

# Reduction of capital

## Background:

- QFB listed itself on the Qatar Exchange on 27 April 2016, and thereafter became subject to QFMA's Offering and Listing of Securities Rulebook (Rulebook). QFC Companies law require the listed companies to fulfill the requirements of QFMA, so the breach of applicable QFMA rules will result in breach of the rules of QFC.
- Article 61.3 of the Rulebook states (inter alia) that a listed company's **Shareholders' Equity** shall not be less than its **Paid-up Capital**
- As of 31 Dec 2016, QFB's Shareholders' Equity was **QAR 1,798,675,000**; while its paid up capital was **QAR 2,000,000,000**, therefore QFB is in non-compliance of Article 61.3 from fourth quarter of 2016 and onwards
- QFB received an official communication from the regulator (QFMA) regarding the non-compliance, advising the Bank to initiate steps to regularize the same. QFB responded to QFMA to rectify such breach with following suggested options: 1. Issuing post-paid Sukuk as additional capital 2. Reducing share capital and 3. Improve QFB future profitability to change the situation.
- As of 30 June 2019, QFB's Shareholders' Equity further reduced to **QAR 700,203,000**; while its paid up capital was **QAR 2,000,000,000**. Therefore, there is a shortfall of **QAR 1,299,797,000** in the Shareholders' Equity, represented mainly by the losses accumulated by the Bank during 2016 – first half of 2019.

## Implications:

- As per QFMA Rulebook article 63.9 if the defaulted position is not rectified, it may lead to the suspension of listing of QFB for a period Maximum 6 months to rectify the position. If it is not rectified with the 6 months, then other penalties may apply by QFMA against QFB persons in charge for continuation of suspension. Furthermore, as per article 35 & 66.4 of the Rulebook, QFMA may cancel QFB's listing and prevent QFB from engaging in activities with others subject to the QFMA's jurisdiction. QFMA might also impose financial penalty not exceeding QAR 10,000,000 and QAR 10,000 per day in case of continuous violation.

# Reduction of capital (contd.)

## Proposed action:

- In order to regularize this area of non-compliance with QFMA's Rulebook, QFB proposes to reduce its authorized and issued ordinary shares by reducing its number **from 2,000,000,000 ordinary shares to 700,000,000 ordinary shares**, by utilizing its accumulated deficits.
- (For illustration purposes only) On the right side, the existing Equity position of the Bank as per its Balance Sheet as of 30 June 2019 is presented. Also, a comparative Equity position is presented after affecting the proposed capital reduction. **Please note that the Net Equity before and after the Capital Reduction remains unchanged.**
- The proposed method of Capital Reduction is in line with the Bank's Articles of Association as well as QFMA and QFC regulations, specifically article 30 of QFC's Companies Rules entitled "Reduction Of Share Capital"
- The effective date from which the Capital Reduction is to take effect is proposed to be the date on which regulatory approval is obtained.
- We thereby seek your approval on this proposal**

Position as of June 30, 2019	<b>Equity</b>	
	Share Capital:	
	<i>Authorised share capital:</i>	
	2,500,000,000 ordinary shares of QAR 1 each	2,500,000,000
	<i>Issued and paid up share capital:</i>	
2,000,000,000 ordinary shares of QAR 1 each	2,000,000,000	
Accumulated deficit	(1,299,797,000)	
<b>Net equity attributable to Shareholders of the Bank</b>	<b>700,203,000</b>	
Position after capital reduction	<b>Equity</b>	
	Share Capital:	
	<i>Authorised share capital:</i>	
	2,500,000,000 ordinary shares of QAR 1 each	2,500,000,000
	<i>Issued and paid up share capital:</i>	
700,000,000 ordinary shares of QAR 1 each	700,000,000	
Retained Earnings and other reserves	203,000	
<b>Net equity attributable to Shareholders of the Bank</b>	<b>700,203,000</b>	