Chapter One

Banking Risk
First: Capital Adequacy Ratio

In compliance with article no. (120) of QCB Law especially the paragraph stating that “The QCB shall determine the nature, form and level of adequacy of the capital and the required timing thereof”, banks shall comply with the following:

1- Application of Capital Adequacy in pursuance with Basel II - National Banks

1/1 Banks are required to maintain a minimum capital adequacy ratio of 10% in pursuance with Basel II framework. Banks should comply with the Implementation Instructions of Capital Adequacy Calculation mentioned in annex no. (17).

1/2 Banks shall monthly provide QCB with capital adequacy calculation reports, according to the forms in annex no. (9), using the automated system, according to forms in annex no. (134), within the deadline of the 14th of the next month.

2- Capital Adequacy - Branches of Foreign Banks

2/1 Branches of the foreign banks operating in the State of Qatar, whose headquarters have applied Basel II Capital Adequacy requirements, should provide QCB with their capital adequacy ratio for the headquarter and its branches on a consolidated basis. The ratio of capital and reserves to the total net assets should not be less than 3%. On the other hand, branches of the foreign banks, whose headquarters have not applied Basel II Capital Adequacy requirements, should have the ratio of capital and reserves to the total net assets at 6% as a minimum. Such a ratio should be calculated and filled in conformity with form no. (1) in annex no. (127), as mentioned in Part Twelve, Periodical Data, in page no. (556) and Part Eleven, Sanctions and Financial Penalties, in page no. (543).

2/2 Components of Capital Accounts of Foreign Bank Branches:

   2/2/1 Capital accounts comprises of the paid-up capital, reserves and retained earnings.

127 Net Assets stand for value of the assets minus provisions and suspended interests (returns).
2/2/2 Branches of foreign banks may increase any item of the capital account provided that QCB is informed, whereas QCB's written approval should be taken before decreasing any of such items of capital.

3- The External Auditor's Approval of Capital Adequacy in pursuance with Basel II

QCB has decided the following:

3/1 The annual reports, approved by the external auditor, submitted by the national banks should include an explanation to the effect that the bank applies the capital adequacy in pursuance with Basel II, along with the exact capital adequacy ratio.

3/2 As for the foreign bank branches operating in the State of Qatar, QCB shall be furnished with the exact capital adequacy ratio as approved by the external auditor for its headquarter and branches.

4- Capital Requirements for Licensing New Banks

Banks shall comply with the following:

4/1 Minimum capital requirements for licensing a national bank or a branch of foreign bank shall be QR one billion as mentioned in licensing forms attached in annex no. (25).

4/2 Increase or Decrease in Capital and Reserve Accounts - National Banks

Banks should not increase or decrease its paid-up capital or the capital assigned to operate in the State of Qatar, not use the balances in the reserves without stating reasons to QCB and seeking its approval, and not publish the same in the local newspapers without the written approval of QCB.

4/3 Risk Reserve - National Banks:

4/3/1 As for the financial statements ended at 31/12/2012, the risk reserve balance shall not be less than 2% of the total direct credit facilities granted by the bank and its branches, inside and outside Qatar, and its subsidiaries included in its consolidated balance sheet, after deduction of the specific provisions,

---

128 Refer to circular no. (102/2011) dated 15/12/2011 (National Banks). The following paragraph has been deleted: "As for the financial statements ended at 31/12/2011, the risk reserve balance shall remain 1.5% and be preferably increased to 2% to be close to the required minimum balance at the end of 2012".

---
suspended interests and deferred profits for Islamic banks, with exception of the credit facilities granted to the Ministry of Economy and Finance or the facilities guaranteed by Ministry of Economy and Finance and credit facilities granted against cash collaterals (with lien on cash deposits). As for the financial statements ended at 31/12/2013, the risk reserve balance shall be preferably increased to 2.5%.

4/3/2 No part of the balance in risk reserve should be used for any purpose without prior approval of QCB.

4/3/3 The risk reserve balance shall be separately included in the monthly statement in the Shareholder’s Equities.

4/3/4 As for Islamic banks and in order to avoid any confusion between risk reserves of the shareholders' equities according to the prudential requirement and those of Absolute Investment Deposit Holders' Equities according to standards issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), all mentioned banks shall comply with the following:

A- Calculating the risk reserve according to the ratio and methodology stated in paragraphs no. (4/3/1) and (4/3/2).

B- Value of the risk reserve, and any increase in it, shall be fully deducted from the shareholders' net share in the distributable profits. Subsequently, value of risk reserve shall be fully included under "Shareholders' Equities" item for calculating Tier II capital base for purpose of capital adequacy ratio.

C- Value of the risk reserve shall be included in the monthly balance sheet sent to QCB according to paragraph no. (4/3/3).

4/4 Maintain a reserve balance to which 10% of the annual profit shall be transferred till the reserve reaches 100% of the paid-up or allocated capital.

5- **Basel III**

According to Basel Committee requirements (Basel III) regarding Liquidity Ratio and Leverage Ratio, all banks should fill in and provide QCB regularly with the three forms

---

129 Refer to circular no. (71/2012) dated 5/8/2012.
attached to annex no. (10) at the end of each month as from August 2012 within a deadline of the 8th of the next month, taking into account the following:

A- Ratios and their components in each form are set as guidelines for observation purposes to know the bank’s position during the observation period. Banks should analyze and furnish reasons for deviation of the ratio including any observations on the components of the ratio, the suggested amendments and the banks’ plan, and the proper time periods, to deal with these deviations.

QCB should be provided with such information through the report attached to each form.

B- Banks should be accurate while filling in the required forms in compliance with the filling up instructions of each ratio and match their figures with the ones mentioned in the monthly statement. National banks should fill in two forms per ratio. One of which should be filled in on a solo basis (the bank and its branches inside Qatar) and submitted to QCB within a deadline of the 8th of the next month. The other form should be filled in on a consolidated basis (the bank, its branches and subsidiaries inside and outside Qatar) and submitted to QCB within a deadline of the 25th of the next month.

C- Banks should provide QCB with hard copies of the required forms signed by the bank’s Chief Executive Officer (CEO) and soft copies of the forms (excel sheets) in coordination with the concerned contacts at the Supervision and Control Department who can reply to any queries on filling up of the forms.

These instructions are effective from 5/8/2012.

6- Guidance on Basel Capital Adequacy Pillar II Application: Supervisory Review and Evaluation Process (SREP) and Application of Internal Capital Adequacy Assessment Process (ICAAP)

As a completion of a comprehensive application of Basel Capital Adequacy Framework, national banks shall commence application of Pillar II which includes Internal Capital Adequacy Assessment Process (ICAAP) as per the guidance in annex no. (138). This guidance clarifies the procedures that banks should take to set a

---

130 Refer to circular no. (60/2013) dated 60/8/2013, paragraph no. (3/14) in annex no. (138).
comprehensive system and internal processes in order to prepare studies and reports on assessment of capital adequacy against different risks that have not been taken into account when calculating the capital adequacy ratio as stated in the guidance. This guidance includes the QCB’s requirements and procedures of the capital adequacy assessment according to Pillar II. Paragraph no. (3/14), in annex no. (138), clarifies the information and data with which banks shall furnish to QCB through a comprehensive report on the results of the assessment that should be annually submitted as at the end of the year as from 31/12/2013. The following shall be taken into account:

1- The ICAAP report shall be reviewed by the external auditor before submitting to QCB according to guidance.

2- Banks may seek the assistance of consultancy houses (rather than the external auditor assigned to review the report) experienced in putting a capital adequacy assessment process in place.

7- Major Shareholders - National Banks

With reference to article no. (124) of QCB Law mentioned herein, QCB's prior approval shall be taken if an individual (natural person or legal entity) is to own 10% or more of a national bank's capital (direct or indirect ownership) according to the following:

- Indirect ownership concept shall be applied according to the definition mentioned under items no. (2/1/2-2/1/5) in page no. (187).
- Reports of major shareholders’ periodical data, mentioned in Part Twelve, Periodical Data, in page no. (557), shall be filled according to annex no. (13) in 31/12 of each year within a deadline of the end of January of the next year (filling up instructions in annex no. (13)).
- QCB's prior approval should be taken if any financial institution will own 50% or more of a national bank (direct or indirect ownership), taking into account the instructions on consolidated supervision.
- The following questionnaire forms should be fully filled in and attached to the application form:
- Personal Questionnaire on Candidate for Board of Directors or Major Shareholder. Refer to annex no. (47).
- For companies: Questionnaire on Companies’ Candidate for Board of Directors or Major Shareholder. Refer to annex no. (21).

- Application forms should be submitted on basis of conditions for choosing the candidate for board of directors, taking into account the interests of depositors, shareholders and the banking system as a whole.

These instructions are effective from April 2007. Government and the semi-government are exempted from the above-mentioned instructions.

**Article no. (124) of QCB Law:**

“The Board identifies the percentages and the terms set for natural and legal persons to own shares in financial institutions subject to the control and supervision of the QCB. Such percentages shall not be exceeded directly or indirectly. Each financial institution shall provide the QCB with all relevant information and data.”
Second: Credit and Financing Risk

A- Controls on Credit Facility Classification and Provision Determination

First: Instructions on Credit Facility Classification and Provision Determination

All banks should comply with the following instructions when classifying the credit facilities, determining the provisions and suspending the interests (returns):

A- Definitions

The following definitions shall be applied for purpose of implementing these instructions only and do not stand for any changes on the other definitions mentioned in the "Instructions To Banks":

1- Credit Facilities

1/1 Direct Credit Facilities
- Loans and the like
  All types of loans, discounted papers, Islamic financing receivables of Murabaha, Musawama, Istisna and Ijarah contracts, and any other receivables paid by determined installment(s).
- Other direct credit facilities
  The overdrafts, overdrawn demand accounts, bills under letters of credit, Islamic financing receivables of Mudaraba and Musharaka contracts, and any other obligations.

1/2 Indirect Credit Facilities
  The documentary letters of credit, letters of guarantee, acceptances and any other potential or deferred obligations.

---

131 Refer to circular no. (20/2009) dated 12/4/2009. Other account receivables within the credit facilities.
2- Rescheduled Credit Facilities

2/1 Any of the above mentioned credit facilities if it is decided to be rescheduled as a result of the customer's default or difficulties of repayment. The rescheduledment includes one or more of the following cases:
- To extend the agreed repayment maturities.
- To abandon a part of the principal and/or the interest (return).
- Decrease the agreed interest (return) rate.

2/2 Rescheduling Credit Facilities against Salary:
Refer to item “Fourth” in page no. (212).

B- Credit Facility Classification Categories

1- Performing Credit Facilities

The accounts whose holders are obligated to fulfill their subsequent commitments in conformity with the due dates and agreed conditions. Accordingly, there are neither indications nor evidences that such account holders may not completely fulfill their commitments as agreed upon.

Such accounts are classified mainly into two categories:

1/1 Low Risk Credit Facilities
The accounts whose holders have strong financial positions, sufficient and permanent financial resources and cash flows, and good banking reputation. Additionally, they do not have weakness indicators. Government accounts or accounts of those entities which are guaranteed by government are also included under this category.

1/2 Special Mention Credit Facilities
Such accounts are subject to the indicators for non-performing credit facility for period less than three months, or they have been special mention due to the weakness indicators arising from the customer's financial positions or affected by the market circumstances or any other problems in the industry, etc..

---

2- Non-Performing Credit Facilities

Such accounts do not fulfill their commitments in conformity with the due dates and agreed conditions for a period of three months or more, or there are indicators or evidences that such account holders are not able to fulfill their commitments in full as agreed upon.

Such accounts are classified as the following categories:

- Substandard
- Doubtful
- Bad

C- Indicators of Non-Performing Credit Facility Classification

1- Indicators of Non-Performing Credit Facilities

- Customer has defaulted to pay one of the installments of the loan or the like.
- The agreed payments of the other direct credit facilities are past due.
- The limit granted for the other direct credit facilities is not renewed without submitting any acceptable reasons.
- The balance exceeds limits granted for the other credit facilities by 10% or more without submitting any acceptable reasons.

The credit facilities would be classified as one of the above-mentioned non-performing credit facilities if one or more of the mentioned indicators where occurred according to the following delaying periods:

<table>
<thead>
<tr>
<th>Category</th>
<th>Delaying Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Substandard</td>
<td>3 months or more</td>
</tr>
<tr>
<td>Doubtful</td>
<td>6 months or more</td>
</tr>
<tr>
<td>Bad</td>
<td>9 months or more</td>
</tr>
</tbody>
</table>

2- Other Estimating Weakness Indicators

Besides the indicators of the non-performing credit facilities mentioned in the paragraph no. (1), there are other weakness indicators of the customer's insolvency. Subsequently, the credit facilities will be classified as non-performing credit facilities or re-classified from one category to another of
non-performing credit facilities even if it has not met one or more of the non-performing indicators mentioned in paragraph no. (1).

The following are the most significant weakness indicators:

- The customer’s borrower group has doubtful or bad accounts that have negative effects on the borrower.
- Insufficiency of sources for repaying the full value of the debt and interest as well as the insufficient collaterals.
- There are insufficient repayments to the overdrafts and overdrawn accounts that meet the nature of the account or the agreed conditions.
- There are gaps in the contracts and the supporting documentations that support and prove the bank’s right of claim on customer’s obligations.
- There are evidences of the customer’s insolvency or deterioration in the financial position, issuing of judicial verdicts against him, confiscating his properties, any other evidences of insolvency.
- Agreeing on rescheduling the debt or undertaking other settlements.
- The bank takes legal procedures against the customer.

3- Rescheduled Credit Facilities

3/1 The rescheduled credit facilities that are required to be classified as non-performing credit facilities shall be those accounts which have been rescheduled due to customer’s default in repayment or as a result of difficulties facing the customer, such as difficulty in repayment, lack of sources for repayment or lack of sources to cover the installments. Such of these rescheduled credit facilities should be classified under an appropriate category of non-performing credit facilities as given in QCB’s instructions.

3/2 Rescheduling of credit facilities for purposes other than as mentioned above shall not be required to be classified under the category of "non-performing credit facilities".

3/3 The rescheduled credit facilities classified as "non-performing credit facilities" according to paragraph no. (3/1) shall not be re-classified as "performing credit facilities" unless justifications are submitted to QCB.

4- Other Considerations for Credit Facility Classification

- The indirect credit facilities shall be classified according to the customer's direct credit facility classification.
- If no direct credit facility is granted to the customer, his indirect credit facilities shall be classified according to the above-mentioned weakness indicators.
- In case there are several credit facilities accounts of the same customer, and any one of such account is subject to one of non-performing credit facility indicators, all other accounts of the customer, shall also be classified under the same classification, unless acceptable justifications and reasons are submitted to QCB.

D- Provision Calculation and Suspended Interests (Returns)

1- The interest (return) on all categories of direct non-performing credit facilities shall be suspended until the balances are fully paid.

2- Banks should estimate appropriate provisions on the credit facilities according to the International Financial Reporting Standards (IFRS), provided that such provisions are not be less than the following ratios calculated on the outstanding credit facilities after deducting the suspended interest (suspended returns and deferred profits for Islamic banks) and value of the collaterals as mentioned in “E”:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Bank's Estimation</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Special Mention</td>
<td></td>
</tr>
<tr>
<td>- Substandard</td>
<td>20 %</td>
</tr>
<tr>
<td>- Doubtful</td>
<td>50%</td>
</tr>
<tr>
<td>- Bad</td>
<td>100%</td>
</tr>
</tbody>
</table>

3- The provisions for the indirect credit facilities shall be classified and disclosed separate from that of the direct credit facilities.
E- Valuation of Collaterals

Banks shall for the purpose of determining the provisions for non-performing credit facilities shall apply the following haircuts on the collaterals mentioned below after deducting the suspended interest (return) from the outstanding credit facilities:

1- Real Estate Mortgages

50% of the market value may be deducted from the real estate mortgage, and must not exceed 50% of the outstanding balance of credit facility under the following conditions:

- The real estate should be first-degree mortgage in favor of the bank.
- There should be no difficulty in selling the mortgaged property in favor of the bank; e.g. if it is a private residential property or have any other difficulties or obstacles or legal issues in selling the property.
- The market value of the real estate should be valued by two independent property valuers and the lowest of the valuation is taken into account.

2- Securities

50% of the market value of stocks or other securities listed in the exchange shall be deducted from the outstanding credit facilities while determining the provisions. The following conditions should be applied:

- The bank should possess appropriate pledges and agency contracts in favor of the bank to enable the bank to sell the securities for settlement of debt without referring to customer or taking up legal proceedings.
- There should be no hurdles or obstacles to liquidate the securities by the bank and settle the debt.

3- Customer Deposits

100% of customer’s deposit on which the bank has a lien may be deducted from the outstanding credit facilities. Bank should have a lien signed by the customer to hold the deposit as collateral and there should be no legal obstacles to liquidate the deposit in favor of the bank.
4- Bank Guarantees

100% of the unconditional and irrevocable bank guarantees may be deducted if the same is issued by banks with internationally acceptable rating.

5- Precious Metals

50% of the market value of the precious metal shall be deducted, provided that such metals are independently valued by reliable sources and the bank is in possession by appropriate pledge and agency contract in favor of the bank. The pledge and agency contracts should enable banks to sell such metals in its favor and settle the debt without referring to the customer or taking any legal action.

Notes: Deduction of Collaterals denominated in Foreign Currency

In case any of the above collaterals are required to be liquidated in foreign currency, an additional 10% haircut may be applied to the haircut mentioned above against each of the collateral, except for collaterals denominated in US Dollar.

F- General Notes

1- The above-mentioned instructions and limits are minimum requirements that may be taken into account while putting up policies and procedures to classifying the credit facilities. Banks should have policies and procedures in accordance with their risk structure and without any contradiction to the instructions and limits. In case any bank has different categories of credit classification for internal purpose, the bank should map such internal categories to the categories given by QCB.

2- Provisions and suspended interests (returns) calculated as per the requirements given above, and approved by QCB at end of each year are minimum requirements of provision. Bank should calculate the provisions in conformity with the International Financial Reporting Standards (IFRS) and the same should be audited by External Auditor. Additionally, banks should
comply with the classification and provisioning requirements specified by QCB. Accordingly, all banks shall comply with the following:

2/1 The external auditor shall be annually assigned to audit the credit facility classification and provision determination in conformity with the International Financial Reporting Standards (IFRS).

2/2 QCB shall be furnished with the external auditor’s report as mentioned above in a deadline of the second week of November according to the position of the credit facilities as end of October, including:

A- Summary of scope and procedures of auditing. The following criteria shall be taken into account while conducting the annual audit of the credit facility classification:

1- \(^{135}\) Scope of Audit

<table>
<thead>
<tr>
<th>Description</th>
<th>Audit Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performing credit facilities whose balances are not more than QR 5 million for a single customer.</td>
<td>60%</td>
</tr>
<tr>
<td>Performing credit facilities whose balances are more than QR 5 million for a single customer.</td>
<td>100%</td>
</tr>
<tr>
<td>Non-performing credit facilities whose balances not more than QR100,000 for a single customer.</td>
<td>100%</td>
</tr>
<tr>
<td>Credit facilities given to the Bank’s board of directors, employees and related parties, irrespective of their balances.</td>
<td>100%</td>
</tr>
</tbody>
</table>

2- The audit shall cover the accounts of the companies and individuals according to the above-mentioned samples. All items of the credit facility classification table prepared by the external auditor shall be separately mentioned.

\(^{134}\) Refer to circulars no. (16/2012) dated 19/2/2012 and no. (102/2012) dated 4/11/2012.

\(^{135}\) Refer to circular no. (102/2012) dated 4/11/2012 (items no. 1-4).
3- The audit shall focus on and clearly show collaterals and the available sources of repayment in the credit facility classification table prepared by the external auditor.

4- The external auditor’s report shall be submitted directly to the Governor according to the defined deadlines.

B- A table of aggregation of credit facility classification categories (Special Mention, Substandard, Doubtful and Bad Credit Facilities) each in accordance with QCB’s instructions and controls according to the opinions of the bank and the external auditor, attaching the credit facilities whose classifications are disagreed as well as reasons for disagreement.

C- Provisions and suspended interests on the classified credit facilities that exceed QR 100,000 in conformity with QCB's controls, International Financial Reporting Standards (IFRS) and the external auditor's report, mentioning their differences from the bank's provisions as well as reasons for differences.

D- Collective provision for credit sectors having high risk (such as real estate, finance against salary, credit cards sectors, etc.) other than specific provisions made against each credit facility.

2/3 The external auditor of the bank’s branches abroad and subsidiaries inside and outside Qatar shall prepare a report on the assessments of debts and total provision value according to the host supervisory authorities and QCB’s standards. The external auditor shall also mention the differences and their reasons for purpose of implementing paragraph no. (4/2) in page no. (304). QCB shall be furnished with this report each year in a deadline of November according to the positions and balances of the credit facilities as end of October.

These instructions are effective from 19/2/2012. Banks shall comply with dates when QCB is furnished with the required reports. The delay of delivering the report will result in delay of QCB’s approval on the bank's financial statements, and penalties shall be accordingly applied.
3- External Audit’s Report on Credit Facility Classification and Provision Determination

With reference to circular no. (16/2012) dated 19/2/2012 concerning the above-mentioned subject, stating that the external auditor shall be annually assigned to audit the credit facility classification and provision determination (in a deadline of the second week of November) in conformity with QCB’s instructions and controls, and the International Financial Reporting Standards (IFRS), it has been noticed that the external auditor’s report indicated that “the audit procedures are not conducted on basis of the international standards of auditing or review, and the auditors have not verified the financing portfolio accounts. However, if they have conducted additional procedures, and the audit or review processes have been conducted on basis of the international standards, other matters would have drawn their attention”.

Hence, we confirm that banks shall direct the external auditors to strictly comply with the QCB's instructions mentioned above, and to assess the credit facilities and their classifications according to the IFRS and QCB’s instructions in the above-mentioned circular. Accordingly, QCB will not accept any reports that include a text that is contradicting to this context.

Second: Reclassification of Credit Facilities

Banks are required to inform QCB whereas they want to reclassify the credit facilities from non-performing to performing credit facilities.

The existing IT system for provisions shall be in use until new system comes into effect.

Third: Updating and Submission of Provisions Data on Non-Performing Credit Facilities

Banks should comply with the following:

- Banks shall complete data entry and updation of data relating to provisions made against non-performing credit facilities (substandard/doubtful/bad) and

---

136 Refer to circular no. (20/2013) dated 17/2013.

Fifteenth Edition 179 September 2013
suspended interests (returns) of customers through the IT System as per the instructions given in annex no. (8) as from the due date of the first installment, within the stipulated deadline of the 20th of November of each year.

- QCB shall be furnished with the external auditor’s report on the credit facility and computation of amount of provision (in a deadline of the second week of November). In pursuance with the International Financial Reporting Standards (IFRS), banks should direct the external auditors to evaluate the need for making a collective impairment provision for the credit facilities/finance granted to some sectors (such as; retail or commercial real estate sector, etc.) and to estimate the provision value appropriate for each sector. A category “Special Mention Credit Facilities” is added to the IT System so that the bank can classify the accounts under this category according to item no. (1/2) in page no. (171). Customer Classifications Codes are attached to annex no. (166). Banks should take into account these classifications when preparing the monthly electronic file of Credit Risk system.

Fourth: Periodical Data

Please refer to Part Twelve, Periodical Data, in page no. (559) relating to computing data on provisions and annex no. (8) on data entry system instructions for provisions for non-performing credit facilities and suspended interest through the IT System of QCB.

Fifth: Bills Discounted and Past Due Installments of Loans

The bills discounted that are past due and installments of loans should not be debited to the customer’s overdraft or overdrawn accounts, but should be recorded as past due.
1- National Banks should seek and get the approval of the board of directors or person authorized by the board for this purpose, before writing off a customer’s debt or entering into an agreement with the customer to write-off all or a part of the loan or interest. Branches of foreign banks operating in the State of Qatar should seek and get their headquarters’ prior approval in this regard.

2- Banks should notify QCB, before writing off more than QR 100,000 for a single customer or at least one month prior to entering into an agreement with the customer, to write off the debt as per the requirements given in form no. (1 \(\sim\) 1) in annex no. (12). In case the bank does not receive any objection from QCB within one month from the date of application in the said Form, the bank may proceed to write off or settle the debt as per the agreement with the customer.

3- QCB shall be informed on yearly basis about the debts write off that are below QR 100,000 for each customer.

4- Debts should be written off by banks only after the customer has settled the negotiated debt amount.

5- Recovery of written-off debts - It has been observed that banks do not enter in the system the amounts recovered from the customers after writing off the debt, thereby not indicating the correct amount of outstanding and affecting the classification of the customer. Banks should therefore update the amounts recovered after writing off the debt in the IT system of QCB before 25/10/2007.

6- Data on written-off debts of the past years - The data relating to written off debts should be entered into the IT system in conformity with the instructions under item no. (7) in page no. (367) and the data entry instructions in annex no. (8).

7- Treatment of Bad Debt

7/1 Excluding Bad Debt from Balance Sheet:

7/1/1 Banks may exclude bad debts, which the bank continues to claim in whole or a portion of the bad debt and for which a 100% provision is made, from the balance sheet. Accordingly, these excluded bad debts should be recorded in a registry and all documentary papers and documentations should be archived in

order to keep the right of banks to claim and collect these debts from the
customers and guarantors by all possible means, including taking legal actions.
The bad debts may be excluded from the balance sheet only after one or more
years since they were classified as bad debts and there had been no settlement of
the outstanding principal or interest.
In addition to the above, one or more of the following conditions (A, B or C)
should be fulfilled:
A- There are no sources of funds from which the bank can collect the debt,
including the following as a whole:
  • The bank does not hold any tangible collateral that can be executed and
    liquidated to collect the whole amount or portion of the debt.
  • The customer is bankrupt or there is reliable information that the
    customer does not have any sources of funds that can be claimed to
    collect the whole amount or portion of the debt.
  • There are no guarantors or the previous paragraph applies to the
    guarantors (i.e.; they are bankrupt or do not have any sources of funds).
B- The customer has left the country and cannot be reached, and does not
have any sources of funds, financial resources or properties in Qatar.
C- Any other stronger evidences, other than mentioned in (A, B) that may be
approved by QCB, proving the bank's inability to collect the debts and that
there is no need to keep these bad debts on the balance sheet.

7/1/2 The bad debts shall be excluded from the balance sheet according to the
above-mentioned conditions at the end of the year. In order to exclude bad debts
from their balance sheets, banks should get the approval of the board of directors
or the head office of the branches of the foreign banks. Every year at the end of
October, data on these excluded debts and the Auditor's opinion should be sent to
QCB according to forms no. (1) and (2) in annexes no. (163) and (164). Banks may
exclude these bad debts from the balance sheet if they have not received any
objection one month since QCB was notified.

7/2 Bad Debt Write-off:
7/2/1 “Bad Debt Write-off” is to write off the debts completely whether from the
balance sheet or the bank's registry of bad debts excluded from the balance sheet.
This is because the bank has decided that there is no need to continue claiming the
debts as there is no hope to collect the debts, the bank has waived to claim the whole amount or portion of the debts through a settlement agreement with the customer, or the bank’s right to claim is forfeited. If banks want to write off the debts from their registry of bad debts excluded from the balance sheet, they should fill in and send form (1) “Notification about Debts due to be Written off” in annex no. (12) to QCB, mentioning that these are the bad debts that have been written off from the balance sheet.

7/2/2 Conditions and Procedures:
The instructions in page no. (181) shall be applied.

These instructions are effective from 4/9/2011.

8- **Excluding Bad Debt from Balance Sheet**

For purpose of controlling and following up circular no. (68/2011) dated 4/9/2011 concerning Bad Debt Write-off, banks should comply with the following:

8/1 Banks shall enter the following data on the debts which are approved by QCB to be written off from the balance sheet on the computer system:

- Customer’s PIN number.
- Classification Date under category “Bad Credit Facilities”.
- QCB’s Date of Notification about Bad Debts Written off from the Balance Sheet.
- Value of the debts that are written off from the balance sheet.
- The outstanding balance of provisions.
- Total suspended interests/returns.
- Reasons of writing-off from the bank’s balance sheet (one or more reasons that are listed in the system).

8/2 Banks shall reduce the outstanding balance of bad debts by any repayments and/or any amount decided by the bank to write off.

8/3 Banks shall enter value of any debts that the bank want to write off from the balance sheet in future after obtaining QCB’s no objection each year, at the end of September.

8/4 Form no. (2) shall be filled in for each customer whose debt is QR 100 or more. Refer to annex no. (164).

---

140 Refer to circular no. (80/2011) dated 9/10/2011.
QCB shall be furnished with the required two forms no. (1) and (2) in annexes no. (163) and (164) for bad debts written off from the balance sheet within two weeks as a maximum as from the issuance date. Data on these customers should not be entered in the system before the end of one month from notifying QCB and without receiving any objection.

9- The Excluded Debt System

With reference to QCB’s instructions on Debt Write-off, Treatment of Bad Debt and Excluding Bad Debt from Balance Sheet, and for the purpose of control and follow up of these debts through the system, banks shall comply the following mechanism while entering any of the following amendments on the excluded debts that may be entered in the system:

1- Writing off the whole amount or portion of the excluded debt.
2- Repaying the excluded debt in full or in installments.
3- Repaying portion of the excluded debt and writing off the remaining amount.
4- Including and re-entering the excluded debt in the bank’s records.

First:

QCB should get a written notification about the whole amount or portion of the excluded debt due to be written off using the form no. (1) in annex no. (12). As for the branches of the foreign banks, QCB shall be furnished with approval of the board of directors or the general management on writing off the whole amount or portion of this debt. If the excluded debt has been repaid or is due to be included and re-entered in the bank’s records, QCB shall be furnished with a written notification about this case mentioning the reasons for including this debt.

Second:

Banks shall enter the required data in the excluded debt system under “Amend Excluded Debts” as the required amendment should be made through the available options using the customer’s password. If there are more than one amendment (writing off and repaying), the amendments shall be separately made. After a study by QCB the application of writing off, repaying or including the debt, this application may be approved or disapproved through the system.

These instructions are effective from 18/4/2012.

---

141 Refer to circular no. (29/2012) dated 18/4/2012.
C. Credit Policies and Concentrations

1- Credit Policies

Banks should, at regular intervals, review the strategies and credit policies to reduce the extent of credit risk and protect the interests of depositors. Banks should take into account the following points:

- Limits of the credit distribution by type.
- The maximum concentration limit of a single customer and his borrower group.
- Maximum limits of maturities.
- The basis for measuring customer's creditworthiness and collaterals.
- Minimum enquiries and financial data (required to be submitted by the customer).
- Basis of assessment and classification of the credit facilities into groups and categories and conducting complete study about the customers' positions.
- Authorizations and procedures for granting and renewing credit facilities, settlements, rescheduling and writing off debts.
- Limits and controls on the credit facilities granted to the related parties.
- Measuring and balancing the pricing risk.
- Banks should have a division for studies and credit risk evaluation.

2- Credit Concentrations

2/1 Definitions

2/1/1 Credit Facilities:

All customer's direct and indirect credit obligations taking into account the credit limit guaranteed or outstanding, whichever is larger including the following:

- Commercial Banks:
  The overdrafts and overdrawn accounts, loans, bills discounted, guarantees, documentary letters of credit, acceptances and other similar banking operations, as well as obligations of foreign exchange contracts, interest rate contracts, forward contracts and options that are subject to credit risk.
Interest rate contracts and foreign exchange contracts shall be taken into account for purpose of measuring the credit concentration for customers in the same way as it is applied to measure the credit concentration for banks and financial institutions according to risk weights given under capital adequacy framework as under:

<table>
<thead>
<tr>
<th>Description</th>
<th>Conversion Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>5- Interest Rate Contracts</td>
<td></td>
</tr>
<tr>
<td>- Less than a year</td>
<td>0.5%</td>
</tr>
<tr>
<td>- From one to two years</td>
<td>1%</td>
</tr>
<tr>
<td>- More than two years (increases each year by)</td>
<td>1%</td>
</tr>
<tr>
<td>6- Foreign Exchange Contracts</td>
<td></td>
</tr>
<tr>
<td>- Less than a year</td>
<td>2%</td>
</tr>
<tr>
<td>- From one to two years</td>
<td>5%</td>
</tr>
<tr>
<td>- More than two years (increases each year by)</td>
<td>3%</td>
</tr>
</tbody>
</table>

These instructions are effective from 8/9/2008.

- Islamic Banks:
  Murabaha, Musawama, Istisna, Mudaraba, Diminishing Musharaka Financing, and Ijara Muntahia Bittamleek, documentary letters of credit, guarantees and other Islamic banking financing transactions.

- Other Account Receivables within the Credit Facilities:
  It has been noticed that some banks include the account receivables within other assets due to transactions related to selling one of their assets (such as investments, fixed assets or others) or to any other transactions and these account receivables are not recorded under the credit facilities.
  All banks should include these account receivables within the credit facilities. Accordingly, these account receivables should be subject to QCB’s instructions on credit facilities; the banking risk, credit risk, credit

---

concentrations, credit facilities classification and other related instructions.

2/1/2 Customer:\textsuperscript{144}

An individual, i.e. self, or a natural guardian for minors, a representative of other parties, an institution, or a private or government company receiving credit facilitates from the bank.

2/1/3 Minors:

Children under legal age of 18 years.

2/1/4 Family Members:

Spouse and sons or daughters, whether they are adult or minor.

2/1/5 Borrower Group of a Single Customer:

Includes one or more of the following:

- Credit facilities granted to the customer.
- Credit facilities granted to joint accounts where the customer is one of the party.
- Credit facilities granted to or guaranteed by private institutions owned by the customer.
- Credit facilities granted to general partnerships in which the customer is a partner.
- Credit facilities granted to limited partnerships in which the customer is a general partner.
- Credit facilities granted to public shareholding companies in which the customer owns 30% of the capital and also participates in the management.
- Credit facilities granted to limited liability partnerships and partnerships limited by shares, in which the customer owns 50% of the capital and also has influence over their decisions.
- Credit facilities granted to others and guaranteed by the customer, regardless of the legal status of such borrowers.

\textsuperscript{144} Refer to definitions of the QCB Law; “Customer: Any physical or legal person who receives or deals in any financial services with financial institutions. A Customer is every person that commences receiving or dealing in any financial services, with financial companies.”
• Credit facilities granted to any other debtors and it appears to QCB or the bank that the credit risk of the group is similar to that of the customer. In cases where any obligations transferred by any customer to one of his family members' account shall be calculated, for any reason, within the credit concentration limits of this customer's borrower group at banks.

2/1/6 Credit Facilities to Related Parties

Includes the following:

• 145 Major owners and shareholders:
  Own 5% of the bank's capital personally and/or through minor members of their families and spouses and/or their institutions and companies in which they own 50% of the capital.

• Subsidiaries:
  In which the bank owns 50% or more of their capital.

• The members of the Shari’a Supervisory Board in Islamic banks.

• Major employees are senior employees in the bank and having administrative posts as the general manager, CEO, his deputies, his assistants, executive managers, auditing manager, consultants with or without salaries, and any others of the major executives who occupy positions indicated in the administrative system and they influence the bank's decisions or submit their reports to the general manager, CEO, the mandatory member of board of directors or the committees of the board of directors.

• Associates:
  In which the bank owns from 20% to 50% of their capital.

• Members of board of directors.

• External Auditors.

2/2 Maximum Limit of Credit Concentration

2/2/1 As for a single customer, the maximum limit of credit facilities that can be granted by a bank to his borrower group must not exceed 20% of the bank's capital and reserves.

145 For more details about the major shareholders, refer to annex no. (13).
2/2/2 As for a major shareholder, the maximum limit of credit facilities that can be granted by a bank to his borrower group must not exceed 10% of the bank's capital and reserves.

2/2/3 As for a single customer, the total investments and credit facilities that can be granted to his borrower group must not exceed 25% of the bank's capital and reserves.

2/2/4 The maximum limit of investments and credit facilities that can be granted to an associate must not exceed 25% of the bank's capital and reserves. As for subsidiaries, refer to the ceilings mentioned in the item no. (3/6) in page no. (304).

2/2/5 Banks are not allowed to grand credit facilities for commercial purposes to their managers and employees, with exception of loans granted to their employees for personal purposes in accordance with their internal employment policies as approved by the board of directors or by HO or HQ of branches of foreign banks. In all cases, the maximum limit on credit facilities granted to the bank’s employee including the interest or return shall be as following:146

Qatari Employee: QR 2 million
Non-Qatari Employee: QR 400,000, with possibility of increasing the amount up to QR 1 million as a maximum if the post-retirement bonus will cover such excess.

These instructions are effective from 26/10/2011.

2/2/6 147 Banks are not allowed to grant any credit facilities to their external auditors or to their family members.

2/2/7 National banks are not allowed to grant credit facilities against their shares as collateral. Refer to article no. (122) of QCB Law.

2/2/8 Branches of foreign banks should comply with the maximum limits of credit facilities to the borrower group as approved by QCB.

2/2/9 In all cases, the maximum limit of the credit facilities granted by all banks to a single customer and his borrower group must not exceed QR 3 billion. The

---

146 Refer to circular no. (83/2011) dated 26/10/2011.
147 Refer to article no. (131) of QCB Law.
credit facility should be granted according to the sound banking principles and standards. These instructions are effective from December 2007.

2/2/10 QCB’s prior approval should be taken for granting loan or finance at 10% or more of bank's capital and reserves and the maturity exceeding 10 years.

2/2/11 Total credit facilities granted to all customers and their borrower groups, at 10% or more of bank’s capital and reserves, must not exceed 600% of bank's capital and reserves.

2/2/12 Total credit facilities granted to related parties must not exceed 100% of bank's capital and reserves.

Branches of foreign banks are exempted from the limits mentioned under the items no. (2/2/11) and (2/2/12).

Exceptions:

- 148Credit facilities granted to Ministry of Economy and Finance and to the institutions and corporations sponsored and guaranteed by Ministry of Economy and Finance.

- Credit facilities guaranteed by cash deposits or margins. If the credit facilities exceed the blocked cash deposits with lien and margins, only the covered part will be exempted. Written authorization should be obtained for keeping lien and netting. Copies of the documents supporting such coverage must be attached.

- Credit facilities guaranteed by irrevocable and unconditional bank guarantees from a bank or financial institution with a sound financial position. The guarantees must be encashed on maturity of loan/finance or must be automatically renewed until the maturity of loan/finance.

- Bid bonds.

- Credit facilities granted to banks.

3- Additional Controls

3/1 The maximum credit concentration limits shall be calculated depending upon the credit limit granted or the outstanding balance, whichever is higher. The outstanding

---

148 Refer to circular no. (135/2008) dated 30/12/2008.
balance shall constitute the original amount and interest or return for the Islamic banks plus any other amounts added to the debt such as commissions, fines or others.

3/2 The credit ceiling granted to the customers must be for a period of one year, renewable after re-assessment unless the agreement between the bank and the customer states otherwise.

Exceptions:
- The loans and debts classified substandard, doubtful and bad debts.
- Credit facilities granted to Ministry of Economy and Finance and to the institutions and corporations sponsored and guaranteed by Ministry of Economy and Finance.

3/3 Periodical data requirements for the credit concentrations is mentioned in Part Twelve, Periodical Data, in page no. (559), and annexes no. (15-16).

4- Controls on Credit Facilities in terms of Overdrafts or Overdrawn Current Accounts (Commercial Banks)

Banks should set conditions and controls for granting credit facilities in terms of overdrafts or overdrawn current accounts so that it shall comply with to the following aspects, to ensure that the customers should never exceed the granted ceilings:

4/1 Financing Working Capital

It includes financing the current assets of companies such as goods, receivables, collection cheques and so on, taking into account the following:
- Ceilings should be set for customers and annually renewed in conformity with the bank's credit policies and QCB's instructions.
- The bank should periodically review the financial data of the debtor companies within the year in order to monitor their cash flows, inventory movements, sales, receivables, and financial positions, especially when renewing their credit facilities granted. QCB encourages banks to make periodical field visits to the debtor companies in order to assess their financial position and monitor the financed assets. The bank should endorse the insurance policies on the inventory in favor of the financing banks.

---

149 Refer to circular no. (135/2008) dated 30/12/2008.
Part (VII) - Instructions of Supervision and Control

- The bank should grant this type of finance to the companies with performing credit facilitates.
- The bank should verify participation of other banks in financing the customer’s current assets that are already financed by the bank.

4/2 Financing Transferred Payments and Self-liquidating Facilities

- Financing the construction contracts:
  It includes payments of the self-liquidating facilities, taking into account the QCB’s instructions on the credit facilities granted to the construction sector.
- Financing the transferred payments:
  It includes the leasing payments and the other payments transferred to the bank through official assignments of claim, taking into account finance ceilings.

4/3 Financing Margin Trading in Currencies, Commodities and Metals

It includes overdrawing the customers’ accounts for purpose of trading in currencies, commodities and metals in conformity with the controls set by QCB.

4/4 Overdrawing Accounts against Cash Collaterals and Bank Guarantees

It includes overdrawing the accounts against lien deposits or unconditional bank guarantees and undertakings, which totally cover the debts and interest at all the times, provided that the bank guarantees are issued by banks with an internationally acceptable rating.

4/5 Overdrawing Accounts for Emergency Purposes

4/5/1 This includes overdrawing the current accounts of prime and creditworthy customers for not more than 3 months at a time, provided a written approval is taken from the General Manager or the official authorized for this purpose in the bank, so that the account cannot be overdrawn without repayment and settlement of the earlier overdrawn balance. The bank should have appropriate collaterals, procedures and controls for overdrawing current accounts, in accordance with the financial solvency of the customer. Such facilities shall be granted to customers only with excellent credit rating.

4/5/2 It also includes overdrawing of customer’s accounts against their salaries with the bank. Such overdrawing shall be not more than 2-month salary for a
period not more than 2 months. No further overdrawing against salary may be allowed without repayment and settlement of the earlier overdrawn balance. These instructions are effective from October 2005.

4/6 Overdrawing Accounts for Different Purposes against Tangible Collaterals

It includes the overdrawn accounts for purposes other than those mentioned in paragraphs (4/1 - 4/5) under the following conditions:

- Total debit balance on all these accounts should not exceed, at any time, 15% of the bank's capital and reserves.
- The tangible collateral covering such overdrawn accounts should cover more than 100% of the debt and interest.
- Credit ceilings of these accounts should be determined and reviewed at least annually.
- The account holders should be with excellent financial position and creditworthiness.
- The accounts should be active and their holders should not have non-performing credit facilitates.
- The account holders should not have previously caused any losses for the bank or other banks from their previous debts (for principle or interest).

4/7 Exceptions

The following shall be exempted from the above requirements:

150 Credit facilities granted to the government that are guaranteed by Ministry of Finance and to the institutions and corporations sponsored and guaranteed by the Ministry of Finance.

4/8 Reporting Past Due Installments of Loans

Past due Installments of loans, documentary letters of credit, guarantees or other obligations should not be reported either in the overdrafts or overdrawn accounts of the customer. These should be registered as past due debts.

4/9 Periodical data

The Periodical Data requirements are mentioned in Part Twelve, Periodical Data, in page no. (561).

---

150 Refer to circular no. (135/2008) dated 30/12/2008.
5- Purchasing Loans from Inside and Outside Qatar

5/1 Purchasing Loans from inside Qatar

Whenever a bank intends to purchase loans from inside Qatar, it should get approval of the customer.

5/2 Purchasing Loans from outside Qatar

Whenever a bank intends to purchase loans from outside Qatar:

A- These loans should be rated as category "A".

B- Banks should get a no objection from QCB before purchasing a finance or a loan from outside Qatar whether by the bank, one of its branches or subsidiaries operating inside or outside Qatar. Details of the transaction should be submitted.

5/3 Purchasing Loans

It has been recently noticed that some banks have purchased loans from financial institutions whether from inside or outside Qatar. Accordingly, QCB would like to ensure that banks should comply with QCB's instructions and the sound banking norms while conducting such transactions as following:

1- Purchasing loans from inside Qatar:

Banks shall comply with credit risk management instructions to verify the quality of these loans, collaterals and sources of repayment as well as the instructions mentioned above in item no. (5/1).

2- Purchasing loans from outside Qatar:

Banks shall comply with the credit risk management instructions and the instructions mentioned above in item no. (5/2), and obtain QCB's no objection before purchasing loans from outside Qatar.

5/4 Purchasing Loans from outside Qatar

With reference to paragraph (B) under item no. (5/2) and to item no. (5/3), purchasing debts of the Qatari government companies, debts guaranteed by Ministry of Finance and debts of the national banks licensed by QCB shall be exempted from obtaining the QCB’s no objection, provided that banks comply

\[\text{Refer to circular no. (106/2011) dated 26/12/2011.}\]
\[\text{Refer to circular no. (10/2012) dated 6/2/2012.}\]
\[\text{Refer to circular no. (101/2012) dated 24/10/2012.}\]
with the instructions on the credit risk management and do not exceed any of the credit concentrations ceilings and ratios and indicators mentioned herein.

6- Credit Facilities Granted to Construction Sector
While granting credit facilities to the constructions sector, all banks should comply with the following:

- Banks should finance each bid or project of the customer separately and open an independent account for each project, and transfer the cash amounts of the project thereto in a way that this account or be closed after the end of the project and the credit facility is totally settled.
- In case of financing the capital assets of the customer, such as purchasing equipments and machines, the credit facility should be granted separately on medium to long term (or what is equivalent in the Islamic banks).
- Prior to granting any credit facility, the bank should ensure that the revenues from the project are transferred to the bank officially, through an official letter of assignment, and inform the concerned entities or parties transferring such payments through the assignment, and verify the sufficiency of resources for settlement, the collaterals and personal guarantee in order to secure the credit facilities and the repayments.

7- Personal Guarantees against Credit Facilities
Banks shall comply with item no. (5/3) in page no. (232), (circular no. (61/2012) dated 17/7/2012).

8- Statement of Account on Credit Facilities Granted to Customers
Banks should have monthly statements on different types of credit facilities granted to the customers.

9- Overdrawn Current Accounts (Islamic Banks)
Refer to page no. (223).

10- Conditions for Credit Facility Contracts and Documents
Banks should fulfill the following conditions necessary for the contracts, papers and documents of the credit facility:
• Customers and guarantors should sign on all the pages of the credit facility contracts and all the related documents thereto, and furnish all parties (the customers and the guarantors) with a copy of these contracts and the documents as documentary evidence certified copy signed and stamped by the bank according to the standard banking rules.

• Date of contracts should be specified and signed.

• Customers and guarantors should never sign any blank sheets of contracts, documents, cheques, receivable notes or guarantee applications. All blank spaces should be filled in with the required information. In the case of any violation, a financial penalty shall be imposed on the violating bank under the provisions of article no (216) of QCB Law.

• All data should be filled in all the mentioned-above contracts and documents and all pages should be signed by the customers and guarantors, with dates, providing all the parties (customers and guarantors), with a copy of these contracts and the documents as documentary evidence with the signature and stamp of bank according to the standard banking rules.

• Banks should take into consideration that the Arabic language is the official language on all the signed contracts with the customers inside Qatar. If the contract is signed in a foreign language and Arabic and English languages are used on the same page, it should be accompanied by an Arabic translation and the Arabic language will be the base for explaining the provisions of such contracts.

11- **Controls on Real Estate Finance**

First: Definitions

For the purpose of implementation and calculation of the limits and ratios stated in this circular, the following terms shall have the meaning as under:

1- Finance

A- Direct finance: Loans and advances portfolio and balances of Islamic finance included on the balance sheet.

B- Indirect finance: Indirect credit facilities included as off-balance sheet item.

---

154 Refer to circular no. (85/2010) dated 19/10/2010. The circulars no. (90/2010) and (10/2010) have been merged with circular no. (85/2010).
C- Unused ceilings of direct finance.

2- Real Estate Finance

Finance granted by a national bank, its branches, subsidiaries inside and outside Qatar, or by a branch of foreign bank operating in Qatar, to individuals, corporates and other legal entities inside and outside Qatar and the repayment of this finance is linked to the real estate risk, which includes:

A- Finance granted for the purpose of purchasing or constructing all types of buildings, in which the bank depends on real estate or real estate collateral as a source of repayment, such as rents, returns from sale of property, property mortgage and any other source of cash flows from real estate.

B- Finance granted for purposes other than real estate, but the bank depends on real estate or real estate collaterals as source of repayments.

C- Finance granted to individuals against salary for the purpose of purchasing or constructing buildings that is in excess of ceiling of credit facilities against salary 155 (QR 2 million and 6 years for Qatari citizens, and QR 400,000 and 4 years for Non-Qatari residents. In case the limit exceeds this amount, the excess should be covered by holding the post-retirement benefits. However, in all cases, the loan or finance should not exceed QR one million). The total value of such finance should be included under the ceiling for real estate finance.

The following shall be excluded from the controls and ceiling for real estate finance mentioned in this circular:

- Real estate finance granted to or guaranteed by the Ministry of Economy & Finance.

- Real estate finance against cash deposits liened to bank, excluding the equivalent amount of 100% of liened deposits if it is in Qatari Riyal or US Dollar or 90% if it is in any other foreign currencies.

- Real estate finance against unconditional and irrevocable bank guarantees issued by banks rated under first or second category as per QCB ratings related to ceilings on credit concentrations for banks. These bank guarantees should be automatically renewed until the full repayment of the principal and interest/returns is completed.

• Companies and government institutions that do not have guarantee from Ministry of Finance shall not be subject to any exemptions from the real estate finance ceilings and controls. In case of any excess over the ceilings due the exemptions granted by QCB or for any other reasons to the companies and government institutions, the bank should address this excess within the period as approved by QCB or get a guarantee from the Ministry of Finance for the purpose of exemption from the real estate finance ceilings.

Second: Total ceiling of real estate finance risk
Real estate finance risk should not exceed at any time 156(150%) of the bank’s capital and reserves. The real estate finance risk under this ceiling will include:
1- Real estate finance as the definition given under Item First. When calculating the total ceiling of real estate finance risk, the unused ceilings of direct finance that will be used for one year should be included. When calculating the loan-to-value ratio (LTV Ratio), the whole unused ceilings should be included.
2- Finance granted to real estate companies to finance their activities.
3- Finance granted to real estate mutual funds, special purpose vehicles (SPVs) or any similar entities having real estate activities, or for the purpose of participation in such entities.
4- Real estate Sukuk or debt securities that are held-to-maturity or are unlisted.
5- Value of property owned by banks against settlement of loans.
6- While calculating the ceiling of real estate finance, the bank should exclude provisions and deferred or suspended interest/returns that were made against them.

Third: Controls on real estate finance
Banks should comply with the following ratios and controls while granting real estate finance to its customers. The below mentioned ratios should be calculated for real estate finance as per the definitions given under Item First above of this circular:

---

156 Refer to circular no. (10/2011) dated 31/1/2011.
1- Real estate finance for individuals against salary

Real estate finance granted to individuals whose salary is the main source of repayment and is above the limit of consumer loan against salary (QR 2 million and 6 years for Qatari citizens, and QR 400,000 and 4 years for Non-Qatari residents) as mentioned in item (C).

1/1 The maximum limit of total real estate finance must be 70% of the value of the mortgaged properties.
1/2 The maximum repayment period of the real estate finance and interest/returns must be 20 years, including grace period if any.
1/3 The maximum salary deductions, including installments and any other liability must be 75% of the basic salary and social allowance for Qatari citizens, and 50% of total salary for non-Qatari residents, provided the salary and post-retirement service dues are transferred to the bank granting real estate finance.

2- Real estate finance for other customers

This will constitute all types of real estate finance other than real estate finance granted to individuals against salary as mentioned under Item No 1 above.

2/1 The maximum limit of total finance must be 60% of the value of the mortgaged properties.
2/2 The maximum repayment period must be 15 years, including grace period if any.
2/3 The maximum limits mentioned at Items No. 2/1 and 2/2 above, may be increased to 70% and 20 years, if the cash flows are regularly transferred to the bank through a formal assignment of claims that cover the full installment (that is principal amount + interest/return) during the repayment period, such as rents and other contractual incomes and revenues.

Fourth: Execution of Guarantees

1- Banks, before granting real estate finance, should complete the procedures for mortgage and verify that there are no legal obstacles that may hinder execution of the properties mortgaged as collateral for finance, such as when the property mortgaged is a private accommodation. The property mortgage should be of first degree. Banks should also be aware of the available legal
alternatives in order to facilitate execution of mortgaged properties within a reasonable time according to the type of finance, property and customer in accordance with the legal procedures for each. These alternatives may include:

A- Registration of mortgaged properties in bank’s name, particularly in case of Islamic finance based on purchase and sale, or other cases which are available in the commercial banks provided that all documents and legal requirements governing the bank-customer relation are fulfilled. These properties should be recorded as off-balance sheet collateral.

B- Granting finance such as lease finance in Islamic or commercial banks in compliance with laws, conditions, procedures and accounting standards as per QCB instructions.

In the above mentioned alternatives, the bank should not utilize the real estate collaterals, registered under its name, for any commercial or investment purposes. The bank should use these collaterals only for the purpose of collecting the principal and interest until final repayment. These should be supported by documents and agreements with the customers.

2- In case of financing real estates and projects under construction for which property titles have not been issued, as the bank is not allowed to have a lien on such titles for granting finance, the bank should obtain contract or any other legal documents from the customers, such as to assign their claim and inform the concerned entities about the bank’s lien or assignment over such property that is financed by the bank in order to retain the bank’s claim on the principal and interest/return.

Fifth: General Instructions

All banks should ensure the following:

1- The real estate financing policy should be developed in consistence with the risk structure, controls and ceilings relating to each type of customer category according to the financial conditions, cash flows, customer risk and the nature of the mortgaged properties in accordance with QCB’s general controls and ceilings.

2- The controls and conditions of real estate finance granted to customers outside Qatar should be according to the real estate market volume, nature and supervisory regulations applicable in each country. In all cases, the maximum
limit of finance should not exceed 70% of the mortgaged properties. The total real estate finance outside Qatar shall be included under the total ceiling of real estate finance risk.

3- The land and properties should be evaluated by an official real estate valuer registered in Court in Qatar. The price determined by the valuer will form the base for determining the financing value. In case real estate finance is granted outside Qatar, the valuation should be from valuers registered with the concerned relevant authorities. The valuers report should indicate the forced sale value of the property and bank should depend on this value to determine the extent of financing. The valuer should be independent and should have no relationship with either the bank or the customer which may affect his valuation.

4- When financing real estate projects under construction, the base value of the property should not exceed the original contracted amount agreed with the project owner. In case the bank is financing the real estate development projects and marketing it units, the bank should verify that the financing flows are connected to the stages of project implementation. Banks should make studies and follow-up to determine the ability of project completion and check that the returns from booking of the units and sale proceeds are transferred to bank to cover the installments and interest/returns and that the developer is not using these amounts for any other purpose.

5- Banks should not provide finance for purchasing lands for purpose of trading.

6- Periodical Data and Using the Forms

QCB should be provided with the ratio of real estate finance along with the monthly balance sheet attachments, on a monthly basis as per the requirements stated herein. Banks should use annexes no. (120) and (121) to calculate the net real estate finance risk ratio within a deadline of the 8th of every month as from 8/12/2010, according to the filling-up instructions, in annex no. (157), which are an integral part of circular no. (85/2010).

These instructions are effective from the date of issue. Financial penalties as stated in QCB Law shall be imposed on any bank that may exceed limits, controls and

instructions given herein (Refer to Part Eleven, Sanctions and Financial Penalties, item no. (2/2) in page no. (543)). 158In case any bank has excess over the limits prescribed in this circular at the time of issue of this circular, it should modify this excess before the end of 2011 provided that the existing excess will not be increased during this period, otherwise, it should obtain QCB’s approval for a longer period. Under all conditions, this excess should not be increased during the determined 6-month period.

12- Financing Subscription to Capital of Companies Under Establishment

Banks, that are allowed to receive subscription funds, shall finance the customers (non-founders) to subscribe to the capital of public shareholding companies under establishment whose shares will be listed on Qatar Exchange according to the following controls and conditions:

12/1 Bank shall finance two-thirds of the amount of subscription to the customer which will not exceed the permitted maximum subscription for one customer and his first degree relatives and provided that the customer finance the remaining one-third from his account held with the bank. The bank shall neither grant loans nor use any other credit facility granted to the customer to finance the customer’s one-third portion. Additionally, banks shall not grant more than one loan or finance to subscribe to capital of one company. Bank shall verify directly the allocation of finance to the subscription.

12/2 Before granting finance for subscription, banks shall have a mechanism to ensure that the refunds to the subscription after allocation of finance would be directly transmitted to the bank.

12/3 The bank shall, before granting finance, should have a legal mechanism accepted by the Qatar Exchange, by which the bank would have the right to the customer’s shares anytime without reference to the customer and also not allow the customer’s to use the shares without the approval of bank until repayment of bank dues.

12/4 After receipt of refund, in case there is a surplus after collection of loan and interest, the surplus should be immediately refunded to the customer’s account. However, in case of deficit the customer should be advised to settle the amount of

158 Refer to circular no. (10/2011) dated 31/1/2011, form of reporting fines in annex no. (122) and table on fines in annex no. (123).
deficit. In the case of non-settlement of the deficit by the customer, bank should liquidate the shares up to the value of the deficit within one month of listing of the shares on Qatar Exchange and settle the customer’s dues. In case of not listing the shares in the Qatar Exchange within 3 months from the date of receipt of refund, the bank should schedule the repayment by the customer as per the credit policy of the bank.

12/5 All customers’ loans or receivables on subscription to each company shall be separately recorded in general ledger accounts within the portfolio of loans and advances (finance) in a way that would facilitate controlling such loans (receivables), following up settlement of them, and liquidating their shares, when appropriate, according to the controls mentioned above in the paragraph no. (12/4).

12/6 While financing customers for subscription, all banks should ensure not to exceed the liquidity ratio, credit ratio or credit concentrations ceilings mentioned in the "Instructions To Banks".

12/7 Banks are prohibited to finance subscription or participating in companies outside Qatar, without 100% cash collaterals or unconditional bank guarantees from banks with an internationally acceptable rating.

12/8 Banks should report the finance for subscription to customers under "Other Liabilities" item until it is settled with the subscription manager.

12/9 Controls indicated above shall be applied for any direct or indirect credit facilities that will be, wholly or partially used for subscription, such as in the following cases:

- Overdrawing the account for emergency purpose or granting overdrafts or loans with exception of those guaranteed by blocked deposits lien covering 100% of debts or loans against salaries in conformity with regulations of the bank concerning such type of loan.

- Payment guarantees issued by the bank for customer to enable him to get the finance from other banks inside or outside Qatar unless covered by 100% cash collateral.

- Credit facility granted for other purposes and used by the customer usage for it either wholly or partly to subscribe to shares.

- Credit facility granted through the external branches of the bank or its subsidiaries for this purpose.

A financial penalty shall be imposed on the violating bank under the provisions of article no (216) of QCB Law.
13- Financing Subscription to Increase Capital of Companies

Banks shall finance the customers (non-founders) to subscribe to the capital in order to increase the capital of public shareholding companies whose shares are listed on Qatar Exchange, as per to the same controls and conditions on "financing subscription to capital of companies under establishment" mentioned in paragraph no. (12), provided that the bank ensures that the excess of funds after allocation will be directly transmitted to bank before granting the finance.

These instructions are effective from September 2006.

14- Acquisition of Lands and Premises as a Result of Credit Facilities Settlement

Lands and premises, that are acquired by the bank as a result of the debt settlement, must be disposed off within not more than 3 years from the acquisition date. This period may be extended or the property may be owned with QCB’s approval.

15- Interest Rate Risk on Loans

To manage the volatilities in the interest rate on the Qatari Riyal and the foreign currencies and in order to reduce the potential risk arising out of these volatilities on the banks’ activities, banks must take into account the following:

- Banks should not fix the interest rate on the credit facilities having maturities more than one year. The interest rates shall be varying as per the duration and be linked to repurchase (Repo) price determined by QCB for the Qatari Riyal or other indicators of the foreign currency interest rates, thereby avoiding the losses that the bank may bear in case the interest rates varies during the duration of facilities.

- In case bank wants to fix interest rates on credit facilities with maturities more than one year, bank should have the right to review and change the interest rate annually, so that they are able to fix the best rate, either upward or downward. Otherwise, the bank should hedge the fixed interest rate applied on the facility.

- Interest Rates on Credit Facilities:

  - It has been noticed that some banks fix the interest rate on credit facilities with maturities more than one year without hedging the interest rates. It has been also noticed that the variable interest rates are not linked to the

---

repurchase price determined by QCB for the Qatari Riyal or other indicators of the foreign currency interest rates. Additionally, some banks raise the variable interest rates although the repurchase price is not increased which is a violation of the instructions mentioned in the page no. (204). Accordingly, banks should comply with the instructions. In case of any violation, a proper penalty would be imposed.

- While banks manage their assets and liabilities in foreign currency, they should minimize or mitigate the mismatch gaps that would expose banks to the risk of volatilities in the exchange rates and interest rates. Banks may also hedge for such types of risks taking into account the instructions of QCB relating to banks’ transactions in foreign exchange and the Qatari money market instruments as given in page no. (257).

- Islamic banks should have a specific policy and mechanism in place to manage the return risk on their medium to long term financing activities taking into account the target rates on customer deposits and for measuring and limiting the gaps.

16- Commission on Loans and Receivables of Islamic Finance

When a bank computes the commission on early repayment of customers’ personal facilities or receivables of Islamic financing, this commission should not exceed 1% of the outstanding debit balance.

17- Collaterals against Credit Facilities

17/1 In case of cheques:

- The bank shall not get blank cheques, as collateral against credit facility, as they do not meet the necessary legal conditions, i.e. the date, sum and other details.

- When the bank agrees with its customers to receive from them cheques against personal loans granted to them, the bank shall not obtain one cheque against total loan but obtain separate cheques to cover the loan installments.

17/2 In case of residential real estates:

- Residential real estates should not be accepted as collaterals against credit facility or finance unless they are financed by the bank.
18- Payment Guarantees

The term "Payment Guarantees" would be defined herein as "letters of guarantee issued by banks in order to ensure that the customers can meet their commitments against the finance they get from other banks or financial institutions".

Due to the high risk of such guarantees, all banks should avoid issuing payment Guarantees, except for the following cases:

- Getting a cash collateral covering 100% of the guarantee value.
- Getting a bank guarantee (back-to-back guarantee) from banks with strong financial positions outside Qatar.

Payment guarantees issued for banks outside Qatar have been exempted from the cash collateral or back-to-back guarantee against them, provided that such guarantees are totally covered by enough tangible collaterals.

These instructions are effective from January 2008.

19- 161 Credit Facilities against Salary

19/1 Banks shall comply with the following:

First: Definitions

For purpose of implementing these instructions, the following terms and phrases stated in this circular shall have the meaning as under:

1- Credit Facilities against Salary

Credit facilities like loans, Islamic finance or credit card, granted to individuals working in the public or private sector in accordance with limits stipulated herein. The repayment of these facilities shall be deducted from the salary of individual which is the source of repayment, whatever may be the purpose of granting the credit facility.

2- Total Salary

The customer’s basic salary, all bonuses and allowances that are regularly transferred to the customer’s account at the bank.

3- Net Total Salary

It is the total salary after deducting the regular monthly obligations of the customer to the credit granting bank, other banks or any other entity.

4- Total Monthly Obligations against Salary

Customer’s total monthly obligations deductible from salary includes:

A- Regular monthly repayments of customer's obligations to bank relating to loans, credit card and overdrafts etc.; repayment obligations to other banks, that can be enquired from Qatar Credit Bureau; repayment of obligations to any others through standing orders to the bank or other regular payments made through accounts, such as rents.

B- 50% of installments of performing credit facilities of other customers which are guaranteed by the customer’s salary.

C- 100% of installments of non-performing credit facilities of other customers which are guaranteed by the customer’s salary.

5- QCB Rate

It is QCB’s lending rate.

Second: Maximum Limits on Credit Facilities against Salary

<table>
<thead>
<tr>
<th>1- Loans and Islamic Finance</th>
<th>Qatari Citizens</th>
<th>Non-Qatari Residents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum limit on loans and Islamic finance including the principal and interest or return</td>
<td>QR 2 Million</td>
<td>QR 400,000. In case the limit exceeds this amount, the excess should be covered by holding the post-retirement benefits for the government employees by an official letter from the place of work. However, in all cases, the loan or Islamic finance should not exceed QR one million.</td>
</tr>
<tr>
<td>Maximum period of loan or Islamic finance</td>
<td>6 years</td>
<td>4 years</td>
</tr>
<tr>
<td>Maximum rate of interest or return (rate of interest or return on reducing balances)</td>
<td>QCB Rate + 1.5%</td>
<td>QCB Rate + 1.5%</td>
</tr>
</tbody>
</table>
### Part (VII) - Instructions of Supervision and Control

#### 2- Credit Cards

<table>
<thead>
<tr>
<th></th>
<th>Total monthly obligations against salary</th>
<th>75% of the sum of basic salary and social allowance only</th>
<th>50% of total salary</th>
</tr>
</thead>
</table>

#### Third: General Controls on Credit Facilities against Salary

1- Banks shall grant credit facilities, like loans, Islamic finance or credit card limits against salary, only to customers whose salary is transferred to the bank or against lien on cash deposits that cover the principal and interest / return.

2- The loans or Islamic finance shall not be transferred from one bank to another during the repayment period, unless the following conditions are met:

A- The bank, to which the customer is indebted, transferor, shall get an undertaking from the bank to which the indebtedness is transferred, transferee. This undertaking shall state that the transferee bank will meet all customer’s obligations which include loans, overdrafts, Islamic finance, etc.,. They include also obligations resulting from credit cards granted to the customer by the transferor bank whether they are due or not due and other obligations that the transferor bank repays on behalf of the customer resulting from undertakings issued by the transferor bank to other entities such as; Qatar Development Bank or any other entities in the State of Qatar.

B- The customer who requests to transfer the indebtedness shall not be a sponsor of another customer at the transferor bank unless the transferee

---

162 Refer to letters sent to banks dated 11/5/2011.
Part (VII) - Instructions of Supervision and Control

bank undertakes to repay to the transferor bank any requirements that may result from this sponsorship.

C- The transferor bank (which receives the salary) shall issue a financial statement that includes the customer’s all direct or indirect obligations in addition to no objection to transfer the salary to the to the transferee bank against issuing the mentioned undertakings.

D- The transferee bank shall comply with the limits of the credit facilities against salary approved by QCB and not grant the finance unless it ensures the salary is transferred.

3- Banks shall not collect any fees or commissions from customers other than the interest or return stipulated in this circular.

4- Determining the rate of interest or return on loan or Islamic finance against salary:

4/1 When determining the rate of interest, conventional banks should comply with the following:

A- The rate of interest on new loans should be indicated in the customer’s loan contract according to current QCB Rate, together with a margin that should not exceed the maximum limit stipulated in this circular. Banks may increase the rate of interest during the repayment period in case the QCB Rate has been increased, provided that the installments or the period of the loan does not exceed the limits stipulated in this circular. In case of a decrease in the QCB Rate during the repayment period of the credit facility, banks should accordingly reduce the rate of interest. Banks should not increase the margin stipulated in the loan contract with the customer.

B- Banks should decrease the rate of interest on the existing outstanding balances of loans, as on the date of issue of this circular, according to QCB Rate together with a margin that does not exceed the maximum limit stipulated in this circular. In case of increase in the QCB Rate, banks may

---

163 Refer to item no. (19/2), whereas circular no. (63/2011) dated 22/8/2011 is mentioned relating to paragraph no. (4).
implement the above-mentioned instructions on the outstanding balances of loans.

4/2 Islamic Banks must comply with the rate of return stipulated in this circular when pricing the new finance contracts against salary. In case of existing outstanding balances of finance, where the finance contracts allow for change in the rate of return during the defined period (such as some Ijarah Muntahia Bittamleek contracts or any other finance contracts), Islamic banks should decrease the rate of return on the existing outstanding balances of finance, as on the date of this circular, in the next interest resetting period as per the QCB Rate. In the case of increase in QCB Rate, Islamic banks may increase the rate of return provided that the amount of the existing installments or maximum period of finance does not exceed the limits stipulated in this circular. In the case of existing outstanding finance contracts that do not allow for any change in the rate of return (such as Murabaha contracts), Islamic banks should determine the rate of return according to what is stipulated in this circular only if the finance facility is rescheduled.

5- The rate of interest stipulated in this circular should be applied to the existing outstanding or new debts relating to credit cards, as from the date of issue of this circular.

6- For banks that have issued credit cards to customers without transferring their salary, these credit cards can be allowed to be used until the expiry date of the credit cards. Banks shall not renew such credit cards unless the salary or regular source of repayment are transferred to the bank, or there are cash collaterals that are held by the bank to cover the credit limit and rate of interest on the credit card.

7- Conditions of loans, Islamic finance or credit cards and rate of interest or return should be clearly and transparently disclosed to customers in the contracts, displayed at a public place in the bank and in the advertisements regarding such facilities in different press media.

8- Banks shall not grant loans, Islamic finance or limits on credit cards whose source of repayment is the salary in excess of the limits and controls stipulated in this circular, unless the bank holds additional sources of repayment, cash
collaterals or strong tangible collaterals that can cover the principal and interest or return. Under such circumstances, these facilities should not be classified as credit facility against salary. These facilities should be classified in accordance with the risks of sources of repayment and collaterals (such as real estate or investment finance or others). When granting such credit facilities, banks should comply with instructions on credit risk management and any other related instructions such as controls on real estate finance or any other controls.

9- **Cheques as Collateral for Credit Facilities against Salary**

Banks shall not take one or more cheques as collateral against the total value of loan, Islamic finance, and credit card limit, or installments, as these should be deducted from salary, with exception of credit facilities or credit cards granted to non-Qatari residents for purpose of facilitating the collection of debt. However, banks may take cheques as collateral against the value of the installments of the credit facilities and the credit card limits granted to non-Qatari residents against salaries in accordance with the following controls:

A- Cheques should not be blank. Cheques should be filled with the requirements and data according to the effective instructions and laws in this regard.

B- Cheques of the customers’ installments or cancelled credit card limits shall be destroyed.

These instructions are effective from 26/2/2012.

10- For loans, Islamic finance or credit cards limits granted to non-Qatari residents against their salaries, the following should be taken into consideration:

- Valid visa for working in Qatar.

- Non-Qatari residents should submit a no objection letter from their place of work in order to transfer their salaries, dues and post-retirement benefits to the bank. Employees of the private sector should submit an undertaking from the place of their work stating that they will not transfer their salaries

---

164 Refer to circular no. (20/2012) dated 26/2/2012.
or dues to any other bank unless they obtain a final discharge from the bank providing credit facility.

- In the case of car loan, the loan/finance principal amount without the interest/return should not exceed 80% of the cost of the car. The car should be hypothecated to the bank, with an authorization from the customer to the bank to sell the car in case of default. Additionally, the bank should notify appropriate agency to disallow permission to the customer to take the car out of the country without the permission from the bank to which the car is hypothecated.

Fourth: Rescheduling Credit Facilities against Salary

Banks may reschedule or restructure the outstanding balances of performing loans or finance, as on the date of issue of this circular, in order to reduce the monthly installments deducted from salary according to the limits stipulated in this circular, even if the maximum period of credit facility will be in excess of the prescribed limit. As a result of such rescheduling or restructuring of these loans or finance, such facilities should not be classified as non-performing credit facilities. However, in case of non-performing loans or finance are rescheduled or restructured, they should remain classified as non-performing credit facilities until they are reevaluated according to QCB’s instructions in this regard. In any case, banks should not exploit this rescheduling of credit facilities for any other purposes such as increasing the loan amount or extending the period of loan, or granting of new loan. Banks should be committed to objectivity and transparency when implementing QCB’s instructions in this regard.

Fifth: Other Issues

1- Banks shall implement the limits and controls stipulated herein as from the date of issue of this circular.

2- Financial penalties as stated in QCB Law shall be imposed on banks violating these limits and controls.
19/2 165Rate of Interest or Return on Credit Facilities against Salary

With reference to paragraph no. (4) of the circular no. (36/2011) under item “Third” in page no. (208), regarding Credit Facilities against Salary relating to “determining the rate of interest or return on loan or Islamic finance against salary”, banks should comply with the following:

1- Decrease the rate of interest or return on all loans and receivables on credit cards, granted after or before the issue of circular no. (36/2011), in accordance with the QCB Rate and the maximum limit stipulated in that circular. This will apply to all defined limits and conditions, whether defined in any current or previous instructions, including those facilities that are not consistent with the instructions. The reduced rate of interest or return should be applied retrospectively effective from the date of issue of circular no. (36/2011), taking into account any changes in QCB Rate. The decrease in return shall be applied to Islamic banks, in accordance with paragraph no. (4/2) of circular no. (36/2011), which stipulates that the rate of return on finance shall be changed during the interest resetting period (for Ijarah Contracts or other types of finance contracts) or on rescheduled finance in accordance with the circular.

2- Notify the customers, in writing or through any other electronic means, of the new rate of interest or return, effective date and its implication on the finance or installments, each time the rate is changed in accordance with the QCB Rate.

3- Banks while advertising the different types of financing against salary, should disclose objectively and transparently in accordance with QCB instructions in this regard. The disclosure should indicate the annual rate of interest or return on the daily balance of loan or finance not exceeding the annual rate as stated in QCB instructions (i.e. QCB Rate + 1.5%) also mentioning that the rate is liable to change in accordance with the QCB Rate.

All banks should fully comply with these instructions. Financial penalties shall be imposed on banks violating these instructions as from 22/8/2011.

20- **Customers’ Obligations Due to Qatar Development Bank (QDB) against Housing Loans**

All banks shall accept the applications from their customers (Qatari citizens) for issuing bank’s undertakings to QDB for purpose of transferring their installment dues against housing loans, taking into account the following:

- Banks should take into account the customers’ obligations due to QDB against the housing loans while granting any new loan or finance in order that the total monthly deductions from the salary including the customers’ obligations due to QDB do not exceed 100% of the basic salary and social allowance.
- Banks shall issue the required undertakings and transfer the installment dues to QDB in order that the total monthly deductions from the salary do not exceed 75% of the basic salary and the social allowance. However, banks should lien on the installments due to QDB before the customers are allowed to withdraw from their accounts.

These instructions are effective from 4/10/2012.

21- **Granting Credit Facilities in Foreign Currency**

It has been noticed that some banks grant credit facilities in foreign currencies (US Dollar or any other currencies) to some customers in order to take advantage of interest rate differences, currency speculation or for other purposes that are inconsistent with the purpose of granting credit facilities and with cash flows and repayment sources.

As banks are likely to face high risk due to this procedure regarding interest/return rate gap risk associated with assets and liabilities, open position risk and foreign exchange rate risk, or its reflection on the financial stability, QCB requires that banks should comply with the sound banking norms in granting the credit facilities in foreign currencies as per the requirements of the customer’s actual need according to purpose of granting the credit facilities, cash flows, sources of repayment, and the bank’s credit policy and pricing policy, taking into account consequences on management of the interest/return rate gap risk, foreign exchange rate risk and open position risk.

---

166 Refer to circular no. (85/2012) dated 4/10/2012.
These instructions are effective from 10/1/2011.
All banks shall comply with the instructions mentioned above and send notify QCB before granting any credit facility in foreign currency.

22. **Credit Facilities granted to Governmental Bodies and Entities**

As Ministry of Finance has recently established a Department of Management of Credit and Debt Policies which is assigned to put policies for credit and public debt at the level of the governmental bodies, entities and their subsidiaries according to the Ministry’s directives, banks shall comply with the following:

1. Banks shall neither grant nor renew any type of credit facilities to the governmental bodies, entities and their subsidiaries or those in which the State owns directly or indirectly more than 50% of the their capital and State’s shares are controlling, without obtaining the prior approval of the Ministry of Finance as a condition for granting direct or indirect credit facilities or issuance of any public instrument. The granting banks shall keep a copy of the Ministry’s approval in the file of the credit facilities in order to be examined by QCB’s inspectors.

2. Credit facilities granted to Qatar Petroleum and its subsidiaries as guarantees and letters of credit for the import, export and daily operations shall be exempted from the above-mentioned condition.

3. In case of any queries on any governmental body, entity or subsidiary, banks can contact officers in Department of Management of Credit and Debt Policies at Ministry of Finance.

QCB confirms the following:

- The credit facilities exempted from the credit concentration limits are those granted only to the Ministry of Finance and to the institutions and corporations sponsored and guaranteed by Ministry of Finance according to the exceptions stated in page no. (190).

- Approval of the Ministry of Finance on granting or renewing the credit facilities granted to the government bodies mentioned herein does not exempt banks while dealing with these bodies from compliance with the credit risk management instructions stated in page no. (224) in particular, and with any other instructions or related laws in general.

---

- Banks shall furnish Department of Management of Credit and Debt Policies at Ministry of Finance with the status of the facilities granted to the government bodies mentioned herein within ten days as from the issuance date.
- Board of Directors and the executive managements of banks shall be legally and administratively responsible for any violations.

These instructions are effective as from the issuance date. The appropriate sanctions and financial penalties will be imposed on the violating banks by virtue of QCB Law.
Part (VII) - Instructions of Supervision and Control

D- **Financing Policies in Islamic Banks**

Islamic banks operating in the State of Qatar shall comply with the following instructions:

1- **Article no. (105) of QCB Law**

With reference to article no. (105) of QCB Law, “Islamic Financial Institutions may take all forms of deposits and conduct direct or financial investment and financing. They own movable and immovable assets required to execute investment projects within their purposes or for the purpose of the letting thereof, as well as any other banking operations or other financial services permitted by the Sharia Supervisory Board of the Islamic Financial Institutions, as approved by the board of directors thereof and enacted by the QCB.”

2- **Sharia Supervisory Board**

A- With reference to article no. (106) of QCB Law, “An independent consultation board under the name of “Sharia Supervisory Board” shall be formed in each Islamic Financial Institution in order to supervise the institution’s activities. Members of the Sharia Board shall not be less than three. They shall be appointed by the institution’s General Assembly following a proposal by the board of directors. The Sharia Board shall include scholars specialised in jurisprudence and Islamic Sharia and financial operations, activities and services. The appointment of the Sharia Board members shall be restricted to three renewable years.

Sharia Board members may not be dismissed or resigned during their term unless through a General Assembly decision. The institution’s board of directors shall notify the QCB of its decision to appoint or dismiss the Sharia Board or to amend its constitution.

The QCB shall issue a decision stating the terms of the Sharia Board membership and its terms of reference.”

B- With reference to article no. (107) of QCB Law, “A member of the Sharia Board shall have no employment function at the Islamic Financial Institution, and shall not provide to the institution any operation. A member shall not be a shareholder
of the institution, as well as neither he nor one of his relatives until the fourth degree shall have any related interests whatsoever in the Islamic Financial Institution.”

C- With reference to circular no. (108) o QCB Law, “The Sharia Board shall be responsible for the following:

- Conducting Sharia supervision on the institution’s operations and activities with regards to their compliance with the Islamic Sharia.
- Express binding opinion with regards to the extent of compliance of the Islamic Financial Institution’s operations, transactions, and contracts with the Islamic Sharia principles.
- Reviewing any matters assigned thereto by the Islamic Financial Institution’s board of directors or pursuant to the QCB instructions.”

D- Islamic banks and conventional banks offering Islamic financial services through their branches should obtain QCB’s approval when appointing members of the Shari’a Board according to the form of annex no. (142), taking into account that they should not be less than two members, specialist in Fiqh Al-Mu’amalat (Islamic business jurisprudence).

Bank may provide credit facilities to the members of its Shari’a Board for personal use and not for commercial purposes.

3- International Finance

3/1 Transactions in international finance (Sovereign Risk) should be evaluated in conformity with the international market prices of the debts. The bank must then provide necessary provisions to cover any deficit in the price differences.

3/2 A single finance should not take more than 5 years. All transactions in international finance should be undertaken (finance in the international Murabaha and international finance to foreign institutions and countries) in accordance with the following controls:

Total credit facilities should not exceed 70% of total customer deposits. For this purpose, QCB should be provided with the table to the monthly balance sheet.

(Islamic Banks Form), showing the two items (15/1) and (15/4) (specific provision and suspended interest) and also the deferred profits on the balance sheet for local and external branches.

In case of violation of percentage, a financial penalty would be imposed as mentioned in Part Eleven, Sanctions and Financial Penalties, in page no. (544). The bank should calculate this percentage on daily basis and in case of the violation for any one day or more, this percentage is calculated for all the days of that month, as per the instructions mentioned in Part Twelve, Periodical Data, in page no. (565).

4- Local Finance

4/1 Local finance should not exceed the ceilings of credit facilities (credit concentrations), mentioned in page no. (185).

4/2 Additional Financing Controls:

4/2/1 The bank should apply the rule of binding the purchase orderer to its promise in the Murabaha sale for the purchase orderer operations, and should not enter into any Murabaha transaction in which the purchase orderer does not undertake to accept the goods if they meet the specifications. This should be stipulated in the Murabaha and the purchase orderer contracts.

4/2/2 When financing is undertaken in terms of Mudaraba and Diminishing Musharaka contracts, the bank must have sufficient collaterals in order to meet their commitments in case of failure. Ability of the customer to fulfill the project requirements should be ascertained before entering into Mudaraba transactions.

5- Unimplemented Part of Istisna Contracts

It is noticed that some Islamic banks and Islamic branches of commercial banks do not include the unimplemented part of Istisna contracts in the unused direct credit facilities. Accordingly, all banks are required to include the unimplemented part of Istisna contracts within the unutilized ceilings of direct credit facilities in the monthly balance sheet and when calculating the liquidity, credit and other prudential ratios provided to QCB.

These instructions are effective from 13/4/2008.

---

6- **Controls on Tawarruq Finance (Islamic Banks)**

According to the opinion of majority of the Shari’a Boards’ members in Islamic Banks and Islamic windows of conventional banks in Qatar regarding the Shari’a controls on Tawarruq finance; as Tawarruq finance has become widely known recently adopting different techniques and methods that may expose the banks to risks, such as operational risk, legal risk, and reputational risk, transparency risk, market discipline risk and equality of opportunity risk and also it may expose customers to commodity price volatility risk; and as QCB desires to mitigate these risks, Islamic banks and Islamic windows of conventional banks are required to comply with the following controls and instructions when granting Tawarruq finance:

**First: Definitions**

1- **Tawarruq Finance**

Granting cash finance to customers depending upon Murabaha or Murabaha to the purchase orderer whereas the bank sells a commodity to the customer on a deferred payment basis. The transaction is credited against the customer’s Murabaha receivables. Then, the commodity is resold for a cash price received by customer.

2- **Shari’a-Compliant Tawarruq**

Tawarruq finance that is permissible by Shari’a according to majority of the Shari’a Boards’ members in Islamic banks and windows in Qatar. This type of Tawarruq is controlled by the following conditions:

First: The bank buys the commodity in real terms. This commodity should be possessed and owned by the first seller.

Second: The customer resells the commodity to a third party, and not to the bank and the first seller who sold this commodity to the bank. The customer may, at his request, appoint the bank as his agent to resell the commodity according to approval and controls of the bank’s Shari’a Board.

Third: Tawarruq should not be involved in Riba (usury) intentionally or nominally.

---

Fourth: Tawarruq should not be organized.

3- Organized Tawarruq

Organized Tawarruq is Tawarruq finance that violates any of the conditions of the Shari’a-compliant Tawarruq, i.e. where the bank sells a commodity to the customer for a deferred price as Murabaha transaction. Then, the bank arranges the sale of the commodity on cash whether in his own capacity, through appointing a third party as an agent or by the customer’s agreement with the first seller who sold the commodity to the bank. The customer then receives the price, i.e. the customer only signs the papers submitted by the bank and receives the finance in cash against Murabaha receivables.

Second: Controls and Instructions

In general, Islamic banks and Islamic windows of conventional banks should not depend upon Tawarruq finance as one of the main methods of Islamic financing. Accordingly, they should consider the following:

1- They should not grant Organized Tawarruq finance. Accordingly they should not offer any products that depend upon this type of Tawarruq such as credit cards, personal finance against salary or any other products.

2- They should restrict the use of Shari’a-compliant Tawarruq as it should be used exceptionally in cases where it is difficult to grant finance according to the commonly-used types of Islamic finance (Murabaha, Musawama, Ijarah, Istisna’a, Mudaraba...). Banks that desire to grant Shari’a-compliant Tawarruq finance should define specific areas for using this type of financing according to the bank’s Shari’a Board as it should be within the scope of the following:

   A- Granting finance for debt repayment in order to transfer receivables from conventional banks to Islamic banks or windows.

   B- Granting personal finance against salary to individuals for urgent cash needs.

   C- Granting finance to government and government enterprises that may be difficult to be financed through other types of financing.

   D- Granting inter-bank finance for liquidity management purposes.

3- They should have detailed Shari’a controls set by Shari’a Board of each bank for implementing Shari’a-compliant Tawarruq transactions to ensure
that the above-mentioned four conditions are fulfilled. They should set the basis for granting Shari’a-compliant Tawarruq finance within the main areas stipulated in the previous paragraph.

4- They should determine types of commodities that the bank, as a mediator in Shari’a-compliant Tawarruq transaction, can grant finance to the customer to purchase according to the Shari’a controls set by the Shari’a Board in each bank, taking into account the following:

A- Banks should not grant finance to purchase securities listed in Qatar Exchange as a mediator in the Shari’a-compliant Tawarruq transaction.

B- Choosing the commodity and appointing the bank as an agent to resell the commodity according to the approval of Shar’a Board should be as per the request of the customer. The customer should choose the commodity according to controls set by the bank’s Shari’a Board, bearing the full responsibility for the commodity chosen and for appointing the bank as his agent to sell the commodity according to conditions defined by the customer. Accordingly, the customer will be responsible for any loss due to reselling the commodity or the bank’s inability or delay in selling this commodity due to the market fluctuations. This should be documented in writing. The bank should fulfill all contracts and documentations that disclaim responsibility for any consequent losses. The bank’s risk should be limited to credit risk due to Murabaha transaction and to operational risk due to misconduct or error in implementation according to the stipulated conditions.

C- As a mediator in Shari’a-compliant Tawarruq transaction, banks should not approve the commodities and metals listed in the international markets as one of commodities available for the customer unless it is not possible to use any other commodities. Approval of the bank’s Shari’a Board should be obtained.

5- All risks arising from Shari’a-compliant Tawarruq should be fully disclosed to customers. Transparency and accuracy should be considered. These should be documented in application forms for finance and in the contracts signed with customers.

These instructions are effective as from the issuance date. Financial penalties should be imposed on the violating banks according to QCB Law.
7- **Overdrawn Current Accounts (Islamic Banks)**

Islamic banks must not grant credit facilities to their customers through overdrawing their current accounts except on a temporary basis and for the following cases only:

- Overdrawing the current account of the customer against the customer’s deposits or credit balances at the bank covering the overdrawn balance totally provided that the bank does not distribute any profits on the deposits or the credit balances which are equal to the overdrawn balances during the period of overdrawing.

- Overdrawing the current accounts as a result of deducting the withdrawals through the credit cards provided that the overdrawn balance does not exceed the determined limit of the credit card at any time and the period of the overdrawn account should not exceed the end of the month during which the withdrawal occurred. Additionally, there should be monthly transferred salaries or other sources of settlement, or cash collateral in order to secure the withdrawal limit of the credit card.

- Emergency overdrawing of the current account for short periods, provided that it does not exceed two days, due to payment of government salaries to customers before recording of the same in the account of bank. The overdrawn limit shall not exceed the net salary of the customer, after deduction of any obligations due or monthly installments.

- Emergency overdrawing from the current accounts due to the Islamic financing transactions provided that such transactions are approved by Shari’a Committee. QCB will impose a financial penalty in case of violation under the provisions of article no. (216) of QCB Law. The penalty will be imposed on per day basis for any of the customer’s overdrawn current account in other than the above-mentioned cases.

8- **Commission on Receivables of Islamic Finance**

Refer to the instructions under item no. (16) in page no. (205).

9- **Conditions for Credit Facility Contracts and Documents**

Refer to the instructions under item no. (10) in page no. (195).
E- Credit Risk Management

With reference to article no. (121) of QCB Law and because of the importance of sound credit risk management with the aim of achieving the highest rate of return through maintaining the credit risk at lowest acceptable level and accordingly maintaining the asset quality at highest possible level, banks should comply with the following instructions:

First: Establishing an Appropriate Credit Risk Management Environment

1- Responsibilities of Board of Directors

The board of directors should have responsibility for approving the main credit risk strategy and policies of the bank. The credit risk strategy should reflect the risk appetite and the corresponding rate of return. The board of directors should be accordingly responsible for with the following:

1/1 Reviewing the main credit risk strategy and policies at least annually. The board of directors should ensure that the strategy and policies cover the different activities of the bank.

1/2 Overseeing the credit-granting and credit risk management functions through developing a strategy that states the objectives guiding credit-granting activities and implementing the necessary policies and procedures.

1/3 The credit risk strategy should determine the bank's willingness to grant credit based on type, economic sector, geographic region, currency, maturity and expected return.

1/4 The credit risk strategy should clearly determine the target credit quality, earnings and growth. It should also define acceptable risk exposures and their impact on the target earnings and capital charge.

1/5 The credit risk strategy should take into consideration the cyclical changes in economy and their impact on the composition and quality of credit portfolio.

1/6 All relevant staff and senior officers should clearly understand the credit risk strategy and policies so as to identify the approach to credit granting and credit risk management. Then, they should be held responsible for complying with such policies.

1/7 The board of directors should ensure that executive management is fully capable of managing the credit activities and risks in accordance with the credit risk strategy and policies. The board should also approve and review, at least annually, the credit-granting criteria (included in the credit risk strategy or policies). In addition, the board should approve the approach in which credit-granting functions are organized including independent review of the credit-granting and credit risk management functions at the overall portfolio level.

1/8 The board of directors should ensure that remuneration policy does not contradict the credit risk strategy. Accordingly, remuneration should not be given for generating short-term profits while deviating from the board’s credit risk strategy and policies or violating the established limits and controls.

1/9 The above-mentioned responsibilities should cover the bank and its group (branches abroad and subsidiaries).

2- Responsibilities of Executive Management

The executive management is responsible for implementing the credit risk strategy and policies approved by the board of directors. The executive management should be accordingly responsible for the following:

2/1 Ensuring that the credit-granting activities conform to the approved strategy, and the written procedures are implemented. Credit-granting responsibilities should be properly assigned and reviewed.

2/2 Implement written policies and procedures related to identifying, measuring, monitoring and controlling credit risk. These policies should cover such main issues as target market, portfolio diversity, pricing terms and other conditions, structure of limits, approval authorities, and exception processing and reporting, etc., in consistence with the board’s strategy, prudential requirements and the best practices. Such policies should conform to the bank’s activity size and operational diversity and be designed and implemented in the light of the internal and
external factors such as the bank’s competitive position, staff capabilities and technology, etc..

2/3 Ensuring that the credit policies are understood by senior officers and effectively implemented through specific procedures. Such credit policies should be monitored and suggested to be periodically amended in the light of any internal or external changes at both the bank and its group levels including the branches and subsidiaries in compliance with QCB instructions on the consolidated supervision.

2/4 Banks, that conduct the international credit and finance activities according to the board’s strategy, should comply with the following:

   A- Legal, legislative, political, economic and social environment should be precisely identified in each county that is subject to the bank’s activities. The related credit risk should be accordingly identified especially relating to systems and procedures for investment, foreign acquisition, easy remittances, and factors that control prices, market supply and demand, and the related policies.

   B- Policies and procedures for credit risk management should be properly developed, in each country, in order to identify type, measurement, monitor and control of risk exposures including those resulting from acquisition, investment, remittance, judicial proceedings, execution of guarantees and economic developments and fluctuations at both micro and macro economics levels. In addition, ceilings and limits should be established for the credit risk, in each country, in accordance with the board’s strategy and QCB requirements.

3- Credit Risk Management

It mainly includes identifying, measuring, assessing, managing and controlling the bank’s credit risk exposures, taking into consideration the following:

   3/1 Banks should establish systems, procedures and plans in order to properly identify, analyze and manage potential credit risk in any product or activity.

   3/2 Banks should understand the credit risk involved in the more complex products, for example; finance granted to certain industry sectors, securitization,
customer-written options and all credit derivatives. Subsequently, identification of credit risk involved in such products requires more analysis than the risk of traditional products. Although the credit risk of both types does not differ from well-known credit risk, offering these complex products may require additional procedures and controls.

3/3 Credit risk of new ventures should be identified. Banks should ensure that they can identify such risk. They should be able to analyze and manage such risk, and to establish appropriate systems and procedures before undertaking such ventures. Granting finance to such ventures should be approved in advance by the board of directors or by one of its delegated committee.

3/4 Banks should ensure the high capabilities and skills of the staff that provide credit-granting activities and financing products, report the related studies and recommendations especially relating to the complex products, and analyze, monitor and assess the related credit risk.

Second: Operating under Sound Credit-Granting Process

Banks should operate within sound credit-granting criteria. These criteria should include an indication of the target market, a thorough understanding of the customer (borrower), credit-granting purpose and structure, and sources of repayment and collaterals. Banks should accordingly take the following into consideration:

1- System and Procedures of Approval for Credit Granting and Renewing

Banks should establish well-defined systems and procedures in order to review and approve the credit-granting applications including granting, renewing increasing, decreasing and amending conditions of the credit. Banks should accordingly take the following into consideration:

1/1 Banks should have defined credit-granting application forms for approving new credits and renewing, increasing and decreasing of existing credits. Such application forms should fulfill pre-defined conditions, requirements, information, studies and indicators that cover all significant aspects that help make the right decision. Such application forms and requirements may differ
according to types of customer, activity, credit, economic sector and any other type in accordance with characteristics and risks.

1/2 Banks should determine appropriate levels of management and committees authorized to make decisions for granting, renewing, increasing or decreasing of the credit, and exceeding the determined limits. There should be a hierarchy in levels of management and committees authorized to make decisions in accordance with the size, type and risk profile of the required credit, taking into consideration the following:

A- Reliance on individual authorities should be reduced at the level of board of directors or executive management.

B- Constituting committees including several levels of management. The established committees should be concerned with credit-granting applications of importance in terms of size, risk exposures, VIP customers, big borrower groups or activities, complex products, high risk countries, or others.

C- Banks should ensure that members of different committees, whether from board of directors or executive management, are highly qualified and experienced, and technically skilled in accordance with the level of credit-granting applications with which the committee is concerned, ensuring a thorough understanding of risk exposure, analysis, assessment and its results as well as strategy and policies of board of directors, and credit-granting controls.

1/3 It is not permitted to exceed the approved credit limits and conditions, and the credit should not be rescheduled (for reasons other than defaults), except by the same level of management that has previously approved these limits and conditions or by a higher level of management.

1/4 Credit should not be granted before all collaterals, documents and conditions of credit-granting approval are fulfilled. Additionally, enough attention should be paid to ensure that the procedures for granting is in progress according to the credit-granting approval conditions.
2- Sound Credit-Granting Controls

Banks should establish well-defined credit-granting rules. These rules should include an indication of the target market and sectors, a thorough understanding of the customers, their borrower groups and risk exposures, credit-granting purpose and structure, and sources of repayment and collaterals. Banks should accordingly comply with the following:

2/1 Banks should establish well-defined credit-granting controls and conditions for all types of credit in a safe and sound manner. These controls and conditions should set out eligibility, size, type and structure of the credits.

2/2 Banks should receive sufficient information from reliable sources to enable a comprehensive assessment of the risk profile of customers, their ventures and counterparties. The following is the most important information:

A- Credit-granting purpose and sources of repayment; in order to ensure that the credit is used for the credit-granting purpose and that the cash flows are linked to the defined sources of repayment.

B- Sensitivity of collaterals to economic and market developments.

C- The customer’s repayment history and current capacity to repay in the light of different indicators and future cash flow projections under various scenarios.

D- The customer’s business expertise in the ventures financed, its status and competitive position in the market, and sufficient information on such ventures, their conditions, obligations and fulfillment of conditions of credit limits.

2/3 When granting the credit to new customers, banks should understand the customer’s nature and risk exposure through sufficient and precise information, from reliable sources, on the customer’s reputation, financial position, size, and nature of outstanding obligations and creditworthiness. Banks should conduct investigations to ensure that individual customers are not involved in fraudulent or embezzlement activities, and they are of sound repute. Banks should also conduct investigations on persons who are in charge of managing the companies and institutions with which banks desire to deal, as the banks’ assessment should
be conducted not only on such companies and their financial positions but also on senior officers, managers and their experiences and qualifications.

2/4 Banks should establish well-defined systems and procedures to classify the customers into borrower groups according to sound criteria based on how risk exposures are related to each other whether through in common ownership, management, ventures, legal and financial status or through other related factors. The credit risk should be accordingly assessed and the credit-granting limits, controls and conditions should be established on basis of the customer’s borrower group in compliance with QCB regulations.

2/5 When banks participate in finance syndications or consortia, they should not rely on managing bank’s study but perform their own due diligence.

2/6 Banks should assess the credit risk against expected return and overall profitability resulting from the bank’s exposures to the customers and their borrower groups. Banks should also price the credit under several possible scenarios and probabilities.

2/7 Banks should recognize the probability of establishing provisions for expected losses and maintain a capital buffer to cover future risks and to absorb the related unexpected losses. Banks should then factor these considerations into granting the credit facilities and into the overall portfolio risk management.

2/8 Banks should ensure the availability of netting agreements between the customer’s debit and credit accounts and that these agreements are legally enforceable.

3- **Credit-Granting Limits**

Banks should establish credit limits at the level of individual customers and their borrower groups on one hand and credit types, economic sectors and geographic regions on the other hand, both for on- and off-balance sheet items. Banks should accordingly comply with the following:

3/1 Banks should set out a well-defined basis to establish the credit limits for customers and their borrower groups according to the internal ratings-based approach for credit risk, taking into consideration the overall position of customers and their borrower groups in banks and banking sector, probability of
default or the future change in activity and income. This should be periodically reviewed before determining or amending the credit within one year.

3/2 Banks should establish credit limits for different types of economic activities, sectors and geographic regions based on precise studies on risk exposures and current and future developments. Banks should ensure that credit portfolio and risk exposures are adequately diversified according to the strategy and policy approved by the board of directors.

3/3 Bank’s credit limits should consider the results of stress testing as for the economic cycles, rates of return, market fluctuations, liquidity conditions and any other important aspects.

3/4 When determining the credit limits for customers who have more than a credit position as a result of the several ventures financed by the bank or by other banks, banks should consider the risks associated with probability of default and liquidation of credit position(s).

3/5 Bank’s credit limits should meet the actual need of finance. Accordingly, the cash flows of ventures should be studied and the part that needs finance should be evaluated in a sound and subjective manner. No part of the credit limit should be used for any other purpose than the credit-granting.

4- Credit-Granting Procedures for Related Parties

Banks should establish well-defined policies and procedures to grant the credit to related parties such as members of directors, executive managers, major shareholders, subsidiaries, associates and others, or to other customers who are significantly related to such related parties. Generally, such credit-granting policies and procedures should ensure that the related parties are treated as similar to controls and conditions, determinants of return, costs, collaterals, and other controls and determinants as applicable to the regular customers. Such policies and procedures should also ensure that credit-granting decision, along with its evaluation, is neutrally and independently made. Banks should accordingly comply with QCB instructions.
**5- Other Controls**

In addition to the previously-mentioned controls, banks should comply with the following:

5/1 Banks should ensure that sources of repayment are regularly collected and adequate to cover the obligations during the repayment period. These sources should be factored into the credit-granting decision, size of finance, conditions, return, and value and nature of the determined collaterals.

5/2 Banks should obtain tangible collaterals as they are considered one of the most important ways to mitigate the credit risk. Such tangible collaterals should cover or exceed the credit granted according to defined margins that vary based on nature of each type of collaterals and any potential decline in the value of collaterals. Granting credit without obtaining tangible collaterals to adequately cover the value may require strong and acceptable reasons such as granting the credit against reliable sources of repayment that are transferred to the bank and that cover obligations of the finance, for example; salaries, fixed and continuous incomes, government sources of repayment, assignments of claim for revenue of secured and financed ventures under self-liquidation, or such as granting the credit to, or guaranteed by, the government.

5/3 **Personal Guarantees against Credit Facilities:**

Banks shall obtain personal guarantees against the credit facilities from the partners of the companies that have been granted credit facilities whether the partners are representing themselves or guardians of minor partners. According to the banks' estimations and for acceptable reasons, banks may exclude the following:

A- Listed or unlisted public companies;

B- Partners in joint-stock companies or other limited-liability partnerships whose shares are less than 10% of the company’s capital and that do not participate in managing or taking decisions on behalf of other partners.

---

174 Refer to circular no. (61/2012) dated 17/7/2012.
However, if the partner is a company, banks shall obtain the personal guarantee of the partners unless what have been mentioned above are applied to the company or the partners; and

C- Granting the credit facility against tangible collaterals of not less than 100% of the value and return of credit facility or against reliable sources of repayment that are transferred to the bank covering the value and return of the credit facility, for example; fixed and continuous salaries as per the authenticated contracts and agreements (like rents or ....), government sources of repayment or assignments of claim of revenue from the government ventures or other secured and good ventures. The entities transferring the obligations of the ventures should be officially informed of the assignments of claim.

These instructions are effective from 7/7/2012.

5/4 Total credit facilities granted to a single customer should be consistent with size of the financial resources invested in the customer’s activity, and with type of such activity.

5/5 Ratio of credit facility, granted to the customer’s enterprise, to shareholder’s equity whether inside or outside Qatar should not lead to inability of such enterprise to service the granted credit facility.

5/6 Banks should not allow the customers to exceed the limits of the credit facilities and the collateral coverage ratio, stated in the bank’s policy, in accordance with QCB instructions. Temporarily-permitted facilities that exceed the above requirement should be monitored by the competent authority.

5/7 Banks should have in place a mechanism to submit reports to the board of directors or the executive committee on a monthly basis regarding, at least, the urgent cases such as limit-exceeding cases, pending cases of credit renewing, special mention cases and cases that have been classified or reclassified into lower categories and others.

5/8 Banks should receive delegation of authority from the customer to request from other banks and credit bureaus for quantitative and qualitative information on the customer’s account at other banks.
5/9 Banks should check the consolidated credit position of customers and their related parties at QCB before they grant, renew or raise the credit facilities. The competent authority should examine such information before making decision for credit granting or renewing.

5/10 Banks should promote effectiveness of departments of internal audit, compliance and credit risk management in controlling the credit-granting operations.

5/11 A periodic report on results of the internal audit on risks of credit activities and operations should be submitted to the board of directors by the audit committee. Exceptional reports should be promptly submitted in case of any violations or significant remarks.

5/12 Banks should check the customer’s title documents of collaterals before granting the credit facilities. Banks should periodically and regularly reevaluate the collaterals. Bank’s credit risk policies should include systems and rules to conduct such evaluation. The evaluation cycle should be increased during stress and abnormal market fluctuations.

5/13 The guarantor’s solvency should be checked in terms of size of their assets, revenues and incomes in accordance with the indebtedness to ensure the guarantor’s creditworthiness.

Third: Establishing an Appropriate Administration System for Credit Risk Management, Measurement and Monitoring

Banks should establish a sound administration system to manage, monitor and implement the credit decisions in accordance with the established controls and limits during phases of the credit granting, renewing, evaluating and monitoring. The number, nature and structure of departments and sections involved in the administration system shall vary from one bank to another according to the nature, size and diversity of credit operations in each bank. In any case, banks should comply with the following:

1- Establishing a Sound Administration System

Banks should establish a sound administration system that ensures the following:
1/1 The efficiency and effectiveness of credit administration operations, especially regarding monitoring documentations, contracts, collaterals, all conditions for approval including non existence of violations and deviations in implementation that may expose the bank to unexpected risk;

1/2 The proper accuracy and timeliness of information provided to Management Information Systems (MIS);

1/3 Segregation of duties and functions related to execution, monitoring, inspection, supervision, evaluation and registration; and

1/4 Compliance with approved policies, procedures, QCB instructions, other applicable laws and regulations.

- The administration system should also ensure that the executive managers and heads of departments and sections, of which the credit administration system is composed, are appropriately efficient and experienced. The system should also ensure a thorough and sound understanding of duties, responsibilities, strategies and policies stated by the board of directors and executive management.

- The administration system should ensure a sound, precise, secure archiving system. The credit files should include all necessary information on the customer as from the beginning of dealing with the bank, for example:

  1- Basic information on the customer, enquiry, historical documentations, etc.;

  2- Updated financial statements and financial analyses;

  3- Consolidated statement of the customer’s credit with the bank at the banking system level;

  4- Internal ratings, credit approvals, internal memoranda;

  5- Copies of guarantees and collaterals;

  6- Correspondences with the customer; and

  7- Any other important data.

- The administration system should ensure that bank’s identification documents, contracts, guarantees and documentations are orderly archived in
a safe place. Sound administration and security procedures should be established to use and access such documents. Responsibility for using and accessing such documents should be assigned. These documents should be periodically examined and controlled to ensure that they are complete and not mutilated.

2- Establishing a System for Assessing, Monitoring, Classifying Credit Facilities, and for Determining Provisions

Banks should establish a sound and comprehensive system consistent with the banks’ size and complexity of operations for monitoring and assessing the credit facilities at the levels of each customer, each borrower group and sectors. This system should be able to detect problems, weaknesses and defaults on a timely basis. Proper decisions should be accordingly made including determining provisions to cover any potential loss. Banks should accordingly comply with the following:

2/1 Effective assessment system should include the following:

2/1/1 Monitoring and assessing the customer’s current financial condition and significant developments;

2/1/2 Monitoring and assessing compliance with conditions of granting and renewing the credit in different phases;

2/1/3 Monitoring and assessing all guarantees, collaterals, sources of repayment and any other significant changes;

2/1/4 Categorizing and classifying customers, borrower groups and sectors based on results of assessment, and estimating provisions on a solo or consolidated basis (for each sector in compliance with defined, written criteria and basis), taking into consideration QCB instructions; and

2/1/5 Establishing early warning indicators to detect the customer’s defaults or problems. Reports should be submitted to make decisions and provide solutions to address problems, weaknesses and defaults on a timely basis according to such indicators. This should be done before it becomes worse.

2/2 Officers who are in charge of credit controlling and assessing functions should be independent and neutral. There should be no administrative or personal
relation of dependence that affects the independence, neutrality and subjectivity of these officers. Banks should adequately segregate between functions of implementation on one hand and monitor and assessment on the other hand.

3- Establishing Proper Information Systems for Analyzing, Measuring and Assessing Credit Risk

Banks should have in place information systems and analytical methodologies consistent with nature, size, diversity and complexity of credit activities and products inherent in both on- and off-balance sheet. Banks should accordingly comply with the following:

3/1 Banks should have methodologies that enable them to identify and analyze the risk exposures to individual customers, their borrower groups, activities and products at the level of individual credit and overall credit portfolio. Banks should accordingly have adequate and appropriate database of customers, their borrower groups, conditions and details of the credit, activities and products. The effectiveness of the banks’ credit risk measurement process should be highly dependent on the quality of management information systems.

3/2 These methodologies should include all types of reports and information that are important for decision makers and supervisors at the levels of executive management and board of directors, and for internal and external auditors and control process conducted by QCB.

4- Establishing a System for Monitoring and Assessing the Composition and Quality of the Credit Portfolio

Besides the information systems established for assessing the credit risk at the levels of customers, their borrower groups, products and activities, banks should have in place adequate information systems for monitoring, analyzing and assessing the credit risk at the level of overall portfolio in order to identify the general condition of credit risk and its compliance with strategies and policies approved by board of directors. Banks should accordingly comply with the following:

4/1 Complete information and reports at all levels of credit concentrations (customer, borrower group, type of product or activity, economic sector, geographic region, countries, markets, collaterals, sources of repayment, maturities, etc.,) should be available.
4/2 Information and reports on borrower groups should be available for sectors which are similar or identical in some types of critical risks (such as credit rating, strategic and political condition, types of markets and industries, etc.).

4/3 Information and reports on indicators and trends of the overall credit portfolio should be available in terms of diversity, concentrations, quality, defaults, maturities, returns, economic prospects and others at the levels of sector, quality and aggregate.

5- Taking into consideration Potential Future Changes in Economic Conditions

Banks should take into consideration the potential future changes when assessing credit risk at the levels of individual customers, their borrower groups, economic sectors and products, country, group of countries or overall portfolio. These changes should be considered when assessing the levels of specific provisions or any other potential provisions necessary to cover the credit risk in a consolidated basis. Results of stress testing should be taken into consideration according to various scenarios and assumptions when assessing types of credit risk exposures at each level.

Fourth: Ensuring Adequate Controls over Credit Risk

1- Establishing an Independent System for Assessing Credit Risk and Submitting Reports

Banks, as mentioned herein, should ensure the independence of internal ratings for credit risk in respect of the relation of administrative dependence or other relations or links with those who are in charge of approving the credit granting and controlling, and implementing the operations. Banks should have an effective and independent system for submitting reports of assessment directly to different supervisory managerial levels, starting from the executive management and supervisory committees of board of directors ending at the board of directors, according to timely and defined methodologies and systems approved by the board of directors.

2- Establishing a System for Ensuring Sound Credit-Granting Procedures

Banks, as mentioned herein, should have in place an independent system for ensuring sound credit-granting procedures that are consistent with approved limits and
conditions. Banks should also ensure that collaterals, identification documents, documentations, managerial level authorization to approve the credit and others are properly fulfilled before conducting transactions and payments.

3- Establishing a System for Early Appropriate, Remedial and Corrective Action

Banks should have in place a new system for enabling the effectiveness of dealing with reports of credit risk ratings, letters of internal and external auditors and QCB’s prudential reports. Such system should also ensure that appropriate and prompt actions are taken in order to address problems, defaults and weaknesses that have been early detected before it is too late to find proper solutions or available solutions are reduced.

These instructions are effective from the date of issuance. Penalties stipulated in QCB Law shall be imposed upon the violating banks.

175 Updated Credit Risk Management System


Banks are required to update their automated systems in accordance with the updated technical instructions before 30/6/2011.

Banking Risk

F. Financing Customers' Trading in Securities

With reference to instructions mentioned in pages no. (162-165) of the Instructions to Banks - March 2009 relating to the above subject, kindly note that such instructions are cancelled as from 6/5/2009. Accordingly, all banks may not provide customers with any finance for the purposes of trading in securities in future and in the meantime settle the current transactions in accordance with conditions and rules governing contracts signed with customers in such a way that banks may not be subjected to any legal dispute.

By these instructions:

1- Banks may not provide finance for customers to trade in securities inside or outside Qatar whether by margin trading or by granting direct or indirect finance for this purpose.

2- Current instructions prevent banks from providing other finances for customers guaranteed by securities if the cash flows and payment sources of the finance are linked to sale and purchase of securities.

In case of violation, the maximum penalty will be imposed in pursuance with Article (216) of QCB Law.

Banking Risk

G- Instructions to Members of Board of Directors

1- Ceilings and Conditions on Credit Facilities to Members of Board of Directors

1/1 Credit facilities granted to a member of board of directors, his representative, their borrower group and his family members should not exceed 7% of the bank's capital and reserves with the exception of representatives of Qatar government. This shall be applied to the member's father and his sons who are members of the board and their relative's accounts, which must not exceed the 7% of the bank's capital and reserves, provided that total obligations to the borrower group of all members of board of directors together should not exceed 35% of the bank's capital and reserves. The credit facilities granted to members of board of directors should be fully secured by one or more of the following collaterals:

- Cash collateral shall cover the whole balance of the credit facilities including a lien letter of which the bank will be authorized to liquidate the cash collateral to settle the balance due.

- Bank guarantee from banks with a good international rating, provided that the guarantee should be irrevocable and unconditional and paid upon advice of the bank or QCB. This collateral should be automatically renewed for periods of loan and cannot be canceled upon advice of QCB.

- Other tangible collaterals including shares, real estate and lands, provided that the private residence of the member or of his relatives should not be accepted as mortgage. Similarly, the shares in the same bank should not be accepted as mortgage. These mortgages shall not be released unless a written approval is received from QCB.

1/2 Credit facilities should be granted in accordance with sound credit polices and standards.

1/3 If one of the shareholders is elected to join the board of directors, the credit facilities granted to him must be reduced to the determined percentage by a single cash payment.

Banks should not discriminate while granting loans and determining interest rates to a member of board of directors. Banks should make sure of repayment sources and purpose of credit facility.

Article no. (123) of QCB Law states that “No member of the board shall be granted privileged advantages or facilities secured by his shares in the financial institution he is part of the board thereof.”

Approval of board of directors or the authorized executive committee should be taken while granting or renewing the "credit facilities" granted to members of board of directors and their borrower groups. Purpose and collaterals for the credit facility should be submitted.

Obligations of board members must be presented in each meeting for the board whether outside or inside branches or in subsidiaries. They should be included in minutes of the meeting.

Whenever a member of the board of director requests for a reduction or cancellation of interest charged on the outstanding obligations or reduction of outstanding loan, bank should make provision against the total obligations of the member during the same financial year after deducting the cash collaterals or any other collaterals, such as shares or bonds of the member, into cash at the market price.

With reference to article no. (121) of Commercial Companies Law no. (5) of the year 2002, national banks must comply with the following:

“The board of directors will put under the disposal of the shareholders for their review before the meeting is convened for looking into the balance sheet of the company and report of the board of directors, minimum three days prior to the meeting, a detailed list including the following information:

1- All the amounts obtained by the chairman and every member of the board in the fiscal year including the salaries, wages, allowances, bonuses for attending the meetings and compensation for the expenses in addition to the amount received by each in his capacity as the technical or administrative employee or against any technical, administrative or consultative duty performed for the company.

2- Material benefits enjoyed by the chairman and each member in the board during the fiscal year.

3- The bonuses suggested by the board of directors to distribute to the members.

4- Amounts allotted for every member in the current and ex members as pension or reserve or compensation for the expiry of the service.
5- The operations in which the board members or the managers have interests contradicting to the interest of the company.

For the banks and other finance companies should attach a report of the auditor stating the cash loans, letters of credit or guarantees granted to the chairman or the board members during the fiscal year, which were given without violating the provisions of the article (109) of this Law\textsuperscript{178}. The above mentioned detailed statement should be signed by the chairman and one of the members. The chairman and board members will be responsible for executing the provisions of this Article and for the authenticity of the information stipulated in all the documents to be prepared."

2- Credit Facilities to Relatives of Members of Board of Directors
Credit facilities granted to all relatives of members of the board, (father, mother, brother, sister), together should not exceed 20\% of the bank's capital and reserves. Accordingly, enough collaterals and repayment sources should be obtained to cover the credit facility. The board of directors should approve these credit facilities and the related collaterals. Member interested in the credit facilities should not participate in making the decision to grant credit facilities to him or to any of his relatives.

3- Transactions of Members of Board of Directors with the Bank
With reference to article no. (108) of Commercial Companies Law no. (5) of the year 2002, national banks must comply with the following:
"The chairman or board member or director should not have any direct or indirect interest in the contracts, projects, undertakings made on account of the company. The public contracting activities and tenders in which all the competitors are allowed to participate equally are exempted from the above. If the suitable offer is submitted by either party mentioned in the foregoing paragraph, the ordinary general assembly should approve the same. This approval will be renewed if the contracts and undertakings are having routine nature and renewed after getting approval of QCB. Accordingly, contracts of the credit facilities granted to members of the director should be exempted according to the ceilings and controls determined by QCB.

\textsuperscript{178} Refer to Commercial Companies Law no. (5) of the year 2002.
In all cases, the party who has the interest thereof should be kept away from the meetings of the general assembly or board of directors, in which the subject related to him is discussed.

All those who violate the provisions of this article from the above referred parties should be dismissed from the position or job in the company.”

4- Membership of Board of Directors

4/1 Bank should seek prior approval of QCB to appoint members to the board after notifying QCB with a list of names of candidates signed by Chairman of the board, attached with the duly filled in Personal Questionnaire in annex no. (47), and submitted two weeks before the general assembly meeting. Article no. (128) of QCB Law states the following:

"The QCB may reject the appointment or nomination of any person for the membership of the financial institution’s board of directors or the continuance of the membership. It may reject the identification or renewal of the employment period of any of the senior employees. The QCB shall issue the instructions which determine the conditions for the appointment of senior employees in the financial institution and their authorities and benefits.

The QCB shall specify the conditions that should be fulfilled by the person nominated for the board membership of the financial institution.

The QCB may oblige the financial institution to appoint one or more members in the board of directors other than the shareholders.

The QCB may sue any member of the board, on behalf of the financial institution, who defaulted to pay his credit obligations after being legally notified.

The QCB may issue the instructions that regulate the works of the financial institution’s board."

QCB should be provided with form no. (1), annex no. (48), or form no. (2), annex no. (49), relating to the Scheduling of Debt of a Member of the bank’s Board indicating if this debt is under settlement or the member ceased to settle his debt.

4/2 National banks should follow the procedures adopted by Qatar Exchange relating to pledging shares of a member of the Board for public shareholding company, and

179 Refer to Definitions.
furnish the Supervision and Control Department at QCB with a copy of the letter from Qatar Exchange pledging the shares after finalization of election to the Board.

4/3 Legal Affairs concerning Members of Board of Directors:

The board members will have the responsibilities for managing Qatari banks under the provisions QCB Law, specifically the following articles, taking into account article no. (128):

- **Article no. (123):**
  “The Board shall determine the terms and conditions for granting credit facilities to members of the boards of directors of the financial institutions subject to the QCB control and that listed on the securities market. Such terms and conditions include persons related to the board members through a work or blood relationship to the second degree and other related parties. No member of the board shall be granted privileged advantages or facilities secured by his shares in the financial institution he is part of the board thereof.”

- **Article no. (127), items no. (4 and 5):**
  “If the QCB discovered that any of the financial institutions is violating the provisions of this law (or decisions issued in implementation thereof), or that its liquidity or solvency is at risk in a way that could cause damage to the rights of depositors, investors, other creditors, or customers, the QCB may take all or some of the following procedures:

  4- Appoint a temporary board of directors constituted of the financial institution’s shareholders, and one or more chief executive officers on the expense of the concerned financial institution.

  5- Cease or terminate the employment of any of the board members or senior officers.”

- **Article no. (129):**
  “Board members, and senior officers are personally responsible for the losses and damages caused to the financial institution or the third party as a result of their intention to cause damage to it, or due to their neglect, failure, concealment of information related to the financial institution’s activity or submission of wrong or misleading information either to shareholders or to the QCB. The financial institution shall be jointly responsible with them for that loss and damage.”
• Article no. (130):

“The financial institution’s board of directors, senior officers and auditors shall notify the QCB immediately upon the occurrence of any incidence that might threat or affect the financial institution’s reputation or its financial position, or upon the violation of the law or the QCB instructions.”

• Article no. (146):

“The chairmen and members of the board of directors of banks, and their directors, consultants, supervisors, agents, correspondents, experts, and other staff, shall not give, reveal or disclose any information, data, policies, or documents on their customers or their accounts, deposits, trusts, assets, treasuries, transactions, related operations or affairs, unless in cases provided for in the provisions of this law, and in accordance with the conditions and controls determined by the QCB.

The above-mentioned prohibition concerns all persons and parties, and shall remain ongoing even after the termination of the relationship between the customer and the bank, or any of the above-mentioned persons and the bank for any reason whatsoever.”

Additionally, members of board of directors should inform QCB of their understanding of these Articles through letter to Governor of QCB.

An Undertaking in form of attachment no. (2), annex no. (50) should be signed by all existing members and candidates for memberships to the board of directors.

The above-mentioned Undertaking and Acknowledge form in annexes no. (50) and (55) should be signed by all existing members, candidates for memberships to the board of directors and senior officers and submitted to QCB within two weeks as from February 2007.

5- **Bonuses given to Members of Board of Directors**

5/1 In terms of provisions of articles no. (117), (121) and (128) of QCB Law, national banks shall comply with the following:

A- Set international regulations and principles for calculating bonuses, wages and allowances given to members of board of directors against their supervisory, administrative and executive activities at the bank, including bonuses distributed

---

to members of the board at the end of the year. These principles should be approved by the board of directors and annually submitted to the general assembly at its annual meeting to review the bank’s end of year financial statements.

B- Include all bonuses, allowances and wages mentioned in paragraph no. (1) within the income and expenses statements according to the requirements of International Financial Reporting Standards (IFRS).

These instructions are effective from January 2008 and to be applied while preparing the end of year financial statements in 31/12/2007.

5/2 Bonuses and Allowances given to Companies that are Members of Board of Directors:

Bonuses, allowances or other payments should be directly paid to the company’s account or by its name. They should not be paid to the company’s representative in the bank’s board of directors.

5/3 Bonuses given to Members of Board of Directors and Executive Management

With reference to Instructions To Banks - November 2011, in page no. (271) concerning Core Principles for Banks' Remuneration Policy/System, and to item no. (5) herein concerning Bonuses given to Members of Board of Directors, QCB confirms that banks are required to comply with the mentioned principles and controls when defining the bonuses given to members of board of directors and executive management staff as at the end of the year 31/12/2013. These bonuses shall not exceed, in any case, the bonuses decided in 2011. However, banks shall disclose these bonuses according to the Commercial Companies Law and to the above-mentioned QCB instructions. Appropriate sanctions shall be imposed on the violating banks by virtue of QCB Law.

Banking Risk

H- Country Risk Concentration (National Banks)

1- Definitions

The following definitions shall be used for the purpose of implementing this instructions:

**Bank** : The bank's headquarter and branches and subsidiaries inside and outside Qatar.

**Credit Facilities** : All types of direct and indirect credit facilities and finance granted by the bank on conventional or Islamic basis.

**Financial Investments** : All types of the bank's financial investments for purpose of trade including:

1- Participations in companies' capitals.

2- Bonds, notes, debt securities and bonds (Sukuk) issued by the government or non-government sector, issued and marketed inside or outside Qatar.

3- Investment shares in all types of portfolios and mutual funds.

4- Undertaking Underwriting.

**Balances with Banks and Financial Institutions** : All types of the bank's deposits, loans and other balances due from banks and financial institutions.

**Invested Funds** : The bank's funds invested through the credit facilities, financial investments and balances due from banks and financial institutions.

**Government Sector** : The government and its bodies, institutions and companies owned by government by 100%.
### Semi-government Sector
Companies and institutions in which the government sector owns to less than 100%.

### Private Sector
Individuals, companies, institutions and other legal entities other than government and semi-government sector.

### Country Risk
The country risk includes all funds that the bank invests in a foreign country through the government, semi-government or private sector entities.

It also includes the bank's claims on such country's sectors, including all bank's funds invested by its branches, subsidiaries operating in that country, with exception of funds invested in the bank's branches and subsidiaries in that country.

### First Category Countries
0% risk-weighted countries according to Basel II framework.

### Second Category Countries
20% or 50% risk-weighted countries according to Basel II framework.

### Third Category Countries
More than 50% risk-weighted countries according to Basel II framework.

## 2- Maximum Limits for Country Risk
2/1 Banks should not exceed the following ceilings of risk concentration for each county:

<table>
<thead>
<tr>
<th>Percentage to Capital and Reserves (Tier 1)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>First Category Countries</td>
<td>250%</td>
</tr>
<tr>
<td>Second Category Countries</td>
<td>100%</td>
</tr>
<tr>
<td>Third Category Countries</td>
<td>50%</td>
</tr>
</tbody>
</table>

2/2 The Gulf Cooperation Council countries (GCC) shall be excluded from the above-mentioned ceilings.
2/3 When calculating the credit facilities for measuring the country risk, the outstanding balance or the facility granted, whichever is higher, should be taking into consideration.

3- Country Risk Management

3/1 There should be policies and procedures approved by the board of directors to manage the country risk.
3/2 The system should be compatible to the size and structure of the bank and the risk to assess, analyze and control the country risk. This system should be reviewed annually.
3/3 Banks should define a sub-ceiling for each country within the framework of general ceiling according to its category and as per the potential of default according to the international rating for each country. This ceiling should be periodically reviewed and updated by board of directors in conformity with the changes and international events.
3/4 Banks must reduce the ceilings on the high-risk countries or on the countries imposing restrictions on the currency remittances.

4- Country Credit Facility Classification and Provision Determination

QCB’s instructions on the credit facility classification and provision determination for customers outside Qatar should be applied, taking into consideration customer-related country risk. The credit facilities granted to the government and semi-government bodies in the foreign country (sovereign debts) or secured by the Government and semi-government should be periodically assessed and the credit facilities should be classified as non-performing if one of the following conditions is:

4/1 The country ceases repayment of the debt.
4/2 The country delays repayment or requests for rescheduling.
4/3 The country ceases repayment of the debt due to other entities.
4/4 The market price of the debt is less than that in the bank’s records.
4/5 There are indicators that the country is not able to meet the debt.

Each bank should determine provision for each non-performing credit facility, and get external auditor’s opinion and the amount of provision should to be approved by QCB at the end of each year.

These instructions are effective from September 2007.
5- **Financial Data**

With reference to QCB’s instructions in pages no. (248) concerning the above-mentioned instructions, all banks should monthly fill in and provide QCB with the form in annex no. (147) as of the end of July 2009 in a deadline of the 8th of the next month.

183 Refer to circular no. (64/2009) dated 7/7/2009.
Banking Risk

Third: Bank Investments

With reference to page no. (230) in the “Instructions to Banks - October 2012” concerning ceilings on the financial and real estate investments, it has been decided to amend these instructions.\(^{184}\)

Banks shall comply with the instructions and ceilings attached herewith as from 2/6/2013 and address any outstanding excess of the ceilings at the issuance date of the circular, within six months. In case banks desire to seek extension of this period, a written request (with strong reasons) may be furnished to QCB for consideration, clarifying the existing excess and reasons for such request.

A- Controls and Ceilings on Bank Investments

First: Securities Portfolio

This Includes:

1- Investments in Equity Instruments

This includes all types of bank investments inside or outside Qatar:

1/1 Listed or unlisted shares excluding subsidiaries and associates.
1/2 Equities of non-stock companies, excluding subsidiaries and associates.
1/3 Participation units in the collective investment schemes, such as investment funds and portfolios.
1/4 Equity-type Sukuk and other instruments.

2- Investments in Debt Instruments and Sukuk

This includes the following types of bank investments inside or outside Qatar:

2/1 Bonds, bills and other debt securities issued by governments, banks and companies.
2/2 Debt instruments and debt securities-type Sukuk of Islamic finance issued by governments, banks and companies.

\(^{184}\) Refer to circular no. (41/2013) dated 2/6/2013.
3- Investment Ceilings to a Bank's Capital and Reserves

<table>
<thead>
<tr>
<th>Description</th>
<th>Ceiling Ratio to Bank’s Capital and Reserve</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total ceiling of both types of securities portfolio (Equity Instruments, debt instruments and Sukuk).</td>
<td>25%</td>
</tr>
<tr>
<td>Total ceiling of securities outside Qatar.</td>
<td>15%</td>
</tr>
<tr>
<td>Total ceiling of unlisted securities:</td>
<td></td>
</tr>
<tr>
<td>- inside Qatar</td>
<td></td>
</tr>
<tr>
<td>- outside Qatar</td>
<td></td>
</tr>
<tr>
<td>Ceiling on investment in a single entity, which do not exceed the total (investment and credit) risk exposure determined by QCB for a single customer or a single financial institution.</td>
<td>5%</td>
</tr>
</tbody>
</table>

Exceptions of the above limits:

- Debt securities and Sukuk issued or guaranteed by the Qatari government or issued by QCB.
- Debt securities and Sukuk issued by national banks licensed by QCB.
- 0% risk-weighted debt securities and Sukuk according to Basel II framework inside or outside Qatar. Such debt securities and Sukuk shall be eligible for inclusion in level 1 of high quality liquid assets under Liquidity Coverage Ratio (LCR) in accordance with QCB instructions. Total (investment and credit) risk exposure in a single entity (a financial institution or a customer) should not exceed the credit concentration limit determined by QCB.

**Second: Investment in Associates**

Definition of an Associate:

A joint-stock or non-stock company over which the bank has significant influence by holding, directly or indirectly through its subsidiaries, 20% or more of its capital or holding less than 20%, with an evidence of its significant influence in
accordance with the indicators and controls defined by International Financial Reporting Standards (IFRS).

Ceiling Ratio to a Bank's Capital and Reserves:

- 35% total ceiling of all the associates (including participations, finance and risk exposure).
- 25% ceiling of a single company (including participations, finance and risk exposure).

**Third: Investment in Real Estates (Islamic Banks)**

One ceiling for all types of investments in real estate at 10% of a bank’s capital and reserves. This includes:

1- Owned real estates for purpose of investment (for purpose of leasing or trading).
2- Participations in unlisted real estate mutual funds.
3- Unlisted real estate Sukuk which is a common ownership in a real estate.

**Fourth: General Instructions**

1- Banks may neither participate nor increase their participations in any company to which the definition of “Associates” is applicable, unless prior approval of QCB is obtained.

2- Before investing in equity of any company, banks shall request for all documents of registration of the institutions and companies from the concerned official authorities in the related countries. Banks shall verify that the documents have been duly authenticated and that the balance sheets have been annually audited to be submitted to QCB, if required.

3- Banks shall seek and get the approval of the board of directors for the fixed participations in companies’ capital.

4- Banks shall set policies, procedures and controls approved by board of directors or headquarters of the foreign banks’ branches so that they can organize the financial investments by types, purposes and risk management.

5- Investment in Real Estates:

- Banks shall seek and get the prior approval of the board of directors for this type of investment, and set an investment policy.
- The real estates purchased shall be registered in the name of the bank or any of its companies.
• The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Standards shall be implemented for valuation of the investments when calculating depreciation on the real estate values and obtaining an annual evaluation from an independent reliable valuer.

6- Banks, their branches and subsidiaries shall comply with the investment ceilings, prescribed herein, in national banks inside Qatar or on a consolidated basis inside and outside Qatar according to item no. (3/4) on Consolidated Supervision Instructions in page no. (279) in “Instructions to Banks - October 2012”. Financial penalties as stated by QCB shall be imposed on any bank that may exceed the mentioned ceilings.

B- Notes on Investment Ceilings

With reference to circular no. (41/2013) concerning the investment ceilings, and with regards to queries of some banks about paragraph no. (6) under (Fourth) of the above-mentioned circular, stating that banks, their branches and subsidiaries shall comply with the prescribed investment ceilings, in national banks inside Qatar and on a consolidated basis inside and outside Qatar, QCB clarifies that with regards to the branches, subsidiaries outside Qatar which are subject to the supervision of the host supervisory, their investments in debt securities and Sukuk, issued or guaranteed by the government or central banks in the host country for purpose of domestic liquidity management of the branches or subsidiaries in the host country or for purpose of the host supervisory requirements, shall be exempted from the ceilings mentioned in the circular. Otherwise, the investment ceilings shall apply to banks and their groups inside and outside Qatar.

C- Purchasing Shares by the Issuing Banks (Treasury Shares)

With reference to Law no. (16) of the year 2006 amending Commercial Companies Law no. (5) of the year 2002, to Law no. (33) of the year 2005 concerning Qatar Financial Markets Authority and Qatar Exchange, and to article no. (122) of QCB Law,

---

185 Refer to circular no. (48/2013) dated 19/6/2013.
186 By virtue of Law no. (10) of the year 2009, some articles of Law no. (33) of the year 2005 concerning Qatar Financial Markets Authority have been amended.
the issuing bank can repurchase their shares at no more than 10% of the issued shares provided that the following instructions are complied with:

- Compliance with the executive limits and procedures issued by Qatar Financial Markets Authority.
- Any of the QCB’s prudential ratios relating to the bank’s capital and reserves and are not violated.
- Compliance with the International Financial Reporting Standards (IFRS) reporting and disclosure requirements of all transactions on bank’s shares in the financial statements.

Article no. (122) of QCB Law:

“No financial institution subject to the control and supervision of the QCB and registered as a shareholding company with public offerings shall own any of its shares, directly or indirectly, unless shares are acquired as a settlement of a debt. In all circumstances, the financial institution should dispose of such shares according to the procedure and within the time limit specified by the QCB. As an exception, the financial institution may buy a percentage of its shares accordingly with the controls and procedures decided by the Board.

No financial institution shall be provided with credit facilities or loans through the guarantee of its shares.”
Fourth: Trading in Foreign Exchange and Money Market Instruments in favor of the Bank

1- Controls on Trading in Foreign Exchange, Derivatives and Money Market Instruments in favor of the Bank

- Banks should have a comprehensive policy approved by the Board or the HQ of the foreign bank, in order to determine the bank’s objective of trading in foreign exchange, derivatives and money market instruments. The policy should set the administrative, executive and supervisory principles, procedures and controls relating to trading in derivatives and money market instruments. The Board while setting and adopting the policy should be fully aware of the nature of operations, the level of portfolio and the related risks in terms of credit, market, liquidity, operational and legal.

- Banks should set internal ceilings for trading in foreign exchange and money market instrument as a percentage of capital or total assets.

- The bank’s executive management and the concerned departments should have detailed policies, procedures and controls to undertake the corrections. Clear separation of duties and responsibilities, trading and accounting, dealing room and treasury should be ensured.

2- Foreign Exchange Transactions, Forwards, Futures, Options, and Others

- Determine the bank's ceilings for the following transactions: (Foreign Exchange, Forwards, Futures, Options and Others).

- Determine the transaction ceilings for the open positions of foreign currencies on forwards and futures, at any time.

- Determine the maximum maturities of forwards and futures.

- Determine the maximum loss for transactions or open positions and maximum of the total transactions and open positions, and total loss per month and year. The following positions should be taken into account when determining ceilings of the transactions, open positions and losses:
- Daylight Position
- Overnight Position
- Strategic Position

3- Ceilings of Interest Rate Gap

- Determine the maximum duration of interest gap.
- Determine the maximum amount of gap.
- Determine the maximum loss in gap for each transaction per year.
- Determine the duration and volume of interest rate contracts, to a percentage of the capital or total assets.

4- Instructions of Board of Directors on Trading in Foreign Exchange and Money Market Instruments

Banks should have instructions approved by board of directors on the ceilings of trading in foreign exchange and money market instruments as a percentage of capital or total assets.
Fifth: Concentrations of Deposits and Credit Facilities at Banks and Financial Institutions

1- Definitions

- Banks and Financial Institutions

  The joint-venture banks and financial institutions (20% or more) are considered as a unified bank for purpose of calculating the maximum limits, including all branches and subsidiaries and sister institutions all over the country.

- Credit Facilities to Banks and Financial Institutions

  All credit risk resulting from the direct claims on:

  A- On-balance Sheet Items

    - Deposits at banks and financial institutions.
    - Loans granted to banks and financial institutions.
    - Investments at banks and financial institutions (including participation in the capital).
    - Balances in current accounts at the corresponding banks and financial institutions (Nostro) and balances of overdrawn current accounts at the corresponding banks and financial institutions (Vostro).
    - Loans and credit facilities granted to customers secured by foreign banks or securities issued by a foreign bank.
    - Other equivalent claims from banks such as claims resulting from the international Murabaha transactions for goods, metals and others without being subject to any other constraints.

  B- Off-balance Sheet Items

    Value of the off-balance sheet items in conformity with the risk weights included in the capital adequacy framework in annex no. (9) which includes the following:

    - The confirmed documentary letters of credit.
    - Irrevocable obligations for granting credit facilities (including the credit lines).
- Back-to-back guarantees of banks and financial institutions, \(^{187}\) with exception of bid bonds.
- Acceptances (including the endorsements acting as acceptances).
- Assets of the investment portfolios secured by or held with banks and financial institutions.
- Potential liabilities against financial derivatives related to foreign exchange and interest rate contracts and the like.
- Other contingent liabilities.

2- Rating Banks and Financial Institutions

Banks and financial institutions should be rated into three categories for purpose of calculating the maximum limits:

First Category:

Banks and financial institutions rated (for long-term) at not less than A3 (Moody’s) and A- (Standard & Poors) or their equivalent and the national banks in Gulf Cooperation Council Countries (Onshore banks) rated at not less than the category (Baa2).

Second Category:

Banks and financial institutions rated at less than Baa2 (Moody’s), BBB (S&P).

Third Category:

Banks and financial institutions of those countries that set constraints on transferring the foreign currencies, and banks rated at less than the Second Category or whose capital adequacy ratio is less than the minimum adopted by Basel II Committee.

3- Maximum Credit Concentration Limits for Banks and Financial Institutions

3/1 Total credit facilities granted to a bank or financial institution rated at the First Category should not exceed 25% of the bank’s capital and reserves. This ratio is applicable for a single foreign bank or financial institution.

3/2 Total credit facilities granted to a bank or a financial institution rated at the Second Category should not exceed 10% of the bank's capital and reserves. This ratio is applicable for a single foreign bank or financial institution.

3/3 Total credit facilities granted to a bank or a financial institution rated at the Third Category should not exceed 5% of the bank’s capital and reserves. Banks can exceed this ratio against blocked deposits, provided that such banks and financial institutions have strong financial position.

3/4 Total credit facilities granted by foreign banks’ branches operating in the State of Qatar to their headquarters, branches, and subsidiaries and sister companies should not exceed 200% of the capital of the branch operating in Qatar.

3/5 Credit facilities should not be granted to the speculative short-term rated banks and financial institutions, which are rated at NP (Not Prime) by Moody's agency, and at (B) by Standard & Poor's or the equivalent.

3/6 Short-term increases of the correspondents' accounts (Nostro) should be excluded in order to cover the unexpected large payments. In case of the continuous increases, the monthly average of the balance should be calculated.

3/7 Local banks operating in the State of Qatar should be excluded from the maximum credit concentration limits for banks.

4- Additional Controls on Deposits and Credit Facilities

- A policy for the period of deposits at each of different banking institutions (including headquarter and branches) should be set. Accordingly, QCB should be informed of such policy.

- As for obligations resulting on banks and financial institutions against the international Murabaha transactions of goods and metals, the period of a single transaction should not exceed one year.

- These policies should be approved by board of directors of national banks and by the headquarters of foreign banks' branches. Accordingly, such policies should be sent to QCB.

- QCB's prior approval should be taken with the names of the banks, financial institutions and other concerned agencies with which the bank would deal after taking the board of directors' approval.
5- Periodical Data

QCB should be provided with table of the banks' balances. For more details, please refer to Part Twelve, Periodical Data, in page no. (563).

6- Periodical Statements on Credit Concentrations for Banks and Institutions

With reference to instructions in page no. (259) concerning credit concentrations for banks and financial institutions and to annex no. (124), please note be informed that some amendments have been made to the table on “Placement of Funds” to be provided to QCB via “QCB Connect”. Item no. (17) “Due to Banks – H/O and/or Branches abroad” has been added to the table. This item consists of balances due to banks, financial institutions and branches abroad including balances of current credit accounts “Vostros”, time deposits “Placements” and loans (REPO) “Borrowings”, taking into consideration the total of item no. (17) and total of item no. (02) and its analysis in the monthly balance sheet.

These instructions are effective from January 2009.

Refer to circular no. (136/2008) dated 31/12/2008.
Sixth: Liquidity Management

1- **General Instructions on Bank’s Liquidity Management**

Banks should prepare and update a liquidity management policy to be approved by the board of directors (the headquarter for foreign banks). Accordingly, this policy should include the updated components on normal and stress conditions which may include the following components:

1/1 The relative importance of each source of fund, on which the bank depends, should be considered while investing, including fixing flexible limits, for relying upon deposits from certain sectors in order to comply with the concentration risk.

1/2 Contingency plans should be set by maturities of assets and liabilities which could be reviewed by making various assumptions in case the banks’ liquidity is not adequate to meet their commitments during stress conditions (liquidity stress testing); for example, a sudden withdrawal of customer deposits in an abnormal way. These plans should be reviewed at least once a year and have procedures to be taken by the bank during emergency from the initial stage to its climax, including:

- Minimum of liquid assets that the bank should maintain to meet the contingent liabilities.
- The bank’s ability to receive additional sources of funds from the market through arrangements with other banks, within limits to deposits (borrowing) that can be easily used when necessary.

1/3 Liquidity measurement, monitor and control should be undertaken on a daily basis through preparing the actual and expected flow schedules and internal ceilings. Additionally, the current and future obligations and funds available from internal and external sources should be evaluated. Moreover, the surplus should be also evaluated and invested appropriately.

These instructions have are effective from 6/4/2008. QCB shall evaluate the liquidity risk in each bank in compliance with the above-mentioned requirements

---

as a minimum. As well, the bank should comply with limits and ratios of liquidity risk management approved by QCB.

1/4 Taking into consideration paragraph no. (6) in page no. (305), liquidity risk management in each bank should be on a solo and consolidated basis.

2- **Maturity Ladder of Assets and Liabilities**

With reference to circular no. (121/2008), in annex no. (136), all banks should provide QCB, on a monthly basis instead of a weekly basis, with the updated maturity ladder tables on assets and liabilities as per the filling-up instructions. These tables should be prepared in pursuance with end of year financial statement on the last working day of the month. QCB should be provided with these tables within a deadline of the 8th of the next month as from April 2009.

3- **Cash Flows for Customer Deposits**

All banks should fill in the table in annex no. (115) concerning the cash flows for customer deposits in Qatari Riyal and foreign currencies (equivalent to Qatari Riyal) in pursuance with the related filing-up instructions in annex no. (115). QCB should be regularly furnished with this table along with the monthly balance sheet.

---

**Seventh: Banking Ratios and Indicators**

**A- Liquidity Ratio**

**Liquidity Ratio**

1- Definitions:

- Liquidity:
  The bank's ability to meet on-and-off balance sheet liabilities and disburse demand loans to its distinguished customers.

- Debt Securities:
  Include certificates of deposit, bonds and other debt bills.

- Securities:
  Securities of public and private sectors including certificates of deposit, notes, bonds, other debt bills, shares and other securities.

2- Calculation of Liquidity Ratio

Liquidity ratio should be calculated as following:

\[
\frac{\text{Numerator}}{\text{Denominator}} \geq 100\%
\]

This ratio is calculated as following:

<table>
<thead>
<tr>
<th>Numerator:</th>
<th>Weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Includes sum of the following items:</td>
<td></td>
</tr>
<tr>
<td>- Cash in hand</td>
<td>100%</td>
</tr>
<tr>
<td>- Balances due from QCB</td>
<td>100%</td>
</tr>
<tr>
<td>- Balances due from banks inside Qatar for one year</td>
<td>100%</td>
</tr>
<tr>
<td>- Balances due from banks outside Qatar for one year</td>
<td>100%</td>
</tr>
<tr>
<td>- Net balances due from the headquarter and/or outside branches + (-)</td>
<td>100%</td>
</tr>
<tr>
<td>- Listed securities inside Qatar</td>
<td>100%</td>
</tr>
<tr>
<td>- Listed securities outside Qatar after provision is deducted:</td>
<td></td>
</tr>
<tr>
<td>A- Shares</td>
<td>80%</td>
</tr>
<tr>
<td>B- Others</td>
<td>100%</td>
</tr>
</tbody>
</table>

\[^{192}\text{After the fair value reserve and provision are deducted.}\]
Denominator:
Includes sum of the following items:

<table>
<thead>
<tr>
<th>Item</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Customer deposits and certificates</td>
<td>25%</td>
</tr>
<tr>
<td>- Deposits due to banks (Interbank) for one year</td>
<td>45%</td>
</tr>
<tr>
<td>- Borrowed amounts:</td>
<td></td>
</tr>
<tr>
<td>- For less than one year</td>
<td>40%</td>
</tr>
<tr>
<td>- Within 1-2 years</td>
<td>30%</td>
</tr>
<tr>
<td>- Within 2-3 years</td>
<td>25%</td>
</tr>
<tr>
<td>- For more than 3 years</td>
<td>20%</td>
</tr>
<tr>
<td>- Letters of guarantee</td>
<td>3%</td>
</tr>
<tr>
<td>- Unused ceilings of credit facilities</td>
<td>30%</td>
</tr>
<tr>
<td>- Letters of credit and acceptances</td>
<td>30%</td>
</tr>
<tr>
<td>- All forward contracts</td>
<td>3%</td>
</tr>
<tr>
<td>- Outstanding balance of underwriting commitment</td>
<td>50%</td>
</tr>
<tr>
<td>- Others</td>
<td>3%</td>
</tr>
</tbody>
</table>

2/2 The liquidity ratio should be calculated in conformity with Part Twelve, Periodical Data, in page no. (564). Financial penalty shall be imposed in conformity with Part Eleven, Sanctions and Financial Penalties in page no. (545).
B- Credit Ratio

1- The maximum credit ratio shall be 90%.
   - Total Credit: debit accounts, loans, discounted papers, and deferred letters of credit (acceptances).
   - Finance: domestic and external financing, Murabaha, Musawama, Mudaraba, Diminishing Musharaka, Istisna, Ijarah Muntahia Bittamleek or any other Islamic financing transactions, and acceptances.

2- This ratio shall be calculated in conformity with the "Calculation Form for Credit Ratio" form of annex no. (31). For more details, please refer to Part Twelve, Periodical Data, in page no. (564). Financial penalty shall be imposed in conformity with Part Eleven, Sanctions and Financial Penalties, in page no. (545).
C- Ratio of Overdraft To Credit Facilities

1- The overdraft ratio should not exceed 30% of total balances of credit facilities in each bank. This ratio is effective from November 2005. If the bank exceeds the above ratio, QCB should be notified with ways of dealing with the exceeding limits.

2- This ratio shall be calculated in conformity with the monthly balance sheet.

3- Financial penalties shall be imposed in conformity with Part Eleven, Sanctions and Financial Penalties, in page no. (546).

4- The ratio shall be calculated in conformity Part Twelve, Periodical Data, in page no. (565).
Banks should comply with the following instructions:

1- The ratio of assets in foreign currencies to liabilities in foreign currencies should at a minimum be 100% throughout the year.

| Assets in Foreign Currencies | Liabilities in Foreign Currencies |

2- This ratio shall be calculated in conformity with the monthly balance sheet statements on a monthly basis in conformity with Part Twelve, Periodical Data, in page no. (566). Financial penalties shall be imposed in conformity with Part Eleven, Sanctions and Financial Penalties, in page no. (547).
Banking Risk

E- Ratio of Fixed Assets For Bank's Use To Bank's Capital and Reserves

1- The net fixed assets for the bank's use (including the bank building) should not exceed 20% of the bank's capital and reserves. Exceeding the limit of 20% may be with the prior approval of QCB.

2- An independent annual evaluation should be obtained from reliable source for each fixed assets that exceeds 10% of the bank’s capital and reserves.

3- The fixed assets that are owned by the bank as a result of settling the customers' debts or for other reasons should not be included under the "Fixed Assets Account" item for the bank’s use.
In order to comply with the international principles, standards and practices for supervision of banks, which basically depend on policies for Risk Management, on usage of instruments and methods for Risk Mitigation, and enhance the banks' capability to meet the requirements of Basel II Capital Adequacy Framework and its pillars, reflecting the financial stability of each bank and the banking system, all banks should consult an international consultancy agency to assess different banking risks in conformity with instructions mentioned in annex no. (7) and any other instructions determined by the bank, provided that such agencies are highly qualified.
1- Ceasing Implementation of Instructions (Islamic Windows)

With reference to Instructions To Banks – November 2011 in page no. (249) and to circular no. (74/2010) concerning controls on offering Islamic financial services by conventional banks through their Islamic windows, and for purpose of regulating the banking risks, implementation of these instructions shall cease and conventional banks are not allowed to open Islamic windows. Additionally, activities of the Islamic financial services offered by Islamic windows of conventional banks shall be terminated before 31/12/2011 according to the following:

A- No more deposits that depend upon Islamic banking contracts shall be accepted during the defined period.

B- Time deposits shall be repaid during the defined period according to their maturity dates, plus the due return.

C- New transactions in Islamic finance shall not be conducted during the defined period. Outstanding balances of finance shall be continuously collected according to the agreed conditions and maturity dates.

D- Outstanding balances of Islamic finance after the end of the defined period shall be kept in a special portfolio in the bank’s balance sheet till they are collected according to the agreed conditions and maturity dates.

E- The banks may conduct the conventional banking activity at the locations of the Islamic windows after the end of the defined period provided that they notify QCB in writing.

F- Banks may transfer some of their Islamic assets to the Islamic banks during or after the defined period.

These instructions are effective from 31/1/2011
2- **Terminating the Activities of the Islamic Financial Services offered by Islamic Windows**

   With reference to QCB instructions, dated 31/1/2011 on terminating the activities of the Islamic financial services offered by Islamic windows of conventional banks, stating that banks shall transfer the assets and liabilities of the Islamic window to other Islamic banks, QCB emphasizes that banks should take into account the proper legal procedures including customer’s approval and banking privacy while transferring the assets and liabilities between the Islamic windows and banks or while transferring or selling and purchasing the assets and liabilities between conventional banks in general.

---

QCB desires to regulate generally the recognition of the true sale of assets and specifically sale to the Special Purpose Vehicles (SPV), derecognition of the asset and its risks, and impact on the income statement and prudential ratios and limits, QCB has issued instructions and rules of asset derecognition as following:

1- In case of the sale to the Special Purpose Vehicles (SPV) or to any other entities in which the bank does not have any participation or have a limited participation and have no control on their decisions as they are not treated as subsidiaries, the following conditions should be applied to derecognize the asset sold or a part of the asset sold, to revoke the risk from the bank’s risk profile, and to recognize the profits on the sale in the income statement:

   A- The cash flows due to be received as a result of sale of the asset should not be linked to the cash flows resulting directly or indirectly from the asset sold, which means that the ability of the buyer to pay the price to the bank should not be linked to the ability to market the asset to other parties and collect the price, to the market value of the asset sold during the agreed payment period, or to any other factors related to the asset sold.

   B- Most of the credit risk and price risk related to the asset sold should be totally shifted to the buyer or the other parties as the bank shall not bear any risk related to the asset sold according to conditions by which the other parties can claim any losses or any part related to the asset sold from the bank. Thus, the asset risk will be continuously recognized as much as the bank bears the risk and provide for any loss that may occur.

2- In case of the sale to the entities owned by the bank or in which the bank has participation and has control on their decisions as they are considered as subsidiaries, the bank should have a consolidated balance sheet. Therefore, any effect of the sale and its risks and results on the bank’s consolidated financial statements will be revoked.

All banks should comply with these instructions as from 31/5/2009.