Working together with other key stakeholders, we continue to integrate and align processes, models, policies and monitoring tools. In 2018, we continued to focus on the governance standards and frameworks applied in international jurisdictions through targeted detailed on-site reviews, and through membership of key committees and the more detailed redefinition of risk service level agreements for international branches.

As well as building a significant pool of talent and expertise to meet the demands of the Group locally and across the international network, we have developed a tailored training programme to further enhance our knowledge and skills across the function.

Last year, we carried out a major benchmarking exercise of our risk management capabilities. This comprehensive process affirmed our position as a leading institution in the MEA region. It also identified a number of areas in which we could improve in order to meet and advance towards our MEASEA 2020 strategy. This has been a key focal point this year.

“QNB’s extensive risk change programme is aimed at improving the oversight and control of risk and enhancing the speed and robustness of decision making.”

Enhanced enterprise risk standards
In 2018, we enhanced our enterprise risk standards, taking the lead in introducing IFRS 9 impairments requirements across the Group, securing internal and external approval of the bank’s model and approach. We updated our key Board Risk Policies and Frameworks, including the Group Risk Appetite Statement, which was updated to reflect our five-year plan.

We also augmented our risk governance with respect to QNB’s risk models by adding a more robust and detailed approval process and the delegation of approval authority to a dedicated approval committee (previously this formed part of the GMRC’s responsibilities).

We implemented a stress scenario simulation engine for both credit and market risk as part of the enhancement of the enterprise stress testing capability.

Improved risk management and monitoring
We made significant progress in developing an even stronger risk control and monitoring framework. Key initiatives included:

> improving our well-established capabilities to assess liquidity risk which has enabled us to more effectively respond to key liquidity events impacting the Group directly or indirectly during the year;

> implementing an extensive programme to refine Early Warning Indicators (EWIs) across multiple risk types and jurisdictions;

> refining our Group-wide Behavioural Framework for the purposes of reporting interest rate and liquidity risk to ensure risk measurement and reporting standards are robust, consistent and aligned to regulatory standards;

> implementing an enhanced statistical scorecard for retail credit (application and behavioural); and

> introducing new processes and models to support business partners in the valuation and control of bespoke transactions.

Risk change programme
QNB’s extensive risk change programme is aimed at improving the oversight and control of risk and enhancing the speed and robustness of decision making. In 2018, we enhanced and automated our stress testing methodology around asset liability management, liquidity and market risk to cater for emerging international and local regulatory requirements and guidelines.

We also implemented a real-time, online risk pricing calculator, enabling Relationship Managers and Credit Officers across the network to appraise the value add of a proposed or current transaction using a risk-sensitive approach. This is expected to result in greater transparency and consistency in product pricing.

Elsewhere, we reconfigured a series of executive dashboards for senior management, which will allow more timely decisions on all risks and emerging scenarios.

Looking ahead
We will continue to ensure our risk management is a source of competitive advantage for the bank. As the risk function matures, we will continue to refine the control processes by focusing on the use of new technologies to improve the efficiency and timeliness of risk data.

Our key initiatives for 2019 will be to:

> implement several software updates to support and streamline existing processes in terms of Early Warning Indicators, Asset and Liability Management, Risk Management Information and IFRS 9;

> actively manage the bank’s response to the broad range of regulatory changes adopted by home and host regulators;

> continue to raise standards in the risk control and monitoring framework across the Group, through the harmonisation of policy, frameworks and reporting standards; and

> strengthen our risk team in a number of key areas, including capital management and IFRS 9.

Operational risk and cybersecurity

We create added value for shareholders, clients and staff through a robust, high-quality framework that minimises operational risk across the QNB Group.

0.001%
card fraud losses relative to total transaction volume

"We place the highest priority on continuous enhancements to protect our customers' data and the bank's information technology systems."

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

As QNB Group grows in size and influence and into an expanding regulatory landscape, it is important to ensure that our operational risk approach and framework properly reflects the evolving sophistication of the business and remains of high quality.

Our objectives are, therefore, to:

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

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

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

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

We have classified the 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.

In line with our key objectives, in 2018 we implemented a new operational risk management system and enhanced our Group Operational Risk Framework supported by a new policy, building on our expertise and best practice. This framework consists of seven key components: Event Loss Data Management (ELDM); Risk and Control Self-Assessment (RCSA); Risk Mitigating Actions (RMA); risk appetite and Key Risk Indicators (KRIs); control framework; policy and governance; and risk reporting and analysis.

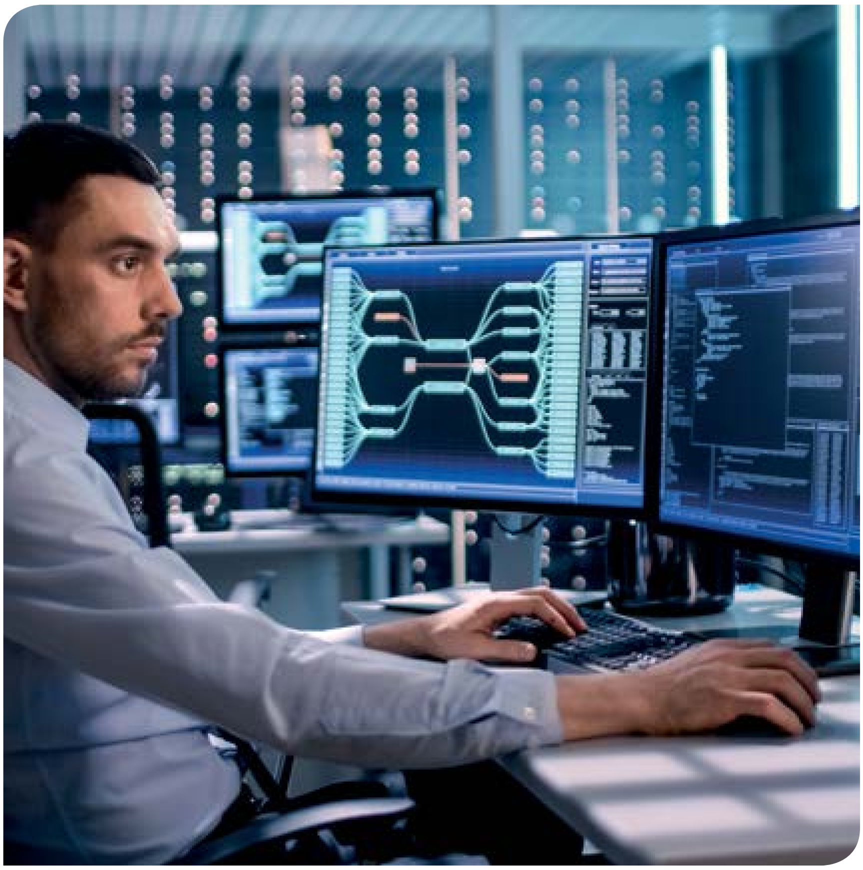
We have reinforced our event loss data management process in line with international standards, allowing us to capture greater detail and provide more in-depth analysis of all operational risk events, providing better understanding of the impact on the bank, customers, regulators and reputation.

Our risk and control self-assessment (RCSA) methodology has been improved significantly and forms the core of the new 'interconnected' framework which has been designed. A risk mitigating actions (RMA) component has been developed as a fundamental pillar of our proactive approach to operational risk management. RMA helps us to identify and resolve control gaps or weakness and reduce unacceptable risk exposures. RMA also promotes transparency and provides clear accountability and responsibility to mitigate operational risks.

All these changes have significantly enriched our ability to capture data, giving us a deeper and more comprehensive view of our risks, which have, in turn, raised awareness levels across the bank. This helps us to strengthen our risk culture, driving transparency and accountability.

These improvements in processes have been complemented with additional improvements in people and technology. On the people front, we have strengthened the team with additional talent recruited from a range of global banks and continued to invest in specialist ongoing training.

Right: The bank uses the latest technology to proactively address potential cyberthreats.



Technology-wise, we have also further enhanced our sophisticated card fraud monitoring system to help provide even greater protection for our customers and to reduce losses. As a result, we continued to improve our already impressive performance on card fraud. Our approach to business continuity management continues to be executed to a high standard, where we were reconfirmed with an ISO 22301 certification.

In 2019, we plan to bring in a fully comprehensive third-party risk management (TPRM) approach supported by newly enhanced risk assessments contained within the new operational risk management system. Because QNB Group relies on a number of diverse third-party suppliers to help us across our operations, it is important for us to effectively audit each one of these providers to provide a comprehensive risk and performance assessment.

Cybersecurity

Cybersecurity is an important and continuous evolving focus for the bank. With cybercrime on the increase, cybersecurity threats are becoming more frequent and more sophisticated, while the banking sector remains a high profile target. These attacks have become large in scale and extremely damaging to the companies involved from a financial and reputational perspective. That is why we place the highest priority on continuous enhancements to protect our customers' data and the bank's information technology systems.

There are three key pillars to our approach: technology, people and policies. Each of these pillars needs to be strong and continually strengthened to support and protect the bank, and we invest in each accordingly.

The bank operates the latest technological platforms to support the proactive detection and prevention of malicious activities and malware attacks. In 2018, we continued this journey by investing heavily in both detective and preventative measures.

On the people pillar, we are investing in the creation of internal Red Team capabilities to assess the security posture of the firm by undertaking simulated cyberattacks. This is complemented by a new training and awareness programme rolled out to our employees to raise their awareness from social engineering and phishing attacks.

In addition to significant investments in technology and personnel to enhance our cyberdefence capabilities, we have strengthened our partnerships with the appropriate law enforcement agencies and peer organisations. QNB maintains an ISO 27001 certification, which is an independently-certified methodology used to operate, monitor and improve the information security management systems (ISMS) in the bank.

Complementing the ISMS, QNB's Service Operations Centre enables us to immediately identify and block any malicious activity 24 hours a day, 365 days a year.

We embed the threat information of attacks aimed at financial organisations or specifically at QNB into our cybersecurity strategy. This ensures that we are able to take pre-emptive actions to defend ourselves from potential future attacks.

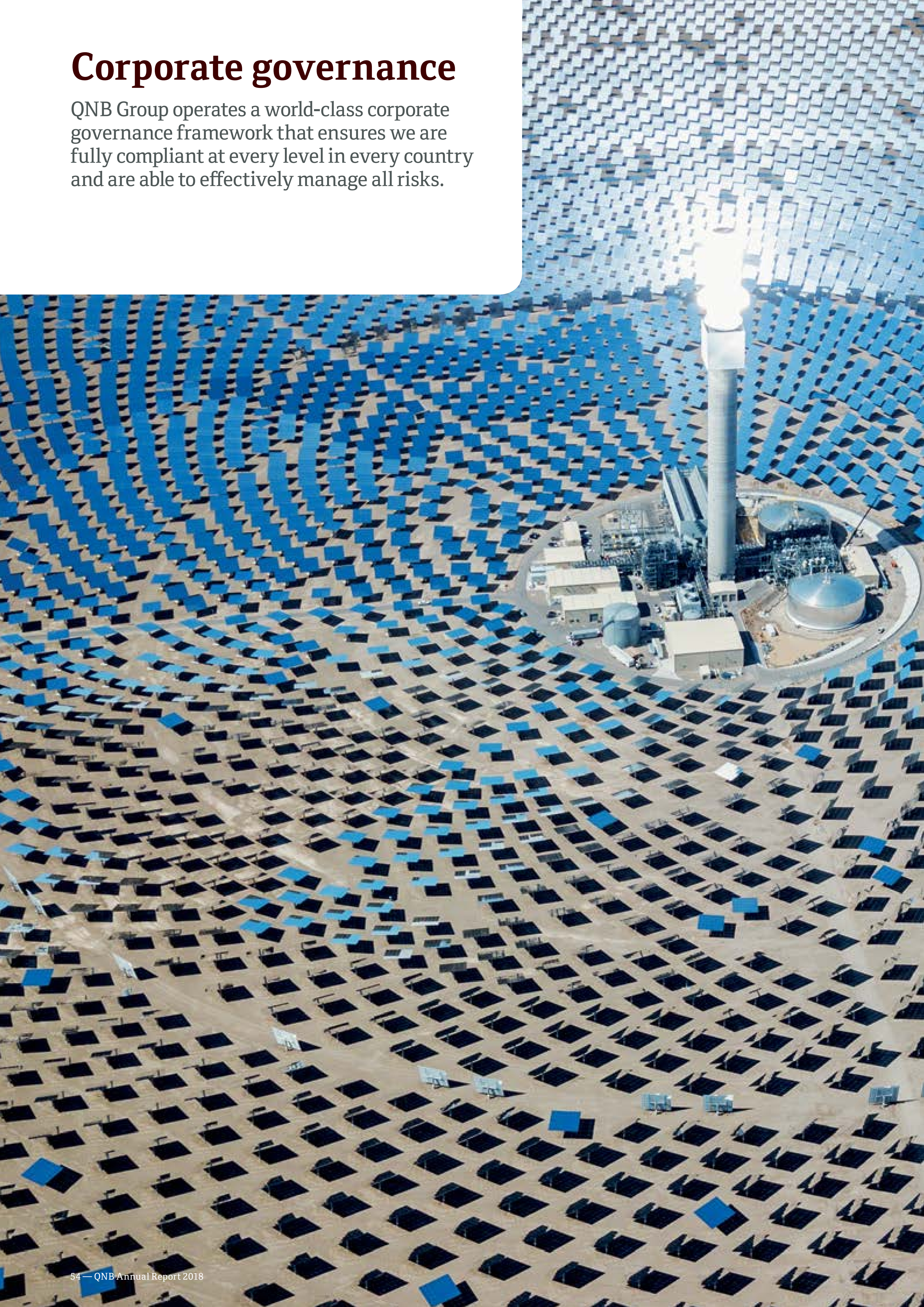
The bank has an independent internal audit division which includes a specialist team qualified in performing audits of information technology and information security, including data security. The team conducts annual risk-based audits covering these areas including review of related policies and procedures.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

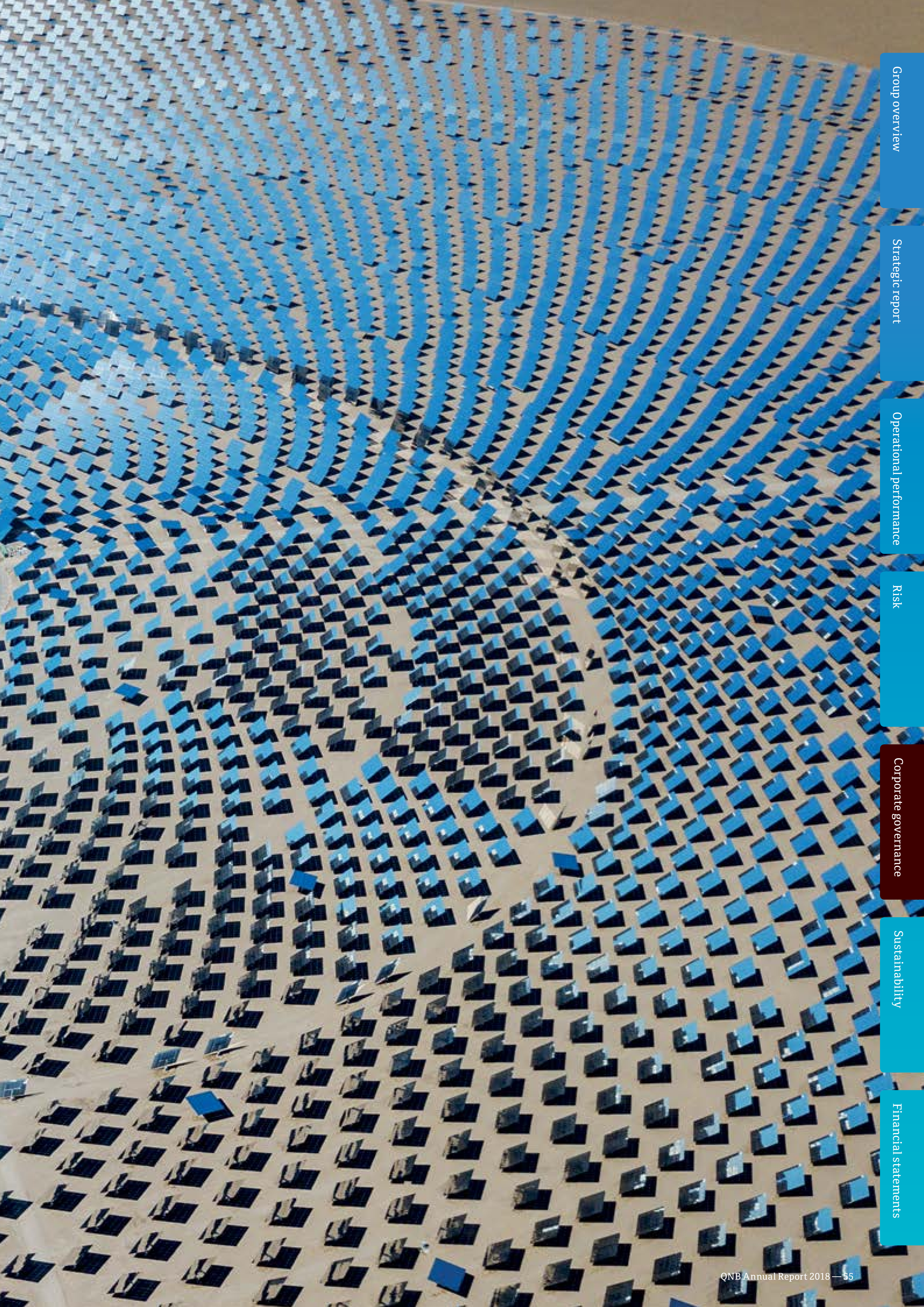
Our three pillars of cybersecurity

Technology → People → Policies

Corporate governance

QNB Group operates a world-class corporate governance framework that ensures we are fully compliant at every level in every country and are able to effectively manage all risks.





Corporate governance

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

"The Group has adopted various undertakings to improve our transparency around reporting financial and non-financial information to our stakeholders."

"We strengthened the levels of transparency and accountability of the Board, including its independent non-executive directors."

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.

The Group has adopted various undertakings to improve our transparency around reporting financial and non-financial information to our stakeholders.

QNB's approach is vital for evaluating the existing corporate governance infrastructure and engaging with our stakeholders across the Group to ensure that the level of reporting is robust and can withstand public scrutiny.

The Corporate Governance Report, issued as a supplement to the 2018 Annual Report, reflects QNB Group's efforts to comply with the supervisory and regulatory requirements issued by Qatar Central Bank (QCB), Qatar Financial Markets Authority (QFMA) and all relevant regulatory authorities across our operating footprint.

Board composition
According to the 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. The BOD members shall elect its Chairman and Vice-Chairman among its members by a majority secret vote of the Board.

The Board's functions and responsibilities
The Board of Directors has the 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. It is also responsible for instilling the appropriate culture, values and behaviour throughout the organisation and is entrusted by the shareholders with the authority to discharge the following duties:

> governing QNB Group and overseeing its operations;

> providing effective governance over the bank's key affairs;

> setting the overall strategic direction and oversight through reviews and approvals of Board-level policies and various group policies to ensure the adherence to specific standards;

> minimising the Group's risk exposure by appointing and supervising the Executive Management;

> establishing compensation, performance evaluation and ensuring succession planning;

> setting the Group's vision, mission and objectives;

> ensuring the accuracy of the Group's financial statements including the timely reporting and disclosure of financial information to regulators and shareholders;

> providing a system by which information on unlawful or unethical behaviours can be reported to the Board; and

> ensuring compliance with laws and regulations as well as QNB Group Articles of Association.

Tasks delegation
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.

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

“QNB Group stands committed to maintaining the highest levels of fairness, integrity and responsibility.”

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.

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.

Board committees

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

Each Board committee is assigned to handle one or more of the tasks of the Board. The responsibilities of the Board 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 Audit and Compliance Committee (GBACC)
3. Group Board Nomination, Remuneration, Governance and Policies Committee (GBNRGPC)
4. Group Board Risk Committee (GBRC)

Composition of the BOD committees

		Group Board committees			
Board of Directors		GBEC	GBACC	GBNRGPC	GBRC
Chairman	H.E. Mr. Ali Shareef Al-Emadi*				
Vice Chairman	H.E. Sheikh Abdullah Bin Mohammed Bin Saud Al-Thani*				
Members	H.E. Sheikh Abdulrahman Bin Saud Bin Fahad Al-Thani**			•	
	H.E. Sheikh Hamad Bin Jabor Bin Jassim Al-Thani*	•		•	•
	Mr. Bader Abdullah Darwish Fakhroo**	•			•
	Mr. Ahmad Yousuf Hussain Kamal**		•		
	Mr. Khaled Hamad Al-Hajeri*		•		
	Mr. Ali Hussain Ali Al-Sada**	•			•
	Mr. Fahad Mohammed Fahad Buzwair**			•	
	Mr. Mansoor Ebrahim Al-Mahmoud*		•		

* Representing Qatar Investment Authority ** Elected by shareholders

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 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;

> Evaluate the critical issues reports, submitted by Group Chief Compliance Officer and Group Chief Audit Executive, including those critical issues related to QNB Group subsidiaries; and

> Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the Group, including non-audit services.

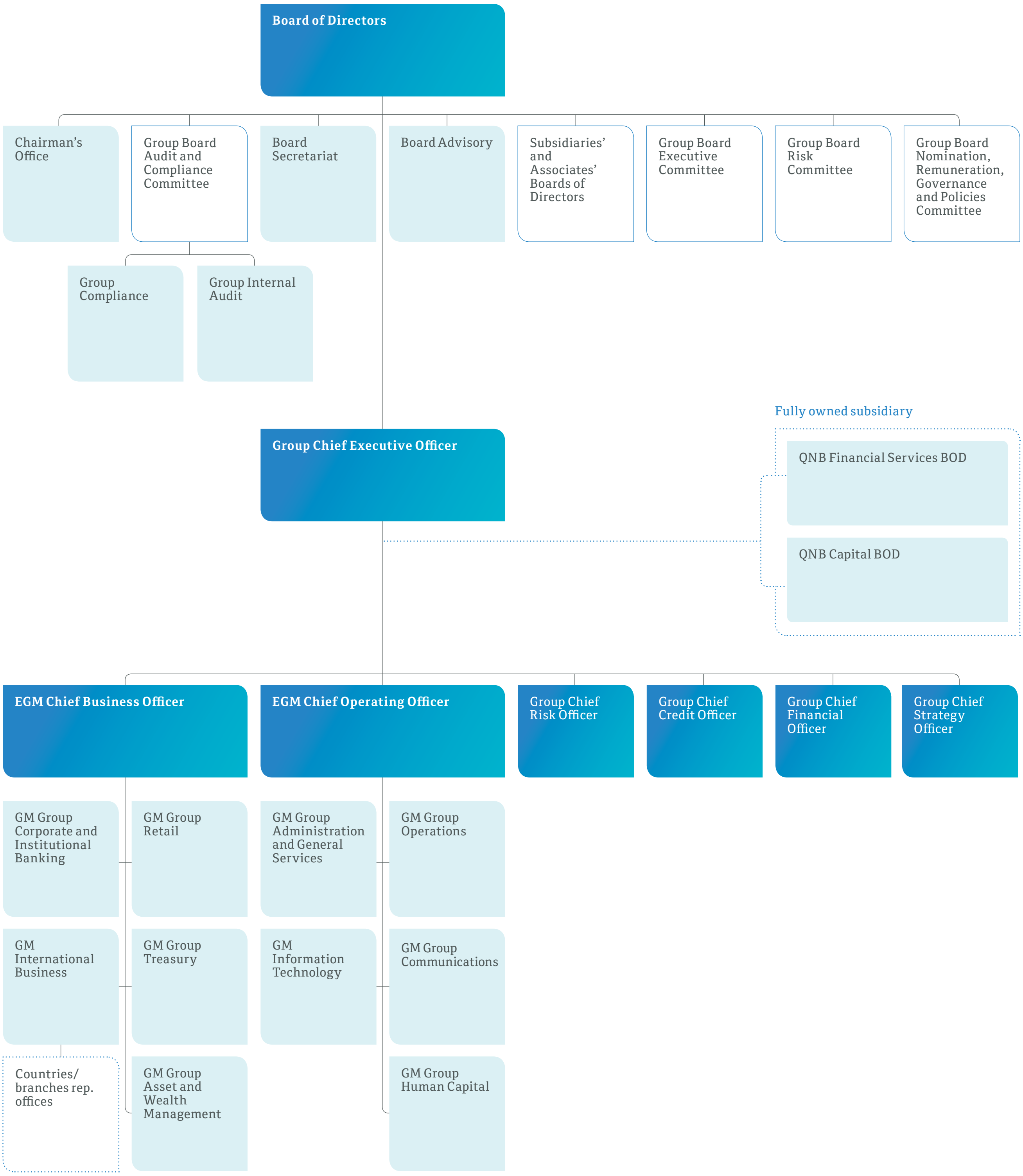
Board meetings

In 2018, the BOD held six meetings. According to QNB Group's Articles of Association, the Board should hold at least six meetings during the year. The meetings are held regularly or when called for by the Chairman or by two Board members. The invitation for the Board meeting should be communicated to all members at least one week prior to the meeting. In this regard, any member can add a subject to the meeting's agenda. The Group's Articles of Association also provide detailed information on the attendance, quorum, voting and meeting requirements.

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

Number of meetings	Board	Risk	Audit	EXCO	Nomination
1	16 Jan	10 Jan	16 Jan	19 Mar	19 Mar
2	19 Mar	19 Mar	21 Feb	8 May	8 May
3	8 May	8 May	10 Apr	11 Jun	11 Jun
4	11 Jun	11 Jun	30 Apr	17 Sep	17 Sep
5	17 Sep	17 Sep	11 Jul	20 Nov	20 Nov
6	26 Nov	20 Nov	10 Sep		
7			11 Oct		
8			14 Nov		
Total	6	6	8	5	5

QNB Group organisation structure



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

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

The remuneration policy of the BOD members was duly acknowledged to be in line with QCB instructions; whereas the remuneration of the BOD members is presented on an annual basis to the General Assembly for approval. The GBNRGPC defines a specific policy for remuneration of the Executive Management before presenting it to the BOD for approval.

The policy defines a mechanism whereby the remuneration is directly linked to the effort and performance at both department and employee levels, through the achievement of assigned goals and objectives in accordance with the profitability, risk assessment and the overall performance of the Group.

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

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

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

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

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

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

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

Our Executive Management team has 33% female representation, one of the highest for any major bank in the region and demonstrating our commitment to enhancing gender diversity at senior positions.

The Group Chief Compliance Officer and the Group Chief Audit Executive have a dotted reporting line to the GCEO and report directly to the GBACC.

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

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

> Tier 1 'Executive Committees', the 'decision-making' committees which include Central Purchasing, Risk, Credit, GALCO and Strategy will report to the Board via Board of Directors' relevant committee;

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

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

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

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

Enhanced corporate governance arrangements and practices
As part of building a strong corporate governance culture across the Group, QNB witnessed during 2018 several developments at all levels in terms of corporate governance practices and arrangements. The topics below summarise QNB's key efforts in 2018 with respect to the enhancement of the Corporate Governance Framework.

Management committees membership structure (Tier 1 and Tier 2)

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

Management committee membership	Group Management Risk Committee	Group Credit Committee	Group Assets and Liabilities Committee	Group Strategy Committee	Group Information Technology Committee	Group Business Development Committee	Group Operations and Services Committee	Group Human Capital Committee	Central Purchasing Committee	Senior Management Committee
GCEO	●	●	●	●					●	●
EGM – GCBO	□	□	□	✹		●			□	□
EGM – GCOO	□		□	□	●		●	●	□	□
GM – GCRO	✹	□	□	□					□	□
GM – GCCO	□	✹	□	□					□	□
GM – GCFO	□		✹	□					✹	□
GM – GCSO	□		□	□	□	□		□		♦
GM – Group Chief Compliance Officer	○								○	
GM – Group Chief Audit Executive	○								○	
GM – Group Asset and Wealth Management		□				□				
GM – Group Communications						□				
GM – Group Corporate and Institutional Banking		□	□			✹	□			
GM – Group Administration and General Services					□		□			
GM – Group Human Capital								✹		
GM – Group Information Technology					✹		□			
GM – Group International Business Division		□			□	□	□	□		
GM – Group Retail Banking					□	□	□	□		
GM – Group Treasury			□			□				
GM – Group Operations					□		✹			
CEO – QNB Capital						□				
AGM – International Operations Affairs							○			
AGM – Treasury and Assets Operations							○			
AGM – Strategy and Business Development				♦						
AGM – Trading			♦							
AGM – Group Credit		□								
AGM – HC Strategy and Integration								□		
AGM – HC Services								□		
AGM – Operations Control and Excellence							♦□			
AGM – Group Operational Risk					□		○			
AGM – Group Strategic Risk Management	♦									
AGM – Central Operations							○			
Senior Credit Officer		♦								
Head of Infrastructure					□					
Head of Development and User Services					□					
Group General Counsel									○	
EM – IT Strategy and Governance					♦					
Head of Global Cash Management						♦				
Head of Tenders and Contracts Admin									♦	
EM – International HR Integration								□♦		
Number of meetings held during 2018	4	34	12	6	4	12	4	4	•	12

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

Corporate governance
continued

Independence assessment: independence of mind and perspectives
An important role of Group Compliance is to promote good corporate governance across QNB Group, and at the centre of sound governance is an effective Board of Directors (BOD). The long-term success of the Group is dependent on a quality Board where the Directors are competent, well qualified, committed, with diverse backgrounds and who have independence of mind and perspectives.

In 2018, in line with regulatory requirements in Qatar, Group Compliance conducted a comprehensive assessment to evaluate the independence of the QNB Board.

As a result, we strengthened the levels of transparency and accountability of the Board, including its independent non-executive directors. We also took steps to ensure that the Directors' time was used to best effect, to encourage greater diversity across the Board, and to promote the level of independence required under QCB's principles and QFMA's Corporate Governance code and rules.

The assessment also helped the Board to strengthen our skills in setting our strategic objectives and scrutinising our performance, quality and extent to which the Board is adept at succeeding the agreed corporate goals for QNB Group.

Intensive Board self-assessment for an optimal leadership structure
To continue to strengthen the Board and build on its members' skills, Group Compliance coordinated an annual self-assessment to optimise performance. Every year, Directors complete surveys and provide their feedback on Board effectiveness, composition, culture, focus, optimal leadership structure, governance practices and enhancements. The outcomes are evaluated based on the Group long-term strategy, business needs and the evolving regulatory environment.

Board annual assessments are the key to making certain that fit and proper Directors are working together effectively, which constitutes in itself a real strategic asset to the Group. Board evaluations do not simply serve as a required compliance exercise, since ongoing reviews and reflection of Board performance and dynamics contribute to organisational, Board and individual Director improvements.

Regular review of Board policies: providing clarity on roles and responsibilities
Maintaining updated and unified Board related charters, policies and processes is a fundamental part of Group Compliance commitment to providing clarity on the roles of Directors and the Board as a whole with the purpose of accelerating decision making and avoiding unnecessary Director conflicts.

Recent regulatory updates with respect to QFMA's Corporate Governance Code and new measures pertaining to Board interactions with stakeholders have been outlined and reflected by Group Compliance in the relevant charters and policies. The key to articulating purpose is to focus on strengthening Board members' understanding of business operations, customer experience and people management practices as the organisation evolves.

A consistent and pertinent update of Board documentation also contributes to identifying gaps in knowledge and expertise related to rapid changes in technology, regulatory and other associated aspects, risks and opportunities for the Group. It also facilitates developing deeper understanding of the robust and well-defined Director's role along with associated governance dynamics.

Assessment of QNB representatives on subsidiaries' BOD: protecting against weak oversight dynamics
QNB Group owns several subsidiaries globally and consequently has numerous decision-making levels and interactions. Therefore, a number of challenges may arise with respect to strategic objectives, implementation and monitoring of plans, dissemination of corporate culture, risk management, reporting and mitigations of potential conflicts of interests, among other matters. As a result, it is of great importance to nominate representatives at the Board level of each QNB entity/subsidiary in order to align interests, protect QNB stakeholders including shareholders and create an adequate setting for the sustainable development of the Group.

In this context, an assessment exercise was conducted by Group Compliance to evaluate the performance of QNB representatives, which are primarily executive managers from QNB Qatar (as the holding company) on QNB subsidiaries' BOD.

The 2018 assessment covered various governance aspects pertaining to the establishment of a clear communication of the Group common strategy, having regular monitoring meetings and escalation channels among representatives to follow-up on the implementation of directives, performance and deficiencies remediation. It has also appraised the extent of setting a Group-wide oversight framework with a direct reporting line to QNB Qatar's Board (i.e. the parent company).

Monitoring of shareholding limits: an anti-takeover defence to safeguard value creation
The 5% ownership limit per single shareholder is, in theory, used to prevent a legitimate takeover bid, particularly in cases where the public interest is under threat.

Accordingly, any increase over the limit is closely supervised as part of the monitoring of the shareholding limit process, which consists of a set of actions taken by Group Compliance in monitoring the threshold of 5% on the share ownership for each shareholder in accordance with QNB Group's Articles of Association and regulatory obligations in this respect.

The core objective of this practice is to identify shareholders that exceed the limit (under certain criteria), communicate with them and mutually agree on the required actions to remedy the situation.

Governance guidelines for overseas branches and subsidiaries: a strategic oversight
While a comprehensive and adequate foundation of corporate governance has been established by Group Compliance within QNB Group, which articulates the framework of sound governance, when it comes to governance of international branches and subsidiaries, a variety of challenges may arise. As the Group grows in size and expands its

Above: QNB Group is dedicated to maintaining the highest levels of fairness, integrity and responsibility.

operations to international markets, the number of overseas branches and subsidiaries tends to increase and the decision-making interactions between entities become more challenging.

As a result, we have established a set of guidelines to ensure we embed best practice across the Group. These include guidance on the composition of subsidiary Boards, fundamental processes and Group-wide policies and procedures.

Conflict of Interest and Insider Dealing Policy: it begins with top management

QNB Group stands committed to maintaining the highest levels of fairness, integrity and responsibility. In this respect, the established Conflict of Interest and Insider Dealing Policy guides all employees from top management to entry-level employees, as they make every effort to meet their obligations to QNB's Board, shareholders, clients, personnel and all stakeholders.

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

Disclosure and Transparency Policy: a mindset of openness, authenticity and integrity

To make sound investment decisions, investors need to trust markets and companies. They also require robust information that is reliable, accurate, comprehensive and in accordance with accepted international practices. The impact of disclosure and transparency on corporate governance endeavours denotes a shift towards a more intangible economy, a more pronounced focus on long-term results and demand from regulators and other stakeholders for greater transparency.

QNB's Disclosure and Transparency Policy outlines a step-by-step guidance for the concerned divisions on the disclosure of financial, strategic, governance and performance information taking into account differences in banking areas, organisational complexities, operational and functional specific contexts while ensuring that the information is thorough and reliable.

The policy is intended to develop periodic reports that incorporate relevant environmental, social and governance (ESG) information that investors and other stakeholders increasingly seek going forward. Adhering to these standards and driving improvements will positively encourage more investors to consider adding well-governed companies to their investment portfolios.

Working cohesively to protect shareholders' rights

The protection of shareholders' rights is central to corporate governance and is a focal point for companies throughout the world. In QNB, the protection of shareholders' rights begins with an ethical corporate behaviour, an accurate legal and regulatory framework and robust enforcement of policies and procedures.

In this regard, the Shareholders' Rights Protection Policy defines the Group's various stakeholders and promotes cooperation between them and the bank in creating wealth, growth and sustainability. It also establishes clear rules and mechanisms on the fair treatment and protection of stakeholders.

This key component of QNB's corporate governance framework encourages taking the interests of all stakeholders into consideration during the decision-making processes, instead of making choices based solely upon the interests of shareholders.

Group Compliance

QNB Group maintains a vigilant approach to oversight and compliance against a backdrop of rapid change in our business landscape and regulatory environment.

“One of the most critical responsibilities for the senior management at QNB Group is to instil a culture of ethical and professional behaviour.”

Promoting ethical and professional behaviour
One of the most critical responsibilities for the senior management at QNB Group is to instil a culture of ethical and professional behaviour. The tone at the top sets out QNB management’s desire and commitment towards honesty and integrity while ensuring professional standards within the Group. Starting from the Board of Directors, QNB Group continuously encourages its senior members to be a role model for others to follow as the tone at the top has a trickle-down 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 2018, Group Compliance took the lead in setting up and refreshing robust policies and procedures, including the ‘Anti-Bribery and Corruption Policy’, ‘Conflict of Interest and Insider Dealing Policy’, ‘Disclosure and Transparency Policy’, ‘Chinese Walls Policy’ and ‘Whistleblowing Policy’, with a view to control, curb and report unethical behaviour; including, but not limited to, fraud, corruption, embezzlement, bribes, 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 behaviours.

QNB Group Code of Ethics: enforcement
Group Compliance is tasked with ensuring active application of the Group’s Code of Ethics across the Group. Accordingly, QNB has in place a well-defined mechanism as per industry best practice to identify and report to the Board of Directors and senior management any instances of breach of the code. During 2018, the Compliance Division enhanced several standards and guidelines, which included: data privacy, outsourcing and relationships with vendors, declaration of conflicts of interest and management of staff accounts, investments by employees, disclosing confidential information, etc.

Strengthened financial crime compliance structures, frameworks and tools
We strategically manage QNB’s Anti-Money Laundering and Combating Terrorism Financing (AML/CTF) framework and related activities, where robust systems and controls are in place to detect and deter the flow of illicit funds through the bank’s financial system. The AML/CTF framework is designed to accurately identify QNB’s customers in order to conduct regular account reviews, and monitor and report any suspicious transactions.

By understanding and promoting the crucial and critical role of the ‘first line of defence’, Group Compliance has been successful in helping to prevent financial crime at QNB Group. Special attention was paid, and investments made, to enhance and strengthen the existing AML/CTF framework locally and across overseas branches and subsidiaries, to enrich collaboration with regulators and to safeguard QNB’s integrity.

During 2018, Group Compliance performed a comprehensive assessment of the existing AML/CTF framework and prepared an action plan to enhance the existing AML policies, skillsets and IT systems and controls. The assessment and action plan considered domestic and global regulatory requirements, international best practices and ensured that QNB's AML/CTF related principles and standards are firmly embedded within the respective policies, procedures, systems and processes.

Reinforcing the Sanctions Compliance Framework and programmes across QNB Group

The 'Sanctions Compliance Framework' is a core component designed and maintained by Group Compliance and implemented across QNB Group. The framework is designed to prevent terrorism and organised crime risks, minimise the risk of sanctions breaches, abuse of the Group's products and services and to protect the bank's channels from being used for illicit purposes. Through the framework, the strategic sanctions plan and related programmes and initiatives, QNB monitors emerging risks and trends linked to sanctions breaches, in order to avoid being directly or indirectly part of any illegal activity.

In 2018, Group Compliance focused on implementing 'safe, proficient and effective' automated processes at local and international levels to execute transactions with a view to protect QNB and its customers from risks that could potentially occur due to human error. In this regard, an automated system that replaced manual processing of trade finance transactions was implemented in order to avoid human errors, to enhance oversight for completing required checks and to streamline the process to obtain relevant internal approvals within QNB.

In addition, QNB also secured new systems, tools and subscriptions to assist relevant personnel in performing enhanced due diligence before processing high-risk transactions. These systems contain features that allow users at QNB to benefit from data, news and insights as well as data due diligence capabilities on trade finance transactions.

Building the fraud control framework at QNB Group

During 2018, the Fraud Control Unit under Group Compliance started the foundation of a robust fraud management programme, leveraging on industry best practices and standards. The Fraud Risk Management Programme demonstrates the expectations of the Board of Directors and Executive Management and their commitment to high integrity and ethical values regarding managing fraud risk. A Group-wide Anti-Fraud Policy was approved by the Board of Directors and rolled out across QNB Group, including its international branches and subsidiaries.

The Fraud Control Unit has conducted a structured and comprehensive fraud risk assessment across major products and channels, to identify specific fraud schemes and risks, assess their likelihood and significance, evaluate existing fraud control activities, and implement actions to mitigate residual fraud risks. The fraud risk assessment was performed on a risk-based approach related to the products, processes, risks (existing and anticipated) and controls.

Below: Employees were provided with tailored training courses to enhance our control environment and create compliance awareness.

Group Compliance
continued

The Fraud Control Unit also performs ongoing monitoring of alerts and exception reports to mitigate the risk of fraud events occurring or not being detected in a timely manner. The Fraud Control Unit has also rolled out fraud awareness sessions for employees across the Group, and has put in place fraud reporting mechanisms for international branches and subsidiaries.

Tax reporting: enabling transparent and effective tax information exchange across QNB Group
QNB Group, including its overseas branches and subsidiaries, is required to comply with domestic and international tax identification, reporting and information exchange practices of all countries in which it has business operations. Increasing customer tax reporting requirements around the world and the digitisation of the administration of tax has increased QNB's tax compliance burden further. Non-compliance could expose the Group to financial costs or penalties or reputational damage because of failing to comply with required laws and practices.

QNB applies the letter and spirit of the law in all regions where we operate. The Tax Compliance Unit within Group Compliance 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 applies global initiatives to improve tax transparency across QNB Group such as:

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

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

The Tax Compliance Unit serves as subject matter experts in FATCA and CRS aspects and works with the different business units domestically and with compliance officers at overseas branches and subsidiaries to serve as the liaison point in FATCA/CRS implementation and reporting programmes. In 2018, the Tax Compliance Unit successfully led comprehensive initiatives and programmes to ensure that the required FATCA and CRS reportable data set by the regulatory authorities in Qatar and by applicable jurisdictions in overseas branches and subsidiaries were duly submitted.

Enhanced compliance monitoring and oversight
QNB Group has set in place a robust, detailed and effective Compliance Monitoring Programme (CMP) across the Group. The CMP provides a thorough snapshot of where the bank stands, particularly in relation to applicable regulatory requirements. During 2018, QNB's CMP was remodelled and enhanced to include the compliance status of every regulatory requirement, the process owner for the same, the applicability level (i.e. at the bank domestically or at the Group level), level of importance, the need to update the relevant policies and procedures and frequency of periodic review.

Major responsibilities and prioritisation of the compliance function at QNB are carried out using the CMP, which provides input for several activities, such as the implementation and review of specific policies and procedures, compliance risk assessment, compliance testing, and educating staff on compliance matters. The CMP is developed using a risk-based approach and is subject to oversight by the Group Chief Compliance Officer to ensure appropriate coverage across businesses and coordination with the risk management functions.

Group Compliance has also implemented a customised version of the Compliance Monitoring Programme for analysing the key regulatory developments at QNB's overseas branch jurisdictions that could potentially affect their operations, structures and procedures. This Compliance Monitoring Programme serves to ensure that jurisdiction specific regulations, circulars and guidelines are properly considered. This exercise has significantly improved compliance oversight at overseas branches, particularly when tracking and documenting the regulatory requirements in the international jurisdictions where QNB operates.

Augmenting the capability and skill set of the Group Compliance team
QNB attaches great importance to the professional improvement of its employees and supports them in obtaining training, certifications and professional development opportunities in an effort to increase the work quality and ensure compliance with international standards. In this sense, employees within Group Compliance are encouraged to pursue continued development and obtain internationally accepted certifications, professional qualifications and credentials in the field of Financial Crime, Regulatory Compliance and Governance to help QNB Group create a difference in the industry.

Group Compliance training developments and training strategy
Group Compliance emphasises the application of professional competence among its entire staff in order to maintain professional knowledge and skills to ensure that the Compliance staff receive competent professional care and to act diligently in accordance with applicable technical and professional standards when providing professional services. In this regard, Group Compliance plans and assigns training courses to all staff across all levels, after an analysis of their training needs, and initiates proper certification programmes as appropriate, such as the ACAMS Certification training and CISI – QFMA Regulations Certification Training. A majority of the compliance staff hold internationally accepted certifications, professional qualifications and credentials in the field of compliance, AML/CTF, fraud risk management, fraud investigations, financial crime, etc.

“QNB Group has set in place a robust, detailed and effective Compliance Monitoring Programme across the Group.”

A key focus of QNB's compliance awareness and training programmes is to ensure that QNB Group and its employees operate in compliance with relevant laws and regulations across the jurisdictions where it operates. Consequently, the programmes focus on increasing the Group's reputation regarding compliance aspects and ensuring that QNB's global brand is not exposed to jeopardy or risk of impairment. In 2018, the compliance training strategy was enhanced in order to further align the content of the training courses with QNB employee needs, while enhancing the trainees' experience and thus improving the programme effectiveness. Group Compliance focused on implementing a ‘risk-based approach towards training programmes' across the compliance training courses provided to QNB Qatar, domestic subsidiaries and overseas branches and subsidiaries. The courses designed focused on providing practical insights into actual compliance issues faced by the staff or spotted by Group Compliance during the day-to-day activities. Key elements incorporated within the training programme include:

> enhancing the compliance training overall strategy and plan to align it with the Group's evolving needs and compliance challenges;

> ensuring a uniform high level of compliance awareness and ethical values across the Group;

> creating division-specific training materials on mandatory compliance training modules;

> consistently focusing on high risk areas involving regulatory requirements, i.e. Retail, Corporate, Private and potential high-risk adverse impact on the Group's reputation; and

> encouraging interactive sessions with the trainees and applying ongoing enhancements based on the feedback received.

Relationship with regulators in different jurisdictions

QNB Group Compliance is the focal point of interaction between the bank and regulatory authorities and hence it is crucial to maintain a close and clearly established working relationship with all relevant parties including the business units. During 2018, QNB Group's relationship with the regulators in Qatar was further strengthened by having clear and transparent communication channels. Correspondence with domestic regulators typically includes handling responses to enquiries, customer complaints through the regulatory authorities (mainly QCB and QFMA), inspection reports and investigations.

Group Compliance also supported overseas branches to enrich their procedures, and prescribed clear guidelines to be undertaken when handling correspondence with respective regulatory bodies. This process was initiated and adopted based on the process employed at Head Office while considering local requirements at the branch jurisdiction. The need to assign clear roles and responsibilities to relevant parties within the branch level was also communicated along with the need to adhere to required timelines.

The international compliance structure for data protection

The General Data Protection Regulation (GDPR) is a European Union (EU) Regulation that took effect on 25 May 2018 and provides EU citizens/ residents across the globe with enhanced rights in relation to the protection of their personal data. As per GDPR, European regulators can impose fines of up to 4% of global revenue or EUR 20 million on organisations that fail to comply with its requirements.

Group Compliance is the project and function owner for GDPR implementation across QNB Group. In 2018, Group Compliance initiated the implementation of a robust GDPR programme across QNB Group and particularly for the EU entities where it operates (i.e. UK, France and Switzerland). Implementation of GDPR has been undertaken via a phased approach and Group Compliance has been actively working with involved stakeholders across the Group to ensure an efficient and effective implementation. As part of the implementation, Group Compliance developed documentation infrastructure, systems and controls; including policies, procedures, documentation, programmes and deliverables based on eight main pillars that were identified as part of the Data Protection Methodology, namely vendor management, assessment, training, data subject rights, governance, application, breach management and documentation.

Group Internal Audit

Our robust internal audit processes are a critical component of QNB Group's business practices, protecting the bank and its customers while ensuring a trusted corporate governance framework.

"We adhere to the IPPF framework issued by the IIA, as well as Basel Committee recommendations and other leading standards."

"We continue to proactively support other divisions in working for the 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."

As QNB Group continues to grow in its existing markets, our Internal Audit function plays a vital role in ensuring the adoption of best practices and compliance across a multitude of often complex regulatory environments.

We have full and unrestricted access to any of the Group's records, documentation, systems, properties and personnel, including Executive Management and the Board of Directors (BOD).

In 2018, a comprehensive external quality assessment by the Institute of Internal Auditors (IIA) certified that the Group Internal Audit function generally conforms with the standards and the IIA code of ethics and that it demonstrates a clear intent and commitment to achieving the core principles for the Professional Practice of Internal Auditing. Under the International Professional Practices Framework (IPPF) issued by the IIA, an external quality assessment of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor from outside the organisation.

Moreover, in a survey of senior management across the business this year, more than 63% believed that Group Internal Audit operates above expectations. The survey was part of our drive towards continuous improvement and was designed to evaluate the perception on the team, the contribution we make and identify any areas for potential improvement. As a result, we have created action plans to further improve the delivery of our audit services and to continue to raise awareness and understanding of our role by the business.

Assurance to key stakeholders
Our purpose is to provide:

> an independent assurance service to the BOD and the GBACC, to review the effectiveness of the Group's governance, risk management and control processes; and

> advice to management on governance risks and controls.

The regulatory authorities in all jurisdictions of the bank's operations rely on Internal Audit's coverage and assurance. Several mandatory audit assignments are also carried out based on regulatory requirements.

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

Professional practices and resources
We adhere to the IPPF framework issued by the IIA, as well as Basel Committee recommendations and other leading standards.

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

Our team is composed of individuals with experience from leading financial institutions and audit firms across the globe. The majority of our audit staff – more than 60% and rising – are professionally qualified and hold globally-recognised professional certifications.

We also maintain an intensive programme of staff development, including our commitment to developing our Qatari employees through focused training and certification programmes. In 2018, we enhanced the level of training to include more sophisticated and complex business issues, such as stress testing and financial modelling, and by providing more development opportunities through specialist placements.

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

We have a mature environment in audit and our philosophy is to act as a partner to the business, objectively influencing and challenging to facilitate the best results for the Group and its stakeholders.

As part of our innovation drive, we now also identify and promote specialist technical awareness. This knowledge gives us the ability to adapt the latest technology, including artificial intelligence (AI), to improve and empower our audit skills and the assurance process.

Group audit universe and coverage
Group Internal Audit is responsible for audit and independent assurance covering all of the bank's divisions, branches and subsidiaries in all jurisdictions.

In line with relevant regulations and management control agreements, we provide support for our subsidiaries and affiliates. As well as sharing knowledge and best practices, we also deliver programmes and provide policy advice, alongside high-level assessments. This year, we have increased our focus on emerging risks and systemic issues as part of our quest for continuous improvement. We are also working closely with the information security team to monitor cybersecurity risks.

In 2018, we worked extensively with both home and host regulatory bodies on a number of assignments, including a full review and reconciliation of records, such as land registry documents, against the bank's collateral records; SWIFT control review and loan loss provisions.

An annual audit plan is developed using best practice risk-based assessments of all the Group's businesses and activities. This is complemented with additional focus on regulatory requirements including Basel III capital adequacy and liquidity requirements, as well as management areas of concern and emerging risks. The plan is continually reviewed and adjusted, as necessary, throughout the year, in response to changes in the Group's business activities, operations, systems and controls that change the risk structure of the Group.

As part of our remit, we contribute to the analysis of the Group's quarterly and annual financial statements and other performance data. The presentation to the GBACC has been refined to focus on critical data and information that enables effective monitoring and oversight of performance in various activities and jurisdictions.

The oversight of subsidiaries has also been refined, with focused scope and continued emphasis on governance, risk management and internal control structures and frameworks as part of the oversight and assessment process. This has allowed us to align the governance structure and arrangements in the subsidiaries with those of the Group, thereby promoting the achievement of the Group's vision and strategy.

Audit programmes and techniques
We conform to the best professional practices for the provision of audit services across the Group. In our audit implementation practices, we place emphasis on the following for providing enhanced value:

- introducing data analytics and extrapolation techniques;
- focusing on identifying systemic issues;
- conducting root cause analysis and recommending appropriate remedial action to address the root causes;
- providing risk awareness across all levels;
- continuously updating audit methodologies and techniques with a focus on a risk-based audit approach; and
- developing audit programmes to incorporate the latest business strategies and developments and associated risks with a focus on emerging risks.

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

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

This year, we enhanced our dashboard capabilities for our follow-up activities, which is provided to the GBACC, GCEO and the GMRC. This report also serves as an escalation to apprise the Executive Management, GBACC and the BOD on the implementation status to remediate pending audit issues, which are also used as part of the performance indicators for our control environment.

Promoting awareness and risk culture
We continue to proactively support other divisions in working for the 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. We continue to work closely with information security to monitor cybersecurity so that our processes keep pace with the growing level of sophistication in the area.

Moreover, during 2018, we launched a mandatory awareness programme for almost 550 employees across our international branches. The training, which includes an evaluation test which staff must pass, covered major branch-level processes and focused on:

- COSO Internal Control Integrated Framework;
- Basel Committee 3 Lines of Control Approach;
- key risks and controls related to international branches' activities; and
- common and repeated audit findings covering nine functions and 44 key processes.

This programme will continue to be rolled over as part of the annual training activity for employees in international branches and will also be introduced across our domestic branches in Qatar.

Looking ahead
In 2019, we will continue to build on our successes, once again looking at enhancing our operating models. We also plan to introduce a more formal and effective governance and operating model over the internal audit functions of QNB Group's large subsidiaries.

Moreover, taking cognisance of various regulatory bodies' growing concern over financial crime risks, we are planning to establish a specialised financial crimes audit unit that will focus on evaluating how QNB Group mitigates and prevents key risks such as money laundering, funding of terrorism, sanctions adherence, bribery and corruption.

Sustainability

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

Sustainability

Our proactive approach to adopting sustainable environmental, social and governance (ESG) business practices allows us to help shape a better long-term future for the economies and communities we touch on a daily basis.

We are committed to the objectives of the **Qatar National Vision 2030** and the **United Nations Sustainable Development Goals** and have developed our sustainability strategy in line with these national and international frameworks and reporting in accordance with the GRI Standards.

Furthermore, we have pledged to disclose our ESG performance to the **Qatar Stock Exchange**, which became a signatory to the **United Nations Sustainable Stock Exchange Initiative** and released its ESG guidance to encourage voluntary ESG reporting by listed companies.

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

33%
percentage of women in Group Executive Management

18
number of products and services with an environmental or social benefit

4.6%
of loan portfolio allocated to microenterprises and SMEs

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. As a growing international bank, QNB Group plays an important role in contributing to financial stability and economic growth in the markets where we operate, while also helping to shape the future of the communities we serve.

There is now increasing demand from investors, customers, regulators and our own employees for greater transparency in our approach to sustainability and we recognise the unique position we hold to deliver a significant positive impact, especially through our financing activities.

By taking a positive and proactive approach to sustainability, QNB Group is able to:

> reduce risk – by integrating environmental, social and governance (ESG) considerations into our operations and financing, steering us away from hazardous actions that contradict our commitment to sustainability;

> drive new business opportunities – by providing customers with financial products and services that support sustainable development goals;

> improve operational efficiency – by focusing on resource efficiency in our operations and enforcing effective governance to support this; and

> strengthen our brand – by disclosing and continuously improving our approach to environmental stewardship, social responsibility and ethical business practices.

For these reasons, we have created a comprehensive sustainability strategy to maximise the shared value we generate for our business and our stakeholders now and for the long term.

We have done so after consultation with our key stakeholder groups – our customers, investors, employees, regulators and government, society and suppliers – taking into account their concerns and priorities. We have therefore identified the most material issues that we believe have the biggest impact on us as a bank and on our group of stakeholders. Through this framework, we have developed our sustainability strategy with careful consideration for the needs and expectations of our key stakeholder groups.

2.7%
community investment as a percentage of pre-tax profit

QR3.3 bn
value of our green lending portfolio

Materiality
By identifying and prioritising the most material sustainability issues, we achieve a better understanding of the full range of value created by our business for society. This, in turn, allows the bank to be able to improve its operations by focusing on what matters most.

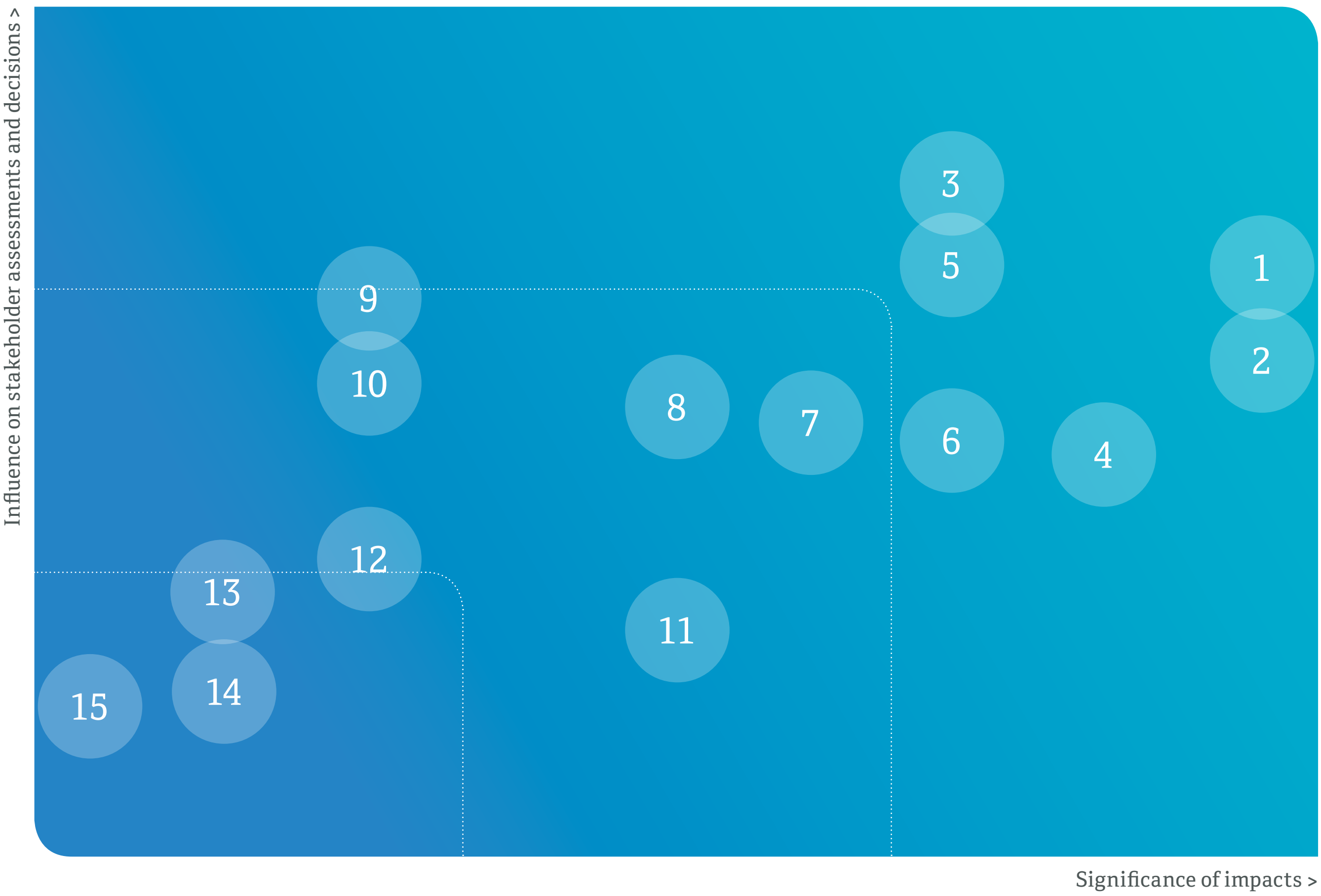
In line with the materiality assessment process set out in the GRI sustainability reporting standards, QNB Group has compiled a comprehensive list of relevant economic, social and environmental impact areas. Our Executive Management has reviewed the Group's materiality matrix to ensure that the range of issues included provides a complete representation of the organisation's significant sustainability impacts.

We have aligned our sustainability priorities with the objectives of the Qatar National Vision 2030, United Nations Sustainable Development Goals and the Qatar Stock Exchange ESG guidance.

This approach to materiality provides the foundation of our strategy and enables us to be confident that our priorities accurately reflect and address areas of most relevance to our business, helping us meet stakeholder expectations.

Our sustainability strategy
Our strategy summarises what sustainability means for QNB by incorporating the key material issues that need to be addressed and balanced to drive the creation of shared value for all of QNB's stakeholders. It consists of three pillars: sustainable finance, sustainable operations and beyond banking.

QNB Group materiality matrix



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

Case study – Renewable energy project financing in Turkey

We have financed the development of twelve different renewable energy projects in Turkey.

Over the past four years, QNB Finansbank has financed twelve renewable energy projects worth over USD350 million to support Turkey's transition to a more environmentally sustainable and diverse electricity supply.

We financed the development and construction of six solar, three wind and three hydroelectric power plants that have helped to shift the country's energy mix, significantly reducing greenhouse gas emissions.

These projects produce approximately 2.8 million MWh per year and reduce greenhouse gas emissions by 1.4 million tonnes of CO_2e per year.

The solar and wind projects, specifically, have contributed to Turkey's aim of establishing a non-hydro renewable generation capacity of 27GW in the next five years. Of this, 5GW is expected to be solar and 20GW wind.

Sustainable finance
We are integrating ESG criteria into QNB Group's lending, products and services, to reduce reputational risks in our portfolio and maximise opportunities from increased investor and customer interest for products and services that deliver profit with purpose.

Integrating sustainability into our core business divisions is a significant way in which we can support national and global sustainable development goals. For example, we have financed renewable energy projects, low emission rail transportation, wastewater treatment and recycling facilities and green building projects. In addition to directing capital towards activities that help protect the environment while promoting socioeconomic development, we seek to improve access to finance for SMEs and entrepreneurs to drive economic growth and diversification in the markets in which we operate and build our own customer base.

For example, QNB Finansbank joined forces with the European Bank for Reconstruction and Development to support women entrepreneurs in Turkey with a tailored loan to finance and grow their business, together with mentoring and training. We have supported more than 6,000 female entrepreneurs since 2015, with our loan commitments reaching nearly a quarter of a billion Turkish Lira.

As part of QNB's strategic commitment to sustainable financing, the bank applies the Equator Principle categorisation for project finance loans that (i) exceed USD10 million and (ii) have a tenor greater than two years. The Equator Principles are the internationally recognised framework for environmental and social due diligence in project finance.

Sustainable operations
This refers to the management of our direct environmental, social and governance (ESG) impacts, to ensure we operate ethically and efficiently. Our approach to improving QNB Group's direct impacts is to measure, manage and report performance in alignment with the criteria set by the Qatar Stock Exchange 'Guidance on ESG reporting'. In addition, to improve our transparency we have proactively identified and disclosed Group-wide performance data to several external sustainability indices and ratings, including Qatar Stock Exchange's sustainability reporting portal.

Sustainable operations starts with our people. We continuously strive for the highest levels of professionalism and truly believe that investing in our people will make us a stronger bank. We invest in training to keep our employees' skill set relevant in an ever-changing world economy. To achieve this, we have in place a Group Leadership and Management Development Curriculum. This consists of seven learning programmes delivered by internal and external partners to improve the competency of existing and emerging Leadership, Management and Team Leader roles.

To drive a culture of sustainable thinking within our organisation, we have taken a number of actions to raise awareness among our employees, including: a sustainability awareness section introduced within the mandatory employee induction programme, employee engagement activities during key international dates and digital communications to all staff with suggestions on how to make a difference personally. Externally, we have been active in supporting a number of collaborative sustainability seminars and workshops with governments, academia and the private sector.

We conduct our business with accountability and integrity by maintaining the highest standards of corporate governance and by taking appropriate measures to prevent any form of bribery, corruption or financial crime, including money laundering, terrorism financing and fraud. In 2018, to further demonstrate our belief in robust governance, we agreed that all the voting results at next year's (2019) annual shareholders' meeting will be made public. We have also begun incorporating sustainability due diligence into our management of external suppliers and started to track spend with local suppliers across the Group.

Meanwhile, to reduce the environmental impact of our operations, we recently launched a recycling initiative in partnership with a local firm during UN World Environment Day, with staff across our offices and branches in Qatar pledging to reduce, reuse and recycle. We also initiated the roll-out of energy efficiency measures with an LED lighting upgrade in our Qatar offices and solar panel installations on several branches in Egypt, helping to reduce our carbon footprint. We are accounting for our greenhouse gas (GHG) emissions by measuring Scope 1 and 2 this year, aiming to measure Scope 3 in the near future.

Beyond banking
For a full overview of how we are supporting the wider society, read more on page 78.

QNB Group sustainability framework

Sustainable financial performance

Sustainable operations

> Governance, ethics and risk management

> People and human rights

> Environmental impact of operations

Sustainable finance

> SME's and financial inclusion

> Sustainable lending, investments, products and services

> Integrity, privacy and customer experience

Beyond banking

> CSR activities on education

> Socio-economic and cultural initiatives

> Volunteering and donations

Sustainability performance summary

Framework pillar	Material issue	Key performance indicator	2015	2016	2017	2018
Sustainable financial performance	Financial performance and stability	Pre-tax profit (QR million)	12,002	13,343	14,005	15,018
		Net loans and advances to customers (QR million)	388,292	520,417	584,319	612,507
		Cost-to-income ratio (%)	21.5%	30.4%	29.1%	25.8%
		Loan-to-deposit ratio (%)	98.3%	102.7%	99.8%	99.3%
Sustainable finance	Sustainable investment, lending, products and services	Number of products or services helping customers to meet an environmental or social challenge	–	8	15	18
		Lending portfolio financing environmentally-friendly, low carbon activities (QR million)*	–	–	–	3,298
	Supporting SMEs and entrepreneurship	Credit facilities extended to micro-enterprises (QR million)*	6,265	13,171	27,031	12,898
		Credit facilities extended to SMEs (QR million)*	4,141	19,386	28,560	14,981
		Lending portfolio financing micro-enterprises and SMEs (%)*	2.7%	6.3%	9.5%	4.6%
	Digital innovation and transformation	Digital transactions (online and mobile as a % of total)*	31.0	36.4	41.1	42.4
	Responsible customer communication and marketing	Non-performing loan ratio for lending	1.4%	1.8%	1.8%	1.9%
	Customer privacy and data security	Number of data security breaches	0	1	0	0
		Amount of fraudulent transaction activity (QR million)*†	2.5	25.1	24.1	16.8
	Customer experience	Net promoter score – Qatar*	63	47	56	55
Sustainable operations	Governance, compliance and risk management	Incidents of non-compliance with laws and regulations	0	0	0	0
		Total amount of legal and regulatory fines and settlements (QR million)	0	0	0	0
		Confirmed incidents of bribery or corruption	–	0	0	0
		Percentage of Board seats occupied by independent directors	30%	40%	40%	40%
		Liquidity Coverage Ratio (LCR)	87%	85%	135%	124%
		Capital Adequacy Ratio (CAR)	16.3%	16.0%	16.5%	19.0%
	Talent attraction, development and retention	Employee engagement score (%, QNB Qatar and its international branches)	–	53%	59%	56%
		Average number of training hours provided per employee*	25.4	38.6	41.0	44.8
		Employee turnover rate (voluntary) (%)*	4.7%	7.7%	9.0%	9.9%
		Number of grievances filed during reporting period*	205	296	378	448
	Diversity and inclusion	Female employment rate (%)*	39%	48%	47%	48%
		Women in senior management (%)*	13%	15%	17%	20%
	Environmental impact of operations	Energy intensity (GJ/full-time employee)*	27.3	31.3	30.7	20.8
		GHG emissions intensity (tonnes CO_2e/full-time employee)*	4.7	4.2	4.1	2.9
		Water intensity (m^3/full-time employee)*	38.4	22.5	22.5	16.6
		Paper consumption intensity (kg/full-time employee)*	93	83	66	43
Beyond banking	Community investment and socio-economic development	Community investment as a percentage of pre-tax profits (%)	3.0%	2.4%	2.7%	2.7%

* 2018 figures represent a nine-month period until end of September. All other years cover a 12-month period.
† 2016 onwards includes QNB Finansbank total value of fraudulent transaction activity; for Qatar, international branches and QNB Al Ahli 2018 includes total fraudulent transaction activity vs prior years which only had card fraud.

Note: Includes QNB Qatar, selected international branches, QNB Finansbank, QNB Al Ahli, QNB Indonesia and QNB Tunisia. Some prior year figures have been revised and restated.

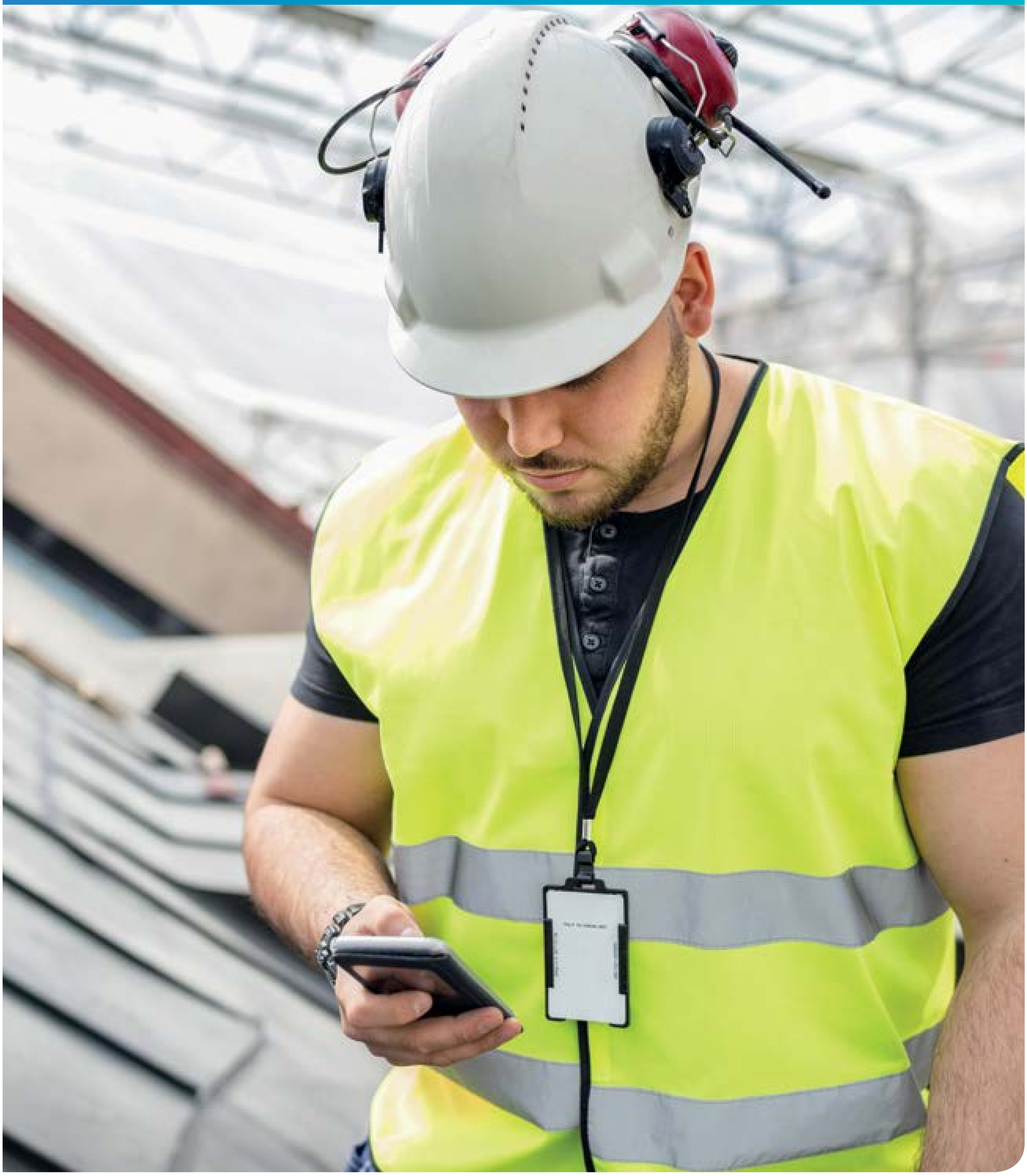
Case study – Mobile Money Wallet

Implemented in 2015, the Wage Protection System (WPS) is designed to ensure that workers are paid as per their employment agreement, in the local currency and into a local bank. This measure reflects Qatar's goal to protect the rights of workers, ensure a healthy relationship between employers and employees and secure the financial inclusion of all its residents.

QNB supported the launch of workers' salary processing through the Ooredoo Mobile Money application, enabling fair and timely payment of salaries and improved access to financial services for the unbanked. This solution offers a comprehensive suite of financial services such as remittance, payroll, bill payments, mobile top-ups and peer-to-peer payments, cash withdrawal and transfers.

5.4 million transactions in 2018

Companies in Qatar, both large corporates and SMEs, are now using the solution to distribute salaries electronically to their low-waged employees. In 2018, more than 5.4 million transactions were performed via the Mobile Money Wallet service, a 36% increase compared to 2017.



Beyond banking – Corporate social responsibility

By creating and cultivating social good in all the communities we touch, QNB Group is helping to provide long-term value creation.

"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."

Above: Sponsoring the iconic Camel Race Festival for the Sword of H.H. the Amir.

A fundamental part of our sustainability programme is our focus on corporate social responsibility (CSR). By thinking beyond and harnessing the power of our people, our customers, services and products, QNB Group has an unparalleled opportunity to make every community we reach 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, fostering diversity and social inclusion, and promoting environmental sustainability, we help to raise standards of living and encourage communities to come together for good.

This starts with our people. With around 80 different nationalities working together in more than 31 countries across three continents, we are proud of our diversity. We work in an atmosphere of mutual respect and support, and share the same values that define the bank and our approach to doing business. It is perhaps because of this that we have such a consistently high engagement score.

All our employees are encouraged to participate in our CSR initiatives. Many choose to do so by contributing time and expertise to worthy causes which 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 the six main areas of focus below.

Arts and culture

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

> marking the annual Garangao Night and supporting Qatari culture with a series of family events to distribute traditional gifts to children in Souq Waqif and Festival City Mall. This event highlights the importance of engaging children in cultural activities;

> sponsoring the Darb Al Sai, held each year in celebration of Qatar's National Day, where QNB staff helped to connect the younger generation to their heritage through a series of interactive 3D experiences in branches;

> highlighting the rich heritage of the Arab region by sponsoring the iconic Camel Race Festival for the Sword of H.H. the Amir held in Al Shahaniya Racing Club, a significant symbol of Qatar's cultural heritage and diverse history; and

> supporting highly-talented young musicians in Turkey through our Contemporary Education Association sponsorship, which helps musicians aged between 15 and 25 with specialised education.

Right: Supporting World Autism Awareness Day.

Economic and international affairs
Financial empowerment is as important as enhancing our understanding of international affairs when it comes to helping both individuals and multinationals prosper. In 2018, we have done this by:

> acting as the golden sponsor of the Moushtarayat Government Procurement and Contracting Conference 2018, organised by Qatar Development Bank under the patronage of the Prime Minister and Minister of Interior H.E. Sheikh Abdullah bin Nasser bin Khalifa Al-Thani, that aims to create new opportunities to benefit SMEs in the country;

> sponsoring the Made in Qatar exhibition, organised by the Qatar Chamber of Commerce along with the Ministries of Energy and Industry in Qatar and Oman, which brings together a diverse range of industries and businesses to help drive investment in the region;

> organising an economic seminar in cooperation with the Institute of International Finance (IIF) to highlight the recent macroeconomic developments in the United States, the current US administration's approach to international trade policy, emerging market economies and the economic developments in the MENA region;

> supporting the Qatar Business & Investment Forum in Berlin by sponsoring the event; and

> providing platinum sponsorship for the International Products Exhibition and Conference (IPEC), held under the patronage of H.E. Sheikh Abdullah bin Nasser bin Khalifa Al-Thani, that showcases some of the unique investment and development opportunities in Qatar to a range of select international investors and business owners.

Health and environment
Promoting good health and improving our environment are two vitally important areas of CSR for us. To further these causes in 2018, we:

> actively supported World Autism Awareness Day, which this year focused on empowering women and girls with autism. As before, many of our staff volunteered their time to raise awareness about the condition and to support those with autism, helping them to further develop their skills in the workplace;

> donated medical equipment to a variety of hospitals in Egypt to help provide free medical services for those who need it most while cutting waiting lists;

> organised a special celebration at the Kuwait Center for Mental Health where staff from QNB Kuwait worked with medical staff, patients and their families to raise awareness about mental health, promoting social inclusion;

> held a Blood Donation Drive over three days across three of the bank's Doha offices, which provided a significant contribution to blood bank stocks at Hamad Hospital Blood Donor Center, while bank staff in Indonesia gave blood in partnership with the Red Cross there; and

> launched a recycling initiative during UN World Environment Day where we recycled more than 19 tons of paper with our Qatari partner Elite Paper Recycling, as part of our drive to reduce, reuse and recycle.

Left: Supporting Qatar Business and Investment Forum in Berlin.

Beyond banking – Corporate social responsibility
continued

Below: Supporting the International White Cane Day.

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

> QNB Tunisia staff worked with the Nabeul Rotary Club to distribute winter clothing and heating equipment to low-income families and students in Nabeul Governorate. This is part of our annual Warm Winter campaign, which is now in its third year;

> worked with Qatar Social and Cultural Center for the Blind to highlight International White Cane Day, raising awareness about blindness and combating the negative stereotypes about the disability;

> we organised an initiative with the Qatari Society for Rehabilitation of Special Needs during the holy month of Ramadan to highlight the importance of small contributions in changing other people's lives;

> QNB was the official sponsor and participated in the celebration of Dreema Day, which this year marked Arab Orphan day, to raise public awareness about the issue; and

> the bank donated and contributed to a number of projects in Egypt to help develop a number of poorer villages and improve the living standards of the families who live in them. Working with a number of agencies, including Al Orman Charity Association, we provided water delivery projects for 27 villages in five governorates in order to supply pure drinking water to 5,000 families in the neediest villages.

Top: We signed an exclusive four-year deal with the IAAF.

Above: We are proud to have appointed the Brazilian football star, Neymar Jr., as our global brand ambassador.

Sport
Sport provides a positive experience no matter whether you are a participant or a spectator. It promotes a culture of cooperation, healthy competition, activity and fitness. This year, QNB:

> partnered with the International Association of Athletics Federations (IAAF) and signed an exclusive four-year deal to support the Organisation and the 17th IAAF World Championships in Doha next year at the renovated multi-purpose Khalifa International Stadium. The deal will also see QNB implement a schools engagement programme in Qatar which aims to promote sport and healthy living;

> was the official sponsor of Asia Champions League, the annual continental club football competition organised by the Asian Football Confederation (AFC);

> acted as a main sponsor, for the third consecutive year, of the FINA Marathon Swim World Series and FINA Swimming World Cup Doha; and

> sponsored Qatar Stars League Management (QSLM), which organises and manages the first division football championship in Qatar and the Qatar Cup in accordance with the Qatar Football Association (QFA), FIFA and AFC.

Above: QNB staff took part in explaining the importance of financial planning in our Global Money Week activities.

Youth and education

Our future lies in the hands of our youth and in their education. This year, we were proud to support both by:

> explaining the importance of financial planning and money management to 1,250 children in 15 different schools across Qatar as QNB staff took part in our Global Money Week activities. These activities were aimed at developing the basic skills of children in the field of money management and planning to ensure a stable financial future;

> partnering with Carnegie Mellon University in Qatar to cooperate in the field of training, education and community work where budding entrepreneurs will be mentored by professionals. The partnership was signed by QNB and Michael Trick, Dean of Carnegie Mellon University and will focus on executive education programmes offered by CMU-Q for QNB employees, while the bank will provide scholarships and internships for CMU-Q students;

> supporting the Small Hands Big Dreams initiative, created by QNB Finansbank, that helps children aged 4 to 14 better understand the characteristics of innovation, creativity, analytical thinking and trustworthiness in order to prepare them to be the leaders of tomorrow. The project aims to reach all regions of Turkey;

> participating in several educational projects in cooperation with a number of institutions and non-governmental organisations in Egypt, including the development of a school in Luxor and a secondary school in Dakahlia. These educational projects highlight the bank's interest in providing educational opportunities to students in areas most in need;

> hosting a financial management session for 200 college students in Atma Jaya University, Makassar, Indonesia with Indonesia Financial Services Authority (OJK); and

> partnering with Prestasi Junior Indonesia to help achieve financial literacy in Jakarta.

Below: Supporting financial literacy in Jakarta, Indonesia.

Financial statements

Group Chief Financial Officer's report

Our strength and resilience has ensured a stellar set of results for the QNB Group in 2018, as we augment our world-class customer experience with market-leading product offerings to clients across our international network.

"Our unwavering focus on the evolving needs of our customers sets us apart from our competitors and has enabled growth across all our different revenue streams."

Net profit (QR billion)

Total assets (QR billion)

Loans and advances (QR billion)

Customer deposits (QR billion)

Performance highlights
Once again, QNB Group has demonstrated strong financial performance and continued to set impressive milestones throughout the year. As a result of a disciplined approach to executing our strategy, we delivered sustainable income growth, maintained robust cost controls while preserving our asset quality. This year, total assets increased by 6% to QR862.2 billion and net profit increased by 5% to QR13.8 billion.

Despite the challenging headwinds in some parts of our network, QNB Group has demonstrated its continuing resilience, comfortably surpassing the minimum liquidity, capital and leverage ratios required by both the Qatar Central Bank (QCB) and Basel III throughout 2018.

Continuing to grow
Our unwavering focus on the evolving needs of our customers sets us apart from our competitors and has enabled growth across all our revenue streams. By improving digital access and functionality, we have made banking easier and safer for our customers, no matter where they are or what their needs are.

Together with our range of products and services, QNB Group has established itself as the preferred and trusted partner for a growing number of individual and corporate clients eager to capitalise on our top-tier ratings and varied geographic footprint.

As a result, QNB Group reported strong operating results:

> net profit reached QR13.8 billion, up by 5% from last year;

> total assets reached QR862.2 billion, up by 6% from December 2017;

> net loans and advances increased to QR612.5 billion, up by 5% from December 2017; and

> customer deposits increased to QR616.8 billion, up by 5% from December 2017.

As a result of strategic cost management, operational excellence and strong revenue growth, we were able to improve our efficiency ratio to 25.8%, one of the best among financial institutions in the region. These results reflect the consistent high profitability and revenue-generating capacity of the QNB network.

Furthermore, the Group efficiently managed the non-performing loans ratio keeping it stable at just 1.9%, one of the lowest among banks in the MEA region. This is a reflection of the Group's prudent credit risk management and the high quality of our loan portfolio. The Group's conservative policy in regard to the loan portfolio and the implementation of IFRS 9 strengthened the coverage ratio (Stage 3) to reach 104%.

In Turkey, despite the headwinds of Lira devaluation, QNB Finansbank increased its total assets in local currency terms by 25% which included impressive loan growth of 15% and increase in deposits by 26%. This resulted in profitability to increase by 50%, in local currency, as a result of momentum from the balance sheet, continued cost and risk discipline.

QNB ALAHLI in Egypt continues to grow from strength to strength with the overall total assets growing in local currency terms by 16% underpinned by loan growth of 21%. The loan to deposit ratio of 69% along with robust asset quality and NPL coverage ratio reflects the strength of the financial position and high liquidity enjoyed by the bank to help their clients in achieving their objectives. The bottom line profitability growth has remained robust with a year-on-year increase of 18%, as a result of overall increase in margins and strong efficiency ratio.

International loans and advances (%)

2018	29
2017	33

International customer deposits (%)

2018	44
2017	44

International net profit (%)

2018	37
2017	36

Enhancing shareholder value
QNB Group has delivered real and sustainable value to our customers as a result of our diverse banking services, capital strength and first-class ratings. These attributes are supported by an expanding international presence that allows us to continue to diversify our sources of earnings, while reducing the exposure to any single market.

Our drive for continuous improvement has helped reduce our operational costs and has delivered greater efficiencies across the network. As a result:

> total equity increased to QR88.3 billion, up by 12% from December 2017; and

> earnings per share reached QR14.4, compared to QR13.7 in December 2017.

Ensuring robust capitalisation
QNB Group's Capital Adequacy Ratio (CAR), at 19.0%, is in line with the QCB and Basel III requirements, and stands well above the minimum requirements. The Group is well capitalised in order to support our future strategic plans. QNB Group has continued to build strong investor confidence by increasing the number of investor roadshows and promoting greater transparency and disclosure.

Meanwhile, as our status as a global financial institution matures, shareholders agreed to increase the limit of foreign ownership earlier this year. The limit was raised to 49% from 25%, while, at the same time, the single ownership limit was increased to 5% from 2%.

Diversifying liquidity management
It is part of our strategy to better mitigate risk by diversifying our funding in terms of currency, geography, product and tenor. In 2018, we continued on this path in the international wholesale markets where we facilitated two private placement deals totaling nearly USD2.4 billion, a USD720 million deal in Taiwan's Formosa market, a Kangaroo bond of AUD700 million (USD494 million), the largest from a MENA issuer, and a landmark Dim Sum deal for CNY1.25 billion (USD182 million). These significant deals are a testament to the trust international investors hold for QNB Group and our continued financial strength.

QNB Group follows a very conservative approach to manage its liquidity needs and a prudent liquidity management policy is in place to address any urgent and exceptional business requirements. QNB Group was successful in attracting new customer deposits. These deposit mobilisation efforts resulted in customer funding increasing by 5% to reach QR616.8 billion from December 2017. This led to the reduction in the loan to deposit ratio to 99.3%, compared with 99.8% in December 2017. This clearly demonstrates the success of QNB's strategy to diversify its funding sources. QNB Group maintains a very high balance of short-term liquid assets, comprising of cash and balances with banks, time placements and investment securities, representing 25% of total assets, giving QNB Group more than adequate reserves.

Below: We have a well-established international wholesale funding platform that allows us to diversify our funding mix.

Qatar National Bank (Q.P.S.C.)
Independent auditor's report
To the shareholders of Qatar National Bank (Q.P.S.C.)

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

<table>
<tr><th>Description of key audit matters</th><th>How the matter was addressed in our audit</th></tr>
<tr><td colspan="2">Transition to IFRS 9 "Financial Instruments" - refer to notes 3(c), 3(g), 3(p), 3(r), 3(aa) and 4(b) in the consolidated financial statements</td></tr>
<tr><td>We focused on this area because:

> IFRS 9 "Financial Instruments" ('IFRS 9'), which the Group adopted on 1 January 2018:
– resulted in increase in complex accounting requirements, including new estimates and judgements underlying the determination of adjustments on transition;
– resulted in new accounting policies, including transition option elections and practical expedients; and
– significant change in processes, data and controls that have not been subject to testing previously.

> The adjustment made to retained earnings upon transition to IFRS 9 was a QR4,059 million debit, which represents 4.6% of the total equity of the Group as at 31 December 2018, hence a material portion of the consolidated statement of financial position.</td><td>Our audit procedures in this area included the following, among others:

> Evaluating the appropriateness of management's selection of accounting policies based on the requirements of IFRS 9, our business understanding, and industry practice.
> Considering the appropriateness of the transition approach and practical expedients applied.
> Evaluating management's process for identifying contracts to be assessed based on the selected transition approach and any practical expedients applied.
> Evaluating the reasonableness of management's key assumptions/ judgements over classification and measurement decisions.
> Considering management's process and the controls implemented to ensure the completeness and accuracy of the transition adjustments.
> Identifying and testing the relevant controls over the transition process.
> Evaluating the reasonableness of management's key judgements and estimates made in preparing the transition adjustments, specifically related to classification, measurement and expected credit loss ('ECL') of financial assets.
> Involving Information Risk Management (IRM) specialists to test new IT systems and relevant controls.
> Involving financial risk management specialists to challenge key assumptions/ judgements relating to: credit risk grading, significant increase in credit risk, definition of default, probability of default, macro-economic variables, and recovery rates.
> Involving valuation specialists to evaluate the inputs, assumptions and techniques used by the valuers engaged by the Group for the valuation of real estate collateral, relating to the determination of ECL.
> Evaluating the completeness, accuracy and relevance of data used in preparing the transition adjustments.
> Assessing the adequacy of the Group's disclosures in relation to first time application of IFRS 9 by reference to the requirements of the relevant accounting standards and QCB regulations.</td></tr>
</table>

Description of key audit matters	How the matter was addressed in our audit
Impairment of financial assets - refer to notes 4(b), 8, 9, 10, 11, 15 and 20 in the consolidated financial statements	
We focused on this area because: > Impairment of financial assets involves: – complex accounting requirements, including assumptions, estimates and judgements underlying the determination of impairment; – ECL modelling risk over methodology and design decisions; – susceptibility to management bias when making judgements to determine expected credit loss outcomes; and – complex disclosure requirements. > The Group's financial assets, both on and off balance sheet, subject to credit risk were QR1,030,494 million, as at 31 December 2018, 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 QR3,007 million, in the year ended 31 December 2018, which represents 21.7% of the net profit of the Group, hence a material portion of the consolidated statement of income.	Our audit procedures in this area included the following, among others: > Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, our business understanding, and industry practice. > Confirming our understanding of management's new or revised processes, systems and controls implemented, including controls over ECL model development. > Identifying and tested the relevant controls. > Involving information risk management (IRM) specialists to test new IT systems and relevant controls. > Evaluating the reasonableness of management's key judgements and estimates made in provision calculations, including selection of methods, models, assumptions and data sources. > Involving FRM specialists to challenge significant assumptions / judgements relating to credit risk grading, significant increase in credit risk, definition of default, probability of default, macro-economic variables, and recovery rates. > Involving valuation specialist to evaluate the inputs, assumptions and techniques used by the valuers engaged by the Group for the valuation of the real estate collaterals, relating to the determination of the ECL. > Assessing the completeness, accuracy and relevance of data. > Evaluating the appropriateness and testing the mathematical accuracy of ECL models applied. > Evaluating the reasonableness of and testing the post-model adjustments. > Performing detailed credit risk assessment of a sample of performing and non-performing loans and advances in line with QCB regulations. > Assessing the adequacy of the Group's disclosures in relation to IFRS 9 by reference to the requirements of the relevant accounting standards and QCB regulations.

Other Matter

The consolidated financial statements as at and for the year ended 31 December 2017 were audited by another auditor, whose audit report dated 16 January 2018, expressed an unmodified audit opinion thereon.

Other Information

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

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

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

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

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

Responsibilities of the Board of Directors for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

17 January 2019
Doha
State of Qatar

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 2018

(All amounts are shown in thousands of Qatari Riyals)

	Notes	2018	2017
ASSETS			
Cash and balances with central banks	8	64,691,667	52,768,616
Due from banks	9	61,109,094	43,630,943
Loans and advances to customers	10	612,506,697	584,319,216
Investment securities	11	86,452,000	97,234,282
Investments in associates	12	7,682,698	7,411,867
Property and equipment	13	4,697,205	4,538,364
Intangible assets	14	3,880,970	3,833,339
Other assets	15	21,177,268	17,341,363
Total assets		**862,197,599**	**811,077,990**
LIABILITIES			
Due to banks	16	73,129,644	67,741,685
Customer deposits	17	616,765,505	585,523,114
Debt securities	18	25,937,908	26,707,284
Other borrowings	19	25,037,701	24,079,316
Other liabilities	20	33,052,120	28,280,251
Total liabilities		**773,922,878**	**732,331,650**
EQUITY			
Issued capital	22	9,236,429	9,236,429
Legal reserve	22	25,326,037	25,326,037
Risk reserve	22	8,000,000	7,500,000
Fair value reserve	22	(973,557)	(1,169,875)
Foreign currency translation reserve	22	(16,209,852)	(12,369,012)
Other reserves	22	683,722	832,429
Retained earnings	22	41,206,855	38,397,772
Total equity attributable to equity holders of the Bank		**67,269,634**	**67,753,780**
Non-controlling interests	23	1,005,087	992,560
Instruments eligible for Additional Tier 1 Capital	24	20,000,000	10,000,000
Total equity		**88,274,721**	**78,746,340**
Total liabilities and equity		**862,197,599**	**811,077,990**

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

Ali Shareef Al-Emadi
Chairman of the Board of Directors

Abdulla Mubarak Al-Khalifa
Acting Group Chief Executive Officer

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

Qatar National Bank (Q.P.S.C.)
Consolidated Income Statement
For the year ended 31 December 2018

(All amounts are shown in thousands of Qatari Riyals)

	Notes	2018	2017
Interest income	25	50,744,709	41,958,662
Interest expense	26	(31,711,804)	(24,070,437)
Net interest income		**19,032,905**	**17,888,225**
Fee and commission income	27	4,608,417	4,245,918
Fee and commission expense		(965,929)	(602,632)
Net fee and commission income		**3,642,488**	**3,643,286**
Net foreign exchange gain	28	1,189,480	874,319
Income from investment securities	29	122,051	318,230
Other operating income		77,772	82,272
Operating income		**24,064,696**	**22,806,332**
Staff expenses	30	(3,321,504)	(3,433,558)
Depreciation	13	(440,822)	(489,261)
Other expenses	31	(2,581,815)	(2,751,564)
Net impairment losses on loans and advances to customers	10	(3,040,565)	(2,014,419)
Net impairment losses on investment securities	11	(14,646)	(44,429)
Net impairment recoveries on other financial assets		48,057	–
Amortisation of intangible assets		(70,562)	(71,377)
Other provisions		(109,587)	(68,049)
		(9,531,444)	**(8,872,657)**
Share of results of associates	12	485,215	120,960
Profit before income taxes		**15,018,467**	**14,054,635**
Income tax expense	32	(1,135,130)	(913,565)
Profit for the year		**13,883,337**	**13,141,070**
Attributable to:			
Equity holders of the Bank		13,788,131	13,128,138
Non-controlling interests		95,206	12,932
Profit for the year		**13,883,337**	**13,141,070**
Basic and diluted earnings per share (QR)	33	14.4	13.7

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

Qatar National Bank (Q.P.S.C.)
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2018

(All amounts are shown in thousands of Qatari Riyals)

	2018	2017
Profit for the year	**13,883,337**	**13,141,070**
Other comprehensive income that is or may be reclassified to the consolidated income statement in subsequent periods:		
Foreign currency translation differences for foreign operations	(3,982,990)	(608,587)
Share of other comprehensive income of associates	(146,931)	223,755
Effective portion of changes in fair value of cash flow hedges	(193,623)	338,891
Effective portion of changes in fair value of net investment in foreign operations	478,830	(1,363,943)
Investments in debt instruments measured at FVOCI (IFRS 9)		
– Net change in fair value	(415,949)	–
– Net amount transferred to income statement	(14,462)	–
Available-for-sale investment securities (IAS 39)		
– Net change in fair value	–	46,161
– Net amount transferred to income statement	–	(213,497)
Other comprehensive income items that will not be reclassified to the consolidated income statement in subsequent periods:		
Net change in fair value of investments in equity instruments designated at FVOCI (IFRS 9)	222,247	–
Total other comprehensive income for the year, net of income tax	**(4,052,878)**	**(1,577,220)**
Total comprehensive income for the year	**9,830,459**	**11,563,850**
Attributable to:		
Equity holders of the Bank	9,791,351	11,393,552
Non-controlling interests	39,108	170,298
Total comprehensive income for the year	**9,830,459**	**11,563,850**

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

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

(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
Balance as at 1 January 2018	9,236,429	25,326,037	7,500,000	(1,169,875)
Impact of adopting IFRS 9, net of tax	–	–	–	120,537
Restated balance as at 1 January 2018	**9,236,429**	**25,326,037**	**7,500,000**	**(1,049,338)**
Total comprehensive income for the year				
Profit for the year	–	–	–	–
Total other comprehensive income	–	–	–	76,647
Total comprehensive income for the year	**–**	**–**	**–**	**76,647**
Reclassification of net change in fair value of equity instruments upon derecognition	–	–	–	–
Transfer to risk reserve	–	–	500,000	–
Transfer to social and sports fund	–	–	–	–
Transactions recognised directly in equity				
Dividend for the year 2017 (note 22)	–	–	–	–
Issuance of instrument eligible for Additional Tier 1 Capital (note 24)	–	–	–	–
Dividend appropriation for instruments eligible for Additional Tier 1 Capital	–	–	–	–
Net movement in non-controlling interests	–	–	–	(866)
Other movements	–	–	–	–
Total transactions recognised directly in equity	**–**	**–**	**–**	**(866)**
Balance as at 31 December 2018	**9,236,429**	**25,326,037**	**8,000,000**	**(973,557)**
Balance as at 1 January 2017	8,396,753	24,486,361	7,000,000	24,456
Total comprehensive income for the year				
Profit for the year	–	–	–	–
Total other comprehensive income	–	–	–	(1,194,331)
Total comprehensive income for the year	**–**	**–**	**–**	**(1,194,331)**
Transfer to legal reserve for the year 2016	–	839,676	–	–
Transfer to risk reserve	–	–	500,000	–
Transfer to social and sports fund	–	–	–	–
Transactions recognised directly in equity				
Dividend for the year 2016	–	–	–	–
Bonus shares for the year 2016	839,676	–	–	–
Dividend appropriation for instrument eligible for Additional Tier 1 Capital	–	–	–	–
Net movement in non-controlling interests	–	–	–	–
Other movements	–	–	–	–
Total transactions recognised directly in equity	**839,676**	**–**	**–**	**–**
Balance as at 31 December 2017	**9,236,429**	**25,326,037**	**7,500,000**	**(1,169,875)**

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

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
(12,369,012)	832,429	38,397,772	67,753,780	992,560	10,000,000	78,746,340
–	–	(4,059,280)	(3,938,743)	(23,396)	–	(3,962,139)
(12,369,012)	**832,429**	**34,338,492**	**63,815,037**	**969,164**	**10,000,000**	**74,784,201**
–	–	13,788,131	13,788,131	95,206	–	13,883,337
(3,924,801)	(148,626)	–	(3,996,780)	(56,098)	–	(4,052,878)
(3,924,801)	**(148,626)**	**13,788,131**	**9,791,351**	**39,108**	**–**	**9,830,459**
–	–	820	820	–	–	820
–	–	(500,000)	–	–	–	–
–	–	(218,327)	(218,327)	–	–	(218,327)
–	–	(5,541,857)	(5,541,857)	–	–	(5,541,857)
–	–	–	–	–	10,000,000	10,000,000
–	–	(532,500)	(532,500)	–	–	(532,500)
83,961	(81)	84,563	167,577	(3,185)	–	164,392
–	–	(212,467)	(212,467)	–	–	(212,467)
83,961	**(81)**	**(6,202,261)**	**(6,119,247)**	**(3,185)**	**10,000,000**	**3,877,568**
(16,209,852)	**683,722**	**41,206,855**	**67,269,634**	**1,005,087**	**20,000,000**	**88,274,721**
(11,604,928)	608,600	31,112,008	60,023,250	830,168	10,000,000	70,853,418
–	–	13,128,138	13,128,138	12,932	–	13,141,070
(764,084)	223,829	–	(1,734,586)	157,366	–	(1,577,220)
(764,084)	**223,829**	**13,128,138**	**11,393,552**	**170,298**	**–**	**11,563,850**
–	–	(839,676)	–	–	–	–
–	–	(500,000)	–	–	–	–
–	–	(209,324)	(209,324)	–	–	(209,324)
–	–	(2,938,864)	(2,938,864)	–	–	(2,938,864)
–	–	(839,676)	–	–	–	–
–	–	(450,000)	(450,000)	–	–	(450,000)
–	–	–	–	(7,906)	–	(7,906)
–	–	(64,834)	(64,834)	–	–	(64,834)
–	**–**	**(4,293,374)**	**(3,453,698)**	**(7,906)**	**–**	**(3,461,604)**
(12,369,012)	**832,429**	**38,397,772**	**67,753,780**	**992,560**	**10,000,000**	**78,746,340**

Qatar National Bank (Q.P.S.C.)
Consolidated Statement of Cash Flows
For the year ended 31 December 2018

(All amounts are shown in thousands of Qatari Riyals)

	Notes	2018	2017
Cash flows from operating activities			
Profit before income taxes		15,018,467	14,054,635
Adjustments for:			
Interest income		(50,744,709)	(41,958,662)
Interest expense		31,711,804	24,070,437
Depreciation	13	440,822	489,261
Net impairment losses on loans and advances to customers	10	3,040,565	2,014,419
Net impairment losses on investment securities		14,646	44,429
Net impairment recoveries on other financial assets		(48,057)	–
Other provisions		104,188	72,052
Dividend income	29	(105,392)	(104,733)
Net gain on sale of property and equipment		(11,057)	(9,266)
Net gain on sale of investment securities	29	(13,954)	(213,497)
Amortisation of intangible assets		70,562	71,377
Net amortisation of premium or discount on investments		(19,952)	(11,606)
Net share of results of associates		(335,937)	25,411
		(878,004)	**(1,455,743)**
Changes in:			
Due from banks		487,869	(3,831,699)
Loans and advances to customers		(70,738,714)	(68,598,794)
Other assets		(4,390,693)	(1,647,937)
Due to banks		12,378,475	6,868,281
Customer deposits		55,574,804	74,000,655
Other liabilities		10,941,414	2,711,283
Cash from operations		**3,375,151**	**8,046,046**
Interest received		49,843,084	41,074,906
Interest paid		(31,034,032)	(23,211,230)
Dividends received		105,392	104,733
Income tax paid		(868,474)	(713,603)
Other provisions paid		(49,634)	(48,313)
Net cash from operating activities		**21,371,487**	**25,252,539**
Cash flows from investing activities			
Acquisition of investment securities		(65,880,410)	(79,576,452)
Proceeds from sale/redemption of investment securities		75,013,056	62,712,207
Investments in associates	12	–	(8,124)
Additions to property and equipment	13	(1,221,108)	(867,040)
Proceeds from disposal of property and equipment		11,722	11,294
Net cash from/(used in) investing activities		**7,923,260**	**(17,728,115)**
Cash flows from financing activities			
Proceeds from issuance of instrument eligible for Additional Tier 1 Capital	24	10,000,000	–
Payment of coupon on instrument eligible for Additional Tier 1 Capital		(450,000)	(450,000)
Proceeds from issuance of debt securities	18	11,591,005	5,534,904
Repayment of debt securities	18	(10,418,447)	(5,254,720)
Proceeds from issuance of other borrowings	19	15,260,224	3,124,001
Repayment of other borrowings	19	(13,528,893)	(2,661,108)
Dividends paid		(5,546,000)	(2,930,666)
Net cash from/(used in) financing activities		**6,907,889**	**(2,637,589)**
Net increase in cash and cash equivalents		**36,202,636**	**4,886,835**
Effects of exchange rate fluctuations on cash held		(1,880,649)	(261,007)
Cash and cash equivalents at 1 January		57,489,875	52,864,047
Cash and cash equivalents at 31 December	39	**91,811,862**	**57,489,875**

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

(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	91.0%
QNB Financial Services	Qatar	2011	100%
Al-Mansour Investment Bank	Iraq	2012	54.2%
QNB India Private Limited	India	2013	100%
QNB Tunisia	Tunisia	2013	99.99%
QNB ALAHLI	Egypt	2013	95.0%
QNB Finansbank	Turkey	2016	99.88%
QNB (Derivatives) Limited	Cayman Islands	2017	100%

2. Basis of preparation

a) Statement of compliance

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

b) Basis of measurements

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

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

c) Functional and presentation currency

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

d) Use of estimates and judgements

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

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

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

3. Significant accounting policies

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

a) Basis of consolidation

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

(i) Business combinations

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

The Group measures goodwill at the acquisition date as the total of:

> The fair value of the consideration transferred; plus
> The recognised amount of any non-controlling interest in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
> The net recognised amount (generally fair value) of the identifiable assets acquired, including any assets which the acquiree has not previously 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 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 other 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 (2018)/available-for-sale (2017) are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of security. Translation differences related to changes in amortised cost are recognised in the consolidated income statement, and other changes in the carrying amount are recognised in other comprehensive income.

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

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

Policy applicable from 1 January 2018
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.

Policy applicable up to 31 December 2017

At inception or on initial recognition, a financial asset is classified in one of the following categories:

> Held-for-trading;
> Designated as at fair value through profit or loss;
> Loans and receivables;
> Held to maturity; or
> Available-for-sale.

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

Financial liabilities

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

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in OCI is recognised in the consolidated income statement.

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

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

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

3. Significant accounting policies (continued)

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.

Policy applicable from 1 January 2018

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

Policy applicable up to 31 December 2017

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

Financial liabilities

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

(v) Offsetting

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

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

(vi) Measurement principles

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment loss. The calculation of effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. For presentation purposes, accrued interest is disclosed under other assets/liabilities.

Fair value measurement

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

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

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

3. Significant accounting policies (continued)

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

(vii) Impairment

Policy applicable from 1 January 2018

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

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

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

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

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

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

Measurement of ECL

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

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

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

3. Significant accounting policies (continued)

Policy applicable up to 31 December 2017
At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

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

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

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in the consolidated income statement and reflected in an allowance account against loans and advances to customers when it pertains to loans and advances originated by the Group. Impairment of held to maturity investment securities are recorded and disclosed under a separate impairment allowance account.

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

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to the consolidated income statement as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to the consolidated income statement is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in the consolidated income statement.

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

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

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

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

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

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

3. Significant accounting policies (continued)

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

g) Investment securities

Policy applicable from 1 January 2018

The 'investment securities' include:

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

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;
> Expected Credit Loss (ECL) and reversals; and
> Foreign exchange gains and losses.

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

The Group elects to present in OCI changes in the fair value of certain investments in equity. The election is made on an instrument by instrument basis on initial recognition and is irrevocable. Gains and losses on such equity instruments are never reclassified to consolidated income statement and no impairment is recognised in consolidated income statement. Dividends are recognised in consolidated income statement, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Policy applicable up to 31 December 2017

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

(i) Held to maturity investments

Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. Held to maturity investments are carried at amortised cost using the effective interest rate method.

(ii) Available-for-sale investments

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

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

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

(iii) Held-for-trading investments

Held-for-trading investments are non-derivative investments that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at fair value through profit or loss.

3. Significant accounting policies (continued)

h) Derivatives

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

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

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

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

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

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

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

i) Property and equipment

(i) Recognition and measurement
Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

3. Significant accounting policies (continued)

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

The depreciable amount is the cost of property and equipment, or other amount substituted for cost, less its residual value. Depreciation is recognised in the consolidated income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment as this closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset and is based on cost of the asset less its estimated residual value. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Land is not depreciated.

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

	Years
Buildings	10 to 50
Equipment and furniture	3 to 12
Motor vehicles	4 to 7
Leasehold improvements	4 to 10

Freehold land is stated at cost.

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

j) Intangible assets

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

k) Impairment of non-financial assets

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

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

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

3. Significant accounting policies (continued)

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

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

l) Provisions

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

m) Financial guarantees

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

n) Employee benefits

Defined benefit plan – expatriate employees

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

Defined contribution scheme – Qatari employees

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

o) Share capital and reserves

(i) Share issue costs

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

(ii) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the end of the reporting period are dealt as a separate disclosure.

p) Interest income and expense

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

From 1 January 2018, for the financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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.

3. Significant accounting policies (continued)

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Interest income and expense include:

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

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

q) Fee and commission income and expense

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.

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

s) Dividend income

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

t) Taxation

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

u) Earnings per share

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

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.

(All amounts are shown in thousands of Qatari Riyals)

3. Significant accounting policies (continued)

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

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

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

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

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

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

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

(i) IFRS 9 Financial Instruments
The Group has adopted IFRS 9, as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial statements as of and for the year ended 31 December 2017.

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

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

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

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

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

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

(All amounts are shown in thousands of Qatari Riyals)

3. Significant accounting policies (continued)

Stage 1: 12 months ECL – not credit impaired

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date . For these assets, lifetime ECL are recognised according to QCB's instructions.

Hedge accounting

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

Transition

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

(a) Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

(b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

> The determination of the business model within which a financial asset is held.
> The designation of certain investments in equity instruments not held for trading as at FVOCI.
> If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Impact of adopting IFRS 9

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

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

Classification and measurement of financial instruments

The Group performed a detailed analysis of its business models for managing financial assets as well as analysing their cash flow characteristics.

(All amounts are shown in thousands of Qatari Riyals)

3. Significant accounting policies (continued)

The below table reconciles the original measurement categories and carrying amounts of financial assets in accordance with IAS 39 and the new measurement categories under IFRS 9 as at 1 January 2018:

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

(1) Amortised Cost (Loans and Receivables)
(2) Amortised Cost
(3) Fair Value Through Profit or Loss (Held for Trading)
(4) Fair Value Through Profit or Loss (Mandatory)
(5) Fair Value Through Profit or Loss (Designated)
(6) Available-for-Sale
(7) Fair Value Through Other Comprehensive Income
(8) Held to Maturity
* Remeasurements are related to ECL adjustments, while reclassifications include adjustments for changes in the basis of measurement.

Financial liabilities

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

During the first year of transition to IFRS 9, the Group updated the Day 1 ECL opening adjustment which was published in the interim condensed consolidated financial statements from QR2.7 billion to QR4.2 billion, through adjusting retained earnings by QR1.5 billion. This was a result of certain correction made to the underlying loan data that was used to estimate ECL as of 1 January 2018.

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

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

ab) Standards issued but not yet effective

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

IFRS 16 Leases

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

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

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

3. Significant accounting policies (continued)

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

> used the Group's previous assessment of which existing contracts are, or contain, lease;
> where the unexpired lease term on initial application date is less than 12 months or leases are of low value items (USD10,000 or less), then the Group has elected to use the short-term lease exemption; and
> exclude initial direct costs from the measurement of right-of-use asset at the date of initial application.

4. Financial risk management

I) Financial instruments

Definition and classification

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

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

II) Risk management

a) Risk management framework

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

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

Risk management structure

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

Risk Committee

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

Risk measurement and reporting systems

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

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

Internal Audit

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

Risk mitigation

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

(All amounts are shown in thousands of Qatari Riyals)

4. Financial risk management (continued)

b) Credit risk

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

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

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

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

	Gross maximum exposure	
	2018	**2017**
Cash and balances with central banks (excluding cash on hand)	55,274,311	45,559,487
Due from banks	61,109,094	43,630,943
Loans and advances to customers	612,506,697	584,319,216
Investment securities (debt)	85,070,769	95,217,160
Other assets	17,725,436	12,948,480
	831,686,307	**781,675,286**
Guarantees	62,286,901	62,920,381
Letters of credit	24,948,543	31,272,727
Unutilised credit facilities	106,442,290	111,957,226
Total	**1,025,364,041**	**987,825,620**

Risk concentration for maximum exposure to credit risk by industry sector

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

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

(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.

Cash and balances with central banks (excluding cash on hand) and due from banks	2018 Stage 1	2018 Stage 2	2018 Stage 3	2018 Total	2017 Total
Investment grade – ORR 1 to 4	104,993,120	–	–	104,993,120	77,872,360
Sub-investment grade – ORR 5 to 7	12,091,415	181	–	12,091,596	11,912,090
Substandard – ORR 8	–	–	–	–	–
Doubtful – ORR 9	–	–	–	–	–
Loss – ORR 10	–	–	–	–	–
	117,084,535	181	–	117,084,716	89,784,450
Loss allowance				(61,561)	–
Carrying amount				**117,023,155**	**89,784,450**

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

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

(All amounts are shown in thousands of Qatari Riyals)

4. Financial risk management (continued)

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

Collateral

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

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

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

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis including internal credit risk grading system, external risk ratings, where available, delinquency status of accounts, credit judgement and, where possible, relevant historical experience. The Group may also determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Credit risk grades

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

Generating the term structure of probability of default (PD)

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

4. Financial risk management (continued)

Renegotiated financial assets

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

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

Definition of default

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

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

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

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

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

Incorporation of forward-looking information

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

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

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

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

Measurement of ECL

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

> probability of default (PD);
> loss given default (LGD); 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.

(All amounts are shown in thousands of Qatari Riyals)

4. Financial risk management (continued)

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

LGD estimation includes:

1) Cure Rate: Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing accounts.
2) Recovery Rate: Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default would also account for expected recovery rate from a general claim on the individual's assets for the unsecured portion of the exposure.
3) Discounting Rate: Defined as the opportunity cost of the recovery value not being realised on the day of default adjusted for time value.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

> credit risk gradings;
> product type; and
> geographic location of the borrower.

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

Loss allowance

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

	2018				2017
Cash and balances with central banks (excluding cash on hand) and due from banks	**Stage 1**	**Stage 2**	**Stage 3**	**Total ECL**	**Total**
Balance at 1 January	–	–	–	–	–
Impact of initial application	49,169	50	–	49,219	–
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–
Impairment allowance for the year, net	21,585	(44)	–	21,541	–
Amounts written off	–	–	–	–	–
Foreign currency translation	(9,199)	–	–	(9,199)	–
Balance at 31 December	**61,555**	**6**	**–**	**61,561**	**–**

(All amounts are shown in thousands of Qatari Riyals)

4. Financial risk management (continued)

	2018				2017
Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total ECL**	**Total**
Balance at 1 January	26,124	13,032	11,661,599	11,700,755	10,783,868
Impact of initial application	1,789,935	2,458,990	–	4,248,925	–
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	(214,219)	214,219	–	–	–
Transfers to Stage 3	–	(1,086,528)	1,086,528	–	–
Impairment allowance for the year, net	340,383	340,721	2,643,099	3,324,203	2,216,675
Amounts written off	–	–	(1,481,219)	(1,481,219)	(1,028,660)
Foreign currency translation	(274,078)	(155,293)	(1,220,563)	(1,649,934)	(271,128)
Balance at 31 December	**1,668,145**	**1,785,141**	**12,689,444**	**16,142,730**	**11,700,755**

	2018				2017
Investment securities (debt)	**Stage 1**	**Stage 2**	**Stage 3**	**Total ECL**	**Total**
Balance at 1 January	–	–	79,562	79,562	68,332
Impact of initial application	82,408	4,289	–	86,697	–
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–
Impairment allowance for the year, net	16,327	(1,645)	(36)	14,646	9,165
Amounts written off	–	–	(2,772)	(2,772)	–
Foreign currency translation	82	3,923	(526)	3,479	2,065
Balance at 31 December	**98,817**	**6,567**	**76,228**	**181,612**	**79,562**

	2018				2017
Loan commitments and financial guarantees	**Stage 1**	**Stage 2**	**Stage 3**	**Total ECL**	**Total**
Balance at 1 January	3,781	2,289	71,115	77,185	79,926
Impact of initial application	305,189	31,310	–	336,499	–
Transfers to Stage 1	–	–	–	–	–
Transfers to Stage 2	(11,759)	11,759	–	–	–
Transfers to Stage 3	–	(1,353)	1,353	–	–
Impairment allowance for the year, net	(103,265)	(4,352)	38,019	(69,598)	–
Amounts written off	–	–	–	–	–
Foreign currency translation	(62,763)	(5,195)	18,032	(49,926)	(2,741)
Balance at 31 December	**131,183**	**34,458**	**128,519**	**294,160**	**77,185**

(All amounts are shown in thousands of Qatari Riyals)

4. Financial risk management (continued)

c) Market risk

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

Equity price risk

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

	Change in equity price %	Effect on other comprehensive income	
		2018	2017
Market indices			
Qatar exchange	±5	12,696	17,577

Foreign exchange risk

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

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

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

	Change in currency rate %	Effect on consolidated income statement	
		2018	2017
Currency			
US$	+2	(2,178,841)	(2,147,899)
Euro	+3	(28,109)	(10,449)
Pound Sterling	+2	2,257	(1,105)
Egyptian Pound	+3	(27,049)	(11,334)
Turkish Lira	+3	(7,219)	6,912
Other currencies	+3	51,441	83,362
US$	-2	2,178,841	2,147,899
Euro	-3	28,109	10,449
Pound Sterling	-2	(2,257)	1,105
Egyptian Pound	-3	27,049	11,334
Turkish Lira	-3	7,219	(6,912)
Other currencies	-3	(51,441)	(83,362)

(All amounts are shown in thousands of Qatari Riyals)

4. Financial risk management (continued)

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

Other assets includes property and equipment and intangible assets.

(All amounts are shown in thousands of Qatari Riyals)

4. Financial risk management (continued)

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.

2018	Increase in basis points	Sensitivity of net interest income	Decrease in basis points	Sensitivity of net interest income
Currency				
Qatari Riyal	10	106,441	10	(106,441)
US$	10	(42,538)	10	42,538
Euro	10	(23,892)	10	23,892
Pound Sterling	10	(2,005)	10	2,005
Other currencies	10	(1,110)	10	1,110

2017	Increase in basis points	Sensitivity of net interest income	Decrease in basis points	Sensitivity of net interest income
Currency				
Qatari Riyal	10	36,908	10	(36,908)
US$	10	(38,281)	10	38,281
Euro	10	(20,318)	10	20,318
Pound Sterling	10	(1,600)	10	1,600
Other currencies	10	1,045	10	(1,045)

d) Liquidity risk

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

(All amounts are shown in thousands of Qatari Riyals)

4. Financial risk management (continued)

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

Other assets includes property and equipment and intangible assets.

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

(All amounts are shown in thousands of Qatari Riyals)

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

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.

(All amounts are shown in thousands of Qatari Riyals)

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

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

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

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

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

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

5. Use of estimates and judgements

a) Key sources of estimation uncertainty

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

(i) Going concern

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

5. Use of estimates and judgements (continued)

(ii) Allowances for credit losses

Policy applicable from 1 January 2018
Assessment whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Policy applicable up to 31 December 2017
Assets accounted at amortised cost are evaluated for impairment on the basis described in the accounting policies.

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

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

(iii) Determining fair value

The determination of fair value for financial assets and liabilities, for which there is no observable market price requires the use of valuation techniques as described in the accounting policies. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

(i) Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed in the significant accounting policies section.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

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

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

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.

(All amounts are shown in thousands of Qatari Riyals)

5. Use of estimates and judgements (continued)

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 2018:				
Derivative assets held for risk management	1,856	9,248,712	–	9,250,568
Investment securities	28,463,280	3,088,091	–	31,551,371
Total	**28,465,136**	**12,336,803**	**–**	**40,801,939**
Derivative liabilities held for risk management	2,115	5,798,148	–	5,800,263
Total	**2,115**	**5,798,148**	**–**	**5,800,263**
As at 31 December 2017:				
Derivative assets held for risk management	945	5,760,291	–	5,761,236
Loans and advances to customers designated at FVPL	–	9,509	–	9,509
Investment securities	40,769,976	10,830,829	–	51,600,805
Total	**40,770,921**	**16,600,629**	**–**	**57,371,550**
Derivative liabilities held for risk management	361	3,342,645	–	3,343,006
Total	**361**	**3,342,645**	**–**	**3,343,006**

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

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

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

(ii) Financial asset and liability classification

Policy applicable from 1 January 2018
Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Refer to note 3 (aa) for further information.

Policy applicable up to 31 December 2017
The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

> In classifying financial assets or liabilities as trading, the Group has determined that it meets the description of trading assets and liabilities set out in accounting policies.
> In designating financial assets at fair value through profit or loss, the Group has determined that it has met one of the criteria for this designation set out in accounting policies.
> In classifying financial assets as held to maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policies.

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

(iii) Qualifying hedge relationships

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

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

5. Use of estimates and judgements (continued)

(iv) Impairment of investments in equity and debt securities

Policy applicable from 1 January 2018
Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL. Refer to note 4 Inputs, assumptions and techniques used for estimating impairment of financial assets for more information.

Policy applicable up to 31 December 2017
Investments in equity and debt securities are evaluated for impairment on the basis described in the significant accounting policies section.

(v) Useful lives of property and equipment

The Group's management determines the estimated useful life of property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset, physical wear and tear and technical or commercial obsolescence.

(vi) Useful lives of intangible assets

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

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

(vii) Impairment of non-financial assets

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

(viii) Funds management

All the funds are governed by the respective regulations where the appointment and removal of 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 been consolidated.

6. Operating segments

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

Corporate banking

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

Consumer banking

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

Asset and wealth management

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

International banking

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

(All amounts are shown in thousands of Qatari Riyals)

6. Operating segments (continued)

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

(All amounts are shown in thousands of Qatari Riyals)

7. Financial assets and liabilities

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

	Fair value through profit or loss – mandatory		Fair value through other comprehensive income				
	Debt instruments	Equity instruments	Debt instruments	Equity instruments	Amortised cost	Total carrying amount	Fair value
As at 31 December 2018:							
Cash and balances with central banks	–	–	–	–	64,691,667	64,691,667	64,691,667
Due from banks	–	–	–	–	61,109,094	61,109,094	61,109,094
Loans and advances to customers	–	–	–	–	612,506,697	612,506,697	609,996,181
Investment securities:							
– At fair value	16,045	47,606	30,154,095	1,333,625	–	31,551,371	31,551,371
– At amortised cost	–	–	–	–	54,900,629	54,900,629	54,234,820
Total	**16,045**	**47,606**	**30,154,095**	**1,333,625**	**793,208,087**	**824,759,458**	**821,583,133**
Due to banks	–	–	–	–	73,129,644	73,129,644	73,129,644
Customer deposits	–	–	–	–	616,765,505	616,765,505	616,825,532
Debt securities	–	–	–	–	25,937,908	25,937,908	26,219,324
Other borrowings	–	–	–	–	25,037,701	25,037,701	24,749,487
Total	**–**	**–**	**–**	**–**	**740,870,758**	**740,870,758**	**740,923,987**

	FVPL/ Held for trading	Held to maturity	Loans and advances	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
As at 31 December 2017:							
Cash and balances with central banks	–	–	52,768,616	–	–	52,768,616	52,768,616
Due from banks	–	–	–	–	43,630,943	43,630,943	43,630,943
Loans and advances to customers	9,509	–	584,309,707	–	–	584,319,216	584,595,104
Investment securities:							
– At fair value	95,070	–	–	51,708,081	–	51,803,151	51,803,151
– At amortised cost	–	45,431,131	–	–	–	45,431,131	46,089,759
Total	**104,579**	**45,431,131**	**637,078,323**	**51,708,081**	**43,630,943**	**777,953,057**	**778,887,573**
Due to banks	–	–	–	–	67,741,685	67,741,685	66,907,578
Customer deposits	–	–	–	–	585,523,114	585,523,114	585,523,114
Debt securities	–	–	–	–	26,707,284	26,707,284	26,513,979
Other borrowings	–	–	–	–	24,079,316	24,079,316	24,077,365
Total	**–**	**–**	**–**	**–**	**704,051,399**	**704,051,399**	**703,022,036**

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

(All amounts are shown in thousands of Qatari Riyals)

8. Cash and balances with central banks

	2018	2017
Cash	9,417,356	7,209,129
Cash reserve with Qatar Central Bank	17,549,716	17,289,898
Other balances with Qatar Central Bank	14,435,443	1,175,939
Balances with other central banks	23,299,609	27,093,650
Allowance for impairment	(10,457)	–
Total	**64,691,667**	**52,768,616**

Cash reserve with Qatar Central Bank is a mandatory reserve and cannot be used to fund the Group's day-to-day operations.

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

9. Due from banks

	2018	2017
Current accounts	7,910,408	6,755,995
Placements	52,603,516	35,823,561
Loans	646,274	1,051,387
Allowance for impairment	(51,104)	–
Total	**61,109,094**	**43,630,943**

10. Loans and advances to customers

a) By type

	2018	2017
Loans	552,423,916	545,931,252
Overdrafts	73,086,770	47,505,368
Bills discounted	3,156,311	2,632,912
	628,666,997	**596,069,532**
Deferred profit	(17,570)	(49,561)
Allowance for impairment	(16,142,730)	(11,700,755)
Net loans and advances to customers	**612,506,697**	**584,319,216**

Net Loans and Advances includes QR Nil (2017: QR9.5 million) designated as Fair Value Through Profit or Loss ('FVPL').

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

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

(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 2018:				
Government	80,958,439	45,776,363	–	126,734,802
Government agencies	139,114,155	2,390,483	–	141,504,638
Industry	37,623,605	1,985,933	349,159	39,958,697
Commercial	35,074,783	1,224,014	231,927	36,530,724
Services	132,074,841	6,965,560	1,319,836	140,360,237
Contracting	12,530,641	611,677	115,901	13,258,219
Real estate	56,005,883	2,891,224	519,408	59,416,515
Personal	53,769,673	10,983,313	571,156	65,324,142
Others	5,271,896	258,203	48,924	5,579,023
Total	**552,423,916**	**73,086,770**	**3,156,311**	**628,666,997**
As at 31 December 2017:				
Government	111,750,172	22,511,117	–	134,261,289
Government agencies	133,289,348	3,738,649	–	137,027,997
Industry	40,907,083	2,159,505	351,982	43,418,570
Commercial	23,655,044	1,248,761	203,537	25,107,342
Services	103,757,862	5,477,427	892,777	110,128,066
Contracting	16,189,102	854,630	139,298	17,183,030
Real estate	53,829,615	2,841,691	463,173	57,134,479
Personal	57,882,005	8,427,002	541,942	66,850,949
Others	4,671,021	246,586	40,203	4,957,810
Total	**545,931,252**	**47,505,368**	**2,632,912**	**596,069,532**

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

c) Movement in impairment of loans and advances to customers by segment

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

(All amounts are shown in thousands of Qatari Riyals)

10. Loans and advances to customers (continued)

d) Net impairment during the year

	2018	2017
Corporate lending	(1,856,699)	(528,314)
Small business lending	(769,961)	(677,913)
Consumer lending	(427,409)	(815,666)
Residential mortgages	13,504	7,474
Total	**(3,040,565)**	**(2,014,419)**

Impairment loss excludes interest in suspense.

11. Investment securities

	Note	2018	2017
Investments measured at fair value through profit or loss (FVPL)	11a	63,651	–
Investments measured at fair value through other comprehensive income (FVOCI)	11b	31,487,720	–
Investments measured at amortised cost (AC), net	11c	54,900,629	–
Held for trading financial investments		–	95,070
Available-for-sale financial investments	11d	–	51,708,081
Held to maturity financial investments	11e	–	45,431,131
Total		**86,452,000**	**97,234,282**

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

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

a) Investments measured at fair value through profit or loss

	2018	
	Quoted	Unquoted
Mutual funds and equities	47,606	–
Debt securities	16,045	–
Total	**63,651**	**–**

b) Investments measured at fair value through other comprehensive income

	2018	
	Quoted	Unquoted
Mutual fund and equities	1,179,124	154,501
State of Qatar debt securities	21,040,379	–
Other debt securities	9,111,007	2,709
Total	**31,330,510**	**157,210**

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

(All amounts are shown in thousands of Qatari Riyals)

11. Investment securities (continued)

c) Investments measured at amortised cost

	2018	
	Quoted	**Unquoted**
By issuer		
State of Qatar debt securities	11,013,953	–
Other debt securities	41,546,814	2,339,862
Total	**52,560,767**	**2,339,862**
By interest rate		
Fixed rate securities	47,680,991	2,339,862
Floating rate securities	4,879,776	–
Total	**52,560,767**	**2,339,862**

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

d) Available-for-sale financial investments

	2017	
	Quoted	**Unquoted**
Equities	910,508	187,770
State of Qatar debt securities	31,276,605	–
Other debt securities	18,327,449	131,454
Mutual funds	859,719	14,576
Total	**51,374,281**	**333,800**

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

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

e) Held to maturity financial investments

	2017	
	Quoted	**Unquoted**
By issuer		
State of Qatar debt securities	12,307,843	–
Other debt securities	30,257,738	2,865,550
Total	**42,565,581**	**2,865,550**
By interest rate		
Fixed rate securities	39,307,745	2,865,550
Floating rate securities	3,257,836	–
Total	**42,565,581**	**2,865,550**

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

(All amounts are shown in thousands of Qatari Riyals)

12. Investments in associates

	2018	2017
Balance as at 1 January	7,411,867	7,340,355
Foreign currency translation	(43,289)	10,556
Investments acquired during the year	–	8,124
Share of results	485,215	120,960
Cash dividend	(149,278)	(146,371)
Other movements	(21,817)	78,243
Balance as at 31 December	**7,682,698**	**7,411,867**

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

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

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

(All amounts are shown in thousands of Qatari Riyals)

13. Property and equipment

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

(All amounts are shown in thousands of Qatari Riyals)

14. Intangible assets

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

Impairment tests for goodwill and intangible assets with indefinite lives
Net book value of goodwill as at 31 December 2018 includes QR1.5 billion (2017: QR1.5 billion) in respect of QNB ALAHLI, QR89.6 million (2017: QR89.6 million) in respect of QNB Indonesia, QR111.9 million (2017: QR111.9 million) in respect of Al-Mansour Investment Bank and QR77.4 million (2017: QR77.4 million) in respect of QNB Tunisia.

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

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

15. Other assets

	2018	2017
Interest receivable	6,194,180	5,324,546
Prepaid expenses	564,075	649,410
Positive fair value of derivatives (note 36)	9,250,568	5,761,236
Sundry debtors	2,280,688	1,862,698
Others	2,887,757	3,743,473
Total	**21,177,268**	**17,341,363**

16. Due to banks

	2018	2017
Balances due to central banks	1,625,401	1,059,214
Current accounts	2,364,050	2,139,927
Deposits	47,737,357	45,047,566
Repurchase agreements	21,402,836	19,494,978
Total	**73,129,644**	**67,741,685**

(All amounts are shown in thousands of Qatari Riyals)

17. Customer deposits

a) By type

	2018	2017
Current and call accounts	101,295,756	112,756,780
Saving accounts	14,558,191	13,112,792
Time deposits	500,911,558	459,653,542
Total	**616,765,505**	**585,523,114**

b) By sector

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

18. Debt securities

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

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

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

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

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

The above debt securities are denominated in US$, EUR, GBP, AUD and comprise of fixed and floating interest rates.

The interest rate paid on the above averaged 3.93% p.a. in 2018 (2017: 3.92% p.a.).

(All amounts are shown in thousands of Qatari Riyals)

19. Other borrowings

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

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

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

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

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

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

Throughout the reporting period, the net investment hedge was highly effective.

20. Other liabilities

	2018	2017
Interest payable	5,590,145	4,912,373
Expense payable	1,000,936	957,867
Other provisions (note 21)	321,173	329,568
Tax payable	318,386	859,124
Negative fair value of derivatives (note 36)	5,800,263	3,343,006
Unearned revenue	2,116,344	2,054,842
Social and sports fund	218,327	209,324
Deferred tax liability	110,194	128,569
Margin accounts	1,136,107	923,127
Allowance for impairment for loan commitments and financial guarantees	294,160	77,185
Others	16,146,085	14,485,266
Total	**33,052,120**	**28,280,251**

(All amounts are shown in thousands of Qatari Riyals)

21. Other provisions

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

22. Equity

a) Issued capital

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

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

	2018	2017
Number of shares outstanding at the beginning of the year	923,642,857	839,675,325
Effect of bonus shares	–	83,967,532
Number of shares outstanding at the end of the year	**923,642,857**	**923,642,857**

b) Legal reserve

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

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

c) Risk reserve

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

(All amounts are shown in thousands of Qatari Riyals)

22. Equity (continued)

d) Fair value reserve

	Hedges of a net investment in foreign operation	Cash flow hedges	FVOCI (2018)/ Available-for-sale (2017) investments	Total 2018	Total 2017
Balance as at 1 January	(782,013)	(182,529)	(205,333)	(1,169,875)	24,456
Changes due to adoption of IFRS 9:					
– Transfer to amortised cost	–	–	264,057	264,057	–
– Transfer to retained earnings	–	–	(143,520)	(143,520)	–
Restated balance at beginning of the year	(782,013)	(182,529)	(84,796)	(1,049,338)	24,456
Foreign currency translation	–	(54,892)	(16,012)	(70,904)	(2,898)
Revaluation impact	478,830	(138,930)	(178,248)	161,652	(977,936)
Reclassified to income statement	–	–	(14,101)	(14,101)	(213,497)
Other movements	–	34	(900)	(866)	–
Net movement during the year	478,830	(138,896)	(193,249)	146,685	(1,191,433)
Balance as at 31 December	**(303,183)**	**(376,317)**	**(294,057)**	**(973,557)**	**(1,169,875)**

e) Foreign currency translation reserve

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

f) Other reserves

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

	2018	2017
General reserve	1,803,866	1,930,179
Share of changes recognised directly in associates' equity, excluding share of profit	(1,120,144)	(1,097,750)
Total	**683,722**	**832,429**

g) Retained earnings

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

h) Proposed dividend

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

23. Non-controlling interests

Represents the non-controlling interest in QNB Syria amounting to 49.2% of the share capital, 9.0% 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.

(All amounts are shown in thousands of Qatari Riyals)

24. Instruments eligible for Additional Tier 1 Capital

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

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

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

25. Interest income

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

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

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

26. Interest expense

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

27. Fee and commission income

	2018	2017
Loans and advances	882,542	924,646
Off-balance sheet items	609,858	638,099
Bank services	2,639,620	2,118,892
Investment activities for customers	335,614	422,818
Others	140,783	141,463
Total	**4,608,417**	**4,245,918**

(All amounts are shown in thousands of Qatari Riyals)

28. Net foreign exchange gain

	2018	2017
Dealing in foreign currencies	560,592	776,416
Revaluation of assets and liabilities	(1,704,277)	52,141
Revaluation of derivatives	2,333,165	45,762
Total	**1,189,480**	**874,319**

29. Income from investment securities

	2018	2017
Net loss on sale of investments measured at amortised cost	(508)	–
Net gain from sale of investments measured at fair value	14,462	213,497
Dividend income	105,392	104,733
Changes in fair value of financial assets measured at fair value through profit or loss	2,705	–
Total	**122,051**	**318,230**

30. Staff expenses

	2018	2017
Staff costs	3,218,939	3,329,411
Staff pension fund costs	45,374	42,051
Staff indemnity costs	57,191	62,096
Total	**3,321,504**	**3,433,558**

31. Other expenses

	2018	2017
Training	67,234	61,067
Advertising	525,073	576,250
Professional fees	243,170	274,395
Communication and insurance	240,210	259,549
Occupancy and maintenance	599,741	659,812
Computer and IT costs	366,934	355,632
Printing and stationery	51,229	52,759
Directors’ fees	11,740	11,740
Others	476,484	500,360
Total	**2,581,815**	**2,751,564**

(All amounts are shown in thousands of Qatari Riyals)

32. Income taxes

	2018	2017
Current income tax	1,249,168	1,014,377
Deferred tax benefit	(120,853)	(105,124)
Adjustments to prior periods corporate taxes	6,815	4,312
Income tax expense	**1,135,130**	**913,565**
Profit before tax	**15,018,467**	**14,054,635**
Less: Profit not subject to tax	(10,104,063)	(9,560,794)
Profit subject to tax	**4,914,404**	**4,493,841**
Effective tax rate applicable in overseas jurisdictions	22.41%	21.44%
Tax calculated based on the current tax rate (effective rate)	1,101,485	963,480
Effect of income not subject to taxation	(39,197)	(75,911)
Effect of expenses not deductible for tax purposes	66,027	21,684
Adjustments to prior periods corporate taxes	6,815	4,312
Income tax expense	**1,135,130**	**913,565**

Movement in deferred tax asset

	2018	2017
Balance as at 1 January	227,501	217,827
Impact of initial application of IFRS 9	479,646	–
Deferred tax recognised in consolidated income statement		
Loans and advances to customers	131,753	74,957
Property and equipment	(5,906)	(7,594)
Employee related accruals	25,636	677
Unearned revenue	2,486	15,952
Others	(33,116)	21,132
	120,853	**105,124**
Deferred tax recognised in consolidated statement of comprehensive income		
Effect on fair value reserve	38,935	(100,782)
Others	(11,053)	10,603
	27,882	**(90,179)**
Foreign exchange translation	(132,879)	(5,271)
Balance as at 31 December	**723,003**	**227,501**

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

(All amounts are shown in thousands of Qatari Riyals)

33. Basic and diluted earnings per share

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

	2018	2017
Profit for the year attributable to equity holders of the Bank	13,788,131	13,128,138
Less: Dividend appropriation for instruments eligible for Additional Tier 1 Capital	(532,500)	(450,000)
Net profit for the year attributable to equity holders of the Bank	**13,255,631**	**12,678,138**
Weighted average number of shares	923,642,857	923,642,857
Earnings per share (QR) – basic and diluted	**14.4**	**13.7**

34. Contingent liabilities

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

Unutilised credit facilities

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

Guarantees and letters of credit

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

(All amounts are shown in thousands of Qatari Riyals)

35. Geographical distribution

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

Other assets includes property and equipment and intangible assets.

(All amounts are shown in thousands of Qatari Riyals)

36. Derivatives

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

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

36. Derivatives (continued)

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

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 predetermined price.

Caps and floors

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

Derivatives held for hedging purposes

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

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

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

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

Derivatives held for trading purposes

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

(All amounts are shown in thousands of Qatari Riyals)

37. Mutual funds

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

	2018	2017
Funds marketed	**85,851**	**336,828**

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

38. Related parties

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

	2018	2017
Statement of financial position items		
Loans and advances	3,028,379	3,395,869
Deposits	431,693	605,087
Contingent liabilities and other commitments	84,541	79,177
Income statement items		
Interest and commission income	141,972	101,057
Interest and commission expense	4,907	2,115

	2018	2017
Associates		
Due from banks	1,179,715	1,118,482
Interest and commission income	56,205	18,581
Due to banks	183,664	294,711
Interest and commission expense	2,346	2,378

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

	2018	2017
Compensation of key management personnel is as follows:		
Salaries and other benefits	46,054	43,732
End of service indemnity benefits	1,135	1,131

39. Cash and cash equivalents

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

	2018	2017
Cash and balances with central banks	34,605,083	18,321,271
Due from banks maturing in three months	57,206,779	39,168,604
Total	**91,811,862**	**57,489,875**

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

40. Comparative figures

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

(All amounts are shown in thousands of Qatari Riyals)

Parent company

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

(i) Statement of financial position as at 31 December:

	2018	2017
ASSETS		
Cash and balances with central banks	43,317,083	27,338,069
Due from banks	59,972,927	44,213,034
Loans and advances to customers	506,807,490	467,530,284
Investment securities	52,828,233	66,386,574
Investments in subsidiaries and associates	31,597,126	31,751,837
Property and equipment	1,783,192	1,739,336
Other assets	10,768,661	10,733,311
Total assets	**707,074,712**	**649,692,445**
LIABILITIES		
Due to banks	82,683,574	71,736,982
Customer deposits	492,282,065	461,472,568
Other borrowings	22,033,806	20,658,072
Other liabilities	17,768,283	15,245,829
Total liabilities	**614,767,728**	**569,113,451**
EQUITY		
Issued capital	9,236,429	9,236,429
Legal reserve	25,326,037	25,326,037
Risk reserve	8,000,000	7,500,000
Fair value reserve	(1,197,947)	(1,138,781)
Foreign currency translation reserve	(1,533,678)	(1,159,742)
Other reserves	649,890	672,284
Retained earnings	31,826,253	30,142,767
Total equity attributable to equity holders of the Bank	**72,306,984**	**70,578,994**
Instruments eligible for Additional Tier 1 Capital	20,000,000	10,000,000
Total equity	**92,306,984**	**80,578,994**
Total liabilities and equity	**707,074,712**	**649,692,445**

(All amounts are shown in thousands of Qatari Riyals)

(ii) Income statement for the year ended 31 December:

	2018	2017
Interest income	25,465,815	20,148,689
Interest expense	(13,858,403)	(9,052,822)
Net interest income	**11,607,412**	**11,095,867**
Fee and commission income	1,752,935	1,816,168
Fee and commission expense	(443,357)	(413,028)
Net fee and commission income	**1,309,578**	**1,403,140**
Net foreign exchange gain	799,054	622,894
Income from investment securities	403,382	294,854
Other operating income	792	85
Operating income	**14,120,218**	**13,416,840**
Staff expenses	(1,533,472)	(1,494,287)
Depreciation	(175,220)	(170,963)
Other expenses	(869,855)	(866,032)
Net impairment losses on loans and advances to customers	(1,285,514)	(559,427)
Net impairment recoveries/(losses) on investment securities	4,589	(44,429)
Net impairment recoveries on other financial assets	6,124	–
Other provisions	(21,106)	(2,943)
Profit before income taxes	**10,245,764**	**10,278,759**
Income tax expense	(75,529)	(153,868)
Profit for the year	**10,170,235**	**10,124,891**

(iii) Accounting policies for financial information of the Parent Bank:

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

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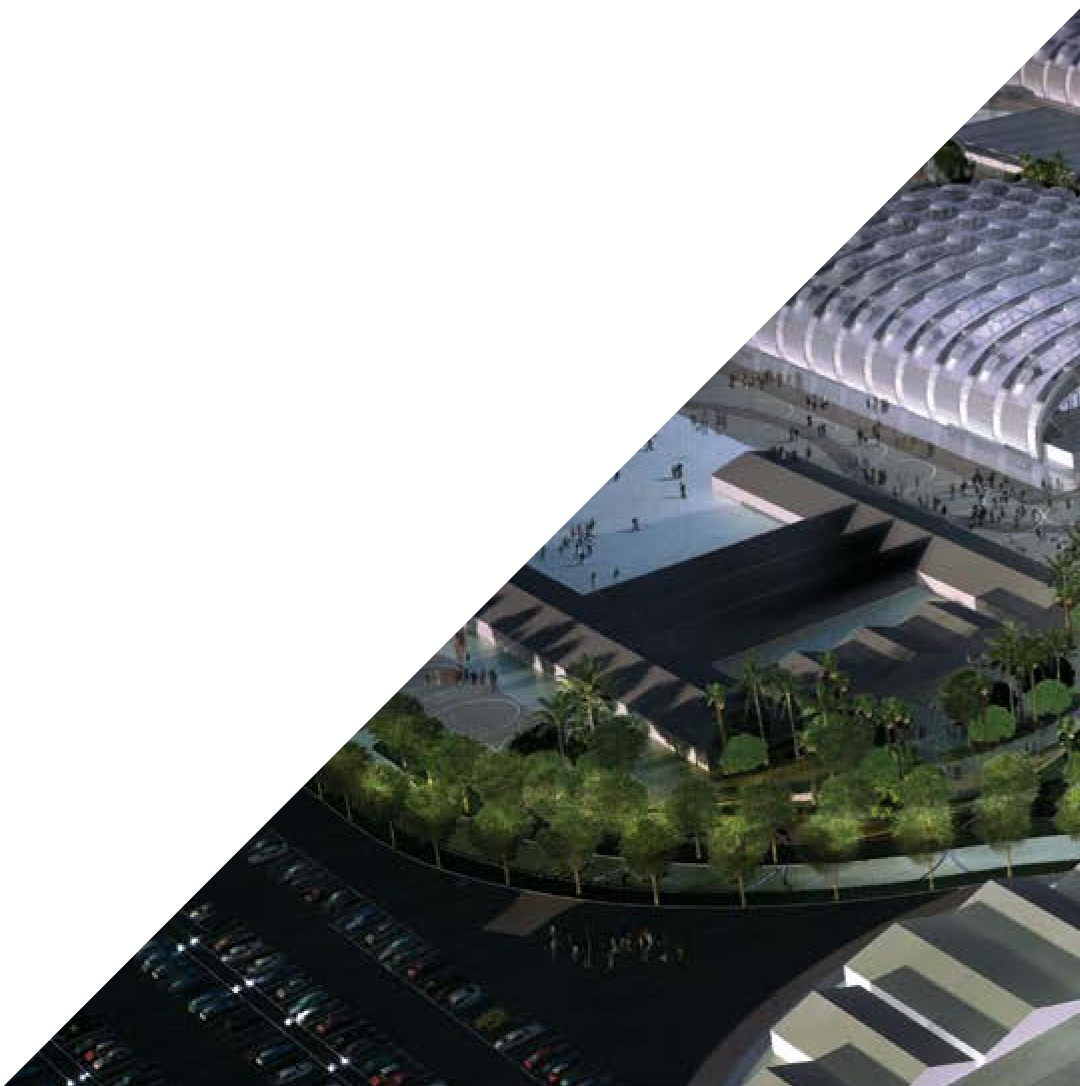

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