In keeping with the update of Basel Capital Adequacy Framework as per Basel III, QCB updates Pillar II guidance on Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review Process (SRP) in conformity with the recent Basel requirements and QCB regulations on SRP and assessment of the different risks which are not considered on calculating Pillar I capital adequacy ratio.

In light of the above, QCB decides the following:

1- The enclosed guidance shall replace Annex no. (138) of QCB Instructions to Banks, September 2013, Vol II.

2- Banks shall prepare an ICAAP Report together with templates and tables as per the new guidance attached based on consolidated financial statements, reviewed by the external auditor as at 30/9 on annual basis, starting from 30/9/2016. The deadline to submit the ICAAP Report is by 15 December on an annual basis starting in 2016. Based on such report, QCB will review and evaluate the additional capital charge required for the succeeding year that should be complied with by banks to be included within the overall minimum limit of capital adequacy ratio during that year.

3- Annex 3 attached hereto is for calculating capital charge on exceeding of the prudential ratios and limits due to exemptions given by QCB or violations of QCB limits. This template is among the templates attached to the guidance which should be submitted to QCB as part of the overall ICAAP report as per paragraph 2 above. Banks should submit Annex 3 on a quarterly basis separately to QCB on the following dates:
   25 January for end of December (as from 25 January 2017).
   25 April for end of March.
   25 July for end of June.
End of December statements to be submitted to QCB using this template among other templates of the ICAAP Report by the 15th December as from 2016 as indicated in paragraph 2 above.

Any capital charge due to exceeding the prudential limits should be included in this template (Annex 3 on the 15th December) within the overall additional capital charge which should be complied by banks during the succeeding year. In case of increase in capital charge due breaching of prudential limits as per the quarterly Annex 3, this will be considered as an important indicator in assessment and for QCB decisions on limits, extending exemptions or any other related decision.

4- Based on the standard quantitative analysis (but not the judgmental qualitative analysis) that has been applied to banks as per the attached templates, it became clear to QCB that the total additional capital charge according to the ICAAP report will mostly be more than 1%. Accordingly, QCB requires the banks to currently consider 1% as a minimum while calculating the total additional capital charge in the ICAAP report, provided that this ratio cannot replace the bank’s actual ratio calculated according to both standard quantitative and judgmental qualitative indicators given in the guidance. This will be assessed by QCB during on-site examination and off-site monitoring.

5- ICCAP report submission dates (30th April for Domestic Systematically Important Banks (DSIBs) and 30th March for other banks) as per Circular No. 84/2014 dated 12/11/2014 shall be effective only for the year 2016 as per ICAAP guidance in Annex 138 in Instructions to Banks, September 2013, Volume II. The new guidance attached to this circular shall be valid from the 15th December 2016 as given at paragraph 2 above.

6- As regards Capital Planning framework given in the attached guidance at page 15, all banks, including DSIBs shall submit their capital plans to QCB as part of the ICAAP report as per the dates mentioned at paragraph 2 above. Guidance on Capital Planning for all banks and Recovery Plans for DSIBs as per Circular 84/2014 dated 12th November 2014 shall remain effective. Based on the Capital Plans of banks, QCB shall decide on the percentage of cash profits that shall be
distributed by each bank and capital adequacy requirements for the following year.

7- The ICAAP Report and the underlying processes must be reviewed by the bank’s external auditors prior to submission to QCB in 15th December annually. External Auditors Report and conclusions shall be attached to the ICAAP report submission.

These instructions are effective as from the date of issuance and any other contradicting regulations are null and void.¹

Abdullah Bin Saud Al-Thani

The Governor

¹ Attachment: copy of „Guidance on the Application of the Internal Capital Adequacy Assessment Process (ICAAP)“, 
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First: Introduction

1. In keeping with its direction to continually enhance the capital adequacy standards in Qatar, the Qatar Central Bank (QCB) has reviewed its internal capital adequacy assessment process (ICAAP) guidelines.

2. The guidelines in this document set out QCB’s expectations on ICAAP and replace the current applicable instructions regarding ICAAP, as documented in circular number 60/2013 ‘Guidance on Supervisory Review Process and Evaluation (SREP) and Application of Internal Capital Adequacy Assessment Process (ICAAP)’, and any subsequent circulars such as Circular 23/2014 dated 11/03/2014 on ICAAP.

Second: Scope of application

3. The guidelines outlined in this document apply to all National commercial banks in Qatar regulated by QCB (both conventional and Islamic) at a consolidated level.

Third: Background

4. The Basel Capital Adequacy Framework comprises of 3 Pillars. Pillar 1 relates to the Minimum Capital Requirements (MCR) for banks as outlined by QCB. The MCR is anticipated to achieve a level of bank credit worthiness in the markets and strengthen the soundness of banks. In the normal course of business, the types and volumes of activities will change, as will the different risk exposures, causing fluctuations in overall capital ratios. Whenever bank operate at or fall below the MCR, they would breach regulatory minimums and prompt the QCB to take up corrective actions. Thus, there may be risks, either specific to individual banks, or more generally to a jurisdiction at large, that are not taken into consideration under the MCR. Furthermore, the classification of assets and risk weighting as per external credit rating agencies may understate the risks embedded in such assets.

5. The Pillar 1 capital adequacy ratio is only the regulatory minimum level addressing credit, market and operational risks. However, in Pillar 2, other risks are to be identified and risk management processes and mitigation are to be assessed from a wider perspective, to supplement the capital requirements calculated within the scope of the MCR. Pillar 2 requires that banks have adequate capital to support the relevant risks in their business. It requires banks to develop and use appropriate risk management techniques in monitoring and managing their risks. Pillar 2 involves a proactive assessment of unexpected losses and a methodology to set aside sufficient capital. Effectively, Pillar 2 is the creation of a wider, flexible and more risk-sensitive system.

6. There are three main areas that are particularly suited to treatment under Pillar 2: risks considered under Pillar 1 that are not fully captured by the Pillar 1 process (e.g. credit concentration risk); those factors not taken into account by the Pillar 1 process (e.g. interest rate risk in the banking book, business and strategic risk); and factors external to the bank (e.g. business cycle effects).

7. A cornerstone of the Basel Capital Adequacy Framework is the formal requirement that, within the scope of Pillar 2, banks establish an Internal Capital Adequacy Assessment Process (ICAAP) and submit to QCB an ICAAP Report. Banks should have a process for assessing their overall capital adequacy in relation to their risk profile and a strategy for maintaining their capital levels.
8. Pillar 2 also requires that QCB will subject all banks to a Supervisory Review and Evaluation Process (SREP).

9. QCB will intervene at an early stage and will monitor when a bank is falling below the minimum levels of capital required to support the risk characteristics of the bank. QCB will also require a rapid remedial action if capital is not maintained or restored.

10. The SREP includes the review and evaluation of each bank’s ICAAP, the performance of an independent assessment of each bank’s risk profile, and if necessary taking prudential measures and other supervisory actions.

Fourth: Purpose

11. The main purpose of this revision of the ICAAP guidance is to reflect various adjustments to the Pillar 2 framework. These include:

   a. The introduction of an ICAAP self-assessment questionnaire (Annex 8) that will help the Banks to conduct their own self-assessment objectively and also assist QCB to verify compliance with this guidance; and

   b. Suggested risk sensitive methodologies for the measurement of major Pillar 2 risks and minimum capital requirements.

Fifth: Implementation

12. Banks are required to submit their ICAAP Reports along with Annex 1, 2, 3, 4 and 5 to QCB on an annual basis. The ICAAP Report should be submitted latest by the 15th December of each year based on the reviewed financials as at end of September of that year, starting in 2016. Banks are also required to submit Annex 3 Prudential Ratios Reporting template on a quarterly basis based on quarter end figures by 25th January for end of December, 25th of April for end of March and 25th of July for end of June. However, Banks are required to comply with the requirements outlined in these guidelines at all times and upon any deviation are required to report the same to QCB immediately.

13. The ICAAP Reports and underlying processes must be reviewed by the Bank’s External Auditors prior to submission to QCB.

14. The ICAAP Report must follow the structure of the guidance, specifically formatted and presented as per the Annex 6 following requirements set out in the section titled “ICAAP contents” below and must comprise of all the supporting documents and data tables, including but not limited to the reporting templates shown in Annex 1, 2, 3, 4 and 5.

15. The ICAAP Reports should clearly explain the Bank’s ICAAP framework, present the ICAAP results and demonstrate the Bank’s compliance with the standards set out in these guidelines.

16. QCB’s assessment of a Bank’s ICAAP will feed into the QCB’s overall assessment of the Bank’s capital adequacy, and may result in a change in the Bank’s capital requirement. QCB may also institute appropriate supervisory measures if significant weaknesses are observed in the Bank’s capital adequacy assessment process.

17. The ICAAP capital charge will at minimum be 1% of Pillar I Total Risk Weighted Assets of the Bank on a consolidated basis, based on calibration performed by QCB. This minimum
charge calibration is subject to periodic review by QCB and QCB may upon its discretion impose a revised minimum ICAAP charge.

18. The ICAAP capital charge will constitute a part of the Minimum Capital Requirement and QCB expects that banks will maintain ICAAP capital charge over and above the Pillar I Minimum Capital Requirement including the capital buffers such as Capital Conservation Buffer, Domestic Systemically Important Banks (DSIBs) Buffer and the Countercyclical Buffer. The Bank’s Risk Appetite and Capital Planning frameworks should incorporate the ICAAP capital charge as part of the Minimum Capital Requirement and Banks are required to maintain their capital levels above this minimum at all times. For example, given the minimum ICAAP capital charge of 1% the minimum Capital Requirement excluding any buffers will be 11% (10% base requirement + 1% ICAAP).

19. As part of the SREP, QCB will review the ICAAP Report submitted by the bank and upon it discretion can calibrate the Minimum Capital Requirements for each bank through individual Capital Guidance on the appropriate level of ICAAP capital charge to be maintained by each bank on a case by case basis.

20. ICAAP capital requirement can be met with any form of capital i.e. CET1, T1 or T2 subject to the guidelines and limits outlined in QCB Basel III Pillar I capital adequacy guidelines.

Sixth: ICAAP Contents

A. ICAAP Framework and Governance

a. General Considerations

21. Each bank is responsible for its ICAAP, and for setting internal capital targets that are consistent with its risk profile and operating environment. The Bank must have adequate corporate governance and risk management procedures, including a strategy and processes aiming to achieve and sustain a capital level that is adequate to the nature of the Bank’s business activities and risks. The fulfilment of this principle can be examined both at group and individual bank level and Banks are expected to implement the ICAAP framework at a group/consolidated level.

22. The ICAAP should be an integral part of Bank’s management processes so as to enable the Board to assess, on an ongoing basis, the risks that are inherent in their activities and material to the Bank. Depending on the complexity of activities, this could range from using the ICAAP to allocate capital to business lines, to generate expansion plans and even to having it play a role in the individual credit decision process.

23. The ICAAP should be reviewed by the Bank as often as deemed necessary (but at least twice a year) to ensure that risks are covered adequately and that capital coverage reflects the actual risk profile of the Bank. The ICAAP and its review process should be subject to independent internal review by Internal Audit and Compliance departments at the Bank. Since ICAAP is to be embedded in the Enterprise Risk Management of the Bank, the Risk Management Department and the Financial Control Department should be the focal point to implement and prepare the ICAAP submission reports and these should be reviewed internally by the Internal Audit Department and Compliance Department. Any changes in the Banks’ strategic focus, business plan, operating environment or other factors that materially affect assumptions or methodologies used in the ICAAP should initiate appropriate adjustments thereto. New risks that occur in the business of the Bank should be identified and incorporated into the ICAAP.
b. ICAAP Framework

24. The Bank should be able to demonstrate the (1) soundness, (2) effectiveness and (3) comprehensiveness of its ICAAP, which should be in accordance with the criteria specified in this section. Bank should also be able to establish how ICAAP is integrated into overall risk management and strategic management practices, including capital planning.

25. These assessments should contribute to the calculation of additional capital requirements and the assessment of capital adequacy.

i. Soundness of ICAAP

26. The Bank should demonstrate that the policies, processes, inputs and models constituting the ICAAP are proportionate to the nature, scale and complexity of the activities of the Bank. To do so, the Bank should establish the appropriateness of the ICAAP for assessing and maintaining an adequate level of internal capital to cover risks to which the Bank is or might be exposed and to make business decisions (e.g. for allocating capital under the business plan), including under stressed conditions in line with the QCB Guidelines on stress testing.

27. In determining the soundness of the ICAAP, the Bank should consider, where relevant:

   a. whether methodologies and assumptions applied by the Bank are appropriate and consistent across risks, are grounded in solid empirical input data, use robustly calibrated parameters and are applied equally for risk measurement and capital management;

   b. whether the confidence level is consistent with the risk appetite and whether the internal diversification assumptions reflect the business model and the risk strategies;

   c. whether the definition and composition of available internal capital resources considered by the Bank for the ICAAP are consistent with the risks measured by the Bank and are eligible for the calculation of capital; and

   d. whether the distribution/allocation of available internal capital resources amongst business lines or legal entities properly reflects the risk to which each of them is or may be exposed, and properly takes into account any legal or operational constraints on transferability of these resources.

ii. Effectiveness of the ICAAP

28. When establishing the effectiveness of the ICAAP, the Bank should demonstrate its use in the decision-making and management process at all levels in the Bank (e.g. limit setting, performance measurement, etc.). The Bank should also be able to demonstrate the interconnections and interrelated functioning of the ICAAP with the risk appetite framework, risk management and capital management, including forward-looking funding strategies, and whether this is appropriate for the business model and complexity of the Bank.
29. The Bank should be able to demonstrate that it has policies, procedures and tools to facilitate:

a. clear identification of the functions and/or Board committees responsible for the different elements of the ICAAP (e.g. modelling and quantification, internal auditing and validation, monitoring and reporting, issue escalation, etc.);

b. capital planning: the calculation of capital resources on a forward-looking basis (including in assumed stress scenarios) in connection with the overall strategy or significant transactions;

c. the allocation and monitoring of capital resources amongst business lines and risk types (e.g. risk limits defined for business lines, entities or individual risks are consistent with the objective of ensuring the overall adequacy of the Bank’s internal capital resources);

d. the regular and prompt reporting of capital adequacy to senior management and to the Board. In particular, the frequency of reporting should be adequate with respect to risks and business-volume development, existing internal buffers and the internal decision-making process to allow the Bank’s management to put in place remedial actions before capital adequacy is jeopardized; and

e. senior management or Board awareness and actions where business strategy and/or significant individual transactions may be inconsistent with the ICAAP and available internal capital (e.g. senior-management approval of a significant transaction where the transaction is likely to have a material impact on available internal capital).

30. The Board should be able to demonstrate appropriate commitment to and knowledge of the ICAAP and their outcomes. In particular, the Board should be able to exhibit that it approves the ICAAP frameworks and outcomes and, where relevant, the outcomes of internal validation of the ICAAP.

31. The Bank should demonstrate that its ICAAP is forward-looking in nature and is consistent with the capital and strategic plans.

iii. Comprehensiveness of ICAAP

32. The Bank should demonstrate the ICAAP coverage of business lines, legal entities and risks to which the Bank is or might be exposed, and the ICAAP compliance with legal requirements. In particular, it should establish:

a. whether the ICAAP is implemented homogenously and proportionally for all the relevant bank’s business lines and legal entities with respect to risk identification and assessment;

b. whether the ICAAP covers all material risks regardless of whether the risk arises from entities not subject to consolidation (special-purpose vehicles (SPVs), special-purpose entities (SPEs)); and

c. where any bank has different internal governance arrangements or processes from the other entities of the group, whether these deviations are justified (e.g. adoption of advanced models by only part of the group may be justified by a lack of sufficient data to estimate parameters for some business lines or legal entities,
provided that these business lines or legal entities do not represent a source of risk concentration for the rest of the portfolio).

B. Internal Control and Governance

a. General Considerations

33. Banks should have internal governance arrangements and Bank-wide controls that are adequate for the Bank’s risk profile, business model, size and complexity. QCB will evaluate the risk of significant prudential impact posed by poor governance and control arrangements, and their effect on the viability of the Bank.

34. The ICAAP submission Report should cover the following areas relating to internal governance and bank-wide controls:

i. overall internal governance framework;

ii. corporate and risk culture;

iii. organization and functioning of the Board of Governance;

iv. remuneration policies and practices;

v. risk management framework, including ICAAP

vi. internal control framework, including internal audit function;

vii. information systems, business continuity and recovery planning arrangements.

i. Overall Internal Governance Framework

35. The Bank should have an appropriate and transparent corporate structure that is ‘fit for purpose’, and should have implemented appropriate governance arrangements. The Bank should demonstrate at least the following:

a. a robust and transparent organizational structure with clear responsibilities, including the Board and its committees;

b. that the Board knows and understands the operational structure of the Bank and the associated risks;

c. risk policies and policies to identify and avoid conflicts of interest;

d. an outsourcing policy and strategy that considers the impact of the outsourcing on the Bank’s business and the risks it faces; and

e. that the internal governance framework is transparent to stakeholders.

ii. Corporate and Risk Culture

36. The Bank should have a sound corporate and risk culture that is adequate for the scale, complexity and nature of its business, and is based on sound, clearly expressed values that take into account its risk appetite.
37. The banks should at minimum establish that:
   
   a. the Board bears main responsibility for the Bank and sets its strategy;
   
   b. the Board sets governance principles, corporate values and appropriate standards, including independent whistle-blowing processes and procedures;
   
   c. the Bank’s ethical corporate and risk culture creates an environment of effective challenge in which decision-making processes promote a range of views; and
   
   d. there is clear and strong communication of strategies and policies to all relevant staff and that the risk culture is applied across all levels of the Bank.

   iii. Organization and Functioning of the Board

38. The Bank should establish that:

   a. the setting, overseeing and regular assessment of the internal governance framework with its main components is being carried out by the Board; and
   
   b. the effective interaction exists between the management and the supervisory functions of the Board.

39. The Bank should demonstrate that:

   a. the number of members of the Board is adequate, and its composition is appropriate;
   
   b. members demonstrate a sufficient level of commitment and independence;
   
   c. there is a fit and proper assessment of members upon appointment and on an ongoing basis;
   
   d. the effectiveness of the Board is reviewed;
   
   e. appropriate internal governance practices and procedures are in place for the Board and its committees, where relevant; and
   
   f. sufficient time is allowed for members of the Board to consider risk issues and appropriate access is granted to information on the risk situation of the Bank.

   iv. Remuneration Policies and Practices

40. The Bank should have appropriate remuneration policies for all staff members. The Bank should establish that:

   a. the remuneration policy is in line with the Bank’s risk profile and is maintained, approved and overseen by the Board;
   
   b. the compensation schemes implemented support the Bank’s corporate values and are aligned with its risk appetite, its business strategy and its long-term interests;
   
   c. staff who have a material impact on the Bank’s risk profile are appropriately identified and regulated, in particular with regard to:
i. the application of the qualitative and quantitative criteria for the identification of staff; and

ii. the provisions on exclusion of staff who are identified only under the quantitative criteria;

d. the remuneration policy disincentivizes excessive risk-taking; and

e. the combination of variable and fixed remuneration is appropriate and variable remuneration is not paid through vehicles or methods that facilitate non-compliance with regulatory requirements.

v. Risk Management Framework

41. The Board of the Bank should establish an appropriate risk management framework and risk management processes.

42. The risk appetite framework and strategy of the Bank should address:

   a. whether the risk appetite framework considers all material risks to which the Bank is exposed and contains risk limits, tolerances and thresholds;

   b. whether the risk appetite and risk strategy are consistent, and both are implemented accordingly;

   c. whether the risk appetite framework is forward-looking and in line with the strategic planning horizon, and regularly reviewed;

   d. whether the responsibility of the Board in respect of the risk appetite framework is clearly defined and exercised in practice;

   e. whether the risk strategy appropriately considers the financial resources of the Bank (i.e. risk appetite should be consistent with supervisory capital and liquidity requirements and other supervisory measures); and

   f. whether the risk appetite statement is documented in writing and there is evidence that it is communicated to the staff of the Bank.

43. The Bank should be able to demonstrate how the risk management framework is embedded and how it influences the overall strategy of the Bank. There should also be well defined link between the strategic plan, risk and capital management frameworks.

vi. Internal Control Framework

44. The Bank should demonstrate an appropriate internal control framework. As a minimum, this should include:

   a. the extent to which the Bank has an internal control framework with established independent control functions operating within a clear decision-making process with a clear allocation of responsibilities for implementation of the framework and its components;
b. whether the internal control framework is implemented in all areas of the Bank, with business and support units being responsible in the first instance for establishing and maintaining adequate internal control policies and procedures;

c. whether the Bank has put in place policies and procedures to identify, measure, monitor, mitigate and report risk and associated risk concentrations and whether these are approved by the Board;

d. whether the Bank has established an independent risk control function that is actively involved in drawing up the Bank’s risk strategy and all material risk management decisions, and that provides the Board and senior management with all relevant risk-related information;

e. whether the independent risk control function ensures that the Bank’s risk measurement, assessment and monitoring processes are appropriate;

f. whether the Bank has a chief risk officer with a sufficient mandate and independence from risk-taking, and exclusive responsibility for the risk control function and the monitoring of the risk management framework;

g. whether the Bank has a compliance policy and a permanent and effective compliance function that reports to the Board;

h. whether the Bank has a new product approval policy and process with a clearly specified role for the independent risk control function, approved by the Board; and

i. whether the Bank has the capacity to produce risk reports and uses them for management purposes and whether such risk reports are (i) accurate, comprehensive, clear and useful, and (ii) produced and communicated to the relevant parties with the appropriate frequency.

vii. Internal Audit Function

45. The Bank should establish that it has put in place an effective independent internal audit function that:

   a. is set up in accordance with domestic and global best practice and international professional standards;

   b. has its purpose, authority and responsibility defined in a charter that recognizes the professional standards and that is approved by the Board of Directors;

   c. has its organizational independence and the internal auditors' objectivity protected by direct reporting to the Board;

   d. has adequate resources to perform its tasks;

   e. adequately covers all necessary areas in the risk-based audit plan, including the areas of risk management, internal controls and ICAAP; and

   f. is effective in determining adherence to internal policies and QCB’s regulations and addresses any deviations from either.
viii. Information Systems and Business Continuity

46. The Bank should demonstrate that it has effective and reliable information and communication systems and that these systems fully support risk data aggregation capabilities at normal times as well as during times of stress. In particular, the Bank should at least be able to:

   a. generate accurate and reliable risk data;
   b. capture and aggregate all material risk data across the Bank;
   c. generate aggregate and up-to-date risk data in a timely manner; and
   d. generate aggregate risk data to meet a broad range of on-demand requests from the QCB or the Board.

47. The bank should be able to demonstrate that it has established effective business continuity management with tested contingency and business continuity plans as well as recovery plans for all its critical functions and resources.

b. Application at the Consolidated Level and Implementations for Entities of the Group

48. At the consolidated level, in addition to the elements covered in the sections above, the Bank should be able to establish that:

   a. the Board of the Bank’s parent undertaking understands both the organization of the group and the roles of its different entities, and the links and relationships amongst them;
   b. the organizational and legal structure of the group – where relevant – is clear and transparent and suitable for the size and the complexity of the business and operations;
   c. it has established an effective group-wide management information and reporting system applicable to all material business lines and legal entities, and that this is available to the Board of the Bank’s parent undertaking on a timely basis;
   d. the Board of the Bank’s parent undertaking has established consistent group-wide strategies including a risk appetite framework;
   e. group risk management covers all material risks regardless of whether the risk arises from entities not subject to consolidation (SPVs, SPEs);
   f. it carries out regular stress testing covering all material risks and entities in accordance with the QCB Guidelines on stress testing; and
   g. the group-wide internal audit function is segregated from all other functions, has a group-wide risk-based auditing plan, is appropriately staffed and has a direct reporting line to the Board of the parent undertaking.

49. The Bank should also be able to demonstrate how group-wide arrangements, policies and procedures are implemented at subsidiary level.
C. Business Model and Strategy

50. Banks’ business model and strategy should be summarized in the ICAAP Report.

51. Banks should have a distinct, comprehensively written strategy document that articulates the Banks’ strategic direction over the medium-term covering:
   a. At least 3 years for Non Domestic Systemically Important Banks, and
   b. At least 5 years for Domestic Systemically Important Banks.

52. The Board of Directors has the ultimate responsibility for developing the Bank’s strategy. The Board of Directors should have a clear documented mandate to establish, review and monitor the Bank’s business plan and strategy. The strategy should be approved by the Bank’s senior management and the Board of Directors.

53. The Bank should be able to demonstrate the involvement of the Board of Directors in discussions related to strategy review, monitoring and reporting. The discussion related to the establishment, review, monitoring and approval of the strategy should be documented in the Board of Directors’ meeting minutes. Banks should demonstrate the relationship between the strategy and the Banks’ risk appetite and capital allocation.

54. The Board of Directors’ discussions should cover an assessment of the following:
   a. Sustainability of the business plan and strategy
   b. Viability of the business plan and strategy
   c. The linkage of business plan and strategy to the risk appetite and capital allocation.

55. The Board of Directors should ensure that the Bank’s ICAAP is based on the strategy approved by them.

56. The Board of Directors should ensure that all material information and risks related to the Bank’s business model and strategy have been disclosed and documented in the ICAAP Report.

57. Banks’ strategy should clearly outline and document the following at minimum:
   a. Main activities, geographies, business lines and product/service lines;
   b. Materiality of business lines and regional areas (subsidiaries and branches);
   c. Planned growth by sector, region and business line and product/service line;
   d. Planned changes to the business operating model that are required to meet the strategy requirements. This should include, but not be limited to:
      i. Changes to the bank’s organization structure and/or operating model; and
      ii. Planned technology changes (including major hardware or systems changes);
      iii. Changes to customer channels;
iv. Major changes to processes.

58. The strategy should be underpinned by detailed financial projections outlining granular estimates and assumptions of changes in the main balance sheet and income statement items for a period of:
   a. At least 3 years for Non-Domestic Systemically Important Banks, and
   b. At least 5 years for Domestic Systemically Important Banks

59. The strategy should include detailed financial projections that cover the following scenarios:
   a. Business as usual (Assuming normal growth)
   b. Growth neutral (Assuming no growth and no capital increases)
   c. Stress scenarios (Assuming stressed conditions requiring additional capital)

60. The strategy should include an assessment of the current and future business conditions in which the Bank operates or is likely to operate based on its main or material geographic and business exposures. Banks should demonstrate the plausibility and consistency of the assumptions that drive the strategy and forecasts; these may include:
   a. Analysis and forecasting for macroeconomic metrics
   b. Study of market dynamics including market share, volume and margin growth in key products, profitability and competitive advantage
   c. Analysis of peers regionally and globally
   d. Analysis of regulatory environment

61. The Bank should have a formal periodic documented process to identify, assess and report to the Board the areas that impact or may impact the sustainability of the business plan and strategy such as:
   a. Material business lines, products, sectors, regions etc. whether generating more or less profits or losses
   b. Elements of the strategy that require regular attention or had previous regulatory issues
   c. Elements of the strategy that have been highlighted by the internal or external auditors
   d. Changes in the macro-economic metrics, market dynamics, peers, regulatory environment, and other relevant economic factors

62. Banks should have in place a formal, periodic process to assess and report to the Board of Directors on the viability of the strategy by assessing the Bank's performance against targets over a 12-month period. This assessment and subsequent report to the Board should be documented and take into considerations key success factors, dependencies, and changes in the regulatory and business environment.
63. The viability assessment report should assess and report acceptability of returns against the following, but not limited to:
   a. The Return on equity (ROE) against cost of equity (COE) or equivalent measures
   b. The Return on assets
   c. The Risk-adjusted return on capital
   d. The funding structure and the volatility or mismatches in the funding mix

64. Banks should demonstrate their capability to execute the strategy in light of their current business model and based on the management's track record in adhering to previous strategies and forecasts.

65. Banks should be able to demonstrate that the strategy has been cascaded down to divisional/departmental and employee levels and that the Bank has developed strategic key performance indicators (KPIs) to monitor the implementation of the strategy.

66. Banks should periodically report the strategic KPIs to the Board of Directors.

67. Banks should have an adequate mechanism to identify, manage and report to the Board of Directors key vulnerabilities that the Bank may exposed to such as:
   a. Poor Financial performance
   b. Excessive risk taking
   c. Excessive concentration or volatility
   d. Funding issues
   e. Significant external issues

68. Banks should have in place strategic key risk indicators (KRIs) to monitor risks that may hinder the Bank from achieving its strategic objectives and key vulnerabilities, to which the Bank might be exposed.

69. The KRIs should be aligned to and cascaded down from the Bank’s Risk Appetite Statement.

D. Capital Planning

70. The Bank must set up a formal capital planning framework that is aimed at producing a coherent view of the banks’ current and future capital needs and developing a capital plan that is subject to regular update and review. The Banks must submit the Capital Plan to QCB as a separate document concurrently with the ICAAP Report. The capital planning framework and capital plan must be in line with the “Guidelines on Capital Planning for ICAAP for Banks and Recovery Planning for Domestic Systematically Important Banks” issued by QCB on 12th November 2014 (Circular No. 84/2014).
Specifically, the capital planning framework should encompass the following fundamental components:

a. Internal control and governance
   i. Banks’ Board of Directors are expected to set forth the guiding principles underpinning the capital planning framework at the bank.
   ii. Capital planning should be an interactive process involving business, risk, finance and treasury departments among others as the bank deems appropriate.
   iii. Both senior management and the Board of Directors of banks should review and approve the capital plans at least annually – or more frequently in case of material changes to the bank.

b. Capital management policy
   i. The capital management policy should be proportionate to the bank’s size and complexity, and is expected to be a distinct, comprehensive written document that addresses the key elements of the bank’s capital planning framework.
   ii. The policy should also link to and be supported by other policies (e.g. risk management, stress testing, ICAAP, risk appetite, dividend policy).

c. Forward-looking view
   i. A key component of the capital planning framework is the assessment of the expected uses and sources of capital over the planning horizon under normal and stressed conditions.
   ii. This assessment should cover a period of at least three years, ideally five years, and should contain the following elements:
      a. Projected profits, losses, dividend pay-out and capital levels including regulatory and internal capital adequacy ratios under both normal and stressed conditions that include both systemic (i.e. economic, or market-based scenarios) and idiosyncratic (i.e. bank-specific) scenarios;
      b. An explanation of how the bank will keep its capital adequacy ratios above regulatory limits and within the bounds set in the bank’s risk appetite statement, in normal and stressed conditions;
      c. Actions to mitigate the impact of the modelled stress conditions and avoid anticipated breaches;
      d. An explanation of the results of periodic stress testing required by QCB, and an explanation of how the capital plan takes the results of such stress tests into account; and
e. A description of planned capital actions and/or any expected changes to the bank’s business plan that are likely to have a material impact on capital adequacy or liquidity.

d. Management framework for preserving capital

i. The bank’s capital plan should provide senior management and Board of Directors with views of the degree to which a bank’s business strategy and capital position may be vulnerable to unexpected changes in conditions.

ii. Banks should, as part of the capital plan, prioritize and quantify capital actions available to them to cushion against unexpected and adverse events. Management should also assess the feasibility of proposed capital actions, including assessing potential benefits and long term costs. They must have a high degree of confidence that the actions can be executed as described, citing previous experience of executing such actions.

72. The capital plan should be outlined and referenced in the ICAAP submission Report with clear inclusion of the capital requirements calculated by the Bank for Pillar II risks and linkage to the stress testing carried out by the Bank, as per QCB requirements.

73. Banks should include their economic capital estimates as a complementary view of the bank’s condition, alongside the regulatory capital requirement, but not as a substitute for this requirement. This may be achieved through assessing aggregate capital need, inclusive of any risk diversification benefits and capital cushions for model risks, cyclicity or other factors, compared with available financial resources.

E. Stress Testing

74. In line with the QCB Guidelines on stress testing, the Bank should demonstrate its stress-testing programs, covering the appropriateness of the selection of the relevant scenarios, and the underlying assumptions, methodologies and infrastructure, as well as of the use of stress tests’ outcomes. As a minimum, this should include:

a. the extent to which stress testing is embedded in a bank’s risk management framework;

b. the Bank’s ability and infrastructure, including data, to implement the stress testing program in individual business lines and entities and across the group, where relevant;

c. the involvement of senior management and of the Board in the stress-testing programs; and

d. the integration of stress testing and its outcomes into decision-making throughout the Bank.

75. Specifically for purposes of ICAAP and for inclusion of results in the ICAAP submission Report, Banks should conduct firm-wide stress tests of all their material risks and known vulnerabilities. This includes all Pillar 1 risks:
a. Credit risk;
b. Market risk;
c. Operational risk.

76. It also includes the assessment of all Pillar 2 risks when external conditions change for the worse over a period of time.

77. Stress tests should be forward-looking, over the same time horizon as the bank’s financial forecasts and capital projections, at least three years and ideally five years.

78. These stress tests should take into account the following:
   a. The risks specific to the jurisdiction(s) in which they operate;
   b. The current stage of the business cycle;
   c. Any changes in the business or operating environment;
   d. The impact of any new legislation;
   e. The potential actions of competitors;
   f. Other factors that may impact on the bank’s performance.

79. Stress testing should be implemented proportionately, taking into account the nature, scale and complexity of the bank’s activities and risk profile. Banks should perform stress tests on individual portfolios and the specific types of risk that affect them.

80. DSIBs should establish an infrastructure for stress testing that supports:
   a. Portfolio-based sensitivity analyses;
   b. Enterprise-wide scenario analyses;
   c. Bottom-up reverse stress tests.

81. Banks operating cross-border must set up stress testing programmes spanning the Group (consolidated), and all material entities and/or business lines.

82. DSIBs must conduct firm-wide stress tests based on a variety of macro-economic scenarios:
   a. Market-wide (systemic), firm-specific (idiosyncratic), or combined (elements of both);
   b. Loss-based (impacting capital), and/or liquidity stress (impacting cash-flows or funding);
   c. Fast-acting (less than 3 months), or slow (more than 12 months).

83. DSIBs should conduct reverse stress tests, to identify scenarios in which the viability of their business model is threatened. These tests should be conducted bottom-up: considering each
material line of business or business entity, and the potential threat both to the business and to the bank as a whole.

84. Non-DSIBs may limit themselves to sensitivity analyses of their material risks, and qualitative analysis of scenarios that threaten their viability. However, all banks should consider the possible interactions between and amongst risk types, such as cross-risk effects, and risk concentrations. Consideration should be given to changes in the correlations between the risks that are identified for any given portfolio.

85. Stress testing should cover a range of severities: Mild, Moderate and Severe. Banks should consider the appropriate level of severity for their stress tests by comparison to scenarios that threaten the viability of the firm (reverse stress tests).

86. A test for a severe economic downturn is essential for capital planning. As a result of its stress testing programme, the bank should identify outputs in relation to its regulatory capital and resources, and relevant balance sheet and income statement impacts under each scenario. Banks should identify credible management actions addressing the outputs of stress tests, and aimed at ensuring their ongoing solvency throughout each scenario.

87. Banks should show financial forecasts (summary balance sheet and income statement) for each scenario:
   a. Before any capital actions (to quantify the need for such action); and
   b. After appropriate capital actions (to demonstrate the adequacy of these actions);
   c. These forecasts should cover the same period as the ICAAP, as defined above.

88. Banks must evaluate their future solvency, and the reliability of their capital planning, based on the stress test results.

89. The Board should have ultimate responsibility for the overall stress testing programme of the bank:
   a. It should be engaged in the design of the programme and the selection of test scenarios;
   b. It should oversee the execution of the stress testing programme to ensure it is robust and comprehensive;
   c. It should review the results of stress testing, and any planned or contingent actions that may be necessary.

90. Stress testing programmes should be actionable, and inform decision-making at all appropriate management levels of the bank. Examples of such actions include, but are not limited to:
   a. Revising the set of limits;
   b. Reducing exposures in portfolios, sectors or countries;
   c. Reconsidering the funding policy;
   d. Reviewing and enhancing capital adequacy;
e. Reviewing and enhancing liquidity adequacy;

f. Reviewing the business or risk strategy;

g. Updating the risk appetite of the bank;

h. Reviewing the contingency plans for capital;

i. Reviewing the contingency plans for funding and liquidity;

j. Reviewing the operational contingency plans and business continuity plans.

91. To facilitate the implementation of the stress testing programme, the bank should have in place the following:

   a. Adequate allocated resources for stress testing;

   b. Clearly defined responsibilities for governance, management, execution and support;

   c. Written policies and procedures for planning, design, conduct, analysis and review.

92. The bank should regularly review its stress testing programme, and assess its effectiveness and fitness for purpose.

F. Pillar II methodologies

93. The purpose of this section is to provide common methodologies to be considered for assessing individual risks and risk management and controls. It is not intended to be exhaustive and gives flexibility to banks to take into account other additional criteria that may be deemed relevant based on their experience and the specific features of the bank.

94. The methodologies required for use in this section are designed to be risk sensitive and must be used by banks to calculate risk sensitive capital charge “floors” for Pillar II risks. This means that a bank may choose to employ an alternative calculation/measurement methodology to assess Pillar II risks (other than those prescribed in this section), but should also assess the capital requirement based on the prescribed methodology for each risk and subsequently apply the higher capital charge of the two assessments.

95. For risks where there is no recommended methodology in this section, (for example, but not limited to, legal risk, residual market risk, residual operational risk, etc.) banks are required to use measurement or calculation methodologies that are deemed relevant and proportionate to the specific features of each bank. However, banks are required to maintain consistency in calculation/measurement approaches across ICAAP submission Reports and to obtain approval from QCB for any change in calculation/measurement approach by providing clear justification for change.

96. All material Pillar 2 risks are to be assessed under ICAAP. Such risks include but are not limited to the following:

   a. Credit concentration risk
b. Interest rate risk in the banking book (IRRBB)/ Profit rate risk in the banking book (PRRBB)

c. Liquidity risk
d. Residual credit risk
e. Strategic risk
f. Reputational risk

a. **Credit Concentration Risk**

97. This section sets out the methodology banks should use to inform the setting of capital requirements for credit concentration risks.

98. Credit concentration risk is the risk of losses arising from concentrations of exposures due to imperfect diversification. This imperfect diversification can arise from the small size of a portfolio or a large number of exposures to specific obligors (single customer concentration) or from imperfect diversification with respect to economic sectors.

99. The following considerations must be an integral part of credit concentration risk management at banks:

a. Senior management of Banks have to develop policies and procedures to identify, measure and control concentration credit risks on a single customer level and on a credit group customer level.

b. Boards of Directors must monitor and develop principles for managing concentration risk exposures.

c. Boards of Directors must receive periodical reporting related to the bank’s concentration risk exposures.

d. Credit concentration risks have to be clearly defined to ensure the measurement of the maximum limit of such risks. The bank must have information management systems and comprehensive periodical reports to determine credit concentrations and monitor related risks on the overall portfolio.

100. Banks must have a detailed, documented methodology for calculating capital requirements for credit concentration risk under Pillar 2. The methodology should be proportionate to the size, complexity and nature of operations at the bank.

**Required Calculation Methodology**

101. Banks are required to use the methodology detailed in the paragraphs below to calculate capital requirements for credit concentration risk under Pillar 2.

102. For the purposes of the methodology specified below, banks should take the following into account:

a. Exposures to be considered at a consolidated basis, with exposures both inside and outside Qatar to be taken into account.
b. Both on-balance sheet and off-balance sheet banking book exposures to customers in the financing/loan portfolio should be considered. For off-balance sheet exposures, credit equivalent amounts post application of credit conversion factors (CCF) as per QCB Basel III Pillar I capital adequacy guidelines should be considered. Any debt securities that are part of the banking book should also be included.

c. Calculations should be based on net exposures (after deducting eligible credit risk mitigants (CRM)) as per QCB Basel III Pillar I capital adequacy guidelines.

1) Single Customer Concentration

103. Banks are required to calculate a credit concentration risk measure for single customer credit concentration using top 250 exposures as follows:

\[
\text{Customer concentration index} = \frac{\sum_{i=1}^{250}(i)^2}{(\sum_{i=1}^{n}(i))^2}
\]

where:

- (i) is the total exposure of a single counterparty taking into account the conditions specified above.

- (n) is the total number of counterparties.

- Exposures to Qatar sovereign and other counterparties that qualify for 0% RW (as per QCB Basel III Pillar I capital adequacy guidelines) are excluded from numerator but not from the denominator (top 250 exposures should be ascertained after excluding these)

104. For well-diversified portfolios, the concentration index for customer credit concentration is close to 0%, whilst concentrated portfolios have higher values.

105. Banks should use the mapping provided below to arrive at a capital charge for Customer Concentration risk.

<table>
<thead>
<tr>
<th>Customer Concentration index Range</th>
<th>Capital Charge on Pillar I Credit RWA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 0.3%</td>
<td>0.0%</td>
</tr>
<tr>
<td>&gt; 0.3% to 0.6%</td>
<td>0.25% to 0.5%</td>
</tr>
<tr>
<td>&gt; 0.6% to 1%</td>
<td>0.5% to 0.75%</td>
</tr>
<tr>
<td>&gt; 1% to 1.3%</td>
<td>0.75% to 1%</td>
</tr>
<tr>
<td>Above 1.3%</td>
<td>1% to 1.5%</td>
</tr>
</tbody>
</table>

106. For values of the index that lie within the ranges provided, the capital charge must be linearly interpolated, for example, an index value of 0.4% will be mapped to a capital charge of 0.33% - calculated as 0.25% + [(0.4%-0.3%)*(0.5%-0.25%)/(0.6%-0.3%)] and an index value of 0.5% will be mapped to a capital charge of 0.42% - calculated as 0.25% + [(0.5%-0.3%)*(0.5%-0.25%)/(0.6%-0.3%)] and so on.
2) Concentration of exposure outside Qatar

107. Banks are required to calculate the concentration capital charge for exposures outside Qatar using the following method:

107.1. Quantify the total exposure of the banking Group, categorized into exposure inside Qatar and outside Qatar as follows:

<table>
<thead>
<tr>
<th>Exposure outside Qatar</th>
<th>Exposure in QAR ‘000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Exposure of the Group (inside + outside Qatar)</td>
<td></td>
</tr>
<tr>
<td>Exposure outside Qatar as % of Total</td>
<td></td>
</tr>
</tbody>
</table>

107.2. Exposures to Qatar sovereign and other counterparties that qualify for 0% RW (as per QCB Basel III Pillar I capital adequacy guidelines) are excluded from numerator but not denominator.

107.3. For exposures outside Qatar, based on the proportion calculated above and looking up the calibration table provided below, assign a capital charge:

<table>
<thead>
<tr>
<th>Exposure outside Qatar % of total Exposure of the Group</th>
<th>Capital charge on Pillar I Credit RWA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 25% of total exposures of the Group</td>
<td>0.00%</td>
</tr>
<tr>
<td>&gt; 25% to 40%</td>
<td>0.125% to 0.25%</td>
</tr>
<tr>
<td>&gt; 40% to 50%</td>
<td>0.25% to 0.5%</td>
</tr>
<tr>
<td>&gt; 50%</td>
<td>1%</td>
</tr>
</tbody>
</table>

108. For values that lie within the ranges provided, the capital charge must be linearly interpolated, for example, a concentration of 35% of total exposure will be mapped to a capital charge of 0.21% and a concentration of 45% of total exposure will be mapped to a capital charge of 0.375% and so on. For values above 50% a flat capital charge of 1% will apply.

3) Sector concentration

109. Banks are required to calculate the sector concentration capital charge using the following method:

109.1. Quantify the exposures of the bank inside Qatar (arising from wholesale and SME credit exposures\(^1\)), segmented as per following sectors, based on the International Standardized Industrial Classification codes\(^2\) (see Annex 7):

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\(^1\) This will include credit facilities against salary also. Any loan above the limit as prescribed in Page 207, Vol I, Instructions to Banks, English, September 2013 shall be included.

\(^2\) International Standard Industrial Classification of All Economic Activities, Rev.4

109.1.1. For assigning an exposure to a sector, Cash flow and repayment source will be the main indicator to be considered for classification of an exposure.

109.1.2. For example, an exposure that will be contractually repaid from rental income from Real Estate will be categorized as Real Estate regardless of type of counterparty.

109.2. Next, calculate in percentage the contribution of each sector exposure to the total exposure inside Qatar which gives the proportion of that specific sector to the total. Exposures to Qatar sovereign and other counterparties that qualify for 0% RW (as per QCB Basel III Pillar I capital adequacy guidelines) are excluded from numerator but not denominator.

109.3. For each sector, based on the proportion calculated above and looking up the calibration table provided below, assign a capital charge:

<table>
<thead>
<tr>
<th>Sector classification</th>
<th>ISIC code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and fishing</td>
<td>Section A</td>
</tr>
<tr>
<td>Building and Construction</td>
<td>Section F</td>
</tr>
<tr>
<td>Financial services (bank and non-bank)</td>
<td>Section K</td>
</tr>
<tr>
<td>Real estate (commercial)</td>
<td>Section L</td>
</tr>
<tr>
<td>Electricity and Water</td>
<td>Section D, E</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Section C</td>
</tr>
<tr>
<td>Mining and quarrying (including Oil and Gas)</td>
<td>Section B</td>
</tr>
<tr>
<td>Trade</td>
<td>Section G</td>
</tr>
<tr>
<td>Transport and Communications</td>
<td>Section H,J</td>
</tr>
<tr>
<td>Services and other</td>
<td>Section I,M,P,Q,R,S</td>
</tr>
</tbody>
</table>

109.4. For values that lie within the ranges provided, the capital charge must be linearly interpolated, for example, a sector concentration of 30% of total exposure will be mapped to a capital charge of 0.1875% and a sector concentration of 50% of total exposure will be mapped to a capital charge of 0.375% and so on.

109.5. The sector concentration charge is then calculated as the sum of the individual sector capital charge for each sector added to the concentration charge calculated for exposures outside Qatar.
110. Annex 1 presents the template that banks should use to report the results of the credit concentration risk calculations based on the above methodologies.

111. All banks must report the data contained in the credit concentration risk Pillar 2 data template in accordance with Annex 1. Banks are expected to submit the template for concentration risk as part of their ICAAP submission. These templates will include information on the portfolio concentration risk measure for each of the concentration risk types and additional information on portfolio composition.

b. **IRRBB/PRRBB**

112. This section sets out the methodology that banks should use to inform the setting of capital requirements for interest rate risk in the banking book (IRRBB), or profit rate risk in the banking book (PRRBB) for Islamic banks.

113. IRRBB/PRRBB refers to the current or prospective risk to both the bank’s capital and earnings arising from adverse movements in the risk-free interest/profit rates, which affects the banking book exposures.

114. The following considerations must be an integral part of interest or profit rate risks (IRR) management at banks:

a. Senior management of Banks have to develop policies and procedures to identify, measure and control IRR.

b. Boards of Directors must monitor and develop principles for managing IRR exposures.

c. Boards of Directors must receive periodical reporting related to the IRR.

115. The sources of the interest rate risk include the following:

a. Re-pricing or duration risk: this risk arises when the re-pricing of banking products (assets and liabilities) is mismatched across time buckets. Banks generate these positions through the normal running of their banking book and manage the resultant risks through their internal management processes and hedging activities.

b. Basis Risk: this risk arises from banking book items that re-price in relation to different reference rates. When interest rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities and off-balance sheet instruments of similar maturities or re-pricing frequencies.

c. Optionality risk: this risk arises from the discretion that a bank’s customers and counterparties have in respect of their contractual relations with the bank in the form of financial instruments. Embedded options are diverse and bank-specific and include prepayment risk on fixed rate loans and deposits and switching risk on non-interest bearing current accounts. Optionality risk is considered separately when material.

116. Banks should demonstrate that the IRR policies and procedures are comprehensive and govern all material aspects of the IRR management process. Banks should demonstrate that IRR policies and procedures:

a. Address board and senior management oversight;
b. Outline strategies, risk limits, and controls;

c. Define general methods used to identify risk;

d. Describe the type and frequency of monitoring and reporting;

e. Provide for independent reviews and internal controls;

f. Ensure that significant new strategies, products, and businesses are integrated into the IRR management process;

g. Incorporate the assessment of IRR into bank-wide risk management procedures so that interrelated risks are identified and addressed; and

h. Provide controls over permissible risk mitigation activities, such as hedging strategies and instruments, if applicable.

117. A proportionate approach is applied where a bank demonstrates some aspects of complexity with a detailed review undertaken of the policy limit-setting approach, the potential for any breaches and the ability of the bank to manage the associated risks.

**Risk Limits and Controls**

118. Risk limits should reflect the board’s tolerance of IRR exposure by restricting the volatility of earnings and capital for given rate movements and applicable time horizons.

119. Risk limits should be explicit value or percentage parameters. IRR exposure limits should be commensurate with the complexity of bank activities, balance sheet structure, and off-balance sheet items.

120. At a minimum, limits should be expressed over one and two year time horizons, correspond to the measurement system’s methodology, and appropriately address all key IRR risks and their effect on earnings and capital.

121. Banks should establish limits that are neither so high that they are never breached, nor so low that exceeding the limits is considered routine and unworthy of action. Effective limits will provide management sufficient flexibility to respond to changing economic conditions, yet be stringent enough to prevent excessive risk-taking.

122. Policies should be in place to ensure excessive IRR exposures receive prompt attention. Controls should be designed to help management identify, evaluate, report, and address excessive IRR exposures.

123. Policies should require management to regularly monitor risk levels, and controls should be altered as needed when economic conditions change or the board alters its risk tolerance level.

124. Reports or stress tests that reflect significant IRR exposure should be promptly reported to the board (or appropriate board committee), and the board should review all risk limit exceptions and management’s proposed actions.

125. Earnings-based risk limits may include volatility considerations involving:

   a. Net interest margin,
b. Net interest income (NII),
c. Net operating income, and
d. Net income.

126. Capital-based risk limits may include volatility considerations involving:
   a. Economic value of equity (EVE), and
   b. Other comprehensive income.

127. The board should provide staffing resources sufficient to ensure:
   a. Effective operation of measurement systems,
   b. Appropriate analytic expertise,
   c. Adequate training and staff development, and
   d. Regular independent reviews.

**Risk Monitoring and Reporting**

128. Management should report IRR in an accurate, timely, and informative manner. At least quarterly, senior management and the board should review IRR reports. Banks that engage in complex or higher risk activities should assess IRR more frequently. At a minimum, IRR exposure reports should contain sufficient detail to permit management and the board to:

   a. Identify the source and level of IRR;
   b. Evaluate key assumptions, such as interest rate forecasts, deposit behaviors, and loan prepayments; and
   c. Determine compliance with policies and risk limits.

**IRR Mitigation**

129. Bank can use several measures to mitigate IRR exposures. Bank management might alter their balance sheet or engage in hedging activities. Hedging strategies will involve using derivative instruments and are not suitable for banks lacking technical expertise. Any IRR mitigation strategy should also consider other risks, such as credit, liquidity, and operational risks.

130. When implementing IRR mitigation techniques, the Board and senior management should demonstrate that policies and approved strategies address the following:

   a. Analysis of market, liquidity, credit, and operating risks;
   b. Qualifications of staff involved in implementing and monitoring hedging strategies;
   c. Permissible strategies and types of derivative contracts;
   d. Authority levels and titles of individuals approved to initiate hedging transactions and related authority limits;
e. Risk limits for hedging activities such as position limits (gross and net), maturity parameters, and counterparty credit guidelines;

f. Monitoring requirements for hedging activities, including ensuring activities fall within approved limits and management lines of authority; and

g. Controls for ensuring management’s compliance with technical accounting guidance that covers hedging activities.

131. Banks should not use derivative instruments for hedging, unless the board and senior management fully understand the bank’s strategy and the potential risks and benefits. Activities conducted to generate additional income should not be considered hedging.

**Required Calculation Methodology**

132. Banks are required to calculate IRRBB/PRRBB capital requirements under Pillar 2 as detailed below.

133. All future notional re-pricing interest or profit rate sensitive cash flows should be projected:

- Assets include those which are not deducted from CET1 capital and excluding (i) fixed assets such as real estate or intangible assets; as well as (ii) equity exposures in the banking book

- Liabilities include all non-remunerated deposits, other than liabilities constituting regulatory capital instruments of the respective capital ratios of the Basel III framework

- Off-balance sheet items

134. A notional repricing cash flow is defined as:

- Any repayment of principal (e.g. at contractual maturity);

- Any repricing of principal; repricing is said to occur at the earliest date at which either the bank or its counterparty is entitled to unilaterally change the interest rate, or at which the rate on a floating rate instrument changes automatically in response to a change in an external benchmark; or

- Any interest payment on a tranche of principal that has not yet been repaid or repriced; where material, spread components of interest payments on a tranche of principal that has not yet been repaid and which do not reprice must be slotted until their contractual maturity irrespective of whether the non-amortised principal has been repriced or not.

135. The date of each repayment, repricing or interest payment is referred to as its repricing date.

136. Banks should allocate all items to the relevant time buckets (time buckets are shown below) and to report their exposure in each time bucket, as follows:

- Fixed-rate assets or liabilities are allocated to the time bucket corresponding to their maturity;

- Floating-rate assets or liabilities are allocated to the time bucket corresponding to the frequency of re-pricing;
c. derivatives are allocated according to their contractual re-pricing dates; and

d. items that do not have a pre-defined contractual maturity, such as demand deposits, are allocated to time buckets based on banks’ assumptions. QCB expects banks to justify these assumptions and any changes to them in the ICAAP submission Report as per the stipulations set out in paragraphs below.

<table>
<thead>
<tr>
<th>Time Bucket</th>
<th>Overnight</th>
<th>0 - 3 Months</th>
<th>3 - 6 Months</th>
<th>6 - 9 Months</th>
<th>9-12 Months</th>
<th>1 - 2 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 - 3 Years</td>
<td>3 - 4 Years</td>
<td>4 - 5 Years</td>
<td>5 - 7 Years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 - 10 Years</td>
<td>10 - 15 Years</td>
<td>15 - 20 Years</td>
<td>Over 20 yrs</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

137. The net interest rate gap of the bank for each time bucket should be calculated as assets in that time bucket minus the liabilities.

138. A shock equivalent to 200 basis points, both as an increase and decrease, should then be applied to the net position for each respective time bucket for a time horizon upto 2 years as per template provided in Annex 2.

139. The impact on earnings is then summed up across all time buckets in order to assess the overall impact on the firm’s profitability due to the bank’s IRRBB exposure to interest rate shocks (positive and negative).

140. Specifically the impact for positive and negative shocks (each) is calculated as

\[ \Delta NII = \Delta R \cdot \sum_{k \cdot t_k < T} CF(k) \cdot (t_k \cdot DF(t_k) - T \cdot DF(T)) \]

where,

1) $R$ represents the positive or negative shock (200bp)

2) $CF$ is the cash flow in each time bucket, $k$, i.e. the net rate sensitive assets

3) $t_k$ is the midpoint of each time bucket, $k$

4) $T$ is the time horizon for the calculation, i.e. 2 years

5) $DF$ is the Discount Factor applicable at time $t$ based on the risk-free rate and calculated as,

\[ DF(t) = e^{(-RFR(t) \cdot t)} \]

Where $RFR(t)$ is the risk-free zero coupon rate for time $t$.

141. The capital charge for IRRBB/PRRBB will be the higher of the negative impact on earnings from positive and negative shocks.

142. Annex 2 presents the template that banks should use to report the results of the IRRBB/PRRBB calculations based on the above methodology.
143. The earnings based approach described above is applicable for short time horizon upto 2 years. Banks are expected to also calculate capital charge on a capital based approach based on the size, complexity and nature of the bank’s IRR exposures (e.g. EVE). The capital based approach calculation should be performed for all the time buckets including medium and long term and banks should apply the higher of the capital charges calculated by using the prescribed earnings based approach above and the longer term capital based approach used by the bank.

**Assumptions for IRR**

144. Banks should demonstrate that any assumptions made while applying above methodology or bank’s own methodologies (for capital based approach) accurately reflect management’s expectations regarding interest rates, customer behaviour, and local and macro-economic factors. Banks will need to put in place a system to study the behaviour patterns of non-maturity deposits, prepayments, optionality of early redemption of term deposits etc. The non-maturity deposits are Core deposits of a bank. This may be retail or wholesale. These deposits will reflect some behavioural patterns over time. Adverse behavioural patterns will affect liquidity and funding of the bank. Similarly prepayments and optionality of early redemption of term deposits will have an effect on the liquidity and funding of the bank. Banks will need to evaluate funding requirements based on the results of behavioural studies.

145. All material assumptions should be regularly updated and supported with thorough analysis and documentation and should cover assumptions related to key parameters, such as, but not limited to:

a. Projected interest rates,

b. Non-maturity deposits,

c. Prepayments,

d. Optionality of early redemption of term deposits.

146. Banks should demonstrate that material assumptions are updated regularly to reflect the current market and operating environment. Banks should establish a process for developing material assumptions which is formalized and periodically assessed (at least annually for critical assumptions).

147. In order to promote sound prudential practices QCB has decided to impose an additional capital charge for bank’s exceeding limits on prudential ratios set by QCB, with or without obtaining the QCB approval for exemptions.

148. Banks should, on a monthly basis, calculate the capital charge applicable as per below methodology. The average of monthly capital charges calculated will be applicable on an annual basis. The additional capital charge against exceeding the prudential ratios will be applied only once a year. However, banks are required to submit the excess report to QCB on a quarterly basis.
149. Banks may encounter two scenarios while submitting this report,

149.1. excess over the prudential ratio which would require additional capital charge, or

149.2. banks within the prudential limit.

150. In case of exceeding the prudential ratios limit, further approval for exemptions may not be allowed. This report will be used for monitoring the capital requirements and granting exemptions in future.

<table>
<thead>
<tr>
<th>Consolidated Ratios (applicable bank wide)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities portfolio ratio</td>
<td>Max</td>
<td>25%</td>
</tr>
<tr>
<td>Securities outside Qatar ratio</td>
<td>Max</td>
<td>15%</td>
</tr>
<tr>
<td>Unlisted securities inside Qatar ratio</td>
<td>Max</td>
<td>10%</td>
</tr>
<tr>
<td>Unlisted securities outside Qatar ratio</td>
<td>Max</td>
<td>5%</td>
</tr>
<tr>
<td>Investment in real estate (only for Islamic banks)</td>
<td>Max</td>
<td>10%</td>
</tr>
<tr>
<td>Real estate financing risk</td>
<td>Max</td>
<td>150%</td>
</tr>
<tr>
<td>Total Affiliates</td>
<td>Max</td>
<td>35%</td>
</tr>
<tr>
<td>Total Subsidiaries</td>
<td>Max</td>
<td>40%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Individual Exposure Ratios (applicable to individual exposures)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Each individual Affiliate</td>
<td>Max</td>
<td>25%</td>
</tr>
<tr>
<td>Each individual Subsidiary</td>
<td>Max</td>
<td>25%</td>
</tr>
<tr>
<td>Investment in individual entity</td>
<td>Max</td>
<td>5%</td>
</tr>
<tr>
<td>Large Exposure/Tier I Capital (single customer)</td>
<td>Max</td>
<td>20%</td>
</tr>
<tr>
<td>Large Exposure/Tier I Capital (Category 1 Banks/FIs)</td>
<td>Max</td>
<td>25%</td>
</tr>
<tr>
<td>Large Exposure/Tier I Capital (Category 2 Banks/FIs)</td>
<td>Max</td>
<td>10%</td>
</tr>
<tr>
<td>Large Exposure/Tier I Capital (Category 3 Banks/FIs)</td>
<td>Max</td>
<td>5%</td>
</tr>
<tr>
<td>Large Exposure/Tier I Capital (related parties)</td>
<td>Max</td>
<td>100%</td>
</tr>
<tr>
<td>Loan to Value (LTV) for Real Estate Financing against cash flows (exposure by exposure)</td>
<td>Max</td>
<td>70%</td>
</tr>
<tr>
<td>LTV for other Real Estate Financing without cash flows (exposure by exposure)</td>
<td>Max</td>
<td>60%</td>
</tr>
</tbody>
</table>

151. For each ratio, the capital charge for excess over limit is calculated as follows:

<table>
<thead>
<tr>
<th>Excess % over the limit for each ratio</th>
<th>Capital charge (pro rata basis within bucket)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any excess over limit upto 10% of limit</td>
<td>0% to 0.05%</td>
</tr>
<tr>
<td>&gt; 10% to 20% over limit</td>
<td>0.05% to 0.125%</td>
</tr>
<tr>
<td>&gt; 20% to 50% over limit</td>
<td>0.125% to 0.25%</td>
</tr>
<tr>
<td>Excess over 50% of limit (flat charge)</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

\(^3\) Category 1, Category 2 and Category 3 banks as defined in Page 259-262 of Instructions to Banks, Vol I, English, September 2013
152. The capital charge will be calculated by banks on a monthly basis and 3 month calculations and average will be reported quarterly to QCB.

153. For individual exposure based ratios (such as large exposure limits and LTV based ratios), every month end, ratio of each exposure will be compared to QCB limit and capital charge calculated as per % excess as given in calibration table. Calculated capital charge for that exposure will be applied only to the portion of the exposure to arrive at capital required. Capital required for all exposures with excess over limits will be summed up to arrive at total capital charge for each individual exposure based ratio.

154. The total capital charge will be the sum of capital charges calculated for each consolidated ratio and each individual exposure based ratio. Monthly calculations will be averaged at the end of each quarter to arrive at excess capital charge applicable for that quarter.

155. Annex 3 presents the template that banks should use to report the results of the calculations based on the above methodology. This report needs to be submitted by banks to QCB on a quarterly basis.

156. This framework for excess over prudential ratios may apply to all QCB prudential ratios at QCB discretion and banks should report excess over any ratio not mentioned in these guidelines separately as line items in reporting template specified in Annex 3. Same calibration for mapping excess to capital charge will apply for all such excesses.

**d. Liquidity Risk**

157. Banks must have adequate and effective systems to manage liquidity risk in a manner appropriate to the volume and complexity of the bank’s activities.

**Liquidity risk strategy and liquidity risk tolerance**

158. Banks should have in place liquidity risk strategy and liquidity risk tolerance and should demonstrate the following:

a. the liquidity risk strategy and liquidity risk tolerance are established, approved and updated by the senior management periodically (at least half yearly);

b. an appropriate framework is in place to ensure that the liquidity risk strategy is effectively communicated to relevant staff;

c. the liquidity risk strategy and tolerance are clearly defined, properly documented, effectively implemented and communicated to all relevant staff;

d. the liquidity risk tolerance is appropriate for the bank considering its business model, overall risk tolerance, role in the financial system, financial condition and funding capacity; and

e. the bank’s liquidity risk strategy and tolerance framework is properly integrated within its overall risk appetite framework.

**Organizational framework, policies and procedures**

159. Banks should have appropriate arrangements for the governance and management of liquidity and funding risk and should demonstrate the following:
a. senior management approves the governance and policies for managing liquidity and funding risk and discusses and reviews them regularly (at least annually);

b. senior management is responsible for developing and implementing the policies and procedures for managing liquidity and funding risk;

c. senior management ensures that the decisions of the management body are monitored;

d. the liquidity and funding risk management framework is internally coherent and comprehensive, and is well integrated into the bank’s wider risk process;

e. the policies and procedures are appropriate for the bank, taking into account its liquidity risk tolerance; and

f. the policies and procedures are properly defined, formalized and effectively communicated throughout the bank.

160. Banks should have an appropriate organizational framework for liquidity and funding risk management, measurement and control functions, with sufficient human and technical resources to develop and implement these functions and to carry out the required monitoring tasks. Banks should demonstrate the following:

a. the liquidity risk control and monitoring systems and processes are controlled by independent control functions;

b. the risk management, measurement and control functions cover liquidity risk in the entire bank (including branches), and in particular all areas where liquidity risk can be taken, mitigated or monitored;

c. the bank has a set of liquidity and funding policy documents that are adequate for promoting prudent behavior by the bank’s staff and allowing for efficient operation of the control functions; and

d. the bank has appropriate internal written policies and procedures for the management of liquidity and funding risk, as well as the adequacy of the bank’s liquidity and funding risk management framework.

161. Banks should have an appropriate framework and IT systems for identifying and measuring liquidity and funding risk, in line with the bank’s size, complexity, risk tolerance and risk-taking capacity.

162. Banks should have an appropriate reporting framework for liquidity and funding risk and should demonstrate the following:

a. there is a set of reporting criteria agreed by senior management, specifying the scope, manner and frequency of liquidity and funding risk reporting and who is responsible for preparing the reports;

b. the information systems, management information and internal information flows supporting liquidity and funding risk management are appropriate and the data and information used by the bank are understandable for the target audience, accurate and usable (e.g. timely, not overly complex, within the correct scope, etc.); and
c. specific reports and documentation containing comprehensive and easily accessible information on liquidity risk are submitted regularly to the appropriate recipients (such as the management body, senior management or an asset-liability committee).

**Liquidity risk internal control framework**

163. Banks should have a strong and comprehensive internal limit and control framework and sound safeguards to mitigate or limit its liquidity risk in line with its risk tolerance. Banks should demonstrate the following:

a. the limit and control framework is adequate for the bank’s complexity, size and business model and reflects the different material drivers of liquidity risk, such as maturity mismatches, currency mismatches, derivatives transactions, off-balance-sheet items and intraday liquidity risk;

b. the bank has implemented adequate limits and monitoring systems that are consistent with its liquidity risk tolerance and that make use of the outcomes of liquidity stress tests;

c. the risk limits are regularly reviewed by the competent bodies of the bank and clearly communicated to all relevant business lines;

d. there are clear and transparent procedures regarding how individual liquidity risk limits are approved and reviewed;

e. there are clear and transparent procedures regarding how compliance with individual liquidity risk limits is monitored and how limit breaches are handled (including clear escalation and reporting procedures); and

f. the limit and control framework helps the bank to ensure the availability of a diversified funding structure and sufficient and accessible liquid assets.

164. Banks should demonstrate that the liquidity held provides appropriate coverage of the risks to liquidity and funding assessed in accordance with the above. Banks should also determine whether it is necessary to set specific liquidity requirements to cover risks to liquidity and funding to which a bank is or might be exposed.

**e. Residual Credit Risk**

165. Banks should ensure that the risk that recognised credit risk mitigation (CRM) techniques used prove less effective than expected is addressed and controlled including by means of written policies and procedures.

166. The application of CRM reduces the minimum requirements of regulatory capital under Pillar 1 but may also cause emergence of other risks, such as legal risks, documentation risk, operations risk, liquidity risk and market risk collectively known as residual risks that may undermine the impact of mitigants. Therefore, despite the bank requiring lesser capital under Pillar 1 of the capital adequacy ratio, the residual risks may lead to exposure in the credit risks towards other parties more than expected.

167. Banks should demonstrate that they have proper systems, policies and frameworks in place for the management and monitoring of residual credit risk. Such frameworks should govern the valuation, management and documentation of credit risk mitigants used by banks.
168. Each bank must apply effective system to manage the risks emanating from using credit risks mitigants. The system must include the following factors:

   a. Identify the responsibility of managing and monitoring the credit risks mitigants. This responsibility must be assigned to a particular officer or department within the bank, based upon policies and measures approved by the senior management at the Bank. The senior management must have sufficient knowledge of the bank’s products and appropriate management of all major risks (such as credit, market, client, liquidity and legal risks).

   b. This system must include proper policies procedures that cover the strategic risks and essential considerations to grant the credit facilities, systems and management of concentration risks resulting from credit risks mitigants and their interference with the overall aspects of the credit risks.

   c. The policies and measures must be accompanied by effective internal controls to manage the activities of the credit risks mitigants including a sufficient legal review so as to convince the bank that the documentation used in the credit risks mitigants is binding to all parties and has legal force. Further, there must be regular review and reports for the activities of managing credit risks to be presented to the bank’s board of directors.

   d. The banks, when calculating the requirements of the capital, must show the appropriateness of recognition of all credit risks hedge instruments according to Pillar 1. The banks must show how their policies and measures of managing credit risks are appropriate to the capital to be maintained.

   e. The banks must have an independent review of the risk management of the credit risks mitigants in order to verify compliance with policies and procedures approved in this regard, and to detect any weakness in the internal control systems.

169. Banks must maintain additional capital to cover the residual risks arising from using the credit risks mitigants.

f. Strategic Risk

170. While estimating additional capital for Strategic Risk, banks should take into consideration the various effects of the existence of administrative or external obstacles affecting the execution of decisions relating to the initiation of banking products or services, expansion of business, restructuring, or other strategic decisions.

171. Banks should conduct regular business model analysis to assess business and strategic risks and determine:

   a. the viability of the bank’s current business model on the basis of its ability to generate acceptable returns over the following 12 months; and

   b. the sustainability of the bank’s strategy on the basis of its ability to generate acceptable returns over a forward-looking period.

  g. Reputational Risk

172. Reputational risk considers the current or prospective risk to the bank’s earnings, capital or liquidity arising from damage to the bank’s reputation.
173. Banks should conduct an assessment of the reputational risk to which they are exposed based on the bank’s governance, its business model, its products and the environment in which it operates.

174. Banks should consider both internal and external factors or events that might give rise to reputational concerns. Banks should consider the following qualitative indicators in their assessment of their exposure to reputational risk:

a. the number of penalties/sanctions from official/regulatory bodies during the year;
b. media campaigns and consumer-association initiatives that contribute to a deterioration in the public perception and reputation of the bank;
c. the number of and changes in customer complaints;
d. negative events affecting the bank’s peers when they are associated by the public with the whole financial sector or a group of banks;
e. dealing with sectors that are not well perceived by the public or people and countries on sanctions lists (e.g. US Office of Foreign Assets Control (OFAC) lists); and
f. other ‘market’ indicators, if available (e.g. rating downgrades or changes in the share price throughout the year).

175. Banks should assess the significance of the bank’s reputational risk exposure and how it is connected with the other risks (i.e. credit, market, operational and liquidity risks) by leveraging the other risk assessments to identify any possible secondary effects in either direction (from reputation to other risks and vice versa).
Annex 1 – Credit Concentration Risk Reporting Template (numbers provided are examples and for illustration only)

**Single Customer Credit Concentration as at .../.../**

<table>
<thead>
<tr>
<th>Counterparty identifier (Please give the QCB Secret Number)</th>
<th>Net Exposure as per para 102 (c), page 22</th>
<th>Credit Concentration Risk Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1,000,000</td>
<td>0.062500%</td>
</tr>
<tr>
<td>2</td>
<td>990,000</td>
<td>0.061256%</td>
</tr>
<tr>
<td>...</td>
<td></td>
<td></td>
</tr>
<tr>
<td>249</td>
<td>3,000</td>
<td>0.000001%</td>
</tr>
<tr>
<td>250</td>
<td>3,000</td>
<td>0.000001%</td>
</tr>
</tbody>
</table>

| Total credit portfolio exposures (including 0% RW counterparties) | 40,000,000 |
| Credit Concentration Risk Index (total)                           | 0.82%      |

- **Credit Concentration Risk Index (total) (%)**
  - 0.82%

- **Single Customer Concentration Pillar II Capital Charge (% of credit portfolio RWA) (calibrated to Credit Concentration Risk Index) (A)**
  - 0.6375%

- **Pillar I Credit RWA (QAR '000) (B)**
  - 30,000,000

- **Pillar II Capital add-on (QAR '000) (A*B)**
  - 191,250

**Concentration of Exposure Outside Qatar as at .../.../**

<table>
<thead>
<tr>
<th>Exposure outside Qatar</th>
<th>Exposure in QAR '000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15,000,000</td>
</tr>
</tbody>
</table>

| Total Exposure of the Group (inside + outside Qatar) | 40,000,000 |
| Exposure outside Qatar as % of Total | 37.5% |

- **Pillar II Capital Charge for Exposure Outside Qatar (% of credit portfolio RWA) (A)**
  - 0.23%

- **Pillar I Credit RWA (QAR '000) (B)**
  - 30,000,000

- **Pillar II Capital add-on (QAR '000) (A*B)**
  - 68,750
### Sector Credit Concentration as at …/…/…

<table>
<thead>
<tr>
<th>Sector (only for Exposure inside Qatar)</th>
<th>Exposure (QAR '000)</th>
<th>% of Total Exposure (inside Qatar)</th>
<th>Pillar II Capital add-on</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and fishing</td>
<td>500,000</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Building and Construction</td>
<td>3,000,000</td>
<td>12%</td>
<td>0%</td>
</tr>
<tr>
<td>Financial Services (bank and non-bank)</td>
<td>6,000,000</td>
<td>24%</td>
<td>0.15%</td>
</tr>
<tr>
<td>Real estate (commercial)</td>
<td>3,000,000</td>
<td>12%</td>
<td>0%</td>
</tr>
<tr>
<td>Electricity and Water</td>
<td>500,000</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>2,000,000</td>
<td>8%</td>
<td>0%</td>
</tr>
<tr>
<td>Mining and quarrying (including Oil and Gas)</td>
<td>9,000,000</td>
<td>36%</td>
<td>0.225%</td>
</tr>
<tr>
<td>Trade</td>
<td>1,000,000</td>
<td>4%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total Exposure (inside Qatar)</strong></td>
<td><strong>25,000,000</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Pillar II Capital Charge for Exposure inside Qatar (% of credit portfolio RWA)</strong></td>
<td></td>
<td></td>
<td><strong>0.375%</strong></td>
</tr>
</tbody>
</table>

| Pillar II Capital Charge for Exposure inside Qatar (% of credit portfolio RWA) (A) | 0.375% |
| Pillar I Credit RWA (QAR '000) (B) | 30,000,000 |
| Pillar II Capital add-on (QAR '000) (A*B) | 112,500 |

### Total Credit Concentration Capital Charge as at …/…/…

| Total Capital Add-on for Credit Concentration (Sum of Pillar II Capital Add-ons for Concentration Risks) (A) | 372,500 |
|                                                                                                               | (i.e. 191,250 + 68,750 +112,500) |
| Total Pillar 1 RWA (B)                                                                                       | 32,000,000 |
| Credit Concentration Pillar 2 capital add-on as % of Pillar 1 RWA (A*100/B)                                 | 1.16% |
Annex 2 – Interest/Profit Rate Risk in Banking Book Reporting Template

<table>
<thead>
<tr>
<th>Interest/Profit Rate Sensitivity</th>
<th>Overnight</th>
<th>0 - 3 Months</th>
<th>3 - 6 Months</th>
<th>6 - 9 Months</th>
<th>9-12 Months</th>
<th>1 - 2 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Rate Sensitive Assets (TRSA)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Rate Sensitive Liabilities (TRSL)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Rate Sensitive Assets(Liabilities)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Positive shock</th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Post shock RSA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post shock RSL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post shock net RSA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bucket Midpoint</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remaining term</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Impact on Earnings</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Total Impact on Earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Negative shock</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Post shock RSA</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Post shock RSL</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post shock net RSA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bucket Midpoint</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Remaining term</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Impact on Earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Impact on Earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**IRRBB/PRRBB Capital Charge as at …/…/…**

| QAR '000 |
|-------------------------|---------|-------------|--------------|--------------|-------------|------------|
| Total Capital Add-on for IRRBB/PRRBB (Higher of Negative Impact on Earnings) (A) |         |             |              |              |             |            |
| Total Pillar 1 RWA (B) |         |             |              |              |             |            |
| IRRBB/PRRBB Pillar 2 capital add-on as % of Pillar 1 RWA (A*100/B) |         |             |              |              |             |            |
## Annex 3 – Prudential Ratios Template (to be submitted quarterly, numbers shown are illustrative)

<table>
<thead>
<tr>
<th>Prudential ratio (for consolidated ratios applicable bank-wide)</th>
<th>Limit</th>
<th>Month 1</th>
<th>Month 2</th>
<th>Month 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Excess %</td>
<td>Capital charge %</td>
<td>Excess %</td>
</tr>
<tr>
<td>Securities portfolio ratio</td>
<td>Max</td>
<td>25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities outside Qatar ratio</td>
<td>Max</td>
<td>15%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unlisted securities inside Qatar ratio</td>
<td>Max</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unlisted securities outside Qatar ratio</td>
<td>Max</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in real estate (only for Islamic banks)</td>
<td>Max</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate financing risk</td>
<td>Max</td>
<td>150%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Affiliates</td>
<td>Max</td>
<td>35%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Subsidiaries</td>
<td>Max</td>
<td>40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in individual entity</td>
<td>Max</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Any other ratios (add lines as required)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Capital Charge % (A)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pillar I RWA (B)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Pillar II Capital Add-on (A*B)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Individual exposure ratio (Individual subsidiary, affiliates, Large Exposure and LTV based ratios)</th>
<th>Month 1</th>
<th>Month 2</th>
<th>Month 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exposure over limit</td>
<td>Excess over limit %</td>
<td>Capital charge %</td>
</tr>
<tr>
<td>Exposure 1</td>
<td>1000</td>
<td>15%</td>
<td>0.0875%</td>
</tr>
<tr>
<td>Exposure 2</td>
<td>2000</td>
<td>25%</td>
<td>0.1458%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total (numbers shown illustrative only)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **QAR '000**                                                                                       |         |         |         |         |         |         |
| Total Capital Add-on for Prudential Ratios (Total across all tables and Average over 3 months) (A) | 165,000 |         |         |         |         |         |
| Total Pillar 1 RWA (B)                                                                            | 32,000,000 |         |         |         |         |         |
| Prudential Ratios Pillar 2 capital add-on as % of Pillar 1 RWA (A*B)                             | 0.52%  |         |         |         |         |         |
Annex 4 – Capital Position Template

<table>
<thead>
<tr>
<th>Capital Projections (Base case and Stressed)</th>
<th>Base Year (Date for which ICAAP Report is prepared)</th>
<th>Previous Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>(3 years for Non-DSIBs, 5 Years for DSIBs)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total Banking Book and Trading Book Assets**

**Total Risk Weighted Assets (Pillar I)**
- Credit Risk Weighted Assets (Pillar I)
- Market Risk Weighted Assets (Pillar I)
- Operational Risk Weighted Assets (Pillar I)

**Total Available Capital (A1)**
- Available Capital (Core Equity Tier 1) (A2)
- Available Capital (Additional Tier 1)
- Available Capital (Tier 2)

**Base Pillar I Total Capital Requirement (B1)**

**Base Pillar I CET1 Capital Requirement (B2)**

**Capital to cover Pillar II risks (C)**
- Capital to cover Credit Concentration Risks
- Capital to cover Interest/Profit Rate Risk in Banking Book
- Capital to cover excess over Prudential Ratios
- Capital to cover Other Pillar II risks
  - Liquidity Risk
  - Residual Credit Risk
  - Strategic Risk
  - Reputational Risk
  - Other Risks (add lines as required)

**Capital to cover Capital Conservation Buffer (2.5%) (D)**

**Capital to cover DSIB buffer, if any (E)**

**Capital to cover Countercyclical buffer, if any (F)**

**Capital to cover buffer for Bank’s Risk Appetite (G)**

**Total Capital in excess/shortfall after covering Pillar I (inclusive of all buffers), Pillar II and Risk Appetite (H = A1 – Sum of B1, C, D, E, F and G)**

**Total Capital Excess/Shortfall expressed as % of Pillar I RWA**

**CET 1 capital in excess/shortfall (I = A2 – Sum of B2, D, E and F)**

**CET 1 Excess/Shortfall expressed as % of Pillar I RWA**
## Annex 5 – Capital Projections Template

<table>
<thead>
<tr>
<th>Capital Projections (Base case and Stressed) (3 years for Non-DSIBs, 5 Years for DSIBs)</th>
<th>Base Year</th>
<th>Projected Year 1</th>
<th>… Repeat columns for all projected years (at least 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base case</strong></td>
<td><strong>Mild Stress</strong></td>
<td><strong>Mod Stress</strong></td>
<td><strong>Severe Stress</strong></td>
</tr>
</tbody>
</table>

### Total Banking Book and Trading Book Assets

**Growth rate of Total Assets (year on year)**

### Total Risk Weighted Assets (Pillar I)

- Credit Risk Weighted Assets (Pillar I)
- Market Risk Weighted Assets (Pillar I)
- Operational Risk Weighted Assets (Pillar I)

**Growth rate of Total Risk Weighted Assets (year on year)**

### Total Available Capital (A1)

- Available Capital (Core Equity Tier 1) (A2)
- Available Capital (Additional Tier 1)
- Available Capital (Tier 2)

### Base Pillar I Total Capital Requirement (B1)

### Base Pillar I CET1 Capital Requirement (B2)

#### Capital to cover Pillar II risks (C)

- Capital to cover Credit Concentration Risks
- Capital to cover Interest/Profit Rate Risk in Banking Book
- Capital to cover excess over Prudential Ratios
- Capital to cover Other Pillar II risks
  - Liquidity Risk
  - Residual Credit Risk
  - Strategic Risk
  - Reputational Risk
  - Other Risks (add lines as required)

#### Capital to cover Capital Conservation Buffer (2.5%) (D)

#### Capital to cover DSIB buffer, if any (E)

#### Capital to cover Countercyclical buffer, if any (F)

#### Capital to cover buffer for Bank’s Risk Appetite (G)

**Total Capital in excess/shortfall after covering Pillar I (inclusive of all buffers), Pillar II and Risk Appetite**

\( H = A1 – \text{Sum of B1, C, D, E, F and G} \)

**Total Capital Excess/Shortfall expressed as % of Pillar I RWA**

**CET 1 capital in excess/shortfall**

\( I = A2 – \text{Sum of B2, D, E and F} \)

**CET 1 Excess/Shortfall expressed as % of Pillar I RWA**
### Annex 6 – ICAAP Report Submission Format

The ICAAP submission report should follow the format specified below and in alignment with the guidelines specified above for each Section.

<table>
<thead>
<tr>
<th>Number</th>
<th>Section Heading</th>
<th>Section Sub-Headings</th>
<th>Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Executive Summary</td>
<td></td>
<td>Description of overall ICAAP framework, financial and capital projections, stress tests and other results.</td>
</tr>
<tr>
<td>A</td>
<td>ICAAP Framework and Governance</td>
<td>A. General Considerations</td>
<td>Description of the adoption and use of bank’s ICAAP framework for capital planning, risk management and integration into business activities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>B. ICAAP Framework</td>
<td>Detailed description of the Bank’s ICAAP framework and demonstration of the soundness, effectiveness and comprehensiveness of the Bank’s ICAAP</td>
</tr>
<tr>
<td>B</td>
<td>Internal Control and Governance</td>
<td></td>
<td>Detailed description of the internal governance arrangements and Bank-wide controls to demonstrate adequacy for the Bank’s risk profile, business model, size and complexity. Specifically, this section should cover the following areas in detail:</td>
</tr>
</tbody>
</table>
|        |                                  |                                      | 1. Overall Internal Governance Framework and Corporate and Risk Culture  
2. Board Responsibility  
3. Remuneration Policies and Practices  
4. Risk Management Framework  
5. Internal Control Framework  
6. Information Systems and Business Continuity |
| C      | Business Model and Strategy      | A. Board Responsibility              | Description (substantiated with evidence) of the involvement of The Board of Directors in discussions related to strategy review, monitoring and reporting. ICAAP documentation in this section should include the documented meeting minutes of Board meetings where such matters were discussed including but not limited to: |
|        |                                  |                                      | 1. Sustainability of business plan and strategy  
2. Viability of business plan and strategy  
3. Linkage of business plan and strategy to risk appetite and capital allocation.                                                             |
<p>|        |                                  | B. Business model, strategy and projections | Summary of Bank’s business model and strategy to be included in this section. Detailed financial statement projections over the medium term (3 to 5 years) should be included in this section and these projections should be in line with the capital projections reported in Annex 4 and Annex 5. |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th>C. Sustainability and Viability</th>
<th>Description of the processes followed by the Bank to assess and report the sustainability and viability of the Strategy.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>D. Key Indicators</td>
<td>Description of the key performance and risk indicators of the bank, their linkage to the business plan and strategy. A description of the mechanism to identify, monitor and report these indicators to the Board of Directors.</td>
</tr>
<tr>
<td>D</td>
<td>Capital Planning</td>
<td>This section should include details on the Bank’s capital planning framework, governance and internal control associated with its capital planning activities, a summary of its capital management policy and a description of the management framework for maintaining capital adequacy. This section should outline the results of management’s assessment of the expected uses and sources of capital over the planning horizon under normal and stressed conditions. The Bank’s capital plan (submitted separately along with the ICAAP Report) should be outlined and referenced in this section with clear inclusion of the capital requirements calculated by the Bank for Pillar II risks and linkage to the stress testing carried out by the bank. The capital position and projections should be summarized and reported in the template shown in Annex 4 and Annex 5.</td>
<td></td>
</tr>
<tr>
<td>E</td>
<td>Stress Testing</td>
<td>Description of the Bank’s stress testing programme outlining the governance associated with its stress testing activities and a summary of the scenarios and results including financial and capital forecasts. The results of the stress tests should be in alignment with the stressed capital projections summarized and reported in Annex 5.</td>
<td></td>
</tr>
</tbody>
</table>
### B. Pillar II risk calculations

Detailed description of the methodology used to identify capital requirement for Pillar II risks and exceeding prudential ratios, along with a comprehensive description and justification for all assumptions used. This section should include the reporting templates in Annex 1 to 3 as well as other tables describing in detail the calculations and calibration to capital requirements for, but not limited to, the following:

1. Credit concentration risks
2. Interest/Profit rate risk in the Banking Book
3. Exceeding Prudential Ratios
4. Residual Credit Risk
5. Liquidity Risk
6. Strategic Risk
7. Reputational Risk
Annex 7 – ISIC Codes (International Standard Industrial Classification of All Economic Activities, Rev.4)

A - Agriculture, forestry and fishing
   01 - Crop and animal production, hunting and related service activities
   02 - Forestry and logging
   03 - Fishing and aquaculture

B - Mining and quarrying
   05 - Mining of coal and lignite
   06 - Extraction of crude petroleum and natural gas
   07 - Mining of metal ores
   08 - Other mining and quarrying
   09 - Mining support service activities

C - Manufacturing
   10 - Manufacture of food products
   11 - Manufacture of beverages
   12 - Manufacture of tobacco products
   13 - Manufacture of textiles
   14 - Manufacture of wearing apparel
   15 - Manufacture of leather and related products
   16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials
   17 - Manufacture of paper and paper products
   18 - Printing and reproduction of recorded media
   19 - Manufacture of coke and refined petroleum products
   20 - Manufacture of chemicals and chemical products
   21 - Manufacture of basic pharmaceutical products and pharmaceutical preparations
22 - Manufacture of rubber and plastics products
23 - Manufacture of other non-metallic mineral products
24 - Manufacture of basic metals
25 - Manufacture of fabricated metal products, except machinery and equipment
26 - Manufacture of computer, electronic and optical products
27 - Manufacture of electrical equipment
28 - Manufacture of machinery and equipment n.e.c.
29 - Manufacture of motor vehicles, trailers and semi-trailers
30 - Manufacture of other transport equipment
31 - Manufacture of furniture
32 - Other manufacturing
33 - Repair and installation of machinery and equipment

D - Electricity, gas, steam and air conditioning supply
   35 - Electricity, gas, steam and air conditioning supply

E - Water supply; sewerage, waste management and remediation activities
   36 - Water collection, treatment and supply
   37 - Sewerage
   38 - Waste collection, treatment and disposal activities; materials recovery
   39 - Remediation activities and other waste management services

F - Construction
   41 - Construction of buildings
   42 - Civil engineering
   43 - Specialized construction activities

G - Wholesale and retail trade; repair of motor vehicles and motorcycles
   45 - Wholesale and retail trade and repair of motor vehicles and motorcycles
46 - Wholesale trade, except of motor vehicles and motorcycles

47 - Retail trade, except of motor vehicles and motorcycles

H - Transportation and storage

49 - Land transport and transport via pipelines

50 - Water transport

51 - Air transport

52 - Warehousing and support activities for transportation

53 - Postal and courier activities

I - Accommodation and food service activities

55 - Accommodation

56 - Food and beverage service activities

J - Information and communication

58 - Publishing activities

59 - Motion picture, video and television programme production, sound recording and music publishing activities

60 - Programming and broadcasting activities

61 - Telecommunications

62 - Computer programming, consultancy and related activities

63 - Information service activities

K - Financial and insurance activities

64 - Financial service activities, except insurance and pension funding

65 - Insurance, reinsurance and pension funding, except compulsory social security

66 - Activities auxiliary to financial service and insurance activities

L - Real estate activities

68 - Real estate activities
M - Professional, scientific and technical activities

69 - Legal and accounting activities
70 - Activities of head offices; management consultancy activities
71 - Architectural and engineering activities; technical testing and analysis
72 - Scientific research and development
73 - Advertising and market research
74 - Other professional, scientific and technical activities
75 - Veterinary activities

N - Administrative and support service activities

77 - Rental and leasing activities
78 - Employment activities
79 - Travel agency, tour operator, reservation service and related activities
80 - Security and investigation activities
81 - Services to buildings and landscape activities
82 - Office administrative, office support and other business support activities

O - Public administration and defence; compulsory social security

84 - Public administration and defence; compulsory social security

P - Education

85 - Education

Q - Human health and social work activities

86 - Human health activities
87 - Residential care activities
88 - Social work activities without accommodation

R - Arts, entertainment and recreation

90 - Creative, arts and entertainment activities
91 - Libraries, archives, museums and other cultural activities
92 - Gambling and betting activities
93 - Sports activities and amusement and recreation activities

S - Other service activities
94 - Activities of membership organizations
95 - Repair of computers and personal and household goods
96 - Other personal service activities

T - Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use
97 - Activities of households as employers of domestic personnel
98 - Undifferentiated goods- and services-producing activities of private households for own use

U - Activities of extraterritorial organizations and bodies
99 - Activities of extraterritorial organizations and bodies