Chapter Eight

End of Year Financial Statements and Additional Instructions
End of Year Financial Statements

First: Monthly Statement of Assets and Liabilities

1- Monthly Statement of Assets and Liabilities

1/1 Monthly Balance Sheet\(^{241}\):

In order to make banking offsite supervision more effective and to cover banks' expansion inside and outside Qatar, in light of banking consolidated supervision regulations for the bank, its branches and subsidiaries inside and outside Qatar, a monthly balance sheet was issued on the following link:

QCB Portal - Balance Sheet - New Balance Sheet

The current balance sheet will be replaced by the new balance sheet. The new financial statement includes the following:

- Filling-up instructions, annex no. (108).

All banks have to implement the new balance sheet and comply with the following:

a) Study balance sheet items, attached tables, and filling up instructions so as to understand how to fill up each item. In case of any further inquiry banks may call QCB concerned staff as mentioned in circular no. (110/2009).

b) Make the necessary modifications to the bank, its branches and subsidiaries inside and outside Qatar, to meet the requirements of the new balance sheet and all attached tables according to the dates mentioned in the filling up instructions.

\(^{241}\) Refer to circular no. (110/2009) dated 30/12/2009 - for all banks, amended to comply with instructions in circulars no. (54/2012) and no. (50/2012).
1/2 Monthly Balance Sheet Implementation:

A- 242 Technical Instructions of the monthly balance sheet:

Technical instructions of the monthly balance sheet were provided in CD attached to circular no 54/2010 dated 2/6/2010.

B- 243 All banks should comply with the following:

Provide QCB with an electronic file containing the balance sheet and tables on a monthly basis:

1- National Banks:

First phase:

the deadline to receive these statements will be the 8th day of the following month. It should include:

- Financial statements of the bank and its branches inside Qatar

Second phase:

The deadline to receive these statements will be the 12th day of the following month. It should include:

- Financial statements for each branch outside Qatar (statement for each country, Islamic branch should be separated from conventional bank)
- Consolidated balance sheet for branches outside Qatar
- Consolidated balance sheet for Islamic branches outside Qatar for conventional banks which have Islamic branches.
- Consolidated balance sheet for the bank and its branches inside and outside Qatar.

Third phase:

The deadline to receive these statements will be the 25th day of the following month. It should include:

- Consolidated balance sheet for each subsidiary inside Qatar
- Consolidated balance sheet for the bank group inside Qatar (bank, its branches, subsidiaries, and associates inside)
- Consolidated balance sheet for each subsidiary outside Qatar
- Consolidated balance sheet for the bank group outside Qatar (ranches, and subsidiaries outside Qatar)

242 Refer to circular no. (54/2010) dated 2/6/2010
243 Refer to circular no. (60/2010) dated 22/6/2010
p.s. Refer to circular no. (54/2012) dated 2/7/2012 for latest update
- Consolidated balance sheet of the bank group inside and outside Qatar.

2- Foreign Branches:
   - Provide QCB with an electronic file containing the balance sheet and tables on a monthly basis and the deadline to receive these statements will be the 8th day of the following month.

C- Kindly note that a new amendments have been made to the monthly balance sheet and some tables required from bank and its branches inside Qatar. A new column is included to indicate the balances at GCC Monetary Federation. The current member of this federation are Qatar, Saudi Arabia, Kuwait, and Bahrain. Amendments also include the means of sending the electronic files. These files are divided into 3 and are required to be sent in 3 stages. Each file contains different data and is to be dealt separately.

A (CD) contains the new technical instructions, including the above amendments are attached and marked in Yellow color.

Banks are required immediately to start implementation of the amendments.

D- Monthly tables attached to the balance sheet:

All banks must monthly fill up tables attached to annexes from no. (168 to 191) related to balance sheet items and submit them to QCB monthly as per determined dates as given in Paragraph. (1/2 C) in page no. (409).

2- End of Year Financial Statements

2/1 International Accounting Standards

All the commercial and specialized banks should comply with the international standards for the financial reports, while preparing the financial data (financial statements). The following must also be considered:

2/1/1 For evaluating the loans and advances portfolio, implementation of the specific instructions of QCB for classification of the loans and provisions, should be complied, and each bank must calculate the provisions against the loans, according to both the instructions of QCB and the requirements of the International Accounting Standard (39) for each debt separately. The banks

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244 Refer to circular no. (1/2011) dated 6/1/2011. (all banks), amended to comply with assets and liabilities instructions in the balance sheet.

245 Refer to circular no. (41/2012) – dated 29/5/2012 (all banks).
should abide by the prescribed provisions by QCB at the end of each year as a minimum limit.

2/1/2 246 Financial investments Classification and Assessment (commercial banks only):

2/1/2/1 Financial investment shall be classified in accordance with the categories determined by the amended International Accounting Standard no. (39) into three types:
   A- Held at fair value through P/L
   B- Available for sale
   C- Held to maturity

2/1/2/2 247 Banks may classify any new financial investments in the beginning whether inside or outside Qatar according to the financial investment categories prescribed in international standard no. (39) and its amendments. In the meantime classification of the present investments shall remain unchanged upon issuing this circular. No bank may change investments from one category to another unless there are justified reasons previously accepted by QCB. Such reasons may not include the bank's desire to influence on the financial year results or its compliance with supervisory ratios and limits.

2/1/2/3 248

Measuring, recording and updating of the fair value for each investment separately, before the end of each month, and the results of the assessment are included in income account or fair value reserve account according to the Standard’s requirements. Banks should comply with the following:
   A- Listed investments should be valued at the market price of the last trading day of the month according to the average or the lower price as the bank decides.
   B- Unlisted investments should be valued at cost and the banks should provide for any expected loss. Banks should not recognize any increase in the investment value unless they have reliable indicators

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247 Refer to item no. (2/4).
to support such increase and to evaluate the fair value of these investments.

These reliable indicators should be limited to the most recent transactions for this specific investment or similar investments made in the market on a commercial basis between desirous and informed parties who do not have any reactions which might affect the price.

C- The fair value of investments in mutual funds and portfolios whose units are unlisted should be measured at value of redemption at the valuation date.

These instructions are effective from 6/5/2009.

2/1/2/4 Recording the results of the available for sale investments assessment in the fair value reserve account according to the International Accounting Standards (39). Upon profit allocation, deduction from profits available for shareholders allocation must be made that equals the total of the negative fair value recorded for each investment in the fair value reserve.

2/1/2/5 The losses on assessment of the available for sale investment must be recognized and recorded in income account as (Impairment) according to the following indicators:

A- Available information or indicators of substantive negative changes in the company's financial or legal position or in the market or in the economic circumstances surrounding the company's business that affect the bank's ability to collect the book value of the investment in full.

B- Decline of market value of the investment listed in the formal financial markets by minimum rate 20% of the book value or for 9 months at least.

These instructions are effective from March 2007.

C- Any decline in the fair value of the investment that is not listed in the financial market to its book value.

2/1/2/6 According to the amended International Accounting Standard requirements (39), if previously, losses have been booked on an available for sale investment, then in the event of subsequent
appreciation in the market value of such investments, the increase should not be booked as profits in the income statement. Rather, any such increase must be recorded in the fair value reserve account.

2/1/2/7 The result of assessment of all other investment categories and the financial derivatives for profit or losses shall be recognized and recorded in accordance with the International Accounting Standard no. (39).

These instructions are effective from December 2005.

2/1/2/8 When preparing the quarterly financial statements, banks should comply with the international standards regulating issuing periodical financial statements and the related interpretation issued by The International Financial Reporting Interpretation Committee (IFRIC) particularly the following standards:

- IAS 34 Interim Financial Reporting
- IFRIC 10 Interim Financial Reporting and Impairment

In addition to the above any new developments or standards issued

These instructions are effective from March 2007.

2/1/3 The banks should not use the balances in the fair value reserve for any other purpose, other than the settlements, for which IAS (39) is required to be followed, as a result of revaluation or disposal of the financial assets, where their evaluation’s results were previously recorded in that reserve.

2/1/4 When calculating the ceilings and the supervisory ratios specified by QCB, the effect of the fair value reserve must be excluded from the numerator and denominator of the ratio except from the capital adequacy purpose, which is computed as per the requirements of Basel Committee requirements (12/2003).

2/1/5 Investment Classification and Valuation

2/1/5/1 Referring to the new (IFRS 9) standard by the international accounting standard board, and the deadline for implementation is not decided until now, according to banks majority opinions, QCB decides the following:

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249 Refer to circular no. (57/2008) dated 14/4/2008 to all banks including Islamic banks.

A- National Conventional Banks:

The implementation of new standard shall be delayed until the international standards board completes the other issues related to the standard. As such, banks will continue implementing international standard no (39), its annexes, and other related standards in accordance with rules and regulations issued by QCB in the "Instructions to Banks" and QCB's circular no. (32/2009), until QCB issues new regulations on the date of implementing the new standard.

B- Foreign Branches:

Foreign branches may adopt the new standard according to the policies and instructions of their head offices, provided that QCB must be notified.

C- Islamic banks:

Islamic banks will continue to implement the current instructions under paragraph 2/2 below.

2/2 Accounting Standards for Islamic Banks

2/2/1\textsuperscript{251} The Islamic banks should implement the accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), as relevant to the accounting policies and treatments, preparing the financial statements and the related disclosures. Islamic banks should comply with the International Accounting Standards and disclosure for areas that are yet to be covered by AAOIFI. Until further standards are issued in this respect, the following regulations and instructions must be complied by:

2/2/1/1\textsuperscript{252} Investment at Islamic Banks:

With reference to FAS no. (25), amendment to FAS no. (17), issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) concerning classification and measurement of the financial investments, and as per the discussions with Islamic banks and auditors, Islamic banks should apply the new FAS no. (25) in accordance with the

\textsuperscript{251} Real estate investment evaluation as per standard 17 in item 2/2/1/1/2.

\textsuperscript{252} Refer to circular no. (72/2011) - Islamic Banks.
attached instructions as from the current year (2011) as defined by AAOIFI.

2/2/1/1 Classification and Valuation of Financial Investment as per Standard No. (25):

Implementation Instructions FAS no. (25)

Amendment to FAS no. (17)

Financial Investments in Islamic Banks

Scope of Instructions

These instructions shall apply to the financial investments covered by AAOIFI FAS no. (25). These investments shall include:

1- Investment in Equity-type Instruments:
   It includes shares, equities in companies and units of mutual fund and any other equity-type instruments included in the definition herein.

2- Investment in Debt-type Instrument:
   It includes investment in Sukuk and any other instruments included in the definition herein.

Exclusions:

A- Investment in subsidiaries and associates.

B- Investment in the bank’s shares (treasury shares).

C- Investment in Mudaraba Financing, Diminishing Musharaka Financing and any other finance covered by Islamic Financial Accounting Standards.

D- Investment in real estates and fixed assets covered by FAS no. (17) that should be treated and measured by banks in accordance with the requirements of FAS no. (17) and paragraph no. (B) in page no. (351) in Instructions To Banks – May 2010, Item no. (2/2/1/1/2) in page no. (421).
First: Definitions

1- Equity-type Instruments
   Equity-type instruments are investments in share capital that reflect equity in the net asset value (NAV) of companies or other entities (such as mutual funds) according to the percentage of shares. These instruments do not exhibit the features of debt-type instruments as the investor does not have the right to redeem fixed or determinable payments of capital and profits. For example: investments in shares and share capitals of companies, units of the mutual funds, and some Sukuk that do not exhibit the features of debt-type instruments but exhibit the features of equity-type instruments, or others.

2- Debt-type Instruments
   Debt-type instruments are investments that have contractual equities that provide fixed or determinable payments of capital and profits to the investor according to contractual terms and periods.

3- Investments Held for Trading
   Investments held for trading are investments that are held for trading purposes in order to generate profits from short-term fluctuations in price. Thus, these investments are listed in the formal financial markets where they are not restricted from negotiability. Otherwise, they can be unlisted but measured according to indicators linked to markets or to investment instruments that can be subject to an accurate and reliable documentary measure for short-term periods and that can be easily liquidated accordingly, such; as the mutual funds and investment portfolios.

4- Amortized Cost
   The amortized cost of a financial instrument is the amount at which it is measured at initial recognition minus capital redemptions, plus or minus the cumulative amortization using the effective profit rate method for any difference between the initial amount and the maturity amount. Profits are recognized in the income statement through the financial periods during the life of the financial instrument.

253 These instructions shall replace any other instructions for Islamic banks concerning classification and measurement of the financial investments, mentioned in Instructions to Banks – May 2010, mainly the following paragraphs:
Paragraph no. (2/1/2) in page no. (334)
Paragraph no. (2/1/5) in page no. (337).
Item no. (A) in paragraph no. (2/2/1) in page no. (339).
5- Fair Value

Fair value is the amount for which an asset could be exchanged between well informed, willing parties (seller and buyer) at an arm’s length transaction.

Second: Classification of Financial Instruments

6- Islamic banks should differentiate between the following two types of financial investments in the financial statements according to the definitions:

- Investment in Equity-type Instruments
- Investment in Debt-type Instruments

6/1 Classification of Investment in Equity-type Instruments

On initial recognition, these investments shall be classified under the following categories:

6/1/1 Investments at fair value through income statement, comprising:

A- Investments held for trading

B- Investments not held for trading but classified as “investments at fair value through income statement” in accordance with the investment management strategy.

6/1/2 Investments at fair value through fair value reserve, comprising:

Other equity-type instruments that are classified as “investments held for trading” or “investments at fair value through income statement” as in paragraph no. (6/1/1).

6/2 Classification of Investment in Debt-type Instruments

On initial recognition, these investments shall be classified under the following categories:

6/2/1 Investments at fair value through income statement, comprising:

A- Investments held for trading.

B- Investments not held for trading but acquired and managed to make use of the change in their fair value and not for cash flows and profits.

6/2/2 Investments at amortized cost, comprising:
Other categories that are not classified under paragraph no. (6/2/1), and acquired and managed to make use of the cash flows and profits according to the contractual terms.

Third: Measurement of Financial Instruments

7- Initial Recognition

Investments at fair value through income statement shall be recognized on the acquisition date at their fair value, and other acquisition costs (expenses, commissions, fees, etc...) shall be directly recognized in the income statement. Other investments at amortized cost or at fair value through fair value reserve shall be recognized at total costs (fair value plus other acquisition costs).

8- Subsequent Measurement

After the initial recognition, banks shall separately re-measure the financial investments at the end of each month. Measurement results shall be recognized in the income statement or the investments fair value reserve account according to the following:

8/1 Investments at fair value through income statement or fair value reserve:

8/1/1 Listed Investments:

Listed investments shall be measured at the market price as of the last day of the month according to the average or the lower price as decided by the bank.

8/1/2 Unlisted Investments:

Unlisted investments shall be measured at cost. Any increase in the value of investments cannot be recognized in the income statement or the investments fair value reserve account unless banks have a reliable (documentary) evidence as approved by QCB to measure any increase in the fair value of these investments. Such evidences shall be limited to the most recent actual transactions in the secondary market on a commercial basis between well-informed willing parties who do not have any relation which might affect the price. There should not be restrictions or difficulties in liquidating the financial instrument at this price. Banks shall conduct
impairment testing on the investments carried at cost in order to detect any loss that should be recognized in the income statement.

8/1/3 The fair value of the unlisted investments in units of mutual funds and portfolios shall be re-measured at value of redemption at the assessment (valuation) date.

8/2 Investments at amortized cost:

The investments at the amortized cost shall be re-measured as such according to the definition mentioned herein. All gains or losses shall be directly recognized in the income statement. Investments carried at amortized cost shall be tested for impairment. Any impairment loss shall be recognized in the income statement for the concerned financial period when there is one or more objective evidences of impairment. Subsequent recovery of impairment losses can be recognized through the income statement to the extent of previously recognized impairment losses when there is no evidence of impairment.

9- Investments Fair Value Reserve

9/1 Investments fair value reserve shall be recognized in the income statement, taking into consideration the split between the portion related to owners’ equity and the portion related to investment account holders. Total of the negative and positive fair value shall be recognized, taking into consideration that shareholders’ total negative fair value is deducted from dividends when distributing the profits to the shareholders.

9/2 Investments fair value reserve shall be recognized in the investments fair value reserve account when one of the following cases are fulfilled:

A- Investments are disposed by sale or by other means. In this case, the gains or losses that are recognized in the investments fair value reserve account should be transferred to the income statement with resultant gains or losses.

B- There is a decline in the fair value of the investment by 20% of the book value or for subsequent 9 months, or there is information or evidence of substantive negative changes in the financial or legal position of the investee or in the market or in the economic circumstances surrounding the company's business that affect the bank’s ability to collect the book value of the investment in full. This is considered as an objective evidence of impairment. Therefore, the net loss recognized in the investments fair value reserve account, as well as any
other increase in the fair value (the market price), should be transferred to the income statement.

**Fourth: Reclassification**

10- Banks are not allowed to reclassify any type of the financial instruments mentioned above into other categories except for the category adopted by the bank on the acquisition date of the financial instrument.

**Fifth: Disclosures and Implications of the Standard Implementation on the Current and Previous Financial Statements**

11- Banks should comply with disclosure requirements stated in FAS no. (25).

2/2/1/2Investment in Real Estate and Fixed Assets as per standard No (17) Islamic banks:

In case of real estate investment evaluation, Islamic banks should comply with the following:

- This type of investment should be classified into two categories. First category shall be investment for sale (trading). Second category is investment for rent (regular income). However ceilings determined by QCB for each category should be taken into account.

- The net profit realized from all items of income and expenses including profit and loss on investment in real estate and fixed assets shall be the net profit for distribution among depositors and shareholders as per QCB’s instructions in page no. (430).

- Investment in real estate and fixed assets for sale would be evaluated as per the fair value and profits are included in the fair value reserve. While evaluation loss should be included in the fair value reserve as long as the reserve balance is eligible and any excess amount should be added to the income account as prescribed in the Accounting Standard (17).

- Investments for rent should be evaluated based on cost method and in accordance with the Standard’s requirements.

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The fair value reserve should not be used for any other purposes other than the settlement of reserve as a result of the revaluation, purchasing or selling the related assets.

For the purpose of calculating QCB supervisory ceilings and ratios, banks should exclude the effect of the fair value reserve from the ratio's numerator and denominator except for capital adequacy purpose, which is computed as per the requirements of Basel Committee.

2/2/2 Customers' investments and deposits:

While preparing the end of year financial statements, the deposits and investments of customer in on and off-balance sheet should be according to the following terms and classification:

- **On Balance sheet:**
  - Current and demand deposits (without return).
  - The absolute investment deposits (with return).
    - Time
    - Saving
    - Others

- **Off Balance sheet:**
  - Restricted investments accounts of customers through restricted agency or Mudarabah contracts with the customers.
  - Investment portfolios and mutual funds, managed by the bank on customers behalf.

2/2/3 Financing activities and receivables:

The financing activities and receivables on the balance sheet must include the following:

- Financing by Murabaha (or Musawama) and Murabaha for the purchase order, provided that QCB instructions concerning banks commitment with Murabaha for the purchase order should be implemented and the promised commitment should be considered.
- Financing by Mudaraba.
- Financing by Musharaka.
- Salam and parallel Salam Financing.
- Financing by Ijarah Muntahia Bittamleek, but with the bank’s continuous implementation of the promised commitment policy in the customer possession of the leased unit.
- Financing by Istisna, and recording the value of the Istisna contracts under establishment in the contingent commitments, under off-balance sheet.
- Any other financing instruments.

The implementation of the new standards for all the above-mentioned financing activities must not be prejudicial to the bank’s policy of recording customers’ receivables, commitments and undertakings against such activities, to customer’s total credit ceilings and credit facilities ceilings in the bank, and the related QCB instructions should be implemented according to the new standards and the public disclosure.

2/2/4 Provisions and Reserves:
- QCB’s instructions regarding credit classification, specific provision, and profit suspension on customer’s receivables and commitments for financing activities, should be complied with.
- QCB’s instructions concerning reserves and establishment of reserves and disposal method should be adhered to.

2/3 Accounting Classification of Deposits at Banks (Islamic banks and Islamic branches of commercial banks)

QCB recently observed that certain Islamic banks and Islamic branches of commercial banks combine different methods of accounting classification for deposits received from customers and financial institutions, and thus contradict the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

In this connection, banks should differentiate between the various types of deposits and classify them in accordance with standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Banks should comply with the following:
2/3/1 On Balance Sheet Deposits:

A- Current Accounts: Amounts deposited at banks as "repayable on demand" which banks guarantees to repay them upon customers demand. These accounts are included under current accounts of customers/financial institutions.

B- Unrestricted Investment Accounts: Amounts deposited at banks by customers, banks or financial institutions to be invested as unrestricted Mudaraba agreement and mixed in the bank’s own funds available for investment. These accounts are listed in the balance sheet items under unrestricted investment accounts rights whether for customers, banks, or financial institutions. In monthly statement these accounts are listed under liabilities, term deposits for banks, financial institutions, or customers.

C- Unrestricted Mukarada Sukuq (bonds) or any accounts of the same nature:

Bonds of same value issued by banks in the name of subscribers against payment of the issued value. These bonds are based on general acceptance to use the paid funds in financing the bank’s investments and share in the profits after deduction of the bank’s share as Mudarab. They are listed as a separate item in the financial statement and included in the monthly balance sheet under liabilities, Sukuq (bonds)

2/3/2 Off Balance Sheet Deposits:

A- Deposits received on the basis of restricted Mudaraba agreement to be invested in specified areas or according to the agreed conditions.

B- Deposits received to be invested according to the agreement of Wakala against specified fees to the bank.

C- Deposits for investment portfolios managed by the bank as Mudarab or as agent in accordance with QCB’s instructions.

These instructions are effective from January 2008. Banks should apply these instructions to any areas where there is contradiction.
2/4 Evaluation of Shares in Companies according to Shareholder's Equities (All banks)

Banks evaluating their shares in companies according to the shareholders’ equity method such as; associates or any other cases according to International Accounting Standard, should comply with the following:

2/4/1 To calculate the bank's share due to changes in the equities of the invested company, the bank should consider the latest audited end of year financial statements of the invested company.

2/4/2 To record the bank's share due to change in the equities of the invested company, in income accounts (Profit and Loss) in case of profit, the bank should transfer the amount of these profits to a separate reserve in shareholders equities and may be distributed only to the extent of the same amounts as distributed by the invested company.

2/4/3 The bank may not include any dividends from its investments in companies to income accounts, unless such dividends are finally approved by the invested companies' general assembly and announce that they are actual and due. These instructions are effective from 17/3/2008.

2/5 Consolidated Financial Statements (The end of year financial statements):

The end of year financial statements must be recorded according to the International Financial Reporting Standards (and according to the standards of The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) for Islamic banks, the instructions and QCB Law and its amendments, commencing from year 2003, as per the pro forma of financial statements given in annexes no. (131&132) in Part of Tables, Forms and Filling up Instructions.

2/5/1 Consolidated Financial Statements of Conventional Banks:

A- All conventional banks shall comply with the attached financial statements for the year ended 31 December 2012.

B- Disclosures and interpretations attached to the financial statements shall represent the minimum information that banks should interpret and disclose. Banks shall add, delete, edit or reformulate any disclosures or interpretations in consistence with the nature of their transactions and policies, with any changes to the applied disclosure standards or with other

255 Refer to circular no. (92/2012) dated 15/10/2012 (Conventional Banks).
disclosure requirements such as (Basel Committee and Qatar Financial Markets Authority, etc.). In case of any obstacles that prevent banks from providing the required disclosures and interpretations as a result of the external expansion and difficulty of making the required changes while consolidating the financial statements of their branches and subsidiaries outside Qatar due to time constraints on the current year ending, banks may notify QCB of the most significant requirements with which they will not be able to comply, mentioning reasons, provided that they comply with such requirements in the coming years.

C- Banks shall take into account notifying QCB of any effective changes or new standards issued by the International Financial Reporting Standards (IFRS) before making the required changes to the attached financial statements and disclosures unless QCB has issued relevant instructions or updated the financial statements.

D- Branches of the foreign banks shall comply with the attached financial statements and interpretations related to the assets and liabilities. As for the other disclosures and interpretations, the bank may consider its head office's requirements and the consolidated financial statements of the bank group, and provide QCB with a copy when issued.

2/5/2 The consolidated financial statements (Islamic Banks)

A- All Islamic banks shall comply with the attached financial statements for the year ended 31 December 2012.

B- Disclosures and interpretations attached to the financial statements shall represent the minimum information that banks should interpret and disclose. Banks shall add, delete, edit or reformulate any disclosures or interpretations in consistence with the nature of their transactions and policies, with any changes to the applied disclosure standards or with other disclosure requirements such as (Basel Committee and Qatar Financial Markets Authority, etc.). In case of any obstacles that prevent banks from providing the required disclosures and interpretations as a result of the external expansion and difficulty of making the required changes while consolidating the financial statements of their branches and subsidiaries outside Qatar due to time constraints on the current year ending, banks may notify QCB of the most significant requirements with which they will not be able to comply, mentioning reasons, provided that they comply with such requirements in the coming years.

Refer to circular no. (93/2012) dated 15/10/2012 (Islamic Banks).
year ending, banks may notify QCB of the most significant requirements with which they will not be able to comply, mentioning reasons, provided that they comply with such requirements in the coming years.

C- Banks shall take into account notifying QCB of any effective changes or new standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) or International Financial Reporting Standards (IFRS) before making the required changes to the attached financial statements and disclosures unless QCB has issued relevant instructions or updated the financial statements.

2/5/3 General Instructions:

A- The Islamic banks should restrict to the International Financial Reporting Standards in respect of these issues that are not covered by the AAOIFI standards for Islamic Financial Institutions, and without contradicting the rules of the Islamic law (Sharia) or QCB instructions for the Islamic banks in this respect.

B- Delete all items where the figure is zero, while comparing between two periods, either in the financial statements or the related explanations.

257 2/5/4 For the purpose of seeking QCB’s approval on the financial statements, disclosures and the related explanations, banks must restrict to the following:

A- A draft of the bank’s consolidated financial statement signed by the Chairman of the board of directors and the audited financial statements and attachments signed by the bank's general manager and external auditor.

B- Audited financial statements of the subsidiaries at the end of the year upon which the bank relied on to record the statements.

C- Audited financial statements of the affiliates at the end of the year or at the recent date of preparing the banks financial statements upon which the bank relied on to record the statements.

D- Report of the external auditor to the shareholders signed by the auditor.

E- Report of the external auditor valuating the financial and real estate investments.

F- Report of the Shareia supervisory board for Islamic banks.

257 Refer to circular no. (47/2012) dated 11/6/2012.
G- Providing QCB with reports on results of the audit on loan classification and provisions allocation for the bank, its branches, and subsidiaries as per the requirements and dates in circular no. (16/2012) dated on 19/2/2012.

H- Provide QCB with the external auditors’ report on the bank, its branches abroad, and subsidiaries inside and outside (Management Letter).

Please consider that QCB shall not receive any bank’s financial statements for approval unless they comply with the abovementioned requirements.

2/5/5 Banks must consider the following (Regarding financial statements):

- Complying with all conditions, amendments or directions which QCB may require the banks regarding these statements.

- Financial statements or announcement for the date of the general assembly meeting to approve the financial statements may not be published before having QCB’s approval on such statements.

- End of Year Financial Statements:

  Banks should obtain QCB’s approval on the annual balance sheet, income statement, profit distribution account for the bank, (financial statements) before approving the final statement for the national banks to be submitted to the general assembly, within one month from the date of receiving the end of year financial statement and its attachments, and also provided that the bank implements all conditions or amendments or instructions as required by QCB. No bank is allowed to refer to QCB before the end of the period.

- On approval of the general assembly, and the auditor, the final financial statements are to be published in one of the Qatari daily newspaper within four months after the end of the fiscal year and QCB should be provided with a copy. The final financial statements approved by the general assembly and the external auditor should be published in any of the Qatari daily newspapers within four months following the fiscal year end and QCB should be provided a copy thereof. The financial statements of the foreign banks’ branches operating in the State of Qatar

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258 Circular no. (4/2010) dated 19/1/2010 (National Banks) is not included as referred to herein item no. (2/5/5).
are to be published along with the financial statements of the parent bank in consolidation of its global branches, in one of the Qatari daily newspaper within four months after the end of the fiscal year and QCB should be provided a copy.

- Foreign banks' branches operating in Qatar should not transfer its profit to its general management except after:
  1- Closing of the accounts at the end of the financial year.
  2- Obtaining QCB’s approval on the financial statements that are approved by the external auditor.
  3- Obtaining the approval of the Income Tax Department and informing QCB of the transfer.

- Provide QCB with the bank's consolidated annual report.
End of Year Financial Statements

Second: Calculation and Distribution of Profits between Depositors and Shareholders of Islamic Banks

All the Islamic banks should abide by the following instructions when calculating and distributing the profits between the depositors and the shareholders:

1- Method for Distributing Profits

1/1 Net realized profit from all the items of the income and expenses account at the end of the financial year is the net profit allocated between the depositors and shareholders.

1/2 The net share of depositors is calculated from the net profit, based on daily balances of their deposits during the financial year and after deducting the agreed and the declared Mudarabah share of bank.

1/3 If a bank decides not to pay profits or reduced profits for the owners of the broken deposits, the profit share of the owners of such deposits must be distributed between the depositors and the shareholders according to their distribution ratios.

1/4 Banks can distribute monthly, quarterly, or biannual returns to the depositors during the financial year according to written agreement in the deposit contract, in an estimated way as a payment on account, depending on the bank’s period general income and expenses account, so that the distributed profits to the depositors during the year are deducted from their final distribution of profits at the end of the year, if QCB’s approval has been obtained.

1/5 Banks are not allowed to distribute or announce profits distribution to the depositors at the end of the year, and annual distribution rates only at the end of the year except only after QCB’s approval using QCB related form.

Items no. (1/4) and (1/5) are effective from 27/1/2010.

2- Distribution of Payment out of Profits to Depositors

All banks should consider that the distribution out of profits to depositors for partial period of the year must not exceed the depositors’ net profits’ share (after deducting the bank Mudaraba share) according to the profit and loss account for the period. In case the bank management is desirous of distributing more profits to depositors for any period, it may be achieved by decreasing the bank Mudaraba share for the period, provided that any bank may not exceed Mudaraba ratio disclosed at the beginning of the year while calculating depositors share of profit for other periods of the same year (12/2005).

3- Loss Bearing

3/1 In case of loss resulting from misuse or damage suffered by the bank due to any violation of regulations or instructions of QCB or sound banking norms, their depositors shall not bear these expenses or losses, and the same will be referred to QCB for its recommendation. Also the depositors will not bear any portion of the financial fines imposed by QCB due to violation of its instructions. Such penalties should be considered as expenses due to failure on part of the bank, and the bank has to bear these losses.

3/2 In case the year-end results of the bank indicates a net loss, the depositors are not required to share the losses, except as decided by QCB, without conflicting the rules of Shariaa provisions.

4- The Ratio of Mudarba and Contracts Signed with Depositors

4/1 The bank must determine the method of profit allocation and the Mudaraba ratio that is collected from the profits’ share of depositors in the signed contracts with the depositors, and declare the Mudaraba ratio at the beginning of each year and any modifications to contract should be in accordance with these instructions.

4/2 Banks can assign any part of its Mudaraba share for supporting the profits share of the depositors, based on the authorization to that effect from the general assembly and disclosure of the same in the financial statements at the end of the year.
5- Forms for Non-Objection from QCB

This part is as given in Part for Periodical Data in page no. (555).
End of Year Financial Statements

Third: Additional Instructions

1- Prior to the announcement for any profit distribution to the shareholders or issuing any related notification to Qatar Exchange or to any other entity, all banks must consider the following:
   
   • The approval of QCB on all the specific provisions of the bank’s assets and obtaining a letter from QCB to the effect that all the provisions have been correctly determined.
   
   • Bank’s verification of the adequacy of shareholders’ equity for compliance with the prescribed capital adequacy ratio by QCB at all the times.
      
      Banks may note that the prescribed penalties under relevant articles of QCB Law, shall be imposed for the banks violating the above.

2- Article no. (122) of QCB Law, prevents banks from owning its shares directly or indirectly, except share acquired by the bank as a settlement of a debt. In all case, the bank should sell these shares within two years after the acquisition date. As exception, the bank may purchase a maximum of 10% of its shares according to instructions mentioned in paragraph no. (C), page no. (255).

3- Banks should not provide any advice an advice or a consultation to customers regarding the banks' shares to avoid any direct or indirect impact on the bank share price.

4- Not to issue any new financial instruments to customers trading in shares listed in the Qatar Exchange, such as; forward options or any other operations until further notice.

5- Debt Securities Issuance: Bank should obtain QCB’s no-objection when desiring to issue commercial bills, certificates of deposit, bonds or other financing bills for financing the banking activity.

   Banks should submit the following documents when applying for QCB’s non-objection to issue the debt securities:

   A- General Assembly’s decision on approval for issuance.
   
   B- Purposes of issuance, uses of funds, and the investment’s expected return and its calculation method.

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C- Types and information on debt securities:

- Ordinary or subordinated debt securities.
- Interest rate on the debt securities.
- Type of currency and market in which the securities will be issued.
- Conditions and dates of debt securities redemption.
- Any other important conditions and specifications.

D- A statement that the debt securities will be listed in Qatar Exchange and initial approval of Qatar Financial Markets Authority.

E- Impact of issue of the debt securities on the prudential ratios and indicators and the bank risk profile; specially the interest rate risk, foreign exchange risk, maturity gap risk, capital adequacy and profitability.

F- Credit rating certificate from one of the international credit rating agencies.

G- Any other additional data required by QCB.

These instructions are effective from 9/1/2011.

6- Financial Statements Announcement:

QCB has recently noted that some banks announce for the end of year net profit and the expected profit distribution in newspapers before obtaining QCB non objection on the bank’s financial statements.

Banks are not allowed to announce or give any information in mass media about their end of year net profit, or expected distributions before finishing valuation of the credit facilities portfolio, investment portfolio, and other assets, and obtain QCB non objection on the valuation results. Any violating bank will be penalized according to the law.

These instructions are effective from 17/6/2009.

7- Shareholders General Assembly:

In accordance with provisions of article no. (13) of the QCB law; each bank should obtain QCB non-objection on the issues listed in the shareholders general assembly’s agenda prior announcing or holding the general assembly meeting of shareholders.

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262 Refer to circular no. (19/2011) dated 27/2/2011 to all national banks.
8- Legal Issues on Budget, Profit and loss Account, and Profit Distribution

Article (133)

“The financial institution shall submit its budget, its profit and loss account, and its profit distribution to the QCB for approval before presenting the same to the general assembly. They shall be certified by the auditor.

The financial institution shall call upon the QCB to delegate a person on its behalf to attend the general assembly’s meetings in the capacity of observer.”

Article (134)

“The financial institution shall abide by the QCB instructions with regards to publishing the auditor’s report of accounts, budget, income statement, changes in shareholders’ rights, cash flows, profits and loss statement certified by the auditor in one of the daily newspapers.

The QCB may oblige the financial institution to constitute additional reserves and allocations before distributing profits to shareholders.

The QCB may put restraints on the distribution of annual profits in cases of non-compliance with the capital adequacy or financial solvency or any other risks estimated by the QCB.”