Consolidated Financial Statements

31 December 2012

CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS

ERNST & YOUNG

P.O. Box 164
Burj Al Gassar, 24th Floor
Majlis Al Taawon Street, Onaiza
West Bay,
Doha, State of Qatar
Tel : +974 4457 4111
Fax : +974 4441 4649
www.ey.com/me

Independent Auditors' Report to the Shareholders of The Commercial Bank of Qatar (Q.S.C.)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Commercial Bank of Qatar (Q.S.C.) (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of Qatar Central Bank regulations, and for such internal control as board of directors determine 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 about whether the 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 the auditors' 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, the auditors consider internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by board of directors, 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 financial position of the Group as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the applicable provisions of Qatar Central Bank regulations.

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations which we considered necessary for the purpose of our audit. We further confirm that the financial information included in the Annual Report of the Board of Directors is in agreement with the books and records of the Group and that we are not aware of any contravention by the Bank of its Articles of Association, the applicable provisions of Qatar Central Bank Law No.33 of 2006 and amendments thereto and of the Qatar Commercial Companies Law No. 5 of 2002 during the financial year that would materially affect its activities or its financial position.

Firas Qoussous
Ernst & Young
Qatar Auditors' Registry No. 236

ERNST & YOUNG
Doha
محاسبون قانونيون
الدوحة
أرنست ويونغ

27 January 2013
Doha

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

QAR '000s

As at 31 December	Notes	2012	2011
ASSETS			
Cash and balances with central bank	8	3,448,128	2,576,494
Due from banks	9	9,731,562	9,271,920
Loans and advances to customers	10	48,594,475	41,711,783
Investment securities	11	11,162,179	11,732,639
Investment in associates	12	4,054,157	3,926,480
Property and equipment	13	1,197,069	1,070,328
Other assets	14	1,850,182	1,348,400
TOTAL ASSETS		**80,037,752**	71,638,044
LIABILITIES			
Due to banks	15	9,855,682	6,988,697
Customer deposits	16	41,385,546	37,988,683
Debt securities	17	8,705,816	6,871,674
Other borrowings	18	3,471,515	4,182,412
Other liabilities	19	1,679,815	1,376,282
TOTAL LIABILITIES		**65,098,374**	57,407,748
EQUITY			
Share capital	20 (a)	2,474,464	2,474,464
Legal reserve	20 (b)	8,740,540	8,740,540
General reserve	20 (c)	26,500	26,500
Risk reserve	20 (d)	924,600	805,600
Fair value reserves	20 (e)	163,225	(68,548)
Other reserves	20 (f)	673,604	556,456
Proposed dividend	20 (g)	1,484,678	1,484,678
Retained earnings		451,767	210,606
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		**14,939,378**	14,230,296
TOTAL LIABILITIES AND EQUITY		**80,037,752**	71,638,044

The consolidated financial statements were approved by the Board of Directors on 27th January 2013 and were signed on its behalf by:

HE Abdullah bin Khalifa Al Attiyah	**Mr. Hussain Ibrahim Alfardan**	**Mr. A C Stevens**
Chairman	Managing Director	Group Chief Executive Officer

The attached notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

QAR '000s

For the year ended 31 December	Notes	2012	2011
Interest income	23	2,898,193	2,876,150
Interest expense	24	(1,031,939)	(938,550)
Net interest income		**1,866,254**	1,937,600
Fee and commission income	25	689,091	752,587
Fee and commission expense	26	(170,487)	(166,978)
Net fee and commission income		**518,604**	585,609
Foreign exchange gain	27	155,563	129,536
Income from investment securities	28	365,972	160,495
Other operating income	29	77,598	50,266
Net operating income		**2,983,991**	2,863,506
Staff costs	30	(499,382)	(453,373)
Depreciation	13	(121,948)	(113,704)
Impairment loss on investment securities	11 (d)	(61,917)	(68,197)
Net impairment loss on loans and advances to customers	10 (c)	(139,944)	(239,403)
Other expenses	31	(407,052)	(308,278)
Profit before share of results of associates		**1,753,748**	1,680,551
Share of results of associates	12	258,546	203,420
Profit for the year		**2,012,294**	1,883,971
Profit for the year attributable to:			
Equity holders of the Bank		**2,012,294**	1,883,971
Earnings per share			
Basic/Diluted earnings per share (QAR per share)	32	8.13	7.71

The attached notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME QAR '000s

For the year ended 31 December	Notes	2012	2011
Profit for the year		**2,012,294**	1,883,971
Other comprehensive income for the year			
Share of other comprehensive income of investment in associates	21	10,717	(2,162)
Net movement in fair value of available-for-sale investments	21	221,056	(123,034)
Other comprehensive income (loss) for the year		**231,773**	(125,196)
Total comprehensive income for the year		**2,244,067**	1,758,775
Total comprehensive income for the year attributable to:			
Equity holders of the Bank		**2,244,067**	1,758,775

The attached notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

QAR '000s

	Notes	Share capital	Legal reserve	General reserve	Risk reserve	Fair value reserves	Other reserves	Retained earnings: Proposed dividend	Retained earnings: Other	Total equity
Balance as at 1 January 2011		2,268,258	7,332,158	26,500	648,000	56,648	469,706	1,587,781	110,806	12,499,857
Total comprehensive income for the year										
Profit for the year		-	-	-	-	-	-	-	1,883,971	1,883,971
Other comprehensive loss	21	-	-	-	-	(125,196)	-	-	-	(125,196)
Total comprehensive income for the year		-	-	-	-	(125,196)	-	-	1,883,971	1,758,775
Transfer to risk reserve	20 (d)	-	-	-	157,600	-	-	-	(157,600)	-
Net movement in other reserves	20 (f)	-	-	-	-	-	86,750	-	(86,750)	-
Social and sports fund appropriation	22	-	-	-	-	-	-	-	(55,143)	(55,143)
Transactions with equity holders, recognised directly in equity										
Contributions by and distributions to equity holders:										
Increase in share capital	20 (a)	206,206	-	-	-	-	-	-	-	206,206
Increase in legal reserve	20 (b)	-	1,408,382	-	-	-	-	-	-	1,408,382
Dividends paid		-	-	-	-	-	-	(1,587,781)	-	(1,587,781)
Proposed dividends	20	-	-	-	-	-	-	1,484,678	(1,484,678)	-
Total contributions by and distributions to equity holders		206,206	1,408,382	-	-	-	-	(103,103)	(1,484,678)	26,807
Balance as at 31 December 2011		2,474,464	8,740,540	26,500	805,600	(68,548)	556,456	1,484,678	210,606	14,230,296

The attached notes 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — QAR '000s

	Notes	Share capital	Legal reserve	General reserve	Risk reserve	Fair value reserves	Other reserves	Retained earnings		Total equity
								Proposed dividend	Others	
Balance as at 1 January 2012		2,474,464	8,740,540	26,500	805,600	(68,548)	556,456	1,484,678	210,606	14,230,296
Total comprehensive income for the year										
Profit for the year		-	-	-	-	-	-	-	2,012,294	2,012,294
Other comprehensive income	21	-	-	-	-	231,773	-	-	-	231,773
Total comprehensive income for the year		-	-	-	-	231,773	-	-	2,012,294	2,244,067
Transfer to risk reserve	20 (d)	-	-	-	119,000	-	-	-	(119,000)	-
Net movement in other reserves	20 (f)	-	-	-	-	-	117,148	-	(117,148)	-
Social and sports fund appropriation	22	-	-	-	-	-	-	-	(50,307)	(50,307)
Transactions with equity holders, recognised directly in equity										
Contributions by and distributions to equity holders:										
Dividends paid		-	-	-	-	-	-	(1,484,678)	-	(1,484,678)
Proposed dividends	20 (g)	-	-	-	-	-	-	1,484,678	(1,484,678)	-
Total contributions by and distributions to equity holders		-	-	-	-	-	-	-	(1,484,678)	(1,484,678)
Balance as at 31 December 2012		**2,474,464**	**8,740,540**	**26,500**	**924,600**	**163,225**	**673,604**	**1,484,678**	**451,767**	**14,939,378**

The attached notes 1 to 38 form an integral part of these consolidated financial statements.

The Commercial Bank of Qatar (Q.S.C.)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER **QAR '000s**

	Notes	2012	2011
Cash flows from operating activities			
Profit for the year		**2,012,294**	1,883,971
Adjustments for:			
Net impairment loss on loans and advances to customers		139,944	239,403
Impairment loss on investment securities		61,917	68,197
Depreciation	13	121,948	113,704
Amortization of transaction costs	17 & 18	20,527	15,113
Gain on investment securities at fair value through profit or loss	28	(2,664)	-
Net gain on disposal of available-for-sale securities	28	(337,161)	(136,307)
Gain on disposal of property and equipment		(364)	(37)
Share of results of associates	12	(258,546)	(203,420)
Profit before changes in operating assets and liabilities		**1,757,895**	1,980,624
Change in due from banks		(2,186,297)	(165,878)
Change in loans and advances to customers		(7,022,636)	(8,286,541)
Change in other assets		(475,217)	(267,873)
Change in due to banks		597,752	243,525
Change in customer deposits		3,396,863	4,708,021
Change in other liabilities		300,325	(54,106)
Contribution to social and sports activities support fund		(47,099)	(40,882)
		(5,436,309)	(3,863,734)
Net cash used in operating activities		**(3,678,414)**	(1,883,110)
Cash flows from investing activities			
Acquisition of investment securities		(7,031,632)	(4,795,399)
Investment in associates		-	(1,150)
Dividend received from associates		141,398	116,670
Proceeds from disposal of investment securities		8,101,244	3,111,821
Acquisition of property and equipment	13	(248,690)	(115,110)
Proceeds from the sale of property and equipment		365	137
Net cash from / (used in) investing activities		**962,685**	(1,683,031)
Cash flows from financing activities			
Net proceeds from issue of shares		**-**	1,614,588
Proceeds from issue of debt securities	17	1,791,934	-
Repayment of debt securities	17	-	(1,820,000)
Repayment of other borrowings	18	(2,366,000)	-
Proceeds from other borrowings	18	1,650,219	1,816,714
Dividends paid		(1,484,678)	(1,587,781)
Net cash (used in) / from financing activities		**(408,525)**	23,521
Net decrease in cash and cash equivalents		(3,124,254)	(3,542,620)
Cash and cash equivalents as at 1 January		3,827,719	7,370,339
Cash and cash equivalents as at 31 December	34	**703,465**	3,827,719
Operational cash flows from interest and dividend:			
Interest paid		1,002,400	975,121
Interest received		2,872,323	2,883,151
Dividend received		26,147	24,188

The attached notes 1 to 38 form an integral part of these consolidated financial statements.

As at and for the year ended 31 December 2012 QAR '000s

1. REPORTING ENTITY

The Commercial Bank of Qatar (Q.S.C.) ("the Bank") is an entity domiciled in the State of Qatar and was incorporated in 1975 as a public shareholding company under Emiri Decree No.73 of 1974. The commercial registration of the Bank is 150. The address of the Bank's registered office is PO Box 3232, Doha, State of Qatar. The consolidated financial statements of the Bank for the year ended 31 December 2012 comprise the Bank and its subsidiaries (together referred to as "the Group"). The Group is primarily engaged in conventional banking, brokerage services and credit card business and operate through its head office and branches established in the State of Qatar and the Bank have 29 branches in Qatar.

The principal subsidiaries of the Group are as follows:

Name of subsidiary	Country of incorporation	Capital of the subsidiary	Activity of the subsidiary	Percentage of ownership 2012	2011
Orient1 Limited	Bermuda	US$ 20,000,000	Holding company	100%	100%
Global Card Services L.L.C.	Sultanate of Oman	OMR 500,000	Credit card business	100%	100%
CBQ Finance Limited	Bermuda	US$ 1,000	Debt issuance for the Bank	100%	100%
Commercialbank Investment Services (S.P.C.)	Qatar	QAR 100,000,000	Brokerage services	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 Qatar Central Bank ("QCB") regulations.

The Group presents its statement of financial position broadly in the order of liquidity. An analysis regarding recovery or settlement within twelve months after the end of reporting date ("current") and more than twelve months of the reporting date ("non-current") is presented in Note 4(c)(iii).

(b) Basis of measurement

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

- investment securities designated at fair value through income statement;
- derivatives;
- available-for-sale financial assets; and
- the carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

(c) Functional and presentation currency

These consolidated financial statements are presented in Qatari Riyals ("QAR"), which is the Bank's functional and presentation currency. Except as otherwise indicated, financial information presented in QAR has been rounded to the nearest thousand. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities and is generally assumed when the Group holds, directly or indirectly, majority of the voting rights of the entity. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The accounting policies of subsidiaries are consistent with the accounting policies adopted by the Group.

(ii) Special purpose entities

Special purpose entities ("SPEs") are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

- the activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation;
- the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the Group has delegated these decision-making powers;
- the Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE;
- the Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

(iii) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(iv) Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost (including transaction costs directly related to acquisition of investment in associate). The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement; its share of post-acquisition movements is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Intergroup gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Intergroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

For preparation of the consolidated financial statements, consistent accounting policies for similar transactions and other events in similar circumstances are used.

(v) Joint ventures

Joint ventures are entities where the Group has a contractual arrangement with one or more parties to undertake activities through entities that are subject to joint control.

The Group recognises interests in a jointly controlled entity using the equity method of accounting. The accounting policy given in Note 3(a) (iv) therefore applies for joint ventures.

(vi) Funds management

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's funds management is set out in Note 36.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency

(i) 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 denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The gains and losses on revaluation of foreign currency non-monetary available-for-sale investments are recognised in the consolidated statement of changes in equity.

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.

(ii) Foreign operations

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate for the reporting date;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

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

- loans and receivables (LaR);
- held to maturity (HTM);
- available-for-sale (AFS); or
- at fair value through profit or loss (FVTPL), either as: held for trading; or FVTPL on initial designation

Financial liabilities

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

(iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

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, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(v) Measurement principles

(i) 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 paid or received that are an integral part of the effective interest rate (EIR).

(ii) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The Group measures the fair value of listed investments at the best bid on close for the investment. For unlisted investments, the Group recognises any increase in the fair value, when they have reliable indicators to support such an increase. These reliable indicators are limited to the most recent transactions for the specific investment or similar investments made in the market on a commercial basis between willing and independent buyers and sellers.

The fair value of investments in mutual funds and portfolios whose units are unlisted are measured at the net asset value, if the net asset value is a reliable measure of fair value.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The Group's derivative trading instruments includes forward foreign exchange contracts and interest rate swaps. The Group sells these derivatives to customers in order to enable them to transfer, modify or reduce current and future risks. These derivative instruments are fair valued as at the end of reporting date and the corresponding fair value changes is taken to the consolidated statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial assets and financial liabilities (continued)

(iii) Identification and measurement of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Group considers evidence of impairment loss for loans and advances to customers and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances to customers and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances to customers and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances to customers and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances to customers and held-to-maturity investment securities with similar risk characteristics.

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. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances to customers.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit 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.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

For listed equity investments, a decline in the market value from cost by 20% or more, or a decline in the market value from cost 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 previously impaired available-for-sale equity investment securities is recorded in fair value reserve. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

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 include amounts due from banks and amounts due to banks with an original maturity of 90 days or less.

(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, cash and balances with central banks and due from banks are classified as 'loans and receivables'.

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', 'fair value through profit or loss', 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) Fair value through profit or loss

The Group has classified its investments as held for trading where such investments are managed for short term profit taking or designated certain investments as fair value through profit or loss. Fair value changes on these investments are recognised immediately in profit or loss.

(iii) 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 transferred to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Derivatives

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

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value on the statement of financial position. The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging derivative instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument(s) is (are) expected to be *highly effective* in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss. These hedging relationships are discussed below.

Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk. If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item, for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Derivatives held for trading purposes

The Group's derivative trading instruments includes, forward foreign exchange contracts and interest rate swaps. The Group sells these derivatives to customers in order to enable them to transfer, modify or reduce current and future risks. These derivative instruments are fair valued as at the end of reporting date and the corresponding fair value changes is taken to the profit or loss.

(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. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(iii) Depreciation

The 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. Land is not depreciated.

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

Buildings	20 years
Furniture and equipment	3 - 8 years
Motor Vehicles	5 years

(i) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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 this 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. Financial guarantees are included within other liabilities.

(l) Employee benefits

Defined contribution plans

The Group provides for its contribution to the State administered retirement fund for Qatari employees in accordance with the retirement law, and the resulting charge is included with in the personnel cost under general administration expenses in the consolidated income statement. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised when they are due.

Defined benefit plan

The Group makes provision for end of service benefits payable to its expatriate employees on the basis of the employees' length of service in accordance with the employment policy of the Group and the applicable provisions of Labour Law. This provision is included in other provisions as part of other liabilities in the consolidated statement of financial position. The expected costs of these benefits are accrued over the period of employment.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(m) Share capital and reserves

(i) Share issue costs

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

(ii) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

(n) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading, are recognized within 'interest income' and 'interest expense' in the consolidated statement of comprehensive income using the effective interest method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Fees and commission income and expense

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(p) Income from investment securities

Gains or losses on the disposal 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.

(q) Dividend income

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

(r) Earnings per share

The Bank 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 Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(s) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors of the Bank as its chief operating decision maker.

All transactions between operating segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining operating segment performance.

(t) Fiduciary activities

The Group acts as fund manager and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, corporate and other institutions. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Repossessed collateral

Repossessed collaterals in settlement of customers' debts are stated under "Other assets". According to QCB instructions, the Group should dispose of any land and properties acquired in settlement of debts within a period not exceeding three years from the date of acquisition although this period can be extended with the approval of QCB.

(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 subsidiaries, associates and joint ventures which are not consolidated and are carried at cost; and, any dividends received from subsidiaries, associates and joint ventures are recognised in the income statement.

As at and for the year ended 31 December 2012 QAR '000s

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) New standards and interpretations

During the period, the Group has adopted the following standards effective for the annual period beginning on or after 1 January 2012.

IFRS 7 Financial Instruments (Disclosures)

The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, when:

- Financial assets are derecognised in their entirety, but the entity has a continuing involvement in them (e.g., options or guarantees on the transferred assets)
- Financial assets are not derecognised in their entirety

The amended disclosures are more extensive and onerous than previous disclosures. This amendment did not have any impact on the Group.

The following amendments to standards became effective in 2012, but did not have any impact on the accounting policies, financial position or performance of the Group:

Standards	*Content*
IAS 12	Income Taxes – Tax recovery of underlying assets (Amendment)
IFRS 1	First-time adoption – Severe hyperinflation and removal of fixed dates for first-time adopters (Amendment)

Standards and amendments issued but not adopted:

The Group is currently considering the implications of the new standards and amendments to standards which are effective for future accounting periods and has not early adopted any of the new or amended Standards as listed below:

Standards	Content	Effective date
IFRS 9	Financial Instruments: Classification & Measurement (Part 1)	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IAS 1	Presentation of Items of Other Comprehensive Income (Amendment)	1 January 2013
IAS 19	Employee Benefits (Revised)	1 January 2013
IAS 28	Investments in Associates and Joint Ventures (Effective 1 January 2013)	1 January 2013
IAS 32	Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32	1 January 2014
IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7	1 January 2013

4. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

The Group's business involves taking 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.

Financial instruments

Financial instruments comprise the Group's financial assets and liabilities. Financial assets include cash and balances with Central bank, due from banks, loans and advances, investment securities, derivative financial assets and certain other assets and financial liabilities include customer deposits, borrowings under repurchase agreements and due to banks, debt issued and other borrowed funds, derivative financial liabilities and certain other liabilities. Financial instruments also include rights and commitments included in off- balance sheet items.

Note 3(c) describes the accounting policies followed by the Group in respect of recognition and measurement of the key financial instruments and their related income and expense.

Risk management

The Group derives its revenue from assuming and managing customer risk for profit. Through a robust governance structure, risk and return are evaluated to produce sustainable revenue, to reduce earnings volatility and increase shareholder value. The most important types of risk are credit risk, liquidity risk, market risk and operational risk. Credit risk reflects the possible inability of a customer to meet his/her repayment or delivery obligations. Market risk, which includes foreign currency, interest rate risks and other price risks, is the risk of fluctuation in asset and commodity values caused by changes in market prices and yields. Liquidity risk results in the inability to accommodate liability maturities and withdrawals, fund asset growth or otherwise meet contractual obligations at reasonable market rates. Operational risk is the potential for loss resulting from events involving people, processes, technology, legal issues, external events or execution or regulatory issues.

The Group's Market Risk and Structural Risk Management policies envisage the use of interest rate derivative contracts and foreign exchange derivative contracts as part of its asset and liability management process.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Introduction and overview (continued)

Risk and other committees

The governance structure of the Group is headed by the Board of Directors. The Board of Directors evaluates risk involving the Group Chief Executive Officer and the following Board and Management Committees:

1) Board Risk Committee is responsible for all aspects of Enterprise Risk Management including but not restricted to credit risk, market risk, and operational risk. This committee sets the policy on all risk issues and maintains oversight of all Group risks through the Management Risk Committee.

2) Board Audit Committee is responsible for setting the policy on all Audit issues and maintains oversight of all Bank audit issues through the Management Audit Committee. In addition, it is also be responsible for Compliance & Anti-Money Laundering.

3) Policy, Strategy and Governance Committee is a Board committee which is responsible for all policies and strategies of the business and compliance of corporate Governance.

4) Board Executive Committee is responsible for evaluating and granting credit facilities and approval of the Group's investment activities within authorized limits per Qatar Central Bank and Board of Directors' guidelines.

5) Management Credit Committee is the highest management level authority on all counterparty risk exposures product programmes, associated expenditure programmes there under and underwriting exposures on syndications and securities transactions.

6) Management Risk Committee is the highest management authority on all risk related issues in the Group and its subsidiaries and affiliates in which it has strategic investments. This committee provides recommendations on all risk policy and portfolio issues to the Board Risk Committee.

7) Asset and Liability Committee (ALCO) is a management committee which is a decision making body for developing policies relating to all asset and liability management matters.

(b) Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is the most important risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit risk is attributed to both on-statement of financial position financial instruments such as loans, overdrafts, debt securities and other bills, investments, and acceptances and credit equivalent amounts related to off-balance sheet financial instruments. The Group's approach to credit risk management preserves the independence and integrity of risk assessment, while being integrated into the business management processes. Policies and procedures, which are communicated throughout the organisation, guide the day-to-day management of credit exposure and remain an integral part of the business culture. The goal of credit risk management is to evaluate and manage credit risk in order to further enhance this strong credit culture.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)
(b) Credit risk (continued)
(ii) Credit risk measurement

(a) Loans and advances

The Group's aim is to maintain a sound assets portfolio by enhancing its loan mix. This is being achieved through a strategy of reducing exposure to non-core client relationships while increasing the size of the consumer portfolio comprising of consumer loans, vehicle loans, credit cards and residential mortgages, which have historically recorded very low loss rates. In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Group reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derive the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

(i) The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They combine statistical analysis along with the business relationship officers and credit risk officers assessment and are validated, where appropriate, by comparison with externally available data. Clients of the Group are segmented based on a 10 point rating scale. The Group's rating scale reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary.

The ratings of the major rating agency are mapped to Group's rating grades based on the long-term average default rates for each external grade. The Group uses the external ratings where available to benchmark internal credit risk assessment. Observed defaults per rating category vary year on year, especially over an economic cycle.

(ii) Exposure at default is based on the amounts the Group expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Group includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

(iii) Loss given default or loss severity represents the Group's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

(b) Debt securities and other bills

For debt securities and other bills, external rating such as Standard & Poor's and Moody's ratings or their equivalents are used by Group Treasury for managing of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(ii) Risk limit control and mitigation policies

Portfolio diversification

Portfolio diversification is an overriding principle, therefore, the credit policies are structured to ensure that the Group is not over exposed to a given client, industry sector or geographic area. To avoid excessive losses if any single counter-party is unable to fulfil its payment obligations, large exposure limits have been established per credit policy. Limits are also in place to manage exposures to a particular country or sector. These risks are monitored on an ongoing basis and subject to an annual or more frequent review, when considered necessary.

Collateral

In order to proactively respond to credit deterioration the Group employs a range of policies and practices to mitigate credit risk.

The most traditional of these is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

• Mortgages over residential properties;

• Charges over business assets such as premises, inventory and accounts receivable;

• Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. With gross-settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honours its obligation but the counterparty fails to deliver the counter-value.

As at and for the year ended 31 December 2012 QAR '000s

4. FINANCIAL RISK MANAGEMENT (CONTINUED)
(b) Credit risk (continued)

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

	2012	2011
Credit risk exposures relating to assets recorded on the consolidated statement of financial position are as follows:		
Balances with central bank	3,024,354	2,211,906
Due from banks	9,731,562	9,271,920
Loans and advances to customers	48,594,475	41,711,783
Investment securities - debt	10,010,277	10,525,009
Other assets	912,306	827,037
Total as at 31 December	**72,272,974**	64,547,655
Other credit risk exposures are as follows:		
Guarantees	12,048,098	9,088,622
Letter of credit	7,541,840	5,217,592
Unutilised credit facilities	5,326,125	5,859,107
Total as at 31 December	**24,916,063**	20,165,321
	97,189,037	84,712,976

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.

As at and for the year ended 31 December 2012 QAR '000s

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(iv) Concentration of risks of financial assets with credit risk exposure

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. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties.

2012	**Qatar**	**Other GCC**	**Other Middle East**	**Rest of the world**	**Total**
Balances with central bank	3,024,354	-	-	-	3,024,354
Due from banks and financial institutions	3,991,495	2,562,195	273,014	2,904,858	9,731,562
Loans and advances to customers	45,352,295	2,281,335	145,600	815,245	48,594,475
Investment securities - debt	8,248,367	1,125,629	-	636,281	10,010,277
Other assets	460,671	169,627	341	281,667	912,306
	61,077,182	**6,138,786**	**418,955**	**4,638,051**	**72,272,974**

2011	Qatar	Other GCC	Other Middle East	Rest of the world	Total
Balances with central bank	2,211,906	-	-	-	2,211,906
Due from banks and financial institutions	6,177,703	2,536,149	18,665	539,403	9,271,920
Loans and advances to customers	38,989,926	2,180,481	-	541,376	41,711,783
Investment securities - debt	9,629,440	509,223	-	386,346	10,525,009
Other assets	462,600	112,643	9	251,785	827,037
	57,471,575	5,338,496	18,674	1,718,910	64,547,655

As at and for the year ended 31 December 2012 QAR '000s

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(iv) Concentration of risks of financial assets with credit risk exposure

2012

	Qatar	**Other GCC**	**Other Middle East**	**Rest of the world**	**Total**
Guarantees	5,642,000	1,864,332	324,596	4,217,170	12,048,098
Letter of credit	3,889,389	47,995	100,475	3,503,981	7,541,840
Unutilised credit facilities	5,026,737	299,388	-	-	5,326,125
	14,558,126	**2,211,715**	**425,071**	**7,721,151**	**24,916,063**

2011

	Qatar	Other GCC	Other Middle East	Rest of the world	Total
Guarantees	4,997,422	1,335,794	752,402	2,003,004	9,088,622
Letter of credit	1,292,280	37,020	7,031	3,881,261	5,217,592
Unutilised credit facilities	5,486,835	372,272	-	-	5,859,107
	11,776,537	1,745,086	759,433	5,884,265	20,165,321

As at and for the year ended 31 December 2012 QAR '000s

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(iv) Concentration of risks of financial assets with credit risk exposure

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.

	Gross exposure 2012	Gross exposure 2011
Funded		
Government	14,908,357	12,191,199
Government agencies	4,043,620	6,802,475
Industry	1,359,544	2,020,860
Commercial	6,810,623	5,537,182
Services	16,511,179	13,099,292
Contracting	3,778,961	2,782,738
Real estate	16,179,614	13,257,588
Personal	6,985,502	7,338,519
Others	1,695,574	1,517,802
Total funded	**72,272,974**	64,547,655
Un-funded		
Government institutions & semi government agencies	3,135,373	868,527
Financial services	6,395,483	5,559,196
Commercial and others	15,385,207	13,737,598
Total Un-funded	24,916,063	20,165,321
Total	**97,189,037**	84,712,976

Total maximum exposure net of collateral is QAR 23 billion (2011: QAR 24 billion)

Credit risk exposure

The table below presents an analysis of financial assets by rating agency designation based on Standard & Poor's ratings or their equivalent:

	2012	2011
Equivalent grades		
AAA to AA-	38,779,759	38,896,269
A+ to A-	7,117,909	7,018,070
BBB+ to BBB-	46,661,602	35,500,030
BB+ to B-	3,717,461	2,471,569
Unrated/ equivalent internal grading	912,306	827,038
	97,189,037	84,712,976

As at and for the year ended 31 December 2012 QAR '000s

4. FINANCIAL RISK MANAGEMENT (CONTINUED)
(b) Credit risk (continued)
(v) Credit quality

The following table sets out the credit qualities of the Group's credit exposure at carrying amounts before taking into account collateral held or other credit enhancements.

	Loans and advances to customers		Due from banks		Investment securities - debt	
	2012	2011	**2012**	2011	**2012**	2011
Neither past due nor impaired:						
A: Low risk – excellent	10,695,370	14,251,335	7,713,461	8,013,589	9,154,311	10,046,901
B: Standard/satisfactory risk	37,084,177	26,978,058	2,018,101	1,258,331	855,966	478,108
	47,779,547	41,229,393	**9,731,562**	9,271,920	**10,010,277**	10,525,009
Past due but not impaired :						
A: Low risk - excellent	5,238	7,281	-	-	-	-
B: Standard/satisfactory risk	971,339	514,885	-	-	-	-
Carrying amount	**976,577**	522,166	**-**	-	**-**	-
Impaired:						
C: Substandard	92,569	184,255	-	-	-	-
D: Doubtful	73,025	66,096	-	-	-	-
E: Bad debts	299,569	257,275	-	-	202,126	260,842
	465,163	507,626	**-**	-	**202,126**	260,842
Less: impairment allowance-specific	(359,992)	(321,881)			(202,126)	(260,842)
Less: impairment allowance-Collective	(266,820)	(225,521)			-	-
	(161,649)	(39,776)	**-**	-	**-**	-
Carrying amount – net	**48,594,475**	41,711,783	**9,731,562**	9,271,920	**10,010,277**	10,525,009

	2012	2011
Investment securities - debt		
Held to maturity	3,324,511	5,648,715
Available for sale	6,830,628	5,137,136
Investment securities designated at fair value through income statement	57,264	-
Less: impairment allowance	(202,126)	(260,842)
Carrying amount – net	**10,010,277**	10,525,009

Note: None of the other assets are past due or impaired as at 31 December 2012 and 31 December 2011.

As at and for the year ended 31 December 2012 QAR '000s

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(v) Credit quality (continued)

Impaired loans and advances to customers and investment in debt securities

Individually impaired loans and advances to customers and investment debt securities (other than those carried at fair value through profit or loss) 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).

Investment debt securities carried at fair value through profit or loss are not assessed for impairment but are subject to the same internal grading system, where applicable.

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.

Loans and advances to customers less than 90 days as at 31 December past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows

	2012	2011
Up to 30 days	581,199	328,798
31 to 60 days	272,591	66,492
Above 60 days	122,787	126,876
Gross	**976,577**	522,166

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

(v) Credit quality (continued)

Rescheduled loans and advances to customers

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria that, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts as non impaired. The carrying value of renegotiated loans and advances as at 31 December 2012 was QAR 4,297 million (2011: QAR 3,058 million).

(vi) Collateral

The determination of eligible collateral and the value of collateral are based on QCB regulations and are assessed by reference to market price or indices of similar assets.

The Group has collateral in the form of blocked deposits, pledge of shares or legal mortgage against the past dues loans and advances to customers.

The aggregate collateral is QAR 324 million (2011: QAR 189 million) for past due up to 30 days, QAR 11 million (2011: QAR 24 million) for past due from 31 to 60 days and QAR 89 million (2011: QAR 41 million) for past due above 60 days.

(vii) Repossessed collateral

During the year, the Group acquired ownership of land and building by taking possession of collateral held as security for an amount of QAR 344 million (2011: Nil).

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the consolidated statement of financial position within other assets.

(viii) 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. QCB approval is required for such write off when the amount to be written off exceeds Qatar Riyal hundred thousand.

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 127 million (2011: QAR 867 million).

As at and for the year ended 31 December 2012 QAR '000s

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 fulfill 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

The management of liquidity risk is governed by the Group's liquidity policy. The primary objective of liquidity risk management; over which ALCO has oversight, is to provide a planning mechanism for unanticipated changes in the demand or needs for liquidity created by customer behaviour or abnormal market conditions. ALCO emphasises the maximisation and preservation of customer deposits and other funding sources. ALCO also monitors deposit rates, levels, trends and significant changes. Deposit marketing plans are regularly reviewed for consistency with the liquidity policy requirements. ALCO has in place a contingency plan, which is periodically reviewed. The Group's ability to raise wholesale and/or long term funding at competitive costs is directly impacted by our credit ratings, which are as follows:

Moody's: Long Term A1, Short Term Prime 1 and financial strength C-, outlook stable.

Fitch : Long Term A, Short Term F1 and Financial strength C, outlook stable.

Standard & Poor's: Long Term A-, Short Term A-2, outlook stable.

(ii) Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by the Group's lead regulator, QCB under the heading 'Liquidity adequacy ratio' (LAR). The minimum ratio limit set by QCB is 100%.

Following table sets out the LAR position of the Group during the year as follows:

	2012	**2011**
At 31 December	**102.18**	112.55
Average for the year	**106.23**	110.07
Maximum for the year	**111.91**	130.38
Minimum for the year	**100.11**	104.58

As at and for the year ended 31 December 2012 QAR '000s

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(iii) Maturity analysis

The following table sets out the maturity profile of the Group's assets and liabilities. The contractual/expected maturities of assets and liabilities have been determined on the basis of the remaining period at 31 December to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

	Carrying amount	Demand / within 1 month	1-3 months	3 months – 1 year	Subtotal 1 year	1-5 years	More than 5 years	No Maturity
31 December 2012								
Cash and balances with central bank	3,448,128	1,033,721	-	-	1,033,721	-	-	2,414,407
Due from banks	9,731,562	6,977,586	484,800	2,087,176	9,549,562	182,000	-	-
Loans and advances to customers	48,594,475	2,162,809	1,274,851	4,262,383	7,700,043	10,173,224	30,721,208	-
Investment securities	11,162,179	11,421	534,502	1,481,812	2,027,735	4,245,900	3,736,642	1,151,902
Investment in associates	4,054,157	-	-	-	-	-	-	4,054,157
Property and equipment and others assets	3,047,251	715,124	144,270	124,741	984,135	866,047	-	1,197,069
Total	**80,037,752**	**10,900,661**	**2,438,423**	**7,956,112**	**21,295,196**	**15,467,171**	**34,457,850**	**8,817,535**
Due to banks	9,855,682	7,584,548	522,572	-	8,107,120	1,748,562	-	-
Customer deposits	41,385,546	30,264,374	7,509,315	3,062,600	40,836,289	549,257	-	-
Debt securities	8,705,816	-	-	-	-	6,549,887	2,155,929	-
Other borrowings	3,471,515	-	-	1,818,345	1,818,345	1,653,170	-	-
Other liabilities	1,679,815	1,045,966	301,412	175,065	1,522,443	157,372	-	-
Total	**65,098,374**	**38,894,888**	**8,333,299**	**5,056,010**	**52,284,197**	**10,658,248**	**2,155,929**	**-**
Difference	**14,939,378**	**(27,994,227)**	**(5,894,876)**	**2,900,102**	**(30,989,001)**	**4,808,923**	**32,301,921**	**8,817,535**

As at and for the year ended 31 December 2012 QAR '000s

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(iii) Maturity analysis (continued)

	Carrying amount	Demand / within 1 month	1-3 months	3 months – 1 year	Subtotal 1 year	1-5 years	More than 5 years	No Maturity
31 December 2011								
Cash and balances with central bank	2,576,494	462,572	-	-	462,572	-	-	2,113,922
Due from banks	9,271,920	7,296,015	1,542,745	433,160	9,271,920	-	-	-
Loans and advances to customers	41,711,783	4,991,773	564,390	1,081,623	6,637,786	7,981,931	27,092,066	-
Investment securities	11,732,639	12,055	173,670	2,200,018	2,385,743	3,822,272	4,316,994	1,207,630
Investment in associates	3,926,480	-	-	-	-	-	-	3,926,480
Property and equipment and others assets	2,418,728	696,202	131,454	94,449	922,105	426,295	-	1,070,328
Total	71,638,044	13,458,617	2,412,259	3,809,250	19,680,126	12,230,498	31,409,060	8,318,360
Due to banks	6,988,697	5,703,207	134,680	-	5,837,887	1,150,810	-	-
Customer deposits	37,988,683	27,875,676	7,351,672	2,742,140	37,969,488	19,195	-	-
Debt securities	6,871,674	-	-	-	-	4,718,736	2,152,938	-
Other borrowings	4,182,412	-	2,365,698	182,000	2,547,698	1,634,714	-	-
Other liabilities	1,376,282	917,341	222,130	86,919	1,226,390	149,892	-	-
Total	57,407,748	34,496,224	10,074,180	3,011,059	47,581,463	7,673,347	2,152,938	-
Difference	14,230,296	(21,037,607)	(7,661,921)	798,191	(27,901,337)	4,557,151	29,256,122	8,318,360

As at and for the year ended 31 December 2012 QAR '000s

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(iv) Maturity analysis (financial liabilities and derivatives)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations.

	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	9,855,682	9,877,210	7,601,115	523,714	-	1,752,381	-
Customer deposits	41,385,546	41,848,180	30,602,688	7,593,259	3,096,836	555,397	-
Debt securities	8,705,816	10,716,123	-	-	-	8,074,159	2,641,964
Other borrowings	3,471,515	3,566,207	-	-	1,867,944	1,698,263	-
Other liabilities	1,329,857	1,329,857	696,008	301,412	175,065	157,372	-
Total liabilities	**64,748,416**	**67,337,577**	**38,899,811**	**8,418,385**	**5,139,845**	**12,237,572**	**2,641,964**

Derivative financial instruments:

Generally, forward foreign exchange contracts are settled on a gross basis and interest rate swaps are settled on a net basis.

Derivatives Held for Trading:	Total	Up to 1 Year	1 - 5 years	More than 5 Years
Forward foreign exchange contracts				
Outflow	(2,067,611)	(2,067,611)	-	-
Inflow	2,090,693	2,090,693	-	-
Interest rate swaps				
Outflow	(243,904)	(28,853)	(102,453)	(112,598)
Inflow	246,749	29,686	103,365	113,698
Derivatives Held as Fair Value Hedges:				
Cross currency interest rate swaps				
Outflow	(1,117,638)	(29,444)	(1,088,194)	-
Inflow	1,191,944	32,904	1,159,040	-
Total Outflows	**(3,429,153)**	**(2,125,908)**	**(1,190,647)**	**(112,598)**
Total inflows	**3,529,386**	**2,153,283**	**1,262,405**	**113,698**

As at and for the year ended 31 December 2012 QAR '000s

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(iv) Maturity analysis (financial liabilities and derivatives)

	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 2011							
Non-derivative financial liabilities							
Due to banks	6,988,697	7,020,188	5,719,918	135,075	-	1,165,195	-
Customer deposits	37,988,683	38,414,487	28,188,127	7,434,075	2,772,876	19,409	-
Debt securities	6,871,674	9,166,459	-	-	-	5,580,235	3,586,224
Other borrowings	4,182,412	4,203,115	-	2,370,129	182,341	1,650,645	-
Other liabilities	1,110,690	1,110,690	651,749	222,130	86,919	149,892	-
Total liabilities	57,142,156	59,914,939	34,559,794	10,161,409	3,042,136	8,565,376	3,586,224

Derivative financial instruments:

Generally, forward foreign exchange contracts are settled on a gross basis and interest rate swaps are settled on a net basis.

Derivatives Held for Trading:	Total	Up to 1 Year	1 - 5 years	More than 5 Years
Forward foreign exchange contracts				
Outflow	(979,422)	(979,422)	-	-
Inflow	979,199	979,199	-	-
Interest rate swaps				
Outflow	(272,006)	(29,416)	(106,227)	(136,363)
Inflow	277,294	30,796	108,719	137,779
Derivatives Held as Fair Value Hedges:				
Cross currency interest rate swaps				
Outflow	(1,156,408)	(31,776)	(1,124,632)	-
Inflow	1,186,746	31,880	1,154,866	-
Total Outflows	(2,407,836)	(1,040,614)	(1,230,859)	(136,363)
Total inflows	2,443,239	1,041,875	1,263,585	137,779

As at and for the year ended 31 December 2012 QAR '000s

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(v) Off-balance sheet items

	Below 1 Year	Above 1 Year	Total
As at December 2012			
Loan commitments	1,323,176	4,002,949	5,326,125
Guarantees and other financial facilities	16,952,282	2,637,656	19,589,938
Capital commitments	393,822	-	393,822
Total	**18,669,280**	**6,640,605**	**25,309,885**

	Below 1 Year	Above 1 Year	Total
As at December 2011			
Loan commitments	1,054,582	4,804,525	5,859,107
Guarantees and other financial facilities	12,214,409	2,091,805	14,306,214
Capital commitments	479,243	-	479,243
Total	13,748,234	6,896,330	20,644,564

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks

The Group 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. The Group separates exposures to market risk into either trading or non-trading portfolios and by product type.

The market risks arising from trading and non-trading activities are concentrated in Group Treasury and monitored by two teams separately. Regular reports are submitted to the Board of Directors and heads of each business unit.

Trading portfolios include those positions arising from market-making transactions where the Group acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Group's held-to-maturity and available-for-sale investments.

(i) Management of market risks

Overall authority for market risk is vested in ALCO. Group Market Risk is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

The Group's proprietary investments are managed according to the Group's internal investment policy, which has been approved by the Board of Directors and drafted in accordance with the Qatar Central Bank guidelines. The Group's trading activities are conducted by Treasury and Investments Division. These activities are subject to business line guidelines and policies. The Group employs several techniques to measure and control activities including sensitivity analysis, position limits and risk based limits. The maximum limit of the Group's total proprietary investments (i.e. total of fair value through profit and loss, held to maturity and available for sale investment excluding Qatar Government issued or guaranteed investment or debt security portfolios) is restricted to 70% of the Group's capital and reserves (Tier 1 capital). However the individual limit for the held for trading investment portfolio is 10% of capital and reserves (Tier 1 capital) with a maximum permissible loss to carry for local securities at any given time. Investment policy is reviewed by the Board of Directors annually and day to day limits are independently monitored by the Market Risk Management department.

Investment proposals are approved at the Investment Committee and decisions driven by the investment strategy, which is developed by the business line under ALCO oversight and approved by the Board.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

(ii) Exposure to interest rate risk – non-trading portfolio

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 Treasury in its day-to-day monitoring activities.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by Group Treasury.

The Asset and Liability Management ("ALM") process, managed through ALCO, is used to manage interest rate risk associated with non-trading financial instruments. Interest rate risk represents the most significant market risk exposure to the Group's non-trading financial instruments.

The Group's goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect net interest income. Interest rate risk is measured as the potential volatility to the net interest rate income caused by changes in market interest rates. The Group typically manages the interest rate risk of its non-trading financial instruments by segmenting these assets and liabilities into two broad portfolios: non–discretionary and discretionary. The non-discretionary portfolio consists of the Group's customer driven loans and deposit positions and securities required to support regulatory requirements. To manage the resulting interest rate sensitivity of the Group's non-discretionary portfolio, the Group uses a discretionary portfolio of securities, long dated deposits, inter-bank takings and placements, and when warranted, derivatives. Strategically positioning the discretionary portfolio, the Group largely manages the interest rate sensitivity in the non-discretionary portfolio.

The following table summarises the interest / profit rate sensitivity position at year end, by reference to the re-pricing period of the Group's assets, liabilities and off- balance sheet exposures.

As at and for the year ended 31 December 2012 QAR '000s

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

(ii) 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:

		Repricing in:					
	Carrying amount	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**	**Non-interest sensitive**	**Effective interest rate %**
31 December 2012							
Cash and balances with central bank	3,448,128	1,033,721	-	-	-	2,414,407	
Due from banks	9,731,562	7,462,386	2,087,176	182,000	-	-	0.89
Loans and advances to customers	48,594,475	27,966,992	18,838,262	1,503,779	-	285,442	5.15
Investment securities	11,162,179	261,823	2,112,649	3,342,004	4,293,801	1,151,902	4.69
Investment associates	4,054,157	-	-	-	-	4,054,157	-
Property and equipment and other assets	3,047,251	-	-	-	-	3,047,251	-
	80,037,752	**36,724,922**	**23,038,087**	**5,027,783**	**4,293,801**	**10,953,159**	
Due to banks	(9,855,682)	(8,718,807)	(1,136,875)	-	-	-	0.64
Customer deposits	(41,385,546)	(28,256,660)	(3,062,600)	(549,257)	-	(9,517,029)	1.52
Debt securities	(8,705,816)	-	-	(6,549,887)	(2,155,929)	-	5.34
Other borrowings	(3,471,515)	(1,653,170)	(1,818,345)	-	-	-	1.66
Other liabilities	(1,679,815)	-	-	-	-	(1,679,815)	-
Equity	(14,939,378)	-	-	-	-	(14,939,378)	-
	(80,037,752)	**(38,628,637)**	**(6,017,820)**	**(7,099,144)**	**(2,155,929)**	**(26,136,222)**	
Interest rate sensitivity gap	-	**(1,903,715)**	**17,020,267**	**(2,071,361)**	**2,137,872**	**(15,183,063)**	
Cumulative Interest rate sensitivity gap		**(1,903,715)**	**15,116,552**	**13,045,191**	**15,183,063**	**-**	

As at and for the year ended 31 December 2012 QAR '000s

4. FINANCIAL RISK MANAGEMENT (CONTINUED)
(d) Market risks (continued)
(ii) Exposure to interest rate risk – non-trading portfolios (continued)

	Carrying amount	Repricing in: Less than 3 months	3-12 months	1-5 years	More than 5 years	Non-interest sensitive	Effective interest rate %
31 December 2011							
Cash and balances with central bank	2,576,494	462,572	-	-	-	2,113,922	
Due from banks	9,271,920	8,838,760	433,160	-	-	-	0.83
Loans and advances to customers	41,711,783	26,309,909	13,317,281	1,986,614	-	97,979	6.03
Investment securities	11,732,639	430,326	2,220,981	4,319,018	3,554,684	1,207,630	4.69
Investment associates	3,926,480	-	-	-	-	3,926,480	
Property and equipment and other assets	2,418,728	-	-	-	-	2,418,728	
	71,638,044	36,041,567	15,971,422	6,305,632	3,554,684	9,764,739	
Due to Bank	(6,988,697)	(5,837,887)	(1,150,810)	-	-		0.51
Customer deposits	(37,988,683)	(27,374,170)	(2,551,460)	(19,195)	-	(8,043,858)	1.71
Debt securities	(6,871,674)	-		(4,718,736)	(2,152,938)	-	4.73
Other borrowings	(4,182,412)	-	(2,547,698)	(1,634,714)	-	-	0.94
Other liabilities	(1,376,282)	-	-	-	-	(1,376,282)	
Equity	(14,230,296)	-	-	-	-	(14,230,296)	
	(71,638,044)	(33,212,057)	(6,249,968)	(6,372,645)	(2,152,938)	(23,650,436)	
Interest rate sensitivity gap	-	2,829,510	9,721,454	(67,013)	1,401,746	(13,885,697)	
Cumulative Interest rate sensitivity gap		2,829,510	12,550,964	12,483,951	13,885,697	-	

As at and for the year ended 31 December 2012 QAR '000s

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

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

Sensitivity analysis

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 50 basis point (bp) parallel fall or rise in all yield curves worldwide and a 50 bp rise or fall in the greater than 12-month portion of all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

	50 bp parallel increase	50 bp parallel decrease
Sensitivity of net interest income		
2012		
At 31 December	**(61,141)**	**61,141**
Average for the year	**(72,170)**	**72,170**
2011		
At 31 December	(80,387)	80,387
Average for the year	(70,798)	70,798

	50 bp parallel increase	50 bp parallel decrease
Sensitivity of reported equity to interest rate movements		
2012		
At 31 December	**1,350**	**(1,350)**
Average for the year	**1,400**	**(1,400)**
2011		
At 31 December	1,450	(1,450)
Average for the year	1,308	(1,308)

Interest rate movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in net interest income and the fair value changes reported in profit or loss; and
- fair value reserves arising from increases or decreases in fair values of available-for-sale-financial instruments is reported directly in other comprehensive income.

Overall non-trading interest rate risk positions are managed by Group Treasury, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's non-trading activities.

As at and for the year ended 31 December 2012 QAR '000s

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Exposure to other market risks – non-trading portfolios

Foreign currency transactions

The Group monitors any concentration risk in relation to any individual currency in regard to the translation of foreign currency transactions and monetary assets and liabilities. The table shows the net foreign currency exposure by major currencies at the end of the reporting period along with the sensitivities if there were to be a change in the currency exchange rate.

	2012	2011
Net foreign currency exposure:		
Pounds Sterling	**19,221**	(8,677)
Euro	**528,857**	(10,081)
USD	**(2,685,959)**	(2,475,774)
Other currencies	**3,203,459**	3,039,278

	Increase / (decrease) in profit or loss		**Increase / (decrease) in fair value reserve**	
5% increase / (decrease) in currency exchange rate	**2012**	2011	**2012**	2011
Pound Sterling	**961**	(434)	**45**	35
Euro	**26,443**	(504)	**268**	238
Other currencies	**160,173**	151,964	**16,646**	12,025

Open exchange position in other currencies represents Group's investment in associates denominated in RO and AED. As these currencies and Qatar Riyal are pegged to the USD, there is no impact to income statement and impact to equity is insignificant.

As at and for the year ended 31 December 2012 QAR '000s

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) Exposure to other market risks – non-trading portfolios

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as held for trading and available for sale. A 10 per cent increase in the Qatar Exchange and Bombay Stock Exchange and a 15 per cent increase in the Abu Dhabi Securities Exchange market index at 31 December 2012 would have increased equity by QAR 43 million (2011: QAR 39 million). An equivalent decrease would have resulted in an equivalent but opposite impact.

The Group is also exposed to equity price risk and the sensitivity analysis thereof is as follows:

	2012	**2011**
Increase / (decrease) in other comprehensive income:		
Qatar Exchange	**9,229**	14,564
Bombay Stock Exchange	**29,511**	20,388
Abu Dhabi Securities Exchange	**4,128**	3,941

The above analysis has been prepared on the assumption that all other variables such as interest rate, foreign exchange rate, etc are held constant and is based on historical correlation of the equity securities to the relevant index. Actual movement may be different from the one stated above and is subject to impairment assessment at the end of each reporting period.

(e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid Control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address Operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

As at and for the year ended 31 December 2012 QAR '000s

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital management

Regulatory capital

The Group's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

The capital adequacy ratio of the Group is calculated in accordance with the Basel Committee guidelines as adopted by the QCB.

The Group's regulatory capital position under Basel II and QCB regulations after deduction of Investment in Associates at 31 December was as follows:

	2012	2011
Tier 1 capital	**10,346,812**	10,051,703
Tier 2 capital	**1,075,982**	924,683
Total regulatory capital	**11,422,794**	10,976,386

Tier I capital includes share capital, legal reserve, general reserve, other reserves and retained earnings including current year profit and excluding proposed dividend.

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

As at and for the year ended 31 December 2012 QAR '000s

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital management (continued)

Regulatory capital (continued)

Risk weighted assets and carrying amounts

	2012 Basel II Risk weighted amount	2011 Basel II Risk weighted amount	**2012 Carrying amount**	2011 Carrying amount
Cash and balances with central bank	-	-	3,448,128	2,576,494
Due from banks	4,749,160	4,168,880	9,731,562	9,271,920
Loans and advances to customers	40,373,111	37,138,297	48,594,475	41,711,783
Investment securities	1,562,099	1,765,403	11,162,179	11,732,639
Investment in associates	12,754	13,716	4,054,157	3,926,480
Other assets	3,047,251	2,418,728	3,047,251	2,418,728
Off balance sheet items	8,781,018	7,799,584	33,182,250	26,308,882
Total risk weighted assets for credit risk	**58,525,393**	53,304,608	-	-
Risk weighted assets for market risk	**3,115,549**	2,536,790	-	-
Risk weighted assets for operational risk	**5,446,593**	5,389,899	-	-
	67,087,535	61,231,297		

	2012	2011
Risk weighted assets	**67,087,535**	61,231,297
Regulatory capital	**11,422,794**	10,976,386
Risk weighted assets as a percentage of regulatory capital (Capital ratio)	**17.0%**	17.9%

The minimum ratio limit determined by QCB is 10% and the Basel II capital adequacy requirement is 8%.

5. USE OF ESTIMATES AND JUDGMENTS

(a) Key sources of estimation uncertainty

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reason able under the circumstances.

(i) Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management’s best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty’s financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function. Minimum impairment on specific counter parties are determined based on the QCB regulations.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances to customers and investment securities measured at amortised cost with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired financial assets, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

The Group reviews its loan portfolio to assess impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in the statement of income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Where the fair values of financial assets and financial liabilities recorded on the 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 is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

As at and for the year ended 31 December 2012 QAR '000s

5. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

(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 3 (c) v.ii.

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: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.Valuation techniques include net present value and discounted cash flow models and comparison to similar instruments for which market observable prices exist.

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:

			31 December 12
	Level 1	**Level 2**	**Carrying amount**
Derivative assets	-	431,202	431,202
Investment securities	431,268	7,064,489	7,948,351
	431,268	**7,495,691**	**8,379,553**
Derivative liabilities	-	349,958	349,958
	-	**349,958**	**349,958**

			31 December 11
	Level 1	Level 2	Carrying amount
Derivative assets	-	343,799	343,799
Investment securities	393,868	5,358,253	6,229,663
	393,868	5,702,052	6,573,462
Derivative liabilities	-	265,592	265,592
	-	265,592	265,592

All unquoted available for sale equities and investment funds are recorded at fair value except for investments with a carrying value of QR 453 million (2011: QR 478 million), which are recorded at cost since their fair value cannot be reliably estimated. There have been no transfers between levels 1, 2 and 3 during the year 2012 and 2011.

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.

(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.

(vi) 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.

6. OPERATING SEGMENTS

For management purposes, the Group is divided into three operating segments, which are based on business lines, together with its associated companies, as follows:

Commercial Banking:

1. Wholesale Banking provides an extensive range of conventional funded and non-funded credit facilities, demand and time deposit services, currency exchange facilities, interest rate swaps and other derivative trading services, loan syndication and structured financing services to corporate, commercial and multinational customers. Money market funds and proprietary investment portfolio are also managed by this operating segment.

2. Retail Banking provides personal current, savings, time and investment account services, credit card and debit card services, consumer and vehicle loans, residential mortgage services and custodial services to retail and individual customers.

3.Subsidiaries:

a) Orient 1 and Global Card Services L.L.C. provide credit card services in the Sultanate of Oman.
b) Commercialbank Investment Services (S.P.C.) provides brokerage services in the State of Qatar.
c) CBQ Finance Limited.

Unallocated assets, liabilities and revenues are related to certain central functions and non-core business operations. (For example, Group head quarters, staff apartments, common property & equipment, cash functions and development projects and related payables, net of intra-group transactions).

Associated Companies – includes the Group's strategic investments in the National Bank of Oman in the Sultanate of Oman, and United Arab Bank in United Arab Emirates, and Asteco Qatar L.L.C., Gekko L.L.C. and Massoun Insurance Services L.L.C. which operate in the State of Qatar. All Associated Companies are accounted for under the equity method.

Management monitors the results of the operating segments separately to make decisions about resource allocation and performance assessment. Transfer prices between operating segments are on an arm's length basis.

As at and for the year ended 31 December 2012 QAR '000s

6. OPERATING SEGMENTS (CONTINUED)

(a) By operating segment

Segment assets and liabilities comprise operating assets and liabilities which are directly handled by the operating segment, and income or expenses are attributed with the assets and liabilities' ownership. The following table summarizes performance of the operating segments:

31 December 2012

	Wholesale banking	Retail banking	Total Commercial Banking	Subsidiaries	Unallocated	Total
Net interest income	1,358,356	510,739	1,869,095	2,640	(5,481)	**1,866,254**
Net fee, commission and other income	814,354	259,443	1,073,797	6,261	37,679	**1,117,737**
Segmental revenue	2,172,710	770,182	2,942,892	8,901	32,198	**2,983,991**
Impairment loss on investment securities	(61,917)	-	(61,917)	-	-	**(61,917)**
Net impairment loss on loans and advances to customers	(130,438)	(9,839)	(140,277)	333	-	**(139,944)**
Segmental profit			**1,761,677**	**(6,789)**	**(1,140)**	**1,753,748**
Share of results of associates						**258,546**
Net profit for the year						**2,012,294**
Other information						
Assets	61,018,542	12,058,948	73,077,490	288,499	2,617,606	**75,983,595**
Investments in associates	-	-		-	-	**4,054,157**
Liabilities	52,970,660	11,948,655	64,919,315	22,528	156,531	**65,098,374**
Contingent items	23,868,360	1,047,703	24,916,063	-	-	**24,916,063**

Intra-group transactions are eliminated from this segmental information (Assets: QAR 451 million, Liabilities: QAR 279 million)

As at and for the year ended 31 December 2012 QAR ‘000s

6. OPERATING SEGMENTS (CONTINUED)

(a) By operating segment

31 December 2011

	Wholesale banking	Retail banking	Total Commercial Banking	Subsidiaries	Unallocated	Total
Net interest income	1,524,416	415,023	1,939,439	2,059	(3,898)	1,937,600
Net fee, commission and other income	605,399	279,582	884,981	6,310	34,615	925,906
Segmental revenue	2,129,815	694,605	2,824,420	8,369	30,717	2,863,506
Impairment loss on investment securities	(68,197)	-	(68,197)	-	-	(68,197)
Net impairment loss on loans and advances to customers	(209,586)	(30,329)	(239,915)	512	-	(239,403)
Segmental profit			1,682,567	1,597	(3,613)	1,680,551
Share of results of associates						203,420
Net profit for the year						1,883,971
Other information						
Assets	56,575,141	9,243,798	65,818,939	250,857	1,641,768	67,711,564
Investments in associates	-	-	-	-	-	3,926,480
Liabilities	47,087,481	10,167,407	57,254,888	64,424	88,436	57,407,748
Contingent items	18,535,026	1,630,295	20,165,321	-	-	20,165,321

Intra-group transactions are eliminated from this segmental information (Assets: QAR 419 million, Liabilities: QAR 247 million)

As at and for the year ended 31 December 2012 QAR '000s

6. OPERATING SEGMENTS (CONTINUED)

(b) By geography

Consolidated statement of financial position	Qatar	Other GCC countries	Other Middle East	Europe	North America	Rest of the world	Total
As at 31 December 2012							
Cash and balances with central bank	3,448,123	-	-	-	-	5	3,448,128
Due from banks	3,991,495	2,562,195	273,014	1,736,213	355,908	812,737	9,731,562
Loans and advances to customers	45,352,295	2,281,335	145,600	391,915	101	423,229	48,594,475
Investment securities	8,561,202	1,216,352	33,091	278,382	477,123	596,029	11,162,179
Investment in associates	12,753	4,041,404	-	-	-	-	4,054,157
Property and equipment and other assets	2,592,603	169,627	341	280,456	968	3,256	3,047,251
Total assets	**63,958,471**	**10,270,913**	**452,046**	**2,686,966**	**834,100**	**1,835,256**	**80,037,752**
Due to banks	2,389,733	5,256,060	1,068,976	993,159	78,125	69,629	9,855,682
Customer deposits	31,415,646	3,997,243	68,868	3,020,845	340	2,882,604	41,385,546
Debt securities	-	-	-	8,705,816	-	-	8,705,816
Other borrowings	-	2,744,235	-	363,727	-	363,553	3,471,515
Other liabilities	1,318,358	172,106	626	182,838	12	5,875	1,679,815
Equity	14,939,378	-	-	-	-	-	14,939,378
Total liabilities and equity	**50,063,115**	**12,169,644**	**1,138,470**	**13,266,385**	**78,477**	**3,321,661**	**80,037,752**

As at and for the year ended 31 December 2012 QAR '000s

6. OPERATING SEGMENTS (CONTINUED)

(b) By geography (continued)

Consolidated statement of income	Qatar	Other GCC countries	Other Middle East	Europe	North America	Rest of the world	Total
Year ended 31 December 2012							
Net interest income	1,894,399	26,028	(875)	(32,985)	8,649	(28,962)	1,866,254
Fee, commission and other income	1,045,008	50,837	1,378	4,447	5,213	10,854	1,117,737
Net operating income	2,939,407	76,865	503	(28,538)	13,862	(18,108)	2,983,991
Staff cost	(489,036)	-	-	-	-	(10,346)	(499,382)
Depreciation	(121,604)	-	-	-	-	(344)	(121,948)
Impairment loss on investment securities	(6,994)	(8,191)	-	(1,174)	(14,871)	(30,687)	(61,917)
Net impairment loss on loans and advances to customers	(140,277)	333	-	-	-	-	(139,944)
Other expenses	(407,401)	-	-	-	-	349	(407,052)
Profit before share of results of associates	1,774,095	69,007	503	(29,712)	(1,009)	(59,136)	1,753,748
Share of results of associates	1,278	257,268	-	-	-	-	258,546
Net profit for the year	**1,775,373**	**326,275**	**503**	**(29,712)**	**(1,009)**	**(59,136)**	**2,012,294**

As at and for the year ended 31 December 2012 QAR '000s

6. OPERATING SEGMENTS (CONTINUED)

(c) By geography

Consolidated statement of financial position	Qatar	Other GCC countries	Other Middle East	Europe	North America	Rest of the world	Total
As at 31 December 2011							
Cash and balances with central bank	2,576,489	-	-	-	-	5	2,576,494
Due from banks	6,177,704	2,536,149	18,367	400,418	13,776	125,506	9,271,920
Loans and advances o customers	38,989,926	2,180,481	-	427,192	54,600	59,584	41,711,783
Investments securities	9,999,663	695,646	48,339	231,684	534,185	223,122	11,732,639
Investment in associates	12,753	3,913,727	-	-	-	-	3,926,480
Property and equipment and other assets	2,052,562	112,643	9	250,506	782	2,226	2,418,728
Total assets	59,809,097	9,438,646	66,715	1,309,800	603,343	410,443	71,638,044
Due to banks	2,773,237	2,980,599	510,767	650,064	67,800	6,230	6,988,697
Customer deposits	32,805,763	2,392,441	47,123	2,742,145	309	902	37,988,683
Debt securities	-	-	-	6,871,674	-	-	6,871,674
Other borrowings	180,989	3,274,687		363,635		363,101	4,182,412
Other liabilities	1,092,536	104,327	84	178,492	41	802	1,376,282
Equity	14,230,296	-	-	-	-	-	14,230,296
Total liabilities and equity	51,082,821	8,752,054	557,974	10,806,010	68,150	371,035	71,638,044

As at and for the year ended 31 December 2012 QAR '000s

6. OPERATING SEGMENTS (CONTINUED)

(b) by geography (continued)

Consolidated statement of income	Qatar	Other GCC countries	Other Middle East	Europe	North America	Rest of the world	Total
Year ended 31 December 2011							
Net interest income	1,856,418	107,205	(502)	(36,272)	7,314	3,437	1,937,600
Fee, commission and other income	891,619	12,758	11	1,338	5,768	14,412	925,906
Net operating income	2,748,037	119,963	(491)	(34,934)	13,082	17,849	2,863,506
Staff Cost	(450,971)	-	-	-	-	(2,402)	(453,373)
Depreciation	(113,643)	-	-	-	-	(61)	(113,704)
Impairment loss on investment securities	(1,314)	(20,410)	-	(23,133)	(7,822)	(15,518)	(68,197)
Net impairment loss on loans and advances to customers	(239,915)	512	-	-	-	-	(239,403)
Other expenses	(307,314)	-	-	-	-	(964)	(308,278)
Profit before share of results of associates	1,634,880	100,065	(491)	(58,067)	5,260	(1,096)	1,680,551
Share of results of associates	(962)	204,382	-	-	-	-	203,420
Net profit for the year	**1,633,918**	**304,447**	**(491)**	**(58,067)**	**5,260**	**(1,096)**	**1,883,971**

As at and for the year ended 31 December 2012 QAR '000s

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:

	Fair value through profit or loss	Held-to-maturity	Loans and receivables (at amortised cost)	Available -for-sale	Other amortised cost	Total carrying amount	Fair value
31 December 2012							
Cash and balances with central bank	-	-	3,448,128	-	-	3,448,128	3,448,128
Due from banks	-	-	9,731,562	-	-	9,731,562	9,731,562
Derivative assets	431,202	-	-	-	-	431,202	431,202
Loans and advances to customers	-	-	48,594,475	-	-	48,594,475	48,594,475
Investment securities:							
Measured at fair value	57,264	-	-	7,891,087	-	7,948,351	7,948,351
Measured at amortised cost	-	3,213,828	-	-	-	3,213,828	3,845,395
	488,466	**3,213,828**	**61,774,165**	**7,891,087**	**-**	**73,367,546**	**73,999,113**
Derivative liabilities	349,958	-	-	-	-	349,958	349,958
Due to banks	-	-	-	-	9,849,098	9,849,098	9,849,098
Customer deposits	-	-	-	-	41,385,546	41,385,546	41,385,546
Debt securities	-	-	-	-	8,705,816	8,705,816	9,550,448
Other borrowings	-	-	-	-	3,471,515	3,471,515	3,471,515
	349,958	**-**	**-**	**-**	**63,411,975**	**63,761,933**	**64,606,565**

As at and for the year ended 31 December 2012 QAR '000s

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:

31 December 2011	Fair value through profit or loss	Held-to-maturity	Loans and receivables (at amortised cost)	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and balances with central bank	-	-	2,211,906	-	-	2,211,906	2,211,906
Due from banks	-	-	9,271,920	-	-	9,271,920	9,271,920
Derivative assets	343,799	-	-	-	-	343,799	343,799
Loans and advances to customers	-	-	41,613,804	-	-	41,613,804	41,613,804
Investment securities:							
Measured at fair value	-	-		6,229,663	-	6,229,663	6,229,663
Measured at amortised cost	-	5,502,976	-	-	-	5,502,976	6,133,083
	343,799	5,502,976	53,097,630	6,229,663	-	65,174,068	65,804,175
Derivative liabilities	265,592	-	-	-	-	265,592	265,592
Due to banks	-	-	-	-	6,988,697	6,988,697	6,988,697
Customer deposits	-	-	-	-	37,988,683	37,988,683	37,988,683
Debt securities	-	-	-	-	6,871,674	6,871,674	7,422,726
Other borrowings	-	-	-	-	4,182,412	4,182,412	4,185,308
	265,592	-	-	-	56,031,466	56,297,058	56,851,006

As at and for the year ended 31 December 2012 QAR '000s

8. CASH AND BALANCES WITH CENTRAL BANK

	2012	2011
Cash	423,774	364,588
Cash reserve with QCB*	1,990,633	1,749,334
Other balances with QCB	1,033,721	462,572
	3,448,128	2,576,494

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

9. DUE FROM BANKS

	2012	2011
Current accounts	80,230	89,744
Placements	8,866,816	8,929,827
Loans to banks	784,516	252,349
	9,731,562	9,271,920

10. LOANS AND ADVANCES TO CUSTOMERS

a) By type

	2012	2011
Loans	46,996,364	40,788,068
Overdrafts	1,861,600	1,946,848
Bills discounted	278,533	112,905
Bankers acceptances	285,442	97,979
	49,421,939	42,945,800
Deferred profit	(200,652)	(686,615)
Specific impairment of loans and advances to customers	(359,992)	(321,881)
Collective impairment allowance	(266,820)	(225,521)
Net loans and advances to customers (Note)	**48,594,475**	41,711,783

The aggregate amount of non-performing loans and advances to customers amounted QAR 539 million which represents 1.09% of total loans and advances to customers (2011: QAR 508 million, 1.20% of total loans and advances to customers).

Specific impairment of loans and advances to customers includes QAR 98 million of interest in suspense (2011: QAR 73 million).

Note

	2012	2011
Government and related agencies	7,694,409	7,399,252
Wholesale	29,488,574	25,559,965
Retail	11,411,492	8,752,566
Net loans and advances to customers	**48,594,475**	41,711,783

As at and for the year ended 31 December 2012 QAR '000s

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

b) By sector –

At 31 December 2012:

	Loans	Overdrafts	Bills discounted	Bankers acceptances	Total
Government and related agencies	7,302,564	391,845	-	-	7,694,409
Non-banking financial institutions	1,016,820	3,188	-	-	1,020,008
Industry	1,308,807	97,589	-	4,481	1,410,877
Commercial	6,536,611	148,404	47,254	176,914	6,909,183
Services	4,697,202	172,192	16,150	26,250	4,911,794
Contracting	3,432,568	278,541	72,648	77,648	3,861,405
Real estate	15,868,596	111,287	136,139	-	16,116,022
Personal	6,577,536	657,527	6,342	-	7,241,405
Others	255,660	1,027	-	149	256,836
	46,996,364	**1,861,600**	**278,533**	**285,442**	**49,421,939**
Less: Deferred Profit					(200,652)
Specific impairment allowance					(359,992)
Collective impairment allowance					(266,820)
					(827,464)
Net loans and advances to customers					**48,594,475**

At 31 December 2011:

	Loans	Overdrafts	Bills discounted	Bankers acceptances	Total
Government and related agencies	6,747,899	651,353	-	-	7,399,252
Non-banking financial institutions	645,616	7,723	-	-	653,339
Industry	2,279,857	78,593	-	23,410	2,381,860
Commercial	5,437,181	142,302	49,549	24,597	5,653,629
Services	2,569,793	107,341	9,454	10,822	2,697,410
Contracting	2,597,676	170,195	48,926	39,150	2,855,947
Real Estate	13,272,787	15,824	998	-	13,289,609
Personal	6,846,331	773,517	3,978	-	7,623,826
Others	390,928	-	-	-	390,928
	40,788,068	1,946,848	112,905	97,979	42,945,800
Less: Deferred Profit					(686,615)
Specific impairment allowance					(321,881)
Collective impairment allowance					(225,521)
					(1,234,017)
Net loans and advances to customers					41,711,783

As at and for the year ended 31 December 2012 QAR '000s

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

c) Movement in impairment loss on loans and advances to customers

	2012	2011
Balance at 1 January	547,402	979,823
Allowance made during the year	283,326	442,304
Recoveries during the year	(113,785)	(49,757)
Net allowance for impairment during the year *	169,541	392,547
Written off during the year	(90,131)	(824,968)
Balance at 31 December	**626,812**	547,402

*This includes net interest suspended during the year QAR 30 million (2011: QAR 153 million). The movement includes the effect of interest suspended on loans and advances to customers as per QCB regulations.

Further analysis is as follows:

	Wholesale	**Retail**	**Total**
Balance at 1 January 2012	376,752	170,650	547,402
Allowance made during the year	221,036	62,290	283,326
Recoveries during the year	(80,166)	(33,619)	(113,785)
Written off during the year	(83,151)	(6,980)	(90,131)
Balance at 31 December 2012	**434,471**	**192,341**	**626,812**
Balance at 1 January 2011	294,882	684,941	979,823
Allowance made during the year	255,393	186,911	442,304
Recoveries during the year	(15,788)	(33,969)	(49,757)
Written off during the year	(157,735)	(667,233)	(824,968)
Balance at 31 December 2011	376,752	170,650	547,402

As at and for the year ended 31 December 2012 QAR '000s

11. INVESTMENT SECURITIES

Investment securities as at 31 December 2012 totaled QAR 11,162,179 (2011: QAR 11,732,639). The analysis of investment securities is detailed below:

	2012	20111
Available-for-sale	7,891,087	6,229,663
Held to maturity	3,213,828	5,502,976
Investment securities designated at fair value through income statement	57,264	-
Total	**11,162,179**	11,732,639

The carrying value of investments securities pledged under Repurchase agreements (REPO) is QAR 1,968 million (2011:QAR 1,281 million)

a) Available-for-sale

	2012		2011	
	Quoted	**Unquoted**	Quoted	Unquoted
Equities	427,876	386,284	391,010	430,180
State of Qatar debt securities	2,926,400	2,020,060	547,448	3,102,658
Debt and other securities*	1,584,123	208,602	982,811	389,116
Investment funds	-	337,742	-	386,440
Total	**4,938,399**	**2,952,688**	1,921,269	4,308,394

***** Fixed rate securities and floating rate securities amounted to QAR 1,523 million and QAR 270 million respectively (2011: QAR 1,081 million and QAR 290 million respectively).

b) Held to maturity

	2012		2011	
-By issuer	**Quoted**	**Unquoted**	Quoted	Unquoted
State of Qatar debt securities	740,698	2,358,377	1,539,084	3,843,019
Other debt securities	-	114,753	-	120,873
Total *	**740,698**	**2,473,130**	1,539,084	3,963,892
-By interest rate				
Fixed rate securities	740,698	2,358,377	1,539,084	3,843,019
Floating rate securities	-	114,753	-	120,873
Total	**740,698**	**2,473,130**	1,539,084	3,963,892

* The fair value of held to maturity investments amounted to QAR 3,845 million at 31 December 2012 (2011: QAR 6,133 million).

As at and for the year ended 31 December 2012 QAR '000s

11. INVESTMENT SECURITIES (CONTINUED)

c) Investment securities designated at fair value through income statement

	2012	2011
Debt securities	57,264	-
Balance at 31 December	**57,264**	-

d) Movement in impairment loss on investment debt securities

	2012	2011
Balance at 1 January	260,842	283,303
Allowance for impairment during the year	1,344	21,509
Recoveries during the year	(23,660)	(2,314)
Write-off during the year	(36,400)	(41,656)
Balance at 31 December *	**202,126**	260,842

*Further breakup as follows:

	2012	2011
Available-for-sale – debt securities	91,443	115,103
Held to maturity	110,683	145,739
	202,126	260,842

The Group has also taken impairment loss for investments in Equities and funds during the year totalling QAR 60.6 million (2011: QAR 46.7 million).

As at and for the year ended 31 December 2012 QAR '000s

12. INVESTMENTS IN ASSOCIATES

	2012	2011
Balance at 1 January	3,926,480	3,839,542
Investments acquired during the year	-	1,940
Share of results	258,546	203,420
Cash dividend	(141,398)	(116,670)
Other movements	10,529	(1,752)
Balance at 31 December	**4,054,157**	3,926,480

	Amount				Ownership %	
Name of the Company	**2012**	2011	**Country**	**Company's Activities**	**2012**	2011
National Bank of Oman SAOG ('NBO')	**1,604,243**	1,538,990	Oman	Banking	**34.9%**	34.9%
United Arab Bank PJSC ('UAB')	**2,435,883**	2,374,737	UAE	Banking	**40%**	40%
Asteco LLC	**1,906**	2,256	Qatar	Facilities management	**30%**	30%
Gekko LLC	**-**	-	Qatar	Electronic payment infrastructure	**50%**	50%
Massoun Insurance Services LLC	**12,125**	10,497	Qatar	Insurance brokerage	**50%**	50%

The summarised financial position and results of associates as at the end of reporting period are as follows:

	2012	2011
Total assets	38,900,140	31,838,134
Total liabilities	33,757,868	27,137,761
Operating income	1,698,430	1,455,615
Net profit	788,827	648,586
Share of results	**258,546**	203,420

Shares of National Bank of Oman SAOG are listed on the Muscat Securities Market, having a market value of QAR 1,042 million as at 31 Decemeber 2012 (31 Decemeber 2011: QAR 1,141 million).

Shares of United Arab Bank PJSC are listed on the Abu Dhabi Securities Market, having a market value of QAR 1,216 million as at 31 Decemeber 2012 (31 December 2011: QAR 1,438 million).

As at and for the year ended 31 December 2012 QAR '000s

13. PROPERTY AND EQUIPMENT

	Land and buildings	Leasehold improvements	Furniture and equipment	Motor vehicles	Capital Work in Progress	Total
Cost						
Balance at 1 January 2011	788,823	70,112	490,361	6,915	216,487	1,572,698
Acquisitions / transfers	21,873	227	121,183	354	(28,527)	115,110
Disposals	-	-	-	(551)	-	(551)
Foreign currency translation	-	-	(2)	-	-	(2)
Balance at 31 December 2011	810,696	70,339	611,542	6,718	187,960	1,687,255
Balance at 1 January 2012	810,696	70,339	611,542	6,718	187,960	1,687,255
Acquisitions / transfers	149,518	18,863	64,620	981	14,708	248,690
Disposals	(1,540)	(1,460)	-	(1,495)	-	(4,495)
Balance at 31 December 2012	**958,674**	**87,742**	**676,162**	**6,204**	**202,668**	**1,931,450**
Accumulated depreciation						
Balance at 1 January 2011	138,398	52,101	307,573	5,604	-	503,676
Charged during the year	27,274	6,589	79,085	756	-	113,704
Disposals	-	-	-	(451)	-	(451)
Foreign currency translation	-	-	(2)	-	-	(2)
Balance at 31 December 2011	165,672	58,690	386,656	5,909	-	616,927
Balance at 1 January 2012	165,672	58,690	386,656	5,909	-	616,927
Depreciation for the year	28,906	7,970	84,513	559	-	121,948
Disposals	(1,540)	(1,460)	-	(1,494)	-	(4,494)
Balance at 31 December 2012	**193,038**	**65,200**	**471,169**	**4,974**	**-**	**734,381**
Net carrying amounts						
Balance at 31 December 2011	645,024	11,649	224,886	809	187,960	1,070,328
Balance at 31 December 2012	**765,636**	**22,542**	**204,993**	**1,230**	**202,668**	**1,197,069**

As at and for the year ended 31 December 2012 QAR '000s

14. OTHER ASSETS

	2012	2011
Interest receivable and Accrued income	321,698	295,828
Prepaid expenses	32,068	19,080
Accounts receivable	128,715	150,788
Repossessed collateral*	856,093	412,206
Positive fair value of derivatives (Note 35)	431,202	343,799
Clearing cheques	30,691	36,622
Others	49,715	90,077
	1,850,182	1,348,400

* This represents the value of the properties acquired in settlement of debts and subsequent additions, which have been stated at their carrying value net of any allowance for impairment. The estimated market values of these properties at the end of the reporting period are not materially different from the carrying values.

15. DUE TO BANKS

	2012	2011
Balances due to central banks	16,380	700,000
Current accounts	583,485	281,700
Placements with banks	7,507,255	4,856,187
Repurchase agreements with banks	1,748,562	1,150,810
	9,855,682	6,988,697

As at and for the year ended 31 December 2012 QAR ‘000s

16. CUSTOMER DEPOSITS

	2012	2011
a) By type		
Current and call deposits	14,845,171	11,350,636
Saving deposits	3,692,906	3,630,898
Time deposits	22,847,469	23,007,149
	41,385,546	37,988,683
b) By sector		
Government	3,250,755	5,791,316
Government and semi government agencies	6,509,328	8,778,012
Individuals	11,756,110	10,071,423
Corporate	14,385,014	9,962,814
Non-banking financial institutions	5,484,339	3,385,118
	41,385,546	37,988,683

17. DEBT SECURITIES

EMTN Programme – Senior unsecured notes: On 11 April 2012, the Commercial Bank of Qatar through CBQ Finance Limited, a wholly-owned subsidiary, completed an issuance of US$ 500 million (or QAR 1,820 million) five year senior unsecured fixed rate notes under its US$ 5 billion European Medium Term Note (“EMTN”) Programme that it established in 2011. The notes carry a fixed coupon of 3.375% per annum with interest payable semi-annually in arrears and are listed on the London Stock Exchange. The estimated fair value of the EMTN notes as at 31 December 2012 was QAR 1.89 billion.

Senior and Subordinated Notes: On 18 November 2009, the Commercial Bank of Qatar through CBQ Finance Limited, a wholly-owned subsidiary, completed the issuance of the following notes:

- **Senior Notes:** US$ 1,000 million or QAR 3,640 million five-year Senior Notes paying a fixed coupon of 5.00% per annum. Interest is payable semi-annually in arrears and the principal is payable in full at maturity of five years. The estimated fair value of the Senior Notes as at 31 December 2012 was QAR 3.85 billion (2011: QAR 3.79 billion).
- **Subordinated Notes:** US$ 600 million or QAR 2,184 million ten-year Subordinated Notes paying a fixed coupon of 7.50% per annum. Interest is payable semi-annually in arrears and the principal is payable in full at maturity of ten years. The estimated fair value of the Subordinated Notes as at 31 December 2012 was QAR 2.68 billion (2011: QAR 2.52 billion).

These notes have been irrevocably guaranteed by the Commercial Bank of Qatar and are listed and traded on the London Stock Exchange.

CHF denominated Fixed Rate Bond: On 7 December 2010, the Commercial Bank of Qatar through CBQ Finance Limited, a wholly-owned subsidiary, completed the issuance of a CHF 275 million five year bond paying a fixed coupon of 3.0% per annum. Interest and 0.01% agency commission is payable annually in arrears and the principal is payable in full at maturity of five years. This bond has been irrevocably guaranteed by the Commercial Bank of Qatar and is listed and traded on the ‘SIX’ Swiss Exchange AG, Zurich.

The Group entered into cross currency interest rate swaps to convert its CHF 275 million borrowing into a USD denominated borrowing and pay a floating rate of USD 3 month LIBOR plus applicable margins on the USD notional amount and receive a coupon of 3% per annum on the CHF denominated notional amount.

As at and for the year ended 31 December 2012 QAR '000s

17. DEBT SECURITIES (CONTINUED)

	2012	2011
EMTN Programme – Senior notes	1,796,024	-
Senior Notes	3,623,332	3,615,093
Subordinated Notes	2,155,929	2,152,938
CHF Fixed Rate Bonds	1,130,531	1,103,643
Total	**8,705,816**	6,871,674

Movements in debt securities are analysed as follows:

	2012	2011
Balance at beginning of the year	6,871,674	8,629,876
Additions	1,791,934	-
Repayments	-	(1,820,000)
Fair value adjustment	26,565	48,697
Amortisation of discount and transaction cost	15,643	13,101
Balance at 31 December	**8,705,816**	6,871,674

The table below shows the maturity profile of debt securities:

	2012	2011
Up to 1 year	-	-
Between 1 and 3 years	4,753,863	3,615,093
Over 3 years	3,951,953	3,256,581
Balance at 31 December	**8,705,816**	6,871,674

As at and for the year ended 31 December 2012 QAR '000s

18. OTHER BORROWINGS

	2012	2011
Syndicated loan (a)	-	2,365,698
Bilateral loans (b)	1,818,345	1,816,714
Club loan (c)	1,653,170	-
Total	**3,471,515**	4,182,412

Notes:

(a) A Syndicated loan with a value of US$ 650 million (or QAR 2,366 million) matured and was repaid on 28 February 2012.

(b) Bilateral loans: The Bank has entered into certain bi-lateral loan agreements amounting to US$ 500 Million or QAR 1,820 million in 2011 to obtain financing facilities; all loans are at floating rate on general commercial terms, except one loan agreement amounting to US$ 100 million or QAR 364 million, wherein the lender has the right to claim settlement in equivalent QAR at the prevailing exchange rate on maturity

(c) The Bank established a Club term loan facility on 6 February 2012 for US$ 455 million (or QAR 1,656 million) with a group of international banks.

Movements in other borrowings are as follows:	2012	2011
Balance at beginning of the year	4,182,412	2,363,686
Additions to borrowings	1,650,219	1,816,714
Repayments	(2,366,000)	-
Amortisation of discount and transaction cost	4,884	2,012
Balance at 31 December	**3,471,515**	4,182,412

The table below shows the maturity profile of other borrowings:

	2012	2011
Up to 1 year	1,818,345	2,547,698
Between 1 and 3 years	1,653,170	1,634,714
Over 3 years	-	-
Balance at 31 December	**3,471,515**	4,182,412

As at and for the year ended 31 December 2012 QAR '000s

19. OTHER LIABILITIES

	2012	2011
Interest payable	163,502	133,963
Accrued expense payable	50,719	65,488
Other provisions (Note i)	143,694	137,504
Negative fair value of derivatives (Note 35)	349,958	265,592
Unearned income	80,304	66,631
Cash margins	138,119	120,733
Accounts payable	286,304	266,465
Directors' remuneration	40,500	36,000
Social responsibility fund	225	3,282
Social & Sports Activities Support Fund ("Daam") (Note 22)	50,307	47,099
Dividend payable	11,957	9,988
Managers' cheque and payment order	22,060	16,704
Unclaimed balances	7,896	10,977
Due for trade acceptances	285,442	97,979
Others	48,828	97,877
Total	**1,679,815**	**1,376,282**

(i) Other provisions –

	Provident fund (a)	**Pension fund (b)**	**Total 2012**	Total 2011
Balance at 1 January	136,565	939	137,504	130,167
Provisions made during the year	6,965	7,914	14,879	19,128
Earnings of the fund	4,114	-	4,114	3,684
Provident fund – staff contribution	6,651	4,207	10,858	9,654
Transferred to state retirement fund authority	-	(11,469)	(11,469)	(7,091)
Payments during the year	(12,192)	-	(12,192)	(18,038)
Balance at 31 December	**142,103**	**1,591**	**143,694**	137,504

(a) The provident fund includes the Group's obligations for end of service benefits to expatriate staff per Qatar labour law and the employment contracts.

(b) Pension fund contributions in respect of the national staff are paid to the State administered retirement fund at the end of each month. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized when they are due.

20. EQUITY

(a) Share capital

The issued, subscribed and paid up capital of the Bank is QAR 2,474,463,720 (2011: QAR 2,474,463,720) divided into 247,446,372 (2011: 247,446,372) ordinary shares of QAR 10 each.

	Ordinary shares	
In thousands of shares	**2012**	2011
On issue at the beginning of the reporting period	**247,446**	226,826
New shares issued	**-**	20,620
On issue at 31 December	**247,446**	247,446

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' Annual/Extra-ordinary General meeting of the Bank.

On 17 January 2011 the Bank received the final tranche of the private placement proceeds from Qatar Holding LLC amounting to QAR 1.61 billion being the value of 20,620,530 new ordinary shares, with an issue price of QAR 78.30 per share including a premium of QAR 68.30 per share. Further to the approval at the Extraordinary General Assembly of the Bank, held on 21 February 2011, the new ordinary shares were issued on 22 February 2011 and the nominal value of QAR 10 per ordinary share was applied to paid up share capital.

(b) Legal reserve

In accordance with Qatar Central Bank's Law No. 33 of 2006 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.

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

(c) General reserve

As per the Bank's Articles of Association, the general reserve may only be used in accordance with a resolution from the General Assembly upon the Board of Directors recommendation and after obtaining Qatar Central Bank approval.

(d) Risk reserve

In accordance with QCB regulations, a risk reserve should be created to cover contingencies on both the public and private sector financing assets, with a minimum requirement of 2% of the total private sector exposure granted by the Group inside and outside Qatar after the exclusion of the specific provisions and interest in suspense. The finance provided to/or secured by the Ministry of Finance or finance against cash guarantees is excluded from the gross direct finance. From distributable profit of the year, total amount of transfer made to the risk reserve was QAR 119.0 million (2011: QAR 157.6 million).

(e) Fair value reserves

The fair value reserve arises from the revaluation of the available-for-sale investments, change of post acquisition fair value reserve of its associates and exchange gain or loss on consolidation of subsidiaries.

As at and for the year ended 31 December 2012 QAR '000s

20. EQUITY (CONTINUED)

(f) Other reserves

This represents the Group's share of profit from investment in associates and joint ventures, net of cash dividend received, as required by QCB regulations as follows:

	Figures in thousand Qatar Riyals	
	2012	2011
Balance as at 1 January	556,456	469,706
Share of result of associates	258,546	203,420
Dividend from associates transferred to retained earnings	(141,398)	(116,670)
Net movement	117,148	86,750
Balance as at 31 December	**673,604**	556,456

(g) Proposed dividend

The Board of Directors has proposed a cash dividend of 60% (or QAR 6 per share) for the year 2012. This is subject to approval at the Annual General Assembly.

(h) Dividends paid

During the year, the shareholders received a dividend of QAR 6 per share totalling QAR 1.48 billion in respect of the year ended 31 December 2011 (2011: QAR 7 per share totalling QAR 1.59 billion in respect of the year ended 31 December 2010).

21. OTHER COMPREHENSIVE INCOME

	2012	**201l**
Available-for-sale investments:		
Positive change in fair value	362,267	62,207
Negative change in fair value	(4,966)	(142,874)
Net change in fair value	357,301	(80,667)
Net amount transferred to profit or loss	(136,245)	(42,367)
Share of other comprehensive income of associates	10,717	(2,162)
Total other comprehensive income	**231,773**	(125,196)

22. CONTRIBUTION TO SOCIAL AND SPORTS ACTIVITIES SUPPORT FUND ("DAAM")

Pursuant to Law No. 13 of 2008, the Bank made an appropriation of QAR 50 million from retained earnings for its contribution to the Social and Sports Activities Support Fund ("Daam") of Qatar. This amount represents 2.5% of the net profit for the year ended 31 December 2012.

As at and for the year ended 31 December 2012 QAR '000s

23. INTEREST INCOME

	2012	2011
Amounts deposited with central banks	7,288	9,938
Amounts deposited with banks	56,586	41,654
Debt securities	521,665	508,922
Loans and advances to customers	2,312,654	2,315,636
	2,898,193	2,876,150

24. INTEREST EXPENSE

	2012	2011
Amount deposited by banks	49,952	27,043
Customer deposits	476,811	493,502
Other borrowings	68,602	25,696
Debt securities	436,574	392,309
	1,031,939	938,550

25. FEE AND COMMISSION INCOME

	2012	2011
Loans and financing advisory service	280,596	358,418
Credit and debit card fees	241,954	232,752
Indirect credit facilities	120,324	117,752
Banking and other operations	26,401	26,052
Investment activities for customers	19,816	17,613
	689,091	752,587

26. FEE AND COMMISSION EXPENSE

	2012	2011
Brokerage services	994	642
Credit and debit card fees	155,043	149,127
Others	14,450	17,209
	170,487	166,978

27. FOREIGN EXCHANGE GAIN

	2012	2011
Dealing in foreign currencies	137,430	126,802
Revaluation of assets and liabilities	18,133	2,734
	155,563	129,536

As at and for the year ended 31 December 2012 QAR '000s

28. INCOME FROM INVESTMENT SECURITIES

	2012	2011
Net gain on disposal of available –for-sale securities	337,161	136,307
Gain on investment securities at fair value through profit or loss	2,664	-
Dividend income	26,147	24,188
	365,972	160,495

29. OTHER OPERATING INCOME

	2012	2011
Rental income	30,522	33,614
Gain on sale of property and equipment and other income	47,076	15,911
Management fees from associates	-	741
	77,598	50,266

30. STAFF COSTS

	2012	2011
Staff costs	465,134	428,037
Staff provident fund and pension fund cost (Note 19 (i))	14,879	19,128
Training	19,369	6,208
	499,382	453,373

31. OTHER EXPENSES

	2012	2011
Marketing and advertisement	61,615	44,207
Professional fees	74,055	51,610
Communication, utilities and insurance	39,183	40,806
Board of Directors' remuneration and meeting attendance fees	42,720	38,230
Occupancy, IT Consumables and maintenance	91,272	77,261
Printing and stationary	8,703	7,173
Travel and entertainment costs	3,324	2,875
Outsourcing service costs	64,762	26,301
Others	21,418	19,815
	407,052	308,278

32. 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:

	2012	2011
Profit for the year attributable to the equity holders of the Bank	2,012,294	1,883,971
Weighted average number of outstanding shares in thousands	247,446	244,509
Earnings per share (QAR)	**8.13**	7.71

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

	2012	2011
Qualifying shares at the beginning of the year	247,446	226,826
Effect of share issued to Qatar Holding (QH)	-	17,683
Weighted average number of shares at 31 December	**247,446**	244,509

As at and for the year ended 31 December 2012 QAR '000s

33. CONTINGENT LIABILITIES AND OTHER COMMITMENTS

		2012	2011
a)	**Contingent liabilities**		
	Unused facilities	5,326,125	5,859,107
	Guarantees	12,048,098	9,088,622
	Letters of credit	7,541,840	5,217,592
	Total	**24,916,063**	20,165,321
b)	**Other commitments**		
	Forward foreign exchange contracts and derivatives at notional value	8,266,187	6,143,561
	Capital commitments	393,822	479,243
	Total	**8,660,009**	6,622,804

Unused facilities

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

Guarantees and Letters of credit

Guarantees and letters of credit commit the group to make payments on behalf of customers in the event of a specific event. Guarantees and standby letters of credit carry the same credit risk as loans.

Lease commitments

The Group leases a number of branches and office premises under operating leases. Lease rentals are payable as follows:

	2012	2011
Less than one year	7,108	5,602
Between one and five years	23,311	33,610
More than five years	1,498	5,924
	31,917	45,136

34. CASH AND CASH EQUIVALENTS

	2012	2011
Cash and balances with Central Bank *	1,457,495	827,160
Due from banks up to 90 days	7,353,090	8,838,446
Due to banks up to 90 days	(8,107,120)	(5,837,887)
	703,465	3,827,719

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

As at and for the year ended 31 December 2012 QAR'000s

35. DERIVATIVES

	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 2012:							
Derivatives held for trading:							
Forward foreign exchange contracts and interest rate swaps	329,028	349,958	7,236,881	4,174,795	39,809	2,064,757	957,520
Derivatives held for fair value hedges:							
Cross currency Interest rate swaps	102,174	-	1,029,306	-	-	1,029,306	-
Total	**431,202**	**349,958**	**8,266,187**	**4,174,795**	**39,809**	**3,094,063**	**957,520**
At 31 December 2011:							
Derivatives held for trading:							
Forward foreign exchange contracts and interest rate swaps	268,189	265,592	5,114,255	1,977,434	61,246	2,048,204	1,027,371
Derivatives held for fair value hedges:							
Cross currency interest rate swaps	75,610	-	1,029,306	-	-	1,029,306	-
Total	343,799	265,592	6,143,561	1,977,434	61,246	3,077,510	1,027,371

The bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the bank (i.e. assets) which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the bank requires margin deposits from counter-parties.

36. INVESTMENT CUSTODIAN

As at the end of the reporting period, the Group holds QAR 191 million (2011: QAR 175 million) worth of international investment securities on behalf of its customers. Out of this amount, investment securities with a value of QAR 152 million equivalent to USD 42 million (2011: QAR 133 million equivalent to USD 36.5 million) are held with an international custody and settlement house. The remaining investment securities are held with the financial institutions through whom the securities were purchased. These financial institutions are industry leaders in their respective fields. The Group has established maximum limits for such holding with each financial institution according to its risk management policy.

As at and for the year ended 31 December 2012 QAR '000s

37. RELATED PARTY DISCLOSURE

The Group carries out various transactions with subsidiaries and associate companies and with members of the Board of Directors, the executive management or companies in which they have significant interest or any other parties of important influence in the Group's financial or operations decisions. The balances at the year end with these accounts were as follows:

	2012	2011
Board members		
- Loans, advances and financing activities (a)	2,604,579	2,516,789
- Deposits	331,283	183,640
- Contingent liabilities, guarantees and other commitments	29,507	23,356
- Interest income earned from facilities granted to board members	27,739	35,233
- Other fee income earned from transactions with board members	387	3,252
- Interest paid on deposits accounts of board members	10,788	15,671
- Remuneration, meeting attendance fees and salaries paid to board members	46,080	41,454
Associated companies		
- NBO's deposit with the Group	329,478	675
- Bank's deposit with NBO	91,533	237,053
- NBO's contingent liabilities to the Group:		
- Letter of Guarantee	10,575	11,192
- Un-utilized credit facilities	254,800	254,800
- Interest rate swap (notional amount)	-	14,182
- Interest rate swap (fair value)	-	488
- UAB's deposit with the Group	101,075	183,369
- Bank's deposit with UAB	364,987	182,737
- UAB's contingent liabilities to the Group:		
- Letter of Guarantee	27,850	29,281
- Letter of Credit	5,470	620
- Asteco's deposit with the Group	5,439	6,148
- GEKKO's deposit with the Group	126	580
- Massoun's deposit with the Group	19,317	19,855
- Interest earned from Associates	1,918	550
- Interest paid to Associates	368	836
Senior management compensation/Transaction		
- Fixed remuneration	43,415	35,975
- Discretionary remuneration	21,980	12,864
- Fringe benefits	4,884	4,772
- Loans and advances (b)	24,004	26,267

(a) A significant portion of the loans, advances and financing activities' balance at 31 December with the members of the Board and the companies in which they have significant influence are secured against tangible collateral or personal guarantees. Moreover, the loans, advances and financing activities' are performing satisfactorily with all obligations honored as arranged. The pricing of any such transactions are primarily based on the banker customer relationship at the prevailing market rates.

(b) No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel at the period end.

As at and for the year ended 31 December 2012 QAR '000s

38. COMPARATIVES

Certain amounts in the prior year financial statements and supporting note disclosures have been reclassified to conform to the current year's financial statements format and minimum disclosures as prescribed by the Qatar Central Bank (QCB). However, such reclassifications were not material and did not have an impact on the previously reported net profit, other comprehensive income or the total consolidated equity for the comparative year.

During 2012, the QCB required all banks to bring acceptances onto the statement of financial position. The Group concluded that it was appropriate to affect the change for the prior year. As a result, the comparatives in the statement of financial position have been restated to include customer acceptances. The Group has revised the statement of financial position for the year ended 31 December 2011.

The table below details the effect of the adjustments to the consolidated statement of financial position:

	As previously reported	*Effect of adjustments*	*After adjustments*
Gross loans and advances to customers	42,847,821	97,979	**42,945,800**
Other liabilities	1,278,303	97,979	**1,376,282**
Total assets	71,540,065	97,979	**71,638,044**
Total liabilities	57,309,769	97,979	**57,407,748**

QAR '000s

FINANCIAL STATEMENTS OF THE PARENT BANK

a. Statement of Financial Position – Parent Bank

As at 31 December	2012	2011
ASSETS		
Cash and balances with central bank	3,448,123	2,576,489
Due from banks	9,731,437	9,271,621
Loans and advances to customers	48,587,855	41,709,638
Investment securities	11,334,983	11,905,443
Investment in associates	3,403,682	3,403,682
Property and equipment	1,195,396	1,070,021
Other assets	1,848,721	1,346,857
TOTAL ASSETS	**79,550,197**	71,283,751
LIABILITIES		
Due to banks	9,849,098	6,987,863
Customer deposits	41,574,595	38,179,363
Debt securities	8,705,816	6,871,674
Other borrowings	3,471,515	4,182,412
Other liabilities	1,672,784	1,368,574
TOTAL LIABILITIES	**65,273,808**	57,589,886
EQUITY		
Share capital	2,474,464	2,474,464
Legal reserve	8,740,365	8,740,365
General reserve	26,500	26,500
Risk reserve	924,600	805,600
Fair value reserves	157,665	(63,403)
Proposed dividend	1,484,678	1,484,678
Retained earnings	468,117	225,661
TOTAL EQUITY	**14,276,389**	13,693,865
TOTAL LIABILITIES AND EQUITY	**79,550,197**	71,283,751

QAR '000s

FINANCIAL STATEMENTS OF PARENT BANK (continued)

b. Income Statement – Parent Bank

For the year ended 31 December	2012	2011
Interest income	2,897,119	2,875,771
Interest expense	(1,033,505)	(940,230)
Net interest income	**1,863,614**	1,935,541
Fee and commission income	684,060	750,573
Fee and commission expense	(169,365)	(166,366)
Net fee and commission income	**514,695**	584,207
Foreign exchange gain	155,484	129,468
Income from investment securities	365,972	160,495
Other operating income	75,325	45,426
Net operating income	**2,975,090**	2,855,137
Staff costs	(489,036)	(449,057)
Depreciation	(121,604)	(113,643)
Impairment loss on investment securities	(61,917)	(68,197)
Net impairment loss on loans and advances to customers	(140,277)	(239,915)
Other expenses	(407,401)	(305,371)
Profit before dividend income from associates	**1,754,855**	1,678,954
Dividend income from associates	141,398	116,670
Profit for the year	**1,896,253**	1,795,624