CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

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CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF COMMERCIAL BANK OF QATAR (Q.S.C.)

Report on the consolidated financial statements

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

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

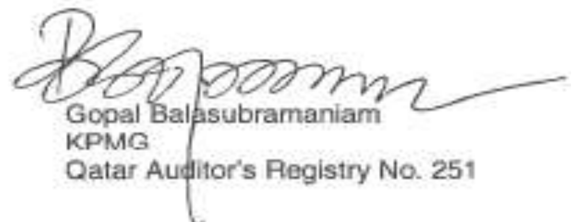
KPMG, is a registered firm under Qatar law, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Other matter

The consolidated financial statements as at and for the year ended 31 December 2012 were audited audited by another auditor whose audit report dated 27 January 2013, expressed an unmodified audit opinion thereon.

Report on other legal and regulatory requirements

We have obtained all the information and explanations which we consider necessary for the purpose of our audit. The Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying report of the Board of Directors and confirm that the financial information contained therein is in agreement with the books and records of the Bank. We are not aware of any violations of the applicable provisions of Qatar Central Bank Law No. 13 of 2012, Qatar Commercial Law No. 5 of 2002 or the terms of Articles of Association and the amendments thereto having occurred during the year which might have had a material adverse effect on the business of the Bank or its consolidated financial position as at 31 December 2013.



09 February 2014
Doha
State of Qatar

Gopal Balasubramaniam
KPMG
Qatar Auditor's Registry No. 251

CONSOLIDATED STATEMENT OF FINANCIAL POSITION QAR '000s

As at 31 December	Notes	2013	2012
ASSETS			
Cash and balances with central banks	8	6,902,547	3,448,128
Due from banks	9	15,177,969	9,731,562
Loans and advances to customers	10	66,862,544	48,594,475
Investment securities	11	14,706,294	11,162,179
Investment in associates	12	4,198,469	4,054,157
Property and equipment	13	1,283,186	1,197,069
Intangible assets	14	996,486	-
Other assets	15	2,984,370	1,850,182
TOTAL ASSETS		**113,111,865**	80,037,752
LIABILITIES			
Due to banks	16	12,599,210	9,855,682
Customer deposits	17	63,419,931	41,385,546
Debt securities	18	9,759,667	8,705,816
Other borrowings	19	7,345,717	3,471,515
Other liabilities	20	3,432,245	1,679,815
TOTAL LIABILITIES		**96,556,770**	65,098,374
EQUITY			
Share capital	21	2,474,464	2,474,464
Legal reserve	21	8,820,259	8,740,540
General reserve	21	26,500	26,500
Risk reserve	21	1,316,300	924,600
Fair value reserves	21	(146,525)	163,225
Foreign currency translation reserve		(232,988)	-
Other reserves	21	835,840	673,604
Other equity	39	(512,761)	-
Retained earnings		1,381,870	1,936,445
TOTAL EQUITY ATTRIBUTABLE TO SHARE HOLDERS OF THE BANK		**13,962,959**	14,939,378
Non-controlling interests		592,136	-
Instrument eligible for additional capital	21	2,000,000	-
TOTAL EQUITY		**16,555,095**	14,939,378
TOTAL LIABILITIES AND EQUITY		**113,111,865**	80,037,752

The consolidated financial statements were approved by the Board of Directors on 9 February 2014 and were signed on its behalf by:

HE Abdullah bin Khalifa Al Attiyah
Chairman

Mr. Hussain Ibrahim Alfardan
Managing Director

Mr. Abdulla S Al Raisi
Chief Executive Officer

The attached notes 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT QAR '000s

For the year ended 31 December	Notes	2013	2012
Interest income	24	3,607,146	2,898,193
Interest expense	25	(1,418,787)	(1,031,939)
Net interest income		**2,188,359**	1,866,254
Fee and commission income	26	852,473	689,091
Fee and commission expense	27	(176,883)	(170,487)
Net fee and commission income		**675,590**	518,604
Net foreign exchange gain	28	179,388	155,563
Income from investment securities	29	209,534	365,972
Other operating income	30	181,025	77,598
Net operating income		**3,433,896**	2,983,991
Staff costs	31	(684,700)	(499,382)
Depreciation	13	(140,473)	(121,948)
Amortization of Intangible assets	14	(3,252)	-
Impairment loss on investment securities	11 (d)	(109,937)	(61,917)
Net impairment loss on loans and advances to customers	10 (c)	(603,967)	(139,944)
Other expenses	32	(608,742)	(407,052)
Profit before share of results of associates		**1,282,825**	1,753,748
Share of results of associates	12	324,933	258,546
Profit before tax		**1,607,758**	2,012,294
Income tax expenses		(2,380)	-
Profit for the year		**1,605,378**	2,012,294
Attributable to:			
Equity holders of the Bank		**1,604,485**	2,012,294
Non-controlling interests		893	-
Profit for the year		**1,605,378**	2,012,294
Earnings per share			
Basic/diluted earnings per share (QAR per share)	33	**6.48**	8.13

The attached notes 1 to 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME QAR '000s

For the year ended 31 December	**Notes**	**2013**	2012
Profit for the year		**1,605,378**	2,012,294
Other comprehensive income for the year:			
Items that are, or may subsequently be, reclassified to profit or loss:			
Foreign currency translation differences for foreign operation	22	(232,988)	-
Share of other comprehensive income of investment in associates	22	(17,924)	10,717
Net movement in fair value of available-for-sale investments	22	(291,826)	221,056
Other comprehensive income for the year		**(542,738)**	231,773
Total comprehensive income for the year		**1,062,640**	2,244,067
Attributable to:			
Equity holders of the Bank		1,061,747	2,244,067
Non-controlling interests		893	-
Total comprehensive income for the year		**1,062,640**	2,244,067

The attached notes 1 to 39 form an integral part of these consolidated financial statements.

The Commercial Bank of Qatar (Q.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — QAR 000s

	Notes	Share capital	Legal reserve	General reserve	Risk reserve	Fair value reserves	Foreign currency translation reserve	Other reserves	Other equity	Retained earnings	Total equity attributable to share holders of the Bank	Non-controlling interests	Instrument eligible for additional capital	Total equity
Balance as at 1 January 2013		2,474,464	8,740,540	26,500	924,600	163,225	-	673,604	-	1,936,445	14,939,378	-		14,939,378
Total comprehensive income for the year														
Profit for the year		-	-	-	-	-	-	-	-	1,604,485	1,604,485	893	-	1,605,378
Other comprehensive loss		-	-	-	-	(309,750)	(232,988)	-	-	-	(542,738)	-	-	(542,738)
Total comprehensive income for the year		-	-		-	(309,750)	(232,988)	-	-	1,604,485	1,061,747	893	-	1,062,640
Transfer to risk reserve		-	-	-	391,700	-	-	-	-	(391,700)	-	-		-
Instrument eligible for additional capital	21	-	-	-		-	-	-	-	-	-	-	2,000,000	2,000,000
Net movement in legal and other reserves			79,719				-	162,236		(241,955)	-	-	-	-
Social and sports fund appropriation	23	-	-	-	-	-	-	-	-	(40,135)	(40,135)	-	-	(40,135)
Transactions with equity holders, recognised directly in equity														
Contributions by and distributions to equity holders:														
Dividends for the year 2012	21	-	-	-	-	-	-	-	-	(1,484,678)	(1,484,678)	(7,810)	-	(1,492,488)
Put option on Non-Controlling Interests	39	-	-	-	-	-	-	-	(512,761)	-	(512,761)	-	-	(512,761)
Net movement in Non-Controlling Interests		-	-	-	-	-	-	-	-	(592)	(592)	599,053	-	598,461
Total contributions by and distributions to equity holders		-	-	-	-	-	-	-	(512,761)	(1,485,270)	(1,998,031)	591,243	-	(1,406,788)
Balance as at 31 December 2013		**2,474,464**	**8,820,259**	**26,500**	**1,316,300**	**(146,525)**	**(232,988)**	**835,840**	**(512,761)**	**1,381,870**	**13,962,959**	**592,136**	**2,000,000**	**16,555,095**

The attached notes 1 to 39 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
Balance as at 1 January 2012		2,474,464	8,740,540	26,500	805,600	(68,548)	556,456	1,695,284	14,230,296
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	2,012,294	2,012,294
Other comprehensive income	22	-	-	-	-	231,773	-	-	231,773
Total comprehensive income for the year		-	-	-	-	231,773	-	2,012,294	2,244,067
Transfer to risk reserve	21	-	-	-	119,000	-	-	(119,000)	-
Net movement in other reserves	21	-	-	-	-	-	117,148	(117,148)	-
Social and sports fund appropriation		-	-	-	-	-	-	(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)
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	1,936,445	14,939,378

The attached notes 1 to 39 form an integral part of these consolidated financial statements.

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

	Notes	2013	2012
Cash flows from operating activities			
Profit for the year before income tax		1,607,758	2,012,294
Adjustments for:			
Net impairment loss on loans and advances to customers	10 (c)	603,967	139,944
Impairment loss on investment securities	11 (d)	109,937	61,917
Depreciation	13	140,473	121,948
Amortization of intangible assets	14	3,252	-
Amortization of transaction costs for borrowings	18&19	21,742	20,527
Loss (Gain) on investment securities at fair value through profit or loss	29	2,770	(2,664)
Net gain on disposal of available-for-sale investments	29	(193,450)	(337,161)
Gain on disposal of other assets		(31,944)	(364)
Share of results of associates	12	(324,933)	(258,546)
Operating profit before working capital changes		**1,939,572**	1,757,895
Working capital changes			
Change in due from banks		(1,943,821)	(2,186,297)
Change in loans and advances to customers		(8,833,156)	(7,022,636)
Change in other assets		(1,096,323)	(475,217)
Change in due to banks		117,653	597,752
Change in customer deposits		14,879,996	3,396,863
Change in other liabilities		681,774	300,325
Contribution to social and sports activities support fund		(50,307)	(47,099)
Cash from/(used in) operations		**5,695,388**	(3,678,414)
Income tax paid		(130)	
Net cash from / (used in) operating activities		**5,695,258**	(3,678,414)
Cash flows from investing activities			
Acquisition of investment securities		(9,949,548)	(7,031,632)
Dividend received from associates		162,697	141,398
Acquisition of a subsidiary, net of cash acquired		(1,112,787)	-
Proceeds from sale/maturity of investment securities		8,781,890	8,101,244
Acquisition of property and equipment	13	(187,790)	(248,690)
Proceeds from the sale of property and equipment		-	365
Proceeds from the sale of other assets		151,000	-
Net cash (used in) / from investing activities		**(2,154,538)**	962,685
Cash flows from financing activities			
Proceeds from issue of debt securities	18	515,870	1,791,934
Repayment of debt securities	18	(563,265)	(2,366,000)
Repayment of other borrowings	19	(2,407,427)	-
Proceeds from other borrowings	19	4,014,764	1,650,219
Proceeds from issue ofinstrument eligible for additional capital		2,000,000	-
Dividends paid		(1,492,488)	(1,484,678)
Net cash from / (used in)financing activities		**2,067,454**	(408,525)
Net increase / (decrease) in cash and cash equivalents		5,608,174	(3,124,254)
Effect of exchange rate fluctuation		(100,337)	-
Cash and cash equivalents as at 1 January		703,465	3,827,719
Cash and cash equivalents as at 31 December	35	**6,211,302**	703,465
Net cash flows from operating activities:			
Interest paid		**1,173,089**	1,002,400
Interest received		**3,053,973**	2,872,323
Dividend received		**18,854**	26,147

The attached notes 1 to 39form an integral part of these consolidated financial statements.

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 2013 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 operates through its head office, subsidiraries and branches.

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	
				2013	2012
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%
CBQFinanceLimited	Bermuda	US$ 1,000	Debt issuance for the Bank	100%	100%
Commercial bank Investment Services (S.P.C.)	Qatar	QAR 100,000,000	Brokerage services	100%	100%
Alternatifbank A.S. ("ABank")	Turkey	TRY420,000,000	Banking Services	74.24%	-

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 consolidated 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 after 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 the income statement;
- derivatives;
- available-for-sale investments; 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.

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

Except for the changes explained in note 3(z), 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 the Group entities.

(a) Basis of consolidation

(i) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

(ii) Non-controlling interests (NCI)

In accordance with IFRS 3R, for each business combination, the acquirer can measure, at the acquisition date, components of NCI in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

(a) fair value on the acquisition date; or

(b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

NCI is measured only on initial recognition. The Group measures the NCI at fair value, including its share of goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

The accounting policies of subsidiaries are consistent with the accounting policies adopted by the Group.

(iv) 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)

(v) 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.

(vi) 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 reserve 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.

(vii) 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.

(viii) 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 37.

(ix) Put option on Non-controlling interests (NCI)

The fair value of put option on the NCI is based on the present value of the redemption amount in accordance with IAS 32 as a liability regardless of the probability of exercise, as this is not within the Group's control. This put option does not affect the goodwill and NCI valuation as it is recorded separately within equity. If the put option expired without exercising, this recorded value would be reversed.

Puttable instruments on NCI relating to the acquisition of Alternatifbank A.S. ("ABank") are initially recognised at fair value as a liability and the debit is recognised as 'Other Equity'. Subsequent changes in the fair value are recognised through equity. The fair value of the put option on the NCI is based on the present value of the redemption amount, calculated using discounted cash flow techniques, as if the puttable instrument had been exercised at the reporting date.

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 at 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.

Exchange differences arising from the above process are reported in equity as 'foreign currency translation reserve".

When the Group has any foreign operation that is disposed of, or partially disposed of, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.
Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of the net investment in the foreign operation and are recognised in other comprehensive income, and presented in the foreign exchange translation reserve in equity.

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. 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, 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 consolidated 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).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial assets and financial liabilities (continued)

(ii) Fair value measurement

Policy applicable from 1 January 2013

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.
If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Policy applicable before 1 January 2013

'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.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

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 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 investment securities is recorded in fair value reserve.

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 remaining 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 are 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 shortterm 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 investments

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. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Derivatives (continued)

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

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income in the hedging reserve. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognised in other comprehensive income from the period when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement within 'Other gains/ (losses) – net'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement within 'Other gains/ (losses) – net'.

(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)

(h) Property and equipment (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 goodwill and intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) Intangible assets

The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) 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.

(k) 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)

(l) 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.

(m) 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 in staff cost 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 the 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.

(n) 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.

(o) 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' 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)

(p) 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.

(q) 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.

(r) Dividend income

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

(s) Income tax expenses

Taxes are calculated based on tax laws and regulations in other countries in which the Group operates. A tax provision is made based on an evaluation of the expected tax liability. The Group operations inside Qatar are exempted from income tax.

(t) 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.

(u) 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.

(v) 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)

(w) 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.

(x) Comparatives

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

(y) 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.

(z) New standards, amendments and interpretations

New standards, amendments and interpretations effective from 1 January 2013

The following standards, amendments and interpretations, which became effective as of 1 January 2013, and are relevant to the Group:

- **IAS 1 (amendment) - Presentation of items of other comprehensive income**

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss the future if certain conditions are met from those that would never be reclassified to profit or loss.

The adoption of this amendment had no significant impact on the consolidated financial statements.

- **IAS 19 Employee benefits (2011)**

IAS 19 (2011) changes the definition of short term and other long term employee benefits to clarify the distinction between the two.

The adoption of this amendment had no significant impact on the consolidated financial statements.

- **IAS 28 (2011) – Investment in Associates and Joint ventures**

IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the following amendments:

Associates held for sales: IFRS 5 Non-current Asset Held for Sales and Discontinued Operations to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sales. For any retained portion of the investment that has not been classified held for sales, the entity applies the equity method until disposal of the portion held for sales. After disposal, any retained interest is accounted for using the equity interest continues to be an associate or a joint venture, and

On cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not remeasure the retained interest.

The adoption of this amendment had no significant impact on the consolidated financial statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) New standards, amendments and interpretations (continued)

- **Amendments to IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities (2011)**

Disclosures – Offsetting Financial Assets and Financial Liability (Amendment to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial positions. Based on the new disclosure requirement, the Group has to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set off under the master netting arrangements or similar arrangements.

Financial instruments) on asset and liability offsetting. This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.

The adoption of this amendment had no significant impact on the consolidated financial statements.

- **IFRS 10 - Consolidated financial statements and IAS 27 Separate Financial Statements (2011)**

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. IFRS 10 replaces the parts of previous existing IAS 27 Consolidation and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. This new control model focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvements with the investee and ability to use its power to affect those returns. The Group has amended its accounting policy on consolidation in line with the requirements of IFRS 10 and has re-assessed its consolidation conclusion.

The reassessment of control and consolidation requirements had no significant impact on the consolidated financial statements.

- **IFRS 11 – Joint Arrangements**

IFRS 11 replacesthe parts of previously existing IAS 31 interests in Joint Venture that dealt with Joint Ventures. IFRS 11 requires that interests in joint arrangements be classified as either joint operations (if the Group has the rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint venture (if the Group has the rights only to the net assets of an arrangement. When making this assessment, the Group has to consider the structure of the arrangements and other facts and circumstances).

The Group has amended its accounting policy for its joint arrangements and has re-evaluated its involvement in its joint arrangements.

The re-evaluation of involvement in joint arrangements had no significant impact on the consolidated financial statements.

- **IFRS 12 - Disclosures of interests in other entities**

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries and other structured entities. Refer to Note X for the disclosure note.

- **IFRS 13 - Fair value measurement**

IFRS 13 provides a single source of guidance in how fair value is measured and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. It unified the definition of fair value as the price that would be received to sell asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosures requirements about fair value measurement in other IFRS, including IFRS 7.

As a result, the Group has included additional disclosures in this regard. In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for the new disclosures. Notwithstanding the above, the change had no significant impact of the measurements of the Group's assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) New standards, amendments and interpretations (continued)

- **Improvements to IFRSs (2011)**

Improvements to IFRS issued in 2011 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. "Improvements to IFRS" comprise amendments that results in accounting changes to presentation, recognition, or measurements purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. There were significant changes to the current accounting policies of the Group as a result of these amendments.

New Standards, Amendments and Interpretations issued but not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. Those which are relevant to the Group are set out below. The Group has no plan for early adoption.

- **IFRS 9 – Financial Instruments**

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions to the standard relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised costs if the business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other assets will be measured as fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sales and loan and receivables.

The standard requires that derivatives embedded in contracts with a host that is financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendments the guidance on classification and measurement of liabilities from IAS 39.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) New standards, amendments and interpretations (continued)

New Standards, Amendments and Interpretations issued but not yet effective (continued)

IFRS 9 (2013) introduces a new general hedge accounting standard which would align hedge accounting more closely with the risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weakness in the hedge accounting model in IAS 39. The new standard does not fundamentally change the types of hedge relationships or the requirements to measure and recognise ineffectiveness; however, more judgement would be required to assess the effectiveness of a hedging relationship under the new standard.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, application of IFRS 9 is permitted, The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Group has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed.

The Group is currently assessing the impact of this amendment.

- **Amendments to IAS 19R: Employee Benefits**

IAS 19 Employee Benefits (Amendments to IAS 19R) apply to contributions from employees or third parties to defined benefits plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employment service.

The amendments are effective for annual periods beginning on or after 1 January 2014, Early adoption is permitted. The Group is not expecting a significant impact from the adoption of these amendments.

- **Amendments to IAS 32 on offsetting financial assets and financial liabilities (2011)**

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria IAS 32 by explaining when an entity currently has a legally enforcement right to offset and when gross settlements is equivalents to net settlement.
The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier application is permitted. The Group is not expecting a significant impact from the adoption of these amendments.

- **Novation of Derivatives and Continuation of Hedge Accounting (2013)**

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39 provides relief from discontinuing hedge accounting if certain criteria are met.

The amendments are effective for annual periods on or after 1 January 2014. Earlier application is permitted. Although the amendments are applied retrospectively, if an entity has previously discontinued hedge accounting as a result of novation, the previous hedge accounting (pre-novation) for that relationship cannot be restated. The Group is not expecting a significant impact from the adoption of these amendments.

- **Investment Entities (Amendments to IFRS 10 and IFRS 12)**

The IASB published Investment Entities (Amendments to IFRS 10 and IFRS 12), which grants certain relief from consolidation to investment entities. It requires qualifying investment entities to account for investment in controlled investees on a fair value basis. The effective date is annual periods beginning on or after 1 January 2014, but early adoption is permitted to enable alignment with adoption of IFRS 10. The Group is not expecting a significant impact from the adoption of these amendments.

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 banks, 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 third highest-level authority on all Counterparty Credit Risk Exposures, after the Board of Directors and Board Executive Committee. The Committee exercises the powers as conferred upon it by the Delegation of Authority ("DoA") for Corporate Credit as approved by the Board.

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 Asset and Liability management. (i.e. balance sheet structure, funding, pricing, hedging, setting limits etc) Under the overall risk management framework, ALCO is a key component of risk management within the Bank.

8) Investment Committee (IC) is the decision making committee for Cb's investment activities, with a view to optimize returns, ensuring that the investment book provides a liquidity buffer for the bank and mitigate market risk attached to the nature of targeted investment.

9) Special Assets Management Committee (SAM) Active management of all Special Assets (SA) to minimize risks, prevent losses, maximize recoveries and restore profits through rehabilitation, restructuring, workout, collection or legal actions.

10) Crisis Management Committee (CMC) Management of a crisis entailing prevention, planning, testing, evaluation and maintenance to mitigate and minimize the consequences.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Introduction and overview (continued)

(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-balance sheet 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.

(i) Credit risk measurement

1. Loans and advances

The Group's aim is to maintain a sound asset 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.

2. Debt securities and other bills

For debt securities and other bills, external ratings such as Standard & Poor's and Moody's ratings or their equivalents are used by Group Treasury for managing 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 following the local regulations. 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 at the reporting date. 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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

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

	2013	2012
Credit risk exposures relating to assets recorded on the consolidated statement of financial position are as follows:		
Balances with central banks	6,281,842	3,024,354
Due from banks	15,177,969	9,731,562
Loans and advances to customers	66,862,544	48,594,475
Investment securities - debt	13,804,728	10,010,277
Other assets	1,746,772	912,306
Total as at 31 December	**103,873,855**	72,272,974
Other credit risk exposures are as follows:		
Guarantees	18,569,021	12,048,098
Letter of credit	5,408,175	7,541,840
Unutilised credit facilities	7,980,374	5,326,125
Total as at 31 December	**31,957,570**	24,916,063
	135,831,425	97,189,037

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.

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.

					2013
	Qatar	**Other GCC**	**Other Middle East**	**Rest of the world**	**Total**
Balances with central banks	4,291,936	-	1,989,906	-	6,281,842
Due from banks	3,209,250	3,050,475	1,805,186	7,113,058	15,177,969
Loans and advances to customers	49,775,938	2,960,095	12,702,739	1,423,772	66,862,544
Investment securities - debt	9,203,373	771,590	3,178,332	651,433	13,804,728
Other assets	549,497	115,984	855,941	225,350	1,746,772
	67,029,994	**6,898,144**	**20,532,104**	**9,413,613**	**103,873,855**

					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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (continued)

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

					2013
	Qatar	**Other GCC**	**Other Middle East**	**Rest of the world**	**Total**
Guarantees	5,844,124	2,113,014	3,551,414	7,060,469	18,569,021
Letter of credit	3,007,735	32,471	551,573	1,816,396	5,408,175
Unutilised credit facilities	5,942,265	728,050	1,226,104	83,955	7,980,374
	14,794,124	**2,873,535**	**5,329,091**	**8,960,820**	**31,957,570**

					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

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 2013	Gross exposure 2012
Funded		
Government	22,041,013	14,908,357
Government agencies	3,404,227	4,043,620
Industry	5,565,329	1,359,544
Commercial	11,090,974	6,810,623
Services	26,185,935	16,511,179
Contracting	5,919,606	3,778,961
Real estate	22,551,625	16,179,614
Consumers	5,557,729	6,985,502
Other Sectors	1,557,417	1,695,574
Total funded	**103,873,855**	72,272,974
Un-funded		
Government institutions & semi government agencies	3,087,077	3,135,373
Financial services	4,999,106	6,395,483
Commercial and others	23,871,387	15,385,207
Total un-funded	31,957,570	24,916,063
Total	**135,831,425**	97,189,037

Total maximum exposure net of tangible collateral is QAR 65 billion (2012: QAR 23 billion)

Credit risk exposure

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

	2013	2012
Equivalent grades		
AAA to AA-	38,680,845	38,779,759
A+ to A-	10,729,303	7,117,909
BBB+ to BBB-	59,007,766	46,661,602
BB+ to B-	8,721,217	3,717,461
Unrated/ equivalent internal grading	18,692,294	912,306
	135,831,425	97,189,037

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	
	2013	2012	**2013**	2012	**2013**	2012
Neither past due nor impaired:						
A: Low risk – excellent	19,790,475	10,695,370	12,109,357	7,713,461	12,901,973	9,154,311
B: Standard/satisfactory risk	42,574,300	37,010,449	3,068,612	2,018,101	902,755	855,966
	62,364,775	47,705,819	**15,177,969**	9,731,562	**13,804,728**	10,010,277
Past due but not impaired :						
A: Low risk - excellent	1,458,718	5,238	-	-	-	-
B: Standard/satisfactory risk	2,115,032	971,339	-	-	-	-
	3,573,750	976,577	**-**	-	-	-
Impaired:						
C: Substandard	1,260,271	92,569	-	-	-	-
D: Doubtful	47,146	73,025	-	-	-	-
E: Bad debts	1,188,483	373297	-	-	125,421	202,126
	2,495,900	538,891	**-**	-	**125,421**	202,126
Less: impairment allowance-specific	(1,072,298)	(359,992)	-		(125,421)	(202,126)
Less: impairment allowance-Collective	(499,583)	(266,820)	-		-	-
	924,019	(87,921)	**-**	-	**-**	-
Carrying amount – net	**66,862,544**	48,594,475	**15,177,969**	9,731,562	**13,804,728**	10,010,277

	2013	2012
Investment securities - debt		
Held to maturity	-	3,324,511
Available-for-sale	13,742,056	6,830,628
Investment securities designated at fair value through income statement	188,093	57,264
Less: impairment allowance	(125,421)	(202,126)
Carrying amount – net	**13,804,728**	10,010,277

Note: None of the other assets are past due or impaired as at 31 December 2013 and 31 December 2012.

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 in debt securities are those instruments 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 in 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

	2013	2012
Up to 30 days	3,072,893	581,199
31 to 60 days	293,145	272,591
Above 60 days	207,712	122,787
	3,573,750	976,577

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 2013 is QAR 4,394 million (2012: QAR 4,297 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 1,282 million (2012: QAR 324 million) for past due up to 30 days, QAR 47million (2012: QAR 11 million) for past due from 31 to 60 days and QAR 80 million (2012: QAR 89 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 nil million (2012: QAR 344 million).

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 in 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 210 million (2012: QAR 127 million).

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 bbb, outlook stable.

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

(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:

	2013	2012
At 31 December	**113.17**	102.18
Average for the year	**103.70**	106.23
Maximum for the year	**113.17**	111.91
Minimum for the year	**101.01**	100.11

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 2013								
Cash and balances with central banks	6,902,547	3,796,820	-	-	3,796,820	-	-	3,105,727
Due from banks	15,177,969	10,623,627	1,663,991	2,749,894	15,037,512	140,457	-	-
Loans and advances to customers	66,862,544	3,980,414	3,930,060	8,888,432	16,798,906	13,860,282	36,169,767	33,589
Investment securities	14,706,294	2,259,239	619,985	2,087,274	4,966,498	4,194,515	4,643,717	901,564
Investment in associates	4,198,469	-	-	-	-	-	-	4,198,469
Property and equipment and all others assets	5,264,042	659,469	170,284	131,761	961,514	847,903	544,585	2,910,040
Total	**113,111,865**	**21,319,569**	**6,384,320**	**13,857,361**	**41,561,250**	**19,043,157**	**41,358,069**	**11,149,389**
Due to banks	12,599,210	10,985,322	954,955	45,500	11,985,777	613,433	-	-
Customer deposits	63,419,931	39,742,634	15,164,816	4,871,115	59,778,565	3,641,366	-	-
Debt securities	9,759,667	-	331,397	3,718,021	4,049,418	3,014,806	2,695,443	-
Other borrowings	7,345,717	172,743	2,541,924	3,490,211	6,204,878	1,135,373	5,466	-
Other liabilities	3,432,245	1,101,998	199,649	139,617	1,441,264	695,317	-	1,295,664
Total	**96,556,070**	**52,002,697**	**19,192,741**	**12,264,464**	**83,459,902**	**9,100,295**	**2,700,909**	**1,295,664**
Difference	**16,555,095**	**(30,683,128)**	**(12,808,421)**	**1,592,897**	**(41,898,652)**	**9,942,862**	**38,657,160**	**9,853,725**

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 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 all 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

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 2013							
Non-derivative financial liabilities							
Due to banks	12,599,210	12,671,134	10,844,594	1,163,962	45,752	616,826	-
Customer deposits	63,419,931	64,235,000	40,192,450	15,161,254	5,135,382	3,745,914	-
Debt securities	9,759,667	11,913,715	-	-	4,783,939	3,751,383	3,378,393
Other borrowings	7,345,717	7,721,823	324,656	1,764,068	2,562,660	3,070,439	-
Other liabilities	3,045,102	3,045,102	798,707	297,050	139,617	695,317	1,114,411
Total liabilities	**96,169,627**	**99,586,774**	**52,160,407**	**18,386,334**	**12,667,350**	**11,879,879**	**4,492,804**

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	(15,224,903)	(15,224,903)	-	-
Inflow	14,487,906	14,487,906	-	-
Interest rate swaps:				
Outflow	(221,749)	(28,521)	(98,973)	(94,256)
Inflow	224,226	29,142	99,930	95,153
Derivatives Held as Fair Value Hedges:				
Cross currency interest rate swaps				
Outflow	(50,665)	(26,199)	(24,467)	-
Inflow	63,994	32,223	31,770	-
Total Outflows	**(15,497,317)**	**(15,279,623)**	**(123,440)**	**(94,256)**
Total inflows	**14,776,126**	**14,549,271**	**131,700**	**95,153**

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 than5 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

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

(v) Off-balance sheet items

	Below 1 Year	Above 1 Year	Total
As at December 2013			
Loan commitments	2,115,458	5,864,916	7,980,374
Guarantees and other financial facilities	15,024,373	8,952,823	23,977,196
Capital commitments	27,090	461,414	488,504
Total	**17,166,921**	**15,279,153**	**32,446,074**

	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

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 thedevelopment 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 sensitivity position at year end, by reference to the re-pricing period of the Group's assets, liabilities and off- balance sheet exposures.

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 2013							
Cash and balances with central banks	6,902,547	1,656,103	-	-	-	5,246,444	
Due from banks	15,177,969	12,287,618	2,749,894	140,457	-	-	1.03
Loans and advances to customers	66,862,544	38,923,595	24,279,460	2,731,886	530,542	397,061	4.95
Investment securities	14,706,294	4,598,236	3,043,663	4,535,689	1,627,141	901,565	5.09
Investment associates	4,198,469	-	-	-	-	4,198,469	-
Property and equipment and all other assets	5,264,042	-	-	-	-	5,264,042	-
	113,111,865	**57,465,552**	**30,073,017**	**7,408,032**	**2,157,683**	**16,007,581**	
Due to banks	(12,599,210)	(12,553,710)	(45,500)	-	-	-	1.21
Customer deposits	(63,419,931)	(50,755,234)	(3,745,316)	(433,193)	-	(8,486,188)	1.60
Debt securities	(9,759,667)	(331,397)	(3,718,021)	(3,014,806)	(2,695,443)	-	5.23
Other borrowings	(7,345,717)	(4,814,441)	(2,274,166)	(251,643)	(5,467)	-	2.11
Other liabilities	(3,432,245)	(253,561)	(300,982)	-	-	(2,877,702)	-
Equity	(16,555,095)	-	-	-	(2,000,000)	(14,555,095)	-
	(113,111,865)	**(68,708,343)**	**(10,083,985)**	**(3,699,642)**	**(4,700,910)**	**(25,918,985)**	
Interest rate sensitivity gap	-	**(11,242,791)**	**19,989,032**	**3,708,390**	**(2,543,227)**	**(9,911,404)**	
Cumulative Interest rate sensitivity gap		**(11,242,791)**	**8,746,241**	**12,454,631**	**9,911,404**	**-**	

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (continued)

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

		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 Bank	(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**	**-**	

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		
2013		
At 31 December	**(151,041)**	**151,041**
Average for the year	**(123,806)**	**123,806**
2012		
At 31 December	(61,141)	61,141
Average for the year	(72,170)	72,170

	50 bp parallel increase	**50 bp parallel decrease**
Sensitivity to reported Fair value reserve in equity interest rate movements		
2013		
At 31 December	**8,194**	**(8,194)**
Average for the year	**8,346**	**(8,346)**
2012		
At 31 December	1,350	(1,350)
Average for the year	1,400	(1,400)

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-salefinancial 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.

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.

	2013	2012
Net foreign currency exposure:		
Pounds Sterling	**59,882**	19,221
Euro	**217,349**	528,857
USD	**540,072**	(2,685,959)
Other currencies	**3,330,035**	3,203,459

	Increase / (decrease) in profit or loss		**Increase / (decrease) in fair value reserve**	
5% increase / (decrease) in currency exchange rate	**2013**	2012	**2013**	2012
Pound Sterling	**2,994**	961	**52**	45
Euro	**10,867**	26,443	**264**	268
Other currencies	**166,502**	160,173	**11,507**	16,646

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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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 2013 would have increased equity by QAR 23 million (2012: QAR 43 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:

	2013	2012
Increase / (decrease) in other comprehensive income:		
Qatar Exchange	**2,282**	9,229
Bombay Stock Exchange	**20,276**	29,511
Abu Dhabi Securities Exchange	**682**	4,128

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 causesassociated with the Group's involvement with financial instruments, including processes,personnel, technology and infrastructure, and from external factors other than credit, marketand liquidity risks such as those arising from legal and regulatory requirements and generallyaccepted standards of corporate behaviour.

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

The primary responsibility for the development and implementation of controls to addressOperational risk is assigned to senior management within each business unit. This responsibilityis 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 authorisationof 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 ofcontrols 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.

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 andthe advantages and security afforded by a sound capital position.

The Group and its individually regulated operations have complied with all externally imposedcapital 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:

	2013	2012
Tier 1 capital	11,947,947	10,346,812
Tier 2 capital	1,430,355	1,075,982
Total regulatory capital	13,378,302	11,422,794

Tier I capital includes share capital, legal reserve, general reserve, other reserves, retained earnings and instrument eligible for additional capital including current year profit and excluding proposed cash 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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital management (continued)

Regulatory capital (continued)

Risk weighted assets and carrying amounts

	2013 Basel II Risk weighted amount	2012 Basel II Risk weighted amount	**2013 Carrying amount**	2012 Carrying amount
Cash and balances with central bank		-	6,902,547	3,448,128
Due from banks	7,645,211	4,749,160	15,177,969	9,731,562
Loans and advances to customers	58,209,277	40,373,111	66,862,544	48,594,475
Investment securities	1,317,584	1,562,099	14,706,294	11,162,179
Investment in associates	14,032	12,754	4,198,469	4,054,157
Other assets	5,264,042	3,047,251	5,264,042	3,047,251
Off balance sheet items	12,627,272	8,781,018	65,702,282	33,182,250
Total risk weighted assets for credit risk	85,077,418	58,525,393		-
Risk weighted assets for market risk	4,416,124	3,115,549		-
Risk weighted assets for operational risk	5,641,578	5,446,593		-
	95,135,120	67,087,535		

	2013	2012
Risk weighted assets	95,135,120	67,087,535
Regulatory capital	13,378,302	11,422,794
Risk weighted assets as a percentage of regulatory capital (Capital ratio)	14.1%	17.0%

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 inthe accounting policy.

The specific counterparty component of the total allowances for impairment applies to financialassets 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 is 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 the 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 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.

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 section3 (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 theGroup 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:

			31December 2013
	Level 1	**Level 2**	**Carrying amount**
Derivative assets	-	580,176	580,176
Investment securities	3,465,706	10,896,990	14,706,294
	3,465,706	**11,477,166**	**15,286,470**
Derivative liabilities	-	387,143	387,143
	-	**387,143**	**387,143**

			31 December 2012
	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

All unquoted available for sale equities and investment funds are recorded at fair value except for investments with a carrying value of QR 344 million (2012: QR 453 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 2013 and 2012.

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 the 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 the 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 the 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.

6. OPERATING SEGMENTS

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

Commercial Bank:

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.

Subsidiaires:

3. Alternatifbank A.S. ("ABank"): A subsidiary that provides banking services through its branch network in Turkey. Abank also has its subsidiaries. The Group acquired Abankduring this yearand reportedAbank group result under this operating segment .

4. Other 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.

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 2013	Commercial Bank			Subsidiaries			
	Wholesale Banking	Retail Banking	Total Commercial Bank	ABank	Others	Unallocated	Total
Net interest income	1,242,706	635,684	1,878,390	311,893	2,663	(4,587)	**2,188,359**
Net fee,commission and other income	777,778	278,854	1,056,632	133,481	9,800	45,624	**1,245,537**
Segmental revenue	2,020,484	914,538	2,935,022	445,374	12,463	41,037	**3,433,896**
Impairment loss on investment securities	(109,937)	-	(109,937)	-	-	-	**(109,937)**
Net impairment loss on loans and advances to customers	(426,023)	(34,406)	(460,429)	(140,047)	(3,491)	-	**(603,967)**
Segmental profit			**1,311,638**	**8,840**	**1,314**	**(41,347)**	**1,280,445**
Share of results of associates							**324,933**
Net profit for the year							**1,605,378**
Otherinformation							
Assets	74,102,962	14,301,868	88,404,830	18,778,386	431,509	1,298,671	**108,913,396**
Investmentsinassociates	-	-	-	-	-	-	**4,198,469**
Liabilities	64,212,156	13,816,385	78,028,541	17,790,787	244,885	492,557	**96,556,770**
Contingentitems	25,825,587	941,447	26,767,034	5,190,536	-	-	**31,957,570**

Intra-group transactions are eliminated from this segmental information (Assets: QAR1,548million, Liabilities: QAR 660 million)

6. OPERATING SEGMENTS (CONTINUED)

(a) By operating segment (continued)

31 December 2012	Commercial Bank			Subsidiaries			
	Wholesale Banking	Retail Banking	Total Commercial Bank	ABank	Others	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)

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 2013							
Cash and balances with central banks	4,761,821	-	2,140,726	-	-	-	6,902,547
Due from banks	3,209,250	3,050,475	1,805,185	3,416,802	1,410,294	2,285,963	15,177,969
Loans and advances to customers	49,775,938	2,960,095	12,702,739	274,710	3,218	1,145,844	66,862,544
Investment securities	9,363,464	882,445	3,250,659	449,546	208,267	551,913	14,706,294
Investment in associates	14,032	4,184,437	-	-	-	-	4,198,469
Property and equipment and all other assets	2,678,086	123,171	2,231,160	224,970	1,042	5,613	5,264,042
Total assets	**69,802,591**	**11,200,623**	**22,130,469**	**4,366,028**	**1,622,821**	**3,989,333**	**113,111,865**
Due to banks	1,983,962	4,970,882	4,436,444	1,060,633	72,801	74,488	12,599,210
Customer deposits	44,789,632	7,315,099	8,323,107	2,308,323	450	683,320	63,419,931
Debt securities	-	-	1,024,738	8,734,929	-	-	9,759,667
Other borrowings	-	1,655,904	4,233,813	910,000	-	546,000	7,345,717
Other liabilities	1,983,888	120,709	1,198,815	123,517	217	5,099	3,432,245
Equity	16,282,225	-	272,870	-	-	-	16,555,095
Total liabilities and equity	**65,039,707**	**14,062,594**	**19,489,787**	**13,137,402**	**73,468**	**1,308,907**	**113,111,865**

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 2013							
Net interest income	1,881,484	56,042	344,837	(94,257)	7,576	(7,323)	2,188,359
Net Fee, commission and other income	1,051,296	40,519	136,674	1,477	1,963	13,608	1,245,537
Net operating income	2,932,780	96,561	481,511	(92,780)	9,539	6,285	3,433,896
Staff cost	(534,807)	-	(143,343)	-	-	(6,550)	(684,700)
Depreciation	(132,558)	-	(7,347)	-	-	(568)	(140,473)
Amortization of intangible assets	-	-	(3,252)	-	-	-	(3,252)
Impairment loss on investment securities	(2,304)	(339)	-	(3,500)	(11,967)	(91,827)	(109,937)
Net impairment loss on loans and advances to customers	(460,430)	(3,491)	(140,046)	-	-	-	(603,967)
Other expenses	(466,147)	-	(139,508)	-	-	(3,087)	(608,742)
Profit before share of results of associates	1,336,534	92,731	48,015	(96,280)	(2,428)	(95,747)	1,282,825
Share of results of associates	3,146	321,787	-	-	-	-	324,933
Profit for the year before tax	**1,339,680**	**414,518**	**48,015**	**(96,280)**	**(2,428)**	**(95,747)**	**1,607,758**
Income tax expenses	**-**	**-**	**(2,380)**	**-**	**-**	**-**	**(2,380)**
Net profit for the year	**1,339,680**	**414,518**	**45,635**	**(96,280)**	**(2,428)**	**(95,747)**	**1,605,378**

6. OPERATING SEGMENTS (CONTINUED)

(b) By geography (continued)

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 o customers	45,352,295	2,281,335	145,600	391,915	101	423,229	48,594,475
Investments 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

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
Net 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

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 2013							
Cash and balances with central banks	-	-	6,902,547	-	-	6,902,547	6,902,547
Due from banks	-	-	15,177,969	-	-	15,177,969	15,177,969
Derivative assets	580,176	-	-	-	-	580,176	580,176
Loans and advances to customers	-	-	66,862,544	-	-	66,862,544	66,862,544
Investment securities:	-	-	-	-	-	-	-
Measured at fair value	188,093	-	-	14,518,201	-	14,706,294	14,706,294
	768,269	**-**	**88,943,060**	**14,518,201**	**-**	**104,229,530**	**104,229,530**
Derivative liabilities	387,143	-	-	-	-	387,143	387,143
Due to banks	-	-	-	-	12,599,210	12,599,210	12,599,210
Customer deposits	-	-	-	-	63,419,931	63,419,931	63,419,931
Debt securities	-	-	-	-	9,759,667	9,759,667	10,380,131
Other borrowings	-	-	-	-	7,345,717	7,345,717	7,345,717
	387,143	**-**	**-**	**-**	**93,124,525**	**93,511,668**	**94,132,132**

The fair value of loans and receivables has been arrived at using a level 2 valuation method, except for the impaired loans and receivables net of provisions amounting to QAR 924 million for which a level 3 valuation method has been used.

The fair value of liabilities measured at amortized cost has been arrived at using a level 2 valuation method, except for debt securities which are quoted and valued using a level 1 method.

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:

	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

8. CASH AND BALANCES WITH CENTRAL BANKS

	2013	2012
Cash	620,705	423,774
Cash reserve with central banks *	3,927,777	1,990,633
Other balances with central banks	2,354,065	1,033,721
	6,902,547	3,448,128

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

9. DUE FROM BANKS

	2013	2012
Current accounts	1,096,426	80,230
Placements	12,144,894	8,866,816
Loans to banks	1,936,649	784,516
	15,177,969	9,731,562

10. LOANS AND ADVANCES TO CUSTOMERS

a) By type

	2013	2012
Loans	65,531,930	46,996,364
Overdrafts	2,288,460	1,861,600
Bills discounted	302,626	278,533
Bankers acceptances	397,061	285,442
	68,520,077	49,421,939
Deferred profit	(85,652)	(200,652)
Specific impairment of loans and advances to customers	(1,072,298)	(359,992)
Collective impairment allowance	(499,583)	(266,820)
Net loans and advances to customers*	**66,862,544**	48,594,475

*The aggregate amount of non-performing loans and advances to customers amounted QAR 2,496million which represents 3.65% of total loans and advances to customers (2012: QAR 539 million, 1.09% of total loans and advances to customers).

Specific impairment of loans and advances to customers includes QAR 173 million of interest in suspense (2012: QAR 98 million).

Note: By internal business segment

	2013	2012
Government and related agencies	7,314,779	7,694,409
Wholesale	45,437,856	29,488,574
Retail	14,109,909	11,411,492
Net loans and advances to customers	**66,862,544**	48,594,475

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

b) By sector –

At 31 December 2013:

	Loans	**Overdrafts**	**Bills discounted**	**Bankers acceptances**	**Total**
Government and related agencies	7,216,922	97,857	-	-	7,314,779
Non-banking financial institutions	1,910,378	9,573	-	-	1,919,951
Industry	5,504,741	153,647	2,987	43,093	5,704,468
Commercial	8,295,955	142,718	64,507	239,000	8,742,180
Services	8,252,282	251,867	38,089	29,856	8,572,094
Contracting	4,890,826	353,577	80,466	85,112	5,409,981
Real estate	21,510,413	231,851	115,625	-	21,857,889
Personal	4,816,970	1,047,370	952	-	5,865,292
Others	3,133,443	-	-	-	3,133,443
	65,531,930	**2,288,460**	**302,626**	**397,061**	**68,520,077**
Less: Deferred Profit					(85,652)
Specific impairment allowance					(1,072,298)
Collective impairment allowance					(499,583)
					(1,657,533)
Net loans and advances to customers					**66,862,544**

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

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

	2013	2012
Balance at 1 January	626,812	547,402
Acquistion of subsidiary	457,325	-
Allowance made during the year	736,081	283,326
Recoveries during the year	(53,328)	(113,785)
Net allowance for impairment during the year *	682,753	169,541
Written off during the year	(137,202)	(90,131)
Exchange differences	(57,807)	-
Balance at 31 December	**1,571,881**	626,812

*This includes net interest suspended during the year QAR 78.8 million (2012: QAR 30 million). The movement includes the effect of interest suspended on loans and advances to customers as per QCB regulations.

Further analysis is as follows:

	Commercial Bank	**Abank**	**Other subsidiaries**	**Total**
Balance at 1 January 2013	620,385	-	6,427	626,812
Acquisition of subsidiary	-	457,325	-	457,325
Allowance made during the year	565,744	166,435	3,902	736,081
Recoveries during the year	(26,530)	(26,387)	(411)	(53,328)
Written off during the year	(137,037)	-	(165)	(137,202)
Exchange Differences	-	(57,807)	-	(57,807)
Balance at 31 December 2013	**1,022,562**	**539,566**	**9,753**	**1,571,881**

	Commercial Bank	Other Subsidiaries	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

11. INVESTMENT SECURITIES

Investment securities as at 31 December 2013 totaled QAR 14,706,294 (2012: QAR 11,162,179). The analysis of investment securities is detailed below:

	2013	2012
Available-for-sale	14,518,201	7,891,087
Held to maturity	-	3,213,828
Investment securities designated at fair value through income statement	188,093	57,264
Total	**14,706,294**	11,162,179

The carrying value of investments securities pledged under Repurchase agreements (REPO) is QAR 4,842 million (2012:QAR 1,968 million)

As result of the sale on 6 June 2013 of one of the securities in the "Held to Maturity" (HTM) investment portfolio by the Group, the remainder of the portfolio was reclassified to the "Available for Sale" (AFS) category in line with IFRS requirements. At 30 June 2013 the carrying amount of QAR 2,611 million, previously held in HTM by the Group has been transferred to AFS at fair value of QAR 2,641 million and the resulting gain of QAR 30 million has been transferred to the fair value reserve in Equity.

a) Available-for-sale

		2013		2012
	Quoted	**Unquoted**	Quoted	Unquoted
Equities	276,697	273,797	427,876	386,284
State of Qatar debt securities	1,831,201	6,989,720	2,926,400	2,020,060
Debt and other securities*	4,556,323	239,391	1,584,123	208,602
Investment funds	81,111	269,961	-	337,742
Total	**6,745,332**	**7,772,869**	4,938,399	2,952,688

*Fixed rate securities and floating rate securities amounted to QAR 3,213 million and QAR 1,582 million respectively (2012: QAR 1,523 million and QAR 270 million respectively).

b) Held to maturity

		2013		2012
-By issuer	**Quoted**	**Unquoted**	Quoted	Unquoted
State of Qatar debt securities	-	-	740,698	2,358,377
Other debt securities	-	-	-	114,753
Total	**-**	**-**	740,698	2,473,130
-By interest rate				
Fixed rate securities	-	-	740,698	2,358,377
Floating rate securities	-	-	-	114,753
Total	**-**	**-**	740,698	2,473,130

11. INVESTMENT SECURITIES (CONTINUED)

c) Investment securities designated at fair value through income statement

	2013	2012
Debt securities	188,093	57,264
Balance at 31 December	**188,093**	57,264

d) Movement in impairment loss on investment debt securities

	2013	2012
Balance at 1 January	202,126	260,842
Allowance for impairment during the year	4,458	1,344
Recoveries during the year	(8,524)	(23,660)
Write-off during the year	(72,639)	(36,400)
Balance at 31 December *	**125,421**	202,126

*Further breakup as follows:

	2013	2012
Available-for-sale – debt securities	125,421	91,443
Held to maturity	-	110,683
	125,421	202,126

The Group has also taken impairment loss for investments in equities and funds during the year totalling QAR 105.5 million (2012: QAR 60.6 million).

12. INVESTMENTS IN ASSOCIATES

	2013	2012
Balance at 1 January	4,054,157	3,926,480
Share of results	324,933	258,546
Cash dividend	(162,697)	(141,398)
Other movements	(17,924)	10,529
Balance at 31 December	**4,198,469**	4,054,157

	Amount				Ownership %	
Name of the Company	**2013**	2012	**Country**	**Company's Activities**	**2013**	2012
National Bank of Oman SAOG ('NBO')	**1,676,582**	1,604,243	Oman	Banking	34.9%	34.9%
United Arab Bank PJSC ('UAB')	**2,504,711**	2,435,883	UAE	Banking	40%	40%
Asteco LLC	**1,687**	1,906	Qatar	Facilities management	30%	30%
Gekko LLC*	**-**	-	Qatar	Electronic payment infrastructure	50%	50%
Massoun Insurance Services LLC	**15,489**	12,125	Qatar	Insurance brokerage	50%	50%

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

	2013	2012
Total assets	48,764,697	38,900,140
Total liabilities	43,160,137	33,757,868
Operating income	2,020,035	1,698,430
Net profit	944,542	788,827
Total comprehensive income	895,718	819,005
Share of results	**324,933**	258,546

Shares of National Bank of Oman SAOG are listed on the Muscat Securities Market, having a market value of QAR 1,177 million as at 31 December2013(31 December 2012: QAR 1,042 million).

Shares of United Arab Bank PJSC are listed on the Abu Dhabi Securities Market, having a market value of QAR 2,547 million as at 31 December 2013(31 December 2012: QAR 1,216 million).

*The Group is in the process of liquidating Gekko LLC and the liquidation process is expected to be completed by 2014

13. PROPERTY AND EQUIPMENT

	Land and buildings	Leasehold improvements	Furniture and equipment	Motor vehicles	Capital Work in Progress	Total
Cost						
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
Balance at 1 January 2013	958,674	87,742	676,162	6,204	202,668	1,931,450
Acquisitions of subsidiary	-	68,398	104,886	184	-	173,468
Additions / transfers	65,686	11,205	113,968	350	(3,419)	187,790
Disposals	-	-	-	-	-	-
Exchange Differences	-	(7,692)	(11,783)	(19)	-	(19,494)
Balance at 31 December 2013	**1,024,360**	**159,653**	**883,233**	**6,719**	**199,249**	**2,273,214**
Accumulated depreciation						
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
Balance at 1 January 2013	193,038	65,200	471,169	4,974	-	734,381
Acquisitions of Subsidiary	-	47,472	81,118	174	-	128,764
Depreciation for the year	33,892	13,457	92,743	381	-	140,473
Exchange Differences	-	(5,135)	(8,437)	(18)	-	(13,590)
Balance at 31 December 2013	**226,930**	**120,994**	**636,593**	**5,511**	**-**	**990,028**
Net carrying amounts						
Balance at 31 December 2012	765,636	22,542	204,993	1,230	202,668	1,197,069
Balance at 31 December 2013	**797,430**	**38,659**	**246,640**	**1,208**	**199,249**	**1,283,186**

14 INTANGIBLE ASSETS

	Goodwill	Brand	Customer Relationship	Core Deposit	Internally Developed Software	Total
Cost						
Acquisition of subsidiary	498,074	121,517	424,273	114,140	15,064	1,173,068
Disposals	-	-	-	-	-	-
Exchange differences	(48,609)	(5,058)	(42,752)	(11,501)	(1,095)	(109,015)
Balance at 31 December 2013	**449,465**	**116,459**	**381,521**	**102,639**	**13,969**	**1,064,053**
Amortisation						
Amortisation during the year	-	3,111	-	-	141	3,252
Acquisition of subsidiary	-	62,964	-	-	8,862	71,826
Impaired during the year	-	-	-	-	-	-
Exchange difference	-	(6,606)	-	-	(905)	(7,511)
Balance at 31 December 2013	**-**	**59,469**	**-**	**-**	**8,098**	**67,567**
Net Book Value						
31 December 2013	**449,465**	**56,990**	**381,521**	**102,639**	**5,871**	**996,486**
31 December 2012	**-**	**-**	**-**	**-**	**-**	**-**

15. OTHER ASSETS

	2013	2012
Interest receivable and accrued income	719,639	321,698
Prepaid expenses	73,036	32,068
Accounts receivable	265,145	128,715
Repossessed collateral*	883,614	856,093
Positive fair value of derivatives (Note 36)	580,176	431,202
Clearing cheques	181,811	30,691
Others	280,949	49,715
	2,984,370	1,850,182

* This represents the value of the properties acquired in settlement of debtsand 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.

16. DUE TO BANKS

	2013	2012
Balances due to central banks	72,801	16,380
Current accounts	354,727	583,485
Placements with banks	7,762,710	7,507,255
Repurchase agreements with banks	4,408,972	1,748,562
	12,599,210	9,855,682

17. CUSTOMER DEPOSITS

		2013	2012
a)	**By type**		
	Current and call deposits	15,463,734	14,845,171
	Saving deposits	3,754,381	3,692,906
	Time deposits	44,201,816	22,847,469
		63,419,931	41,385,546
b)	**By sector**		
	Government	10,699,122	3,250,755
	Government and semi government agencies	10,154,165	6,509,328
	Individuals	18,152,246	11,756,110
	Corporate	16,898,152	14,385,014
	Non-banking financial institutions	7,516,246	5,484,339
		63,419,931	41,385,546

18. 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 andare listed on the London Stock Exchange. The estimated fair value of the EMTN notes as at 31 December 2013was QAR 1.88 billion(2012: 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 2013 was QAR 3.77 billion (2012: QAR 3.85 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 2013 was QAR 2.57 billion (2012: QAR 2.68 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.

18. DEBT SECURITIES (CONTINUED)

	2013	2012
EMTN Programme – Senior notes	1,801,099	1,796,024
Senior Notes*	4,120,453	3,623,332
Subordinated Notes*	2,695,444	2,155,929
CHF Fixed Rate Bonds	1,142,671	1,130,531
Total	**9,759,667**	8,705,816

* Debt Securities includes QAR 488 million of Senior notes and QAR 536 million Subordinated notes of Abank.

Movements in debt securities are analysed as follows:

	2013	2012
Balance at beginning of the year	8,705,816	6,871,674
Acquisition of subsidiary	1,187,861	-
Additions	515,870	1,791,934
Repayments	(563,265)	-
Fair value adjustment	11,815	26,565
Amortisation of discount and transaction cost	17,298	15,643
Exchange difference	(115,728)	-
Balance at 31 December	**9,759,667**	8,705,816

The table below shows the maturity profile of debt securities:

	2013	2012
Up to 1 year	4,034,434	-
Between 1 and 3 years	1,228,691	4,753,863
Over 3 years	4,496,542	3,951,953
Balance at 31 December	**9,759,667**	8,705,816

19. OTHER BORROWINGS

	2013	2012
Bilateral loans (a)	1,455,945	1,818,345
Club loan (b)	1,655,959	1,653,170
Others (c)	4,233,813	-
Total	**7,345,717**	3,471,515

Notes:

a) Bilateral loans:The Bank has entered into certain bi-lateral loan agreements amounting to US$ 400 Million (QAR 1,456 million)in 2013 and repaid an old loan on maturity in 2013.
(b) The Bank established a Club term loan facility on 6 February 2012 for US$ 455 million (QAR 1,656 million) with a group of international banks.
c)This represents the syndicated loan and other borrowings of acquired subsidiary -Abank.

Movements in other borrowings are as follows:	**2013**	2012
Balance at beginning of the year	3,471,515	4,182,412
Addition for acquisition of subsidiary	2,481,462	-
Additions to borrowings	4,025,379	1,650,219
Repayments	(2,407,427)	(2,366,000)
Fair value adjustment on consolidation of ABank	186,294	-
Amortisation of discount and transaction cost	4,444	4,884
Exchange difference	(415,950)	-
Balance at 31 December	**7,345,717**	3,471,515

The table below shows the maturity profile of other borrowings:

	2013	2012
Up to 1 year	6,234,715	1,818,345
Between 1 and 3 years	516,162	1,653,170
Over 3 years	594,840	-
Balance at 31 December	**7,345,717**	3,471,515

20. OTHER LIABILITIES

	2013	2012
Interest payable	153,668	163,502
Accrued expense payable	174,628	50,719
Other provisions (Note i)	177,940	143,694
Negative fair value of derivatives (Note 36)	387,143	349,958
Unearned income	68,814	80,304
Cash margins	184,373	138,119
Accounts payable	352,552	286,304
Directors' remuneration	18,000	40,500
Social responsibility fund	-	225
Social & Sports Activities Support Fund ("Daam") (Note 23)	40,135	50,307
Dividend payable	18,843	11,957
Managers' cheque and payment order	58,336	22,060
Unclaimed balances	10,149	7,896
Due for trade acceptances	299,831	285,442
NCI – put option fair value	512,761	-
Deferred tax liabilities	168,280	-
Income tax payable	27,198	-
Others	779,594	48,828
Total	**3,432,245**	1,679,815

(i) Other provisions –

	Provident fund (a)	**Pension fund (b)**	**Total 2013**	Total 2012
Balance at 1 January	142,103	1,591	143,694	137,504
Acquisition of subsidiary	8,538	-	8,538	-
Provisions made during the year	26,618	7,760	34,378	14,879
Earnings of the fund	4,579	-	4,579	4,114
Provident fund – staff contribution	7,641	3,945	11,586	10,858
Transferred to state retirement fund authority	-	(11,552)	(11,552)	(11,469)
Payments during the year	(12,390)	-	(12,390)	(12,192)
Exchange Difference	(893)	-	(893)	-
Balance at 31 December	**176,196**	**1,744**	**177,940**	143,694

(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.

21. EQUITY

(a) Share capital

The issued, subscribed and paid up capital of the Bank is QAR2,474,463,720(2012: QAR 2,474,463,720) divided into 247,446,372 (2012: 247,446,372) ordinary shares of QAR 10 each.

	Ordinary shares	
In thousands of shares	**2013**	2012
On issue at the beginning of the reporting period	247,446	247,446
New shares issued	-	-
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.

(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. Amount transferred to legal reserve during the year related to newly acquired subsidiary Abank.

(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 2.50% (31 December 2012: 2.0%) of the total loans and Advances of 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 392 million (2012: QAR 119.0 million), Transferred amount does not include a risk reserve requirement for Abank lending as allowed by the QCB at the Group's request.

(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.

21. 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	
	2013	2012
Balance as at 1 January	673,604	556,456
Share of result of associates	324,933	258,546
Dividend from associates transferred to retained earnings	(162,697)	(141,398)
Net movement	162,236	117,148
Balance as at 31 December	**835,840**	673,604

(g) Proposed cash dividend and bonus shares

The Board of Directors has proposed a cash dividend of 20% (or QAR 2 per share) for the year 2013. The Board of Directors have also proposed a bonus share issue of 20% of the Bank's capital as at 31st December 2013 (2012: nil). These proposals are 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 2012 (2012: QAR 6 per share totalling QAR 1.48 billion in respect of the year ended 31 December 2011).

(i) Instrument eligible for additional capital

In December 2013 the Bankraised additional tier 1 capital by issuing unsecured perpetual non-cumulative unlisted Tier 1 notes for an amount of QAR 2 billion. The distributions (i.e. coupon payments) are discretionary and non-cumulative and priced at a fixed rate of 6% per annum, payable semi-annually until the first call date (i.e. 1 December 2019), and thereafter to be reset at a prevailing 5 year mid-swap rate plus margin every sixth year.

The Note is ranked junior to the Bank's existing unsubordinated obligations including existing subordinated debt and depositors, paripassu to all current and future subordinated obligations and senior to the ordinary shares issued by the Bank

The Note has no fixed redemption date and the Bank can only redeem the Note in the limited circumstance as mentioned in the term sheet i.e. regulatory / tax redemption and other general redemption conditions solely at the Bank's discretion. The Bank might be required to write-off the proposed Capital issue, if a "loss absorption" event is triggered and the Bank has non-discretionary obligation to deliver cash or financial assets or settle the Note in variable equity instruments.This note have been classified under equity.

22. OTHER COMPREHENSIVE INCOME

	2013	2012
Available-for-sale investments:		
Positive change in fair value	111,254	362,267
Negative change in fair value	(307,898)	(4,966)
Net change in fair value	(196,644)	357,301
Net amount transferred to profit or loss	(95,182)	(136,245)
	(291,826)	221,056
Foreign currency translation differences for foreign operation	(232,988)	-
Share of other comprehensive income of investments in associates	(17,924)	10,717
Total other comprehensive income	**(542,738)**	231,773

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

Pursuant to Law No. 13 of 2008, the Bank made an appropriation of QAR 40.1 million from net profit 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 2013.

24. INTEREST INCOME

	2013	2012
Amounts deposited with central banks	6,497	7,288
Amounts deposited with banks	99,955	56,586
Debt securities	591,425	521,665
Loans and advances to customers	2,909,269	2,312,654
	3,607,146	2,898,193

25. INTEREST EXPENSE

	2013	2012
Amount deposited by banks	143,096	49,952
Customer deposits	697,953	476,811
Other borrowings	101,709	68,602
Debt securities	476,029	436,574
	1,418,787	1,031,939

26. FEE AND COMMISSION INCOME

	2013	2012
Loans and financing advisory service	427,449	280,596
Credit and debit card fees	123,130	241,954
Indirect credit facilities	236,729	120,324
Banking and other operations	45,480	26,401
Investment activities for customers	19,685	19,816
	852,473	689,091

27. FEE AND COMMISSION EXPENSE

	2013	2012
Brokerage services	3,121	994
Credit and debit card fees	148,661	155,043
Others	25,101	14,450
	176,883	170,487

28. NET FOREIGN EXCHANGE GAIN

	2013	2012
Dealing in foreign currencies	534,599	137,430
Revaluation of assets and liabilities	(355,211)	18,133
	179,388	155,563

29. INCOME FROM INVESTMENT SECURITIES

	2013	2012
Net gain on disposal of available –for-sale securities	193,450	337,161
Gain on investment securities at fair value through profit or loss	(2,770)	2,664
Dividend income	18,854	26,147
	209,534	365,972

30. OTHER OPERATING INCOME

	2013	2012
Rental income	41,465	30,522
Gain on sale of property and equipment and other income	135,606	47,076
Management fees from associates	3,954	-
	181,025	77,598

31. STAFF COSTS

	2013	2012
Staff costs	633,941	465,134
Staff provident fund and pension fund cost (Note 20 (i))	34,378	14,879
Training	16,381	19,369
	684,700	499,382

32. OTHER EXPENSES

	2013	2012
Marketing and advertisement	93,643	61,615
Professional fees	110,940	74,055
Communication, utilities and insurance	56,701	39,183
Board of Directors' remuneration and meeting attendance fees	20,490	42,720
Occupancy, IT Consumables and maintenance	75,770	91,272
Printing and stationary	8,123	8,703
Travel and entertainment costs	8,515	3,324
Outsourcing service costs	72,851	64,762
Others	161,709	21,418
	608,742	407,052

33. EARNINGS PER SHARE

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

	2013	2012
Profit for the year attributable to the equity holders of the Bank	1,604,485	2,012,294
Weighted average number of outstanding shares in thousands	247,446	247,446
Basic/diluted earnings per share (QAR)	**6.48**	8.13

34. CONTINGENT LIABILITIES AND OTHER COMMITMENTS

		2013	2012
a)	**Contingent liabilities**		
	Unutilised credit facilities	7,980,374	5,326,125
	Guarantees	18,569,021	12,048,098
	Letters of credit	5,408,175	7,541,840
	Total	**31,957,570**	24,916,063
b)	**Other commitments**		
	Forward foreign exchange contracts and derivatives at notional value	33,744,712	8,266,187
	Capital commitments	488,504	393,822
	Total	**34,233,216**	8,660,009

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:

	2013	2012
Less than one year	25,342	7,108
Between one and five years	12,029	23,311
More than five years	1,442	1,498
	38,813	31,917

35. CASH AND CASH EQUIVALENTS

	2013	2012
Cash and balances with Central Banks *	2,974,770	1,457,495
Due from banks up to 90 days	11,889,904	7,353,090
Due to banks up to 90 days	(8,653,372)	(8,107,120)
	6,211,302	703,465

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

36. 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 2013:							
Derivatives held for trading:							
Forward foreign exchange contracts and interest rate swaps	466,188	387,143	32,715,406	22,104,951	7,540,784	357,475	2,712,196
Derivatives held for fair value hedges:							
Cross currency Interest rate swaps	113,988	-	1,029,306	-	-	1,029,306	-
Total	**580,176**	**387,143**	**33,744,712**	**22,104,951**	**7,540,784**	**1,386,781**	**2,712,196**
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

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.

37. INVESTMENT CUSTODIAN

As at the end of the reporting date, the Group holds QAR 189 million (2012: QAR 191 million) worth of international investment securities on behalf of its customers. Out of this amount, investment securities with a value of QAR 135 million equivalent to USD 37million (2012: QAR 152 million equivalent to USD 42 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.

38. RELATED PARTIES

The Group carries out various transactions with subsidiaries, associate companies, members of the Board of Directors and 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 yearend with these accounts were as follows:

	2013	2012
Board members		
- Loans, advances and financing activities (a)	2,143,286	2,604,579
- Deposits	416,133	331,283
- Contingent liabilities, guarantees and other commitments	33,481	29,507
- Interest income earned from facilities granted to board members	12,292	27,739
- Other fee income earned from transactions with board members	1,268	387
- Interest paid on deposits accounts of board members	10,306	10,788
- Remuneration, meeting attendance fees and salaries paid to board members	23,850	46,080
Associated companies	-	
- NBO's deposit with the Group	347,491	329,478
- Bank's deposit with NBO	748	91,533
- NBO's contingent liabilities to the Group:	-	
- Letter of Guarantee	7,806	10,575
- Letter of Credit	131	
- Un-utilized credit facilities	728,000	254,800
- UAB's deposit with the Group	135,013	101,075
- Bank's deposit with UAB	363,981	364,987
- UAB's contingent liabilities to the Group:	-	
- Letter of Guarantee	21,940	27,850
- Letter of Credit	-	5,470
- Asteco's deposit with the Group	5,049	5,439
- GEKKO's deposit with the Group	126	126
- Massoun's deposit with the Group	21,756	19,317
- Interest earned from Associates	776	1,918
- Interest paid to Associates	357	368
Senior management compensation/Transaction	-	
- Fixed remuneration	61,343	43,415
- Discretionary remuneration	26,344	21,980
- Fringe benefits	4,242	4,884
- Loans and advances (b)	20,820	24,004

(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.

39. BUSINESS COMBINATION

On 18 July 2013, the Group acquired 70.84% of the ordinary shares and voting interest in Alternatifbank A.S. ("ABank") and obtained control of ABank. Further, on 27 September 2013, the Group acquired an additional equity interest of 3.40%, increasing the total equity interest in ABank from 70.84% to 74.24%. The acquisition was accounted for using the acquisition method of accounting.

The acquisition is an important step in the Bank's strategy to expand its footprint in retail and corporate banking outside the Gulf Cooperation Council (GCC) region and provides a suitable entry point into a key strategic market with strong growth prospects and a fast-expanding banking sector.

During the period following the acquisition to 31December 2013, ABank has contributed net operating income of QAR 445.37 million and net profit of QAR 8.84 million to the Group results. Management estimates that if the acquisition had occurred on 1 January 2013, then consolidated net operating income and consolidated net profit of the Group for the 12 months ended 31December 2013 would have been QAR 3.9 billion and QAR 1.7 billion respectively. In determining these amounts, management has assumed that the provisional fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on 1 January 2013.

The assets and liabilities acquired are required to be measured at their acquisition-date fair values.

	Fair Value
Consideration	
Cash paid	1,697,037
Hedge cost	93,513
	1,790,550
Non-controlling interest	599,052
	2,389,602
Fair value of identifiable assets and liabilities	
Cash and balances with central bank	1,663,902
Due from banks	206,640
Loans and advances to customers	11,368,640
Investment securities	3,039,828
Intangible assets	603,167
Property and equipment's	44,703
Other assets	257,232
Total Assets	17,184,112
Liabilities	
Due to banks	2,535,555
Customer deposits	8,064,262
Debt securities	656,007
Other borrowings	3,231,302
Other liabilities	712,834
Total Liabilities	15,199,960
Net fair value of identifiable assets and liabilities	**1,984,152**
Goodwill	**405,450**
Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary	677,763
Cash paid	(1,790,550)
Net cash outflow	**(1,112,787)**

The goodwill is mainly attributable to expected synergies that will be achieved from combining ABank with the existing Group banking businesses as ABank has been identified as a cash generating unit. None of the goodwill recognised is expected to be deductable for tax purposes.
Intangible assets include customer relationship from commercial and retail loans, core deposits, brand name and internally developed software.

39. BUSINESS COMBINATION (continued)

Other Equity - Put option

A put option is held by the non-controlling shareholder of ABank. Although the Group considers there is only a small likelihood of the put option being exercised, IAS 32 Financial Instruments - Presentation requires the present value of the potential amount payable to be recognized as a liability regardless of the probability of exercise of the put option, as this is not within the Group's control.

FINANCIAL STATEMENTS OF THE PARENT BANK

a. Statement of Financial Position – Parent Bank

As at 31 December	2013	2012
ASSETS		
Cash and balances with central bank	4,761,821	3,448,123
Due from banks	15,128,956	9,731,437
Loans and advances to customers	54,613,243	48,587,855
Investment securities	11,486,220	11,162,179
Investment in associates and subsidiaries	5,632,716	3,576,486
Property and equipment	1,223,509	1,195,396
Intangible assets	-	
Other assets	1,808,376	1,848,721
TOTAL ASSETS	**94,654,841**	79,550,197
LIABILITIES		
Due to banks	9,816,471	9,849,098
Customer deposits	55,285,405	41,574,595
Debt securities	8,734,929	8,705,816
Other borrowings	3,111,904	3,471,515
Other liabilities	2,232,518	1,672,784
TOTAL LIABILITIES	**79,181,227**	65,273,808
EQUITY		
Share capital	2,474,464	2,474,464
Legal reserve	8,740,365	8,740,365
Instrument eligible for additional capital	2,000,000	-
General reserve	26,500	26,500
Risk reserve	1,316,300	924,600
Fair value reserves	(40,529)	157,665
Other equity	(512,761)	-
Retainedearnings	1,469,275	1,952,795
TOTAL EQUITY	**15,473,614**	14,276,389
TOTAL LIABILITIES AND EQUITY	**94,654,841**	79,550,197

FINANCIAL STATEMENTS OF PARENT BANK (continued)

b. Income Statement – Parent Bank

For the year ended 31 December	**2013**	2012
Interest income	2,900,659	2,897,119
Interest expense	(1,026,856)	(1,033,505)
Net interest income	**1,873,803**	1,863,614
Fee and commission income	741,917	684,060
Fee and commission expense	(160,257)	(169,365)
Net fee and commission income	**581,660**	514,695
Foreign exchange gain	161,406	155,484
Income from investment securities	253,923	365,972
Other operating income	105,268	75,325
Net operating income	**2,976,060**	2,975,090
Staff costs	(530,798)	(489,036)
Depreciation	(131,148)	(121,604)
Impairment loss on investment securities	(109,937)	(61,917)
Net impairment loss on loans and advances to customers	(460,429)	(140,277)
Other expenses	(473,453)	(407,401)
Profit before dividend income from associates	**1,270,295**	1,754,855
Dividend income from associates	162,697	141,398
Profit for the year	**1,432,992**	1,896,253