



# Go Forward

Annual Report 2003



الوطني QNB



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



His Highness  
**Sheikh Tamim Bin Hamad Al-Thani**  
Heir Apparent



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We, at QNB, invite you to **Go Forward with us.** →

QNB, the country's leading financial institution, has been instrumental in contributing to the country's economic growth and we are now poised to Go Forward – to channel Qatar's abundant wealth – to solidify its place in the global economy.





**On behalf of the Board of Directors,**

I am pleased to present the 39th Annual Report of Qatar National Bank for the year ended 31st December 2003. →

## Chairman's Statement

QNB delivered a strong performance during 2003, once again achieving record levels of profitability. The Bank has exceeded its business and financial targets, set forth in its five-year strategic plan formulated in early 2002.

The strong performance of the Bank is linked to developments in the world economy and those of Qatar. Available data on world economic output indicates a marginal increase in growth for 2003 estimated at 3.2%, which is forecast to rise to 4.1% in 2004. On the domestic economic front, Qatar's economy is accelerating at a fast pace, with a preliminary increase in Gross Domestic Product of 8.8% for 2003 at current levels. While the oil and liquid natural gas (LNG) sector is contributing significantly to the strong performance of the economy, activities in all other sectors continue to strengthen. Qatar's thriving economy is expected to continue to gain momentum in the years ahead as the volume of LNG exports and petrochemical products is set to increase substantially from present levels.

In terms of financial performance, QNB's net profit increased by 10.5% to QR641.1 million, as compared to QR580.2 million in 2002. This is a highly creditable result given that the Bank reduced its interest rates during 2003, which are the lowest in Qatar. I am also pleased to report the Bank's success in diversifying its sources of revenue, placing less reliance on interest income. Other income rose by QR54.8 million (37.3%) in 2003, representing 19.0% of operating income compared to 14.9% in 2002. This reflects an increase in net fees and commissions income, net gains from dealing in foreign currencies, and income from investments. This increase in other income does not include any income from the sale of investments or any recovery of provisions, and is purely related to core business activity. Return on average shareholders' equity improved from 14.0% in 2002 to 15.1% in 2003, while earnings per share increased from QR5.6 to QR6.2.

Consistent with the Bank's commitment to maximise shareholder returns, the Board of Directors is recommending to the General Assembly the distribution of a cash dividend of QR5.25 per share.

QNB is ideally poised to go forward in 2004 and build on its past successes. In 2004 we will celebrate 40 years of service to the community. During this period, QNB has been at the forefront – leading change, building equity and helping to create a solid business infrastructure that ensures the people of Qatar have an enviable quality of life. In 2004 we will take that success to new heights by adopting a progressive, dynamic new look that reinforces not only where we have been but where we are going. This process marks a new stage in the Bank's strategic evolution which will support our continued growth and expansion in Qatar and beyond.

On behalf of the Bank, I take this opportunity to express to His Highness the Emir, Sheikh Hamad bin Khalifa Al-Thani and to His Highness the Heir Apparent, Sheikh Tamim bin Hamad Al-Thani, our sincere gratitude for their continuous support of the Bank and for implementing wise and sound policies that have contributed substantially to the growth of the nation's economy. We also express our appreciation to His Excellency the Governor of Qatar Central Bank, Abdullah bin Hamad Al-Attiyah, for his leadership in promoting the banking sector.

As always we are indebted to our management and staff for their dedication and commitment to making Qatar National Bank the country's leading financial institution. Working together we will continue to actively implement our commitment to service excellence and seek concrete ways to reward our customers' continued loyalty.

**Yousef Hussain Kamal**  
Chairman



**It is my privilege as QNB's Chief Executive,** to present a comprehensive review of the principal achievements of the Bank during the year ended 31st December 2003, which demonstrates and reinforces QNB's leading role in the nation's banking community.

In terms of financial performance, we surpassed an array of milestones and our own internal targets, achieving record profits and earnings per share. ➔

## Chief Executive's Report

Net profit rose by 10.5% to QR641.1 million, compared with the net profit of QR580.2 million delivered in 2002. During 2003, the Bank's total assets increased by QR3.7 billion (12%) to QR34.8 billion, with total deposits increasing by QR0.5 billion (2.1%) to QR24.1 billion. The Bank's return on average shareholders' equity improved from 14% in 2002 to 15.1% in 2003 and earnings per share improved from QR5.6 to QR6.2. We remain committed to achieving continuous growth in these shareholder value indicators in the coming years.

Turning to the business highlights of 2003, the Bank further enhanced its reputation as the premier financial institution in Qatar and it now ranks 236th in the world in *The Banker* Top 1000 Banks for 2003, in addition to ranking 50th in the world in terms of capital strength as measured by its equity to assets ratio.

Focusing on the achievements of the Bank's individual business areas, Retail Banking continued to expand the range of products and services it offers in Qatar through its comprehensive network of 33 branches and offices and 66 ATMs, which is further supported by telephone and internet banking services. In addition, 2003 witnessed the opening of a new branch in Shahaniya, and the relocation of four branches as part of our ongoing commitment to enhanced services.

In the Corporate Banking sphere, QNB continues to participate in the financing of major industrial projects in Qatar as the oil and gas infrastructure continues to expand. We also continued to strengthen our senior management team, with the appointment of a General Manager for our Corporate Banking and Capital Markets Division, who has a wealth of experience and will lead our efforts to significantly expand our presence in this domain in the years ahead. We also recruited an experienced banker as General Manager of Risk Management to deal with risks in an effective manner.

Undoubtedly one of the major achievements during 2003 was the Bank's role as the Lead Manager in the Initial Public Offerings (IPOs) of Industries Qatar, Qatar Meat and Livestock Trading (Mawashi), and Gulf Storage (Makhazen). The total offering of the three IPOs was QR2.8 billion. These IPOs attracted about 208,000 subscribers, with total subscribed funds of approximately QR12.0 billion. The Bank's achievement in successfully handling these IPOs, both in organisational and information technology terms, demonstrated the Bank's undoubted leadership in this field in Qatar.

The Bank's staff are key to its continued success, and it is due to their hard work and dedication that we have achieved such strong results. It is also essential that we ensure that the Bank's staff have the necessary skills to meet the new challenges that they will face and during 2003 we continued to invest heavily in our staff training programmes. The launch of our new corporate identity in 2004 will be the catalyst for an intensive programme of customer service and marketing training which will significantly improve the Bank's excellent reputation in the Qatari market.

The Bank's successful policy of employing and training Qatari citizens continued during the year, with the ratio of Qatari to total employees working for the Bank in Qatar at 43%, compared with 20% in 1994. Not only is it our aim to maximise the percentage of Qatari citizens working for the Bank, but also to ensure that we employ Qatari staff who possess the drive and skills needed to take the Bank to new heights.

I would like to take this opportunity to express my appreciation to the Chairman and to all members of the Board of Directors for their kind support and invaluable advice. I must also thank our customers and assure them that the Bank will strive to remain their bank of choice through innovative products and services and a commitment to quality.

We will face many new challenges in 2004, but I am confident that, with the support of our stakeholders - be they our shareholders, customers, staff or communities where we do business, Qatar National Bank will continue to deliver record results.

**Saeed Al Misnad**  
Chief Executive



H.E. Yousef Hussain Kamal Chairman

## Board of Directors

We recognise and accept our obligation to serve as an enabling force, facilitating the personal growth and development of the community of individuals who fuel QNB's and Qatar's success.



H.E. Sheikh Hamad Bin Faisal Al-Thani

Vice Chairman



H.E. Sheikh Ahmad Bin Mohd. Bin Jabor Al-Thani

Member



Mr Rashid Misfer Al-Hajri

Member



Mr Mohammad Marzouq Al-Shamlan

Member



Dr Ghanem Mohammad Al-Hammadi

Member



Mr Ali Hussain Ali Al-Sada

Member



Mr Bader Abdulla Darwish Fakhroo

Member



Mr Fahad Mohammad Fahad Buzwair

Member



Mr Hitmi Ali Khalifa Al-Hitmi

Member





## Retail Banking

Retail Banking continues to develop its delivery platform and range of products to ensure that QNB remains the premier financial institution in Qatar.

### Expanding and enhancing the QNB network

During 2003, Retail Banking expanded the geographical coverage of its branch network to include the central town of Shahaniya. Additionally, after an intense selection process, the Bank was chosen to be the financial partner and to operate a branch within the newly created Education City, located on the outskirts of Doha. Under the auspices of Qatar Foundation, this new facility will be home to a variety of renowned international establishments and a regional centre of educational excellence.

To offer greater convenience and enhanced efficiency to customers in a modern, welcoming environment, four of QNB's existing branches were relocated. The Bank's domestic branch and office network now stands at 33.

In parallel, the Bank expanded its ATM network with the installation of six new locations. The ATM network now totals 66 machines and registered a 20% increase in transactions over 2002.

### Capitalising on Internet access

The Bank has expanded its Point-of-Sale (POS) acquiring service significantly during the year and now offers an Internet payment facility. The volume of business transacted through the POS service continues to record substantial growth, with 2003 registering an increase of more than 125% as compared to 2002. In November, the Bank signed an agreement with Qatar's Ministry of Interior to provide electronic payment facilities throughout Qatar to enhance the convenience and security of fee payments for all items under its control, including visas, residence permits and vehicle registrations. In terms of issuance, the Bank continues to dominate the plastic card market, holding the largest card portfolio for the two major international card brands, and recording approximately half of total card expenditure in Qatar.

In July, the Bank's alwatani.com PC banking facility was migrated to the Internet, enabling customers to access and perform transactions on their QNB accounts from around the world.

### Facilitating local ownership

During the year, the Bank conducted a number of successful personal loan campaigns for Qatari citizens. Changes to property ownership eligibility in the impressive West Bay Lagoon housing development facilitated a flurry of building project financing and heralded the Bank's new long-term loan facility for the construction of property in this prestigious location.



## Business Review

QNB continued its leading role in the expanding local financial sector through its support in financing major projects, its involvement in the local burgeoning capital market and through its substantial and innovative retail banking network.



## Our focused approach

is re-defining the standards of excellence for our team members and inspiring them to 'live' the Go Forward motto.

### Private Banking

#### Fuelling international property ownership

QNB's product and service offerings for high net worth Private Banking customers continue to expand. During 2003 this division worked closely with the Investment Department to cross-sell new investment products and focused on strengthening its ties with our London and Paris branches to identify property acquisition opportunities and support prudent transactions in this realm.

### Corporate Banking

Corporate Banking continues to represent the core of the Bank's lending capability and remains at the forefront of the Bank's overall development. Corporate Banking is focused on catering to the broad financial needs of the domestic Qatari market and the wider Gulf region.

#### Supporting economic growth

The continuing growth of Qatar's economy ensures that the contracting unit is constantly active and the Bank continues to dominate this area of activity.

As Qatar prepares for major RasGas facility expansions, new Qatar-based projects and, consequently the need for structured finance, was limited in 2003. But, despite this reality, the Bank remained as a key focal point on the financing radar, serving as Mandated Lead Arranger for Qatar Vinyl Company's US\$460 million refinancing venture and joined a group of international banks to fund the construction of a new LNG vessel for Qatar LNG Transport.

Meanwhile, in the aerospace sector, the Bank is helping to finance the construction of new facilities for Gulf Helicopters to support its fleet expansion, and Qatar Airways' purchase of five Airbus A320s.

Also, significant new pre-export finance facilities were provided to the Iran Petroleum Company and the Bank continues to seek profitable opportunities in this field.







Through the creation of a healthy and positive work environment that rewards creativity and initiative and is built upon effective collaboration and communication - our employees are committed to creating and providing **optimum service and innovative products.**

## Treasury

Treasury continues to excel as manager of the Bank's balance sheet and provider of sophisticated products aimed at enhancing and expanding the Bank's customer base.

### Creating profits

The Bank's fixed income portfolio is now well established and provides a robust source of revenue. This, coupled with the Bank's use of interest rate hedging products to minimise risks arising from the changing mix of assets and liabilities, creates a sound fiscal environment for shareholders.

Our client-focused activity uses solid team expertise to identify stable investment opportunities and provide prudent advice to customers seeking financial asset management support. Being ideally equipped to identify the most appropriate channels for market investments and facilitate the required transactions, enables us to continue to solidify QNB's premier reputation in this arena.

## Investments

### Encouraging local investment

The Bank's Investment Department experienced resounding success in 2003. January witnessed the successful launch of the Bank's Amana Note. In May, the Bank secured the lead manager and agent role for the Industries Qatar Initial Public Offering (IPO), which attracted 104,000 subscribers, and in November the team managed and coordinated an IPO for the Qatar Meat and Livestock Trading Company (Mawashi), which attracted 64,000 subscribers.

### Extending the reach - and the opportunities

In December, the Bank launched Qatar's first online brokerage system, e-broker, enabling customers to trade directly with the US stock markets at anytime, from anywhere. This new online service provides instant and direct access to key US bourses, including the New York Stock Exchange.

Looking ahead, the Bank will focus on strengthening its relationship with the Doha Securities Market (DSM) to create a more comprehensive corporate financing capability.





Internally, we are creating  
**a strong community**  
of individuals, united in purpose, supported in their  
aspirations, and empowered to Go Forward.

## Overseas Branches

### Supporting Qatar's growth from afar

The Bank's London and Paris branches continue to focus on providing private banking services to Qatari Nationals abroad and on strengthening the Bank's corporate business profile by providing a range of services to international companies conducting business in Qatar and the wider Gulf region.

## London

### Strengthening international ties and improving access to retail services

During 2003, the London Branch continued to enhance links between the Bank and its corporate and institutional liaisons in the UK, Scandinavia and the US. The branch also offers a full range of retail services to Qatari Nationals visiting London and those temporarily residing in the UK, principally Embassy staff, Qatari students continuing their academic studies and those seeking medical treatment.

### Solidifying its presence for the future

During 2003, QNB's London Branch also purchased a long-term leasehold interest in a new building, which will become its new offices in 2004. The new building, located in Grosvenor Street, is a short walk from the Bank's existing premises in Mount Street. The new facilities will enable the Bank to further enhance the services available to those Qatari individuals keen to develop personal banking arrangements outside of Qatar.

## Paris

### Capitalising on financing opportunities

The Paris Branch continues to focus on building the Bank's presence in continental Europe, and in 2003 structured finance activities were particularly buoyant, with the financing of Airbus aircraft for Qatar Airways and the June 2003 announcement of a large order of new aircraft to be financed by export credits.

### Raising service standards

In the real estate field, the Paris Branch has significantly strengthened its position in both the institutional and private investor sectors. Additionally, private banking activities continue to escalate following a complete refurbishment of the premises, enabling it to provide its high net worth clients with dedicated facilities in a discreet environment.







## Operations and Information Technology

### Providing round-the-clock access

Operations and Information Technology provide the engine that allows QNB to function 24 hours a day, 365 days a year.

In 2003, the Operations Division focused on increasing efficiency and strengthening risk control. Its goal is to achieve optimum operational efficiency through the implementation of straight-through transaction processing, which reduces risk and costs simultaneously.

Always eager to embrace new technological solutions, QNB was the first bank in Qatar to pilot test a new electronic cheque-clearing system. The endeavour proved to be a noteworthy success, improving the cheque clearing time from 'up to three days' to approximately ten minutes. The Bank continues to review its operational policies and procedures in a bid to streamline workflow and improve efficiency.

Risk reduction and control was a key priority for the Operations Division in 2003. Important initiatives included ongoing awareness campaigns about money-laundering issues and special training aimed at enabling staff to detect and report suspect transactions. In addition, the Bank maintained a continuous security review of its operational activities, which extended throughout its entire branch network.

### Embracing technology

The Bank's Information Technology Department led the launch of a credit card-based e-commerce gateway, ensuring QNB was the first bank in Qatar to provide this revolutionary service. To complement the introduction of this innovative new service it also coordinated the delivery of general awareness sessions for users and potential users. The e-Government service was the first service to go live on the new system and made its debut in April.

### Supporting Qatar's expanding capital market

QNB's Information Technology Department continues to play a lead role in supporting the country's expanding capital market. It introduced major technological improvements to support efficient and speedy transmission of information about the increasing range of IPOs on offer and developed comprehensive procedures to support optimum service delivery for individuals, corporations and government institutions interested in evaluating and subscribing to new offerings, as they arise.

Additionally, the Bank offers an automated dividend distribution service to an increasing number of companies quoted on the Doha Securities Market, further underscoring its leadership role in this field.

## Human Resources

### Pursuing excellence

Maintaining well-trained and fully motivated staff remains a top priority for the Bank. Recognising its staff is its most valuable asset, the Bank is committed to continue investing heavily in this domain, to ensure its success in achieving its ambitious goals.

### Aligning values

During 2003, the Bank sought to reinforce links between staff performance and the achievement of the Bank's strategic business objectives. Identifying novel ways to reward employees who actively support the organisation's mission is generating positive results and will remain an ongoing priority in the year ahead.

### Providing fertile ground for personal growth

The hiring of male and female Qatari university graduates remains central to our recruitment policy, and is complemented by an extensive training programme which combines a variety of internal and external resources. Furthermore, we are committed to managing their career paths to support personal growth and development, and encourage their advancement within the QNB framework. The ratio of Qatari to total employees working for the Bank in Qatar has more than doubled over the past ten years and now stands at 43% as compared to 20% in 1994.

## Human Resources

### Building a better world

QNB has always been an avid supporter of the community and it continues to cherish this role. By integrating a variety of social, educational, health, environmental and sporting initiatives into its business activities, it helps improve the quality of life for Qatari citizens and actively supports their personal growth and development. During 2003, the Bank contributed some QR14.9 million to such initiatives. One notable contribution to the community-at-large was QNB's support of the building project for the Shafallah Centre for Children with Special Needs, which will provide education and rehabilitation facilities for up to 1,000 children. This project is a perfect illustration of the kind of initiative that the Bank is committed to supporting.

The Bank continues to support a wide spectrum of sporting events in Qatar involving an array of activities, including tennis, squash, football, handball, weightlifting, horse racing and equestrianism.

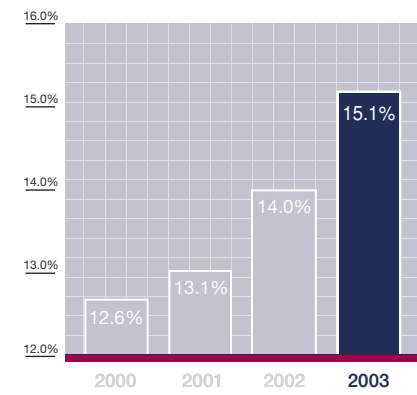
QNB is an integral part of the fabric of the Qatari community. We have nurtured the country's economic growth and strength of spirit for forty years and we are committed to continuing to enrich our environment to ensure a prosperous future.





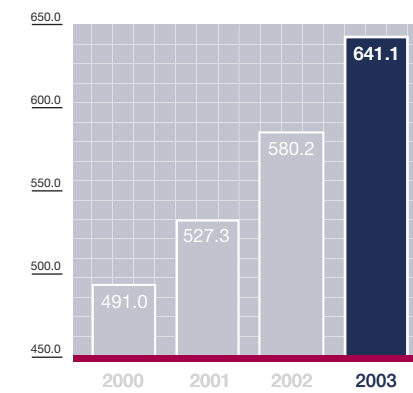
## Financial Highlights

QNB continues to make excellent progress, and on a range of key measures of success, including profitability, return on equity and capital strength, the Bank delivered a robust set of results.



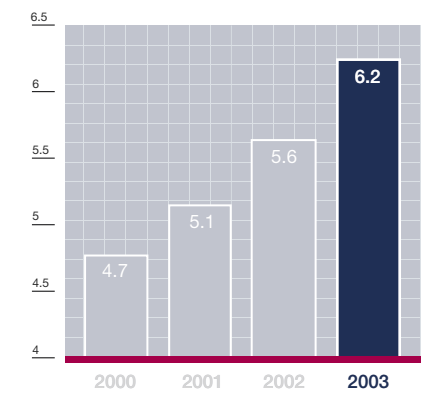
### Return on Shareholders' Equity

The Bank's return on shareholders' equity improved from 14% in 2002 to 15.1% in 2003.



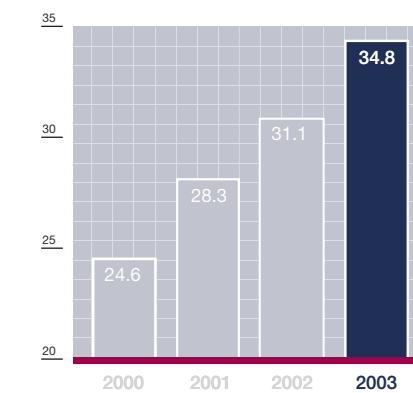
### Net Profit (QR Million)

Net profit rose by 10.5% to QR641.1 million, compared with the net profit of QR580.2 million delivered in 2002.



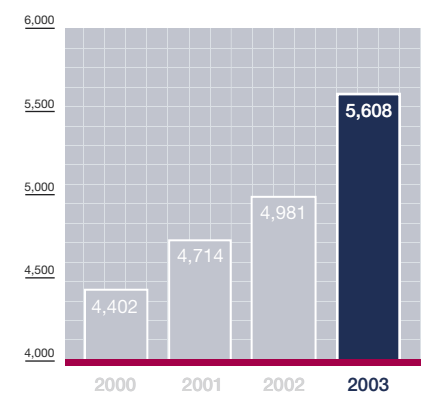
### Earnings Per Share (QR)

Earnings per share improved from QR5.6 in 2002 to QR6.2 in 2003.



### Total Assets (QR Billion)

During 2003, the Bank's total assets increased by QR3.7 billion (12%) to QR34.8 billion.



### Total Shareholders' Equity (QR Million)

Total shareholders' equity at 31st December 2003 was QR5.6 billion (US\$ 1.5 billion).



## Financial Review

Delivering enhanced value to our shareholders and customers has always been core to our philosophy and will remain paramount as we go forward with renewed confidence and vigour.

### Net profits up 10.5%

The Bank achieved a net profit for the year ended 31st December 2003 of QR641.1 million, QR60.9 million (10.5%) up on the QR580.2 million delivered in 2002. The 2003 net profit is after an exceptional one-off pension contribution of QR23.9 million to support the new State Pension Fund. Net profit before this provision was QR665.0 million, an increase of QR84.8 million (14.6%) over 2002.

Total income increased by QR73.4 million (7.4%) to QR1,059.6 million.

Net interest income improved by QR18.6 million (2.2%) to QR857.9 million. Other income grew strongly in 2003, as demonstrated by an increase of QR54.8 million (37.3%) to a total of QR201.7 million.

### Net fees and commissions up 43.8%

Net fees and commissions income increased by QR42.7 million (43.8%). Additional commissions arising from increased retail lending business contributed QR19.4 million and the Bank's investment business generated an additional QR13.6 million over 2002. This was due principally to increased levels of local equity business on behalf of customers and to the income arising from the Bank's role as manager and agent of two large IPOs during 2003.

### Dividend income up 46.2 %

Dividend income also grew significantly, up 46.2% from QR23.4 million in 2002 to QR34.2 million in 2003, reflecting higher payouts from companies listed on the Doha Securities Market.

### Continued business efficiency

Operating expenses (excluding Community Support) increased by QR15.6 million (5.9%) to QR281.1 million. The Bank continued its strategy of ensuring that costs are actively managed to reflect the trend in total income, with the Bank's efficiency ratio (expenses to income) of 26.5% ranking it amongst the most efficient of GCC banks.

### Good quality loan book

The Bank's loan impairment provisions (net of recoveries) amounted to QR82.7 million. The Bank's loan portfolio remains of a high quality, with the ratio of non-performing loans to gross loans improving from 2.9% in 2002 to 2.6% in 2003.



**We are committed**  
to using our respected reputation and resources to secure  
a materially prosperous future for Qatar and its people.

#### Strong balance sheet growth

Total assets grew to QR34.8 billion as at 31st December 2003 from QR31.1 billion in the previous year, representing a 12% increase of QR3.7 billion.

Gross loans and advances grew to QR24.1 billion from QR20.8 billion at 31st December 2002, representing an increase of QR3.3 billion, or 15.8%, with the Bank's investments and debt securities portfolio also growing by QR1.9 billion during the year. Total deposits increased by QR0.5 billion (2.1%) to QR24.1 billion.

#### Continued capital strength and improved global ranking

Total shareholders' equity at 31st December 2003 amounted to QR5.6 billion (US\$1.5 billion) and in global terms, QNB continues to rank highly in *The Banker's* list of Top 1000 Banks for 2003, rising to 236th in the world, up three places from last year. In addition, the Bank ranks 50th in the world in terms of capital strength, as measured by its equity-to-assets ratio.

#### Shareholder value continues to be enhanced

The Bank's return on average shareholders' equity improved from 14% in 2002 to 15.1% in 2003, while earnings per share increased from QR5.6 in 2002 to QR6.2 in 2003.

#### Going forward with confidence

The Bank is confident that, by continuing to focus on the fundamentals of credit quality, income growth and continued efficiency, it will continue to deliver superior and sustainable value to its shareholders and customers.

