Annex 2 – Quantitative and Qualitative disclosures for IRRBB/PRRBB

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QNB Group's description of the risk management objectives and policies concerning Interest Rate Management in the Banking Book (IRRBB)

Qualitative disclosures for IRRBB

Purpose: To provide a description of the risk management objectives and policies concerning IRRBB/ PRRBB	
Content: Qualitative and quantitative information. Quantitative information on the data as of the reporting date.	
Frequency: Annual	
Format: Flexible	
Qualitative disclosures	
a	A description of how the bank defines IRRBB/PRRBB for purposes of risk control and measurement
	Interest Rate Risk in the Banking Book (IRRBB) refers to the risk to QNB Group's capital and earnings arising from the adverse movements in interest rates on its banking book. When interest rates change, the present value and timing of future cash flows change, impacting upon the economic value of QNB's balance sheet. Changes in interest rates affect QNBG's earnings by altering interest rate-sensitive income and costs, impacting its Net Interest Income (NII). In general, the sources of Interest Rate Risk can include gap risk, yield curve risk, basis risk and option risk.
b	A description of the bank's overall IRRBB/PRRBB management and mitigation strategies. Examples are: monitoring of EVE and NII in relation to established limits, hedging practices, conduct of stress testing, outcomes analysis, the role of independent audit, the role and practices of the Group ALCO, the bank's practices to ensure appropriate model validation, and timely updates in response to changing market conditions.
	The Board believes that effective IRRBB management is an essential component of safe and sound banking practices and has a direct impact on the QNB Group's earnings and equity. The QNB Board is ultimately responsible for the Risk management of the Group through provision of overall strategy and oversight. Specifically, the Group operates under its Board Approved Non Traded Market Risk Policy, which covers the management of IRRBB. It also sets the overall Risk Appetite for QNB. QNB Board policy is executed via delegated authority to the Group Management Committees, which includes the Group Asset Liability Committee (GALCO) and Group Management Risk Committee (GMRC). These Committees are responsible for the setting, approval and implementation of limits that are within their Board-approved authority. They are also responsible for ensuring that appropriate processes and controls are in place so that all risks are identified, measured and reported against approved risk limits as well as to authorize appropriate action (as required) if there is a limit breach. These Committees also delegate operational mandates and authorities to individual business and functional unit managers. **IRRBB Limit Framework** The Group Risk Division is responsible for the oversight of the risk process. This includes ensuring that appropriate risk limits are set (consistent with Risk Appetite), managing a robust risk control and reporting process, and the escalation of risk limit breaches. The aggregated risk limits across the QNB Group are aligned and consistent with the overall Group Risk IRRBB limit framework. Board approved limits are cascaded to GALCO and then throughout the organization via the various ALCOs and management committees across the Group. Both economic value and earnings based measurements are used measure IRRBB and monitor this risk against limits. This includes Board limits for sensitivity to earnings (EaR – Earnings at Risk) and economic value impacts upon the balance sheet (EVE – Economic Value of Equity). To provide a consistent Group wide measurement basis, these limits are defined based upon the standardized stress scenarios consistent with the guidelines set by the QCB. These measurements and limits are further supported with additional GALCO level operational limits, such as PV01 ladder limits, with standard measurements regularly monitored and reported to GALCO on a monthly basis. These Group wide standard metrics are complemented with entity and location specific stress testing and other measurements (as appropriate) at intermediate or sub-consolidation and branch levels.

	Governance, Oversight and Controls The QNB Group operates a “Three Lines of Defense” model with respect to the management and governance of risk and the segregation of duties with respect to responsibilities, governance and controls. This includes management and controls around IRRBB. The GALCO oversees the management of IRRBB at a QNB Group level, with international ALCOs and management committees overseeing the management at each location. The Business units and Treasury are the first line functions responsible for the management of the risk, whilst the Risk and Financial control units are the second line. The independent Internal Audit function, as the third line function, undertakes regular audits and reviews of the management and controls processes. The Non Traded Market Risk Policy sets out the guidelines for the governance and management of interest rate risk in the Banking Book. **Risk mitigation and hedging practices** The objective of managing IRRBB is to manage the exposure to interest rate risk in the Banking Book within acceptable limits using approved products within the mandates available to the first line functions. Where possible, risks are managed via the on balance sheet matching of assets and liabilities and the central aggregation of risk. However, Treasury can also hedge specific transactions and residual exposures through the use of derivatives. Significant hedging or risk management initiatives are approved by GALCO.
c	The periodicity of the calculation of the bank’s IRRBB/PRRBB measures, and a description of the specific measures that the bank uses to gauge its sensitivity to IRRBB/PRRBB.
	QNB regularly monitors the evolution of IRRBB at an operational level. The key standard measurements used across the Group are: - Economic Value of Equity based on predefined standardized shocks - Sensitivity to Net Interest Income (NII) over a 12 month horizon and based on predefined shocks calibrated for significant currencies - Re-pricing GAP reports (measured against PV01 ladder limits) - CSRBB sensitivities Daily controls are operated to monitor daily movements in the IRRBB profile. Additional metrics, such as hedging ratio, effective duration of equity or local regulatory measurements are also used at an entity level to supplement the common Group wide measurements. The calculation of the Group’s IRRBB measurements are reported on a monthly basis to the GALCO. The impact of interest rates shocks is also factored as part of the bank’s formal Stress Tests and within ICAAP and the results are presented to senior management.
d	A description of the interest/profit rate shock and stress scenarios that the bank uses to estimate changes in the economic value and in earnings.
	The prescribed QCB standardized interest rate shock scenarios are used in line with the QCB guidelines. As part of a broader stress-testing framework, additional stress scenarios based upon historical market events and severe but plausible hypothetical scenarios are also undertaken. As required, scenarios are also developed to assess potential impacts of emerging risks.
e	Where significant modelling assumptions used in the bank’s internal system (i.e. the EVE metric generated by the bank for purposes other than disclosure, e.g. for internal assessment of capital adequacy) are different from the modelling assumptions prescribed for the disclosure in the table above, the bank should provide a description of those assumptions and of their directional implications and explain its rationale for making those assumptions (e.g. historical data, published research, management judgment and analysis).
	QNB applies the QCB standardized scenarios in a manner consistent with the requirements defined in the QCB guidelines. These scenarios are viewed by QNB as consisting of very extreme shocks are used as the basis of assessing Pillar 2 capital requirements as directed under the QCB guidelines. Additional stress testing undertaken by QNB consists of less extreme, severe but plausible scenarios
f	A high-level description of how the bank hedges its IRRBB/PRRBB, as well as the associated accounting treatment
	QNB's IRRBB exposures are managed by the Treasury function. Where appropriate, exposures are centralized for management by Group Treasury. Where possible, risks are managed via the on balance sheet matching of assets and liabilities and the central aggregation of risk. However, Treasury will also hedge specific transactions through the use of derivatives. Most derivatives residing in the Banking Book are in the form of Interest Rate or Cross Currency Swaps which qualify for Cash Flow Hedge accounting treatment.
g	A high-level description of key modelling and parametric assumptions used in calculating ΔEVE and ΔNII in the table below, which includes: • For ΔEVE, whether commercial margins and other spread components have been included in the cash flows used in the computation and discount rate used. • How the average repricing maturity of non-maturity deposits has been determined (including any unique product characteristics that affect assessment of repricing behavior). • The methodology used to estimate the prepayment rates of customer loans, and/or the early withdrawal rates for time deposits, and other significant assumptions. • Any other assumptions (including for instruments with behavioral optionalities that have been excluded) that have a material impact on the disclosed ΔEVE and ΔNII in the table below, including an explanation of why these are material.

	The approach to modelling assumptions for the purposes of evaluating ΔEVE and ΔNII is consistent with the guidelines set out by the QCB. These relate mainly to the treatment of non-maturing deposits and assets where the use of historical data is used to model key homogenous cohorts to arrive at a sensitivity to key macro factors, stable/non-stable segments and effective duration. With respect to early redemptions of deposits and prepayment of loans, when applicable, the speed is determined based on historical behaviors and sensitivities to key macro factors. Other assumptions based on specific product characteristics, such as optionality are taken into consideration as part of the evaluation process. Commercial margins and other spread components have been excluded in the cash flows used in the computation. The discount rates used are from observed market Cash and Interest Rate Swap rates for each material currency
h	(Optional) Any other information which the bank wishes to disclose regarding its interpretation of the significance and sensitivity of the IRRBB/PRRBB measures disclosed and/or an explanation of any significant variations in the level of the reported IRRBB/PRRBB since previous disclosures
	Not applicable
Quantitative disclosures	
1	Average repricing maturity assigned to NMDs – 0.9 Years
2	Longest repricing maturity assigned to NMDs. – 8.0 Years

Quantitative disclosures for IRRBB

Content: Quantitative information

Frequency: Annual, as at 30 September

Format: Fixed

Accompanying narrative: The maximum loss of QAR c. 3.3bn is based on the ΔEVE Parallel down shock.

QAR '000	ΔEVE		ΔNII	
Period	**Sep-20**	**Sep-19**	**Sep-20**	**Sep-19**
Parallel up	-2,562,055	-2,098,843	-152,074	-885,449
Parallel down	-3,328,824	-1,091,125	-1,577,431	-1,702,670
Steepener	-1,022,978	-957,911		
Flattener	-469,371	-398,673		
Short rate up	-793,880	-584,891		
Short rate down	-610,249	-236,832		
Maximum	-3,328,824	-2,098,843	-1,577,431	-1,702,670
Period	**Sep-20**		**Sep-19**	
Tier 1 capital	81,497,620		77,145,291	

Definitions:
For each of the supervisory prescribed interest/profit rate shock scenarios, the bank must report for the current period and for the previous period:
(i) the change in the economic value of equity based on its internal measures, using a run-off balance sheet and based on the result of the standardized framework as set out in this document
(ii) the change in projected NII over a forward-looking rolling 12-month period compared with the bank's own best estimate 12-month projections, using a constant balance sheet assumption and an instantaneous shock.