Our success today allows us to focus on tomorrow

Annual Report 2016

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

Our global reach

Over 5,600 touch points supported by 28,000 employees.

Aspiring to become a leading bank in the Middle East, Africa and Southeast Asia.

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

Solid financial strength resulting in top-tier ratings.

International network with presence in more than 30 countries.

An Icon across the Middle East and Africa, QNB Group is a trusted financial partner in more than 30 countries.

Through controlled growth, we are expanding our international footprint with an aim to become a leading bank in the Middle East, Africa and Southeast Asia (MEASEA) by 2020.

Our vision encompasses connecting and enabling growth across multiple, strategically selected regions, so we can continue to create sustainable value for individuals, institutions, countries and our shareholders.

Read more about our strategy on page 16

Net profit
QR12.4 bn +10%

Assets
QR719.7bn +34%

Operating income
QR23.1 bn +42%

Earnings per share
QR14.4 +8%

Read more in our Financial performance section on page 63

Contents

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

BOD member since 2016

Member of the Group Board Nomination, Remuneration, Governance and Policies Committee

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

BOD member since 2004

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

Mr. Ali Hussain Ali Al-Sada

BOD member since 1998

Member of the Group Board Risk Committee

Member of the Group Board Executive Committee

Mr. Bader Abdullah Darwish Fakhroo

BOD member since 2001

Member of the Group Board Risk Committee

Member of the Group Board Executive Committee

Mr. Fahad Mohammed Fahad Buzwair

BOD member since 2001

Chairman of the Group Board Nomination, Remuneration, Governance and Policies Committee

Mr. Mansoor Ebrahim Al-Mahmoud

BOD member since 2004

Chairman of the Group Board Audit and Compliance Committee

Mr. Ahmad Yousuf Hussain Ali Kamal

BOD member since 2016

Member of the Group Board Audit and Compliance Committee

Mr. Khaled Hamad Al-Hajeri

BOD member since 2016

Member of the Group Board Audit and Compliance Committee

Chairman of the Board of Directors' statement

QNB Group experienced another year of outstanding performance

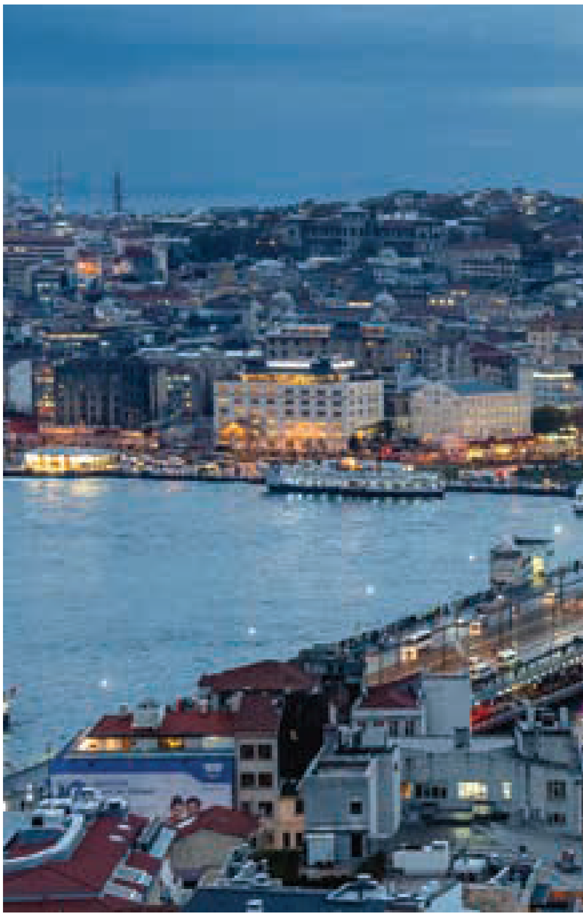
In light of this success, we have defined a new aspiration to 'Become a leading bank in the Middle East, Africa and Southeast Asia (MEASEA) by 2020'.

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

"We are well positioned to maximise shareholder returns over the long term and make a real and positive difference across many countries and regions."

On behalf of the Board of Directors, I am pleased to introduce QNB Group's Annual Report for 2016. We experienced another year of outstanding performance, the best absolute results in QNB Group's history. This strong growth has helped us realise our aspiration of 'Becoming a Middle East and Africa Icon by 2017' ahead of schedule. In light of this success, we have defined a new aspiration to 'Become a leading bank in the Middle East, Africa and Southeast Asia (MEASEA) by 2020'.

Sluggish global growth, low oil prices, global economic volatility and geopolitical risks posed some challenges to our industry and in some of the regions in which we operate. Nevertheless, QNB Group has continued to prosper and grow. MEASEA markets will continue to see among the strongest growth rates globally. These regions require further trade and investment flows as they build the foundations for socio-economic development. By strategically positioning our business across these markets, we are securing our vision to become one of the leading banks in MEASEA by 2020. This will positively contribute to QNB's growth and add additional strength to the Group by diversifying our sources of revenue and profit.



10%
growth in net profit

37%
international contribution to net profit

While QNB strategically expands its geographic presence and product offering, we are ensuring that these are executed efficiently and effectively. We are investing in frontline staff, in new products and in infrastructure to capture the opportunities in our network.

The Group's increasing geographic diversification positively contributes to lowering the inherent risk and volatility of our business; in 2016, international growth contributed 37% to net profit, having grown from 31% in 2015.

In 2016, QNB Group experienced the highest profit in absolute terms in the Group's history, with 10% growth in net profit to QR12.4 billion. To reward our shareholders, the Board of Directors is recommending the General Assembly the distribution of a cash dividend at the rate of 35% of the nominal value of the share, equating to QR3.50 per share, and bonus shares at the rate of 10% of the share capital (equating to one share for every ten).

During the year, the Board conducted a review and implemented changes to the Board committee structure to reinforce the already high standards of corporate governance. This included establishing the Group Board Risk Committee to accentuate the focus on risk management in line with global best practice. We have also taken further steps to strengthen our corporate governance with new appointments to the Board, as well as changes to our Board committee structure.

Corporate Social Responsibility (CSR) constitutes one of the ways of producing responsible citizens, who are both aware of their individual and collective responsibilities and are conscious of the need to grow and develop the society around them. We firmly believe that CSR is a means to give back to the societies we operate in. As we have done in Qatar, QNB Group is aiming across its expanding network to help individuals, institutions and societies fulfil their aspirations. In this regard, support was provided to educational and health care facilities in a number of countries where we operate.

On behalf of the Board of Directors, I express our deep gratitude to His Highness the Emir, 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.

I would like to conclude by offering our sincere thanks to our customers, business partners and employees, who jointly form the cornerstone of our success. With this deep support and QNB Group's clear strategy for future growth, we believe we are well positioned to maximise shareholder returns over the long term and make a real and positive difference across the many countries where we operate.

Left: Acquired a controlling stake in Finansbank, headquartered in Istanbul, Turkey.

Group Chief Executive Officer's statement

In 2016, we continued to deliver sustainable, profitable growth

QNB Group has become the leading bank in the Middle East and Africa across major financial metrics.

Mr. Ali Ahmed Al-Kuwari
Group Chief Executive Officer

I am delighted to present another year of outstanding performance by QNB Group and highlight the value we have created for a wide range of stakeholders in 2016. At the same time, we maintained high levels of capital, liquidity, asset quality and efficiency.

Solid foundations

Our results are based on a solid foundation. We are well capitalised and highly liquid as a result of our proactive approach to managing our balance sheet. One of our key differentiators is our ability to maintain top-tier credit ratings with leading international rating agencies owing to our business model and prudent risk management approach.

This has provided us with a competitive advantage in funding our growth. We were more successful than any other regional bank in wholesale funding over the past year, including an oversubscribed EUR2.25 billion (equivalent to USD2.4 billion) loan and a total of USD600 million in private placements under the EMTN programme.

Sustainable growth strategy

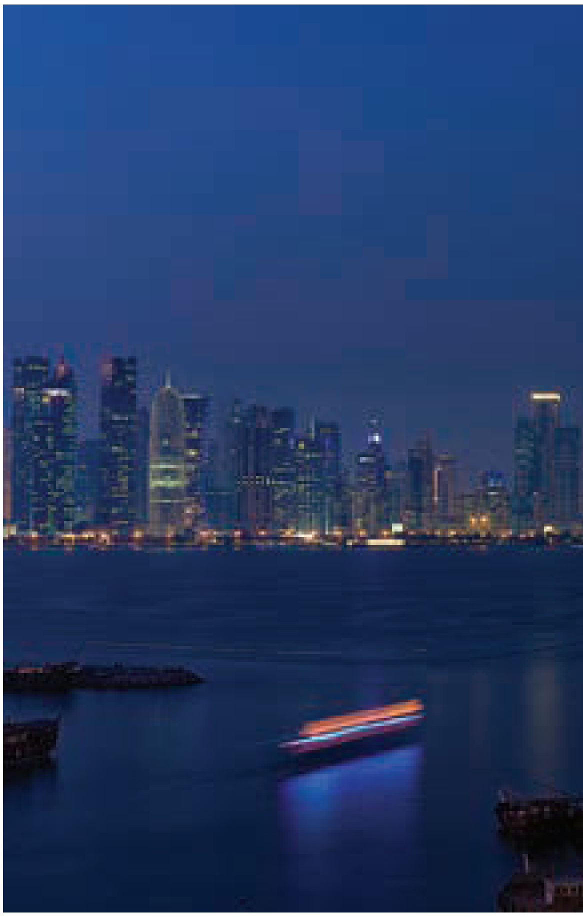
Our new aspiration is to become a leading bank in the Middle East, Africa and Southeast Asia (MEASEA) region by 2020. This is underpinned by a long-term strategy that encompasses protecting our dominant market position in Qatar and accelerating our international growth. We are making good progress on this journey.

Protecting our dominant position in Qatar has meant significantly growing market share, contribution and profitability in the commercial sector with large and mid-sized clients. In addition, we have refined our sector specific offerings for small and medium enterprises (SMEs), streamlined our SME credit processes and forged new alliances with strategic partners. In the domestic corporate arena, we retained our leading position in financing the quasi-public and government sector. We focused on utilities, transport, 2022 FIFA World Cup® infrastructure and real estate. Our expertise in structuring public private partnerships have assisted this.

We have continued to roll out our Global Account Management concept across our international network to increase the depth of our relationships. Backed by this initiative, QNB has continued to capitalise on new business opportunities across our growing international network.

QNB Capital is the investment banking arm of our Group and has been a lead strategic advisor on a broad range of mandates inside and outside Qatar, including IPOs, rights issues and a range of restructuring packages. In debt capital markets, QNB Capital acted as Joint Lead Manager on several major deals, including one of the largest bond issuances in the Middle East and North Africa to date.

QNB was also able to maintain its leading position in the retail banking sector in Qatar by increasing our technology offerings and improving our customer service. Across the bank, our innovations this year include a new



QR520.4 bn +34%
net loans

QR506.7 bn +28%
deposits

30.4%
cost to income ratio

16.0%
capital adequacy ratio

generation of contactless terminals, Eye Scan Recognition on ATMs, and Remote Cheque Deposit and Interactive Teller Machines (ITMs), among others. Additionally, this year we launched QNB First Plus, our new banking service for high net worth individuals.

In our asset and wealth management offering, one of the main highlights of the year has been the launch of a fund platform compliant with European regulations for retail investment offerings, making our products available to a much larger client base in Europe. We have also established a new investment strategy department to add an extra level of advice and strategic planning.

Good progress has been made on our international expansion. In Turkey, we completed the acquisition of Finansbank and have since rebranded it as QNB Finansbank. In Saudi Arabia, the establishment of our new branch is well underway as per plan. In India, we obtained regulatory approval for a branch license. Additionally, we opened our representative office in Myanmar and obtained regulatory approval for a representative office in Cuba. We were delighted to see continued strong growth from our subsidiary QNB Al Ahli, the second largest private bank in Egypt.

While QNB strategically expands its geographic presence and product offering, we are ensuring that these are executed efficiently and effectively. We are investing in frontline staff, in new products and in infrastructure to capture the opportunities in our network.

You will read more about these achievements throughout this report.

Looking ahead

Looking into 2017 and beyond, we will continue to deliver upon our strategy. We will keep investing in our domestic capabilities to maintain our leading market position and invest internationally to grow and diversify our portfolio. We aim to generate profitable growth from our recent acquisitions with the strategic intent to outperform relevant peers in those markets.

We expect another year of market volatility affecting global growth, driven by low oil prices, an environment of tightening interest rates, as well as lower demand from China. In light of these external challenges, it is crucial to maintain high levels of capital, liquidity and asset quality to position ourselves to manage volatility.

None of our successes would be possible without the trust of our customers, the commitment and dedication of our people, our partners and the support of our Board of Directors. By executing upon our strategy, I am confident that we are well positioned to deliver long-term sustainable value to all of our stakeholders in 2017 and beyond.

Left: Continued to support the private sector in line with Qatar National Vision 2030.

Strategic report

Already a top-rated, trusted partner to millions of customers in the Middle East and Africa (MEA), we now aspire to become a leading bank in the Middle East, Africa and Southeast Asia (MEASEA) by 2020. We will achieve this by navigating across our **operating environment (page 14)**, by relentlessly executing upon our **strategy (page 16)** while continuing to follow our **guiding principles (page 20)**. In doing so, our aim is to create sustainable value for individuals, organisations, countries and our shareholders.

QNB at a glance

QNB remains a strong and highly rated bank with a growing international footprint. We are proud of our Qatari heritage and our substantial contribution to the region and beyond.

"QNB Group today is present in more than 30 countries spanning across three continents, with more than 28,000 employees serving 20 million customers."

Our rating, brand and thriving international network gives us an unrivalled competitive advantage. This allows us to create and deliver sustainable value for our stakeholders through distinctive offerings for institutional and individual clients.

Founded in 1964 and headquartered in Doha, Qatar, QNB Group today is present in more than 30 countries spanning across three continents, with more than 28,000 employees serving 20 million customers.

Over the past year, we have continued our strong, sustainable growth, expanded our international reach, and strengthened our brand positioning.

Our strongest revenue and profit contributors are Qatar, Turkey and Egypt. This year we completed the acquisition of Finansbank, the fifth largest privately owned universal bank in Turkey. We continued to see strong growth from our subsidiary, QNB ALAHLI, the second largest private bank in Egypt.

Our core objective is to facilitate economic growth for individuals, organisations and countries by helping them fulfil their financial aspirations. By providing trusted advice, insight and a wide range of agile banking services, QNB is well-positioned to help a broad range of clients – from the smallest companies to some of the largest multinational businesses in the world.

We have realised our aspiration of becoming a 2017 MEA Icon ahead of time. Our vision is to continue on this path to become a leading bank in MEASEA by 2020.

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

An unrivalled range of retail banking products and services across a multichannel network with more than 1,283 branches*. These include premium banking through QNB First and QNB First Plus, designed for our affluent clients.

*Including subsidiaries

Read more about Retail Banking on page 32

Asset and Wealth Management

A powerful 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 Qatar.

Read more about Asset and Wealth Management on page 36

International Business

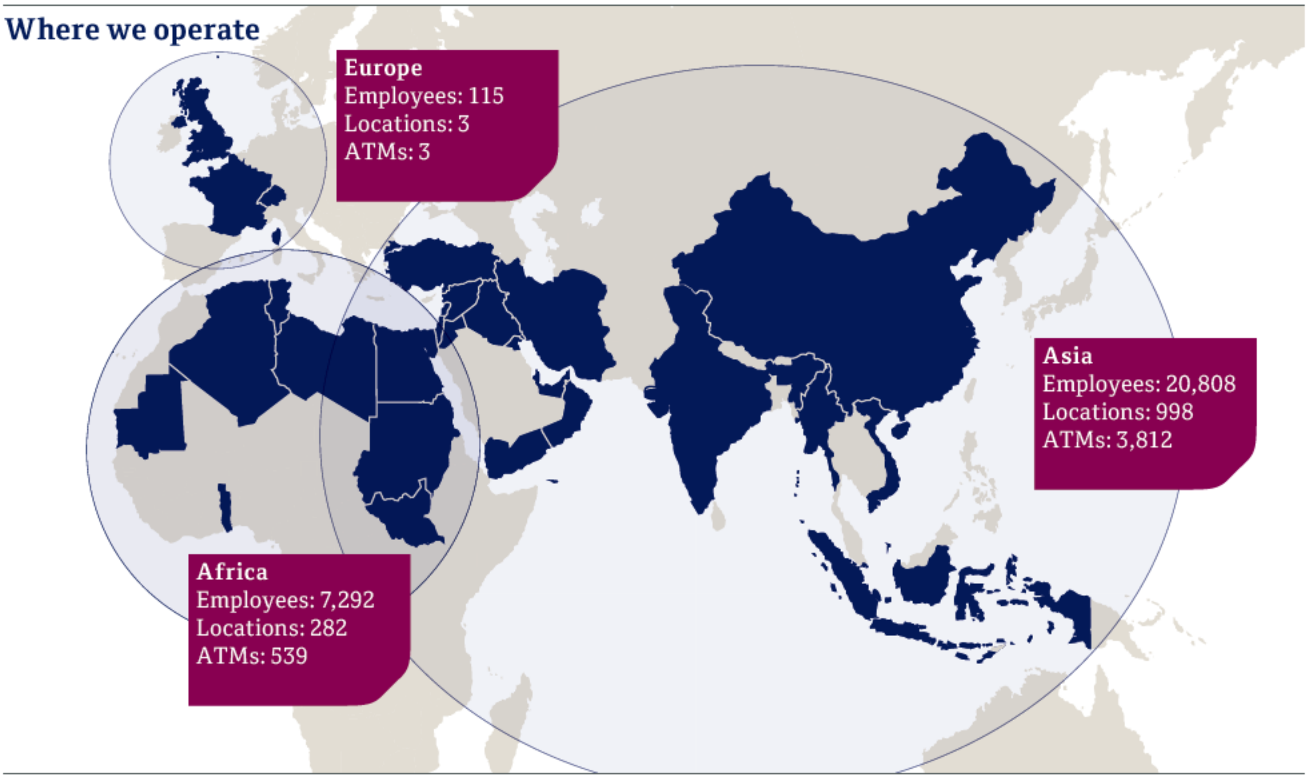
Focuses on connecting the network to the head office, expanding QNB international presence and enabling international cooperation by providing oversight of Group offices, subsidiaries and other key stakeholders including regulators.

Read more about International Business on page 38

QNB's stakes in various financial institutions

Name	% Stake
QNB Finansbank (Turkey)	99.88%
QNB ALAHLI (Egypt)	97.12%
QNB Indonesia	82.6%
QNB Tunisia	99.96%
QNB Syria	50.8%
QNB Suisse (Switzerland)	100.0%
QNB India	100.0%
Mansour Bank (Iraq)	50.8%
Bank of Commerce & Development (Libya)	49.0%
Commercial Bank International (CBI) (UAE)	40.0%
Housing Bank for Trade and Finance (HBTF) (Jordan)	34.5%
Ecobank Transnational Incorporated (Ecobank) (Togo)	20.0%
Al Jazeera Finance Company (Qatar)	20.0%

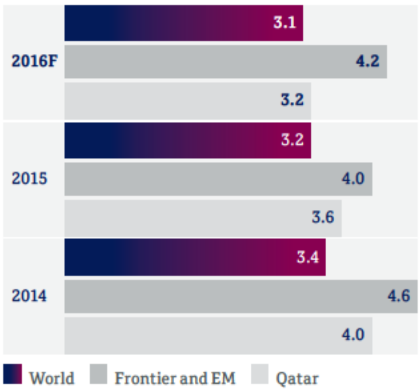
Where we operate



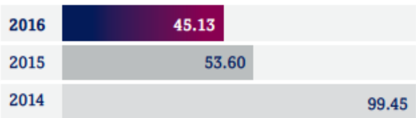
Operating environment

Understanding the new setting in global finance

GDP growth %



Brent oil price USD/barrel



It has been another challenging year in our industry and across almost all of our territories, but one in which QNB Group has nevertheless continued to prosper and grow.

Against a backdrop of sluggish growth, a stubbornly low oil price and global economic volatility, we have achieved our objectives through careful expansion and prudent risk management.

As the global uncertainty in financial markets continues, our strategy of seeking new opportunities and diversification becomes key to our success.

2016 has been dominated by volatility across sectors and regions. The year began with a fresh wave of concern over the strength of the Chinese economy, rising US interest rates and falling oil prices. Since then, however, concerns about the Chinese economy have abated as the authorities introduced new stimulus measures to bring stability to the market. Similarly, capital flight from emerging markets triggered by US rate hikes has not materialised to the extent predicted due to US Federal Reserve delays in its rate increases. On the other hand, the impact of geopolitical risks in the MEA region has been elevated this year. Furthermore, the unexpected results from the UK referendum to leave the European Union (Brexit) and the US presidential elections has created more uncertainty on global growth trajectory.

Low oil and commodity prices have continued to gain most headlines. After bottoming out in the early part of 2016, oil prices have since steadily recovered. The recovery was a reflection of gradual reduction in excess supply, while demand remained flat and supply among high-cost producers, especially in the US, has decreased.

Middle East and North Africa

While 2016 started off on a weak footing, the Middle East and North Africa (MENA) economy has since stabilised. The low oil price environment of 2016 has given fresh impetus for Gulf Co-operation Council (GCC) countries to diversify their economies and fiscal revenue streams away from hydrocarbons. To that end, some measures have been taken, including the reduction of fuel subsidies and the rationalisation of public expenditure. Additional measures to cope with the 'New Normal' of low oil prices are also in the pipeline, including plans to introduce a value-added tax (VAT) in 2018. These measures, together with the expected recovery in oil prices, are projected to lead to a pick-up of growth in the GCC region to 2.4% in 2017 from 1.9% in 2016.

Outside the GCC, many MENA countries face large fiscal and external imbalances. This has resulted in a number of countries to enter into a fiscal programme with the IMF, which requires monetary tightening. In addition, geopolitical risks remain a major issue for this region and a cause for economic disruption. As a result, growth in the broader MENA region is expected to slow to 3.1% in 2017 from 3.3% in 2016.

Right: Thailand is part of the strong growth throughout the Southeast Asia region.

Southeast Asia

This region is a bright spot in an otherwise sluggish global economy, with regional GDP growth maintained at 4.8%.

This came mainly as a result of strong growth in Indonesia, the largest economy in the region, Thailand, the Philippines and Vietnam. Indonesia's economy expanded at its fastest rate since 2013, as government stimulus began to take effect. This has also helped kick-start a boost in private consumption.

Qatar

Despite the global challenge of economic uncertainty, Qatar itself remains resilient and can claim to be the most competitive economy in the GCC region. Growth is expected to reach 3.2% this year before accelerating to 3.8% in 2017.

While the weak price of oil began to rebound in the second half of the year, the Qatari government remains committed to its efforts to diversify away from a dependence on hydrocarbons.

Expansion

Although recent macroeconomic headwinds do present challenges to our industry and our vision, MEASEA markets will continue to be the focal point for global growth. These regions require further trade and investment flows to support the building of the foundations for socio-economic developments, such as infrastructure, including transport, real estate, power, telecoms, healthcare, education and tourism. This will, in turn, drive population growth, consumer demand and consumption, resulting in higher economic growth across the region.

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.

> “Our vision for our continued expansion is to become a leading bank in MEASEA by 2020.”

QNB Group's strategy

Building on our continued success, our vision is to become a leading bank in MEASEA by 2020

" We are committed to a culture of excellence and high performance across every part of our business. "

Our strategy is based on two key pillars: to protect our dominant market position in Qatar and to accelerate our international growth.

Domestically, our focus is to maintain our market share and profitability in the public sector and to grow our market share and profitability from private sector firms and individuals.

Internationally, we will explore new opportunities presented by our growing network, bolster a specialised international wholesale business, expand our asset and wealth management services, and significantly scale up our international footprint. In addition, we will continue to explore opportunistic, inorganic plays in our target markets.

To achieve this aspiration, we are committed to a culture of excellence and high performance across every part of our business. Our success depends on our ability to deliver sustainable value to our clients and to facilitate economic development in our markets. This is the cornerstone of our strategy and unites our business and people.

Strategic pillar	Measured by our six key performance aspirations
Protect dominant market position in Qatar **Accelerate international growth**	**1. To maintain a strong rating** **2. To be a financial institution of choice** **3. To be an employer of choice** **4. To be a leading brand** **5. To stand out in terms of customer service** **6. To enhance shareholder value through sustainable profitable growth**

Read more on page 18

Strategic pillar and focus	Steps taken and achievements in 2016	2020 strategic initiatives
Protect dominant 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	Enhanced transaction banking infrastructure Refined SME sector specific offerings Streamlined SME credit processes Forged new alliances with strategic partners Augmented digital and remote offerings within our channel mix Deepened private sector relationships for commercial clients	Increase transaction banking's share of wallet within Qatar Enhance specific SME value propositions Further enhance customer experience in our physical and remote distribution channels Develop innovative services across the consumer banking multichannel mix Deepen our product offering for high net worth (HNWI) and ultra-high net worth (UHNWI) clients Continue to grow our share in the private sector
Accelerate 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	Enhanced transaction banking infrastructure across the network Enhanced capabilities and governance to maintain a robust control environment Obtained approval and launched funds to distribute in Europe Strengthened monitoring of country and sector-specific limits Increased specialist coverage teams across hubs for structured finance, transaction banking and FI teams Strengthened cross-border mortgage and non-resident offering across selected countries Commenced a joint exercise to evaluate the potential for asset management production and distribution in MEA Streamlined the international corporate credit process	Continue to expand business origination centres across MEASEA Refine the value proposition and position QNB as a niche player Ramp up our international asset management fund offering across selected markets Strengthen fund distribution capabilities in Europe, Asia and Africa Enhance QNB's risk appetite to support growth in new geographies and segments/sectors Continue to expand structured finance capabilities across regional hubs Augment the QNB First international offering through additional value-added services Deepen relationships with our strategic partners across MEA Continue to strengthen our infrastructure capabilities across regions to improve efficiency

Left: We received approval from the Reserve Bank of India (RBI) to open a branch.

Delivering sustainable results

Six key performance aspirations act as the building blocks to deliver our strategy

> “We retained our position among the world’s 50 safest banks as rated by Global Finance magazine.”

>28,000
employees worldwide

>4,350
ATMs

>1,250
branches

Read more in our Operational performance section on page 25

1. To maintain a strong rating

Strength is the fundamental element that inspires institutional, corporate and individual customers to bank with us, and for investors and markets to believe in us. A determinant of a financial institution’s strength is the rating that key agencies ascribe to it. These ratings reflect the bank’s capacity and price to borrow and assign. By being able to secure favourable funding, the bank can fund its strategic plans, growth and day-to-day operations.

QNB Group’s solid ratings reflect the strength of our services and our brand, allowing us to grow across all our markets and expand into new territories. Our excellent ratings are a testament to our capital strength, strategy, governance, prudent risk management, business and operating model. They allow us to maintain funding and access global capital markets. This provides us with a competitive advantage that enables us to continue our growth and expansion plans in line with our strategy.

2. To be a financial institution of choice

We want prospective customers to have QNB at the forefront of their mind when considering a financial institution, and we want current customers and partners to be advocates for our business. We aim to be perceived as a valued participant and partner in the economies and business landscape of our target regions.

These goals will be met by operating our business with professionalism, independence and objectivity, integrity and ethical conduct – listening and responding to our customers, business partners and employees in an atmosphere of mutual respect and trust.

3. To be an employer of choice

Our employees are paramount to our business success, and we treat them with loyalty and respect. We are proud that we are regularly placed among the top employers in the Middle East. The results of our bi-annual Employee Engagement placed us 7% above the Middle East Financial Sector benchmark. In comparison to regional and industry benchmarks, QNB is above or in line with the markets for most performance metrics. However, we are not complacent – particularly because we are continually expanding. We must ensure that we are able to attract and retain highly talented people in countries as diverse as Singapore, Turkey, Indonesia, China, India, Egypt, Oman, France, Vietnam and the UK.

We are already a hugely multicultural institution – in fact, we have some 80 different nationalities represented across our operations. As an employer of choice, we actively promote a culture of mutual trust, loyalty, meritocracy and respect in our highly diverse talent pool.

Our employees deserve the training and opportunities commensurate with their skills and abilities, and this includes embracing gender diversity and promoting women to senior roles across our regions of operation.

We are proud that our Qatarisation drive, which is in line with the 2030 National Vision, has created a local Qatari workforce of more than 52.0% – the highest rate in the Qatari banking sector.

We have an industry-leading low staff turnover rate: for 2016, it stood at only 7.0%. This is a figure about which every employee and member of the management team can be proud of.

QNB Group has top-tier ratings from international rating agencies

	Moody’s	S&P	Fitch	Capital Intelligence
LT	Aa3	A+	AA-	AA-
ST	P-1	A-1	F1+	A1+

75%
reduction in the average approval time for SME loans in Qatar

75%
reduction in the average time required to open a custody account

25%
reduction in the average approval time for Private Banking loan facilities

"This year, The Banker magazine has ranked QNB in the World's Top 100 banks."

4. To be a leading brand

We recognise that our brand must encapsulate all we stand for. 'Thinking Beyond', encapsulates our three distinct brand values: Enriching, Insightful and Determined. This will guide what we say and how we behave, and activities we undertake must reinforce our brand values to ensure continued trust in us.

We believe we are well on track to become a leading bank in MEASEA by 2020. This year, The Banker magazine has ranked QNB in the World's Top 100 banks. The QNB brand has also maintained its rank as the most valuable banking brand in the MEA region, according to Brand Finance. Additionally, we retained our position among the world's 50 safest banks as rated by Global Finance magazine.

5. To stand out in terms of customer service

The customer experience is at the forefront of all our activities. Our aim is that every customer – from individuals to the largest global corporations – receives excellent value from us and that we always appropriately support their needs and guide them in their financial and business aspirations. We believe that listening to and understanding our customers is our core competency, supported by first-class delivery of our products and services.

For us to stand out in customer service requires excellence in people, technology and processes to clearly understand and respond to our customers' needs. These do not operate in isolation, but reinforce each other.

In 2016, once again, we launched numerous new products and services to enhance customer interaction, as well as to promote customer proximity and convenience across channels and countries. For example, we have launched a web-based interface for our corporate customers in Qatar, Singapore and France to perform all cash management activities remotely using straight-through processing (STP). We have enhanced our mobile banking offering with additional services for the convenience of our Retail and QNB First customers. We have introduced an entirely new internet banking offering for our Small and Medium Enterprise (SME) customers that allows them to remotely satisfy their banking needs. Furthermore, we have launched a leading-edge internet banking offering in the Egyptian market that will help us to develop our competitive advantage. These are just some highlights among our continuous efforts to develop innovative banking solutions that enhance customer experience and convenience.

In addition, we have made some considerable improvements with the support of our Lean Transformation team to streamline our processes in order to improve the customer experience.

6. To enhance shareholder value through sustainable profitable growth

Our presence in fast-growing markets allows us to be uniquely positioned to reap the tailwinds of economic growth. To meet our purpose and vision, as well as to create value for our shareholders, all our plans and activities aim to achieve sustainable profitable growth – now and over the long term. We do this by successfully executing upon our strategy of controlled organic expansion, selective acquisitions, and leveraging our competitive advantage. Further details can be found in the Group Chief Financial Officer's report on page 64.

Our guiding principles

Our principles underpin our purpose and provide a guide to deliver our strategy

“We operate to the highest levels of integrity.”

Strength
We are a bank with robust financial stability, top-tier ratings and capital strength. We also have the support of a talented team of more than 28,000 motivated employees, established processes and a solid infrastructure to support our activities.

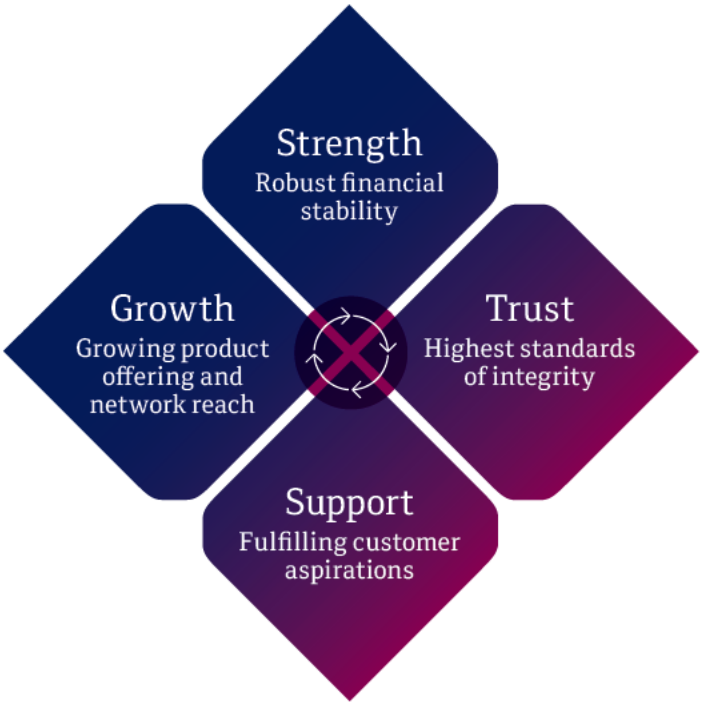
Trust
We operate to the highest standards of integrity and treat our employees, business partners, customers and host communities with respect. We seek to align our goals with theirs, operating in an atmosphere of mutual trust, fiduciary care and supportive teamwork.

Support
Our products and services allow individuals, institutions, countries and regions to fulfil their aspirations in their overarching aim for a higher quality of life and sustainable economic development.

Growth
We continue to capture opportunities for sustainable growth both in the products and services we offer to our customers, as well as in our expansion into new markets and territories.

These guiding principles are a part of the foundations of our business. By adhering to them, QNB Group can continue to create sustainable and meaningful value for our customers, partners, host communities and shareholders.

Our guiding principles



Creating and delivering value

Our capital strength, expanding network and unrivalled service deliver real value to all our clients

We are proud to consider ourselves a bank that focuses primarily on creating meaningful value by leveraging our distinct competitive advantage in the markets in which we operate. This includes financial returns for our shareholders as a growth and value stock, a wide range of benefits for our customers, and the contribution we make to local, national and regional economies.

What sets us apart from our competitors is that we are one of the few banks with a strong global bank rating operating as a full-service financial institution across a range of frontier and emerging markets. We also have a growing presence in more developed economies than ever before.

In short, we help to generate, grow and protect wealth for all our clients through our broad range of banking services. These are underpinned by our rich experience, in-depth local knowledge and unrivalled customer support.

Our approach means QNB Group delivers:

> excellent service for clients at every level and across an expanding network;

> long-term sustainable returns for investors in a growing range of diversified markets;

> economic development and social contribution in the countries and communities in which we operate;

> the highest levels of service to our customers in the most ethical and professional manner; and

> fulfilling careers for our highly motivated and engaged employees.

Our ability to support the aspirations of those who bank with us is further strengthened by a number of factors outlined here.

Solid capital strength and global ratings

Over the past five decades, we have used our extensive experience and prudent nature to create and maintain a strong balance sheet. This means that, unlike many of our competitors who are still struggling from global volatility, we are able to take advantage of the opportunities we see in our markets.

QNB Group has also maintained its position as one of the highest rated regional banks from leading rating agencies including Standard & Poor's (A+), Moody's (Aa3), Fitch (AA-) and Capital Intelligence (AA-).

Read more in our Operational performance section on page 25

Creating and delivering value

Creating and delivering value
continued

> QNB Mobile Banking app (DooEt) in Indonesia allows our customers in the country to undertake banking transactions anytime and anywhere, via smartphone devices.

An expanding international footprint

Our growing international footprint is largely in frontier and emerging markets. As we expand, so too do the opportunities across our network:

- we are the leading bank in the MEA region across all major financial metrics; and
- we are the fourth largest publicly traded company by market capitalisation in the GCC.

As a result, we are the preferred choice for major corporations, institutions, SMEs and individuals seeking a trusted financial partner. This, in turn, enhances our ability to successfully expand our business as we enter new territories and develop new product lines.

We are carving out our role as the financial gateway to MEA. Our competitive advantage is to leverage our strong rating and presence in markets that are often neglected by bigger banks or are underserved by regional players. This enables us to create wealth, as well as facilitate trade and investment flows from Europe and Asia.

Innovation, personalisation and digital transformation

We are determined to lead the way when it comes to developing better and more personalised banking. We strive to bring innovation to the market, such as our new Interactive Teller Machines (ITMs), along with new technology, such as contactless terminals and biometric security. In addition, apps and carefully tailored services help support our customers no matter where they are in the world.

Our QNB Mobile Banking app (DooEt) in Indonesia allows our customers in the country to undertake banking transactions anytime and anywhere, via smartphone devices. It allows seamless payments and transactions between consumers and service providers, from telecoms services to any retail-oriented business. It includes channel innovation, alongside product, device and infrastructure innovation.

Right: In Indonesia, our DooEt app provides access to our services via smartphone devices.

We were delighted to be awarded

Best Frontier Markets Bank and **Best Bank in Qatar**
Global Finance

Bank of the Year – Qatar
The Banker

Best Bank in Qatar
Banker Middle East

Best Business Model Execution in the Middle East
Asian Banker

Brand recognition and consistency

QNB has one of the strongest brands in the Middle East and Africa, both in comparison to our banking competitors and across sectors.

This brand recognition is a powerful enabler for our Group's business. It is built on numerous achievements, including our consistent delivery of strong returns, maintaining our position as one of the leading MEA banks across all financial metrics, our top-tier ratings, and our continued positive recognition by international institutions for our ability to introduce innovative products and services.

In addition, we continue to be recognised through a string of awards from leading international specialised financial publications.

Our network

With the acquisition of Finansbank, our international footprint has once again expanded, increasing the flow of cooperation and opportunity. This has significantly strengthened our network, which includes our subsidiaries and regional partners.

Our partnership with Ecobank and Nedbank Group complements our vision and has positioned us to capture significant value in Africa's fastest-growing markets.

In 2016, we continued to deliver value. We have:

> continued to diversify our sources of income to reduce our exposure to any single market;

> grown our loan book while maintaining an excellent non-performing loan ratio;

> maintained low costs and high operating efficiency; and

> maintained a strong capital adequacy ratio.

Operational performance

In this section, we explore the key achievements and developments of our **Wholesale and Commercial Banking (page 26)**, **Retail Banking (page 32)**, **Asset and Wealth Management (page 36)** and **International Business (page 38)** for 2016. We also detail the strategic plans that will help us to become a leading bank in MEASEA by 2020.

Wholesale and Commercial Banking

Continuing our international ambitions

2016 saw us continuing our diversification plans, working towards the goal of 40% net profits from international markets.

What we do

We offer a selection of products and services created specifically for our wide range of diverse customers. They are tailored to individual industry sectors and specific customer needs and help to ensure a strong competitive advantage. These include:

> wholesale, commercial and SME banking;

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

> transaction banking, including trade finance solutions, open account solutions and global cash management;

> financial institutions, with an extensive correspondent banking network;

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

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

Domestic Corporate

The Domestic Corporate Banking department consists of four specialised coverage units: Large Corporates, Contractor Finance, Commercial Banking and Government Sector. Overall, QNB continued to maintain market share in large corporates while gaining share in the Qatar private sector, particularly in commercial, trading and manufacturing – the core of our activities.

This year, we have focused on four primary areas: Utilities, Transport, 2022 FIFA World Cup® infrastructure and Real Estate.

In Utilities, we continued our active involvement in financing key projects such as water and sewage networks. These are long-term complex structures that require sophisticated solutions and a profound understanding of private public partnerships (PPPs) – expertise we are able to provide. This enabled us to maintain our dominant market share in the government and quasi-public sector.

In Transport, we were involved in vessel and aircraft financing for prime shipping and transport companies. These deals will further propel Qatar as a transport hub for the trade corridor between Southeast Asia, the Middle East, Europe and Africa.

Share of QNB Group net profit
58%

Wholesale and Commercial Banking net profit (QR billion)

2016	7.2
2015	7.2
2014	7.0

Top: We continued to support the Egyptian government's development plans by arranging more than EGP26 billion for infrastructure projects.

Left: Lusail City development, Qatar.

Gearing up for the 2022 FIFA World Cup® to be held in Qatar, we have participated in many projects, including roads, stadiums and infrastructure.

In Real Estate, our involvement in the iconic Lusail City development has been a particular success as a benchmark project in both infrastructure and real estate development financing. We have seen continued demand for residential projects and hospitality, helping Qatar reach the 60,000 hotel rooms targeted for 2022.

International Corporate

Despite the challenging macroeconomic environment, QNB continued to capitalise on new business opportunities across our growing international footprint. As our clients move into new markets, we want to be able to support them in their ventures. Achievements to date are largely attributable to a coordinated and focused approach in key markets, driven by a clear understanding of client needs, matched to QNB's own footprint, risk appetite and growing capabilities. Throughout the year, we continued to roll out our Global Account Management client service model across our international network. This model promotes a cohesive approach to increasing depth and breadth of client relationships.

Despite the difficult and competitive liquidity climate, we were able to raise large corporate deposits in our overseas operations. We generated liquidity for the bank as a whole, strengthening the loan-to-deposit ratio of the Group. Our financial strength and strong ratings enable us to be an attractive partner for large corporate and financial institutions, allowing us to tap liquidity in markets where QNB does not have a presence. We were able to gather deposits in Asia, thereby effectively introducing the QNB brand across a larger corporate and institutional banking audience.

Backed by funding initiatives, assets have grown across the board, with new financing conferred across our network. We funded a large-scale Qatari development in the UK, an historic hotel in Paris, and originated opportunities in India, China, Indonesia, Vietnam and Myanmar via our Asian hub in Singapore. We are also pursuing strategic infrastructural development opportunities in the MEA region, including Oman and Kuwait.

Islamic banking growth has also been a highlight in our UK and Singaporean branches to serve our clients' Sharia-compliant needs.

We have seen interest from regional firms doing business in Turkey and from Turkish contractors and companies that do business in the MEA region. Following the acquisition of Finansbank, we started working closely towards an integrated offering from and into Turkey vis-à-vis our presence countries. These initiatives encompass a consistent and standardised offering and joint relationship management approach. Looking ahead into 2017, we are confident that we will continue to capture business opportunities between Turkey and the rest of the QNB network.

QNB Group is continuing to assist in the growth of Egypt's economy. We supported the Egyptian government's ambitious development plans by participating in its large power stations and infrastructure projects, arranging more than EGP26 billion (USD1.4 billion) for the electricity sector and more than USD500 million for electricity contractors.

Looking forward, market opportunities still offer us exciting growth potential. We will continue to broaden and deepen our MENA, sub-Saharan and international network as our international footprint gives us a competitive advantage. This will include further leveraging our partnership with our strategic partner, Ecobank.

Wholesale and Commercial Banking continued

Global Transaction Banking

Our Global Transaction Banking business benefits from our network expansion, enabling our customers to undertake their international financial transactions with greater ease. Our hubs in Doha, Paris, London and Singapore demonstrate our commitment to helping our customers with their global ambitions. In all of these locations we connected our QNB local branches to the local payment clearing systems. This development enables our e-Business corporate platform users to process SGD, EUR and GBP transactions electronically as domestic payments. This is a cheaper and faster solution than the international payment system and gives tangible value to our customers.

In Qatar, we completed the roll-out of the Wage Protection System (WPS), in accordance with the Qatar Central Bank (QCB) directive requesting Qatari companies to transfer salaries to their employees electronically. This initiative ensures that workers' rights are upheld and their salaries are paid in full and on time. We registered close to 10,000 Qatari corporates under the WPS and we are currently processing their salary files via this method. A designated customer helpdesk has also been established under the umbrella of Global Transaction Banking to guide our customers through the WPS transition.

We have seen substantial growth in Southeast Asia. As a leading bank, we continue to develop new ways to connect with our customers and to deliver innovative banking solutions from our Singapore hub, such as the e-Business corporate platform. With this at the forefront of our offering, the development of our electronic channels has been a major focus this year. The customer onboarding on these platforms will remain at the top of our agenda in 2017.

Our aim is to provide our clients with one point of access – our 'single window' concept – giving them an overview of all their accounts in any market, enabling more agile cash management. The success of these developments is shown in the increase in the numbers of clients, effectively doubling the number of corporate clients using our e-channel products in Qatar, Egypt and Indonesia. With the integration of Finansbank, QNB Group's total e-channel corporate customer numbers are now approaching 187,000.

We have also continued to invest to ensure that our security standards comply with the highest international standards. Dual-factor identification and Vasco Tokens are examples of the superior security we use to ensure our clients can undertake transactions in a convenient, yet secure, fashion.

> "With the integration of Finansbank, QNB Group's total e-channel corporate customer numbers are now approaching 187,000."

Right: QNB Finansbank head office in Istanbul.

138%

year-on-year increase in our corporate e-channel customer base in Qatar

> We aim to become the 'Gateway to MEA' across the globe.

Our aim is to raise QNB Group's profile as the global transaction banking payment provider and the 'gateway to MEA across the globe'. In the trade space, our structuring capabilities and network reach have helped us achieve significant growth in the documentary letters of credit business. We have seen double-digit growth in trade finance for Europe and Asia, while we have seen a decline in some markets in Africa, driven by wavering commodity prices. We expect even greater growth in Asia next year as we further increase our presence in the region, with the expansion of operations in Indonesia, India and Singapore.

Global structured finance

QNB delivers innovative structured finance solutions to meet the complex financial requirements of our customers on major capital projects. These include, but are not limited to, syndication, project and agency financing, acquisition financing and real estate and asset-backed financing.

We cover both conventional and Islamic facilities in markets where QNB has presence and in other select markets. With product coverage focused on the Middle East, Southeast Asia, Europe and Africa, we have also expanded our geographic presence with hubs in Singapore and London as well as satellite teams in subsidiaries and associates in Turkey, UAE, Egypt and Indonesia.

In asset-backed and real estate finance, QNB Group arranged and underwrote several successful aircraft lease finance deals involving 30 aircraft across its footprint. QNB Group also arranged and underwrote several large retail and residential real estate transactions in various key cities including London, Doha and Dubai.

In project and acquisition finance, QNB Group supported some of the largest projects in the region with large tickets across different sectors including power, water and petrochemical. In addition, QNB Group has been active in the origination of acquisition financing transactions.

In syndication, QNB Group originated, underwrote and syndicated a number of corporate and sovereign deals. QNB was the financial adviser and coordinator to the State of Qatar for the USD5.5 billion syndicated financing.

SME banking

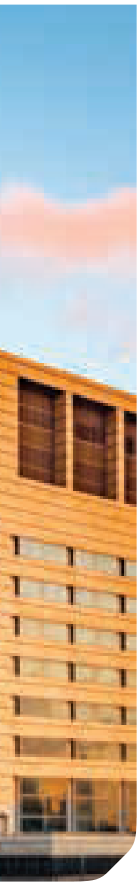
In line with the Qatar National Vision 2030, QNB continues to support the development of the Small and Medium Enterprise (SME) sector in Qatar. The government and Qatar Development Bank are working to promote diversification towards new sources of economic growth and we are pleased to support them in this aim. After launching our first dedicated SME centre in Doha in 2015, this year we continued to enhance the centre as a true one-stop shop.

During 2016, QNB sponsored a number of events to promote SMEs in Qatar, such as Qatar Development Bank's (QDB) Al-Fikra business competition. This educational and coaching programme is designed for Qatari-led start-ups and entrepreneurs, and enables them to develop and fulfil their business ideas. QNB also sponsored a booklet from Bedaya, a centre for entrepreneurship and career development, that offers entrepreneurs discounted services and is a source of business opportunities for start-ups. In order to support the SME community, we have a representative at the Qatar Business Incubation Centre (QBIC), which enables SMEs to have many of their needs addressed by the various government institutions and QNB at a single location. We have expanded existing strategic alliances, such as with Qatar Businesswomen's Association, and forged new ones, such as with QBIC and Manateq, the latter being a new government-led initiative to accelerate entrepreneurship in the private sector.

With our improved sector-specific programmes for the manufacturing, hospitality, construction, trade, healthcare and education sectors, we believe we are making an important

Become the gateway to 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



Wholesale and Commercial Banking continued

contribution to the Qatari society. The solutions range from working capital facilities to equipment finance, trade finance and SME credit cards.

In Turkey, SME banking continues to be a core business focus of our subsidiary, QNB Finansbank. We are continuously expanding our capabilities and launching innovative products, such as the SME Cloud and SME internet banking. These channels are staffed by qualified SME agents that can handle all sales and service needs for our customers. Not only are we the first in the market to offer loan disbursement on the phone for SME customers, but also we believe we have the widest range of SME products available over the phone in Turkey. Over the past five years, we have increased the number of specialist staff serving this segment in Turkey by over 30% to more than 1,400 team members.

In Egypt, we have realised the potential of this currently underserved market segment. We hence introduced a new SME business model with tailored value propositions for the microfinance, small and medium segments. This year, we have exceeded the EGP10 billion (USD0.6 billion) mark in funded and unfunded facilities for SMEs, and surpassed EGP5 billion (USD0.3 billion) in term deposits, supported by a large SME clientele base. Additionally, dedicated SME sections across the branch network, run by specialised staff, are currently being rolled out. This initiative will provide QNB ALAHLI with a competitive edge and pole position in the Egyptian market, as we are the first bank to serve this segment with a differentiated segment offering.

QNB Capital

QNB Capital is the investment banking arm of our Group and an established leader in the Qatari corporate advisory market. Our corporate finance team offers extensive transaction experience and provides a comprehensive range of advisory services, including mergers and acquisitions, equity and debt capital markets and project finance. The team is also active in strategic advisory, corporate restructuring and real estate, both locally and in international markets.

In equity capital markets (ECM) we have been an adviser on all types of equity raising, both inside and outside Qatar, including IPOs, rights issues and a range of restructuring – both financial and organisational. We are also particularly proud to support a number of SMEs as they prepare to list on the QE Venture market on the Qatar Stock Exchange (QSE).

In debt capital markets (DCM) during 2016, we acted as Joint Lead Manager on a number of major deals. These included:

> an inaugural USD500 million bond issue for Ahlibank, completed in April;

> a triple tranche sovereign bond for the State of Qatar totalling USD9 billion in June, one of the largest bond issuances to date in the Middle East and North Africa;

> a USD500 million bond for Ooredoo in June;

> a USD1 billion bond for QNB with a coupon of 2.125%, the lowest for a GCC-based financial institution; and

> a USD500 million Sukuk for Sharjah Islamic Bank in September.

In addition, we continue to advise various government agencies and listed companies on their financial strategies.

As we move into 2017, we expect to participate in larger cross-border transactions focusing on developments in Southeast Asia and on increasing numbers of PPPs in Qatar. We will continue to strengthen our existing

QNB Capital offers comprehensive advisory services covering all aspects of investment banking

- Review of competitive environment
- Review of market positioning
- Review of strategic plans
- Review of financial performance
- Review of regulatory environment

- Corporate finance advisory
- Mergers and acquisitions advisory
- Equity advisory
- Debt and project finance advisory

Supported by dedicated research

“ Testimony of our 2016 achievements came in the form of the 2016 Rising Star-Asia MTN Issuer Award from MTN-I, the leading global MTN news and data analytics platform. This was in recognition of our strong medium-term note offering. QNB is the first regional bank to receive this award. ”

relationships, leveraging our network to provide even greater value for our clients, while a series of events across the region are planned to further showcase our expertise and build relationships with new clients.

Treasury

QNB Group Treasury has delivered on its commitment to expand its product base, grow its presence internationally and diversify sources of funding. QNB has strong liquidity and a healthy loan-to-deposit ratio compared to other banks in Qatar, with multiple sources of liquidity positioning us well to capture growth and business opportunities, both locally and overseas.

The key highlight for 2016 has been our wholesale funding success. Despite the very challenging times faced by all banks, we were more successful than any other regional bank in wholesale funding over the past year. Four landmark transactions highlight this success:

- in January, QNB issued a USD600 million one-year private placement under the Euro Medium Term Note (EMTN) programme. This was the largest ever single private placement to a bank regionally;
- in April, we issued a USD1.1 billion Floating Rate Note in Asia initiated by Taiwanese demand, the largest ever Formosa issuance by a financial institution;
- in May 2016, QNB raised a EUR2.25 billion (equivalent to USD2.4 billion) three-year loan. The loan facility, in which 14 banks participated, was increased from EUR1.5 billion (USD1.6 billion) due to strong market over subscription; and
- in August, QNB issued a USD1 billion, five-year syndicated note, that was more than 2.5 times over subscribed, with strong demand from Europe and Asia, as well as from regional investors.

The success of our Certificate of Deposit (CD) programme continues, which is a testament to the strength and success of the programme. We have bucked the trend of the market and grown from last year, largely as a result of our highly motivated teams overseas, and through carefully targeted marketing. We have had outstanding success in geographical diversification and tenor extension in our deposit base, particularly in Asia where our focus will continue in 2017.

On the operational side, we are in the early stages of a significant system upgrade to ensure we are able to support our clients with superior technology and with even greater efficiency. We have also continued to bolster our headcount in key money centres around the world, adding strength to our teams in London, Paris and Geneva.

In 2017, we will build on the successes of this year, with a significant focus on growth in Southeast Asia. Our performance this year means we are in a better position to further strengthen our wholesale funding base and develop our global investor base for the future.

Retail Banking

Our wide range of retail and premium banking services keep our customers in control wherever they are in the world

What we do

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

- more than 65 branches in Qatar and 1,200 abroad;
- more than 750 branch staff in Qatar and 4,000 abroad;
- more than 410 ATMs in Qatar and 3,900 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.

QNB remains the leading retail bank in Qatar and we are keenly focused on cementing this position in the future. With 66 branches, we have the largest network in the country and have expanded the number of ATMs to more than 410.

Our success lies beyond numbers. We understand that banking is evolving and that now, more than ever, personalisation is crucial. That is why this year we have invested substantially in our people, new technology and services that will enable us to connect with our customers and improve our customer service.

New technological innovations

We are the first bank in Qatar to introduce Interactive Teller Machines (ITM) allowing our customers to carry out banking transactions 24 hours a day at the ATM, with a virtual teller. Piloted in Qatar, the machine assists customers with up to 95% of transactions, which would normally be completed by tellers inside a branch. The ITM offers more services than a standard ATM, enabling customers to perform secure transactions without using a traditional card. With enhanced privacy and security, customers can have a private face-to-face conversation by using the handset on the ITM or by simply plugging in their own personal headset.

In 2016, QNB's payments business has seen significant growth on multiple fronts. On credit card usage, 2016 marked the highest-ever recorded usage, including record growth in international volumes. On e-commerce, a growth of 24% on volumes has been supported by another year of double-digit growth in our physical acceptance network. We have also been actively investing in and promoting contactless cards and acceptance throughout the market, which has witnessed steady growth throughout the year.

Our payments business aims to have a combined issuing and acceptance ecosystem, with scale and critical mass that delivers both cardholder and merchant value.

We want to positively influence customers' behaviour and create habit and familiarity by focusing on customer-centric payment solutions. These solutions include instalment options, expanding acceptance infrastructure, targeted customer marketing, and increased security and control.

Above: QNB First Plus, a tailored service for our top-end QNB First customers.
Right: Interactive Teller Machines (ITM) allowing banking transactions 24h/day at the ATM.

24%
growth of e-commerce volumes

95%
teller transactions that can be done via the ITM

We continue to develop our bank-wide loyalty programme, 'Life Rewards', where we have added many new partners, while actively promoting the programme. Since deepening our partnership with Qatar Airways, customers can now transfer Life Rewards points instantly to their Qatar Airways frequent flyer account.

Our performance was recognised by a string of awards, including a Consumer Service Innovation Award at the Global Telecoms Business Innovation Awards in London. The award praised our contribution to mobile financial services and for creating the Mobile Money Wallet in partnership with Ooredoo.

Similarly, QNB Indonesia has won an award in conjunction with Indosat, Ooredoo's subsidiary in Indonesia, in recognition of the innovative virtual account and mobile banking platform Direct One-on-One Electronic Transaction or DooEt. The platform has been developed to promote financial inclusion of the vast number of people in Indonesia who do not have a bank account. DooEt prides itself with its 'Simple, Swift and Secure' low-cost person-to-person transaction method by using a QR Code on mobile phones. To date, it has more than 600 merchants, ranging from street traders to the most sophisticated fashion boutiques. It has now generated more than 44,000 users and is expanding by the day.

These initiatives are examples of QNB's commitment to offer the latest technologies and services to our customers. They are complemented by numerous other innovations, such as a new generation of contactless terminals, allowing customers to pay for products with greater ease and speed; Eye Scan Recognition on ATMs to securely and conveniently login to conduct transactions without using an ATM Card; and Remote Cheque Deposit (RCD) via mobile devices that allows customers to deposit their cheques at their convenience, anytime, anywhere.

Customer service at the forefront

Customer feedback remains important to us. We have therefore implemented continuous online feedback to gauge satisfaction levels at each of our digital touchpoints. To ensure greater consistency and quality across our network, a new code of service was introduced for staff at all QNB branches, call centres and card centre networks in Qatar.

This year, we launched our international fund transfer campaign in recognition of the trust clients place in QNB. The campaign allowed customers to conduct international wire transfers for free through QNB's mobile and internet banking services.

Retail Banking
continued

QNB First Plus: a new value proposition for our most valuable clients

After listening to our customers and understanding their changing needs and requirements, we have launched QNB First Plus – a tailored service model dedicated to our top-end select QNB First customers.

Created as an extension to QNB First, the new service is a recognition of our wealthier customers and designed to enhance their experience with us. Each member will benefit from a dedicated senior relationship manager, a unique onboarding experience, exclusive benefits, tailored investment solutions and a value-packed exclusive credit card.

Serving our customers no matter where they are

We have also improved our services internationally, such as the Al Safwa premium banking offering in Egypt, extended our mobile banking service in Kuwait and Oman, and opened a specialised QNB call centre in Tunisia. In both the UK and France, our customer base has seen double-digit growth.

In addition to our existing Cross Border Mortgage proposition in UK, France, Lebanon and the UAE, we have extended our coverage to Turkey and Egypt, allowing our customers to benefit from a wider selection under the QNB First Global Recognition programme. This service is complemented with real estate advisory services for seven international markets, giving our customers a true end-to-end service for acquiring properties internationally.

Improved automation in account opening between Qatar and our international markets has meant greater efficiency and a substantial reduction in physical paperwork, saving time, being more environmentally friendly, and improving security.

We are proud that in 2016 our achievements have been recognised through five awards

Best Retail Bank in Qatar
Asian Banker Magazine

Best Business Model Execution in the Middle East
Asian Banker Magazine

Best Network Integration in the Middle East
Asian Banker Magazine

Most Innovative Bank Assurance Product
International Finance Magazine

Customer Service Innovation Award
Global Telecom Business

Looking ahead

In Qatar, we will continue to expand our contactless network as we seek to grow the digital footprint of the Group. We will also continue to innovate, aiming to introduce some new technologies such as: cheque deposit capability on ATMs; more use of biometric technologies to identify customers, including behavioural biometrics methods; and Personal Finance Management (PFM) capabilities on electronic channels.

On the international front, in 2017 and beyond, we are planning to open a branch in both Saudi Arabia and India, giving us a presence in two of Asia's largest and most dynamic markets. We will continue to work closely with our existing international branches and subsidiaries to ensure that our flagship products and services are available to all our customers globally. Our plan to expand and embed our presence in new international markets will continue, and we will do this while maintaining an excellent customer experience across all our services.

Left: QNB First Main Branch.

Above: QNB Mobile Banking app (DooEt) in Indonesia allows our customers in the region to undertake banking transactions anytime and anywhere, via smartphone devices.

Asset and Wealth Management

An unrivalled bespoke asset and wealth management service providing crucial international insight and support

What we do

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

We also play an important role in promoting Qatar as a high-quality investment destination. Being one of the two GCC markets in the MSCI Emerging Markets group, Qatar is increasingly playing an important role in this investment space.

This year, we continued with the execution of our strategy aimed at expanding our service offering and geographic footprint across the AWM business. In today's environment, there is a greater requirement for insightful and value-adding professional support. Our team at QNB is in a unique position to deliver global access and expert advice to all our customers, adapting to changing needs. As such, and in the context of the Group's strategy, we have made some considerable improvements to our overall product suite, capabilities and value proposition.

Asset management

After a challenging start, markets began to rally in the second half of 2016 and investors are once again keen to seek out new opportunities. The size of our client base has continued to increase this year and so too has the appetite for diverse investments. A growing desire for greater international exposure and more diversification in investment opportunities has helped to shape a new chapter for QNB Asset Management. As well as providing our clients with a comprehensive array of mutual fund and discretionary portfolio products, we now also support them with a bespoke investment advisory service based on our unique insight across our core markets.

One of the main highlights of the year has been the set-up of a fund platform compliant with the Undertakings for Collective Investment in Transferable Securities (UCITS) directive to provide products that are regulatory compliant and available to a much larger client base (both institutional and individuals) in Europe. We have launched our first fund from this platform this year and have more in the pipeline for 2017. One of the new products will include exposure to the Indian market via a lower-cost passive Exchange Traded Fund (ETF). India continues to be one of the fastest-growing major economies in the world. The other new product will be centred on MENA investment opportunities.

Our new investment strategy department has been created to add an extra level of advice and strategic planning – to look after our customers from a portfolio perspective and offer tailor-made investment plans based on their risk appetite. To support this, we have increased the number of our relationship managers and assistants and appointed dedicated investment strategists to provide an even deeper understanding of our markets and sectors.

> "One of the main highlights of the year has been the set-up of a UCITS platform to distribute funds to a much larger client base in Europe."

QNB was recognised as

Best Investment Management Company, Qatar 2016
World Finance for the third consecutive year

Asset Manager of the Year in Qatar
Global Investor Magazine for the second consecutive year

Best Private Bank for Ultra-High Net Worth Clients in Qatar
Euromoney

Best Private Bank for Super Affluent Clients in Qatar
Euromoney

As our business grows, there is a greater emphasis on risk management. Accordingly, QNB has appointed a dedicated head of risk management to navigate the markets, international risk and associated regulatory issues.

Private banking

In 2016, we refined the Private Banking value proposition as part of our strategy. We are confident that the new proposition will provide a competitive advantage in the market and strengthen the already high level of service.

As part of the new value proposition, we launched an improved concierge service, which we believe is the best and most comprehensive in the market. We have also strengthened the Private Banking team with new hires, decreasing the ratio of clients per banker in order to increase the amount of time available to our clients. We introduced new certification standards for all our relationship managers, to ensure high levels of qualification and technical expertise when serving customers. Finally, we have built a stronger bond with our Asset Management unit, leveraging the investment strategists to assist our clients in managing their increasingly complex portfolios. With this background, our assets under management (AUM) in Private Banking has increased by more than 38% from last year.

Finally, we have enhanced our exclusive private banking service in London and Paris, refining our service to cater for customer needs.

Brokerage and custody services

We have continued to contribute to the growth and development of Qatar's financial market. In light of a difficult market environment, the strength of the QNB brand and our focus on customer service has helped us maintain our performance. Throughout 2016, QNB continued to expand on its research and corporate access as key differentiators. We continue to be the only broker that provides research on Qatari equities from Qatar.

2016 has been a successful year for our Custody operations, despite market turmoil in the earlier part of the year, leading to lower safekeeping fees. We managed to gain more than QR5 billion (USD1.4 billion) in new assets under custody by new mandates. This year, QNB obtained a strong risk rating and a pass mark in an assessment by Thomas Murray, the pre-eminent authority in this matter. In our continuous efforts to improve our service standards and capability, we are aiming to achieve the ISAE3402 audit assurance by the first quarter of next year.

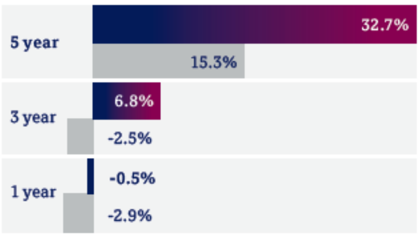
Looking ahead

As we move into 2017, at the heart of our success is our client service, which is why we will continue to invest in the training, development and certification of our talented staff, boosting their skills and knowledge on every front.

Emerging and frontier markets continue to be our focus where, we believe, there are exciting opportunities to further tap into this appealing market.

Share of QNB Group net profit
4%

Performance of Al Watani Fund 1



Performance of Al Watani Fund 1 (31 Dec 2016)
Performance of Standard & Poor's Qatar Domestic Index (Custom) (31 Dec 2016)

Above: We continue to be the only broker that provides research on Qatari equities from Qatar.

Left: We continue to support our ultra-high net worth clients.

International Business

Continuing expansion and global reach through a culture of excellence

What we do

International Business is responsible for oversight of our expansion strategy, ensuring that we diversify QNB Group's revenue streams.

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

International Business is helping connect and enable QNB's network for sustainable growth – by ensuring a unity of purpose, consistent processes and by embedding QNB as a financial bridge between key hubs in Asia, Europe and MEA.

Integration of Finansbank

In June, the acquisition of Finansbank, the fifth-largest private bank in Turkey, into the QNB Group was completed and marked a significant milestone in our strategy for international expansion and diversification. QNB Finansbank serves more than 5.4 million active customers across a nationwide distribution network of around 630 branches with more than 12,400 employees across all businesses and segments. QNB Finansbank's expertise in serving wholesale, commercial, SME and retail customers with a comprehensive and competitive range of products and services complements QNB's strategy and capabilities. The bank is managed by a young, dynamic, qualified and professional management team, which we believe is one of the best in the local market. We are convinced that from a financial and non-financial perspective, this acquisition – QNB's largest to date – will generate significant mutually beneficial synergies.

In October, we unveiled the new QNB Finansbank brand and logo. Following the acquisition, we have been active in growing and connecting our networks, benefiting from operational scale and efficiencies, sharing best practices and systems and underpinning our robust risk management and compliance practices. To date, more than 290 branches in Turkey have been rebranded with the new QNB Finansbank brand and logo. The rebranding will continue throughout the remaining branches.

The new ownership structure and the QNB Finansbank brand will benefit the bank and its stakeholders across several dimensions and provide a competitive advantage. Most importantly, QNB Finansbank will be able to benefit from QNB Group's top-tier ratings, further augmenting the bank's competitiveness and providing access to new business opportunities. Introducing the QNB brand in Turkey will boost awareness of the bank with customers as well as augmenting its brand reputation and value. We believe QNB will be able to increasingly benefit from the rapid development of trade and the strengthening of economic ties between Turkey and the Middle East in general, as well as between Qatar and Turkey in particular. Our investment also reflects QNB Group's confidence in the long-term prospects of the financial sector and economy of Turkey.

Left: We obtained the approval of the Saudi Arabia Monetary Authority (SAMA) to open a branch in the Kingdom.

Left: QNB Suisse moved to prestigious new offices by Lake Geneva.

Network expansion

In 2016, we obtained several regulatory approvals to enter new markets:

- approval from the Saudi Arabia Monetary Authority (SAMA) to open a branch in the Kingdom;
- approval from the Reserve Bank of India (RBI) to open a branch;
- approval from the Central Bank of Cuba (BCC) to open a Representative Office; and
- approval from the Central Bank of Myanmar (CBM) to open a Representative Office, commissioned in March.

In July, QNB Suisse moved to a prestigious new location by Lake Geneva at Rue Quai du Mont Blanc. The new building enjoys a strategic location in the heart of Geneva, allowing us to serve our clients in an exceptional manner. QNB Suisse's services are considered a part of QNB's Private Banking services provided by QNB Private, the first private bank in Qatar.

As QNB strategically expands its geographic presence and product offering, we are ensuring that these are executed efficiently and effectively, and deliver even greater value. The major focus is the growth of our hub and priority countries, while connecting and enabling network countries for growth.

Looking ahead

International Business is pleased to play an integral part in the bank's success and our priority remains to help deliver our vision to become a leading bank in the Middle East, Africa and Southeast Asia by 2020. We will do so primarily by continuing to leverage our existing network and to open up exciting opportunities in new territories, particularly in Asia.

In 2017 and beyond, we will continue to expand our global footprint by opening the branch in the Kingdom of Saudi Arabia and upgrading our offices to branches in India and China. We will also continue to explore new opportunities in other Asian markets.

We are committed to a high-performance culture, where our teams of engaged and motivated employees are able to deliver exceptional service to our clients no matter where they are in the world. This, in itself, helps us to stay ahead of our competition.

> “In 2016, we obtained regulatory approvals to open a branch in the Kingdom of Saudi Arabia and India.”

Right: QNB London expanded its premises to accommodate its expanding client base and business needs.

Corporate governance

Effective and responsible governance is crucial to the success of our bank. In this section we will outline QNB Group's best practice in this area.

Corporate governance

Corporate governance is a key driver of QNB Group's image and reputation, both locally and internationally

Corporate governance involves a set of relationships between a company's management, its board, shareholders and other stakeholders. The commitment to our corporate culture motivates directors, managers and employees to maximise operational efficiency and comply with sound principles of conduct, which we believe creates high returns on investment and long-term productivity growth.

Effective corporate governance is not an end in itself. It is a means to ensure proper functioning of a financial institution and the banking sector overall. QNB Group's safety and soundness are key to its financial stability. The manner in which we conduct business, therefore, is central to create market confidence and business integrity.

The Corporate Governance Report, issued as a companion to the 2016 Annual Report, reflects QNB Group's efforts to comply with the supervisory and regulatory requirements issued by Qatar Central Bank (QCB) and Qatar Financial Markets Authority (QFMA). This will help to maintain the gains of the Group and to be in line with Qatar National Vision 2030.

Main roles of QNB Group's Board of Directors

> Provide overall strategic direction and oversight;

> Review and approve Board-level policies through agreed risk parameters and limits;

> Review and approve the annual budget, business plans and all capital expenditures;

> Regularly review achievements against strategy and make modifications as required;

> Ensure implementation of appropriate internal audit, compliance, risk management and financial control frameworks; and

> Ensure an adequate, effective, comprehensive and transparent Corporate Governance process is in place.

Board composition

The Board of Directors is constituted as per QNB Group's Articles of Association and other pertinent regulatory directives. The Government of Qatar, through its investment arm Qatar Investment Authority (QIA), owns 50% of QNB Group. The other 50% is held by the public.

QNB Group's BOD contains 10 members, of which five members were elected during the General Assembly Meeting of QNB held on 31 January 2016 for a three-year term from 2016 to 2018 and QIA appointed the other five members.

The Chairman and the Vice Chairman are elected among the BOD members. The BOD has the widest authority to manage QNB Group and also has the right to appoint several managers or authorised persons and to vest in them the right to sign jointly or separately on behalf of QNB Group.

Of the 10 members of the BOD, all members are non-executive and four are independent as per QCB instructions. No member holds a managerial position, and in accordance with QFMA Corporate Governance Code, no member of the Board holds a full-time job within QNB Group.

QNB Board members have adequate expertise and knowledge to effectively perform their functions in the best interests of QNB Group and they give sufficient time and attention to their role as Board members.

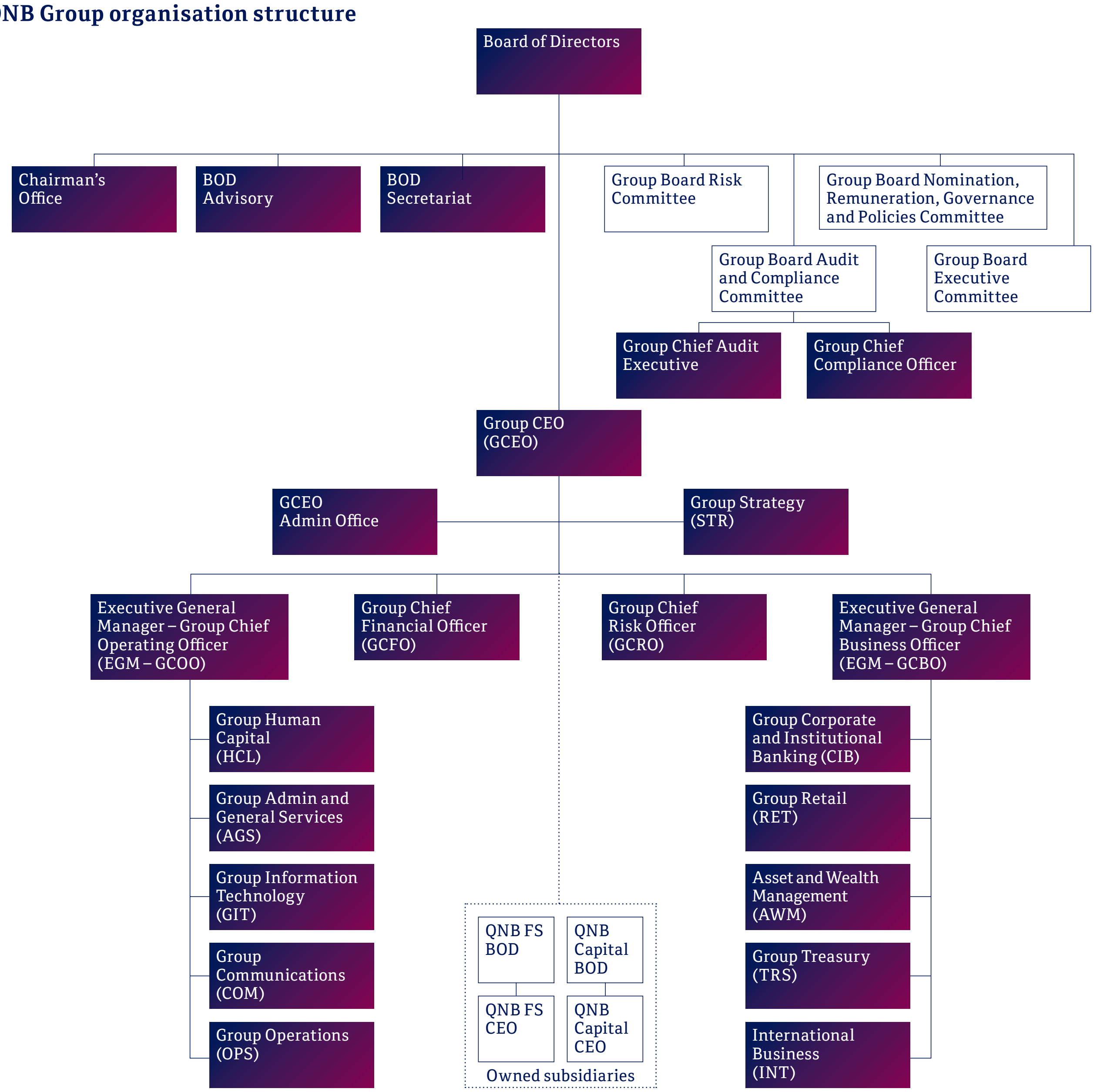
Nominations and appointments of Board members are made according to formal, rigorous and transparent procedures and in line with QNB Group's Articles of Association, QCB and QFMA requirements as applicable.

QNB Board members are elected among the shareholders based on the applicable rules and regulations. The Board will identify and adopt appropriate and objective criteria for the Board candidature, taking into consideration QCB and QFMA requirements related to the same subject.

Nominations take into account the candidates' sufficient availability to perform their duties as Board members, in addition to their skills, knowledge and experience as well as professional, technical, academic qualifications and based on the 'Fit and Proper' Guidelines for Nomination of Board members.

In 2016, the task of the nomination of the members of the Board of Directors was assigned to the Group Board Nomination, Remuneration, Governance and Policies Committee (GBNRGPC). The committee adopted clear and objective criteria for accepting nominations after obtaining QCB pre-approval for all BOD candidates, taking into account QCB instructions in this regard in order to preserve the principle of transparency and to ensure the rights of all shareholders to run for membership of the Board without exclusion or deprivation.

QNB Group organisation structure



Corporate governance
continued

Remuneration of the BOD and Executive Management

The remuneration system within QNB 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 the GBNRGPC (by delegation), is responsible for the overall oversight of management's implementation of the remuneration system for the entire bank.

QNB Group adopted a special remuneration policy for the BOD in line with Commercial Companies Law and QCB Instructions, 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 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.

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 the following:

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 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 Board and executive management positions according to the fit-and-proper criteria set by the Committee in addition to the Independency/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 Group Board Audit and Compliance Committee.

> The manner in which we conduct business is central to create market confidence and business integrity.

Group Board Risk Committee (GBRC) primary responsibilities

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

Group Board Audit and Compliance Committee (GBACC) primary responsibilities

- Review and endorse the annual financial statements, and consider whether they are complete, consistent and reflect appropriate accounting standards and principles before submission to the BOD for final approval;
- Review with management and the external auditors all matters required to be communicated or disclosed under generally accepted auditing standards or regulatory requirements;
- Consider with internal and external auditors any fraud, illegal acts or deficiencies in internal control or other similar areas;
- Review with Group Compliance and external auditors any fines imposed by the regulators and/or other bodies;
- Appoint or remove the Group Chief Audit Executive;
- Review and approve the charter, plans, activities, staffing and organisational structure of 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.

Corporate governance
continued

Management committees membership structure and meetings held during 2016

Management committee membership	GMRC	GCC	GALCO	GSC	GITC	GBDC	GOSC	GHCC	CPC	SMC
GCEO	●	●	●	●					●	●
EGM – GCBO	■	■	■	▲		●			■	■
EGM – GCOO	■		■	■	●		●	●	■	■
GM – GCRO	▲	■	■	■					■	■
GM – GCFO	■		▲	■					▲	■
CEO, QNB Capital						■				
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 Strategy	■		■	■	■	■		■		○
GM – Group Treasury			■			■	■			
AGM – Retail and Corporate Operation							□			
AGM – Treasury Operations, Custody and Trade Finance							□			
GM – Group Chief Credit Officer	■	▲								
GM – Group Operations					■		▲			
AGM – Strategy and Business Development				■ ○						
AGM – Trading			○							
AGM – Group Credit		■								
Senior Credit Officer		○								
AGM – HC Strategy and Integration								■		
AGM – HC Services								■		
AGM – Group Financial and Regulatory Reporting										
AGM – Operations Control and Excellence							■ ○			
Head of Infrastructure					■					
Head of Development and User Services					■					
Head of Legal									□	
Head of Planning and Governance					○					
Head of Cash Management Sales						○				
Head of Tenders and Contracts Admin									○	
Head of Group Operational Risk	○						□			
EM – International Global Operations Support							□			
EM – International HR Integration								■ ○		
Number of meetings held during 2016	4	35	12	6	4	11	4	4	◇	12

● Chairman ▲ Vice Chairman ■ Member □ Non-voting member ○ Secretary

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

Abbreviations used above: Group Management Risk Committee (GMRC); Group Credit Committee (GCC); Group Assets and Liabilities Committee (GALCO); Group Strategy Committee (GSC); Group Information Technology Committee (GITC); Group Business Development Committee (GBDC); Group Operations and Services Committee (GOSC); Group Human Capital Committee (GHCC); Central Purchasing Committee (CPC); Senior Management Committee (SMC)

BOD meetings

The BOD meetings are held regularly and according to QNB Group's Articles of Association. The BOD meets at least six times a year. Meetings may be held at the request of the Chairman of the BOD or based on a request of two members. The BOD met six times during 2016, with the Chairman of the BOD attending and presiding at all meetings. The number of meetings held by the BOD Committees is detailed below.

Number of Board committee meetings held during 2016

Group Board committees	Number of meetings
Group Board Executive Committee	4
Group Board Audit and Compliance Committee	8
Group Board Nomination, Remuneration, Governance and Policies Committee	4
Group Board Risk Committee	4

Segregation of duties

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

Executive management team

The GCEO is aided by a seasoned and experienced executive management team. Five executives report directly to the GCEO:

> the Executive General Manager – Group Chief Business Officer;

> the Executive General Manager – Group Chief Operating Officer;

> the General Manager – Group Chief Risk Officer;

> the General Manager – Group Chief Financial Officer; and

> the General Manager – Group Strategy.

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

The executive management forms a number of management committees as appropriate in order to effectively and efficiently handle their responsibilities and run the day-to-day activities. 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 Boards of Directors' relevant Committee;

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

> Senior Management Committee: chaired by the GCEO and represented by the four Chiefs (Executive GM – Chief Business Officer, Executive GM – Chief Operating Officer, Group Chief Financial Officer and Group Chief Risk Officer). 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.

Risk management and internal control framework

1. Risk management

2. Internal audit

3. Group compliance

Group Risk

As a bank with a growing international footprint, risk management is a key focus across all areas of the bank

> “QNB Group adopts a centralised approach to risk management, complemented by local expertise and knowledge.”

QNB Group’s reputation and continued profitability depend on our ability to identify, assess and manage risk at all levels. As a result, we have a robust risk management framework and governance structure that ensures a crucial balance between risk and reward. Risk management within QNB Group is a key focus across all levels of the bank. QNB Group adopts a centralised approach to risk management, complemented by local expertise and knowledge. This ensures proactive risk governance and management at the consolidated and the local level.

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 toward risk-taking and is reviewed, reassessed and agreed alongside QNB Group’s strategic and financial planning process.

QNB’s risk profile and appetite are approved by the BOD and Group Board Risk Committee and then cascaded down to every division, department and employee. In addition, QNB Group ensures regulatory compliance at a country level in line with best risk management practices.

Risk identification, monitoring and controlling

The identification of principal risks is a process overseen by the Group Risk Department. 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, manage, monitor, mitigate and report risk in a consistent and effective manner across the Group. The framework is essential to support our day-to-day operations and acts as a platform for our growth.

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. This is done in close coordination with our audit and compliance teams, with the ultimate aim that our people are empowered to undertake their roles with a deep understanding of their risk mitigation and reporting obligations.

This year, in line with our governance and risk culture across the Group, we continue to embed new frameworks for risk identification to ensure timely early warning indicators and decision-making.

We have further strengthened our country and cross-border risk framework to enable the measurement and tracking of country exposures against Board-approved limits. This allows cascading the Group's risk appetite and allocations down to the regional and country level. The risk appetite framework ensures alignment with the Group's vision and strategy by tracking current performance against risk appetite targets.

To enhance the understanding of financial principles and comprehensive credit initiation, assessment and approval processes, all staff involved in the credit approval chain and loan administration must now undertake specialist global credit training run by the OMEGA professional credit training programme. This ensures advanced skills in managing risk, improves portfolio quality and protects the Group's interests based on fundamental risk management principles and current international market best practices.

Liquidity risk

QNB considers the prudent management of liquidity as essential in ensuring a sustainable and profitable business and in retaining the confidence of the financial markets. Ultimate responsibility for liquidity management resides with the BOD, with day-to-day management oversight being delegated to the Group ALCO committee. 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. A number of techniques are employed to achieve this, including cash flow gaps, calculation of liquidity stress metrics and ratios, the maintenance of a diversified pool of high-quality liquid assets and the monitoring of funding concentrations, early warning indicators and regulatory ratios including the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

Market risk

Oversight of market risk is delegated by BOD to the Group ALCO committee. 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. The bank manages its market risks via a comprehensive framework of limits, which are set at very restrictive levels to reflect a limited risk appetite.

Operational risk

Operational risk frameworks are continually being enhanced and embedded with further implementation of data security systems, improved business continuity infrastructure and disaster recovery sites. Data quality and reporting on key risk indicators continue to improve as the frameworks evolve, new risk staff members are recruited and risk awareness increases.

Cyber threats

Information security and, in particular, the threat of cyber-attacks are increasingly at the top of business agendas across the globe. Unfortunately, cyber threats have become a day-to-day reality. Cyber threats are an inherent risk to any business with an electronic platform, especially in the financial sector where the biggest driver is economic gain.

We at QNB Group place the highest priority on data security and deploy the strongest measures possible to ensure we maintain our customers' trust and the integrity of their information. This year we have moved the data centre to a new location to increase the resilience and reduce IT risks. The Group continually invests in its defences to protect the bank from increasingly sophisticated attacks, for example, with the introduction of a Service Operations Centre (SOC) for 24/7 monitoring of malicious activity.

Internal capital adequacy assessment process

In addition to the above, our BOD mandates us to perform Group-wide stress testing inclusively of QNB's Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP process is an important component of assessing 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 in the strongest possible way with respect to a stressed economic operating environment.

Group Internal Audit

QNB Group Internal Audit Division (GIAD) is an independent function that provides assurance to the BOD on the quality and effectiveness of the Group's internal control, risk management and governance systems and processes

> "QNB Group's Board of Directors firmly believes that the application of a sound corporate governance framework is of vital importance and a fundamental component of the Group's business practice."

GIAD helps the BOD and GACC in effective discharge of their responsibilities to serve the best interests of shareholders.

GIAD is headed by the Group Chief Audit Executive (GCAE) who reports to the Group Audit and Compliance Committee (GACC) of the BOD.

For the purpose of fulfilling its role in its professional capacity, GIAD is authorised to have full and unrestricted access to any of the Group's records, documentation, systems, properties and personnel, including Executive Management and the BOD. The GIAD charter and policy have been enhanced to align with the Basel Committee on Banking Supervision's recommended standards, to keep pace with the business expansion of the Group, and to provide adequate oversight of the Group's subsidiaries.

Professional practices and resources

GIAD has adopted the International Professional Practice Framework (IPPF) of the Institute of Internal Auditors (IIA) as well as Basel Committee recommendations and other leading standards. The GIAD team is composed of individuals with experience from leading financial institutions and audit firms across the globe. More than 60% of GIAD are professionally qualified and hold globally recognised professional certifications. Team members undergo continuous professional development, awareness and training. GIAD maintains a quality assurance and improvement programme that covers all aspects of the internal audit activity to increase the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The GIAD continues to develop its data analytics capability and extrapolation techniques to be able to identify systemic issues and execute efficient audits.

Internal control framework 'Three Lines of Defence/Control Approach'

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
(Risk Management, Compliance, Legal and Financial control)

Ensures 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

Group audit universe and coverage

All international and local activities of the Group's branches, subsidiaries, affiliates and representative offices in all jurisdictions form part of the GIAD audit universe. Group subsidiaries and affiliates will be covered by GIAD to the extent permissible by the relevant regulations and management control agreement(s). The audit universe is carefully monitored and progressively refined to consider and reflect Group business strategy, growth and emerging risks.

The annual audit plan is developed using best practice risk-based assessment of all the Group's businesses and activities. This is supplemented 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 through the year, in response to changes in the Group's business activities, operations, systems and controls, that change the risks structure of the Group.

GIAD has contributed to the analysis of the Group's quarterly and annual financial statements and other performance data. The presentation to the GACC has been refined to focus on critical data and information that would enable effective monitoring and oversight of performance in various activities and jurisdictions.

The oversight of subsidiaries has been refined, with focused scope and additional emphasis on the Governance, Risk Management and Internal Control structures and frameworks as part of the oversight and assessment process. This enables GIAD 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.

Promoting transparency across the Group

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

GIAD performs timely and appropriate follow-up and validation of all pending and closed audit issues including issues reported by the QCB and the external auditors. Such follow-up activities are facilitated by the Audit Management System (AMS). The periodical status report (Dashboard) on the follow-up activities is issued to the GACC, GCEO and the GMRC. The report also serves as an escalation to apprise the Executive Management, GACC and the BOD on the implementation status to remediate pending audit issues which are also used as part of the performance indicators for control environment. Continued focus on this has reduced the number of outstanding high priority issues.

Group Compliance

The compliance function is an essential component of a strong internal control system to ensure that the bank does not violate applicable rules or regulations

“In 2016, Group Compliance enhanced the governance, compliance and anti-money laundering (AML) framework at overseas branches and subsidiaries by strengthening the compliance/AML documentation and IT infrastructure.”

Our compliance strategy consists in effectively managing the compliance function at QNB Group in order to consolidate the Group’s competitive position and to build trusting relationships with all investors and stakeholders. Integrating a strong compliance function into the daily management of business and strategic planning gives QNB Group a competitive advantage. Moreover, a robust compliance function helps QNB Group protect its reputation, lower the cost of capital, reduce costs, and minimise the risk of investigation, prosecution and penalties.

Group Compliance is continually developing the compliance function to ensure it remains robust and up to date.

Compliance is central to corporate governance

The BOD is assisted by specialised committees to perform functions on its behalf and improve its efficiency. In 2016, Group Compliance set out the terms of references (TOR) of the BOD Committees, to appropriately perform their duties. The rules and guidelines are derived from and in line with the QNB Group-consolidated governance and supervision framework. The general principles that have been considered while designing the BOD’s TOR are as follows:

> existence of clear reporting system;

> clear definition of the roles and responsibilities; and

> effective supporting/control activities.

In addition, and in coordination with the other QNB concerned divisions, Group Compliance has undertaken the restructuring of the management committees’ related rules/guidelines to confirm the hierarchy, escalation mechanism and interaction that should be established among each committee. Moreover, considering that the QNB Group consolidated governance and supervision approach has been designed based on local and international standards, the QNB Group Executive Management Committees were linked to the related committees at subsidiaries through the related divisional general managers.

Moreover, an enhanced approach for the BOD assessment has been established through a new dedicated policy to set up a framework by which QNB Group BOD will assess its performance collectively and individually, giving all BOD members an opportunity to evaluate and discuss the BOD's performance from multiple perspectives.

To ensure that the BOD and its individual members are carrying out their roles and responsibilities effectively, the BOD will undertake the process of an annual assessment. The assessment will assist in allowing the BOD to demonstrate that it is accountable for its decisions and the overall operations of QNB Group. This will be the Full Board Assessment.

All BOD members will also be asked to complete a self-evaluation report and indicate to what extent they are comfortable with their individual performance as members of the BOD. This will be the Self-Board Members Assessment. The evaluation is particularly needful to ensure continuous improvement of the BOD performance while discharging its responsibilities.

Compliance monitoring and oversight: Self-Awareness Assessment

Compliance Self-Awareness Assessment is a process initiated by Group Compliance in cooperation with Group Strategy to test the divisions' awareness of their compliance responsibilities. It encourages them to assess themselves in order to track their performance in meeting their obligations and to identify, mitigate and manage any potential area of compliance risk. In our constant and continuous effort to promote and build a strong compliance culture within QNB Group, we have enhanced the methodology applied to better integrate the latest regulatory developments and to be better aligned with stakeholders' specific risks and regulatory challenges. We now have a comprehensive methodology that enables us to capitalise on the information received to refine the annual compliance plan based on a risk-based approach, setting a minimum acceptable benchmark across the QNB Group in fulfilling compliance obligations.

A strong consolidated supervision approach at Group level

Compliance officers for overseas branches are under the supervision of Group Compliance, which ensures that their activities are undertaken in line with the developed outlines that are approved by the GACC.

In 2016, Group Compliance enhanced the Governance, Compliance and anti-money laundering (AML) framework at overseas branches and subsidiaries, by strengthening the compliance/AML documentation and IT infrastructure and introducing the necessary criteria and components to reflect a sound corporate governance structure and empower the status of the independency of the compliance officers.

Furthermore, Group Compliance has developed a new approach for the oversight and communication protocols to enhance the monitoring tools and get closer to the different needs of the counterparts.

Combating financial crime is at the heart of corporate values

Group Compliance performed Global Diagnostic Assessment using several components of a standard AML/ Combating Financing of Terrorism (CFT) framework including policies and procedures, systems and controls, training and other AML/CFT components. Each component was assessed according to a scoring model to determine the priorities to conduct the reviews and enhancement projects. This diagnostic exercise was primarily oriented towards identifying the areas where corrective and enhancement actions are required.

Furthermore, the AML/CFT Risk Based Approach Methodology has been reshaped for the on-boarding process of new customers coming from high-risk jurisdictions. All new account opening requests are referred to Group Compliance for review and approval.

Initiatives in the AML/CFT areas were shared with all QNB staff via in-house training programmes to guide them through the following topics:

> building governance structures globally;

> enhancing the efficiency of reporting suspicious transactions;

> automation of several controls and monitoring tools;

> global safeguarding standards against financial crime; and

> AML/CFT trends and responsibilities strategy.

Sanction compliance activities across QNB Group

Sanctions compliance is a key part of protecting bank payment channels. We closely monitor all emergent risks and trends linked to financial crime in order to prevent financial misconduct. For this purpose, a number of critical tools have been implemented targeting the following:

> processing trade finance transactions connected with high-risk countries;

> banking relationship with shipping and logistics agencies;

> controlling dual-use goods;

> automate the process of reviewing trade finance transactions; and

> integrate correspondent banks' instructions at QNB electronic payment channels.

Corporate social responsibility

Here we look at our commitment to the communities in which we serve and the importance of our social footprint.

Corporate social responsibility

How we act is fundamental to our success in creating sustainable value and securing our solid reputation

> “We seek to enable economic and social development across our network, particularly in developing and emerging economies.”

At QNB Group we are committed to corporate social responsibility (CSR) and sustainability in every part of our business. Like our clients, we believe that a consistent approach to sustainability is a fundamental part of business today, helping to deliver a better business performance and a stronger brand.

Investment funds and sovereign funds that incorporate ethical and sustainable strategies have grown continuously and there is now an increasing demand from investors, customers, regulators and our own employees for greater information about our strategy for sustainability and social responsibility.

Corporate sustainability is the delivery of long-term value in financial, environmental, social and ethical terms. The impact of a positive and proactive approach to sustainability is significant and helps QNB Group in four key ways:

> by considering environmental protection and social responsibility, the strength of our brand will continue to grow;

> an attentive and prudent approach to environment, social and governance (ESG) issues will help to reduce risk, steering us away from taking hazardous actions or developing any policies that contradict our commitment to sustainability;

> by developing a deeper understanding and respect for the environment, we will better understand and appreciate the importance of our values, helping to boost value creation; and

> our operational efficiency will improve as we focus on reducing waste and enforcing effective governance and management practices to support this.

Our people and CSR

As a bank, we seek to enable economic and social development across our network, particularly in developing and emerging economies. Through our services, we help individuals and companies achieve their aspirations. It is our aim to raise living standards and help communities more broadly to develop.

This starts with our people. With more than 80 different nationalities working together in more than 30 countries across three continents, we are proud and deeply respecting of our diversity. We work in an atmosphere of mutual respect and support and share the same values that define our bank and our approach to business. It is perhaps because of this that we have such a strong sense of belonging and a consistently high engagement score.

All QNB Group 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.

During the past decade, our volunteers have supported a wide range of community projects, including annual keep-clean rallies, assisting in numerous international events, helping young people to learn a new skill at a local community centre, fundraising activities, coaching a children's sports team and providing a warm meal to those less fortunate.

Six areas of community focus

> Arts and culture
> Economic and international affairs
> Health and environment
> Social and humanitarian
> Sport
> Youth and education

Arts and culture

Arts and culture help a nation show its heritage and encourages future generations to keep up past traditions.

We were proud to be the strategic sponsor of the Qatar National Day, a national holiday for the country. This event is celebrated every year on December 18 as recognition of the unification of the state of Qatar in 1878 by Sheikh Jassim bin Mohammed Al Thani.

QNB celebrates the Garangaoh night every year during the fifteenth night of the holy month of Ramadan. This year the event took place in the bank's branches of Lagoona and City Centre, where children received gifts and sweets by the staff to celebrate the spirit of the day.

QNB Oman also celebrated the same occasion, locally known as Qaranqasho. The celebration aims at bringing happiness to the orphans and to raise funds for children in orphanages. The children were given toys and sweets as part of the event.

In Kuwait, QNB celebrated the traditional Gergeaan night at Al-Kharafi Children's Disability Centre, the first centre of its kind in the Gulf region. It gives disabled children the opportunity to learn through play within a safe and enjoyable environment. The children enjoyed a night filled with activities and received gifts and sweets.

We supported the restoration and promotion of the temple of Ramesses II in Western Thebes – Ramesseum, in Egypt, and provided multilingual educational booklets to be distributed to school groups visiting the archaeological sites.

QNB was the headline sponsor to the Art for Tomorrow event organised by The New York Times and Qatar Museums. Set against the striking cityscape of Doha, Art for Tomorrow brings together world-famous artists, architects, leading museum directors, urban developers, policymakers and financiers to address critical issues and their impact on the creative cities of tomorrow.

To finalise the growing list of cultural activities, QNB sponsored a theatrical performance titled 'Tar El Wazeer' during Eid Al Fitr and was the Platinum Sponsor of the 27th Doha International Book Fair.

Above: QNB Oman celebrates Qaranqasho, helping raise funds for children in orphanages.

Left: QNB participates in QatarCSR, the pioneering network dedicated to raising awareness about CSR and sustainable development in Qatar.

Corporate social responsibility
continued

Economic and international affairs

We hosted and participated in conferences and knowledge-sharing activities in economic and international affairs to help diversify national revenue sources in Qatar and in emerging economies.

QNB was the Strategic Sponsor of the International Chamber of Commerce Qatar (ICC Qatar) workshop titled ‘Documentary Credits in Today’s Challenging Environment by Gary Collyer’. The workshop looked back at the past 12 to 18 months to highlight the issues, actions and decisions that have occurred in that time, and examined best practices that should be adopted when issuing, advising, confirming, amending, presenting and examining documents, as well as honouring or refusing documents.

We sponsored a number of important events, including the Saudi Trade Finance Summit in Saudi Arabia; the fifth Euromoney Qatar Conference in Doha; the Doha International Maritime Defence exhibition; the 13th Annual Qatar Projects Conference held in Doha; the Doha Jewellery and Watches Exhibition; and the 9th Classified Economy Conference hosted by Qatar Central Bank under the Patronage of H.E. the Prime Minister.

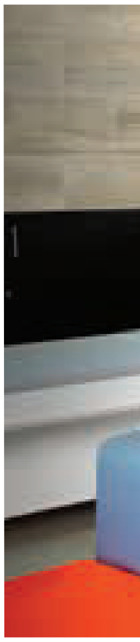
Health and environment

Health infrastructure and services are fundamental to human well-being. We believe it is important that we operate in a way that will not negatively affect future generations, but indeed leaves a positive legacy. It means we constantly strive to operate in a sustainable way with regards to the well-being of our community and the environment in which we live.

In Qatar, we hosted several health-related events and initiatives. We were pleased to sponsor our employee blood donation drive in conjunction with Hamad Medical Corporation (HMC). This year’s campaign followed on the successful exercises of the previous years, with the objective of enhancing blood bank stocks at HMC and raising awareness of the importance of donating blood and the resulting health benefits to society.

We also held a diabetes awareness at work programme for staff to generate greater understanding of this life-threatening disease. QNB was a key sponsor for the 2nd Qatar Nephrology Conference, the Qatar Breast Cancer Conference and the International Conference in Emergency Medicine and Public Health held in Qatar this year.

In Egypt, QNB participated as a sponsor in the first phase of the Shifaa-Orman Cancer Hospital Project in Luxor, which was attended by a number of government officials. In addition, we donated essential equipment for the Intensive Care Children’s Heart Disease



❝ We believe it is important that we operate in a way that will not negatively affect future generations, but indeed leaves a positive legacy. ❞

Unit in Benha Hospital, equipment for the Zagazig University Hospital and much-needed equipment for the Gastrointestinal Endoscopy and Liver Unit at the Institute of Tropical and Endemic Diseases at Cairo University Hospital.

QNB Oman was the Platinum Sponsor of the Oman Traffic Safety Expo. The event is a platform to bring together corporate and business sector entities to educate the local and expat community about safety measures to be taken while driving on the roads of Oman.

In an environmental drive, the Tunis team and their families from QNB Tunisia cleaned a beach in Tunis as part of our social volunteering programme.

Social and humanitarian

By promoting a spirit of volunteering, we help create more harmonious, united communities.

During 2016, QNB sponsored activities and events of the General Retirement and Social Insurance Authority, with the aim of raising awareness of the rights, obligations and future of retired people.

QNB Tunisia staff organised several humanitarian events, among them an event to distribute winter clothes to children in need, provided cardboard boxes filled with food to families in need and held a charity event to help elderly people lacking family support.

QNB Indonesia continued its annual collaboration and sponsorship of a local mosque, providing food for 1,000 people in need.

Top: QNB Tunisia cleaned a beach as part of our social volunteering programme.

Above: QNB staff training.

Left: QNB was a strategic event partner at the 13th annual Qatar Projects conference.

Corporate social responsibility
continued

Sport

Sporting participation and events are a hallmark of progress and a means to promote healthy, vibrant people and communities.

In this spirit, our employees represented the bank in local tournaments, such as the Aspire Banks Football League in Qatar.

QNB sponsored a number of sporting events during 2016, ranging from equestrian tours to swimming. We were pleased to be part of the Qatar Equestrian Federation activities and sponsored their main event, the QNB Doha Tour. We were also the national sponsor for the 2016 FINA Swimming World Cup held in Qatar and the Qatar International 2nd Taekwondo Championship. QNB is also a proud supporter of the Qatar Paralympic Committee.

Continuing our long-term support of the world's most popular sport, football, QNB is the main sponsor of Qatar Football Association (QFA) and Qatar Stars League (QSL), which includes the Super Cup, League, Qatar Cup, Emir Cup, National Team for the next six years. Abroad, we have also renewed our sponsorship with Paris Saint-Germain F.C. (PSG), the most successful club in French football with 31 titles in its history. We are also a sponsor of the Asian Football Confederation (AFC) and have signed an agreement with the Oman Football Association to become the official sponsor of His Majesty's Cup competition.

For the next three years, we will also be the main sponsors of Trabzonspor, one of Turkey's most popular football clubs. The sponsorship grants the bank access to jersey sponsorship as well as access to advertising rights, public relations cooperation, social media and digital rights. QNB's sponsorship of the Turkish football club comes because of its great successes since its creation in 1967, with a long list of accomplishments that include many championships, titles and trophies, as well as participation on numerous occasions in the UEFA Champions League® and the UEFA Europa League®. This agreement will further cement QNB's brand positioning and recognition in the Turkish market.

Youth and education

Education and how communities engage and give opportunities to their young people is a cornerstone of social and economic development.

We signed a Memorandum of Understanding with the Bedaya Centre for Entrepreneurship and Career Development and Qatar Banking Studies and Business School to train and develop the skills of Qatari students in banking and finance.

The Kawader programme, launched by Qatar Financial Centre (QFC) Authority and Qatar Finance and Business Academy (QFBA) is an important initiative we are proud to support. It is a five-month long development programme designed for recent Qatari graduates that enables them to acquire skills and build competencies in cross-functional areas in the financial sector.

Below: QNB is the main sponsor of Trabzonspor, one of the leading Turkish football teams.

Right: QNB Indonesia CSR activities.

We also sponsored 'Teach for Qatar', a programme aimed at reinvesting exceptionally talented leaders into the independent school system through a two-year teaching and leadership development programme.

QNB Indonesia supported Tarsisius High School, West Jakarta, continuing the financial literacy work from last year and supporting the creation of the students' High School End of Year Book. QNB Indonesia also partnered with 'Rimba Baca' (a library community) and High Scope schoolteachers to give orphaned children a special event to celebrate Ramadan month. The event was helped by 25 QNB volunteers, five teachers and a community volunteer.

Finally, QNB Tunisia launched a school renovation project, in which a number of schools have been rebuilt and equipped to provide a better learning environment for the students.

Acting ethically

Acting ethically and responsibly is expected from all of us. It is fundamental that all our staff acts with the utmost integrity and responsibility at all times.

So, just as we do in the communities we help, we want to support our staff to achieve their own aspirations, which is why we invest heavily in a range of training and professional development programmes and maintain a strong focus on career development.

All employees must sign our Code of Ethics when they join the bank. We have a zero tolerance towards bribery, money laundering and corruption in any form.

QNB Group's compliance policy

To ensure our approach is consistent across the Group, particularly as we continue to expand, we have a robust compliance and anti-money laundering policy.

Its overarching purpose is to set guidelines and standards, to preserve the Group's reputation and integrity, and to avoid any penalty imposed by regulatory bodies by ensuring that our activities are in proper compliance with all applicable laws, regulations and ethical standards.

The policy provides guidance in relation to compliance activities, complaint handling, know your customer (KYC), anti-money laundering (AML) and combating the financing of terrorism (CFT) measures, in addition to whistle-blowing, conflict of interest, and Chinese walls. All new employees are trained in this policy as part of their induction.

Whistle-blowing

A dedicated whistle-blowing service is designed so that all our people are comfortable reporting any perceived or actual breaches of our ethical standards.

This is in accordance with our compliance policy, which states that any person who, in good faith, raises concerns about or reports crimes, contraventions (including negligence, breach of contract, breach of law or requirements), miscarriages of justice, dangers to health and safety or the environment shall not be dismissed or otherwise penalised directly or indirectly.

Importantly, the policy also states that no employee shall be punished or subjected to any detriment for having made a disclosure in good faith that allows reporting of incidents anonymously.

Anti-money laundering and combating terrorism financing

Our compliance policy states that if QNB becomes aware of facts that lead to the reasonable presumption that money held on deposit derives from criminal activity, or that transactions entered into are themselves criminal in purpose, appropriate measures, consistent with the prevailing law, shall be taken. To identify such money, we have developed procedures, systems and controls to do so and have trained our employees in them.

Financial statements

Group Chief Financial Officer's report

QNB continued to deliver strong financial performance in 2016

Performance highlights

QNB Group solidified its position as the largest financial institution in the MEA region with total assets increased by 34% to reach QR719.7 billion and net profit increased by 10% to reach QR12.4 billion following the acquisition of Finansbank.

This performance was broad-based with strong contributions from our principal business lines. Despite a turbulent macroeconomic environment and high currency volatility in our core markets, the Group's financial performance has demonstrated its resilience.

QNB Group remains strongly positioned, with the liquidity and leverage ratios remaining well above the required QCB and Basel III limits throughout the year.

Sustaining quality of earnings

QNB Group's ability to sustain ongoing improvement in the earnings quality has been attributable to stronger growth in net interest income, non-interest-sensitive income as well as from our diverse geographies, products and distribution channels.

Importantly, our financial trajectory is very positive:

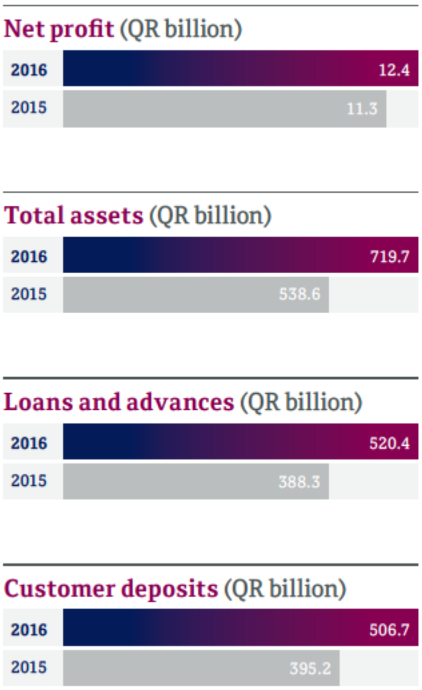
> net profit reached QR12.4 billion, up by 10% from December 2015;

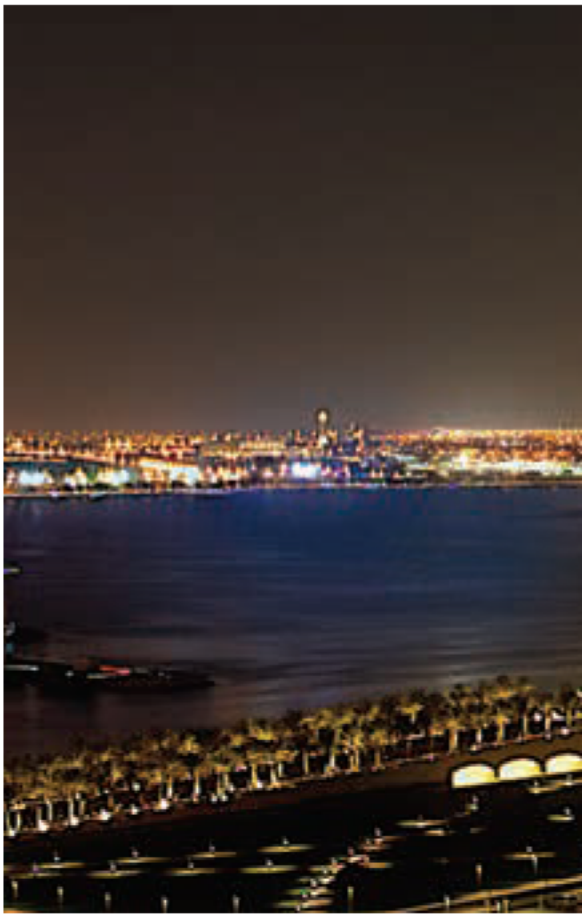
> total assets reached QR719.7 billion, up by 34% from December 2015;

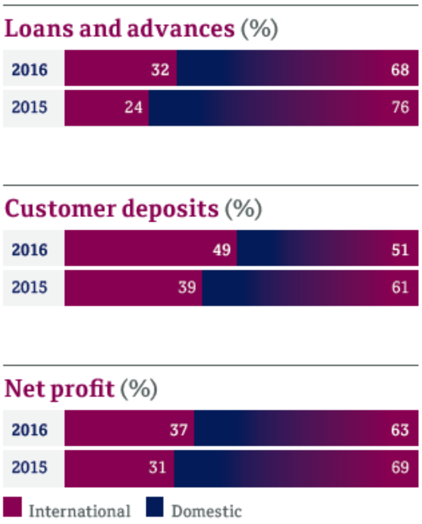
> net loans and advances increased to QR520.4 billion, up by 34% from December 2015; and

> total customer deposits increased to QR506.7 billion, up by 28% from December 2015.

"The Group's prudent cost control policy and strong revenue generating capability allowed it to maintain an efficiency ratio of 30.4%."







The Group's prudent cost control policy and strong revenue generating capability allowed it to maintain an efficiency ratio of 30.4%, which is considered one of the best ratios among financial institutions in the region.

Furthermore, the Group was able to maintain the non-performing loans ratio at 1.8%, a level considered one of the lowest amongst banks in the Middle East and Africa region, reflecting the high quality of the Group's loan portfolio and the effective management of credit risk. The Group's conservative policy in regard to provisioning improved the coverage ratio to reach 114%.

Growing international presence

On 15 June 2016, QNB Group completed the acquisition of a controlling stake in Finansbank, the 5th largest privately owned universal bank in Turkey by total assets, customer deposits and loans. This acquisition is a significant milestone in QNB Group's strategy of international expansion. Our controlled targeted organic and inorganic expansion is delivering results. In 2016, contributions from our international businesses significantly increased in terms of loans, deposits and net profit growth.

Enhancing shareholder value

We create value for our shareholders by effectively leveraging our competitive advantages. We also create growth by building on our strategic objectives and expansion plans. QNB Group continues to deliver sustainable profitable growth with EPS reaching QR14.4 per share in December 2016.

- Total equity increased to QR70.9 billion, up by 14% from December 2015; and
- EPS reached QR14.4, compared to QR13.4 in December 2015.
- Market capitalization increased to QR137 billion, compared to QR122 billion in December 2015.

Ensuring robust capitalisation

During June 2016, QNB successfully raised QR10 billion in Additional Tier 1 Perpetual Capital Notes by way of private placement, to strengthen the Group's Capital Adequacy Ratio (CAR) and to support future growth across the network in accordance with the Group's strategy. The Additional Tier 1 Perpetual Capital Notes were the inaugural issuance by QNB Group and the single largest issuance in the MEA region. These notes were fully subscribed to, which reflect strong investor confidence in QNB's successful execution of its strategic growth objectives.

QNB Group's CAR calculated as per the QCB and Basel III requirements stood at 16.0%, higher than the regulatory minimum requirements as per Qatar Central Bank and Basel III. The Group is keen to be well capitalised in order to support future strategic plans.

Diversifying sources of liquidity

Throughout the year, QNB launched a series of initiatives to diversify its sources of funding. During the year, QNB successfully closed the syndication of its EUR2.25 billion three year senior unsecured term loan facility and completed a bond issuance under its Euro Medium Term Note (EMTN) Programme in the international capital markets. Under the EMTN programme, a USD1.0 billion tranche was issued in September 2016 maturing in five years with an attractive fixed rate coupon of 2.125% per annum. This rate is the lowest, for the tenor, issued by any financial institution in the region.

The success of these initiatives is a testament to QNB's strong credit profile and investors' high degree of confidence in the capability of QNB to execute upon its strategy over the coming years.

Qatar National Bank S.A.Q.
Independent auditor's report to the shareholders of Qatar National Bank S.A.Q.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Qatar National Bank S.A.Q. (the "Bank") and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the applicable provisions of Qatar Central Bank regulations.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our 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 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 of the current year. These matters where 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. For each matter below our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment of loans and advances to customers

There is a potential risk that loans and advances are impaired and no reasonable impairment losses/provisions are provided in accordance with the requirements of International Financial Reporting Standards (IFRSs) and the applicable provisions of Qatar Central Bank (QCB) regulations as determining the adequacy of impairment allowance on loans and advances to customers is a key area of judgment for the management. Accordingly, loans and advances might be with carrying amounts greater than estimated recoverable amounts, therefore the impairment test of these loans and advances is considered to be a key audit matter. Note 10 to the consolidated financial statements provides details relating to the impairment of loans and advances.

Our procedures included among others, selecting samples of loans and advances based on our judgement and considering whether there is objective evidence that impairment exists on these loans and advances. We also assessed whether impairment losses for loans and advances were reasonably determined in accordance with the requirements of IFRS and applicable provisions of QCB regulations. In addition, we considered, assessed and tested the relevant controls over credit granting, booking, monitoring and settlement, and those relating to the calculation of credit provisions to confirm the operating effectiveness of the key controls in place, which identify the impaired loans and advances and the required provisions against them. Refer to note 10 to the consolidated financial statements.

Impairment of Investment securities

The Group's investment securities, as set out in note 11 to the consolidated financial statements, consist of held for trading, available-for-sale ("AFS") and held-to-maturity ("HTM") financial investments. Held for trading and available-for-sale financial investments are carried at fair value while held-to-maturity investments are carried at amortised cost.

There is a potential risk that investment securities are impaired and no such reasonable impairment losses/provisions are provided in accordance to requirements of International Financial Reporting Standards (IFRSs) and the applicable provisions of Qatar Central Bank (QCB) regulations due to the subjectivity in assessment of impairment indicators such as significant or prolonged decline in fair value, use of estimations and assumptions in measuring impairment losses and magnitude of the account balance, this is considered to be a key audit matter. Accordingly, investment securities might be with carrying amounts greater than estimated recoverable amounts, therefore the impairment test of these investment securities is considered to be a key audit matter.

Our procedures included, amongst others, selecting a sample of investment securities based on our judgement and checking whether there is objective evidence that impairment exists on these investment securities. We then recalculated the amount of impairment losses/provisions required for impaired investment securities and determined whether they had been provided reasonably in accordance with the requirements of IFRS and applicable provisions of QCB regulations.

Acquisition of Finansbank A.Ş.
The Group completed the acquisition of a controlling stake of 99.88% in Finansbank A.Ş., in 2016 for a consideration of QR11 billion. This acquisition has been accounted for using the acquisition method.

There is a potential risk that the acquisition and recording the share of results of Finansbank A.Ş. are not recorded in compliance with the requirements of International Financial Reporting Standards (IFRSs) due to the subjectivity in assessment of fair value of assets acquired and liabilities assumed at the date of acquisition. Accordingly, the acquisition of Finansbank A.Ş. is considered to be a key audit matter.

Our procedures included, amongst others, reviewing the acquisition accounting, reviewing the purchase price allocation report and performing procedures around calculating the share of results of Finansbank A.Ş. considering the requirements of IFRS.

Other information
The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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 and, 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, 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.

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 IFRSs and the applicable provisions of Qatar Central Bank 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.

The Group Board Audit and Compliance Committee is responsible for overseeing the Group's financial reporting process.

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 guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of user taken on the basis of these consolidated financial statements.

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

> Identify and assess the risk 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 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosure is 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 Group Board Audit and Compliance Committee 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 Group Board Audit and Compliance Committee 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 Group Board Audit and Compliance Committee, we determine those matters that were most of significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosures 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, which we considered necessary for the purpose of our audit. We confirm that we are not aware of any contraventions by the Bank of its Articles of Association, the applicable provisions of Qatar Central Bank Law No. 13 of 2012 and of the Qatar Commercial Companies Law No. 11 of 2015, during the financial year that would materially affect its activities or its financial position.

Firas Qoussous
Partner of Ernst & Young
Qatar Auditors Registry Number 236

Doha - State of Qatar
15 January 2017

Qatar National Bank S.A.Q.
Consolidated Statement of Financial Position

As at 31 December 2016

(All amounts are shown in thousands of Qatari Riyals)

	Notes	2016	2015
ASSETS			
Cash and balances with central banks	8	43,183,576	31,565,771
Due from banks	9	45,721,215	17,100,764
Loans and advances to customers	10	520,417,231	388,292,129
Investment securities	11	79,993,550	81,157,075
Investments in associates	12	7,340,355	7,950,721
Property and equipment	13	4,208,679	1,753,715
Intangible assets	14	3,882,648	5,377,758
Other assets	15	14,947,261	5,409,207
Total assets		**719,694,515**	**538,607,140**
LIABILITIES			
Due to banks	16	61,834,516	36,281,598
Customer deposits	17	506,694,587	395,190,302
Debt securities	18	28,825,874	16,342,420
Other borrowings	19	23,728,887	15,120,489
Other liabilities	20	27,757,233	13,616,933
Total liabilities		**648,841,097**	**476,551,742**
EQUITY			
Issued capital	22	8,396,753	6,997,294
Legal reserve	22	24,486,361	23,086,902
Risk reserve	22	7,000,000	5,000,000
Fair value reserve	22	24,456	283,607
Foreign currency translation reserve	22	(11,604,928)	(2,033,640)
Other reserves	22	608,600	1,212,210
Retained earnings	22	31,112,008	26,556,932
Total equity attributable to equity holders of the Bank		**60,023,250**	**61,103,305**
Non-controlling interests	23	830,168	952,093
Instrument eligible for Additional Tier 1 Capital	24	10,000,000	–
Total equity		**70,853,418**	**62,055,398**
Total liabilities and equity		**719,694,515**	**538,607,140**

These consolidated financial statements were approved by the Board of Directors on 15 January 2017 and were signed on its behalf by:

Ali Shareef Al-Emadi
Chairman of the Board of Directors

Ali Ahmed Al-Kuwari
Group Chief Executive Officer

The attached notes 1 to 41 form an integral part of these consolidated financial statements.

Qatar National Bank S.A.Q.
Consolidated Income Statement
For the year ended 31 December 2016
(All amounts are shown in thousands of Qatari Riyals)

	Notes	2016	2015
Interest income	25	36,936,478	20,019,476
Interest expense	26	(19,049,363)	(7,273,706)
Net interest income		**17,887,115**	**12,745,770**
Fee and commission income	27	4,056,830	2,499,966
Fee and commission expense		(603,652)	(257,049)
Net fee and commission income		**3,453,178**	**2,242,917**
Foreign exchange gain	28	1,013,328	746,295
Income from investment securities	29	240,105	162,418
Other operating income		314,062	5,036
Operating income		**22,907,788**	**15,902,436**
Staff expenses	30	(3,628,234)	(2,055,104)
Depreciation	13	(544,462)	(241,370)
Other expenses	31	(2,850,244)	(1,208,713)
Net impairment losses on investment securities		(52,300)	(179,774)
Net impairment losses on loans and advances to customers	10	(2,493,012)	(433,043)
Amortisation of intangible assets		(77,754)	(79,775)
Other provisions		(95,379)	(69,040)
		(9,741,385)	**(4,266,819)**
Share of results of associates	12	176,924	365,938
Profit before income taxes		**13,343,327**	**12,001,555**
Income tax expense	32	(939,048)	(672,791)
Profit for the year		**12,404,279**	**11,328,764**
Attributable to:			
Equity holders of the Bank		12,364,637	11,264,242
Non-controlling interests		39,642	64,522
Profit for the year		**12,404,279**	**11,328,764**
Basic and diluted earnings per share (QR)	33	14.4	13.4

The attached notes 1 to 41 form an integral part of these consolidated financial statements.

Qatar National Bank S.A.Q.
Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

(All amounts are shown in thousands of Qatari Riyals)

	2016	2015
Profit for the year	12,404,279	11,328,764
Other comprehensive income to be reclassified to income statement in subsequent periods:		
Foreign currency translation differences for foreign operations	(9,676,445)	(703,843)
Share of other comprehensive income of associates	(603,726)	(493,913)
Effective portion of changes in fair value of cash flow hedges	(24,609)	(17,329)
Effective portion of changes in fair value of net investment in foreign operation	581,930	–
Available-for-sale investment securities:		
– Net change in fair value	(653,595)	(196,495)
– Net amount transferred to income statement	(160,185)	(76,377)
Total other comprehensive income for the year, net of income tax	**(10,536,630)**	**(1,487,957)**
Total comprehensive income for the year	**1,867,649**	**9,840,807**
Attributable to:		
Equity holders of the Bank	1,930,588	9,776,285
Non-controlling interests	(62,939)	64,522
Total comprehensive income for the year	**1,867,649**	**9,840,807**

The attached notes 1 to 41 form an integral part of these consolidated financial statements.

Qatar National Bank S.A.Q.
Consolidated Statement of Changes in Equity
For the year ended 31 December 2016
(All amounts are shown in thousands of Qatari Riyals)

	Issued capital	Legal reserve	Risk reserve	Fair value reserve
Balance as at 1 January 2016	6,997,294	23,086,902	5,000,000	283,607
Total comprehensive income for the year				
Profit for the year	–	–	–	–
Total other comprehensive income	–	–	–	(259,151)
Total comprehensive income for the year	**–**	**–**	**–**	**(259,151)**
Transfer to legal reserve for the year 2015	–	1,399,459	–	–
Transfer to risk reserve	–	–	2,000,000	–
Transfer to social and sports fund	–	–	–	–
Transactions with equity holders, recognised directly in equity				
Dividend for the year 2015 (note 22)	–	–	–	–
Bonus shares for the year 2015 (note 22)	1,399,459	–	–	–
Issuance of instrument eligible for Additional Tier 1 Capital (note 24)	–	–	–	–
Dividend appropriation for instrument eligible for Additional Tier 1 Capital	–	–	–	–
Net movement in non-controlling interests	–	–	–	–
Other movements	–	–	–	–
Total transactions with equity holders, recognised directly in equity	**1,399,459**	**–**	**–**	**–**
Balance as at 31 December 2016	**8,396,753**	**24,486,361**	**7,000,000**	**24,456**
Balance as at 1 January 2015	6,997,294	23,086,902	3,500,000	573,808
Total comprehensive income for the year				
Profit for the year	–	–	–	–
Total other comprehensive income	–	–	–	(290,201)
Total comprehensive income for the year	**–**	**–**	**–**	**(290,201)**
Transfer to risk reserve	–	–	1,500,000	–
Transfer to social and sports fund	–	–	–	–
Transactions with equity holders, recognised directly in equity				
Dividend for the year 2014	–	–	–	–
Net movement in non-controlling interests	–	–	–	–
Other movements	–	–	–	–
Total transactions with equity holders, recognised directly in equity	**–**	**–**	**–**	**–**
Balance as at 31 December 2015	**6,997,294**	**23,086,902**	**5,000,000**	**283,607**

The attached notes 1 to 41 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	Instrument eligible for Additional Tier 1 Capital	Total
(2,033,640)	1,212,210	26,556,932	61,103,305	952,093	–	62,055,398
–	–	12,364,637	12,364,637	39,642	–	12,404,279
(9,571,288)	(603,610)	–	(10,434,049)	(102,581)	–	(10,536,630)
(9,571,288)	**(603,610)**	**12,364,637**	**1,930,588**	**(62,939)**	**–**	**1,867,649**
–	–	(1,399,459)	–	–	–	–
–	–	(2,000,000)	–	–	–	–
–	–	(195,007)	(195,007)	–	–	(195,007)
–	–	(2,449,053)	(2,449,053)	–	–	(2,449,053)
–	–	(1,399,459)	–	–	–	–
–	–	–	–	–	10,000,000	10,000,000
–	–	(252,500)	(252,500)	–	–	(252,500)
–	–	–	–	(58,986)	–	(58,986)
–	–	(114,083)	(114,083)	–	–	(114,083)
–	**–**	**(4,215,095)**	**(2,815,636)**	**(58,986)**	**10,000,000**	**7,125,378**
(11,604,928)	**608,600**	**31,112,008**	**60,023,250**	**830,168**	**10,000,000**	**70,853,418**
(1,329,797)	1,706,123	22,448,494	56,982,824	979,102	–	57,961,926
–	–	11,264,242	11,264,242	64,522	–	11,328,764
(703,843)	(493,913)	–	(1,487,957)	–	–	(1,487,957)
(703,843)	**(493,913)**	**11,264,242**	**9,776,285**	**64,522**	**–**	**9,840,807**
–	–	(1,500,000)	–	–	–	–
–	–	(195,520)	(195,520)	–	–	(195,520)
–	–	(5,247,971)	(5,247,971)	–	–	(5,247,971)
–	–	–	–	(91,531)	–	(91,531)
–	–	(212,313)	(212,313)	–	–	(212,313)
–	**–**	**(5,460,284)**	**(5,460,284)**	**(91,531)**	**–**	**(5,551,815)**
(2,033,640)	**1,212,210**	**26,556,932**	**61,103,305**	**952,093**	**–**	**62,055,398**

Qatar National Bank S.A.Q.
Consolidated Statement of Cash Flows
For the year ended 31 December 2016
(All amounts are shown in thousands of Qatari Riyals)

	Notes	2016	2015
Cash flows from operating activities			
Profit before income taxes		13,343,327	12,001,555
Adjustments for:			
Interest income		(36,936,478)	(20,019,476)
Interest expense		19,049,363	7,273,706
Depreciation	13	544,462	241,370
Net impairment losses on loans and advances to customers	10	2,493,012	433,043
Net impairment losses on investment securities		52,300	179,774
Other provisions		73,124	12,969
Dividend income	29	(79,920)	(86,041)
Net loss/(gain) on sale of property and equipment		2,542	(159)
Net gain on sale of available-for-sale investment securities	29	(160,185)	(76,377)
Amortisation of intangible assets		77,754	79,775
Net amortisation of premium or discount on financial investments		(11,606)	(27,148)
Net share of results of associates		7,644	(178,566)
		(1,544,661)	**(165,575)**
Changes in:			
Due from banks		(6,208,185)	(1,338,061)
Loans and advances to customers		(78,453,499)	(50,595,177)
Other assets		44,406	(372,896)
Due to banks		8,085,183	14,167,893
Customer deposits		85,380,684	37,698,823
Other liabilities		(3,985,840)	(2,391,977)
Cash from / (used in) operations		**3,318,088**	**(2,996,970)**
Interest received		36,561,563	19,546,140
Interest paid		(18,079,917)	(7,600,125)
Dividends received		79,920	86,041
Income tax paid		(567,803)	(661,824)
Other provisions paid		(66,005)	(5,372)
Net cash from operating activities		**21,245,846**	**8,367,890**
Cash flows from investing activities			
Acquisition of investment securities		(63,962,428)	(71,073,236)
Proceeds from sale / redemption of investment securities		59,714,925	55,220,622
Investments in associates	12	–	(49,909)
Acquisition of subsidiary, net of cash acquired	40	(9,610,068)	–
Additions of property and equipment	13	(1,105,261)	(290,301)
Proceeds from sale of property and equipment		596	1,833
Net cash used in investing activities		**(14,962,236)**	**(16,190,991)**
Cash flows from financing activities			
Proceeds from issuance of instrument eligible for Additional Tier 1 Capital		10,000,000	–
Proceeds from issuance debt securities		13,026,589	–
Repayment of debt securities		(5,228,893)	(5,460,750)
Proceeds from issuance of other borrowings		10,998,695	12,827,191
Repayment of other borrowings		(4,033,225)	(10,264,017)
Dividends paid		(2,468,978)	(5,231,852)
Net cash from / (used in) in financing activities		**22,294,188**	**(8,129,428)**
Net increase / (decrease) in cash and cash equivalents		**28,577,798**	**(15,952,529)**
Effects of exchange rate fluctuations on cash held		(5,764,365)	2,571,816
Cash and cash equivalents at 1 January		30,050,614	43,431,327
Cash and cash equivalents at 31 December	39	**52,864,047**	**30,050,614**

The attached notes 1 to 41 form an integral part of these consolidated financial statements.

Qatar National Bank S.A.Q.
Notes to the Consolidated Financial Statements
For the year ended 31 December 2016
(All amounts are shown in thousands of Qatari Riyals)

1. Reporting entity

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

The Bank together with its subsidiaries (together referred to as the 'Group') is engaged in commercial 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 Banque Privée S.A.	Switzerland	2009	100%
QNB Syria	Syria	2009	50.8%
QNB Finance Ltd.	Cayman Islands	2010	100%
QNB Indonesia	Indonesia	2011	82.6%
QNB Financial Services SPC	Qatar	2011	100%
Al-Mansour Investment Bank	Iraq	2012	50.8%
QNB India Private Limited	India	2013	100%
QNB Tunisia	Tunisia	2013	99.96%
QNB ALAHLI	Egypt	2013	97.12%
QNB Finansbank	Turkey	2016	99.88%

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;
> Held for trading financial assets;
> Financial assets designated at fair value through profit or loss;
> Available-for-sale financial investments; 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, and have been applied consistently by the Group.

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 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 previous 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.

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 is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

Dilution gains and losses in associates are recognised in the consolidated income statement.

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 monetary investment securities denominated in foreign currency classified as available-for-sale 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 equities classified as available-for-sale, 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, 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 and initial measurement
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

Financial assets
At inception, a financial asset is classified in one of the following categories:

> Held-for-trading;
> 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
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) is recognised in the consolidated income statement.

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

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

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

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

(iv) 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.

(v) 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.

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 Group measures the fair value of listed investments at the market bid price for the investment. For unlisted investments, the Group recognises any increase in the fair value, when they have reliable indicators to support such an increase. These reliable indicators are limited to the most recent transactions for the specific investment or similar investments made in the market on a commercial basis between desirous and informed parties. In the absence of a reliable measure of fair value, the unlisted equity investment is carried at cost.

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

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

(vi) Identification and measurement of impairment

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.

3. Significant accounting policies (continued)

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

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

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 cost less any amount written off and impairment, if any.

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.

Following the initial recognition, loans and advances are stated at the amortised cost less any amounts written off and allowances for impairment, if any.

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 financial statements.

g) Investment securities

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 financial assets

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 financial assets

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.

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 whether the actual results of each hedge are within a range of 80-125%. 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 profit or loss. These hedging relationships are discussed below.

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 profit or loss, 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 profit or loss 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 profit or loss, 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 profit or loss. 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 profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. 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. Land is not depreciated.

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

	Years
Buildings	10 to 50
Equipment and furniture	3 to 12
Motor vehicles	4 to 7
Leasehold improvements	4 to 10

Freehold land is stated at cost.

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

j) Intangible assets

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

k) Impairment of non-financial assets

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

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

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date, for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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. Financial guarantees are included within other liabilities.

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.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Interest income and expense include:
> Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis;
> The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income / expense;
> The ineffective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of interest rate risk; and
> Fair value changes in qualifying derivatives, including hedge ineffectiveness, and related hedged items in fair value hedges of interest rate risk.

Interest income on available-for-sale investment (debt) securities and held to maturity investment securities is calculated using effective interest rate method and is also included in interest income.

3. Significant accounting policies (continued)

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

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised 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 on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, which are expensed 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.

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 other countries 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 Center 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 Bank 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 ordinary shareholders of the Bank, further adjusted for the dividend appropriation for instrument 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 ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

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

w) Fiduciary activities
The Group acts as fund manager and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, corporates and other institutions. These assets and any income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group.

x) Repossessed collateral
Repossessed collaterals 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) Parent bank financial information
Statement of financial position and income statement of the parent bank as disclosed in the supplementary information to the consolidated financial statements are prepared following the same accounting policies as mentioned above except for investment in subsidiaries, associates and joint ventures, which are not consolidated and carried at cost.

(All amounts are shown in thousands of Qatari Riyals)

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 2016:

Standard
IFRS 14: Regulatory Deferral Accounts
Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisition of Interests
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 27: Equity Method in Separate Financial Statements
Amendments to IAS 1: Disclosure Initiative
Amendments to IFRS 10, IFRS 12 and IAS 28: Applying the Consolidation Exception
Annual Improvements 2012 - 2014 Cycle

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

Standards issued but not yet effective

The below mentioned standards, interpretations and amendments to standards are not yet effective. The Group is currently evaluating the impact of these new standards. The Group will adopt these new standards on the respective effective dates.

Standard	Effective date
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	01/01/2017
Amendments to IAS 7: Disclosure Initiative	01/01/2017
IFRS 15: Revenue from Contracts with Customers	01/01/2018
IFRS 9: Financial Instruments	01/01/2018
IFRS 16: Leases	01/01/2019

The application of IFRS 9 may have impact on amounts reported in the consolidated financial statements and may result in additional disclosures in the consolidated financial statements. However, the Group is currently in the process of evaluating and implementing the required changes in its systems, policies and processes to comply with IFRS 9 and regulatory requirements, and hence it is not practical to disclose a reliable quantitative impact until the implementation is finalised.

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.

(All amounts are shown in thousands of Qatari Riyals)

4. Financial risk management (continued)

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.

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	
	2016	2015
Cash and balances with central banks (excluding cash on hand)	37,877,059	26,417,352
Due from banks	45,721,215	17,100,764
Loans and advances to customers	520,417,231	388,292,129
Investment securities	78,044,718	78,799,227
Other assets	12,344,996	4,488,214
	694,405,219	**515,097,686**
Guarantees	64,719,723	46,391,681
Letters of credit	34,068,287	10,837,060
Unutilised credit facilities	105,786,136	52,447,682
Total	**898,979,365**	**624,774,109**

(All amounts are shown in thousands of Qatari Riyals)

c) 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 2016	Net maximum exposure 2016	Gross maximum exposure 2015	Net maximum exposure 2015
Government	173,585,573	–	122,640,902	–
Government agencies	170,544,293	46,763,219	153,502,145	41,982,778
Industry	34,854,144	30,914,623	24,096,227	21,064,373
Commercial	24,097,501	10,399,708	22,053,942	1,727,857
Services	156,365,459	118,498,753	94,712,640	59,397,471
Contracting	13,447,744	9,954,403	9,323,308	4,534,765
Real estate	53,149,655	28,661,297	42,821,970	4,745,336
Personal	58,842,366	41,657,236	38,339,766	13,058,491
Others	9,518,484	6,627,062	7,606,786	6,910,514
Guarantees	64,719,723	64,719,723	46,391,681	46,391,681
Letters of credit	34,068,287	34,068,287	10,837,060	10,837,060
Unutilised credit facilities	105,786,136	105,786,136	52,447,682	52,447,682
Total	**898,979,365**	**498,050,447**	**624,774,109**	**263,098,008**

d) Credit risk exposure for each internal risk rating

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates the focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

Equivalent grades	2016	2015
AAA to AA-	290,686,854	154,746,273
A+ to A-	237,848,873	229,824,136
BBB+ to BBB-	286,868,718	3,603,693
BB+ and below	28,647,241	62,467,088
Unrated	54,927,679	174,132,919
Total	**898,979,365**	**624,774,109**

Unrated exposures represent credit facilities granted to corporations and individuals which do not have external credit ratings but were rated as per the applicable provisions of QCB regulations. As at 31 December 2016, based on Group's internal rating methodology, 25% (2015: 23%) represents Low Risk (Grade A) and 75% (2015: 77%) represents Standard Risk (Grade B).

(All amounts are shown in thousands of Qatari Riyals)

4. Financial risk management (continued)

e) Credit quality

	Due from banks		Loans and advances to customers		Investment securities (debt)	
	2016	2015	2016	2015	2016	2015
Neither past due nor impaired						
A: Low risk	39,619,592	12,751,181	289,925,219	246,970,276	48,061,538	51,995,283
B: Standard risk	6,101,623	4,349,583	223,528,524	140,756,148	30,010,404	26,845,776
Sub total	**45,721,215**	**17,100,764**	**513,453,743**	**387,726,424**	**78,071,942**	**78,841,059**
Past due but not impaired						
A: Low risk	–	–	309,629	107,614	–	–
B: Standard risk / watchlist	–	–	7,972,832	1,981,918	–	–
Sub total	**–**	**–**	**8,282,461**	**2,089,532**	**–**	**–**
Impaired						
Substandard	–	–	2,008,697	665,261	–	–
Doubtful	–	–	1,262,188	315,946	–	–
Loss	–	–	6,194,010	4,588,303	41,108	15,937
Sub total	**–**	**–**	**9,464,895**	**5,569,510**	**41,108**	**15,937**
Less: Impairment allowance	–	–	(10,783,868)	(7,093,337)	(68,332)	(57,769)
Net carrying amounts	**45,721,215**	**17,100,764**	**520,417,231**	**388,292,129**	**78,044,718**	**78,799,227**

At 31 December 2016 and 2015, none of the other assets were either past due or impaired.

Investment securities – debt	2016	2015
Held for trading	33,894	–
Held to maturity	43,132,898	35,956,593
Available-for-sale	34,946,258	42,900,403
	78,113,050	**78,856,996**
Less: Impairment allowance	(68,332)	(57,769)
Net carrying amounts	**78,044,718**	**78,799,227**

Ageing analysis of past dues but not impaired per category of loans and advances to customers

	Less than 30 days	31-60 days	61-90 days	Total
As at 31 December 2016				
Corporate lending	1,541,215	424,387	630,631	2,596,233
Small business lending	1,711,749	428,974	394,683	2,535,406
Consumer lending	1,992,028	445,135	138,055	2,575,218
Residential mortgages	385,544	138,016	52,044	575,604
Total	**5,630,536**	**1,436,512**	**1,215,413**	**8,282,461**
As at 31 December 2015				
Corporate lending	571,781	681,300	51,610	1,304,691
Small business lending	9,614	4,940	11,895	26,449
Consumer lending	442,912	87,050	49,971	579,933
Residential mortgages	108,660	36,305	33,494	178,459
Total	**1,132,967**	**809,595**	**146,970**	**2,089,532**

(All amounts are shown in thousands of Qatari Riyals)

f) Renegotiated loans and advances

	2016	2015
Corporate lending	1,456,964	1,701,323
Small business lending	1,143,679	17,606
Consumer lending	837,628	225,207
Residential mortgages	15,291	21,039
Total	**3,453,562**	**1,965,175**

g) 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, 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 2016	Change in equity price %	Effect on other comprehensive income 2015
Market indices				
Qatar exchange	±5	**20,846**	±5	**71,542**

h) Operational risk

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

i) 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.

j) Risk of managing customer investments

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

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4. Financial risk management (continued)

k) 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, where appropriate, various derivatives. Maturities of assets and liabilities have been determined on the basis of contractual pricing. The following table summarises the repricing profile of the Group's assets, liabilities and off-balance sheet exposures:

	Within 3 months	3-12 months	1-5 years	More than 5 years	Non-interest sensitive	Total	Effective interest rate
As at 31 December 2016:							
Cash and balances with central banks	12,291,499	–	–	–	30,892,077	43,183,576	
Due from banks	39,956,011	391,746	214,429	–	5,159,029	45,721,215	1.48%
Loans and advances to customers	273,726,476	82,966,892	144,565,797	15,886,055	3,272,011	520,417,231	5.12%
Investments	16,148,573	14,790,254	33,059,147	14,046,744	9,289,187	87,333,905	7.56%
Other assets	155,288	–	–	–	22,883,300	23,038,588	
Total assets	**342,277,847**	**98,148,892**	**177,839,373**	**29,932,799**	**71,495,604**	**719,694,515**	
Due to banks	46,603,092	12,446,037	2,235,682	28,824	520,881	61,834,516	1.69%
Customer deposits	283,659,470	136,384,447	32,019,009	827,567	53,804,094	506,694,587	2.55%
Debt securities	11,910,307	1,597,599	15,317,968	–	–	28,825,874	
Other borrowings	21,485,178	2,143,637	100,072	–	–	23,728,887	
Other liabilities	270,735	990	305	491	27,484,712	27,757,233	
Total equity	–	–	–	–	70,853,418	70,853,418	
Total liabilities and equity	**363,928,782**	**152,572,710**	**49,673,036**	**856,882**	**152,663,105**	**719,694,515**	
Balance sheet items	(21,650,935)	(54,423,818)	128,166,337	29,075,917	(81,167,501)	–	
Off-balance sheet items	44,724,949	(3,106,834)	(27,045,297)	(10,805,613)	(3,767,205)	–	
Interest rate sensitivity gap	**23,074,014**	**(57,530,652)**	**101,121,040**	**18,270,304**	**(84,934,706)**	**–**	
Cumulative interest rate sensitivity gap	**23,074,014**	**(34,456,638)**	**66,664,402**	**84,934,706**	**–**	**–**	
As at 31 December 2015:							
Cash and balances with central banks	4,685,411	–	–	–	26,880,360	31,565,771	
Due from banks	15,895,096	648,306	–	–	557,362	17,100,764	1.64%
Loans and advances to customers	192,473,246	57,969,518	125,687,043	11,918,300	244,022	388,292,129	4.45%
Investments	11,608,068	18,259,328	39,552,073	9,379,758	10,308,569	89,107,796	6.12%
Other assets	–	–	–	–	12,540,680	12,540,680	
Total assets	**224,661,821**	**76,877,152**	**165,239,116**	**21,298,058**	**50,530,993**	**538,607,140**	
Due to banks	28,687,926	6,891,377	49,613	–	652,682	36,281,598	1.63%
Customer deposits	232,595,364	105,422,913	11,993,901	92,848	45,085,276	395,190,302	1.64%
Debt securities	2,730,376	–	13,612,044	–	–	16,342,420	
Other borrowings	14,059,486	800,038	260,965	–	–	15,120,489	
Other liabilities	–	–	–	–	13,616,933	13,616,933	
Total equity	–	–	–	–	62,055,398	62,055,398	
Total liabilities and equity	**278,073,152**	**113,114,328**	**25,916,523**	**92,848**	**121,410,289**	**538,607,140**	
Balance sheet items	(53,411,331)	(36,237,176)	139,322,593	21,205,210	(70,879,296)	–	
Off-balance sheet items	21,488,080	10,093,332	(18,522,663)	(13,058,749)	–	–	
Interest rate sensitivity gap	**(31,923,251)**	**(26,143,844)**	**120,799,930**	**8,146,461**	**(70,879,296)**	**–**	
Cumulative interest rate sensitivity gap	**(31,923,251)**	**(58,067,095)**	**62,732,835**	**70,879,296**	**–**	**–**	

Other assets includes property and equipment and intangible assets.

(All amounts are shown in thousands of Qatari Riyals)

l) 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 income statement. The sensitivity of the 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. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges and swaps designated as cash flow hedges. The sensitivity of equity is analysed by maturity of the asset or swap. Total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

2016	Increase in basis points	Sensitivity of net interest income	Sensitivity of other comprehensive income
Currency			
Qatari Riyal	10	25,240	314,264
US$	10	(36,215)	(80,406)
Euro	10	(15,951)	26,357
Pound Sterling	10	7,630	(19,594)
Other currencies	10	8,109	46,906

2016	Decrease in basis points	Sensitivity of net interest income	Sensitivity of other comprehensive income
Currency			
Qatari Riyal	10	(25,240)	(314,264)
US$	10	36,215	80,406
Euro	10	15,951	(26,357)
Pound Sterling	10	(7,630)	19,594
Other currencies	10	(8,109)	(46,906)

2015	Increase in basis points	Sensitivity of net interest income	Sensitivity of other comprehensive income
Currency			
Qatari Riyal	10	(1,345)	351,042
US$	10	(52,126)	(24,658)
Euro	10	382	(9,286)
Pound Sterling	10	4,732	(20,416)
Other currencies	10	9,722	35,753

2015	Decrease in basis points	Sensitivity of net interest income	Sensitivity of other comprehensive income
Currency			
Qatari Riyal	10	1,345	(351,042)
US$	10	52,126	24,658
Euro	10	(382)	9,286
Pound Sterling	10	(4,732)	20,416
Other currencies	10	(9,722)	(35,753)

(All amounts are shown in thousands of Qatari Riyals)

4. Financial risk management (continued)

m) Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to cease immediately. To mitigate this risk, the Group has a diversification of funding sources and a diversified portfolio of high quality liquid assets and readily marketable securities. The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

	Within 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Total
As at 31 December 2016:						
Cash and balances with central banks	13,816,989	–	–	–	29,366,587	43,183,576
Due from banks	36,890,649	2,156,409	4,968,389	1,705,768	–	45,721,215
Loans and advances to customers	57,597,910	25,505,748	83,399,142	264,745,539	89,168,892	520,417,231
Investments	9,536,449	4,090,954	11,845,178	35,889,642	25,971,682	87,333,905
Other assets	11,405,251	717,889	1,955,580	7,826,635	1,133,233	23,038,588
Total assets	**129,247,248**	**32,471,000**	**102,168,289**	**310,167,584**	**145,640,394**	**719,694,515**
Due to banks	35,406,197	9,323,930	12,125,857	4,386,901	591,631	61,834,516
Customer deposits	245,287,382	78,281,393	141,415,956	41,533,171	176,685	506,694,587
Debt securities	729,552	4,569,289	1,807,182	21,656,418	63,433	28,825,874
Other borrowings	1,231,354	268,585	2,326,165	19,902,783	–	23,728,887
Other liabilities and equity	8,867,904	10,799,730	4,212,090	3,211,137	71,519,790	98,610,651
Total liabilities and equity	**291,522,389**	**103,242,927**	**161,887,250**	**90,690,410**	**72,351,539**	**719,694,515**
Difference	**(162,275,141)**	**(70,771,927)**	**(59,718,961)**	**219,477,174**	**73,288,855**	**–**
As at 31 December 2015:						
Cash and balances with central banks	15,340,996	–	–	–	16,224,775	31,565,771
Due from banks	9,971,956	765,971	4,179,106	1,940,367	243,364	17,100,764
Loans and advances to customers	25,653,933	25,783,012	56,219,259	211,534,781	69,101,144	388,292,129
Investments	6,481,768	5,189,374	18,353,435	39,612,721	19,470,498	89,107,796
Other assets	2,789,199	158,509	2,373,866	1,590,702	5,628,404	12,540,680
Total assets	**60,237,852**	**31,896,866**	**81,125,666**	**254,678,571**	**110,668,185**	**538,607,140**
Due to banks	23,926,089	6,058,066	4,707,225	1,590,218	–	36,281,598
Customer deposits	219,759,456	58,153,381	99,018,404	18,166,213	92,848	395,190,302
Debt securities	–	–	2,730,376	13,612,044	–	16,342,420
Other borrowings	107,811	618,046	2,716,192	11,678,440	–	15,120,489
Other liabilities and equity	5,761,778	6,347,469	1,354,211	150,353	62,058,520	75,672,331
Total liabilities and equity	**249,555,134**	**71,176,962**	**110,526,408**	**45,197,268**	**62,151,368**	**538,607,140**
Difference	**(189,317,282)**	**(39,280,096)**	**(29,400,742)**	**209,481,303**	**48,516,817**	**–**

The Group is required to maintain its liquidity coverage ratio at a minimum of 80% for the year ended 31 December 2016 (70% for December 2015).

Other assets includes property and equipment and intangible assets.

(All amounts are shown in thousands of Qatari Riyals)

Maturity analysis (financial liabilities and derivatives)

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 2016:						
Due to banks	35,501,436	9,443,419	12,458,013	4,753,165	591,631	62,747,664
Customer deposits	247,739,597	80,322,776	144,020,740	42,228,058	176,920	514,488,091
Debt securities	886,209	4,709,877	1,944,982	22,304,628	64,283	29,909,979
Other borrowings	1,232,380	269,256	2,343,611	20,150,839	–	23,996,086
Derivative financial instruments						
– Contractual amounts payable – forward contracts	21,961,803	19,991,591	26,404,869	599,896	–	68,958,159
– Contractual amounts receivable – forward contracts	(21,401,605)	(19,648,436)	(25,775,950)	(601,752)	–	(67,427,743)
– Contractual amounts payable / (receivable) – others	5,827	126,851	485,502	603,413	(37,659)	1,183,934
Total	**285,925,647**	**95,215,334**	**161,881,767**	**90,038,247**	**795,175**	**633,856,170**
As at 31 December 2015:						
Due to banks	23,956,928	6,151,375	4,893,843	1,963,460	–	36,965,606
Customer deposits	220,332,347	59,874,547	102,475,712	18,166,213	93,098	400,941,917
Debt securities	18,593	27,203	2,952,554	14,365,713	–	17,364,063
Other borrowings	107,928	623,088	2,722,795	11,682,820	–	15,136,631
Derivative financial instruments						
– Contractual amounts payable – forward contracts	8,903,707	16,477,270	14,074,312	–	–	39,455,289
– Contractual amounts receivable – forward contracts	(9,362,906)	(16,176,400)	(13,973,879)	–	–	(39,513,185)
– Contractual amounts payable / (receivable) – others	30,896	34,696	231,556	235,892	37,103	570,143
Total	**243,987,493**	**67,011,779**	**113,376,893**	**46,414,098**	**130,201**	**470,920,464**

n) Liquidity risk and funding management

The table below summarises the contractual expiry dates by maturity of contingent liabilities:

	On demand	1-3 months	3-12 months	1-5 years	More than 5 years	Total
As at 31 December 2016:						
Contingent liabilities	70,430,934	28,486,468	60,021,248	45,604,237	18,159,002	**222,701,889**
As at 31 December 2015:						
Contingent liabilities	33,252,004	29,104,103	49,511,585	12,278,901	12,617,635	**136,764,228**

(All amounts are shown in thousands of Qatari Riyals)

4. Financial risk management (continued)

o) Currency 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 2016:						
Assets	289,212,331	212,895,292	49,760,497	42,700,460	125,125,935	**719,694,515**
Liabilities and equity	205,833,812	299,286,373	48,885,017	42,695,636	122,993,677	**719,694,515**
Net exposure	**83,378,519**	**(86,391,081)**	**875,480**	**4,824**	**2,132,258**	**–**
As at 31 December 2015:						
Assets	250,227,539	148,973,798	29,091,545	29,294,975	81,019,283	**538,607,140**
Liabilities and equity	180,536,357	217,675,112	29,509,381	29,302,230	81,584,060	**538,607,140**
Net exposure	**69,691,182**	**(68,701,314)**	**(417,836)**	**(7,255)**	**(564,777)**	**–**

p) Currency risk – effect of change in fair value of currency

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 2016	2015
Currency			
US$	+2	(1,727,822)	(1,374,026)
Euro	+3	26,264	(12,535)
Pound Sterling	+2	96	(145)
Other currencies	+3	63,968	(16,943)
US$	-2	1,727,822	1,374,026
Euro	-3	(26,264)	12,535
Pound Sterling	-2	(96)	145
Other currencies	-3	(63,968)	16,943

q) 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.

(All amounts are shown in thousands of Qatari Riyals)

r) Capital Adequacy

	2016	2015
Common Equity Tier 1 (CET 1) Capital	55,651,754	54,296,516
Eligible Additional Tier 1 (AT1) Capital Instrument	10,000,000	–
Additional Tier 1 Capital	69,093	57,145
Additional Tier 2 Capital	68,637	34,852
Total eligible capital	65,789,484	54,388,513
Less: Proposed cash dividends	(2,938,864)	(2,449,053)
	62,850,620	**51,939,460**
Risk weighted assets for credit risk	361,057,135	284,633,367
Risk weighted assets for market risk	4,858,656	8,299,960
Risk weighted assets for operational risk	27,984,180	25,438,578
Total risk weighted assets	**393,899,971**	**318,371,905**
CET 1 ratio	**13.4%**	**16.3%**
Tier 1 Capital ratio	**15.9%**	**16.3%**
Total Capital ratio	**16.0%**	**16.3%**

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

	Without Capital Conservation Buffer	Including Capital Conservation Buffer	Additional DSIB charge	ICAAP Capital Charge	Total
Minimum limit for CET 1 ratio	6.0%	2.5%	0.63%	0.0%	9.13%
Minimum limit for Tier 1 Capital ratio	8.0%	2.5%	0.63%	0.0%	11.13%
Minimum limit for Total Capital ratio	10.0%	2.5%	0.63%	1.0%	14.13%

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
Assets accounted at amortised cost are evaluated for impairment on the basis described in the accounting policies.

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

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

(iii) Determining fair value
The determination of fair value for financial assets and liabilities, for which there is no observable market price requires the use of valuation techniques as described in the accounting policies. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

(i) Valuation of financial instruments
The Group's accounting policy on fair value measurements is discussed in the significant accounting policies section.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

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

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

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)

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 2016:				
Derivative assets held for risk management	3,900	6,848,267	–	6,852,167
Loans and advances to customers designated at FVTPL	–	23,558	–	23,558
Investment securities	25,287,123	11,453,003	–	36,740,126
Total	**25,291,023**	**18,324,828**	**–**	**43,615,851**
Derivative liabilities held for risk management	518	4,198,464	–	4,198,982
Total	**518**	**4,198,464**	**–**	**4,198,982**
As at 31 December 2015:				
Derivative assets held for risk management	–	221,100	–	221,100
Investment securities	27,144,685	17,919,907	–	45,064,592
Total	**27,144,685**	**18,141,007**	**–**	**45,285,692**
Derivative liabilities held for risk management	–	676,737	–	676,737
Total	**–**	**676,737**	**–**	**676,737**

There have been no transfers between Level 1 and Level 2 (2015: Nil).

The above table does not include QR180.7 million as at 31 December 2016 of available-for-sale equity investments that were measured at cost (2015: QR171.9 million).

(ii) Financial asset and liability classification
The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

> In classifying financial assets or liabilities as trading, the Group has determined that it meets the description of trading assets and liabilities set out in accounting policies.
> In designating financial assets at fair value through profit or loss, the Group has determined that it has met one of the criteria for this designation set out in accounting policies.
> In classifying financial assets as held to maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policies.

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

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

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

(iv) Impairment of investments in equity and debt securities
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.

5. Use of estimates and judgements (continued)

(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)

	Qatar operations					
	Corporate banking	Consumer banking	Asset and wealth management	International banking	Unallocated and intra-group transactions	Total
As at 31 December 2016:						
External revenue:						
Net interest income	7,580,327	460,363	457,751	9,347,910	40,764	17,887,115
Net fee and commission income	719,134	215,163	315,118	2,177,771	25,992	3,453,178
Foreign exchange gain	352,003	80,421	108,005	466,816	6,083	1,013,328
Income from investment securities	194,499	–	–	45,606	–	240,105
Other operating income	2,100	6	9	311,944	3	314,062
Share of results of associates	187,819	–	–	(10,895)	–	176,924
Total segment revenue	**9,035,882**	**755,953**	**880,883**	**12,339,152**	**72,842**	**23,084,712**
Reportable segment profit	**7,414,276**	**144,836**	**476,985**	**4,564,338**	**(235,798)**	**12,364,637**
Reportable segment investments	47,730,066	–	4,592	32,258,892	–	79,993,550
Reportable segment loans and advances	327,050,024	9,864,436	19,353,829	164,148,942	–	520,417,231
Reportable segment customer deposits	192,016,685	22,830,938	46,073,434	245,773,530	–	506,694,587
Reportable segment assets	460,115,608	24,099,669	47,284,937	387,647,257	(199,452,956)	719,694,515
As at 31 December 2015:						
External revenue:						
Net interest income	7,578,061	459,568	457,658	4,220,204	30,279	12,745,770
Net fee and commission income	704,183	180,980	282,905	1,072,601	2,248	2,242,917
Foreign exchange gain	367,265	82,387	114,786	178,209	3,648	746,295
Income from investment securities	140,670	–	–	21,748	–	162,418
Other operating income	1,461	7	2	3,552	14	5,036
Share of results of associates	33,168	–	–	332,770	–	365,938
Total segment revenue	**8,824,808**	**722,942**	**855,351**	**5,829,084**	**36,189**	**16,268,374**
Reportable segment profit	**7,301,958**	**93,602**	**517,812**	**3,443,441**	**(92,571)**	**11,264,242**
Reportable segment investments	52,506,790	–	23,241	28,627,044	–	81,157,075
Reportable segment loans and advances	265,139,688	9,773,843	19,459,024	93,919,574	–	388,292,129
Reportable segment customer deposits	175,963,774	21,969,610	44,985,018	152,271,900	–	395,190,302
Reportable segment assets	376,540,078	22,904,930	46,490,602	246,111,429	(153,439,899)	538,607,140

(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:

	FVTPL/ Held for trading	Held to maturity	Loans and advances	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
As at 31 December 2016:							
Cash and balances with central banks	–	–	43,183,576	–	–	43,183,576	43,183,576
Due from banks	–	–	–	–	45,721,215	45,721,215	45,721,215
Loans and advances to customers	23,558	–	520,393,673	–	–	520,417,231	520,743,019
Investment securities:							
– Measured at fair value	60,324	–	–	36,860,490	–	36,920,814	36,920,814
– Measured at amortised cost	–	43,072,736	–	–	–	43,072,736	43,476,660
	83,882	**43,072,736**	**563,577,249**	**36,860,490**	**45,721,215**	**689,315,572**	**690,045,284**
Due to banks	–	–	–	–	61,834,516	61,834,516	61,865,305
Customer deposits	–	–	–	–	506,694,587	506,694,587	506,694,587
Debt securities	–	–	–	–	28,825,874	28,825,874	28,723,028
Other borrowings	–	–	–	–	23,728,887	23,728,887	23,701,870
	–	**–**	**–**	**–**	**621,083,864**	**621,083,864**	**620,984,790**
As at 31 December 2015:							
Cash and balances with central banks	–	–	31,565,771	–	–	31,565,771	31,565,771
Due from banks	–	–	–	–	17,100,764	17,100,764	17,100,764
Loans and advances to customers	–	–	388,292,129	–	–	388,292,129	388,292,129
Investment securities:							
– Measured at fair value	–	–	–	45,236,429	–	45,236,429	45,236,429
– Measured at amortised cost	–	35,920,646	–	–	–	35,920,646	36,652,748
	–	**35,920,646**	**419,857,900**	**45,236,429**	**17,100,764**	**518,115,739**	**518,847,841**
Due to banks	–	–	–	–	36,281,598	36,281,598	36,165,194
Customer deposits	–	–	–	–	395,190,302	395,190,302	395,190,302
Debt securities	–	–	–	–	16,342,420	16,342,420	16,342,420
Other borrowings	–	–	–	–	15,120,489	15,120,489	15,120,489
	–	**–**	**–**	**–**	**462,934,809**	**462,934,809**	**462,818,405**

Investment securities – unquoted equity securities at cost

The above table includes QR180.7 million as at 31 December 2016 (2015: QR171.9 million) 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, because their fair value were not considered to be reliably measurable.

(All amounts are shown in thousands of Qatari Riyals)

8. Cash and balances with central banks

	2016	2015
Cash	5,306,517	5,148,419
Cash reserve with Qatar Central Bank	14,069,874	12,253,084
Other balances with Qatar Central Bank	1,184,879	288,743
Balances with other central banks	22,622,306	13,875,525
Total	**43,183,576**	**31,565,771**

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 QR15,297 million which cannot be used to fund the Group's day-to-day operations.

9. Due from banks

	2016	2015
Current accounts	8,031,530	989,708
Placements	36,515,148	13,187,021
Loans	1,174,537	2,924,035
Total	**45,721,215**	**17,100,764**

10. Loans and advances to customers

a) By type

	2016	2015
Loans	493,293,761	377,022,736
Overdrafts	34,586,820	16,379,460
Bills discounted	3,411,948	2,104,060
	531,292,529	**395,506,256**
Deferred profit	(91,430)	(120,790)
Allowance for impairment of loans and advances to customers	(10,783,868)	(7,093,337)
Net loans and advances to customers	**520,417,231**	**388,292,129**

Net Loans and Advances includes QR23.6 million designated as fair value through profit or loss ('FVTPL') (2015: Nil).

The aggregate amount of non-performing loans and advances to customers amounted to QR9,465 million, which represents 1.8% of total loans and advances (2015: QR5,570 million, 1.4% of total loans and advances to customers).

Allowance for impairment of loans and advances to customers includes QR900.3 million of interest in suspense (2015: QR1,095 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 2016:				
Government	90,148,988	15,965,997	–	106,114,985
Government agencies	129,449,147	1,880,416	–	131,329,563
Industry	34,125,988	3,648,055	741,255	38,515,298
Commercial	21,573,242	2,097,971	426,290	24,097,503
Services	101,733,529	21,442	14,790	101,769,761
Contracting	12,039,067	1,170,783	237,894	13,447,744
Real estate	47,582,127	4,627,298	940,229	53,149,654
Personal	52,678,517	5,122,914	1,040,935	58,842,366
Others	3,963,156	51,944	10,555	4,025,655
Total	**493,293,761**	**34,586,820**	**3,411,948**	**531,292,529**
As at 31 December 2015:				
Government	53,519,092	36,565	–	53,555,657
Government agencies	123,577,074	2,301,754	–	125,878,828
Industry	17,689,582	5,661,507	745,139	24,096,228
Commercial	19,506,613	2,240,950	306,380	22,053,943
Services	73,032,299	2,575,204	710,481	76,317,984
Contracting	8,268,724	1,037,585	16,999	9,323,308
Real estate	42,496,267	179,636	146,067	42,821,970
Personal	36,238,170	2,098,684	2,912	38,339,766
Others	2,694,915	247,575	176,082	3,118,572
Total	**377,022,736**	**16,379,460**	**2,104,060**	**395,506,256**

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

c) Movement in impairment of loans and advances to customers

	2016	2015
Balance as at 1 January	7,093,337	6,926,441
Foreign currency translation	(1,708,804)	(130,695)
Net allowance during the year	2,578,547	692,423
Allowances made during the year	4,650,189	1,747,584
Recoveries during the year	(2,071,642)	(1,055,161)
Impairment allowance relating to acquired subsidiary	5,436,816	–
Written off / transfers during the year	(2,616,028)	(394,832)
Balance as at 31 December	**10,783,868**	**7,093,337**

(All amounts are shown in thousands of Qatari Riyals)

d) Impairment on loans and advances to customers

	Corporate lending	Small business lending	Consumer lending	Residential mortgages	Total
Balance as at 1 January 2016	4,987,879	303,499	1,728,049	73,910	7,093,337
Foreign currency translation	(999,237)	(218,676)	(485,273)	(5,618)	(1,708,804)
Allowances made during the year	2,403,301	871,701	1,367,656	7,531	4,650,189
Recoveries during the year	(1,517,144)	(143,382)	(403,847)	(7,269)	(2,071,642)
Impairment allowance relating to acquired subsidiary	1,999,528	862,573	2,563,604	11,111	5,436,816
Written off / transfers during the year	(1,303,034)	(266,800)	(1,046,124)	(70)	(2,616,028)
Balance as at 31 December 2016	**5,571,293**	**1,408,915**	**3,724,065**	**79,595**	**10,783,868**
Balance as at 1 January 2015	4,887,479	264,306	1,696,983	77,673	6,926,441
Foreign currency translation	(107,444)	(5,179)	(14,567)	(3,505)	(130,695)
Allowances made during the year	1,131,656	130,338	482,181	3,409	1,747,584
Recoveries during the year	(551,711)	(85,648)	(414,135)	(3,667)	(1,055,161)
Written off / transfers during the year	(372,101)	(318)	(22,413)	–	(394,832)
Balance as at 31 December 2015	**4,987,879**	**303,499**	**1,728,049**	**73,910**	**7,093,337**

e) Net impairment during the year

	2016	2015
Corporate lending	(816,803)	(351,374)
Small business lending	(716,888)	(36,932)
Consumer lending	(959,397)	(45,143)
Residential mortgages	76	406
Total	**(2,493,012)**	**(433,043)**

11. Investment securities

	2016	2015
Held for trading financial investments	60,324	–
Available-for-sale financial investments (note 11a)	36,860,490	45,236,429
Held to maturity financial investments (note 11b)	43,072,736	35,920,646
	79,993,550	**81,157,075**

The carrying amount and fair value of securities under repurchase agreements amounted to QR17,483 million and QR18,040 million respectively (2015: QR6,463 million and QR7,040 million respectively).

a) Available-for-sale financial investments

	2016		2015	
	Quoted	Unquoted	Quoted	Unquoted
Equities	917,771	165,343	884,614	156,098
State of Qatar debt securities	14,784,608	–	13,443,610	–
Other debt securities	20,086,653	66,827	29,400,152	34,819
Mutual funds	823,943	15,345	1,301,381	15,755
Total	**36,612,975**	**247,515**	**45,029,757**	**206,672**

Fixed rate securities and floating rate securities amounted to QR31,317 million and QR3,621 million respectively (2015: QR42,794 million and QR85.0 million respectively).

The above includes impairment allowance in respect of debt securities amounting to QR8.2 million (2015: QR21.8 million).

(All amounts are shown in thousands of Qatari Riyals)

11. Investment securities (continued)

b) Held to maturity financial investments

	2016		2015	
	Quoted	Unquoted	Quoted	Unquoted
By issuer				
State of Qatar debt securities	19,015,274	–	21,388,273	–
Other debt securities	21,914,396	2,143,066	14,171,321	361,052
Total	**40,929,670**	**2,143,066**	**35,559,594**	**361,052**
By interest rate				
Fixed rate securities	37,870,195	2,059,906	35,403,051	361,052
Floating rate securities	3,059,475	83,160	156,543	–
Total	**40,929,670**	**2,143,066**	**35,559,594**	**361,052**

The above includes impairment allowance in respect of debt securities amounting to QR60.2 million (2015: QR35.9 million).

During the year, QR7,868 million (2015: Nil) were reclassified from available-for-sale financial investments to held to maturity financial investments.

12. Investments in associates

	2016	2015
Balance as at 1 January	7,950,721	7,963,437
Foreign currency translation	(39,795)	(78,467)
Investments acquired during the year	–	49,909
Share in profit	176,924	365,938
Cash dividend	(184,568)	(187,372)
Associates sold / transferred	–	(23)
Relating to subsidiary acquired	137,905	–
Other movements	(700,832)	(162,701)
Balance as at 31 December	**7,340,355**	**7,950,721**

			Ownership %	
	Country	Principal business	2016	2015
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	20.0	20.0
Bantas	Turkey	Security Services	33.3	–
Cigna Finans	Turkey	Pension Fund	49.0	–

(All amounts are shown in thousands of Qatari Riyals)

The table below shows the summarised financial information of the Group's investment in listed associates:

	Total assets	Total liabilities	Equity	Group's share of profit	Market price per share (QR)
Balance as at 30 September 2016					
Housing Bank for Trade and Finance	39,017,207	33,693,741	5,323,466	227,250	47.73
Commercial Bank International	18,674,451	16,347,473	2,326,978	(43,668)	1.97
Ecobank Transnational Incorporated	76,135,451	68,804,281	7,331,170	(16,101)	0.13
Balance as at 31 December 2015					
Housing Bank for Trade and Finance	40,672,362	35,336,753	5,335,609	218,465	48.51
Commercial Bank International	16,331,248	14,086,027	2,245,221	(22,724)	1.83
Ecobank Transnational Incorporated	85,748,042	76,562,169	9,185,873	237,058	0.30

13. Property and equipment

	Land and buildings	Leasehold improvements	Equipment and furniture	Motor vehicles	Total
Balance as at 31 December 2016					
Cost:					
Balance as at 1 January	1,675,546	574,892	1,292,007	22,421	3,564,866
Additions	584,799	88,513	430,823	1,126	1,105,261
Relating to subsidiary acquired	1,507,419	522,101	2,168,241	1,766	4,199,527
Disposals	(666)	(852)	(28,804)	(695)	(31,017)
Foreign currency translation and others	(393,973)	(134,944)	(568,517)	(10,023)	(1,107,457)
	3,373,125	**1,049,710**	**3,293,750**	**14,595**	**7,731,180**
Accumulated depreciation:					
Balance as at 1 January	381,732	426,376	989,374	13,669	1,811,151
Charged during the year	57,285	102,498	381,214	3,465	544,462
Relating to subsidiary acquired	43,517	391,475	1,429,907	1,623	1,866,522
Disposals	(392)	(430)	(26,433)	(624)	(27,879)
Foreign currency translation and others	(135,754)	(108,012)	(420,787)	(7,202)	(671,755)
	346,388	**811,907**	**2,353,275**	**10,931**	**3,522,501**
Net carrying amount	**3,026,737**	**237,803**	**940,475**	**3,664**	**4,208,679**
Balance as at 31 December 2015					
Cost:					
Balance as at 1 January	1,691,017	519,604	1,176,861	23,183	3,410,665
Additions	65,383	71,689	151,931	1,298	290,301
Disposals	(570)	(312)	(2,131)	(357)	(3,370)
Foreign currency translation	(80,284)	(16,089)	(34,654)	(1,703)	(132,730)
	1,675,546	**574,892**	**1,292,007**	**22,421**	**3,564,866**
Accumulated depreciation:					
Balance as at 1 January	358,474	381,815	880,189	10,843	1,631,321
Charged during the year	44,084	57,008	136,389	3,889	241,370
Disposals	–	(56)	(1,379)	(261)	(1,696)
Foreign currency translation	(20,826)	(12,391)	(25,825)	(802)	(59,844)
	381,732	**426,376**	**989,374**	**13,669**	**1,811,151**
Net carrying amount	**1,293,814**	**148,516**	**302,633**	**8,752**	**1,753,715**

(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 2016	4,144,091	968,086	626,940	5,739,117
Foreign currency translation	(2,375,995)	(35,503)	(82,032)	(2,493,530)
Additions	–	–	1,007,311	1,007,311
Balance as at 31 December 2016	**1,768,096**	**932,583**	**1,552,219**	**4,252,898**
Accumulated amortisation				
Balance as at 1 January 2016	–	(278,732)	(82,627)	(361,359)
Foreign currency translation	–	31,882	55,406	87,288
Amortisation charge	–	(80,588)	(15,591)	(96,179)
Balance as at 31 December 2016	**–**	**(327,438)**	**(42,812)**	**(370,250)**
Net book value as at 31 December 2016	**1,768,096**	**605,145**	**1,509,407**	**3,882,648**
Net book value as at 31 December 2015	**4,144,091**	**689,354**	**544,313**	**5,377,758**

Impairment tests for goodwill and intangible assets with indefinite lives

Net book value of goodwill as at 31 December 2016 includes QR1.5 billion (2015: QR3.9 billion) in respect of QNB ALAHLI, QR89.6 million (2015: QR89.6 million) in respect of QNB Indonesia, QR111.9 million (2015: QR111.9 million) in respect of Al-Mansour Investment Bank and QR77.4 million (2015: QR77.4 million) in respect of QNB Tunisia.

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 is calculated using value-in-use method based on following inputs. A discount rate of 24.8% (2015: 19.3%) and a terminal growth rate of 2% (2015: 2%) were used to estimate the recoverable amount of QNB ALAHLI.

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 (2015: Nil).

15. Other assets

	2016	2015
Interest receivable	4,482,659	2,872,330
Prepaid expenses	593,274	86,915
Positive fair value of derivatives (note 36)	6,852,167	221,100
Sundry debtors	1,010,170	1,394,784
Others	2,008,991	834,078
Total	**14,947,261**	**5,409,207**

16. Due to banks

	2016	2015
Balances due to central banks	1,073,159	636,340
Current accounts	1,839,470	1,707,686
Deposits	42,973,734	27,372,723
Repurchase agreements	15,948,153	6,564,849
Total	**61,834,516**	**36,281,598**

(All amounts are shown in thousands of Qatari Riyals)

17. Customer deposits

a) By type

	2016	2015
Current and call accounts	104,570,572	101,061,778
Saving accounts	12,750,812	10,659,541
Time deposits	389,373,203	283,468,983
Total	**506,694,587**	**395,190,302**

b) By sector

	2016	2015
Government	21,769,514	30,242,417
Government agencies	90,909,170	115,100,240
Individuals	98,353,201	63,513,171
Corporate	295,662,702	186,334,474
Total	**506,694,587**	**395,190,302**

18. Debt securities

	2016	2015
Face value of bonds	28,969,178	16,382,250
Less: Unamortised discount	(143,304)	(39,830)
Total	**28,825,874**	**16,342,420**

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

	2016	2015
Balance as at 1 January	16,342,420	21,779,361
Relating to subsidiary acquired	6,130,421	–
Issuances during the year	13,026,589	–
Repayments	(5,228,893)	(5,460,750)
Other movements	(1,444,663)	23,809
Balance as at 31 December	**28,825,874**	**16,342,420**

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

Year of maturity	2016	2015
2016	–	2,730,376
2017	7,106,023	3,637,368
2018	10,401,875	6,351,913
2019	1,731,768	–
2020	4,644,555	3,622,763
2021	4,878,220	–
2024	63,433	–
	28,825,874	**16,342,420**

The above debt securities are denominated in US$, TRY, EUR and comprise of fixed and floating interest rates.

The interest rate paid on the above averaged 3.77% p.a. in 2016 (2015: 2.84% 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:

	2016	2015
Balance as at 1 January	15,120,489	12,524,373
Relating to subsidiary acquired	1,871,313	–
Issuances during the year	10,998,695	12,809,347
Repayments	(4,033,225)	(10,264,017)
Other movements	(228,385)	50,786
Balance as at 31 December	**23,728,887**	**15,120,489**

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

	2016	2015
2016	–	3,442,049
2017	3,826,104	235,042
2018	10,965,512	10,951,528
2019	8,586,890	–
2020	350,381	491,870
Total	**23,728,887**	**15,120,489**

The above are denominated in US$, CHF, EUR, HKD, EGP, TRY, CNY, AUD, JPY, SGD and comprise of fixed and floating interest rates. The interest rate paid on the above averaged 1.00% p.a. in 2016 (2015: 0.77% 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 at 31 December 2016 was a borrowing of EUR2.72 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.

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

20. Other liabilities

	2016	2015
Interest payable	4,053,166	2,510,113
Expense payable	879,325	1,011,940
Other provisions (note 21)	286,719	115,435
Tax payable	579,560	597,989
Negative fair value of derivatives (note 36)	4,198,982	676,737
Unearned revenue	1,967,996	1,542,310
Social and sports fund	195,007	195,520
Deferred tax liability	146,944	165,369
Margin accounts	873,656	1,162,840
Others	14,575,878	5,638,680
Total	**27,757,233**	**13,616,933**

(All amounts are shown in thousands of Qatari Riyals)

21. Other provisions

	Staff indemnity	Legal provision	Total 2016	Total 2015
Balance as at 1 January	82,264	33,171	115,435	107,143
Foreign currency translation and others	(35,265)	(5,797)	(41,062)	908
Provisions made during the year	69,867	9,288	79,155	13,840
	116,866	**36,662**	**153,528**	**121,891**
Relating to subsidiary acquired	171,350	34,335	205,685	–
Provisions recovered during the year	–	(6,031)	(6,031)	(871)
Provisions paid and written off during the year	(40,104)	(26,359)	(66,463)	(5,585)
Balance as at 31 December	**248,112**	**38,607**	**286,719**	**115,435**

22. Shareholders' equity

a) Issued capital

The authorised, issued and fully paid up share capital of the Bank totalling QR8,397 million consists of 839,675,325 ordinary shares of QR10 each (2015: 699,729,438 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:

	2016	2015
Number of shares outstanding at the beginning of the year	839,675,325	699,729,438
Effect of bonus shares	–	139,945,887
Number of shares outstanding at the end of the year	**839,675,325**	**839,675,325**

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.

d) Fair value reserve

	Hedges of a net investment	Cash flow hedges	Available-for-sale investments	Total 2016	Total 2015
Balance as at 1 January	–	(496,535)	780,142	283,607	573,808
Foreign currency translation	–	1,897	149,338	151,235	(18,840)
Revaluation impact	581,930	(26,806)	(805,325)	(250,201)	(194,984)
Reclassified to income statement	–	–	(160,185)	(160,185)	(76,377)
Net movement during the year	581,930	(24,909)	(816,172)	(259,151)	(290,201)
Balance as at 31 December	**581,930**	**(521,444)**	**(36,030)**	**24,456**	**283,607**

(All amounts are shown in thousands of Qatari Riyals)

22. Shareholders' equity (continued)

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:

	2016	2015
General reserve	1,784,591	1,787,365
Share of changes recognised directly in associates' equity, excluding share of profit	(1,175,991)	(575,155)
Total	**608,600**	**1,212,210**

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 35% of the nominal share value (QR3.5 per share) and a bonus share of 10% of the share capital for the year ended 31 December 2016 (2015: cash dividend 35% of the nominal share value (QR3.5 per share) and a bonus share of 20% of the share capital). 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, 17.4% in QNB Indonesia, 49.2% in Al-Mansour Investment Bank, 0.04% in QNB Tunisia, 2.88% in QNB ALAHLI and 0.12% in QNB Finansbank.

24. Issuance of instrument eligible for Additional Tier 1 Capital

During the year, QNB raised Additional Tier 1 Perpetual Capital ("Note") by issuing unsecured perpetual non-cumulative unlisted note for an amount of QR10 billion. The distributions (i.e. coupon payments) are discretionary and non-cumulative and payable annually until the first call date being six years from date of issuance.

The Note is ranked 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. The Note has no fixed redemption date and the Bank can only redeem the Note 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. This Note has been classified within total equity.

25. Interest income

	2016	2015
Due from central banks	48,659	20,491
Due from banks	4,005,506	270,517
Debt securities	5,834,859	4,527,854
Loans and advances	27,047,454	15,200,614
Total	**36,936,478**	**20,019,476**

(All amounts are shown in thousands of Qatari Riyals)

26. Interest expense

	2016	2015
Due to banks	6,172,504	579,264
Customer deposits	11,708,567	5,811,000
Debt securities	887,683	592,307
Others	280,609	291,135
Total	**19,049,363**	**7,273,706**

27. Fee and commission income

	2016	2015
Loans and advances	907,796	874,677
Off-balance sheet items	605,411	583,563
Bank services	2,023,443	794,726
Investment activities for customers	356,822	208,151
Others	163,358	38,849
Total	**4,056,830**	**2,499,966**

28. Foreign exchange gain

	2016	2015
Dealing in foreign currencies	57,265	599,276
Revaluation of assets and liabilities	923,019	117,588
Revaluation of derivatives	33,044	29,431
Total	**1,013,328**	**746,295**

29. Income from investment securities

	2016	2015
Net gains from sale of available-for-sale securities	160,185	76,377
Dividend income	79,920	86,041
Total	**240,105**	**162,418**

30. Staff expenses

	2016	2015
Staff costs	3,517,055	2,005,382
Staff pension fund costs	41,312	36,223
Staff indemnity costs	69,867	13,499
Total	**3,628,234**	**2,055,104**

(All amounts are shown in thousands of Qatari Riyals)

31. Other expenses

	2016	2015
Training	68,406	42,100
Advertising	554,692	235,146
Professional fees	283,735	89,707
Communication and insurance	273,387	169,431
Occupancy and maintenance	724,850	256,232
Computer and IT costs	326,082	208,613
Printing and stationery	49,880	33,818
Directors' fees	11,740	11,380
Others	557,472	162,286
Total	**2,850,244**	**1,208,713**

32. Income taxes

	2016	2015
Current income tax	944,035	698,110
Defferred tax benefit	(3,650)	(20,032)
Adjustments to prior periods corporate taxes	(1,337)	(5,287)
Income tax expense	**939,048**	**672,791**

Profit before tax	**13,343,327**	**12,001,555**
Less: Profit not subject to tax	(9,252,681)	(9,476,832)
Profit subject to tax	**4,090,646**	**2,524,723**
Effective tax rate applicable in overseas jurisdictions	21.3%	23.0%
Tax calculated based on the current tax rate (effective rate)	871,627	580,686
Effect of income not subject to taxation	(74,976)	(49,571)
Effect of expenses not deductible for tax purposes	143,734	146,963
Adjustments to prior periods corporate taxes	(1,337)	(5,287)
Income tax expense	**939,048**	**672,791**

(All amounts are shown in thousands of Qatari Riyals)

Movement in deferred tax asset

	2016	2015
Balance as at 1 January	145,175	112,489
Relating to subsidiary acquired	62,453	–
Deferred tax recognised in consolidated income statement		
Loans and advances to customers	39,631	17,787
Property and equipment	(7,637)	2,686
Employee related accruals	25,295	(16,202)
Unearned revenue	(3,682)	3,862
Others	(49,957)	11,899
	3,650	**20,032**
Deferred tax recognised in consolidated statement of comprehensive income		
Effect on fair value reserve	96,697	2,224
Others	(609)	–
	96,088	**2,224**
Foreign exchange translation	(89,539)	10,430
Balance as at 31 December	**217,827**	**145,175**

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 instrument eligible for Additional Tier 1 Capital, by the weighted average number of ordinary shares in issue during the year.

The previously reported earnings per share as at 31 December 2015 have been restated for the effect of the bonus share issue.

	2016	2015
Profit for the year attributable to equity holders of the Bank	12,364,637	11,264,242
Less: Dividend appropriation for instrument eligible for Additional Tier 1 Capital	(252,500)	–
Net profit for the year attributable to equity holders of the Bank	**12,112,137**	**11,264,242**
Weighted average number of shares	839,675,325	839,675,325
Earnings per share (QR) – basic and diluted	**14.4**	**13.4**

The weighted average number of shares have been calculated as follows:

	2016	2015
Weighted average number of shares at the beginning of the year	839,675,325	699,729,438
Effect of bonus share issue	–	139,945,887
Weighted average number of shares at the end of the year	**839,675,325**	**839,675,325**

(All amounts are shown in thousands of Qatari Riyals)

34. Contingent liabilities and other commitments

a) Contingent liabilities

	2016	2015
Unutilised credit facilities	105,786,136	52,447,682
Guarantees	64,719,723	46,391,681
Letters of credit	34,068,287	10,837,060
Others	18,127,743	27,087,805
Total	**222,701,889**	**136,764,228**

b) Other commitments

	2016	2015
Forward foreign exchange contracts	73,549,192	39,513,185
Interest rate swaps	108,194,024	50,850,271
Options, caps and floors	10,506,943	634,992
Futures	76,804	–
Credit default swaps	910,763	–
Cross currency swaps	97,674,074	–
Mutual funds	13,897,029	14,088,610
Total	**304,808,829**	**105,087,058**

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 2016:						
Cash and balances with central banks	18,556,184	1,018,976	13,820,669	–	9,787,747	43,183,576
Due from banks	2,625,506	7,565,993	22,524,338	8,779,801	4,225,577	45,721,215
Loans and advances to customers	356,268,289	18,098,370	96,460,054	2,976,849	46,613,669	520,417,231
Investments	41,278,181	5,652,419	16,695,933	503,963	23,203,409	87,333,905
	418,728,160	**32,335,758**	**149,500,994**	**12,260,613**	**83,830,402**	**696,655,927**
Other assets						23,038,588
Total assets						**719,694,515**
Due to banks	4,897,471	10,737,898	32,712,284	529,765	12,957,098	61,834,516
Customer deposits	260,921,057	13,336,037	155,733,801	3,247,989	73,455,703	506,694,587
Debt securities	–	–	23,623,465	–	5,202,409	28,825,874
Other borrowings	–	–	12,839,150	–	10,889,737	23,728,887
	265,818,528	**24,073,935**	**224,908,700**	**3,777,754**	**102,504,947**	**621,083,864**
Other liabilities						27,757,233
Total equity						70,853,418
Total liabilities and equity						**719,694,515**
Guarantees	29,717,605	1,777,332	14,803,303	243,695	18,177,788	64,719,723
Letters of credit	15,181,128	1,454,650	1,736,365	–	15,696,144	34,068,287
Unutilised credit facilities	77,280,555	4,763,939	4,388,002	–	19,353,640	105,786,136
As at 31 December 2015:						
Cash and balances with central banks	16,495,135	983,739	213,585	–	13,873,312	31,565,771
Due from banks	1,210,678	3,025,469	5,174,400	3,260,583	4,429,634	17,100,764
Loans and advances to customers	294,372,555	15,665,542	21,757,911	1,465,487	55,030,634	388,292,129
Investments	42,165,336	4,786,816	2,170,384	614,020	39,371,240	89,107,796
	354,243,704	**24,461,566**	**29,316,280**	**5,340,090**	**112,704,820**	**526,066,460**
Other assets						12,540,680
Total assets						**538,607,140**
Due to banks	2,119,843	15,119,535	4,205,007	1,503,063	13,334,150	36,281,598
Customer deposits	242,918,402	16,576,397	67,779,112	1,753,956	66,162,435	395,190,302
Debt securities	–	–	16,342,420	–	–	16,342,420
Other borrowings	–	–	4,010,877	–	11,109,612	15,120,489
	245,038,245	**31,695,932**	**92,337,416**	**3,257,019**	**90,606,197**	**462,934,809**
Other liabilities						13,616,933
Total equity						62,055,398
Total liabilities and equity						**538,607,140**
Guarantees	21,147,171	1,666,402	6,094,024	441,220	17,042,864	46,391,681
Letters of credit	5,880,753	684,468	910,125	–	3,361,714	10,837,060
Unutilised credit facilities	38,178,363	3,265,319	337,202	–	10,666,798	52,447,682

Other assets includes property and equipment and intangible assets.

(All amounts are shown in thousands of Qatari Riyals)

36. Derivatives

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

				Notional / expected amount by term to maturity			
	Positive fair value	Negative fair value	Notional amount	Within 3 months	3-12 months	1-5 years	More than 5 years
As at 31 December 2016:							
Derivatives held for trading:							
Forward foreign exchange contracts	222,158	320,741	73,549,192	45,396,454	27,536,259	616,479	–
Caps and floors	2,182	2,182	615,064	–	–	615,064	–
Interest rate swaps	140,405	203,188	39,286,691	1,570,334	4,595,926	9,223,544	23,896,887
Futures	400	(344)	76,804	3,474	1,972	71,358	–
Credit default spreads	1,368	–	910,763	–	291,444	601,104	18,215
Cross currency swaps	2,549,536	2,222,260	80,510,465	50,685,254	16,734,831	12,998,709	91,671
Options	59,681	52,137	9,891,879	8,141,589	1,738,685	11,605	–
Derivatives held as cash flow hedges:							
Interest rate swaps	344,220	1,202,256	62,947,869	584,099	13,789,837	34,847,915	13,726,018
Cross currency swaps	1,092,612	–	6,803,097	1,292,534	993,343	4,517,220	–
Derivatives held as fair value hedges:							
Interest rate swaps	19,092	196,562	5,959,464	–	–	2,955,008	3,004,456
Cross currency swaps	2,420,513	–	10,360,512	538,835	2,286,054	7,447,540	88,083
Total	**6,852,167**	**4,198,982**	**290,911,800**	**108,212,573**	**67,968,351**	**73,905,546**	**40,825,330**
As at 31 December 2015:							
Derivatives held for trading:							
Forward foreign exchange contracts	72,107	58,572	39,513,185	25,539,306	13,973,879	–	–
Caps and floors	18,803	18,803	634,992	–	–	634,992	–
Interest rate swaps	27,321	–	14,290,767	–	553,818	3,426,180	10,310,769
Derivatives held as cash flow hedges:							
Interest rate swaps	102,795	599,330	36,545,129	400,455	4,563,262	18,522,663	13,058,749
Derivatives held as fair value hedges:							
Interest rate swaps	74	32	14,375	14,375	–	–	–
Total	**221,100**	**676,737**	**90,998,448**	**25,954,136**	**19,090,959**	**22,583,835**	**23,369,518**

Cash collaterals given for derivative transactions amounted to QR651.9 million (2015: Nil) which are included under Due from Banks in note 9. Collaterals received for derivative transactions amounted to QR3,376 million (2015: Nil) which are 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.

(All amounts are shown in thousands of Qatari Riyals)

Forwards and futures

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

Forward rate agreements

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

Options

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

Caps and floors

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

Derivatives held for hedging purposes

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

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

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

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

Derivatives held for trading purposes

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

37. Mutual funds

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

	2016	2015
Funds marketed	**52,183**	**140,730**

The Group's investment activities also include management of certain investment funds. As at 31 December 2016, third party funds under management amounted to QR13,897 million (2015: QR14,088 million). The 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 financial investments of the Group.

(All amounts are shown in thousands of Qatari Riyals)

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:

	2016	2015
Statement of financial position items		
Loans and advances	1,945,372	1,797,141
Deposits	286,328	535,298
Contingent liabilities and other commitments	65,246	41,209
Income statement items		
Interest and commission income	57,589	49,287
Interest and commission expense	3,973	4,545

	2016	2015
Associates		
Due from banks	197,162	947,924
Interest and commission income	6,991	18,295
Due to banks	524,740	901,792
Interest and commission expense	2,559	4,285

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.

	2016	2015
Compensation of key management personnel is as follows:		
Salaries and other benefits	41,296	44,801
End of service indemnity benefits	932	1,042

39. Cash and cash equivalents

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

	2016	2015
Cash and balances with central banks	13,816,989	19,312,687
Due from banks maturing in three months	39,047,058	10,737,927
Total	**52,864,047**	**30,050,614**

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

(All amounts are shown in thousands of Qatari Riyals)

40. Business combination

Further to the Share Sale and Purchase Agreement ('SPA') entered on 21 December 2015, the Group concluded the acquisition of a controlling stake of 99.81% in Finansbank A.Ş. (now renamed as 'QNB Finansbank') in June 2016. This acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of QNB Finansbank for the year ended 31 December 2016.

The fair values of the identifiable assets and liabilities of QNB Finansbank were:

Assets	
Cash and balances with central banks	16,227,331
Due from banks	1,082,282
Loans and advances to customers	77,605,537
Investment securities	13,770,127
Intangible assets	984,932
Other assets	10,796,806
Total assets	**120,467,015**
Liabilities	
Due to banks	18,406,080
Customer deposits	66,259,699
Debt securities and other borrowings	8,001,734
Other liabilities	16,722,441
Total liabilities	**109,389,954**
Total identifiable net assets at fair value	11,077,061
Non-controlling interests	(37,419)
Purchase consideration transferred	**11,039,642**
Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary	(1,441,897)
Cash paid	11,039,642
Net cash outflow	**9,597,745**

From the date of acquisition, QNB Finansbank has contributed QR6,778 million of net operating income and QR1,349 million to the profit for the period.

In compliance with IFRS 3, the Group has carried out one time 'Purchase Price Allocation (PPA)' exercise of the value paid for the acquisition of 99.81% share in QNB Finansbank. PPA identifies the value paid for the tangible assets, intangible assets and the premium/goodwill arising on the acquisition. Based on the final results of PPA, intangible assets were QR984.9 million, which represents operating licence having indefinite life.

Subsequent to 30 June 2016, QNB increased its ownership in QNB Finansbank, from 99.81% to 99.88% through buying from non-controlling interests for a total cost of QR12.3 million. The additional increase in stake has been considered as part of post acquisition equity adjustment.

41. Comparative figures

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

Qatar National Bank S.A.Q.
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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:

	2016	2015
ASSETS		
Cash and balances with central banks	21,295,688	22,026,180
Due from banks	49,285,661	20,868,043
Loans and advances to customers	425,047,901	349,051,474
Investment securities	51,961,550	55,201,747
Investments in subsidiaries and associates	30,797,683	19,697,962
Property and equipment	1,479,965	1,062,940
Other assets	8,029,997	4,135,741
Total assets	**587,898,445**	**472,044,087**
LIABILITIES		
Due to banks	76,135,207	61,924,363
Customer deposits	402,710,073	330,054,497
Other borrowings	20,568,775	11,954,445
Other liabilities	13,171,191	9,089,829
Total liabilities	**512,585,246**	**413,023,134**
EQUITY		
Issued capital	8,396,753	6,997,294
Legal reserve	24,486,361	23,086,902
Risk reserve	7,000,000	5,000,000
Fair value reserve	295,432	61,776
Foreign currency translation reserve	(1,106,367)	(707,297)
Other reserves	594,043	1,194,879
Retained earnings	25,646,977	23,387,399
Total equity attributable to equity holders of the Bank	**65,313,199**	**59,020,953**
Instrument eligible for Additional Tier 1 Capital	10,000,000	–
Total equity	**75,313,199**	**59,020,953**
Total liabilities and equity	**587,898,445**	**472,044,087**

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(ii) Income statement for the year ended 31 December:

	2016	2015
Interest income	15,945,919	13,898,907
Interest expense	(5,982,333)	(3,974,946)
Net interest income	**9,963,586**	**9,923,961**
Fee and commission income	1,760,357	1,730,949
Fee and commission expense	(361,708)	(253,364)
Net fee and commission income	**1,398,649**	**1,477,585**
Foreign exchange gain	543,835	623,374
Income from investment securities	199,486	140,669
Other operating income	2,119	1,515
Operating income	**12,107,675**	**12,167,104**
Staff expenses	(1,373,777)	(1,291,213)
Depreciation	(164,429)	(164,530)
Other expenses	(791,298)	(696,054)
Net impairment losses on investment securities	(50,041)	(178,529)
Net impairment losses on loans and advances to customers	133,483	17,483
Other provisions	4,573	(770)
Profit before income taxes	**9,866,186**	**9,853,491**
Income tax expense	(174,978)	(178,297)
Profit for the year	**9,691,208**	**9,675,194**

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