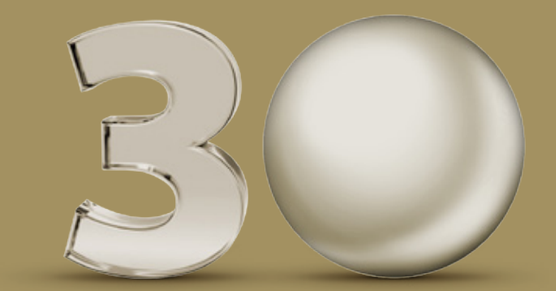
البنك الأهلي
ahlibank

# Annual Report 2013

Embracing the Past
Embarking on the Future



CELEBRATING 30 YEARS

THANKS TO OUR

CUSTOMERS' LOYALTY

STAKEHOLDERS' SUPPORT

EMPLOYEES' DEDICATION

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

# Awards and Recognitions

The awards we win and rankings we achieve are testament to our success in creating outstanding value, delivering a superior customer experience and earning the confidence of our customers each and every day.

— In 2013, Ahli Bank was named 'Retail Bank of the Year' at the Arabian Business Qatar Awards. This prestigious annual event recognises and celebrates outstanding organisations that deliver excellence throughout the year. Ahli Bank was acknowledged for its first-class business performance and outstanding customer service.

— Internationally, Ahli Bank was recognised in 2013 by the Bank of New York (BNY) Mellon with an Excellence Award for its impeccable straight-through processing of BNY Mellon's US dollar payments in 2012. BNY Mellon annually acknowledges select banks for the excellence of their remittance services.

— Ahli Bank's dedication to international best practice in information security management was rewarded in 2013 with certification from the International Organisation for Standardisation. The ISO certified the Bank to be ISO/IEC 27001:2005 compliant in the security of all its information-related handling, processing, and systems. The assessment of the Bank's information security management was conducted by TUV SUD Management Service GmbH, of Germany.

These awards are in recognition of Ahli Banks' continuous commitment towards providing excellent services to its banking customers and vision to implement international best practices to ensure the delivery of trusted commercial banking services.

# Financial Highlights

**Net Profit**
QR '000

525,685

**Total Assets**
QR '000

26,177,170

**Total Loans**
QR '000

17,312,451

**Shareholders' Equity**
QR '000

3,563,321

| | **2013** | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| | **QR '000** | QR '000 | QR '000 | QR '000 | QR '000 |
| Net Profit | **525,685** | 465,159 | 442,245 | 412,329 | 300,515 |
| Total Assets | **26,177,170** | 20,606,140 | 17,923,420 | 17,965,718 | 18,449,561 |
| Total Loans | **17,312,451** | 14,013,630 | 12,344,000 | 11,338,854 | 12,407,056 |
| Total Liabilities | **22,613,849** | 17,164,528 | 15,410,374 | 15,901,448 | 16,496,986 |
| Shareholders' Equity | **3,563,321** | 3,441,612 | 2,513,046 | 2,064,270 | 1,952,575 |
| Return on Average Assets | **2.3%** | 2.5% | 2.6% | 2.3% | 1.7% |
| Return on Average Equity | **15.9%** | 16.4% | 19.2% | 21% | 17.5% |
| Cost to Income Ratio | **32.3%** | 31% | 28.7% | 26.9% | 31.4% |
| Financial Leverage | **6.3** | 5.0 | 6.1 | 7.7 | 8.4 |
| Risk Asset Ratio | **19.2%** | 20.8% | 22.1% | 14.9% | 15.2% |
| Earnings per Share (QR) | **4.1** | 3.9 | 3.7 | 3.7 | 2.7 |



# Credit Ratings

A

International Ratings

Capital Intelligence (CI) raised Ahli Bank's long-term foreign currency rating to A from A-.

A-

International Ratings

Fitch Ratings confirmed its long-term issuer default rating (IDR) for Ahli Bank, at A-, and gave the Bank a 'stable outlook'.

These ratings reflect Ahli Banks' strong underlying business fundamentals, realised through effective and focused execution of its well-defined strategies within a prudent and acceptable risk management framework.

**Fitch Ratings**

| August 2013 | |
|---|---|
| Long-Term Issuer Default Rating (IDR) | **A-** |
| Short-Term Issuer Default Rating (IDR) | **F2** |
| Support Rating | **1** |
| Outlook | **Stable** |
| Bank Viability Rating | **BBB-** |

**Capital Intelligence**

| December 2013 | |
|---|---|
| Long-Term Foreign Currency Rating | **A** |
| Outlook | **Stable** |
| Financial Strength Rating | **A-** |

## Shareholding Structure

| | |
|---|---|
| Public and Institutions | **52.94%** |
| Qatar Foundation | **29.41%** |
| Qatar Holding | **17.65%** |

# Board of Directors' Report

Dear Valued Shareholders,

May peace and Allah's mercy and blessings be upon you.

On behalf of Ahli Bank's Board of Directors, I have the pleasure to present to you the Bank's annual report for the year ended 31 December 2013. In this report, we highlight our financial outcomes and prominent developments during the year just concluded. We also elucidate what we hope to achieve in the current year as we continue towards our objective of obtaining the highest returns for our shareholders and the best products and services for our clients by enhancing the Bank's status and performance.

In 2013, the Bank achieved net profit of QR 525.7 million, an increase of QR 60.5 million, or 13%, over the previous year's performance. The rate of return on stockholder's equity reached 15.9%, while earnings per share increased from QR 3.88 to QR 4.14. The return on assets reached 2.3%, and client deposits increased 35.4%, to reach QR 18.9 billion.

At an extraordinary meeting of shareholders held on 29 January 2013, you agreed to allow the Qatar Foundation for Education, Science and Community Development to become a strategic partner of Ahli Bank. I'm pleased to inform you that dedicated efforts have been made to place your decision within the required legal framework and to undertake the subsequent administrative and executive procedures necessary to confirm the independent status of Ahli Bank. These efforts are represented by the following measures:

- Modifying the Memorandum and Articles of Association to clearly express the new legal status of the Bank.
- Restructuring the Board of Directors and executive management committees.
- Transferring all software to Ahli Bank and renewing the licenses of several systems to conform with the Bank's requirements.
- Rearranging the Bank's top management, by appointing Sheikh Nasser Bin Ali Bin Saud Al-Thani as deputy chairman and myself as chairman and managing director, to support the executive management in implementing plans and strategies, in defining policies regarding capital increases, and in representing the Bank in its relationships with regulatory institutions and major stakeholders.

13%

In 2013, the Bank achieved net profit of QR 525.7 million, an increase of QR 60.5 million, or 13%, over the previous year's performance.

We also continued to modernise and develop our policies and procedures.

Our efforts in 2013 were not limited to confirming the Bank's independent status. We also continued to modernise and develop our policies and procedures. We updated and developed our credit and investment and our revenue and expense policies in conjunction with risk management policies. In addition, we established a strategic plan for the Information Technology (IT) Department and updated our Communications Center system to provide clients with more services and facilities.

International credit analysis and rating agency Capital Intelligence (CI) raised its evaluation of Ahli Bank's long-term loan from A- to A based on the credit status of the Bank and the rising share of governmental institutions amongst the Bank's stockholders. CI also raised the Bank's creditworthiness to A-, from BBB+, because of the Bank's remarkable improvement in asset quality and continuity of strong profitability and creditworthiness.

CI specifically referenced Ahli Bank's capital strength and efficiency, asset quality, low interest of unpaid loans, income generation, and rate of return on assets. The Bank's good standing with CI in regard to its credit is further buttressed by its encouraging liquidity position, which is supported by growth in client deposits.

We have high hopes for this new year, especially considering the increasingly fast pace of our country's immense economic and urban growth. That rapid growth, however, places greater burden and responsibility on financial institutions to keep pace with developments.

We are striving to ensure this year's launch of the Bank's innovative product Al Rabeh and the Bank's new logo, which was designed and executed in accordance with top-notch techniques. This year's plan includes new programmes to develop the UK private investment and property products sector, upgrades of existing programmes, and the greater utilisation of modern technologies for improved customer service. The plan also focuses on developing and restructuring our Human Resources Department, including for heightened job creation and training intensification in line with Qatar National Vision 2030.

You are well aware that corporate governance rules and principles have become a focal point for all local and international entities that oversee and monitor the operations of financial organisations and institutions. As a result, all organisations falling under the jurisdiction of the Qatar Financial Markets Authority (QFMA) are required to issue an annual report confirming their compliance with governance rules and guidelines. I am pleased to invite you to view our report, which is published on the Bank's website.

Based on the satisfactory results achieved by the Bank in 2013, I offer the following recommendations for consideration by this esteemed assembly:

**First: To approve the balance sheet and profit and loss accounts for the fiscal year ended 31 December 2013.**

**Second: To approve the distribution of 2013 earnings in the form of bonus shares at 30% each. As per regulations, this issue is to be brought before the Extraordinary General Assembly in its scheduled meeting today for approval.**

It is with the utmost pleasure that I express my sincere gratitude for the guidance and wise policy of the following dignitaries: the Emir of Qatar, His Highness Sheikh Tamim Bin Hamad Al-Thani; the prime minister, His Excellency Sheikh Abdullah Bin Nasser Al-Thani; and to Their Excellencies the minister of finance and the minister of economy and trade. Their leadership and wisdom have been reflected in the form of the massive advancements and prosperity that we are witnessing in all regards.

Further, we cannot but express our appreciation for the confidence that our customers have put in our bank and that propelled us to work harder to achieve the best results. And, more, special thanks to you, our esteemed shareholders, for your constant support and encouragement.

Moreover, we thank the governor of the Qatar Central Bank, Sheikh Abdullah Bin Saud Al-Thani; his deputy Sheikh Fahad Bin Faysal Al-Thani; and all the staff and the Executives of the Qatar Central Bank.

I pray to Allah that He grants us strength to serve our beloved country and to satisfy our distinguished shareholders and astute customers.

Best regards,

**Sheikh Faisal Bin Abdul-Aziz Bin Jassim Al-Thani**
**Chairman and Managing Director**



# Board of Directors 2013

### Sheikh Faisal Bin Abdul-Aziz Bin Jassim Al-Thani

**Chairman & Managing Director**

Chairman of the Policies, Development and Remuneration Committee

Chairman of the Tender Committee

Holds a Bachelor's degree in finance, 2003, from Suffolk University, Boston, USA; former member of Ahli Bank's Audit Committee, Doha, Qatar

### Sheikh Nasser Bin Ali Bin Saud Al-Thani

**Deputy Chairman**

Chairman of the Executive Committee

Member of the Tender Committee

Chairman and managing director of M/S. Qatar General Insurance and Re-Insurance Company, Qatar; chairman of M/S. World Trade Centre, Qatar; board member of M/S. Trust Bank, Algeria; board member of M/S. Trust Insurance Company, Algeria; partner and board member of M/S. Al-Sari Trading Company, Qatar; partner and board member of M/S. General Contracting Company (GENCO), Qatar

### Sheikh Mohamed Bin Falah Bin Jasim Al-Thani

**BOD Member**

Member of the Audit, Compliance and Risk Committee

Member of the Policies, Development and Remuneration Committee

Educated in the United Kingdom at the University of Durham and graduated with business and finance degree; joined M/S. Qatari Army for five years in Finance Directorate Department; then joined M/S. Goldman Sachs at the beginning of his career path and currently is working in M/S. Qatar Investment Authority (QIA) and as a board member of M/S. National Leasing Company, M/S. Al-Dar Exchange Company, and M/S Al-Maha Capital Company, all in Qatar

### Dr Ahmed Mohamed Yousef Obidan

**BOD Member**

Chairman of the Audit, Compliance and Risk Committee

General manager of M/S. Trans Orient Establishments, Qatar; member of the Shura Council, Qatar; head of M/S. Culture and Media Committee Shura Council, Qatar

### Mr Ahmed Abdulrahman Nasser Fakhro

**BOD Member**

Member of the Executive Committee

Member of the Policies, Development and Remuneration Committee

Member of the Tender Committee

Board member of M/S. Qatar Cinema and Film Distribution Company, Qatar; former minister plenipotentiary in M/S. Ministry of Foreign Affairs, Qatar

### Mr Victor Nazeem Agha

**BOD Member**

Member of the Executive Committee

General director of M/S. Al-Sadd Travel Agency, Qatar; general director of M/S. Al-Sadd Exchange Company, Qatar; board member of M/S. Doha Insurance, Qatar; board member of M/S. Al-Zubara for Real Estate Investment, Qatar; former board member of Al-Sadd Sports Club, Qatar

# Chief Executive Officer's Statement

I am proud to present to you our annual financial performance and major achievements for the year ending 31 December 2013, coinciding with the Bank's 30th anniversary. The achievements reemphasize the Bank's robust strategies and focused discipline. The year-end also marks the nearly one-year anniversary of the acquisition by the Qatar Foundation of its 29.41% strategic stake in Ahli Bank on 30 January 2013.

## Ahli Bank operates in one of the highest-growth economies in the MENA region.

Ahli Bank operates in one of the highest-growth economies in the MENA region. Qatar's GDP is forecast to grow nearly 4.6% in 2014. What drives such an economic haven is the visionary leadership of HH the Emir and the long-term policies adopted to make Qatar a leading economy. Those long-term policies aim at converting this hydrocarbon-reliant economy into a diversified economic power.

Business confidence remained buoyant in 2013 following a boost in 2012 from FIFA's award of the 2022 Football World Cup to Qatar. In addition, the government has rolled out its infrastructure development programme, with projects estimated to be US$ 96 billion in value over the next three-year period. In June 2013, phase I of the rail project with an estimated value of US$ 8.2 billion, was awarded to various local and international contractors.

The Bank has benefitted from the growth activities in Qatar's economy across all sectors and from its Tier I capital increase in October 2012. Its net interest income for 2013 grew 27.8% over net interest income for 2012. With non-interest income growth of 17.3%, the Bank thus reported a solid operating income increase of 23.0% for 2013.

We restructured our business banking operations during the year and made our commercial, retail, treasury and investment, and international banking businesses focus more on developing their product and geographical ranges. This resulted in our generating record net profit of QR 525.7 million in 2013, an increase of 13.0% over 2012 net profit.

The strong profit growth was a result of expanding the Bank's operating capacity following the increase in capital in October 2012. Our investment assets have grown -21.8% and our loan assets 23.5%.

# 23%

With non-interest income growth of 17.3%, the Bank thus reported a solid operating income increase of 23.0% for 2013.

We continue to focus on our home market for opportunities and on serving our clients' needs. Local assets represent 90.6% of our total assets, with government-owned assets representing 22.2% of our total balance sheet and the remaining representing private-sector consumer, corporate, and other financial assets. The return on these assets is 2.3%, placing us amongst the leading banks in Qatar.


## We have conservatively increased our provisional coverage of NPLs from 87% at year-end 2012 to 125% at the end of 2013.

Balancing between risk and reward has continued to receive the Board of Directors' utmost attention. We have undertaken a successful programme of reducing our non-performing loans (NPLs) from 3.2% in 2012 to 1.4% in 2013. In addition, we have conservatively increased our provisional coverage of NPLs from 87% at year-end 2012 to 125% at the end of 2013.

As we look forward to 2014 with energy and optimism, the international market is throwing out its challenge on the direction of global interest rates because of the US Federal Reserve's review of its quantitative easing policy. In reflection of our conservative policies, we attempted an early application of the Basel III draft rules on expected loss modelling instead of staying with the current incurred loss model.

I am pleased to report that the Bank adhered to its strategy of managing liquidity and capital in an efficient and low-cost manner. The Bank is as a result carrying a strong capital ratio of 19.2%, a matched customer liability growth of 35.4% to fund our business activities at a low-cost base. Periodical stress-testing scenarios complement our capital adequacy positions.

All Qatari banks, including Ahli Bank, have been preparing for early compliance with Basel III. The Qatar Central Bank has been a leader in the region in publishing guidelines in this regard.

Major strategic infrastructure initiatives took place during the year in support of our expansionary policies, including major investments to consolidate our information technology platforms, a gap analysis audit to mitigate future risks, and a focused review of our businesses to improve the core revenue of the Bank. We consider these initiatives as 'sowing the seeds'.

In recognition of its drive for excellence, Ahli Bank won the Retail Bank of the Year 2013 award from Dubai-based weekly magazine Arabian Business. Furthermore, we have been awarded ISO/IEC 27001:2005 Information Security Management System certification for all of our information and information processing assets. But most important is the announcement by global rating agency Capital Intelligence (CI) that it is raising our long-term foreign currency rating to A from A- while affirming our short-term foreign currency rating at A2. CI also upgraded our financial strength rating, to A-, from BBB+, and our support rating, to 1, from 2, citing improvements in the Bank's business fundamentals.

## We look at 2014 with optimism.

We look at 2014 with optimism. We will continue to focus on our home market and to play an active role in supporting Qatar's infrastructure projects in 2014, estimated to be worth US$ 24 billion. Investing in our brand and franchise also will be amongst our priorities. Our retail business will receive increased attention as we widen its product range, delivery, and customer experience. And process automation, another recipe for success, likewise will benefit from our heightened effort. Last but not least is our development of young Qataris' talents to help them take up leading positions in the Bank.

Finally, I take this opportunity to thank our customers and shareholders for their confidence in our ability to create enhanced value for them, the Board of Directors for its direction and stewardship, our employees and management for their unequivocal dedication and commitment, and the Qatar Central Bank for its guidance and support.

**Salah Murad**
**Chief Executive Officer**

# Review of Operations

## Retail Banking

The Retail Banking Department aspires to position Ahli Bank as a leading retail bank in the Qatar market offering banking products and services aligned with present and potential customers' needs. The department's product and proposition combined with a superior customer experience will aim to set Ahli Bank apart from the competition aligned to the new brand which will be launched in 2014. In addition the department will deliver products and services efficiently through different channels and at all points of contact with consumers.

**The possibilities for our retail banking are exciting.**

Qatar's continued growing gross domestic product (GDP) gives Ahli Bank every reason to be positive about its retail banking business. Much of the Bank's outlook hinges on the country's growing population, fuelled largely by an expanding expatriate community.

The possibilities for our retail banking are exciting.

Customers are becoming increasingly demanding in what they expect of the Bank's Retail Banking Department whether that be in service delivery or in competitively priced and attractive products. The department is being challenged to provide products and services that meet those rising demands whilst containing costs to remain competitive. It also must ensure that its delivery of products and services at every touch point with the customer is of the highest quality as customers will not accept poor service.

Ahli Bank was recognised in 2013 by the Dubai-based business magazine *Arabian Business* for the 'best retail banking service in Qatar'. Indeed, the Retail Banking Department saw across-the-board increases in loan sales, fee income, deposits, and cardholders in its credit card portfolio.

Credit for this success is owed to the popularity of key products such as the 'My Hassad' prize draws, worth up to QR 50 million, for people who invest in the savings scheme through savings certificates or accounts. Similarly popular is the 'Pearl' rewards credit card initiative.

New products in 2013 included an Auto loan with one of the most competitive interest rates in the Qatari market, bundled with other incentives. The department also gave credit card holders a 'payment holiday' and added insurance protection which included; personal accident benefits covering accidental death and permanent partial and total disability, medical and related benefits, travel inconvenience benefits, and 30-day purchase protection.

Under the Bank's 'Go Green' initiative, which calls for cutting paper not trees, the Retail Banking Department also began issuing e-statements.

For customer convenience, the department added to its ATM network and now offers nearly 50 ATMs.

The department's launch of Internet banking in December 2013 is a new addition to customer convenience. Features span viewing summaries and details of all accounts including; credit cards; downloading account statements; transferring funds; creating standing orders; activating cards online, and applying for chequebooks and credit and debit card liability certificates—all conveniently online. Further developments are planned in 2014 to increase customer convenience and control of their finances.

## Outlook for 2014

In 2014, the Retail Banking Department will further develop all its delivery channels. The department will, in fact, implement a new approach centered on electronic distribution and will develop services to increase and improve the customer experience at all points of delivery. Its efforts will focus on low cost solutions to stay ahead of competitors and on broadening its appeal to key customer segments in the Qatar market.

To improve the customer experience, the department will review its front and back office functions to improve efficiency. It will in turn develop a comprehensive set of products and services and in parallel re-engineer its key customer processes.

Risk management processes will be improved and asset quality maintained whilst operating efficiently.

The Retail Banking Department strives for a strong performance culture and will develop and invest in its staff to achieve the goals it has set out in its business strategy.

# Review of Operations

(continued)

## Corporate Banking

Ahli Bank's Corporate Banking Department achieved all-round growth during 2013. New customer relationships established during the year were as important in this achievement as was deepening existing relationships. Loans and advances grew at a healthy 25%. Trade finance volumes did better at 53%. The volume growth countered a steep drop in pricing and supported the increase in income.

## Corporate Banking Department achieved all-round growth

Opportunities for the growth of assets were limited, yet we were able to cherry-pick those which provided returns without exposing the Bank to undue risks. We successfully maintained the quality of assets, all of which continued to perform.

Financing contracts were a major thrust for us during 2013. We supported the execution of a large number of high-value contracts, especially those related to government projects.

Doha Metro is the largest infrastructure-related project in the country. The first few construction packages related to this project were awarded during the year. In one of the most notable transactions for 2013, Ahli Bank participated in a bank group to finance one of these packages.

## Outlook for 2014

The pace of Qatar's economic growth is expected to pick up as the mega projects progress and as new ones are launched. Financing of such projects, one of our core expertises, will remain a focus area. Given the size of these projects, we expect an increasing number of partnerships between local and even international banks to finance such projects.

Adding value to shareholders at acceptable risk will remain one of our priorities. We will continue to follow industry best practices and deliver a high standard of services to our clients.


## International Banking

It is imperative that Ahli Bank, as an independent financial institution, carefully assess the strategies and creditworthiness of its financial institution partners on an ongoing basis. Following the 2008 credit crisis, systemic changes have been made to banking, especially in the eurozone in recent years. So an analysis of each financial institution's national economic and geopolitical situation, as well as of local, regional, and global markets, is vital.

It was for this reason that Ahli Bank established an International Banking Department during 2013. This new department is responsible for all cross-border activities, including the development and optimisation of key financial institution and correspondent bank relationships and is co-ordinating these activities with the Bank's main business lines: treasury banking, trade finance, corporate and retail banking.

Ahlibank's priority is its domestic network. But maximising our international connectivity through strategic regional and global financial institution partnerships enables us to provide an essential footprint to underpin our customers' requirements. Relationships with other financial institutions worldwide also helps us secure business revenues—through cross-border trade transactions, for example—that we have not previously had access to. The International Banking Department will continue to review such relationships to ensure a win-win scenario for all parties.

## Outlook for 2014

During 2014, the International Banking Department will play a pivotal role in reviewing the Bank's medium- to long-term funding options in traditional and debt capital markets. This will assist in the Bank's implementation of a prudent and sustainable financing structure in line with the implications of Basel III. Other key drivers in this regard will be the requirements and opinions of our credit rating agencies.

# Review of Operations

(continued)

## Private Banking

The Private Banking Department intends to make Ahli Bank the preferred destination for wealth management requirements of Qatar's high net-worth individuals. The department continues to develop competitive and relevant products and services tailored to the increasingly sophisticated needs of its clientele.

**The department is developing competitive and relevant products and services.**

Since 2008, much of the global private banking industry has faced challenges related to the sharp increase in the volatility of capital markets, the low interest rates environment, and the increasing constraints on banks from regulators in the United States, Europe and elsewhere. As such, Middle Eastern nations, and Gulf Cooperation Council (GCC) countries in particular, have all the while constituted an attractive growth market for the private banking industry. Competition within Middle Eastern private banks is intensifying among onshore and offshore operators.

The product mix for asset allocation has not significantly changed, but demand for collateralised lending solutions is growing. In addition, most of the asset inflows have been in favour of cash and cash equivalent products. The ability of private bankers to lend to their high net worth and ultra-high net worth clients is an increasingly important differentiator in this ever-more competitive market. Lending is also an important contributor to the healthy revenue margins of the region's private bankers.

A major strategic change occurred in Ahli Bank's shareholding structure in 2013 with the sale of Ahli United Bank's stake to the Qatar Foundation. This affected the structure and the product and service offerings of Ahli Bank's Private Banking Department. Nevertheless, the department's performance in 2013 was very satisfactory; assets under management soared by 189% during the year, and a healthy pipeline of deals already exists for 2014.

With a new management in place during the course of 2013, the department began working on partnering with strategic third parties to offer its clients various tailor-made investments opportunities in different asset classes to cater to their investment needs, and enhance their returns. It will shortly launch a unique offering for residential and commercial real estate properties in the United Kingdom. Also forthcoming soon is an investment vehicle that will allow the bank's clients to participate in the Qatar Exchange equity market.

## Outlook for 2014

In 2014, the Private Banking Department will focus on offering additional investment vehicles to its clients. These products will cover multiple asset classes, such as equity, fixed income, index funds, money market funds, commodity funds, real estate funds, structured products, and private equity.

The department will contribute to the re-branding exercise of the Bank and the redevelopment of its website to enhance the VIP treatment of the Clients.

Further enhancements in the Private Banking Department include streamlining operations by implementing a new customer relationship management (CRM) software and by improving its human capital by enhancing the actual team and ensuring that proper training and coaching is implemented to take client service levels to new heights.

**189%**

assets under management soared by 189% during the year

Introducing new products and rebranding the Private Banking department to enhance the VIP treatment of Clients

Implementing a new customer relationship management (CRM) software

Team expansion and adequate training

# Review of Operations

(continued)

## Treasury

As the fears of a European single currency breakup subsided, markets were relatively calm for most of the first half of the year. Governments in Japan, Europe, and the United States maintained their respective financial support to ensure adequate liquidity to promote growth. Equity markets surged, as investors sought improved return on their assets. The calm was shattered in May with the US Federal Reserve announcing its intention to reduce the quantitative easing programme (QE). Bond prices declined rapidly, long-term interest rates rose sharply, and the markets entered a summer of turmoil.

The Federal Reserve announced in December a tapering in the asset-purchase programme as it begins to reduce the support for the US economy following the 2008 credit crisis and a gradual return to normal central bank monetary policy.

Liquidity in the domestic market improved throughout 2013, and treasury was able to diversify its funding sources through building new relationships and strengthening existing ones. The proprietary investment book grew in 2013 as the Bank invested in new bond issues that came to the market. The holding of equity investments also increased as the Bank sought to take advantage of a fairly buoyant local equity market boosted by the upgrade to emerging market status by MSCI and S&P.

Treasury upgraded its front-office system during the year, which will allow treasury to offer clients an increased product range and thus support clients who wish to hedge their interest rate and foreign exchange exposure risks. Treasury became a market maker in Qatari riyals on its main foreign exchange trading platform, 360T, as the Bank sought to enhance its reputation in the international markets.

### Outlook for 2014

With respect to domestic and international interest rates we see a far more challenging year ahead as major economies such as the United States, Germany and the United Kingdom begin to expand. With expansion comes inflation, with inflation comes new central bank controls on rates and although we see short term rates stable, longer term rates will likely rise.

We foresee a growing domestic market need as government projects, such as the Doha Metro and Lusail Real Estate project, develop apace. Internationally, the challenges of dealing with reduced financial assistance in some markets will bring new challenges both for the Bank and its clients.

With a dedicated team looking to serve its clients and build strong relationships with local and international banks, treasury looks forward to the challenges of 2014.

## Information Technology

As laid out in the Information Technology (IT) strategy document for 2013, the IT Department carried out major technology projects for accelerating business growth, enhancing customer experience and meeting regulatory and compliance norms.

In 2013, the IT Department implemented the Bank's new Internet banking system. Customers can now benefit from a simple navigation, self-registration, fully automated service 24-hours a day, seven days a week and a broad spectrum of payment services.

Further accomplishments include the implementation of an Enterprise Data Warehouse (EDW) application for augmenting the analytical capabilities of the Bank and migration of business-critical systems from the Bank's Bahrain-based service provider to independent capabilities established in Qatar.

### Outlook for 2014

To help further propel the Bank's growth and profitability, the IT Department plans to undertake major key technology initiatives in 2014. IT infrastructure improvements will increase the Bank's availability and performance, giving customers more reliable and convenient banking than previously.

Plans are in place to step up Bank's Internet banking system with significant upgrades and heighten user experience. These include personal finance management, loan application submission capabilities, cheque image display and Trade Finance portal for corporate customer.

Further initiatives include a more user-friendly Ahli Bank website during 2014, Mobile banking channel to view account details, make local and international remittances, and settle utility payments using their smart phones. Corporate customers also will be able to view and authorise payments. By installing a secured application on their smart phones, the Bank's customers will be able to access their accounts and conduct transactions online while on the move.

Enhancements are in place for the Bank's ATMs to elevate customer convenience with services such as cash deposits, bill payments, and recharge and top-ups for Vodafone and QTEL. Plans are in place to introduce a payroll cards for low wage workers.

The IT Department will replace a new loan system to facilitate the Bank's provision of customised facilities to customers quickly and effectively. Functions include credit scoring, loan origination, loan processing, document management, and more. It also will strengthen the Bank's loan analysis capabilities to ensure that Ahli Bank is able to best serve its customers. This includes assuring customers of speed in processing and approving loans.

Ahli Bank has chosen to implement 3D Secure to safeguard customers' online card transactions. Initiating information security enhancements for all banking channels and internal business systems to protect the Bank and customer data is a high priority for the IT Department in 2014.

From compliance perspective, IT department will assist the Bank in meeting with expectations under the US government's Foreign Account Tax Compliance Act, or FATCA, that all non-US financial institutions will report the accounts of US citizens to the US Internal Revenue Service. In addition, the bank will implement a specialized system for calculating capital adequacy to help the Bank stay in line with regulatory requirements and make best use of its capital.

Further improvements and new functionality will be added to the Enterprise Data Warehouse system for monitoring financial performance and credit exposures of the bank.

# Review of Operations

(continued)

## Corporate Communication

The banking industry is becoming progressively more competitive. Yet, well-positioned banks are finding great opportunities to increase their share and to take market share from the competition notwithstanding the challenges of the current economic climate.

The Corporate Communication Department is responsible for all communication messages regarding Ahli Bank's branding, public relations, media relations, public affairs, corporate social responsibility, internal affairs and sponsorship. Foremost among its strategic objectives is consistency in messaging.

In 2013, the Corporate Communication Department undertook several initiatives to further the quality and particularly the consistency of the Bank's messaging. Chief among those initiatives was our start of the process to redefine and reposition Ahli Bank following the Qatar Foundation's acquisition of a significant stake in the Bank.

## Outlook for 2014

In 2014, the Corporate Communication Department will work closely with all departments across the full range of Ahli Bank's products and services. Relationship branding of this nature demands that each of the Bank's operations at every level speak with a single voice and present a unified image to the public through all communication media while striving to cultivate an elevated awareness of the Bank.

# Review of Operations

(continued)

## Human Resources

The Human Resources Department has been identified as an area of key focus in the Bank's business strategy. As a result, a comprehensive Human Resources Strategy and Plan has been developed to transform the HR function within the Bank.

In 2013, the Human Resources Department focused on adopting a more customer-centric, performance based approach to its operations and identified 25 key change initiatives to strengthen the function and improve service delivery to internal customers.

Consistent with the Qatar Vision 2030 and the government's Qatarization strategy, Human Resources also developed a specific Qatarization strategy to focus the Bank's efforts to attract, develop, and retain Qatari talent within the organization. In addition, Human Resources also developed a comprehensive Remuneration Strategy to bring the Bank's remuneration in line with the market in Qatar.

Furthermore, as recognition and reward for the loyalty and excellence of long-term staff members, the Human Resources continued with the ABQ Long Service Award to honour employees who have been with the Bank for five years or more. In 2013, 154 employees received this award, demonstrating their commitment and dedication to the Bank's continued success.

In line with the Bank's policy to regularly take part in social and humanitarian causes in the State of Qatar, the Human Resources continues to work closely with Qatar University, the Qatar Foundation, Virginia Commonwealth University, Stenden University, North Atlantic University, the Community College of Qatar, and many other governmental organisations, to provide support to the communities in which we operate.

## Outlook for 2014

The Human Resources Department has a busy year ahead, with many new plans and initiatives to implement under the new Human Resources strategy. Our overall goal is to continue to develop the relationship between Human Resources and the Bank's various business units to allow the Bank to become more cohesive, customer focused, and to deliver strong results for its shareholders.

During 2014, the Human Resources Department will continue to further improve its service delivery, working to secure the Bank's human capital and to support our employees as a vital asset of the business.

154

In 2013, 154 employees received the ABQ Long Service

# Review of Operations

(continued)

## Corporate Social Responsibility

Ahli Bank's corporate social responsibility (CSR) strategy is all about a commitment to community. We are devoted to supporting causes that matter to communities throughout Qatar. Enriching the lives of Qatar's residents is of utmost importance to our staff and management. Through wide-ranging CSR activities, we demonstrated our dedication to people's welfare at home and abroad in 2013.

The Qatar Society for Rehabilitation of Special Needs was once more the beneficiary of a donation from Ahli Bank. Our donation to that society signals our support of local non-profit organisations and reflects our belief in helping the most in need in communities throughout Qatar.

Ahli Bank also donated money to the Philippines Embassy in support of humanitarian aid being undertaken to help the victims of the natural disaster in the Philippines caused by Typhoon Haiyan.

We again co-ordinated an employee blood drive with the Blood Unit at Hamad Medical Corporation. The blood drive was held at our head office in Al-Sadd, Doha. As usual, the blood donation drive got a good response from employees, who showed true conviction in taking part in such a humane act.

We again co-ordinated an employee blood drive with the Blood Unit at Hamad Medical Corporation.

The welfare of Qatari youths, meanwhile, is of particular interest to Ahli Bank, as they can make invaluable contributions to the development of their country, now and in the future. For this reason, we are an active participant in the 'No Drugs' social awareness campaign co-ordinated by Qatar's Ministry of Interior. Our support of this important cause saw us display the campaign's awareness messages through our ATM network.

To foster a spirit of camaraderie among banks and bankers, we again partook of the activities related to the sports day organised and hosted by the Qatar Central Bank.

The private businesses where Qatari youths may one day find themselves working make vital contributions to the country's economy. Ahli Bank is an especially big proponent of Qatar's private-sector small and medium enterprises. So we were pleased to sponsor the 'Listing of Private Companies: Supporting Qatar's National Vision' event organised by the Qatar Exchange. This was a platform to encourage private companies to learn more about the benefits of listing on the Qatar Exchange.

## Outlook for 2014

In 2014, Ahli Bank will continue to play a positive role in society. Our backing of diverse social, educational, cultural, health, and sporting activities in Qatar is ongoing and fundamental to our corporate values.

Mr Shafi AlShafi presenting the cheque to His Excellency Mr Crescente R. Relacion, Ambassador of the Republic of the Philippines in Qatar.

# Risk Management

Risk management involves the identification, analysis, evaluation, acceptance, measurement, control, and management of all financial and non-financial risks that could have a negative impact on the Bank's performance and reputation. The major risks associated with ABQ's business are credit risk; market risk, which includes foreign exchange risk, interest rate risk, and equity price risk; liquidity risk and operational risk.

## ABQ's risk management policies have been developed to

- Identify and analyse these risks,
- Set appropriate risk limits and controls,
- Identify different approval levels, and
- Monitor the risks and adherence to limits.

The function is not responsible for complete elimination of risks that are embedded in any banking business but aims to set measures and procedures to be proactive in anticipating risks and to effectively manage these risks with the objective of minimising the impact and of earning competitive returns over the degree of assumed risk. Risk is financially evaluated as the potential impact on income and asset value, taking into consideration changes in political, economic, and market conditions, upon the Bank's assets.

The risk management function relies on the competence, experience, and dedication of its professional staff; sound risk management best practices; policies and procedures; and ongoing investment in technology and training.

The Board of Directors and senior management are involved in the establishment of all risk processes and the periodic oversight and guidance of the risk management function. The Board of Directors reviews and approves at least annually the Bank's key risk management policies. The risk management processes are subject to additional scrutiny by independent internal and external auditors and the Bank's regulators with periodic reporting to the Audit, Compliance and Risk Committee, which helps to further strengthen the risk management best practices.

## The risk management control process at ABQ is based on detailed policies and procedures that encompass

- Business line accountability for all risks taken, whereby, each business line is responsible for developing a plan that includes adequate risk/ return parameters, as well as risk acceptance criteria.

- ABQ's credit risk function, which entails risk identification, measurement, monitoring, follow-ups, and controlling each credit relationship to ensure that the approval authorizations are obtained and a uniform risk management standard exists, including risk ratings that have been correctly assigned to each and every credit relationship and product and are in line with business policies, which are clearly understood, monitored, and in agreement with the overall credit policy and the Board-approved risk framework.

- The ongoing assessment of portfolio credit risk and approval parameters of new products, leading to an integrated limit structure that permits management to control exposures and monitor the assumption of risk against predetermined approved tolerances. The Board of Directors establishes comprehensive limits for each major type of risk, which are then sub-allocated to individual lines of business and to business units.

## Major Risk Areas

The highlights of the developments in the major risk areas with respect to the business – namely credit, market, operational ,and liquidity risks – are as follows:

## Credit Risk

Credit risk is the risk of potential financial loss due to the failure of a counterparty to perform according to agreed terms. It arises principally from corporate, retail and private banking lending, trade finance, treasury, and investment activities. The credit process is consistent for all forms of credit risk to a single obligor. Overall exposure is evaluated on an ongoing basis to ensure a broad diversification and mitigation of credit risk whereby potential risk concentrations by country, product, industry, and risk grade are regularly reviewed to avoid excessive exposure and ensure a broad diversification.

# Risk Management

## (continued)

Credit risk is actively managed by a rigorous process from initiation to approval and disbursement, with all day-to-day management activities conducted in accordance with well-defined *Credit and Investment Policy* and *Credit Procedures Manual* (*C&IC Policy & CPM*), which was reviewed, amended, and synchronised with QCB's regulations in coordination with different business units to cope with the new market requirements and challenges and that detail all credit approval requirements and are designed to identify at an early stage exposures which require more detailed review and closer monitoring and establishing the required provisions when they are needed.

The Risk Management Department took further steps to ensure that the scientific measurement and quantification of risk ratings are applied to credit exposures, instead of relying solely on qualitative or subjective evaluations. This has efficiently eased the quantification of the risk-return parameters and been a significant contributor to profit-generation capacities during the year.

The *C&IC Policy & CPM* includes a robust risk rating system, and a new risk rating system is under revision and implementation that enhances stratifying the credit portfolio by degree of risk to monitor the credit quality and assess the commensurate pricing and aid in the prompt identification of problem exposures. Special Assets unit is managing the non-performing loans "NPLs". The proper management of credit portfolio and special assets resulted in decreasing the NPLs from QR 409 million as of 31 December 2012 to QR 211 million as of 31 December 2013 and Impaired loans represented 1.4% of gross loans as of 31 December 2013 versus 3.22% as of 31 December 2012 which is considered a lowest ratio compared to the Qatari and GCC banking sectors.

**In addition, the Credit and Investment Committee is vested with the overall day-to-day credit risk management, and its responsibilities include the following:**

- Formulates and implements credit policies and monitoring compliance of policies.
- Acts as a credit approval body for credits and investments within its delegated authority.
- Recommends to the Executive Committee all policy issues and amendments related to credit risk as well as credits falling outside its discretion.
- Determines appropriate pricing and security guidelines for all risk asset and products.
- Reviews the ongoing risk profile of the Bank as a whole and by individual products, business sectors, and countries.
- Ensures the adequacy of impaired assets provisions and makes appropriate recommendations to the Executive Committee.

ABQ's risk management implemented initiatives to embed a comprehensive credit risk management culture within the Bank's various lines of business and within its business units.

ABQ risk management is also involved in providing "technical-focused assistance" to treasury by setting up bank limits in accordance with the approved credit policy and the QCB's instruction and in providing a monitoring mechanism to ensure utilisations are kept within the approved structure.

Basel II and Basel III workshops have helped to enhance and raise the awareness among the Business Units and Risk Management, and this consequently resulted in superior-quality service provided to customers. Preparations for Basel III implementation started in early 2013 with a study of the infrastructure needed for smooth implementation on target dates required by the QCB. In addition, a full detailed study of the behavior of corporate banking and retail banking portfolios were made in order to come up with the probability of default (PD) by risk rating layers and industry sectors for corporate banking and by product for retail banking. A stress-testing policy and Internal Capital Adequacy Assessment Process "ICAAP" policy were prepared and approved by the BOD and submitted to the QCB.

# Risk Management

(continued)

The efforts devoted to the overall evaluation of the Bank's credit portfolio throughout the year contributed to effective control over asset quality. The portfolio is comprehensively analysed in terms of country, industry, product, and single obligor bank to detect concentration trends and enhance diversification. And for more efficiency, the Bank has finalized phase I implementation of its Enterprise Data Warehouse (EDW) project to have a complete data warehouse to be utilised for the production of different reports, accurately and on a timely basis, to serve the decision-making processes by different departments and senior management.

The Bank's exposure is also closely monitored with a view to detect early warning signals of delinquency which would enable management to take proper early corrective actions and maintain a sound credit portfolio.

## Market Risk

ABQ takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. ABQ separates exposures to market risk into either trading or non-trading portfolios.

Given ABQ's ongoing low-risk strategy, aggregate market risk levels are low relative to the size of the Bank's balance sheet. The Bank utilises daily value-at-risk (VaR) models to estimate potential losses that may arise from adverse market movements, in addition to other quantitative and non-quantitative risk management techniques.

The Bank calculates VaR using a one-day holding period at a confidence level of 95%, which takes into account the actual correlations observed historically between different markets and rates.

There is also a mandatory VaR which is generated daily based upon a 10-day holding period at a confidence level of 99%. For regulatory purposes, it is utilised by the Qatar Central Bank upon its review.

**The Bank utilises quantitative risk management techniques to assist in estimating potential losses that may arise from adverse market movements.**

Given the Bank's conservative strategy in terms of investments and trading, aggregate market risk levels are controlled. The Bank utilises quantitative risk management techniques to assist in estimating potential losses that may arise from adverse market movements. These are considered adequate from a need perspective and the existing scope of activities.

The periodic monitoring of liquidity ratios as well as interest rate mismatches and adherence to foreign exchange limits with respect to laid-down guidelines help manages possible scenarios in a proactive manner. The continued application of the Operational Processing Integrated Control System "OPICS" by the trading platform is also used by both treasury front- and back-office functions to capture activity.

Within the improvement process framework, the Bank migrated onto a new MYSIS-based risk system in July 2013 which is integrated with the treasury trading platform utilising a single database to capture all the risks. The new risk system was thoroughly tested and validated by the market risk unit, which is responsible for reviewing all of the daily end-of-day market data uploaded of foreign exchange rates, interest rates, and security prices into the main treasury trading platform and sourced from Bloomberg and used to generate the fair value reserve reports. The market risk team also independently performs hedge-effectiveness testing for the quarterly financial audit. This new MYSIS-based risk system has facilitated advanced reporting and monitoring mechanisms. This has supplemented existing capabilities and has contributed towards adopting quantitative analysis techniques that are in line with the best practices, the local market, and the regulatory requirements.

During 2013, for each quarterly period, the market risk team conducted Qatar Central Bank (QCB)-based scenarios for stress testing and impact analysis as per QCB guidelines, and results submitted to the QCB for review were to be adopted by all the country's banks.

A stringent limit structure based on conservative grounds but reflecting business needs as well as market dictates has been

# Risk Management

(continued)

prescribed. The robust control and monitoring processes and the effective follow-up mechanisms that have been adopted help to effectively manage market risk.

## Liquidity Risk

Liquidity risk is the risk of being unable to meet the Bank's cash commitments without having to raise funds at unreasonable prices or sell assets on a forced basis and thereby incur fire-sale losses. It is measured by estimating the Bank's potential liquidity and funding requirements under different stress-testing scenarios.

The Bank's liquidity management policies and procedures are designed to ensure that funds are available under all circumstances to meet the funding requirements of the Bank not only under adverse conditions (contingency planning) but at sufficient levels to capitalise on opportunities for business expansion.

Prudent liquidity controls ensure access to liquidity ratios without unexpected cost effects. Liquidity projections based on both normal and stressed scenarios are performed regularly. The control framework also provides for the maintenance of a prudential buffer of liquid, marketable assets and an adequately diversified deposit base in terms of maturity profile and number of counterparties.

The Bank's Treasury Department is managing these types of risks by monitoring them through Market Risk management Department and under the jurisdiction of the Bank's Assets and Liabilities Committee (ALCO).

The Bank's ALCO convenes on a regular monthly basis during the year, was vested with the responsibility of ensuring adherence to the duly approved liquidity policy. The information required to make key decisions was provided in the required formats to provide an objective assessment of the data. The presence of the risk management team members along with senior management ensured that proper risk perspectives were taken into consideration in the decision-making process.

## Operational Risk

Operational risk refers to losses resulting from the inadequacy or failure of internal processes and systems or the materialisation of adverse external events. The Bank maintains an efficient operational risk management framework to quantify and mitigate operational risks.

The Bank utilises an Operational Risk Self-Assessment (ORSA) process to assess, document, and report on the operational risks encountered in the course of business. This is in line with the implementation of Basel II regulations.

The Operational Risk Committee (ORC) approves the ORSA annually and reviews the operational risks faced by various functions in the Bank on a periodic basis, introducing appropriate controls wherever necessary. Furthermore, the internal audit and compliance functions conduct independent periodic reviews to assess the adequacy of checks and controls.

The Bank's Business Continuity Plan (BCP) was comprehensively and periodically tested after establishing the requisite infrastructure and the successful completion of system-specific trial runs. The developed BCP comprises extensive plans that are designed to minimise and mitigate operational risks arising from the potential failure of the communications networks and from IT systems breakdowns.

This plan covers bank-wide operations and envisages scenarios of varying levels of contingency and measures to contend with the same. Additional investments in information technology to serve this purpose were implemented through the procurement of upgraded hardware. Departmental plans were also put in place during the year, providing detailed procedures for individual bank functions to be operative in case of need.

The Bank has also put in place a Disaster Recovery Plan (DRP) prescribing the recovery process and restoration of critical computer systems, including the local area network, database servers, Internet, intranet, and e-mail in the event of an interruption arising from an unplanned and unexpected disaster with a view to minimise potential loss of revenue.

In 2012, both the DRP BCP were audited by an independent external auditor (KPMG) as per QCB mandate and found to be substantially compliant with QCP requirements. Both the BCP and DRP tests were successfully conducted in 2012 and 2013.

Basic firefighting training was also provided to selected staff with the assistance of the Civil Defence Authority, and an evacuation drill was conducted as part of the safety and security procedures.

The Bank conducted BCP and DRP tests successfully, covering essential functions, to establish adequate levels of preparation to face a contingency scenario, thereby complying with regulatory as well as auditing requirements.

The HR Department plans and provides guidelines for staff responsibilities, delegates authorities, and issues training and recruitment guidelines. The comprehensive range of initiatives ensured minimal incidence of material losses as a result of the identified operational risks during the year.

# 03 Corporate Goverance

## Introduction

The principles of corporate governance have gained international importance, in particular with reference to international organizations, viz., the Organization of Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS), the International Corporate Governance Network (ICGN), and the International Institute of Finance (IIF). Applying the principles of corporate governance has become a measure of performance of any financial or non-financial institution. In this context, the Qatar Financial Markets Authority (QFMA) issued on 27 January 2009 "Corporate Governance Code for Companies Listed in Markets Regulated by the Qatar Financial Markets Authority". During March 2008, the Qatar Central Bank (QCB) issued "Corporate Governance Guidelines for Banks and Financial Institutions" and additional instructions with the aim to manage banking managerial risks under corporate governance.

It is desirous in the interests of the Board of Directors (BOD) of ahlibank QSC (the Bank) to apply the rules and standards of corporate governance and to consider corporate governance of the utmost importance to the Bank's culture in order to improve the confidence of investors and depositors, reduce business risk, maintain an acceptable capital adequacy ratio, and strengthen transparency and disclosure. The Bank has adopted the principle of segregation between the roles and responsibilities of the BOD and the roles and responsibilities of the executive management. The BOD supervises the development of business strategies, goals, and policies; the set-up of the organizational structure; the formation of committees; and the delegation of authority. The BOD also monitors the implementation of strategies, goals, and policies; the evaluation of performance; the assessment of risk; the appointment and supervision of internal bank audits; and the nomination of an external auditor. The executive management implements the processes, applying the policies, reporting to the BOD, preparing the financial statements and final accounts, and attends to other day-to-day affairs of the Bank.

## The Bank in Brief

Ahlibank QSC was established on 16 June 1983 in the State of Qatar as the Qatari Shareholding Company according to Decree No. 40 of 1983 for practicing all types and kinds of banking and financial activities, and all ancillary works thereto, in the consumer and commercial sector with a capital of Qatari riyals thirty million (30,000,000). At present, ahlibank's equity is Qatari riyals three billion four hundred twenty eight million and eight hundred forty three thousand (3,428,843,000). This has put the Bank in an advantageous position in comparison with other banks and reflects the strength of the Bank's financial position to meet promptly the needs of customers in all sectors through its 17 branches and 48 ATMs located in different areas in the State of Qatar with a wide range of its products and services, such as retail banking, corporate banking, private banking, international banking, treasury and investment banking, wealth management, and brokerage services through its subsidiary M/S. ahli brokerage co.

**The Bank's financial strength rating has been upgraded to A- from BBB+ and its support rating to 1 from 2.**

It is worth mentioning here that during December 2013 international credit agency Capital Intelligence (CI) upgraded the long-term foreign currency rating (FCR) of ahlibank to A from A- while affirming the short-term FCR at A2. Further, the Bank's financial strength rating has been upgraded to A- from BBB+ and its support rating to 1 from 2.

# Corporate Governance

(continued)

## Board of Directors

The BOD consists of eight members, whose memberships extend for three years. Six members are appointed through election, and two members are appointed by the Qatar Foundation for Education, Science and Community Development (QF) as its representatives. The following table furnishes the details of the Board members as of 31 December 2013:

| Name | Title | Current Appointment | Expiry of Current Appointment | Status |
|---|---|---|---|---|
| **Sh Faisal Abdulaziz Jassim Al-Thani** | Chairman & Managing Director | 2011 | 2014 | Independent |
| **Sh Nasser Ali Saud Al-Thani** | Deputy Chairman | 2011 | 2014 | Non-executive |
| **Sh Mohamed Falah Jasim Al-Thani** | Member | 2011 | 2014 | Independent |
| **Dr Ahmed Mohamed Yousef Obidan** | Member | 2011 | 2014 | Independent |
| **Mr Ahmed Abdulrahman Nasser Fakhro** | Member | 2011 | 2014 | Non-executive |
| **Mr Victor Nazeem Agha** | Member | 2011 | 2014 | Non-executive |
| **QF Representative*** | Member | 2013 | Upon notification from QF | Non-executive |
| **QF Representative*** | Member | 2013 | Upon notification from QF | Independent |

*The appointment process is in progress.



## Terms of Reference of the Chairman

The following terms of reference pertain to the chairman:

1. To call for BOD meetings.
2. To supervise and approve the agenda of the BOD meetings and issues for discussion during the meeting.
3. To start the discussion in the BOD meetings.
4. To ensure that the available information required by BOD members related to the issues under discussion is adequate and correct.
5. To supervise the flow of discussion in the BOD meetings and ensure that the issues have been discussed effectively and in a suitable time.
6. To encourage members of the BOD to attend all BOD meetings and the meetings of the committees emerging from the Board, to ensure that the members are sharing their missions and responsibilities in an effective manner, and to promote positive relationships among BOD members.
7. To sign the BOD resolutions.
8. To communicate with the shareholders and convey their opinions to the BOD.
9. To supervise the annual assessment of the performance of the BOD.
10. To sign the quarterly, semi-annual, and annual financial statement of the Bank.
11. To present the report of the BOD to the shareholders in the general assembly meetings.
12. To accept authority to sign on behalf of the Bank.

## Delegated Powers of the Managing Director

The chairman has the following delegated powers in the role of managing director:

1. To present to the BOD the Bank's strategies and business plans in consultation with the executive management of the Bank and to follow up on the implementation to achieve the Bank's objectives.
2. To support the executive management, represented by the chief executive officer (CEO) and the BOD committees, and to overcome obstacles in achieving the Bank's objectives and strategies while ensuring that there is complete separation of the tasks and responsibilities between the managing director and the day-to-day executive management, which is the responsibility of the CEO, in compliance with the corporate governance framework.
3. To specify the policies and objectives related to incremental changes in the Bank's capital, to put in place the Bank's future plans for acquisitions and long-term investments in consultation with the executive management, to present the same to the BOD for approval, and to follow up on the implementation of such policies through specific mechanisms and overcome any related obstacles in order to achieve the Bank's objectives.
4. To represent the Bank and its BOD in the Bank's relationships with external bodies, regulatory bodies, and senior shareholders to achieve the Bank's objectives.

# Corporate Goverance

(continued)

## Terms of Reference of the Board of Directors

The BOD conducts its activities as per its charter, the BOD Manual, the contents of which will follow later in this report. The table below highlights the important missions and responsibilities of the BOD:

1. Provide business strategies, objectives, and policies and occasionally review and develop such strategies and policies. Adopt internal control systems and supervise and review on an annual basis.

2. Adopt the organizational structure of the Bank. Evaluate, develop, and identify the tasks and powers, duties and responsibilities.

3. Form committees; establish their work programs; determine their powers, duties, and responsibilities; and delegate decision-making powers, defining the authority level to sign on behalf of the Bank and for moving funds.

4. Evaluate current and future risks that the Bank might be exposed to and adopt risk and compliance policies and procedures.

5. Supervise the development, implementation, and evaluation of work programs and procedures and verify their adequacy and appropriateness.

6. Appoint the internal audit and supervise and ensure its impartiality and independence.

7. Nominate the external auditor, who must be specialists and highly qualified, and contract with it and determine its fees.

8. Review reports of the executive management, internal audit, and external audit and approve the final financial statement of the Bank.

9. Verify the accuracy and credibility of the financial statements of the Bank and of its business results to safeguard the rights of the depositors and shareholders.

10. Ensure transparency in the disclosure of all significant matters that affect the performance of the Bank and its business results, including its obligations, transactions, and conflicts of interests with related parties.

11. Support and clarify the values of the Bank's corporate governance and code of ethics and business conduct through the adoption of corporate governance policies.

12. Organize the nomination process for BOD members with transparency and disclosure of information concerning the nomination procedures to the shareholders.

13. Carry out any functions or responsibilities that it considers are necessary to achieve the objectives of the Bank

# Corporate Goverance

## (continued)

In addition to the above, non-executive BOD members are to provide special attention to the following responsibilities:

1. To express independent opinion about the Bank's strategies, policies, performance assessment, and sufficiency of human resources in terms of the approved work standards.

2. To give priority to the interests of the Bank and its shareholders in the event of conflict of interest between the Bank and related parties.

3. To supervise the Bank's performance in achieving its goals; to review the Bank's periodical performance reports; and to make available their expertise, experience, specializations, and qualifications for the benefit of the Bank and its shareholders.

4. To supervise and develop the rules and procedures of corporate governance and to assess the effectiveness of their application.

The BOD is primarily responsible to the shareholders and other parties, including the Qatar Central Bank (QCB), the Qatar Financial Market Authority (QFMA), the Qatar Exchange (QE), and other official bodies in the State of Qatar.

It should be noted that there is a separation of responsibilities between the positions of the chairman and the CEO of the Bank, as these positions are handled by two different individuals.

The BOD is to hold at least six meetings in the financial year in accordance with Article 36 of the Bank's Memorandum and Articles of Association, and as per Article 37 all the Board meetings shall be convened (even for which a provisional date is decided as stipulated in Article 36) upon a call made by the chairman or the vice chairman in the absence of the first or if requested by two members through notice of the two members to each member at his/her address registered in the company's records at least 15 days prior to the date of the proposed meeting, stating the date, time, and the place of the meeting. The notice must contain a summary of the proposed agenda of the meeting, and if possible copies of any documents relating to the agenda of the meeting shall be distributed to the members at a time sufficiently before the date of the meeting. In this context, the BOD met six times in 2013.

The BOD has appointed a board secretary whose functions include recording the minutes of all the BOD meetings and safekeeping the records, books, and reports submitted by or to the BOD. Under the direction of the chairman, the board secretary is also in charge of ensuring timely access to information and of coordinating among the BOD members as well as between the BOD and the other stakeholders in the Bank, including shareholders, managers, and employees. The board secretary has a bachelor's degree in political science, membership in the Military Supreme Academy—Strategic Studies—Khartoum, and several secretarial courses.

## Other Missions and Duties of the Board of Directors

- According to Article 33 of the Bank's Memorandum and Articles of Association, BOD members have the power to access the information, documents, and registers of the Bank.
- All BOD members must attend the general assembly meetings, including the heads of the committees emerging from the BOD. Separate attendance letters are sent to the Department of Company Supervision at the Ministry of Economy and Trade, the QCB, the external auditor, the QFMA, the QE, and such of the senior management of the Bank as CEO, DCEOs, internal audit manager, etc.
- The Bank's BOD Manual has been issued and distributed to all BOD members to ensure that they have suitable understanding of the Bank's flow of work and operations and of their terms of reference. The BOD Manual contains the following issues:

| Sr. | Issues |
|---|---|
| 1 | Memorandum and Articles of Association of the Bank |
| 2 | QCB Law |
| 3 | QCB Instructions and Guidelines on Corporate Governance |
| 4 | QFMA Corporate Governance Code |
| 5 | BOD Terms of Reference |
| 6 | Terms of Reference of the Committees Emerging from the BOD |
| 7 | Terms of Reference of the Committees of the Executive Management |
| 8 | Personal Account Dealing Policy |
| 9 | Whistle-Blowing Policy and Procedures |
| 10 | Conflict of Interest Policy |
| 11 | Corporate Governance Policy |

# Corporate Goverance

(continued)

- The BOD terms of reference in the BOD Manual's general framework include that BOD members be professionally qualified and have suitable knowledge and experience to enable them to carry out their supervisory duties. They also must have the ability to work cooperatively with other professionals regarding the Bank's strategies; operational activities; risk assessment and management; financial reports and communications; and compliance with laws, regulations, and accounting standards. In addition, they have to provide adequate time to execute their responsibilities towards the Bank.

- Each BOD member owes the Bank the fiduciary duties of care, loyalty, and compliance with the rules set out in related laws and regulations, including the QFMA Code and BOD Manual.

- BOD members at all times must act on an informed basis, in good faith, with due diligence and care, and in the best interests of the Bank and all shareholders.

- BOD members must act effectively to fulfill their responsibilities towards the Bank.

- The Bank's Articles of Association clearly spell out what constitutes the resignation of a BOD member because of absences from BOD meetings. Article 35 states in this regard that, "Where a Board member absents himself for three consecutive meetings of the Board or five non-consecutive meetings without an excuse that was accepted by the Board, the absenting Board member will be deemed to have resigned from the Board".



## Overviews of Practical Experience of Members of the Board of Directors

Following are profiles of the members of the Board of Directors:

| Sr. | Name | Overview of Practical Experience |
|---|---|---|
| 1 | **Sh Faisal Abdulaziz Jassim Al-Thani**<br>**Chairman & Managing Director**<br>**Head of the Policies, Development and Remuneration Committee**<br>**Head of the Tender Committee** | Holds a bachelor's degree in finance, 2003, from Suffolk University, Boston, USA; chairman of M/S. Gulf American Company for Trading and Contracting, Qatar; chairman of M/S. FBA Company, Qatar; former member of ahlibank's Audit Committee, Doha, Qatar. |
| 2 | **Sh Nasser Ali Saud Al-Thani**<br>**Deputy Chairman**<br>**Head of the Executive Committee**<br>**Member of the Tender Committee** | Chairman and managing director of M/S. Qatar General Insurance and Re-Insurance Company, Qatar; chairman of M/S. World Trade Centre, Qatar; board member of M/S. Trust Bank, Algeria; board member of M/S. Trust Insurance Company, Algeria; partner and board member of M/S. Al-Sari Trading Company, Qatar; partner and board member of M/S. General Contracting Company (GENCO), Qatar. |
| 3 | **Sh Mohamed Falah Jasim Al-Thani**<br>**BOD Member**<br>**Member of the Audit, Compliance and Risk Committee**<br>**Member of the Policies, Development and Remuneration Committee** | Educated in the United Kingdom at the University of Durham and graduated with business and finance degree; joined M/S. Qatari Army for five years in Finance Directorate Department; then joined M/S. Goldman Sachs at the beginning of his career path and currently is working in M/S. Qatar Investment Authority (QIA) and as a board member of M/S. National Leasing Company, M/S. Al-Dar Exchange Company, and M/S Al-Maha Capital Company, all in Qatar. |
| 4 | **Dr Ahmed Mohamed Yousef Obidan**<br>**BOD Member**<br>**Head of the Audit, Compliance and Risk Committee** | General manager of M/S. Trans Orient Establishments, Qatar; member of the Shura Council, Qatar; head of M/S. Culture and Media Committee Shura Council, Qatar. |
| 5 | **Mr Ahmed Abdulrahman Nasser Fakhro**<br>**BOD Member**<br>**Member of the Executive Committee**<br>**Member of the Policies, Development and Remuneration Committee**<br>**Member of the Tender Committee** | Board member of M/S. Qatar Cinema and Film Distribution Company, Qatar; former minister plenipotentiary in M/S. Ministry of Foreign Affairs, Qatar. |
| 6 | **Mr Victor Nazeem Agha**<br>**BOD Member**<br>**Member of the Executive Committee** | General director of M/S. Al-Sadd Travel Agency, Qatar; general director of M/S. Al-Sadd Exchange Company, Qatar; board member of M/S. Doha Insurance, Qatar; board member of M/S. Al-Zubara for Real Estate Investment, Qatar; former board member of Al-Sadd Sports Club, Qatar. |

# Corporate Goverance

(continued)

## Attendance Percentage of Directors in BOD Meetings

The following table shows the attendance percentage of directors in BOD Meetings:

| Name | Title | Attendance Percentage |
|---|---|---|
| **Sh Faisal Abdulaziz Jassim Al-Thani** | Chairman & Managing Director | 6/6 |
| **Sh Nasser Ali Saud Al-Thani** | Deputy Chairman | 6/6 |
| **Sh Mohamed Falah Jasim Al-Thani** | Member | 5/6 |
| **Dr Ahmed Mohamed Yousef Obidan** | Member | 6/6 |
| **Mr Ahmed Abdulrahman Nasser Fakhro** | Member | 6/6 |
| **Mr Victor Nazeem Agha** | Member | 5/6 |
| **QF Representative*** | Member | |
| **QF Representative*** | Member | |

*The appointment process is in progress.

## Committees of the Board of Directors

The BOD has four committees, viz., the Executive Committee; the Audit, Compliance and Risk Committee; the Policies, Developments and Remunerations Committee; and the Tender Committee. Profiles of these committees are as follows:

## Executive Committee

The Executive Committee consists of the following three members:

| Name | Title | Attendance Percentage |
|---|---|---|
| **Sh Nasser Ali Saud Al-Thani** | Head of the Committee | 3/3 |
| **Mr Ahmed Abdulrahman Nasser Fakhro** | Member | 3/3 |
| **Mr Victor Nazeem Agha** | Member | 3/3 |

**Responsibilities of the Executive Committee:**

1. Manage and operate the Bank according to the annual budget, business plan, and instructions relating to financial, administrative, operational, and credit policies approved by the BOD.
2. Exercise the powers delegated by the BOD in granting, renewing, and following up of credit and in investing and placing funds, which are in excess of the powers of the executive management.
3. Approve the systems and various banking products, plans, and budgets within the approved policy of the BOD.
4. Accept any other responsibilities delegated to the committee by the BOD to achieve the objectives of the Bank.

The Executive Committee meets three times a year. The head of the committee or his representative may convene a non-scheduled meeting of the committee if necessary. In this context, the Executive Committee met three times in 2013.

## Audit, Compliance and Risk Committee

The Audit, Compliance and Risk Committee consists of the following three members:

| Name | Title | Attendance Percentage |
|---|---|---|
| **Dr Ahmed Mohamed Yousef Obidan** | Head of the Committee | 6/6 |
| **Sh Mohamed Falah Jasim Al-Thani** | Member | 6/6 |
| **QF Representative*** | Member | |

*The appointment process is in progress.

# Corporate Goverance

## (continued)

**Responsibilities and delegated powers of the Audit, Compliance and Risk Committee:**

1. Review and submit recommendations to the BOD on the appointment of an external auditor and on audit fees. Evaluate the external auditor regarding qualifications, experience, resources, independency, objectivity, and effectiveness and reply to any queries regarding non-continuing or terminating the contract of the external auditor.

2. Review and discuss the financial statement prior to submission to the BOD, particularly regarding
   - Any changes in accounting policy and procedures
   - Any important amendments during an audit
   - Complying with accounting standards
   - Complying with QCB and QFMA instructions
   - Complying with legal and regulatory requirements applied in the State of Qatar

3. Discuss the observations and reservations pointed out during audit stages or in the final report and any issues that the committee would like to discuss with the external auditor.

4. Review the contents of the regular reports prepared by the regulators and the Bank's responses.

5. On an annual basis, review the adequacy of the internal audit scope and plan, ensuring coordination between the external and internal audits and that the internal audit function has sufficient resources to effectively carry out its responsibilities.

6. On an annual basis, review the adequacy of the compliance scope and monitoring program, including the required training, monitoring, and reporting, and that the compliance function has sufficient resources to effectively carry out its responsibilities.

7. On an annual basis, review the adequacy of the risk management plan and arrange to provide risk functions with sufficient resources to meet the annual risk management plan.

8. Discuss the results of the internal audit, compliance and risk reports, any required special reports, and executive management responses, especially the points that have been marked as high risk, and follow up on the implementation of the agreed-upon points within the time limits set forth.

9. Review the policies and procedures adopted by executive management to apply the regulatory instructions, AML and CFT instructions, and financial report requirements.

10. Review the scope of the internal audit and compliance and risk function and the job description of the heads of these departments.

11. Submit to the BOD any issues related to the committee's scope that it finds necessary to inform the BOD about so that the BOD may arrive at a suitable decision on those issues.

12. Ensure that there are policies put in place to manage all types of risks that the Bank may face and that those policies are consistent with the legal and regulatory requirements and effective in internal control and risk management.

13. Review the reports submitted by risk management and discuss the steps that have been taken by management to evaluate, monitor, and control credit risk, operational risk, and market risk.

14. Discuss any issues submitted to the committee by the BOD.

15. Submit recommendations to the BOD regarding the resignation or the termination of the internal audit manager, the head of compliance, and the head of risk and their employees.

16. Evaluate the performance of the internal audit manager, the head of compliance, and the head of risk to approve their salaries and rewards and other related issues pertaining to them and their employees (subject to the Bank's applied policy on salaries and rewards).

17. Review the arrangements that enable employees to report with trust any violation in the financial reports or other important issues and ensure that arrangements are in place to conduct independent investigations regarding such issues.

The Audit, Compliance and Risk Committee will normally meet at least four times during the year; additional meetings may be convened if necessary. In this context, the committee met six times in 2013.

It should be noted that all members of the Audit, Compliance and Risk Committee are independent.

# Corporate Governance

(continued)

## Policies, Development and Remuneration Committee

The Policies, Development and Remuneration Committee consists of four members:

| Name | Title | Attendance Percentage |
|---|---|---|
| **Sh Faisal Abdulaziz Jassim Al-Thani** | Head of the Committee | 3/3 |
| **Sh Mohamed Falah Jasim Al-Thani** | Member | 1/3 |
| **Mr Ahmed Abdulrahman Nasser Fakhro** | Member | 3/3 |
| **QF Representative*** | Member | |

*The appointment process is in progress.

**Responsibilities of the Policies, Development and Remuneration Committee:**

1. Study, prepare, and develop strategies and objectives, policies, systems, plans, and budgets based on the directives of the BOD.
2. Approve the general structure of the rewards, incentives, and remunerations system according to the Bank's Memorandum and Articles of Association, QCB instructions, and the Corporate Governance Code.
3. Recommend and update when necessary procedures and controls in providing rewards and bonuses.
4. Recommend the total amount of the rewards and bonuses as per the applied annual appraisal.
5. Recommend BOD and its committees' rewards and allowances.
6. Specify rewards and bonuses to be paid to the CEO and his deputies and to the internal audit manager, the head of compliance, and the head of risk as per the applied annual appraisal.
7. Assume any other responsibilities delegated to the committee by the BOD to achieve the objectives of the Bank.

The Policies, Development and Remuneration Committee meets three times during the year. The head of the committee or his representative may invite the committee for an unscheduled meeting if necessary. In this context, the committee met three times in 2013.

## Tender Committee

The Tender Committee consists of three members:

| Name | Title |
|---|---|
| **Sh Faisal Abdulaziz Jassim Al-Thani** | Head of the Committee |
| **Sh Nasser Ali Saud Al-Thani** | Member |
| **Mr Ahmed Abdulrahman Nasser Fakhro** | Member |

**Responsibilities of the Tender Committee:**

1. Receive tender and purchasing quotations and register them.
2. Review the sale and purchase quotations of the lands and real estate owned by the Bank or that the Bank wishes to own and submit the necessary recommendations to the BOD.
3. Review and approve the administrative, financial, and technical conditions regarding all tenders and bidding.

**Delegated powers of the Tender Committee:**

1. Review and approve the tenders and purchasing orders for budgeted amounts exacting Qatari riyals four hundred thousand (400,000).
2. Review and approve the tenders and purchasing orders for unbudgeted amounts exacting Qatari riyals two hundred thousand (200,000).
3. Approve the committees authorised to open the tenders and bids submitted to the Tender Committee.
4. In submitting recommendations to the appropriate authority, enforce its right not to select the lowest quotation, providing in such cases justification of its recommendation.

The Tender Committee will conduct its meetings as per the request of the head of the committee, the CEO, and the BOD or whenever necessary.

## Nomination Committee

The BOD supervises the process of nomination for membership to the BOD and ensures the process to be fully transparent. As per the instructions of the Qatar Central Bank, the disclosure of information related to the procedures for nomination is made to the shareholders.

# Corporate Goverance

(continued)

## Bank's Policy on Related Parties and Conflicts of Interest

The Bank's policy on related parties and conflicts of interest, as approved by the BOD, covers the following:

1. **Personal Account Dealing Policy:** This policy defines disclosure and undertaking in investment activities (through a prescribed form), in addition to the rules and procedures for practicing these activities. The policy also covers dos and don'ts in banking activities as well as closed periods and the insider register, which is under the responsibility of the head of compliance.

2. **Whistle-Blowing Policy and Procedures:** The principle of whistle blowing in the event of any prohibited, illegal, and non-occupational practice is covered in this policy and its procedures, and employees who report such practices/activities are fully protected by the Bank. Based on this policy and procedures, the Bank constitutes an independent committee to investigate such reports and recommends the disciplinary action, up to dismissal, of the employee indulging in such prohibited, illegal, and non-occupational practices. This includes the standards to be complied by the staff with regard to corporate governance, ethics, integrity, and credibility while practicing banking activities. It also covers the prohibited, illegal and non-occupational practices that lead to misconduct and misbehaviour, including the practices that lead to conflict of interest between employees and the Bank or with clients or any other parties.

3. **Commercial Companies Law:** The Bank is committed to the Commercial Companies Law No. 5/2002 and in particular to the contents of Article 108 of the law, which describes what needs to be followed in the event of any interests occurred, directly or indirectly, to the chairman, BOD members, or senior managers in any contracts or projects where the Bank has an interest (as per a disclosure form prepared in this regard).

4. **QCB Instructions:** The details of facilities granted to the chairman and BOD members and their families and relatives are submitted to the BOD in each meeting to ensure that these facilities are in accordance with the limits and controls set by the Qatar Central Bank.

5. **Code of Ethics and Business Conduct:** All employees have signed this code confirming that they understand and will comply with its contents, which also makes it obligatory for them not to use any insider information for personal benefit to prevent conflicts of interest.

6. **Staff By-Law:** Article 116 of Chapter 10 of this by-law prohibits practices by employees, within the Bank or with any parties outside the Bank, that could lead to a conflict of interest. Chapter 11 of this by-law describes the disciplinary procedures and punishments imposed in this regard.

7. **Communication Policy:** This policy lays down the hierarchical communication channels for the senior staff of the Bank with their related parties.

## Internal Control

The Bank follows internal control procedures approved by the BOD. The Board of Directors and senior management are involved in the establishment of all risk processes and the periodic oversight and guidance of the risk management function. Risk management provides its recommendations under the supervision of the Audit, Compliance and Risk Committee, and those recommendations, as well as the Bank's key risk management policies, are reviewed and approved by the Board of Directors at least once a year.

Risk management involves the identification, analysis, evaluation, acceptance, measurement, control, and management of all financial and non-financial risks that could have a negative impact on the Bank's performance and reputation. The major risks associated with the Bank's business are credit risk, operational risk, and market risk, which includes foreign exchange, interest rate, and equity price risks and liquidity risk and reputational risk.

### The Credit and Investment Committee is vested with overall day-to-day credit risk management.

The Credit and Investment Committee is vested with overall day-to-day credit risk management. The Bank is in full compliance with Basel II and is in the process of implementing Basel III capital adequacy guidelines and calculations according to the timeline set by BCBC and QCB guidelines. The Bank is performing quarterly stress tests as per its policies and semi-annually as per the QCB's instructions. Management of material problem exposures and repayment defaults are handled by a special assets unit, and all exposures are subject to monthly exposure reports and reviews.

The Bank is adopting stringent and conservative limit structure parameters that take into consideration business needs and market forces.

The Operational Risk Committee approves the Operational Risk Self-Assessment annually and reviews the operational risks faced by various functions in the Bank on a periodic basis, introducing appropriate controls wherever necessary. Furthermore, the internal audit and compliance functions conduct independent periodic reviews to assess the adequacy of checks and controls.

Both the Disaster Recovery Plan and Business Continuity Plan are audited by the external auditor and the QCB on an annual basis.

The Bank's ALCO convenes on a regular basis during the year and is vested with the responsibility of ensuring adherence to the duly approved liquidity policy.

# Corporate Goverance

(continued)

The following are the important control issues that have been submitted to the BOD during 2013 to strengthen the internal controls in the Bank:

1. "Banking Integrity Policy and Procedures" has been updated and renamed "Whistle-Blowing Policy and Procedures".
2. Updating the "Communication Policy".
3. Updating the "Credit and Investment Policy".
4. Updating the "Operational Risk Policy".
5. Updating the "Business Continuity Policy".
6. Updating the "Revenue and Capital Expenditure Policy".
7. Updating the "Liquidity Policy".
8. Updating the AML & CFT Policy and Procedures Manual.
9. Updating the "Trade Book Policy".

## Internal Audit

The Internal Audit Department of the Bank is an independent department reporting to the Audit, Compliance and Risk Committee of the BOD. The roles and responsibilities of the Internal Audit Department have been approved by the Audit, Compliance and Risk Committee, as has its annual plan, which is based on risk and covers all the activities of the branches, departments, and divisions of the Bank. The Audit, Compliance and Risk Committee identifies the bonuses and allowances of the members of the Internal Audit Department.

## Compliance

Compliance is an independent function under the supervision of the BOD through the BOD's Audit, Compliance and Risk Committee. The Compliance Department functions according to its "Compliance Policy" and "Compliance Monitoring Program," which is based on risk perception. Both the policy and monitoring program are approved by the BOD. The head of compliance reports directly to the Audit, Compliance and Risk Committee and attends the committee's meetings to discuss his reports. In addition, the Compliance Department is responsible for evaluating the Bank's policies and procedures to ensure that the applicable laws, regulations, and standards are fully complied with.

## Anti-money Laundering and Combating Financing of Terrorism (AML & CFT)

Ahlibank is adopting comprehensive and effective internal controls in anti-money laundering and combating the financing of terrorism through its AML & CFT Policy and Procedures Manual, which has been approved by the BOD.

## External Auditor

Prior approval is obtained from the Qatar Central Bank for the nomination of an external auditor. The name of the nominated external auditor is provided to the general assembly with the recommendation of the BOD for agreement to appoint. The period of appointment should not exceed five years as per Qatar Central Bank instructions, and an external auditor will not be considered for reappointment until completion of two years from the end of its last assignment. Chapter 6 of the Memorandum and Articles of Association of the Bank determine the mechanisms for appointing the external auditor; for assigning its duties; and for authorizing its right to access at any time the Bank's books, records, and other documents and to attend general assembly meetings and give its opinion on the audit of the Bank. M/S. KPMG is the external auditor of the Bank for the financial year ended 31 December 2013. The Audit, Compliance and Risk Committee discuss the external auditor's report and submits its recommendations on that report to the BOD.

The external auditor is independent and attends general assembly meetings of the Bank. The Bank, as per the instructions of the Qatar Central Bank, does not enter into any financial transactions with the external auditor or provide any facilities to it, its employees, or their family members to avoid any conflicts of interest.

## Disclosure

The Bank complies with Article No. 46 of its Memorandum and Articles of Association and with Article No. 121 of the Commercial Companies Law No. 5/2002 by making available a detailed report supported by a report from the external auditor that includes the required information about BOD members and senior managers. The external auditor's annual report states that they had access to all necessary information to give their opinion on the Bank's financial statements and that the Bank has complied with International Financial Reporting Standards. The financial report is made available at the Bank's head office to all shareholders and customers and on the Bank's website. The financial report is also distributed to the shareholders at the general assembly meeting.

It is worth mentioning here that there were no violations during the financial year ended 31 December 2013 in terms of the Bank's Memorandum and Articles of Association, Commercial Companies Law No. 5/2002, Qatar Central Bank Law No. 13/2012, and Qatar Central Bank regulations that would materially affect the Bank's activities or financial position.

# Corporate Governance

(continued)

The following table shows the shares held by the Bank's BOD members and executive managers as of 31 December 2013:

| Sr. | Name | Title | Number of Shares |
|---|---|---|---|
| 1 | **Sh Faisal Abdulaziz Jassim Al-Thani** | Chairman & Managing Director | 1,345,501 |
| 2 | **Sh Nasser Ali Saud Al-Thani** | Deputy Chairman | 1,356,717 |
| 3 | **Sh Mohamed Falah Jasim Al-Thani Representing M/S. Al-Maha Capital Company** | BOD Member | 194<br>2,486,930 |
| 4 | **Mr Ahmed Abdulrahman Nasser Fakhro** | BOD Member | 2,541,500 |
| 5 | **Mr Victor Nazeem Agha Representing M/S. Al-Zubara for Real Estate Investment** | BOD Member | –<br>1,284,436 |
| 6 | **Dr Ahmed Mohamed Yousef Obidan Representing M/S. Group of Trans Orient Companies** | BOD Member | 63,313<br>1,402,177 |
| 7 | **Mr Abdullah Mohd. Salman Al-Mahmied** | Executive Manager, Administration | 2,649 |
| 8 | **Shafi Mubarak Shafi Al-Shafi** | Executive Manager, Government Relations & Corporate Affairs | 100 |

## Capital Structure

The capital structure of the Bank as of 31 December 2013 was as follows:

| Name | Number of Shares | Nominal Value of Shares (QR) |
|---|---|---|
| Qatari firms and individuals and others<br>(No shareholder owns more than 2% of the Bank's capital) | 67,271,002 | 672,710,020 |
| Qatar Foundation for Education, Science and Community Development | 37,379,000 | 373,790,000 |
| Qatar Holding Company<br>(Subsidiary of Qatar Investment Authority | 22,425,000 | 224,250,000 |
| **Total** | **127,075,002** | **1,270,750,020** |

## Legal Structure

The legal structure of the Bank and its subsidiaries is as follows:

| Name | Legal Status |
|---|---|
| **ahlibank QSC** | **Qatari Shareholding Company**<br>(Ahlibank was established 16 June 1983 according to Decree No. 40 of 1983, commenced its activities on 4 August 1984, and is licensed by the QCB to conduct banking activities as per QCB reference No. RM./13/1984.) |
| **ahli brokerage co.** | **Single-person company and subsidiary company wholly owned by ahlibank QSC**<br>(Ahli brokerage co. was established with capital of QR 50 million with the approval of the QCB and is licensed by the QFMA under membership in the QE and commenced trading securities on 24 July 2011.) |

# Corporate Governance

(continued)

## Shareholders' Rights

As per Article 13 of the Bank's Memorandum and Articles of Association, the shareholders have the right to inspect the shareholders' register of the Bank for free during the Bank's official working hours and to obtain a copy of the same. They also can get a free copy of the Bank's Memorandum and Articles of Association. As the Bank is listed on the Qatar Exchange, the Bank complies with the internal regulations of the Qatar Exchange and the rules, regulations, and instructions governing the trading of securities in the State of Qatar by disclosing and providing the required information and documents to all its shareholders.

Also, Chapter 5 of the Bank's Memorandum and Articles of Association stipulates that every shareholder has the right to attend the general assembly, to be treated fairly, to exercise the right to vote, and to elect BOD members. Chapter 7 includes the shareholders' rights on the distribution of profits through dividends proposed by the BOD in the general assembly meeting.

Under the terms of Article 52 of the Memorandum and Articles of Association of the Bank, the Board of Directors may call for a general assembly meeting whenever necessary. The Board of Directors will also call for a general assembly meeting whenever the external auditor requests or upon the request of a number of shareholders holding not less than 10% of the Bank's capital, on condition that the external auditor or such shareholders have significant reasons justifying their requests.

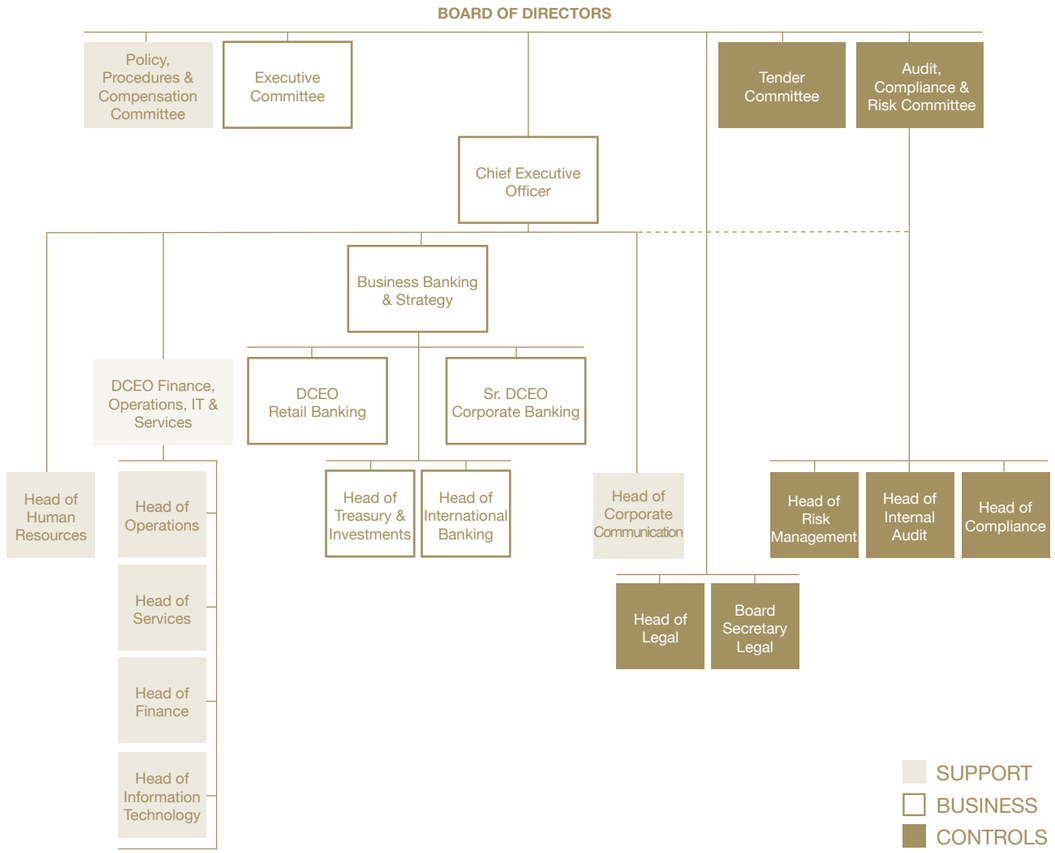
Accordingly, shareholders have all the rights as per the laws and related articles of the Corporate Governance Code issued by the QFMA and the Bank's Memorandum and Articles of Association. The BOD guarantees respect for shareholders' rights to achieve equity and equality.

## Fines

Fines aggregating QR 40,100 (2012: QR 40,250) were imposed on the Bank by the Qatar Central Bank during 2013 because of an overdraft the Bank had on its account with the QCB for a limited number of working days, because of the Bank's late submission of a cash reserve report by a day to the QCB, because of the return of a cheque cleared through the Bank, because the Bank was a day late in submitting its monthly customer credit data file to the Qatar Credit Bureau for the month of June 2013, and because a payment through the Payment System was cancelled for late delivery.



# Organisation Chart




Salah Jassim Murad
Chief Executive Officer

Mahmoud Yahya Malkawi
Senior Deputy CEO Corporate Banking

Andrew McKechnie
Deputy CEO Retail

Mahalingam Shankar
Deputy CEO Finance, Operations, Services & Technology

Shafi Mubarak AlShafi
Executive Manager, Government Relations & Corporate Affairs

Abdulla Mohd. Salman Almahmeid
Executive Manager, Administration

Mohamed Ouf
Executive Manager of Legal

Saad Al-Kaabi
Head of Human Resources

Graeme Coulson
Head of Treasury & Investments

Trevor Bailey
Head of International Banking

Mahmoud Eid
Head of Risk Management

Zakaria Abedraboh
Head of Compliance

Bashar Ahmad Al-Agha
Head of Internal Audit

# Independent Auditors' Report to the Shareholders of Ahli Bank Q.S.C.

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Ahli Bank Q.S.C. ("the Bank") and its subsidiary (together referred to as "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the Consolidated Financial Statements

Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and applicable provisions of the Qatar Central Bank regulations and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we considered internal controls relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as of 31 December 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and applicable provisions of the Qatar Central Bank regulations.

## Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanation which we consider necessary for the purpose of our audit.

The Bank has maintained proper accounting records and consolidated financial statements are in agreement therewith. We have reviewed the accompanying report of the board of directors and confirm that the financial information contained therein is in agreement with the books and records of the Bank. We are not aware of any violations of the provisions of Qatar Central Bank Law No. 13 of 2012, Qatar Commercial Law No. 5 of 2002 or the terms of the Articles of Association which might have had a material adverse effect on the business of the Bank or its consolidated financial position at 31 December 2013.

**Yacoub Hobeika,**
**Partner, KPMG**
Auditor's Registration No. 289
Date: 15 January 2014
Doha,
State of Qatar

# Consolidated Statement of Financial Position

As at 31 December

| | Note | 2013 | QAR'000s 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | 8 | **1,194,554** | 880,585 |
| Due from banks | 9 | **2,206,147** | 1,292,010 |
| Loans and advances to customers | 10 | **17,312,451** | 14,013,630 |
| Investment securities | 11 | **5,017,542** | 4,119,523 |
| Property and equipment | 12 | **178,057** | 183,225 |
| Other assets | 13 | **268,419** | 117,167 |
| **TOTAL ASSETS** | | **26,177,170** | 20,606,140 |
| | | | |
| **LIABILITIES** | | | |
| Due to banks | 14 | **1,785,008** | 1,074,660 |
| Certificate of deposits | | **1,067,695** | 1,458,624 |
| Customer deposits | 15 | **18,890,774** | 13,953,438 |
| Subordinated debt | 16 | **182,000** | 182,000 |
| Other liabilities | 17 | **688,372** | 495,806 |
| **TOTAL LIABILITIES** | | **22,613,849** | 17,164,528 |
| | | | |
| **EQUITY** | | | |
| Share capital | 18 (a) | **1,270,750** | 1,270,750 |
| Legal reserve | 18 (b) | **1,337,722** | 1,337,722 |
| Risk reserve | 18 (c) | **382,994** | 254,706 |
| Fair value reserves | 18 (d) | **28,273** | 37,881 |
| Retained earnings | | **543,582** | 540,553 |
| **TOTAL EQUITY** | | **3,563,321** | 3,441,612 |
| **TOTAL LIABILITIES AND EQUITY** | | **26,177,170** | 20,606,140 |

These consolidated financial statements were approved by the Board of Directors on 15th January 2014 and were signed on its behalf by:

**Sh. Faisal Bin Abdul-Aziz Bin Jassem Al-Thani**
**Chairman & Managing Director**

**Salah Murad**
**Chief Executive Officer**



# Consolidated Income Statement

For the year ended 31 December

| | Note | 2013 | QAR'000s 2012 |
|---|---|---|---|
| Interest income | 19 | **938,851** | 774,187 |
| Interest expense | 20 | **(253,451)** | (237,765) |
| **Net interest income** | | **685,400** | 536,422 |
| | | | |
| Fee and commission income | 21 | **123,342** | 105,953 |
| Fee and commission expense | 22 | **-** | (844) |
| **Net fee and commission income** | | **123,342** | 105,109 |
| | | | |
| Foreign exchange gain | 23 | **25,420** | 26,155 |
| Income from investment securities | 24 | **11,040** | 18,409 |
| Other operating income | 25 | **4,461** | 4,414 |
| **Net operating income** | | **849,663** | 690,509 |
| | | | |
| Staff costs | 26 | **(154,511)** | (116,055) |
| Depreciation | 12 | **(22,644)** | (17,547) |
| Net impairment loss on loans and advances to customers | 10 (c) | **(2,814)** | (11,593) |
| Net provision for legal cases | 17 (i) | **(5,250)** | - |
| Net impairment loss on investment securities | 11 (c) | **(41,455)** | - |
| Other expenses | 27 | **(97,304)** | (80,155) |
| | | **(323,978)** | (225,350) |
| **Profit for the year** | | **525,685** | 465,159 |
| | | | |
| **Earnings per share** | 28 | **4.14** | 3.88 |

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013

| | Note | 2013 | QAR'000s<br>2012 |
|---|---|---|---|
| **Profit for the year** | | **525,685** | 465,159 |
| **Other comprehensive income for the year** | | | |
| **Items that are or may be reclassified subsequently to profit or loss** | | | |
| Cash flow hedges: | | | |
| Effective portion of changes in fair value | | **-** | 7,019 |
| Realised during the year | 18 (d) | **1,051** | - |
| Available-for-sale financial assets: | | | |
| Fair value (losses) / gains during the year | 18 (d) | **(50,025)** | 19,410 |
| Net amount of impairment transferred to profit or loss | | **41,455** | - |
| Realised during the period | 18 (d) | **(2,265)** | - |
| Amortised during the year on reclassification to loans and receivables | 18 (d) | **176** | 106 |
| **Other comprehensive income for the year** | | **(9,608)** | 26,535 |
| **Total comprehensive income for the year** | | **516,077** | 491,694 |



# Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

| | Note | Share capital | Legal reserve | Risk reserve | Fair value reserves | Retained earnings | QAR'000s<br>Total equity |
|---|---|---|---|---|---|---|---|
| Balance as at 1 January 2012 | | 700,781 | 1,038,722 | 218,684 | 11,346 | 543,513 | 2,513,046 |
| Total comprehensive income for the year | | | | | | | |
| Profit for the year | | - | - | - | - | 465,159 | 465,159 |
| Other comprehensive income | | - | - | - | 26,535 | - | 26,535 |
| Total comprehensive income for the year | | - | - | - | 26,535 | 465,159 | 491,694 |
| Transfer to risk reserve | 18 (c) | - | - | 36,022 | - | (36,022) | - |
| Transfer to social and sports fund for the year 2012 | 33 | - | - | - | - | (11,628) | (11,628) |
| Transactions with equity holders, recognised directly in equity | | | | | | | |
| Contributions by and distributions to equity holders: | | | | | | | |
| Bonus issue | 18 (a) | 420,469 | - | - | - | (420,469) | - |
| Rights issue | 18 (a) | 149,500 | 299,000 | - | - | - | 448,500 |
| Total contributions by and distributions to equity holders | | 569,969 | 299,000 | - | - | (420,469) | 448,500 |
| Balance as at 31 December 2012 | | 1,270,750 | 1,337,722 | 254,706 | 37,881 | 540,553 | 3,441,612 |

| | Note | Share capital | Legal reserve | Risk reserve | Fair value reserves | Retained earnings | QAR'000s<br>Total equity |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2013** | | **1,270,750** | **1,337,722** | **254,706** | **37,881** | **540,553** | **3,441,612** |
| **Total comprehensive income for the year** | | | | | | | |
| Profit for the year | | **-** | **-** | **-** | **-** | **525,685** | **525,685** |
| Other comprehensive income | | **-** | **-** | **-** | **(9,608)** | **-** | **(9,608)** |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **(9,608)** | **525,685** | **516,077** |
| Transfer to risk reserve | 18 (c) | **-** | **-** | **128,288** | **-** | **(128,288)** | **-** |
| Transfer to social and sports fund for the year 2013 | 33 | **-** | **-** | **-** | **-** | **(13,142)** | **(13,142)** |
| **Transactions with equity holders, recognised directly in equity** | | | | | | | |
| Contributions by and distributions to equity holders: | | | | | | | |
| Dividend paid | 18 (a) | **-** | **-** | **-** | **-** | **(381,226)** | **(381,226)** |
| **Total contributions by and distributions to equity holders** | | **-** | **-** | **-** | **-** | **(381,226)** | **(381,226)** |
| **Balance as at 31 December 2013** | | **1,270,750** | **1,337,722** | **382,994** | **28,273** | **543,582** | **3,563,321** |

# Consolidated Statement of Cash Flows

For the year ended 31 December

| | Note | 2013 | QAR'000s 2012 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit / (loss) for the year before tax | | **525,685** | 465,159 |
| *Adjustments for:* | | | |
| Net impairment loss on loans and advances to customers | 10 (c) | **2,814** | 11,593 |
| Net provision for legal cases | 17 (i) | **5,250** | - |
| Net impairment loss on investment securities | 11 (c) | **41,455** | - |
| Depreciation | 12 | **22,644** | 17,547 |
| Net gain on sale of available-for-sale securities | 24 | **(4,346)** | (9,327) |
| Gain on disposal of property and equipment | | **-** | (228) |
| *Profit before changes in operating assets and liabilities* | | **593,502** | 484,744 |
| Change in due from central bank | 8 | **(202,602)** | (113,153) |
| Change in loans and advances to customers | 10 | **(3,323,078)** | (1,684,098) |
| Change in other assets | 13 | **(151,252)** | 94,128 |
| Change in due to banks | 14 | **710,348** | (747,098) |
| Change in customer deposits | 15 | **4,937,336** | 1,263,238 |
| Change in certificate of deposit | | **(390,929)** | 1,197,851 |
| Change in other liabilities | 17 | **192,566** | 40,163 |
| **Net cash from operating activities** | | **2,365,891** | 535,775 |
| **Cash flows from investing activities** | | | |
| Acquisition of investment securities | | **(2,440,376)** | (2,505,470) |
| Proceeds from sale of investment securities | | **1,498,691** | 1,049,884 |
| Acquisition of property and equipment | 12 | **(17,476)** | (19,237) |
| Proceeds from sale of property and equipment | | **-** | 208 |
| **Net cash used in investing activities** | | **(959,161)** | (1,474,615) |
| **Cash flows from financing activities** | | | |
| Proceeds from rights/new shares issue | | **-** | 448,500 |
| Dividends paid | | **(381,226)** | - |
| **Net cash from /(used) in financing activities** | | **(381,226)** | 448,500 |
| **Net increase/ (decrease) in cash and cash equivalents** | | **1,025,504** | (490,340) |
| Cash and cash equivalents as at 1 January | | **1,519,351** | 2,009,691 |
| **Cash and cash equivalents as at 31 December** | 30 | **2,544,855** | 1,519,351 |
| Operational cash flows from interest and dividend | | | |
| Interest received | | **911,411** | 874,333 |
| Interest paid | | **254,727** | 238,666 |
| **Dividend received** | | **6,694** | 9,082 |

The attached notes 1 to 35 form an integral part of these consolidated financial statements.



# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 1. REPORTING ENTITY

Ahli Bank Q.S.C. ("the Bank") is an entity domiciled in the State of Qatar and was incorporated in 1983 as a public shareholding company under Emiri Decree no. 40 of 1983. The commercial registration of the Bank is 8989. The address of the Bank's registered office is Suhaim Bin Hamad Street, Al Sadd Area in Doha (P.O.Box 2309, Doha, State of Qatar). The consolidated financial statements of the Bank for the year ended 31 December 2013 comprise the Bank and its subsidiary (together referred to as "the Group" and individually as "Group entities"). The Group is primarily involved in corporate and retail banking and brokerage activities, and has 17 branches in Qatar.

The principal subsidiary of the Bank is as follows:

| Company's Name | Country of Incorporation | Company's Capital | Company's Activities | Percentage of ownership 2013 | Percentage of ownership 2012 |
|---|---|---|---|---|---|
| Ahli Brokerage Company S.P.C. | Qatar | QAR 50 million | Brokerage | 100 | 100 |

## 2. BASIS OF PREPARATION

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and the applicable provisions of the Qatar Central Bank ("QCB") regulations.

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items on the consolidated statement of financial position, which are measured at fair value:

- derivatives;
- available-for-sale financial assets; and
- recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships.

### (c) Functional and presentation currency

These consolidated financial statements are presented in Qatari Riyals ("QAR"), which is the Group's functional currency. Except as otherwise indicated, financial information presented in QAR has been rounded to the nearest thousand. The functional currency for the Group's subsidiary has been assessed as QAR.

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 2. BASIS OF PREPARATION (CONTINUED)

### (d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 5.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

### (a) Basis of Consolidation

**(i) Subsidiary**

Subsidiary is an investee controlled by the Group. The financial statement of subsidiary is included in the consolidated financial statements from the date that control commences until the date that control ceases.
The Group 'controls' an investee if its exposed to, or has right to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee
The accounting policies of subsidiary have been changed when necessary to align them with the policies adopted by the Group.

**(ii) Transactions eliminated on consolidation**

Intra-group balances, and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### (b) Foreign currency

**Foreign currency transactions and balances**

Foreign currency transactions that are transactions denominated, or that require settlement in a foreign currency are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions.
Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date.
Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.



Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency differences resulting from the settlement of foreign currency transactions and arising on translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

### (c) Financial assets and financial liabilities

**(i) Recognition and initial measurement**

The Group initially recognises loans and advances to customers, due from / to banks, customer deposits, debt securities and other borrowings on the date at which they are originated. All other financial assets and liabilities are initially recognised on the settlement date at which the Group becomes a party to the contractual provisions of the instrument.

**(ii) Classification**

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

- loans and receivables;
- held to maturity;
- available-for-sale;

**Financial liabilities**
The Group has classified and measured its financial liabilities at amortised cost.

**(iii) Derecognition**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement ; or
- the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

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

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Financial assets and financial liabilities (continued)

**(iv) Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.
Income and expenses are presented on a net basis only when permitted under IFRS and when approved by the QCB, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

**(v) Measurement principles**

***Amortised cost measurement***

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment loss. The calculation of effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate.

***Fair value measurement***

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.
If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price. Fair values of derivatives represent quoted market prices or internal pricing models as appropriate.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 5 (b) (i).



Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Financial assets and financial liabilities (continued)

**(vi) Identification and measurement of impairment**

The Group considers evidence of impairment loss for all its financial assets at each reporting period. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate

Loans and advances to customers are assessed for impairment at both a specific asset and collective level at each reporting period. All individually significant loans and advances to customers assessed for specific impairment. All individually significant loans and advances to customers found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances to customers.

**(vi) Identification and measurement of impairment**

Loans and advances to customers that are not individually significant are collectively assessed for impairment by grouping together loans and advances to customers with similar risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.
In assessing collective impairment the Group uses historical loss experience (probability of default – PD), which is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based, loss given default (LGD) and loss identification factor. Further Group takes into consideration factors such as any deterioration in country risk, industry as well as identified structural weaknesses or deterioration in cash flows on assessing the collective impairment.

The Group assesses impairment on held to maturity investments, based on the indications triggering an impairment loss at specific level.

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

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

In subsequent periods, the appreciation of fair value of an impaired available-for-sale investment security is recorded in fair value reserves.

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

### (e) Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances to customers are initially measured at the transaction price which is the fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

### (f) Investment securities

Subsequent to initial recognition investment securities are accounted for depending on their classification as either 'held to maturity' or 'available-for-sale'.

**(i) Held-to-maturity financial assets**

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which were not designated as at fair value through profit or loss or as available-for-sale. Held-to-maturity investments were carried at amortised cost using the effective interest method.

**(ii) Available-for-sale financial assets**

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities are carried at cost less impairment, and all other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset is reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Group had the intention and ability to hold that financial asset for the foreseeable future or until maturity.



# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Derivatives

**(i) Derivatives held for risk management purposes and hedge accounting**

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

These include financial options, futures and forwards, interest rate swaps and currency swaps, which create rights and obligations that, have the effect of transferring between the parties of the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, a derivative financial instrument gives one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instruments, as prices in financial markets change, those terms may become either favourable or unfavourable.

- **Fair value hedges**

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognized immediately in the consolidated income statement. The related aspect of the hedged item is adjusted against the carrying amount of the hedged item and recognized in the consolidated income statement.

- **Cash flow hedges**

In relation to cash flow hedges which meet the conditions for hedge accounting, any gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially as cash flow hedge reserve in other comprehensive income. The gains or losses on cash flow hedges initially recognized in the consolidated statement of comprehensive income are transferred to the consolidated income statement in the period in which the hedged transaction impacts the consolidated income statement. Where the hedged transaction results in the recognition of an asset or a liability, the associated gains or losses that had initially been recognized in the consolidated statement of comprehensive income, are included in the initial measurement of the cost of the related asset or liability.

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Derivatives (continued)

**(i) Derivatives held for risk management purposes and hedge accounting (continued)**

- **Cash flow hedges (continued)**

For hedges which do not qualify for hedge accounting, any gains or losses arising in the fair value of the hedging instrument are taken directly to the consolidated income statement for the period.

Hedge accounting is discontinued when the hedging instrument expires, is terminated or exercised, or no longer qualifies for hedge accounting. For effective fair value hedges of financial instruments with fixed maturities, any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges, any cumulative gain or loss on the hedging instrument recognized as cash flow hedge reserve in other comprehensive income is held therein until the forecasted transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized as cash flow hedge reserve in other comprehensive income is transferred to the consolidated income statement

**(ii) Derivatives held for trading purposes**

The Group's derivative trading instruments includes forward exchange contracts and interest rate and foreign currency swaps. After initial recognition at transaction prices, being the best evidence of fair value upon initial recognition, derivatives are subsequently measured at fair value. Fair value represents quoted market price or internal pricing models as appropriate. The resulting gains or losses are included in the consolidated income statement.

### (h) Property and equipment

**(i) Recognition and measurement**

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.
Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.
When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.
The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognised in other income/other expenses in profit or loss.

**(ii) Subsequent costs**

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.



Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(iii) Depreciation**

Depreciable amount is the cost of property and equipment, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset and is based on cost of the asset less its estimated residual value. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

| | |
|---|---|
| Buildings | 20 years |
| Leasehold improvements | 5 years |
| Furniture and equipment | 6-7 years |
| Vehicles | 5 years |
| Computer hardware/software | 3 years |

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

### (i) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment losses are recognised in profit or loss. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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

### (j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (k) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

### (l) Employee termination benefits and pension funds

***End of service gratuity plans-Defined benefits plan***
The Group provides for end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. The provision of employees' end of service benefits is included in the other provisions within other liabilities.

***Pension and Provident Fund plan-Defined contribution plan***
Under Law No. 24 of 2002 on Retirement and Pension, the Group is required to make contributions to a Government fund scheme for Qatari employees calculated as a percentage of the Qatari employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

### (m) Share capital and reserves

Incremental cost directly attributable to the issue of an equity instrument is deducted from the initial measurement of the equity instruments.

### (n) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Group's shareholders. Dividends for the year that are declared after the date of the consolidated statement of financial position are dealt with in a separate note.



Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (o) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- Fair value changes in qualifying derivatives, including hedge ineffectiveness, and related hedged items in fair value hedges of interest rate risk.

Interest income investment securities calculated on an effective interest basis is also included in interest income

### (p) Fees and commission income and expense

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

***Fee income earned from services that are provided over a certain period of time.***
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

***Fee income from providing transaction services***
Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, and brokerage fees. Loan syndication fees are recognised in the income statement when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same effective rate as for the other participants.

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) Income from investment securities

Gains or losses on the sale of investment securities are recognised in profit or loss as the difference between fair value of the consideration received and carrying amount of the investment securities.

Unrealised gains or losses on fair value changes from remeasurement of investment securities classified as held for trading or designated as fair value through profit or loss are recognised in profit or loss.

Income from held to maturity investment securities is recognised based on the effective interest rate method.

### (r) Dividend income

Dividend income is recognised when the right to receive income is established.

### (s) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period.

### (t) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief executive officer. The chief executive officer is the person or group that allocates resources to and assesses the performance of the operating segments of an entity.
Income and expenses directly associated with each segment are included in determining operating segment performance.

### (u) Fiduciary activities

Assets held in a fiduciary capacity are not treated as assets of the Group in the consolidated statement of financial position.

### (v) Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

### (w) Parent bank financial information

Statement of financial position and income statement of the Parent bank, disclosed as supplementary information, is prepared following the same accounting policies as mentioned above except for; investment in subsidiary which are not consolidated and is carried at cost.



Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### New standards and interpretations

***New standards and interpretations effective from 1 January 2013.***

The Group has adopted the following new standards and amendments to standards and interpretations with a date of initial application of 1 January 2013.

a) IFRS 10 - Consolidated financial statements and IAS 27 Separate Financial Statements (2011) - IFRS 10 introduces a single control model to determine whether an investee should be consolidated. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. This new control model focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. The Group has amended its accounting policy on consolidation in line with requirements of IFRS 10 and has re-assessed its consolidation conclusion. The reassessment of control and consolidation requirements had no significant impact on the consolidated financial statements of the Group.

b) IFRS 13 - Fair value measurement - IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

c) IAS 1 (amendment) - Presentation of items of other comprehensive income - The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The adoption of this amendment has resulted in the Group modifying the presentation of items of OCI in its statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that had no significant impact on the consolidated financial statements.

Notwithstanding, the following new standards which became also effective, did not have a material impact on the consolidated financial position or performance of the Group.

d) IFRS 11 Joint Arrangements

e) IFRS 12 Disclosure of interest in other entities-

f) Disclosure of amendments to IFRS 7 on offsetting financial assets and financial liabilities –

g) IAS 19 Employee benefits-

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### New standards and interpretations (continued)

***New standards and interpretations issued but not yet effective for the year ended 31 December 2013 and their likely impact on the consolidated financial statements of the Group.***

The new standards, amendments to standards and interpretations which have been issued but are not yet effective for the year ended 31 December 2013 and have not been applied in preparing these consolidated financial statements were as follows:

a) IFRS 9, Financial Instruments is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The Group is currently assessing the impact of this standard for future periods. The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised.

b) Offsetting financial assets and financial liabilities (Amendments to IAS 32)- The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Early application is permitted.

*The Bank did not early adopt any standards or interpretations.*

## 4. FINANCIAL RISK MANAGEMENT

### (a) Introduction and Overview

The Group's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Group's risk management are to identify all key risks for the Group, measure these risks, manage the risk positions and determine capital allocations. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance. The Group defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.



Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 4. FINANCIAL RISK MANAGEMENT

### (a) Introduction and Overview

**Risk Management**

**Introduction**

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit, liquidity, market, including trading and non-trading, and operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

- **Risk Management Structure**

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

- **Executive Committee**

The Executive Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and managing and monitoring relevant risk decisions.

- **Risk Management Department**

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It is also responsible for monitoring compliance with risk principles, policies and limits, across the Group. Each business group has a decentralised department which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This function also ensures the complete capture of the risks in risk measurement and reporting systems.

- **Treasury**

Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure, as laid down by the Asset Liability Committee (ALCO) from time to time.

- **Internal Audit**

Risk management processes throughout the Group are audited annually by the Internal Audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Introduction and Overview (continued)

**Risk Management (continued)**

***Risk measurement and reporting systems***

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the business departments is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors and the Executive Committee.

The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for impairment on a quarterly basis.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business departments have access to necessary and up-to-date information.

Frequent briefing is given to the senior management and all other relevant members of the Group on the utilization of market limits, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

***Risk mitigation***

As part of its overall risk management strategy, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into any hedging transactions, which are authorised by the appropriate approval authority mechanism within the Group. The effectiveness of hedges is assessed by the Treasury and senior management (based on economic considerations too rather than purely the IFRS hedge based accounting regulations). The effectiveness of all the hedge relationships is monitored by the Treasury quarterly at each reporting period.



Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (a) Introduction and Overview (continued)

**Risk Mitigation (continued)**

In cases of ineffectiveness, the Group will continuously monitor the expected performance of the hedge and take mitigating action such as re-hedging wherever necessary to make the hedge more effective on the underlying instrument concerned.
The Group actively uses collaterals to reduce its credit risks (see Note 4. (b) Credit risk below for more detail).

***Excessive risk concentration***

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio, with limits set on geographic and industry sector exposures. Identified concentrations of credit risks are controlled and managed accordingly

### (b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge a financial obligation and cause the other party to incur a financial loss. In the case of derivatives this is limited to positive fair values. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments, affecting a particular industry or geographic location.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or group of customers in specific locations or businesses. It also obtains collaterals, when appropriate. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Credit risk (continued)

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities,
- For commercial lending, mortgages over real estate properties, inventory, trade receivables, cash and securities.
- For retail lending, mortgages over residential properties, cash or securities.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

The Group also obtains corporate guarantees from parent companies for loans, advances and financing activities to their subsidiaries.

### (i) Maximum exposure to credit risk before collateral held or other credit enhancements

| Credit risk exposures relating to assets recorded on the statement of financial position are as follows: | 2013 | QAR'000s 2012 |
|---|---|---|
| Balances with central banks | **1,116,918** | 816,383 |
| Due from banks | **2,206,147** | 1,292,010 |
| Loans and advances to customers | **17,312,451** | 14,013,630 |
| Investment securities - debt | **4,884,024** | 4,034,620 |
| Other assets | **132,129** | 97,653 |
| **Total as at 31 December** | **25,651,669** | 20,254,296 |
| | | |
| **Other credit risk exposures are as follows:** | | |
| Contingent liabilities | **4,346,030** | 3,106,862 |
| Unutilized credit facilities | **9,032,735** | 7,575,487 |
| **Total as at 31 December** | **13,378,765** | 10,682,349 |
| **Total Credit risk exposure** | **39,030,434** | 30,936,645 |

The above table represents a worse-case scenario of credit risk exposure to the Group, without taking account of any collateral held or other credit enhancements attached. For assets recorded on the statement of financial position, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.



# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Credit risk (continued)

### (ii) Concentration of risks of financial assets with credit risk exposure (Continued)

**Geographical sectors**

The following table breaks down the Group's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorized by geographical region.

| | Qatar | Other GCC | Europe | Rest of the world | QAR'000s Total |
|---|---|---|---|---|---|
| **At 31 december 2013** | | | | | |
| Balances with central bank | **1,116,918** | **-** | **-** | **-** | **1,116,918** |
| Due from banks | **236,600** | **1,370,616** | **132,491** | **466,440** | **2,206,147** |
| Loans and advances to customers | **17,215,235** | **97,216** | **-** | **-** | **17,312,451** |
| Investment securities – Debt | **4,495,026** | **369,841** | **3,969** | **15,188** | **4,884,024** |
| Other assets | **132,129** | **-** | **-** | **-** | **132,129** |
| **Total** | **23,195,908** | **1,837,673** | **136,460** | **481,628** | **25,651,669** |
| | | | | | |
| Other Credit risk exposure are as follows: | | | | | |
| Contingent liabilities | **4,227,430** | **87,370** | **19,719** | **11,511** | **4,346,030** |
| Unutilized credit facilities | **9,030,864** | **1,871** | **-** | **-** | **9,032,735** |
| **Total** | **13,258,294** | **89,241** | **19,719** | **11,511** | **13,378, 765** |

| | Qatar | Other GCC | Europe | Rest of the world | QAR'000s Total |
|---|---|---|---|---|---|
| At 31 December 2012 | | | | | |
| Balances with central bank | 816,383 | - | - | - | 816,383 |
| Due from banks | 327,600 | 685,540 | 94,479 | 184,391 | 1,292,010 |
| Loans and advances to customers | 13,561,952 | 165,645 | - | 286,033 | 14,013,630 |
| Investment securities -Debt | 3,644,593 | 385,602 | 4,425 | | 4,034,620 |
| Other assets | 97,653 | - | - | - | 97,653 |
| Total | 18,448,181 | 1,236,787 | 98,904 | 470,424 | 20,254,296 |
| | | | | | |
| Other Credit risk exposure are as follows: | | | | | |
| Contingent liabilities | 2,967,123 | 112,594 | 18,414 | 8,731 | 3,106,862 |
| Unutilized credit facilities | 7,567,006 | 6,228 | - | 2,252 | 7,575,486 |
| Total | 10,534,129 | 118,822 | 18,414 | 10,983 | 10,682,348 |

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

**(b) Credit risk (continued)**

(ii) **Concentration of risks of financial assets with credit risk exposure (continued)**

**Industry sectors**

The following table breaks down the Group's credit exposure at carrying amounts before taking into account collateral held or other credit enhancements, as categorized by the industry sectors of the Group's counterparties.

| | | QAR'000s |
|---|---|---|
| | **Gross exposure 2013** | Gross exposure 2012 |
| Government | **5,813,775** | 4,505,744 |
| Government agencies | **1,117,189** | 834,401 |
| Industry | **473,010** | 744,557 |
| Commercial | **5,302,016** | 3,884,152 |
| Services | **4,591,235** | 3,311,067 |
| Contracting | **1,093,716** | 546,801 |
| Real estate | **3,474,079** | 2,864,535 |
| Personal | **3,786,649** | 3,563,039 |
| Contingent liabilities | **13,378,765** | 10,682,348 |
| | **39,030,434** | 30,936,644 |

Credit risk exposure

The Group's internal rating scale and mapping to the table below are as follows:

| **Bank's rating** | **Description of the grade** | **Mapping** |
|---|---|---|
| Grade A | Low risk – excellent | High grade |
| Grade B | Standard/satisfactory risk | Standard grade |
| Grade C | Sub-standard – watch | Watch list/impaired |
| Grade D | Doubtful | Watch list/impaired |
| Grade E | Bad debts | Watch list/impaired |

| | | QAR'000s |
|---|---|---|
| | **2013** | 2012 |
| **Equivalent grades** | | |
| High Grade | **8,514,064** | 7,823,878 |
| Standard Grade | **30,482,282** | 22,946,137 |
| Watch List or Impaired | **34,088** | 166,629 |
| | **39,030,434** | 30,936,644 |



# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

**(b) Credit risk (continued)**

**(iii) Credit quality**

QAR'000s

| | Loans and advances to customers | | Due from banks | | Investment securities – debt | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| **Neither past due nor impaired (low risk):** | | | | | | |
| High and standard grade | **15,648,677** | 13,547,759 | **2,206,147** | 1,292,010 | **4,927,493** | 4,057,634 |
| | **15,648,677** | 13,547,759 | **2,206,147** | 1,292,010 | **4,927493** | 4,057,634 |
| **Past due but not impaired** | | | | | | |
| Standard Grade/satisfactory risk | **1,629,686** | 299,243 | **-** | - | **-** | - |
| ***Carrying amount*** | **1,629,686** | 299,243 | **-** | - | **-** | - |
| **Watch list or Impaired** | | | | | | |
| Substandard and doubtful (overdue upto 9 months) | **79,127** | 90,603 | **-** | - | **-** | - |
| Loss (overdue > 9 months) | **270,082** | 472,856 | **-** | - | **-** | - |
| | **349,209** | 563,459 | **-** | - | **-** | - |
| Less: impairment allowance-specific | **(286,121)** | (393,831) | **-** | - | **-** | - |
| Less: impairment allowance-Collective | **(29,000)** | (3,000) | **-** | - | **-** | - |
| | **17,312,451** | 14,013,630 | **-** | - | **-** | - |
| ***Carrying amount – net*** | **17,312,451** | 14,013,630 | **2,206,147** | 1,292,010 | **4,927,493** | 4,057,634 |
| ***Investment securities - debt*** | | | | | | |
| Held to maturity | - | - | **-** | - | **32,760** | 32,760 |
| Available for sale | - | - | **-** | - | **4,894,733** | 4,024,874 |
| Less: impairment allowance | - | - | **-** | - | **(43,469)** | (2,014) |
| ***Carrying amount – net*** | - | - | **-** | - | **4,884,024** | 4,055,620 |
| ***Total carrying amount*** | **17,312,451** | 14,013,630 | **2,206,147** | 1,292,010 | **4,884,024** | 4,055,620 |

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Credit risk (continued)

### (iii) Credit quality

**Impaired loans and advances to customers and investment in debt securities**
Individually impaired loans and advances to customers and investment debt securities for which the Group determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan/investment security agreement(s).

**Loans and advances to customers past due but not impaired**

Past due but not impaired loans and advances to customers are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

| | QAR'000s | |
|---|---|---|
| | **2013** | 2012 |
| Up to 60 days | **1,574,839** | 292,463 |
| 61 – 90 days | **54,847** | 6,780 |
| **Gross** | **1,629,686** | 299,243 |

### (iv) Write-off policy

The Group writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when Group Credit determines that the loan or security is uncollectible and after QCB's approval.
This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status. The amount written off during the year was QAR 77,733 thousands (2012: QAR 900 thousand.).



Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of e.g. customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives etc. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the consolidated statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

### (i) Management of liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities.

In addition, the Group maintains 4.75% of average customer deposits as a mandatory deposit with Qatar Central Bank.

The Group's Asset and Liability Committee (ALCO) monitors the maturity profile on an overall basis with ongoing liquidity monitoring by the Treasury.

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (continued)

### (ii) Maturity analysis (including all assets and liabilities)

QAR'000s

| | Carrying amount | Less than 1 month | 1-3 months | 3 months – 1 year | 1-5 years | More than 5 years |
|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | |
| Cash and balances with central banks | 1,194,554 | 780,763 | 263,820 | 111,593 | 38,378 | - |
| Due from banks | 2,206,147 | 1,661,650 | 453,497 | 91,000 | - | - |
| Loans and advances to customers | 17,312,451 | 719,787 | 1,424,631 | 3,250,829 | 4,082,906 | 7,834,298 |
| Investment securities | 5,017,542 | 997,445 | 505,150 | 162,859 | 2,479,619 | 872,469 |
| Property and equipment | 178,057 | - | - | - | - | 178,057 |
| Others assets | 268,419 | 19,446 | 112,928 | 2,409 | 956 | 132,680 |
| **Total** | 26,177,170 | 4,179,091 | 2,760,026 | 3,618,690 | 6,601,859 | 9,017,504 |
| | | | | | | |
| Due to banks | 1,785,008 | 1,739,708 | 45,300 | - | - | - |
| Certificate of deposits | 1,067,695 | 656,078 | 247,864 | 163,753 | - | - |
| Customer deposits | 18,890,774 | 9,757,311 | 5,823,196 | 2,463,159 | 847,108 | - |
| Subordinated debt | 182,000 | - | - | - | 182,000 | - |
| Other liabilities | 688,372 | 129,127 | 269,848 | 86,627 | 80,429 | 122,341 |
| Equity | 3,563,321 | - | - | - | - | 3,563,321 |
| **Total** | 26,177,170 | 12,282,224 | 6,386,208 | 2,713,539 | 1,109,537 | 3,685,662 |
| **Difference** | - | (8,103,133) | (3,626,182) | 905,151 | 5,492,322 | 5,331,842 |

QAR'000s

| | Carrying amount | Less than 1 month | 1-3 months | 3 months – 1 year | 1-5 years | More than 5 years |
|---|---|---|---|---|---|---|
| 31 December 2012 | | | | | | |
| Cash and balances with central banks | 880,585 | 623,117 | 124,654 | 102,203 | 30,611 | - |
| Due from banks | 1,292,010 | 925,315 | 366,695 | - | - | - |
| Loans and advances to customers | 14,013,630 | 635,643 | 1,113,904 | 2,945,013 | 3,732,285 | 5,586,785 |
| Investment securities | 4,119,523 | - | 397,735 | 495,472 | 1,537,808 | 1,688,508 |
| Property and equipment | 183,225 | - | - | - | - | 183,225 |
| Others assets | 117,167 | 19,664 | 90,539 | 5,991 | 973 | - |
| Total | 20,606,140 | 2,203,739 | 2,093,527 | 3,548,679 | 5,301,677 | 7,458,518 |
| Due to banks | 1,074,660 | 716,332 | 105,560 | 252,768 | - | - |
| Certificate of deposits | 1,458,624 | 1,138,102 | 158,741 | 161,781 | - | - |
| Customer deposits | 13,953,438 | 8,453,870 | 2,662,635 | 2,183,085 | 653,848 | - |
| Subordinated debt | 182,000 | - | - | - | 182,000 | - |
| Other liabilities | 495,806 | 99,582 | 196,320 | 77,366 | 31,518 | 91,020 |
| Equity | 3,441,612 | - | - | - | - | 3,441,612 |
| Total | 20,606,140 | 10,407,886 | 3,123,256 | 2,675,000 | 867,366 | 3,532,632 |
| Difference | - | (8,204,147) | (1,029,729) | 873,679 | 4,434,311 | 3,925,886 |



# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (c) Liquidity risk (continued)

### (iii) Maturity analysis (financial liabilities and derivatives)

QAR'000s

| | Carrying amount | Gross undiscounted cash flows | Less than 1 month | 1 - 3 months | 3 months – 1 year | 1 - 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Due to banks | 1,785,008 | 1,785,440 | 1,739,994 | 45,446 | - | - | - |
| Certificate of deposits | 1,067,695 | 1,070,077 | 656,410 | 248,812 | 164,855 | - | - |
| Customer deposits | 18,890,774 | 18,930,843 | 9,749,841 | 5,838,173 | 2,475,733 | 867,096 | - |
| Subordinated debt | 182,000 | 195,993 | 297 | 567 | 2,641 | 192,488 | - |
| **Total** | 21,925,477 | 21,982,353 | 12,146,542 | 6,132,998 | 2,643,229 | 1,059,584 | - |
| | | | | | | | |
| **Derivative financial instruments** | | | | | | | |
| Risk Management: | | | | | | | |
| Outflow | | 3,394,728 | 2,473,925 | 498,062 | 415,438 | 6,675 | 628 |
| Inflow | | (3,398,260) | (2,480,240) | (498,302) | (414,462) | (4,558) | (697) |
| | | 21,978,821 | 12,140,227 | 6,132,758 | 2,644,205 | 1,061,701 | (69) |

QAR'000s

| | Carrying Amount | Gross undiscounted cash flows | Less than 1 month | 1- 3 months | 3 months – 1 year | 1 - 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| 31 December 2012 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Due to banks | 1,074,660 | 1,075,756 | 716,396 | 105,709 | 253,651 | - | - |
| Certificate of deposits | 1,458,624 | 1,462,520 | 1,139,063 | 159,040 | 164,418 | | |
| Customer deposits | 13,953,438 | 13,984,164 | 8,462,821 | 2,671,057 | 2,195,359 | 654,927 | - |
| Subordinated debt | 182,000 | 200,034 | 307 | 584 | 2,722 | 196,421 | - |
| Total | 16,668,722 | 16,722,474 | 10,318,587 | 2,936,390 | 2,616,149 | 851,348 | |
| | | | | | | | |
| Derivative financial instruments | | | | | | | |
| Risk Management: | | | | | | | |
| Outflow | | 7,041,014 | 5,479,289 | 1,549,059 | 3,483 | 7,299 | 1,884 |
| Inflow | | (7,015,225) | (5,469,125) | (1,541,749) | (491) | (2,693) | (1,167) |
| | | 16,748,263 | 10,328,751 | 2,943,700 | 2,619,141 | 855,954 | 717 |

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) **Market risks**

Market risk is the risk that the Group's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level of volatility of market rates or prices such as interest rates commodities prices, foreign exchange rates and equity prices.

(i) **Management of market risks**

The Group manages its market risks within the regulatory framework of limits defined by the Qatar Central Bank. Setting the internal framework for the management of market risks and ensuring compliance with this methodology is the responsibility of the Asset and Liability Committee (ALCO) which consists of senior management including members of the Risk management function. The Group is exposed to interest rate risk created as a result of assets and liabilities mismatch or off balance sheet instruments that mature or reprice over a given period.

Both interest rate gaps and foreign exchange rate fluctuations are managed within the prescribed board limits. All risk exposures are monitored and reported on a daily basis to senior management and any breaches are escalated immediately. In addition all trading activity is continuously being monitored at ALCO level.

(ii) **Exposure to market risks – trading portfolios**

The Group utilizes the widely used Value-at-Risk ( VaR ) methodology to capture and control market risks which is popular globally since it encapsulates all known market risks such as volatility changes, correlation effects into a single unit of measurement and a limit can be assigned against it for control purposes. The Group calculates the VaR metric on a daily basis for both trading purposes (1Day VaR) and regulatory purposes (10 Day VaR), which are monitored against set limits.



# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) **Market risks (Continued)**

(ii) **Exposure to market risks – trading portfolios**

A summary of the VaR position of the Group's trading portfolios at 31 December and during the year is as follows:

QAR'000s

| | At 31 December | Average | Maximum | Minimum |
|---|---|---|---|---|
| **2013** | | | | |
| Foreign currency risk | **(14,427)** | **(3,724)** | **59,065** | **(35,525)** |
| Interest rate risk | **(8)** | **(6)** | **(642)** | **8** |
| Covariance | **(284)** | **(111)** | **(300)** | **(16)** |
| Overall | **(14,719)** | **(3,841)** | **58,123** | **(35,533)** |
| 2012 | | | | |
| Foreign currency risk | 13,084 | 5,546 | 14,440 | (3,339) |
| Interest rate risk | - | 3 | 17 | (25) |
| Covariance | (158) | (100) | (744) | (23) |
| Overall | 12,926 | 5,449 | 13,713 | (3,387) |

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios, such as periods of prolonged market illiquidity, on individual trading portfolios and the Group's overall position.

(iii) **Exposure to interest rate risk – non-trading portfolios**

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Group central Treasury in its day-to-day monitoring activities.

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) **Market risks (continued)**

(iii) **Exposure to interest rate risk – non-trading portfolios (continued)**

A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

**QAR'000s**

| | | Repricing in: | | | | | |
|---|---|---|---|---|---|---|---|
| | **Carrying amount** | **Less than 3 months** | **3 - 12 months** | **1 - 5 years** | **More than 5 years** | **Non-interest sensitive** | **Effective interest rate** |
| **2013** | | | | | | | |
| Cash and cash equivalents | **1,194,554** | **-** | **-** | **-** | **-** | **1,194,554** | **-** |
| Due from banks | **2,206,147** | **1,716,392** | **91,000** | **-** | **-** | **398,755** | **0.49%** |
| Loans and advances to customers | **17,312,451** | **4,650,567** | **3,207,957** | **2,705,678** | **6,388,668** | **359,581** | **4.92%** |
| Investment securities | **5,017,542** | **1,502,594** | **162,859** | **2,337,022** | **872,469** | **142,598** | **3.70%** |
| Property and equipment | **178,057** | **-** | **-** | **-** | **-** | **178,057** | **-** |
| Other assets | **268,419** | **-** | **-** | **-** | **-** | **268,419** | **-** |
| | **26,177,170** | **7,869,553** | **3,461,816** | **5,042,700** | **7,261,137** | **2,541,964** | |
| | | | | | | | |
| Due to banks | **1,785,008** | **1,776,758** | **-** | **-** | **-** | **8,250** | **0.61%** |
| Certificate of deposits | **1,067,695** | **903,942** | **163,753** | **-** | **-** | **-** | **1.32%** |
| Customer deposits | **18,890,774** | **14,112,209** | **1,973,726** | **847,109** | **-** | **1,957,730** | **1.36%** |
| Subordinated debt | **182,000** | **182,000** | **-** | **-** | **-** | **-** | **2.41%** |
| Other liabilities | **688,372** | **-** | **-** | **-** | **-** | **688,372** | **-** |
| Equity | **3,563,321** | **-** | **-** | **-** | **-** | **3,563,321** | **-** |
| | **26,177,170** | **16,974,909** | **2,137,479** | **847,109** | **-** | **6,217,673** | |
| Statement of financial position items | | **(9,105,356)** | **1,324,337** | **4,195,591** | **7,261,137** | **(3,675,709)** | |
| Off statement of financial position items | | **258,440** | **(76,440)** | **(145,600)** | **(36,400)** | **-** | |
| **Interest rate sensitivity gap** | | **(8,846,916)** | **1,247,897** | **4,049,991** | **7,224,737** | **(3,675,709)** | |
| **Cumulative Interest rate sensitivity gap** | | **(8,846,916)** | **(7,599,019)** | **(3,549,028)** | **3,675,709** | **-** | |



# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) **Market risks (continued)**

(iii) **Exposure to interest rate risk – non-trading portfolios (continued)**

**QAR'000s**

| | | Repricing in: | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying amount | Less than 3 months | 3-12 months | 1-5 years | More than 5 years | Non-interest sensitive | Effective interest rate |
| 2012 | | | | | | | |
| Cash and cash equivalents | 880,585 | - | - | - | - | 880,585 | - |
| Due from banks | 1,292,010 | 1,253,428 | - | - | - | 38,582 | 0.55% |
| Loans and advances to customers | 14,013,630 | 2,799,191 | 3,235,851 | 2,588,399 | 4,676,631 | 713,558 | 5.23% |
| Investment securities | 4,119,523 | 412,470 | 495,472 | 1,382,827 | 1,688,507 | 140,247 | 4.19% |
| Property and equipment | 183,225 | - | - | - | - | 183,225 | - |
| Other assets | 117,167 | - | - | - | - | 117,167 | - |
| | 20,606,140 | 4,465,089 | 3,731,323 | 3,971,226 | 6,365,138 | 2,073,364 | |
| Due to banks | 1,074,660 | 803,619 | 252,767 | - | - | 18,274 | 0.98% |
| Certificate of deposit | 1,458,624 | 1,296,843 | 161,781 | | | | 1.55% |
| Customer deposits | 13,953,438 | 10,100,830 | 1,844,527 | 653,849 | - | 1,354,232 | 1.62% |
| Subordinated debt | 182,000 | 182,000 | - | - | - | - | 2.18% |
| Other borrowings | 495,806 | - | - | - | - | 495,806 | - |
| Equity | 3,441,612 | - | - | - | - | 3,441,612 | - |
| | 20,606,140 | 12,383,292 | 2,259,075 | 653,849 | - | 5,309,924 | |
| Statement of financial position items | | (7,918,203) | 1,472,248 | 3,317,377 | 6,365,138 | (3,236,560) | |
| Off statement of financial position items | | 294,840 | - | (258,440) | (36,400) | - | |
| Interest rate sensitivity gap | | (7,623,363) | 1,472,248 | 3,058,937 | 6,328,738 | (3,236,560) | |
| Cumulative Interest rate sensitivity gap | | (7,623,363) | (6,151,115) | (3,092,178) | 3,236,560 | - | |

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) **Market risks (continued)**

(iii) **Exposure to interest rate risk – non-trading portfolios (continued)**

**Sensitivity analysis**

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated income statement and equity.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2013, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of swaps designated as cash flow hedges at 31 December 2013 for the effects of the assumed changes in interest rates and based on the assumption that there are parallel shifts in the yield curve. The effect of decreases in interest rates is expected to have an equal and opposite effect of the increases shown.

QAR'000s

| | | *Sensitivity of net interest income* | | *Sensitivity of equity* | |
|---|---|---|---|---|---|
| *Currency* | ***Change in basis points*** | ***2013*** | *2012* | ***2013*** | *2012* |
| Qatari Riyal | 25 | **6,098** | 5,556 | **-** | - |
| US Dollar | 25 | **3,559** | 3,347 | **2,755** | 1,692 |
| | | **9,657** | 8,903 | **2,755** | 1,692 |

(iv) **Exposure to currency risk – non-trading portfolios**

**Foreign currency transactions**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group takes an exposure to the effect of fluctuation in prevailing foreign currency exchange rates on its consolidated financial position. The Board of Directors has set limits on the level of currency exposure, which are monitored daily.

The Group had the following net open positions at the year end.



# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) **Market risks (continued)**

(iii) **Exposure to interest rate risk – non-trading portfolios (continued)**

**Functional currency of Group entities**

QAR'000s

| | **2013** | 2012 |
|---|---|---|
| Net foreign currency exposure: | | |
| Pounds Sterling | **437** | 1,332 |
| Euro | **(33,585)** | (2,127) |
| USD | **109,195** | 998,629 |
| Other currencies | **65,244** | 62,996 |
| Total | **141,291** | 1,060,830 |

The others above include an exposure to Egyptian Pounds (EGP) amounting to QAR 56,725 thousand (2012: QAR 61,976 thousand). This exposure arises from the Group's strategic investment made in 2006.

The Group manages its currency exposures within limits laid down by the Board of Directors. Intra-day and overnight limits are laid down for each currency individually and in total. The Qatar Riyal is pegged to the US Dollar. Although the Group is not exposed to any currency risk due to the peg, limits are set for US Dollar exposures. All other currency exposures are limited and the Group is not significantly exposed to the other currencies

(iv) **Exposure to currency risks – non-trading portfolios (continued)**

**Sensitivity Analysis**

QAR'000s

| | **Increase / (decrease) in profit or loss** | | **Increase / (decrease) in other comprehensive income** | |
|---|---|---|---|---|
| 1% change in currency exchange rate | **2013** | 2012 | **2013** | 2012 |
| Pound Sterling | **4** | 13 | **-** | - |
| Euro | **336** | 274 | **-** | 252 |
| USD | **-** | - | **-** | - |
| Other currencies | **1,703** | 4,294 | **567** | 619 |

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) **Exposure to equity price risks – non-trading portfolios**

**Equity price risk**

Equity price risk arises from fluctuations in equity indices and prices. The Board has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Group's Credit and Investment Committee.

The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect on equity, as a result of a change in the fair value of equity instruments held as available-for-sale investments at the year end, due to change in equity indices, with all other variables held constant, is as follows:

| | | | QAR'000s |
|---|---|---|---|
| | **Change in Equity price %** | **Effect on equity 2013** | Effect on Equity 2012 |
| ***Market index*** | | | |
| Qatar Exchange | 10% | **5,987** | 197 |

(e) **Operational risks**

Operational risk is the loss resulting from inadequate or failed internal processes, people and systems or from external events. The Group manages its Operational risk primarily through the board approved Operational Risk Framework (ORF) consisting of the Operational Risk Policy (ORP) and the Operational Risk Committee (ORC), which has representation across all departments. The Group utilizes a Basel II compliant approach known as 'Operational Risk Self-Assessment' (ORSA) process to assess, document and report the operational risks encountered in the course of normal business activity.

The ORC approves the ORSA annually and reviews operational risks faced by various functions in the Group on a regular basis throughout the year to track the status of open risks and pursuing appropriate controls wherever necessary. The ORSA process for 2013 was successfully completed in Nov 2013. Furthermore both compliance and internal audit perform independent periodic reviews to assess adequacy of check and controls at any given point in time.

The Group has a robustly documented Business Continuity Plan (BCP) and Disaster Recovery (DR) Plan. These documents outline the procedures to be followed in a disaster scenario. The BCP aims to establish the level of impact upon the Group's business activity of having to operate from a different site in the event of an emergency or natural disaster. This includes access to critical computer systems, connectivity to local area network, database servers, internet, intranet and e-mails etc. This is a well-established process and takes place periodically throughout the year and its completion is signed off by all concerned departments to confirm tests were successfully carried out by them. Both the BCP & DR processes were independently audited by external auditors back in May 2013 respectively (in compliance with QCB requirements) and were found to be thorough and well implemented.

Basic firefighting training is provided to staff fire wardens periodically with the assistance of Civil Defense Authority. An evacuation drill is normally conducted annually as part of safety and security procedures across the branches network.



# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) **Capital management**

**Regulatory capital**

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders› value.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by Qatar Central Bank. The following table summarises the capital adequacy of the Group under Basel-II requirements:

| | | QAR'000s |
|---|---|---|
| | **2013** | 2012 |
| Tier 1 capital | **3,152,054** | 2,767,798 |
| Tier 2 capital | **350,518** | 350,239 |
| Tier 1 + Tier 2 capital | **3,502,572** | 3,118,037 |
| Total risk weighted assets | **18,287,601** | 15,007,359 |
| Basel II-Tier 1 Ratio | **17.2** | 18.4 |
| Basel II-Tier 1 + Tier 2 Ratio | **19.2** | 20.8 |

Tier 1 capital includes issued capital, advance against share capital, statutory reserve, other reserves and retained earnings.

Tier 2 capital includes risk reserve (up to 1.25% of the risk weighted assets), fair value reserves (45% if positive and 100 % if negative), and subordinated debt.

The minimum required capital adequacy ratio is 10% under Qatar Central Bank requirements and 8% under Basel Committee on Banking Supervision requirements.

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (f) Capital management (Continued)

**Risk weighted assets and carrying amounts**

| | | | | QAR'000s |
|---|---|---|---|---|
| | **2013 Basel II Risk weighted amount** | 2012 Basel II Risk weighted amount | **2013 Carrying amount** | 2012 Carrying amount |
| Cash and balances with central banks | **-** | 13,494 | **1,194,554** | 1,627,908 |
| Due from banks | **494,662** | 481,146 | **2,311,245** | 1,438,166 |
| Loans and advances to customers | **14,635,118** | 12,098,543 | **20,030,558** | 15,377,812 |
| Investment securities | **-** | - | **-** | 2,965,083 |
| Other assets | **438,072** | 300,392 | **438,072** | 300,392 |
| Total risk weighted assets for credit risk | **15,567,852** | 12,893,575 | **23,974,429** | 21,709,361 |
| | | | | |
| Risk weighted assets for market risk | **1,370,350** | 813,579 | | |
| Risk weighted assets for operational risk | **1,349,399** | 1,300,205 | | |
| | **18,287,601** | 15,007,359 | | |

| | | | | QAR'000s |
|---|---|---|---|---|
| | | | **2013** | 2012 |
| Risk weighted assets | | | **18.287,601** | 15,007,359 |
| Regulatory capital | | | **3,502,572** | 3,118,037 |
| Regulatory capital as a percentage of Risk weighted assets (Capital ratio) | | | **19.2%** | 20.8% |

## 5. USE OF ESTIMATES AND JUDGMENTS

### (a) Key sources of estimation uncertainty

The Group makes estimates and assumptions that affect the reported amou nts of assets and liabilities. Estimates and judgements are continually evaluated and are based on histo ical experien e and other factors, including expectations of future events that are believed to be reason able under the circumstances.

#### (i) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.



# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

### (a) Key sources of estimation uncertainty (Continued)

#### (ii) Impairment losses on loans, advances and financing activities to customers

The Group reviews its individually significant loans, advances and financing activities to customers at each consolidated statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

#### (iii) Impairment of available-for-sale investments

The Group treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

#### (iv) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models are taken from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs, such as volatility, discount rates etc.

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

#### (i) Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed in the significant accounting policies section.

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

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

(i) **Valuation of financial instruments (continued)**

The following financial instruments which are not measured at fair value are not being included in fair value hierarchy, as carrying amount is a reasonable approximation of fair value and derived using level 2, wherever applicable; except for Investment securities classified as held to maturity which is derived using level 1.

The fair value of the following financial instruments approximate their carrying values:

**Financial assets**
Cash and balances with Qatar Central Bank
Due from banks and other financial institutions
Loans, advances and financing activities to customers
Investment Securities classified as held to maturity

**Financial liabilities**
Due to banks, Qatar Central Bank and other financial institutions
Customer deposits
Subordinated debt

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to call accounts, demand deposits, savings accounts without a specific maturity and variable rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity



# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

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

(i) **Valuation of financial instruments (continued)**

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

| | | | | QAR'000s |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **31 December 2013** | | | | |
| Derivative assets held for risk management | **-** | **8,406** | **-** | **8,406** |
| Investment securities | **3,617,727** | **1,290,710** | **-** | **4,908,437** |
| | **3,617,727** | **1,299,116** | **-** | **4,916,843** |
| Derivative liabilities held for risk management | **-** | **11,845** | **-** | **11,845** |
| | **-** | **11,845** | **-** | **11,845** |
| 31 December 2012 | | | | |
| Derivative assets held for risk management | - | 11,231 | - | 11,231 |
| Investment securities | 2,713,123 | 1,290,710 | - | 4,003,833 |
| | 2,713,123 | 1,301,941 | | 4,015,064 |
| Derivative liabilities held for risk management | - | 6,617 | - | 6,617 |
| | - | 6,617 | - | 6,617 |

All unquoted available for sale equity investments amounting to QAR 76,345 thousands (2012: QAR 82,930 thousands) are recorded at cost since the fair value cannot be reliably measured.

During the year ending 31 December 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Financial investments in Level 2 above include Qatar Government Bonds amounting to QAR 290,710 thousand, (2012: QAR 290,710 thousand) which were issued in lieu of sale of certain real estate loans and equity investments listed in Qatar Exchange to the Government of Qatar.

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

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

**(ii) Financial asset and liability classification**

The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

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

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

**(iii) Qualifying hedge relationships**

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

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

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

Investments in equity and debt securities are evaluated for impairment on the basis described in the significant accounting policies section.

**(v) Useful lives of property and equipment**

The Group's management determines the estimated useful life of property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset, physical wear and tear, technical or commercial obsolescence.



# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

6. OPERATING SEGMENTS

For management purposes, the Group is organised into three major operating segments:

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

| | |
|---|---|
| Retail and private banking and wealth management | Principally handling individual customers' deposit and current accounts, providing consumer loans, residential mortgages, overdrafts, credit cards and fund transfer facilities. Private banking and wealth management represents servicing high net worth individuals through a range of investment products, funds, credit facilities, trusts and alternative investments. |
| Corporate banking, treasury, investments and brokerage subsidiary | Principally handling loans and other credit facilities, and deposit and current accounts for corporate and institutional customers and providing money market, trading and treasury services, as well as management of the Group's funding. The brokerage services are offered through the wholly owned subsidiary, Ahli Brokerage Company SPC. |

(i) Information about operating segments

QAR'000s

| | Retail & private banking and wealth management | Corporate banking, treasury and investments | Total |
|---|---|---|---|
| **2013** | | | |
| Net interest income | 179,411 | 505,989 | 685,400 |
| Net fee and commission income | 46,256 | 77,086 | 123,342 |
| Foreign exchange gain | 10,665 | 14,755 | 25,420 |
| Income from investment securities | - | 11,040 | 11,040 |
| Other operating income | - | 4,461 | 4,461 |
| **Total segment revenue** | 236,332 | 613,331 | 849,663 |
| Other material non-cash items: | | | |
| Impairment losses and provisions | (13,329) | (36,190) | (49,519) |
| **Reportable segment profit before tax** | 107,306 | 418,379 | 525,685 |
| **Reportable segment assets** | 4,724,462 | 21,452,708 | 26,177,170 |
| **Reportable segment liabilities** | 5,741,650 | 16,872,199 | 22,613,849 |

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 6. OPERATING SEGMENTS (CONTINUED)

### (i) Information about operating segments (continued)

QAR'000s

| | Retail & private banking and wealth management | Corporate banking, treasury and investments | Total |
|---|---|---|---|
| 2012 | | | |
| | | | |
| Net interest income | 159,910 | 376,512 | 536,422 |
| Net fee and commission income | 41,268 | 63,841 | 105,109 |
| Foreign exchange gain / (loss) | 7,362 | 18,793 | 26,155 |
| Income from investment securities | - | 18,409 | 18,409 |
| Other operating income | 390 | 4,024 | 4,414 |
| Total segment revenue | 208,930 | 481,579 | 690,509 |
| | | | |
| Other material non-cash items: | | | |
| Impairment losses | (9,750) | (1,843) | (11,593) |
| Reportable segment profit before tax | 87,852 | 377,307 | 465,159 |
| Reportable segment assets | 3,965,438 | 16,640,702 | 20,606,140 |
| Reportable segment liabilities | 5,213,296 | 11,951,232 | 17,164,528 |



# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 7. FINANCIAL ASSETS AND LIABILITIES

### (a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities:

QAR'000s

| 31 December 2013 | Fair value through profit or loss | Held-to-maturity | Loans and receivables | Available-for-sale | Other amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | - | - | 1,194,554 | - | - | 1,194,554 | 1,194,554 |
| Due from banks | - | - | - | - | 2,206,147 | 2,206,147 | 2,206,147 |
| Derivative assets held for risk management | 8,406 | - | - | - | - | 8,406 | 8,406 |
| Loans and advances to customers | - | - | 17,312,451 | - | - | 17,312,451 | 17,312,451 |
| Investment securities: | | | | | | | |
| Measured at fair value | - | - | - | 1,261,686 | - | 1,261,686 | 1,261,686 |
| Measured at amortised cost | - | 32,760 | - | 3,723,096 | - | 3,755,856 | 3,758,323 |
| | 8,406 | 32,760 | 18,507,005 | 4,984,782 | 2,206,147 | 25,739,100 | 25,741,567 |
| | | | | | | | |
| Derivative liabilities held for risk management | 11,845 | - | - | - | - | 11,845 | 11,845 |
| Due to banks | - | - | - | - | 1,785,008 | 1,785,008 | 1,785,008 |
| Certificate of deposits | - | - | - | - | 1,067,695 | 1,067,695 | 1,067,695 |
| Customer deposits | - | - | - | - | 18,890,774 | 18,890,774 | 18,890,774 |
| Subordinated debt | - | - | - | - | 182,000 | 182,000 | 182,000 |
| | 11,845 | - | - | - | 21,925,477 | 21,937,322 | 21,937,322 |

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 7. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

### (a) Accounting classifications and fair values (continued)

The table below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities:

QAR'000s

| | Fair value through profit or loss | Held-to-maturity | Loans and receivables | Available-for-sale | Other amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| 31 December 2012 | | | | | | | |
| Cash and balances with central bank | - | - | 880,585 | - | - | 880,585 | 880,585 |
| Due from banks | - | - | - | - | 1,292,010 | 1,292,010 | 1,292,010 |
| Derivative assets held for risk management | 11,231 | - | - | - | - | 11,231 | 11,231 |
| Loans and advances to customers | - | - | 14,013,630 | - | - | 14,013,630 | 14,013,630 |
| Investment securities: | | | | | | | |
| Measured at fair value | - | - | - | 1,964,717 | - | 1,964,717 | 1,964,717 |
| Measured at amortised cost | - | 32,760 | - | 2,122,046 | - | 2,154,806 | 2,161,315 |
| | 11,231 | 32,760 | 14,894,215 | 4,086,763 | 1,292,010 | 20,316,979 | 20,323,488 |
| Derivative liabilities held for risk management | 5,492 | - | - | 1,125 | - | 6,617 | 6,617 |
| Due to banks | - | - | - | - | 1,458,624 | 1,458,624 | 1,458,624 |
| Certificate of deposits | - | - | - | - | 1,074,660 | 1,074,660 | 1,074,660 |
| Customer deposits | - | - | - | - | 13,953,438 | 13,953,438 | 13,953,438 |
| Subordinated debt | - | - | - | - | 182,000 | 182,000 | 182,000 |
| | 5,492 | - | - | 1,125 | 16,668,722 | 16,675,339 | 16,675,339 |



# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 8. CASH AND BALANCES WITH CENTRAL BANKS

QAR'000s

| | 2013 | 2012 |
|---|---|---|
| Cash | **77,636** | 64,202 |
| Cash reserve with QCB* | **855,846** | 653,244 |
| Other balances with QCB | **261,072** | 163,139 |
| | **1,194,554** | 880,585 |

*The cash reserve with QCB is mandatory reserve not available for use in the Group's day to day operations.

## 9. DUE FROM BANKS

QAR'000s

| | 2013 | 2012 |
|---|---|---|
| Current accounts | **398,756** | 38,581 |
| Placements | **1,807,391** | 1,253,429 |
| | **2,206,147** | 1,292,010 |

## 10. LOANS AND ADVANCES TO CUSTOMERS

QAR'000s

| | 2013 | 2012 |
|---|---|---|
| **a) By type** | | |
| Loans | **15,651,437** | 12,267,982 |
| Overdrafts | **1,456,437** | 1,785,435 |
| Bills discounted | **110,426** | 63,936 |
| Debt securities (i) | **49,588** | 80,732 |
| Acceptances | **314,707** | 200,463 |
| Other loans | **70,936** | 58,336 |
| | **17,653,531** | 14,456,884 |
| Deferred profit | **(25,959)** | (46,423) |
| Specific impairment of loans and advances to customers | **(286,121)** | (393,831) |
| Collective impairment allowance | **(29,000)** | (3,000) |
| **Net loans and advances to customers (Note 1)** | **17,312,451** | 14,013,630 |

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

### (a) By type (Continued)

The aggregate amount of non-performing loans and advances to customers(excluding performing loans under watch list) amounted QAR 251.48 million, which represents 1.43 % of total loans and advances to customers (2012: QAR 457.59 million, 3.18% of total loans and advances to customers).

Specific impairment of loans and advances to customers includes QAR 54.34 million of interest in suspense (2012: QAR 82.58 million)

*(i) Debt Securities*:
Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Group reclassified certain financial assets from available-for-sale to loans and advances category. The Group identified assets eligible under the amendments, for which at 1 July 2008, it had clear change of intent to hold for the foreseeable future rather than to exit in the short term. Under IAS 39 as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date

The carrying value of the financial assets reclassified to loans and advances at 1 July 2008 was QAR 304,555 thousand (31 December 2013: QAR 51,655 thousand and 31 December 2012: QAR 78,735 thousand) with the fair value at 31 December 2013 of QAR 49,588 thousand (31 December 2012: QAR 80,732 thousand). Unrealized fair value gains on reclassified financial assets available-for-sale that were not impaired, were recorded directly in equity. As of July 2008, such unrealized fair value gains recorded directly in equity amounted to QAR 14,579 thousand.

As of the reclassification date i.e. 1 July 2008, the effective interest rates on reclassified financial assets available-for-sale ranged from 4.12% to 6.46% with expected recoverable cash flows of QAR 483,080 thousand.

If the reclassification had not been made, there would not have been any effect on the Group's income statement for the year ended 31 December 2013 (2012: Nil). Also, as at 31 December 2013, the equity would have included QAR 1,554 thousand (31 December 2012: QAR 1,724 thousand) of unrealized fair value losses on the reclassified financial assets available-for-sale, which were not impaired.

| | | QAR'000s |
|---|---|---|
| **Note 1** | **2013** | 2012 |
| Government and related agencies | **1,679,053** | 1,156,100 |
| Corporate | **11,331,337** | 9,287,399 |
| Retail | **4,302,061** | 3,570,131 |
| | **17,312,451** | 14,013,630 |



# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

### b) By industry

QAR'000s

| At 31 December 2013 | Loans | Overdrafts | Bills discounted | Debt Securities | Acceptances | Other Loans | Total |
|---|---|---|---|---|---|---|---|
| Government and related agencies | **1,678,989** | **64** | **-** | **-** | **-** | **-** | **1,679,053** |
| Industry | **359,921** | **66,775** | **-** | **20,616** | | **27** | **447,339** |
| Commercial | **4,314,011** | **658,271** | **42,550** | **-** | **314,707** | **186** | **5,329,725** |
| Services | **1,407,610** | **164,537** | **7,529** | **17,801** | **-** | **116** | **1,597,593** |
| Contracting | **909,065** | **179,335** | **5,291** | **-** | **-** | **25** | **1,093,716** |
| Real estate | **3,437,579** | **42,231** | **-** | **11,171** | **-** | **6** | **3,490,987** |
| Personal | **3,544,262** | **345,224** | **55,056** | **-** | **-** | **70,576** | **4,015,118** |
| | | **1,456,437** | **110,426** | **49,588** | **314,707** | **70,936** | **17,653,531** |
| Less: deferred profit | | | | | | | **(25,959)** |
| Specific impairment of loans and advances to customers | | | | | | | **(286,121)** |
| Collective impairment allowance | | | | | | | **(29,000)** |
| | | | | | | | **17,312,451** |

QAR'000s

| At 31 December 2012 | Loans | Overdrafts | Bills discounted | Debt Securities | Acceptances | Other loans | Total |
|---|---|---|---|---|---|---|---|
| Government and related agencies | 314,400 | 814,464 | - | 27,236 | - | - | 1,156,100 |
| Industry | 605,758 | 70,243 | 2,850 | 20,563 | - | 34 | 699,448 |
| Commercial | 3,426,238 | 334,000 | 12,698 | - | 200,463 | 46 | 3,973,445 |
| Services | 1,128,818 | 141,624 | 3,014 | 17,617 | - | 75 | 1,291,148 |
| Contracting | 409,962 | 122,335 | 4,219 | - | - | 1,846 | 538,362 |
| Real Estate | 2,943,978 | 1,489 | - | 15,316 | - | - | 2,960,783 |
| Personal | 3,438,828 | 301,280 | 41,155 | - | - | 56,335 | 3,837,598 |
| | 12,267,982 | 1,785,435 | 63,936 | 80,732 | 200,463 | 58,336 | 14,456,884 |
| Less: deferred profit | | | | | | | (46,423) |
| Specific impairment of loans and advances to customers | | | | | | | (393,831) |
| Collective impairment allowance | | | | | | | (3,000) |
| | | | | | | | 14,013,630 |

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

### c) Movement in impairment provisions on loans and advances to customers

| | | QAR'000s |
|---|---|---|
| | **2013** | 2012 |
| Balance at 1 January | **396,831** | 366,737 |
| Provisions made during the year | **98,952** | 83,455 |
| Recoveries during the year | **(102,929)** | (53,361) |
| | **392,854** | 396,831 |
| Written off during the year | **(77,733)** | - |
| **Balance at 31 December** | **315,121** | 396,831 |

The movement includes the effect of interest suspended on loans and advances to customers as per QCB regulations.

| | | | | QAR'000s |
|---|---|---|---|---|
| | **Corporate** | **Retail** | **Real Estate Mortgages** | **Total** |
| Balance at 1 January | **60,124** | **267,467** | **69,240** | **396,831** |
| Provision made during the year | **19,387** | **77,392** | **2,173** | **98,952** |
| Recoveries during the year | **(69,276)** | **(33,653)** | **-** | **(102,929)** |
| Amounts written off | **-** | **(77,733)** | **-** | **(77,733)** |
| **Balance at 31 December 2013** | **10,235** | **233,473** | **71,413** | **315,121** |

| | | | | QAR'000s |
|---|---|---|---|---|
| Balance at 1 January | 56,265 | 261,885 | 48,587 | 366,737 |
| Provision made during the year | 6,656 | 36,816 | 39,983 | 83,455 |
| Recoveries during the year | (2,797) | (31,234) | (19,330) | (53,361) |
| Amounts written off | - | - | - | - |
| Balance at 31 December 2012 | 60,124 | 267,467 | 69,240 | 396,831 |

In addition the allowance for collective impairment has been made on the Group's loans, advances and financing activities to customers' portfolio for QAR 29,000 thousands (2012; QAR3,000 thousand)



# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 11. INVESTMENT SECURITIES

Investment securities as at 31 December 2013 totaled QAR 5,017,542 thousands (2012: QAR 4,119,523 thousands). The analysis of investment securities is detailed below:

| | | QAR'000s |
|---|---|---|
| | **2013** | 2012 |
| Available-for-sale | **5,028,251** | 4,088,777 |
| Held to maturity | **32,760** | 32,760 |
| Total | **5,061,011** | 4,121,537 |
| Impairment loss | **(43,469)** | (2,014) |
| Total | **5,017,542** | 4,119,523 |

### a) Available-for-sale

| | | | | QAR'000s |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | **Quoted** | **Unquoted** | Quoted | Unquoted |
| Equities | **59,746** | **89,725** | 1,973 | 82,930 |
| State of Qatar debt securities/T-Bills | **2,769,012** | **1,365,708** | 1,312,525 | 2,039,116 |
| Other debt securities | **728,884** | **-** | 596,890 | - |
| Mutual funds | **15,176** | **-** | 55,343 | - |
| Less: impairment provision of available for sale investments | **(30,089)** | **(13,380)** | (2,014) | - |
| **Total** | **3,542,729** | **1,442,053** | 1,964,717 | 2,122,046 |

Fixed rate securities and floating rate secu rities amounted to QAR 4,848,190 thous ands and QAR 15,416 thousands respectively (2012: QAF 3,933,796 thousands and QAR 14,735 housands respectively).

### b) Held to maturity

| | | | | QAR'000s |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| **-By issuer** | **Quoted** | **Unquoted** | Quoted | Unquoted |
| Other debt securities | **32,760** | **-** | 32,760 | - |
| Less: impairment provision | **-** | **-** | - | - |
| **Total** | **32,760** | **-** | 32,760 | - |
| **-By interest rate** | | | - | |
| Fixed rate securities | **32,760** | **-** | 32,760 | - |
| Floating rate securities | **-** | **-** | - | - |
| Less: impairment provision | **-** | **-** | - | - |
| **Total** | **32,760** | **-** | 32,760 | - |

The fair value of held to matu ty investments amounted to QAR 35.22 millic ı at 31 December 2013 (2012: QAR 39.28 million).

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 11. INVESTMENT SECURITIES (CONTINUED)

### c) Movement in impairment loss on investment securities

QAR'000s

| | 2013 | 2012 |
|---|---|---|
| Balance at 1 January | **2,014** | 2,014 |
| Provision for impairment loss during the year | **41,455** | - |
| **Balance at 31 December** | **43,469** | 2,014 |

## 12. PROPERTY AND EQUIPMENT

QAR'000s

| | Land and building | Leasehold improvements | Furniture and equipment | Motor Vehicles | Capital Work in Progress | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at 1 January 2012 | 124,919 | 54,322 | 89,094 | 415 | 49,658 | 318,408 |
| Acquisitions / transfers | - | 4,856 | 12,290 | 156 | 1,935 | 19,237 |
| Disposals | - | (1,607) | (1,758) | (415) | - | (3,780) |
| Balance at 31 December 2012 | 124,919 | 57,571 | 99,626 | 156 | 51,593 | 333,865 |
| Balance at 1 January 2013 | **124,919** | **57,571** | **99,626** | **156** | **51,593** | **333,865** |
| Acquisitions / transfers | **-** | **1,000** | **16,476** | **-** | - | **17,476** |
| Disposals/write offs | **-** | **-** | **-** | **-** | **-** | |
| **Balance at 31 December 2013** | **124,919** | **58,571** | **116,102** | **156** | **51,593** | **351,341** |
| **Accumulated depreciation** | | | | | | |
| Balance at 1 January 2012 | 18,548 | 41,556 | 76,154 | 414 | - | 136,672 |
| Charged during the year | 3,217 | 6,828 | 7,473 | 29 | - | 17,547 |
| Disposals | - | (1,735) | (1,430) | (414) | - | (3,579) |
| Balance at 31 December 2012 | 21,765 | 46,649 | 82,197 | 29 | - | 150,640 |
| Balance at 1 January 2013 | **21,765** | **46,649** | **82,197** | **29** | **-** | **150,640** |
| Depreciation for the year | **3,232** | **9,692** | **9,689** | **31** | **-** | **22,644** |
| Disposals | | | | | | |
| **Balance at 31 December 2013** | **24,997** | **56,341** | **91,886** | **60** | **-** | **173,284** |
| **Carrying amounts** | | | | | | |
| Balance at 31 December 2012 | 103,154 | 10,922 | 17,429 | 127 | 51,593 | 183,225 |
| **Balance at 31 December 2013** | **99,922** | **2,230** | **24,216** | **96** | **51,593** | **178,057** |



Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 13. Other Assets

QAR'000s

| | 2013 | 2012 |
|---|---|---|
| Interest receivable | **101,064** | 72,749 |
| Profit receivable (Islamic) | **11,259** | 12,134 |
| Prepaid expenses | **2,939** | 5,000 |
| Positive fair value of derivatives (Note 31) | **8,406** | 11,231 |
| Sundry debtors | **3,301** | 7,039 |
| Advances and deposits | **1,739** | 2,159 |
| Others | **139,711** | 6,855 |
| | **268,419** | 117,167 |

## 14. Due To Banks

QAR'000s

| | 2013 | 2012 |
|---|---|---|
| Balances due to central banks | **864** | 715 |
| Current accounts | **8,151** | 18,220 |
| Deposits | **1,775,993** | 1,055,725 |
| | **1,785,008** | 1,074,660 |

## 15. Customer Deposits

QAR'000s

| | 2013 | 2012 |
|---|---|---|
| **a) By Type** | | |
| Current and call deposits | **3,406,967** | 2,471,868 |
| Saving deposits | **900,745** | 892,870 |
| Time deposits | **14,583,062** | 10,588,700 |
| | **18,890,774** | 13,953,438 |
| **b) By sector** | | |
| Government | **3,817,299** | 791,539 |
| Government and semi government agencies | **2,748,972** | 1,978,522 |
| Retail | **5,356,445** | 4,983,969 |
| Corporate | **6,968,058** | 6,199,408 |
| | **18,890,774** | 13,953,438 |

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 16. SUBORDINATED DEBT

QAR'000s

| | 2013 | 2012 |
|---|---|---|
| USD 50 million Tier II qualified Subordinated Medium Term Notes | **182,000** | 182,000 |

The terms of the issue are summarised below:

| | |
|---|---|
| Date of maturity | December 27, 2017 |
| Interest rate | 3 month LIBOR + 205 bps |
| Interest reset date | December 27, 2013 and thereafter at quarterly intervals |

## 17. OTHER LIABILITIES

QAR'000s

| | 2013 | 2012 |
|---|---|---|
| Interest payable | **36,255** | 37,531 |
| Accrued expense payable | **70,947** | 26,444 |
| Other provisions ( Refer (i) below) | **45,603** | 29,277 |
| Bills payable | **5,525** | 4,059 |
| Negative fair value of derivatives ( Note 31) | **11,845** | 6,617 |
| Unearned income (Commission received in advance) | **61,432** | 58,651 |
| Cash margins | **45,198** | 46,866 |
| Dividend payable | **15,099** | 4,336 |
| QE clients payable | **640** | 3,278 |
| Social Levy liability | **13,142** | 11,628 |
| Staff provident fund | **17,748** | 16,546 |
| Staff pension fund | **1,599** | 1,470 |
| Due in relation to acceptances | **314,707** | 200,463 |
| Others | **48,632** | 48,640 |
| **Total** | **688,372** | 495,806 |



Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 17. OTHER LIABILITIES (CONTINUED)

### (i) Other provisions

QAR'000s

| | Staff indemnity | Legal provision | Others | Total 2013 | Total 2012 |
|---|---|---|---|---|---|
| Balance at 1 January | **23,161** | **4,756** | **1,360** | **29,277** | 27,645 |
| Provisions made during the year | **13,327** | **5,250** | **2,085** | **20,662** | 5,646 |
| | **36,488** | **10,006** | **3,445** | **49,939** | 33,291 |
| Provisions paid and written off during the year | **(4,336)** | **-** | **-** | **(4,336)** | (4,014) |
| **Balance at 31 December** | **32,152** | **10,006** | **3,445** | **45,603** | 29,277 |

## 18. CAPITAL AND RESERVES

### (a) Share capital

QAR'000s

| | Ordinary shares | |
|---|---|---|
| *In millions of shares* | **2013** | 2012 |
| On issue at the beginning of the reporting period | **127.08** | 70.08 |
| New shares issued | **-** | 57.00 |
| **On issue at 31 December** | **127.08** | 127.08 |

At 31 December 2013 the authorised share capital comprised 127.08 million ordinary shares (2012: 127.08 million). These instruments have a par value of QAR 10. All issued shares are fully paid.

**Bonus issue**

On 26 February 2012, the Group issued bonus shares (42,046,876 ordinary shares) at the rate of 6 shares for every 10 shares held by the ordinary shareholders upon obtaining approval from the shareholders in the Annual General Meeting held on 26 February 2012

**Right Issue**

On 30 September 2012, after obtaining necessary approvals, the Group offered 14,950,000 ordinary shares as rights at issue price of QAR 30 per share, upon obtaining approval from the share holders in the Annual General Meeting held on 26 February 2012

During the period, the Group has paid cash dividend of QR 3 per share amounting to QR 381,226 thousands for the year 2012. (2012 - nil cash dividends for the year 2011).

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 18. CAPITAL AND RESERVES (CONTINUED)

### (b) Legal reserve

In accordance with Qatar Central Bank's Law No. 13 of 2012 as amended, 10% of the net profit for the year is required to be transferred to legal reserve until the legal reserve equals 100% of the paid up capital. This reserve is not available for distribution except in circumstances specified in the Qatar Commercial Companies' Law No. 5 of 2002 and is subject to the approval of QCB. No such a transfer was made during the year, as the reserve already reached the 100% of the share capital.

The legal reserve includes share premium of QAR 299,000 thousands received on issuance of new shares in accordance with Qatar Commercial Companies Law (5) of 2002.

### (c) Risk reserve

In accordance with Qatar central Bank circular 102/2011, in 2013 2.5% (2%- 2012) of the net loans and advances to customers is required to be maintained, except for facilities granted to government and facilities against cash collateral. The total amount of the transfer made to the risk reserve was QAR 128,288 thousand (2012: QAR 36,022).

### (d) Fair value reserves

This reserve comprises the fair value changes recognised on available-for-sale financial assets / and the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet affected profit or loss

QAR'000s

| | ***2013*** | | | *2012* | | |
|---|---|---|---|---|---|---|
| | ***Available-for-sale investments*** | ***Cash flow hedges*** | ***Total*** | *Available-for-sale investments* | *Cash flow hedges* | *Total* |
| At 1 January | **38,932** | **(1,051)** | **37,881** | 19,416 | (8,070) | 11,346 |
| Realised during the year | **(2,265)** | **1,051** | **(1,214)** | - | - | - |
| Fair value (losses) / gains during the year | **(50,025)** | **-** | **(50,025)** | 19,410 | 7,019 | 26,429 |
| Net amount of impairment transferred to profit or loss | **41,455** | **-** | **41,455** | - | - | - |
| Amortised during the year on reclassification to loans and receivables | **176** | **-** | **176** | 106 | - | 106 |
| **At 31 December** | **28,273** | **-** | **28,273** | 38,932 | (1,051) | 37,881 |



Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 18. CAPITAL AND RESERVES (CONTINUED)

### (e) Proposed bonus shares and dividend

No cash dividend has been proposed by the Board of Directors for the year ended 31 December 2013 (2012: QAR 3 per share amounting to QAR 381,226 thousands).

The Board of Directors have proposed the issue of bonus shares at the rate of three share for every ten shares held by ordinary shareholders as at 31 December 2013 amounting to QAR 381,225 thousand (2012: Nil).The above proposed issue of bonus shares is subject to the approval of the shareholders in their Annual General Meeting.

## 19. INTEREST INCOME

QAR'000s

| | **2013** | 2012 |
|---|---|---|
| Balances with Qatar Central Bank | **14,547** | 10,513 |
| Due from banks | **6,384** | 7,304 |
| Debt securities | **166,856** | 139,920 |
| Loans and advances to customers | **751,064** | 616,450 |
| | **938,851** | 774,187 |

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 20. INTEREST EXPENSE

| | 2013 | 2012 |
|---|---|---|
| | | QAR'000s |
| Balances with Qatar Central Bank | **16** | 5,120 |
| Due to banks | **32,151** | 29,516 |
| Customer deposits | **221,284** | 203,129 |
| | **253,451** | 237,765 |

## 21. FEE AND COMMISSION INCOME

| | 2013 | 2012 |
|---|---|---|
| | | QAR'000s |
| Credit related fees | **76,853** | 68,317 |
| Brokerage fees | **1,984** | 1,786 |
| Banking services | **4,679** | 4,753 |
| Commission on unfunded facilities | **36,526** | 28,238 |
| Others | **3,300** | 2,859 |
| | **123,342** | 105,953 |

## 22. FEE AND COMMISSION EXPENSE

| | 2013 | 2012 |
|---|---|---|
| | | QAR'000s |
| Debt securities issuance fees | **-** | 492 |
| Interbank transaction fees and others | **-** | 352 |
| | **-** | 844 |

## 23. FOREIGN EXCHANGE GAIN / (LOSS)

| | 2013 | 2012 |
|---|---|---|
| | | QAR'000s |
| Dealing in foreign currencies | **25,433** | 26,152 |
| Revaluation of assets and liabilities | **(13)** | 3 |
| | **25,420** | 26,155 |

## 24. INCOME FROM INVESTMENT SECURITIES

| | 2013 | 2012 |
|---|---|---|
| | | QAR'000s |
| Net gains / losses on sale of available-for-sale financial assets | **4,346** | 9,327 |
| Dividend income | **6,694** | 9,082 |
| | **11,040** | 18,409 |

## 25. OTHER OPERATING INCOME

| | 2013 | 2012 |
|---|---|---|
| | | QAR'000s |
| Rental income | **4,456** | 4,024 |
| Others | **5** | 390 |
| | **4,461** | 4,414 |



# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 26. STAFF COSTS

| | 2013 | 2012 |
|---|---|---|
| | | QAR'000s |
| Basic salaries | **52,177** | 48,324 |
| Staff pension fund costs | **1,930** | 2,050 |
| Staff indemnity costs | **14,420** | 5,646 |
| Training | **789** | 573 |
| Other | **85,195** | 59,462 |
| | **154,511** | 116,055 |

## 27. OTHER EXPENSES

| | 2013 | 2012 |
|---|---|---|
| | | QAR'000s |
| Marketing and Advertising | **10,576** | 6,921 |
| Professional fees | **15,068** | 7,473 |
| Communication and insurance | **12,866** | 11,987 |
| Board of Directors' remuneration | **9,000** | 6,000 |
| Occupancy and maintenance | **12,453** | 11,608 |
| Computer and IT costs | **11,651** | 7,541 |
| Printing and stationary | **3,934** | 3,197 |
| Others | **21,756** | 25,428 |
| | **97,304** | 80,155 |

## 28. EARNINGS PER SHARE

Earnings per share of the Bank is calculated by dividing profit for the year attributable to the equity holders of the Bank by the weighted average number of ordinary shares in issue during the year:

| | 2013 | 2012 |
|---|---|---|
| | | QAR'000s |
| Profit for the year attributable to the equity holders of the Bank | **525,685** | 465,159 |
| Weighted average number of outstanding shares | **127,075,002** | 119,782,725 |
| **Earnings per share (QAR)** | **4.14** | 3.88 |

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

| | 2013 | 2012 |
|---|---|---|
| | | QAR'000s |
| Weighted average number of shares at 1 January | **127,075,002** | 70,078,126 |
| Effect of bonus share issue | **-** | 42,046,876 |
| Bonus effect of rights issue | **-** | 7,657,723 |
| Weighted average number of shares at 31 December | **127,075,002** | 119,782,725 |

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 29. CONTINGENT LIABILITIES AND OTHER COMMITMENTS

| | | 2013 | QAR'000s 2012 |
|---|---|---|---|
| a) | **Contingent liabilities** | | |
| | Unused facilities-non cancellable | **9,032,735** | 7,575,487 |
| | Guarantees | **3,643,116** | 2,556,295 |
| | Letters of credit | **702,914** | 550,567 |
| | | **13,378,765** | 10,682,349 |

| | | 2013 | QAR'000s 2012 |
|---|---|---|---|
| b) | **Other commitments** | | |
| | Forward foreign exchange contracts | **2,464,536** | 2,152,809 |
| | Interest rate swaps | **258,440** | 324,622 |
| | Legal claims | **13,382** | 4,731 |
| | **Total** | **2,736,358** | 2,482,162 |

### Unused facilities

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Since commitments may expire without being drawn upon, the total contractual amounts do not necessarily represent future cash requirements.

### Guarantees and Letters of credit

Letters of credit and guarantees commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract. Guarantees and standby letters of credit carry the same risk as loans. Credit guarantees can be in the form of irrevocable letters of credits, advance payment guarantees and endorsements liabilities from bills rediscounted.

### Legal claims

At the end of the financial year 2013, the Group has allocated provisions of QAR 10,006 thousand to meet probable legal claims against the Group (2012: QAR 4,756 thousand). In the opinion of the Board of Directors, the provisions taken are considered sufficient.

## 30. CASH AND CASH EQUIVALENTS

| | 2013 | QAR'000s 2012 |
|---|---|---|
| Cash and balances with banks | **338,708** | 227,341 |
| Money market placements | **2,206,147** | 1,292,010 |
| | **2,544,855** | 1,519,351 |

*Cash and balances with Central banks do not include the mandatory cash reserve.



Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 31. DERIVATIVES

QAR'000s

| | Positive fair value | Negative fair value | Notional amount | Notional / expected amount by term to maturity: Within 3 months | 3 - 12 months | 1 - 5 Years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **At 31 December 2013:** | | | | | | | |
| **Derivatives held for trading/fair value hedges:** | | | | | | | |
| Forward foreign exchange contracts | **4,104** | **(11,591)** | **2,464,536** | **2,464,536** | **-** | **-** | **-** |
| Interest rate swaps | **4,302** | **(254)** | **258,440** | **-** | **76,440** | **145,600** | **36,400** |
| **Derivatives held as cash flow hedges:** | | | | | | | |
| Interest rate swaps | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total** | **8,406** | **(11,845)** | **2,722,976** | **2,464,536** | **76,440** | **145,600** | **36,400** |
| At 31 December 2012: | | | | | | | |
| Derivatives held for trading/fair value hedges: | | | | | | | |
| Forward foreign exchange contracts | 11,131 | (5,492) | 2,152,809 | 2,152,809 | - | - | - |
| Interest rate swaps | 100 | (74) | 294,840 | - | - | 258,440 | 36,400 |
| Derivatives held as cash flow hedges: | | | | | | | |
| Interest rate swaps | - | (1,051) | 29,782 | 28,805 | 977 | - | - |
| Total | 11,231 | (6,617) | 2,477,431 | 2,181,614 | 977 | 258,440 | 36,400 |

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices

These include financial options, futures and forwards, interest rate swaps and currency swaps, which create rights and obligations that have the effect of transferring between the parties of the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, a derivative financial instrument gives one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instruments, as prices in financial markets change, those terms may become either favourable or unfavourable.

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 31. DERIVATIVES (CONTINUED)

**Derivative product types**

Forwards exchange contracts are contractual agreements to either buy or sell a specified currency at a specific price and date in the future. Forwards exchange contracts are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

**Derivatives held for trading purposes**

Most of the Group's derivative trading activities relate to customer driven transactions as well as positioning and arbitrage. Positioning involves managing positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products.

**Derivatives held for hedging purposes**

The Group has adopted a comprehensive system for the measurement and management of risk.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate movements. This is achieved by hedging specific financial instruments and forecasted transactions, as well as strategic hedging against overall consolidated statement of financial position exposures.

The Group uses forward foreign exchange contracts to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps to hedge against the interest rate risk arising from specifically identified fixed rate exposures. The Group also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate liabilities. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value or cash flow hedges. Hedging of interest rate risk is also carried out by monitoring the duration of assets and liabilities and entering into interest rate swaps to hedge net interest rate exposures. Since hedging of net positions does not qualify for special hedge accounting, related derivatives are accounted for the same way as trading instruments.

## 32. FIDUCIARY ACTIVITIES

The Group provides investment brokerage and custody services to customers. Those assets that are held in a fiduciary capacity are excluded from these consolidated financial statements and amount to QR 598,081 thousand at 31 December 2013 (2012: QR 606,903 thousand).

## 33. SOCIAL AND SPORTS FUND

During the year, the Group made an appropriation of QR 13,142 thousands (31 December 2012- QR 11,628 thousands) representing 2.5% of the net profit for the year ended 31 December 2013, pursuant to the Law No.13 of 2008 and further clarifications for the Law issued in 2010.



Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 34. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, Related parties include entities over which the Group exercises significant influence, major shareholders, directors and key management personnel of the Group.

The Group enters into transactions with major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled, or significantly influenced by such parties. All the loans, advances and financing activities to related parties are given at market rates and these are performing and free of any allowance for possible credit losses

The balances of related parties included in the consolidated financial statements are as follows:

QAR'000s

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Board of directors** | **Shareholders** | Board of directors | Shareholders |
| **Assets:** | | | | |
| Due from banks | **-** | **-** | - | 36 |
| Loans and advances to customers | **653,836** | **-** | 161,842 | - |
| Financial investments | **-** | **-** | - | 63,639 |
| **Liabilities:** | | | | |
| Customer deposits | **341,791** | **1,858,514** | 263,449 | - |
| Due to banks | **-** | **-** | - | - |
| **Unfunded items:** | | | | |
| Letters of guarantee, letters of credit, commitments and indirect credit facilities | **7,319** | **-** | 7,309 | 48,762 |
| Interest rate swaps | **-** | **-** | - | 233,622 |
| **Income statement items:** | | | | |
| Interest and fee and commission income | **4,685** | **-** | 1,696 | 975 |
| Interest and fee and commission expense | **7,715** | | 3,205 | 180 |

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

**a) Transactions with key management personnel**

Key management personnel and their immediate relatives have transacted with the Group during the year as follows:

| | | QAR'000s |
|---|---|---|
| | **2013** | 2012 |
| Other loans | **165** | 288 |

Key management personnel compensation for the year ended comprised:

| | **2013** | 2012 |
|---|---|---|
| Salaries and short term employee benefits | **17,916** | 11,308 |
| Post employment benefits | **6,118** | 7,600 |
| | **24,034** | 18,908 |

## 35. COMPARATIVES

The comparative figures presented for 2012 have been reclassified where necessary to preserve consistency with the 2013 figures. However such reclassifications did not have any effect on the consolidated net profit, other comprehensive income or the total consolidated equity for the comparative year



# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 36. FINANCIAL STATEMENTS OF THE PARENT BANK

**a) Statement of Financial Position – Parent Bank**

| | | QAR'000s |
|---|---|---|
| | **2013** | 2012 |
| **ASSETS** | | |
| Cash and balances with central banks | **1,194,554** | 880,584 |
| Due from banks | **2,206,147** | 1,292,010 |
| Loans and advances to customers | **17,312,451** | 14,013,630 |
| Investment securities | **5,067,670** | 4,169,523 |
| Property and equipment | **176,569** | 180,194 |
| Other assets | **268,236** | 117,112 |
| **TOTAL ASSETS** | **26,225,627** | 20,653,053 |
| **LIABILITIES** | | |
| Due to banks | **1,785,008** | 1,074,660 |
| Certificate of deposits | **1,067,695** | 1,458,624 |
| Customer deposits | **18,927,808** | 13,992,788 |
| Debt securities | **182,000** | 182,000 |
| Other liabilities | **687,634** | 495,368 |
| **TOTAL LIABILITIES** | **22,650,145** | 17,203,440 |
| **EQUITY** | | |
| Share capital | **1,270,750** | 1,270,750 |
| Legal reserve | **1,337,722** | 1,337,722 |
| Risk reserve | **382,994** | 254,706 |
| Fair value reserves | **28,273** | 37,881 |
| Retained earnings | **555,743** | 548,554 |
| **TOTAL EQUITY** | **3,575,482** | 3,449,613 |
| **TOTAL LIABILITIES AND EQUITY** | **26,225,627** | 20,653,053 |

# Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2013

## 36. FINANCIAL STATEMENTS OF THE PARENT BANK (Continued)

### b) Income Statement – Parent Bank

| | | QAR'000s |
|---|---|---|
| | **2013** | 2012 |
| Interest income | **938,851** | 774,187 |
| Interest expense | **(254,040)** | (238,487) |
| **Net interest income** | **684,811** | 535,700 |
| | | |
| Fee and commission income | **121,443** | 104,242 |
| Fee and commission expense | **-** | (844) |
| **Net fee and commission income** | **121,443** | 103,398 |
| | | |
| Foreign exchange gain / (loss) | **25,420** | 26,155 |
| Income from investment securities | **10,736** | 18,409 |
| Other operating income | **4,458** | 4,606 |
| **Net operating income** | **846,868** | 688,268 |
| | | |
| Staff costs | **(151,993)** | (112,756) |
| Depreciation and amortisation | **(21,101)** | (15,953) |
| Net impairment loss on loans and advances to customers | **(49,519)** | (11,593) |
| Other expenses | **(94,411)** | (77,464) |
| Profit for the year | **529,844** | 470,502 |