Qatar Development Bank Q.S.C.C.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2012

KPMG
Audit
2nd Floor
Area 25, C Ring Road
PO Box 4473, Doha
State of Qatar

Telephone +974 4457 6444
Fax +974 4442 5626
Website www.kpmg.com.qa

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF QATAR DEVELOPMENT BANK Q.S.C.C

Report on the financial statements

We have audited the accompanying financial statements of Qatar Development Bank Q.S.C.C ("the Bank"), which comprise the statement of financial position as at 31 December 2012, and the 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.

The Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal controls relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the applicable provisions of the Qatar Central Bank regulations.

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanation which we consider necessary for the purpose of our audit. The Bank has maintained proper accounting records and financial statements are in agreement therewith. We are not aware of any violations of the applicable provisions of Qatar Central Bank Law No. 33 of 2006, Qatar Commercial Law No. 5 of 2002 or the terms of the Articles of Association and amendments there to having occurred during the year which might have had a material adverse effect on the business of the Bank or its financial position at 31 December 2012.

Gopal Balasubramaniam
Partner
Auditor's Registration No. 251
Date: 17 January 2013
Doha

QATAR DEVELOPMENT BANK Q.S.C.C.

STATEMENT OF FINANCIAL POSITION — QAR '000s

As at 31 December	Note	2012	2011
ASSETS			
Cash and balances with Qatar central bank		1,174	45,358
Due from banks	7	605,959	911,733
Loans and advances to customers	8	1,321,921	1,124,829
Investment securities	9	1,522,986	1,349,660
Investment in associates and joint ventures	10	39,972	-
Investment properties	11	143,052	146,915
Property and equipment	12	33,688	37,314
Other assets	13	71,197	31,585
TOTAL ASSETS		3,739,949	3,647,394
LIABILITIES			
Due to banks		2,737	104,181
Other liabilities	14	123,814	87,872
TOTAL LIABILITIES		126,551	192,053
EQUITY			
Share capital	15	2,900,000	2,900,000
Legal reserve	15	93,401	81,346
General reserve	15	1,010	1,010
Risk reserve	15	43,915	30,273
Fair value reserve	15	255,831	158,051
Retained earnings		319,241	284,661
TOTAL EQUITY		3,613,398	3,455,341
TOTAL LIABILITIES AND EQUITY		3,739,949	3,647,394

These financial statements were approved by the Board of Directors on 17 January 2013 and were signed on its behalf by:

....	....
H.E. Sheikh Abdullah Bin Saud Al-Thani	**Mr. Mansoor Bin Ibrahim Al-Mahmoud**
Chairman	**Chief Executive Officer**

The attached notes 1 to 22 form part of these financial statements.

QATAR DEVELOPMENT BANK Q.S.C.C.

STATEMENT OF COMPREHENSIVE INCOME QAR '000s

For the year ended 31 December	Note	2012	2011
Interest income and profit from Islamic financing	17	125,869	132,824
Interest expense		(4,118)	(9,661)
Net interest income		**121,751**	123,163
Fees and commission income	18	119,040	63,575
Income from investment securities	19	23,575	25,469
Rental income and other operating income		5,477	5,037
Foreign exchange gain		1,120	224
Net operating income		**270,963**	217,468
Staff and other costs	20	(151,564)	(114,657)
Depreciation	11 &12	(13,421)	(7,214)
Net impairment loss on investment securities	9	-	(1,897)
Net impairment loss on loans and advances to customers	8	(45,073)	(42,868)
		(210,058)	(166,636)
Share of losses of associates and joint ventures	10	(628)	-
Profit for the year		**60,277**	50,832
Other comprehensive income for the year			
Available-for-sale financial assets:			
Net change in fair value		97,991	54,042
Net amount transferred to profit or loss		(211)	(6,204)
Other comprehensive income for the year		**97,780**	47,838
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**158,057**	98,670

The attached notes 1 to 22 form part of these financial statements.

QATAR DEVELOPMENT BANK Q.S.C.C.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

QAR '000s

	Share capital	Additional capital contribution	Legal reserve	General reserve	Risk reserve	Fair value reserve	Retained earnings	Total
Balance at 1 January 2012	2,900,000	-	81,346	1,010	30,273	158,051	284,661	3,455,341
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	60,277	60,277
Other comprehensive income	-	-	-	-	-	97,780	-	97,780
Total comprehensive income for the year	-	-	-	-	-	**97,780**	**60,277**	**158,057**
Transfer to legal reserve	-	-	12,055	-	-	-	(12,055)	-
Transfer to risk reserve	-	-	-	-	13,642	-	(13,642)	-
Transfer to general reserve	-	-	-	-	-	-	-	-
Balance at 31 December 2012	**2,900,000**	-	**93,401**	**1,010**	**43,915**	**255,831**	**319,241**	**3,613,398**
Balance at 1 January 2011	2,900,000	10	71,179	1,000	18,139	110,213	256,130	3,356,671
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	50,832	50,832
Other comprehensive income	-	-	-	-	-	47,838	-	47,838
Total comprehensive income for the year	-	-	-	-	-	47,838	50,832	98,670
Transfer to legal reserve	-	-	10,167	-	-	-	(10,167)	-
Transfer to risk reserve	-	-	-	-	12,134	-	(12,134)	-
Transfer to general reserve	-	(10)	-	10	-	-	-	-
Balance at 31 December 2011	2,900,000	-	81,346	1,010	30,273	158,051	284,661	3,455,341

The attached notes 1 to 22 form part of these financial statements.

STATEMENT OF CASHFLOWS

QAR '000s

For the year ended 31 December	Notes	2012	2011
Cash flows from operating activities			
Profit for the year		60,277	50,832
Adjustments for:			
Dividend received		(23,235)	(15,210)
Interest received		(125,869)	(117,802)
Interest paid		4,118	9,263
Net Impairment loss on loans and advances to customers		45,073	42,868
Net impairment loss on investment securities		-	1,897
Depreciation	11 &12	13,421	7,215
Net gain on sale of available-for-sale securities		(340)	(10,249)
Share of losses from associates and joint ventures		628	-
		(25,927)	(40,449)
Change in due from banks		-	1,025,000
Change in loans and advances to customers		(242,968)	(284,026)
Change in other assets		(39,612)	102,370
Change in due to banks		(101,443)	(451,292)
Change in other liabilities		36,747	(5,597)
		(373,203)	346,006
Dividend received		23,235	15,210
Interest received		125,869	117,802
Interest paid		(4,118)	(9,263)
Net cash (used in) / from operating activities		(228,217)	479,018
Cash flows from investing activities			
Acquisition of investment securities		(75,208)	(906,646)
Acquisition of associates and joint ventures	10	(40,600)	-
Proceeds from sale of investment securities		-	72,344
Acquisition of Investment property	11	-	(150,133)
Acquisition of property and equipment	12	(5,933)	(8,769)
Net cash (used in) investing activities		(121,741)	(993,204)
Net decrease in cash and cash equivalents		(349,958)	(514,186)
Cash and cash equivalents at 1 January		957,091	1,471,277
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	21	607,133	957,091

The attached notes 1 to 22 form part of these financial statements.

1 REPORTING ENTITY

Qatar Development Bank (Q.S.C.C.) ("the Bank") was established in the State of Qatar as a closed shareholding company under Commercial Registration No.19299. The Bank was awarded a formal approval under Emiri Decree No. 14 of 1997 to commence operations on 18 June 1997. The Cabinet of Ministers has approved in its ordinary meeting No. 39 of 2006 the amendment to the Bank's Articles of Association which was published in the official newspaper on 27 June 2006 in addition to changing its name from Qatar Industrial Development Bank Q.S.C.C. to Qatar Development Bank Q.S.C.C.

The main objective of the Bank is to participate in the economic development process of the State of Qatar, by providing the necessary financing for small and medium size industrial, educational, health, agricultural and touristic projects. The Bank also administers the disbursement of Government land loan scheme as part of its fiduciary activities.

2 BASIS OF PREPARATION

(a) Statement of compliance

The 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.

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis, except for available for sale financial investments which have been measured at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, 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 recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 6.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in financial statements.

(a) Investment in associates and jointly controlled entities (equity-accounted investees)

Associates are those entities in which the Bank has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20 percent and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Bank has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Investment in associates and jointly controlled entities (equity-accounted investees) (continued)

Investments in associates and jointly controlled entities are accounted for under the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The financial statements include the Bank's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Bank, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Bank's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the investee.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Bank's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment

(b) Foreign currency

Foreign currency transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement in a foreign currency are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities 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.

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 recognized in profit or loss.

(c) Islamic financing activities

The Bank provides Islamic financing through various Islamic modes of financing. These activities are conducted in accordance with the Islamic Shari'a, as determined by the Shari'a Committee.

(d) Financial assets and financial liabilities

(i) Recognition and initial measurement

The Bank initially recognizes loans and advances to customers, due from / to banks and other liabilities on the date at which they are originated. All other financial assets and liabilities are initially recognized on the trade date at which the Bank 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;
- available-for-sale

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and financial liabilities (continued)

(ii) Classification (continued)

Financial liabilities

The Bank has classified and measured its financial liabilities at amortized cost.

(iii) Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when the Bank has transferred its contractual rights to receive cash flows from the assets.

Financial liabilities are derecognized when they are extinguished, which is when the obligation is discharged or cancelled or expired.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS and when approved by the QCB, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(v) Measurement principles

- **Amortized cost measurement**

The amortized 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 amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment loss. The calculation of effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate.

- **Fair value measurement**

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

The Bank measures the fair value of listed investments at the market closing price for the investment. For unlisted investments, the Bank recognizes any increase in the fair value, when they have reliable indicators to support such an increase. These reliable indicators are limited to the most recent transactions for the specific investment or similar investments made in the market on a commercial basis between desirous and informed parties who do not have any reactions which might affect the price.

(vi) Identification and measurement of impairment

At each reporting date the Bank 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 Bank on terms that the Bank 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 Bank.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and financial liabilities (continued)

(vi) Identification and measurement of impairment (continued)

The Bank considers evidence of impairment loss for loans and advances to customers at specific asset level. All individually significant loans and advances to customers are assessed for specific impairment.

Impairment losses on assets carried at amortized 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 recognized in profit or loss and reflected in an allowance account against loans and advances to customers.

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

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized 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 amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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

(e) Cash and cash equivalents

Cash and cash equivalents include notes on hand, unrestricted balances held with Qatar central bank and other local 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 Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(f) 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 Bank does not intend to sell immediately or in the near term.

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

(g) Investment securities

Subsequent to initial recognition investment securities are accounted for as 'available-for-sale'.

Available-for-sale financial assets

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investment securities (continued)

Available-for-sale financial assets (continued)

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

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

(h) Investment properties

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or use in the production or supply of goods and services or for administrative purposes.

Subsequent expenditure is capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

Investment properties are treated as long term investments and carried at cost less accumulated depreciation. Building is depreciated over a period of 25 years on a straight line basis. Land is not depreciated. The cost of property includes all directly attributable costs.

When the use of a investment property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(i) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalized 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 recognized in other income/other expenses in profit or loss.

(ii) Subsequent costs

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Property and equipment (continued)

(iii) Depreciation

Depreciable amount is the cost of property and equipment, or other amount substituted for cost, less its residual value. Depreciation is recognized 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 property and equipment are as follows:

Building	25 years
Furniture and fixtures	4 years
Equipment	3-4 years

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

(j) Impairment of non-financial assets

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

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

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

(k) Provisions

A provision is recognized if, as a result of a past event, the Bank 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.

(l) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, credit guarantees, consisting of letters of credit, guarantees, Al-Dahmeen, Al-Tasdeer and acceptances. Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Employee benefits

(i) Defined contribution plans

Under Law No. 24 of 2002 on Retirement and Pension, the Bank is required to make contributions to a Government fund scheme for Qatari employees calculated as a percentage of the Qatari employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due. The cost is included as part of staff costs.

(ii) Defined Benefit plans

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

(n) Fiduciary assets

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

(o) Interest income and expense

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

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Interest income and expense presented in the statement of comprehensive income include interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis.

(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 recognized 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 recognized 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.

Housing loans management fee is being recognised at 1 % of the amount of outstanding balance of the loans per annum.

(q) Income from investment securities

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Rental Income

Rental income arising from investment property is accounted for on a straight line basis over the lease term.

(s) Dividend income

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

(t) Islamic financing

Revenues on Islamic financing transactions are recognized on a time apportioned basis over the period of the contract. Income on non performing financing accounts is suspended until realization in accordance with Qatar Central Bank regulations.

(u) New standards and interpretations

a) *The following amendment has been applied by the Bank in the preparation of these financial statements:*

IFRS 7 (amendment) 'Disclosures: Transfer of financial assets'
The amendments to IFRS 7 introduce new disclosure requirements about transfers of financial assets including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendment has no impact on the Bank's operations.

b) *In addition, a number of new standards and interpretations issued but not yet effective for the year ended 31 December 2012 and their likely impact on the financial statements of the Bank:*

IAS 1 (amendment) 'Presentation of items of other comprehensive income'
The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 July 2012 with an option of early application.

IAS 28 (2011) 'Investment in Associates and Joint ventures'
IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) has been amended to include:

- IFRS 5 applies 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 sale; 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 standard is effective for annual periods beginning on or after 1 January 2013 and is applied retrospectively.

- *'IFRS 9, Financial Instruments'*
IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after 1 January 2015.

- IFRS 10, Consolidated Financial Statements.
- IFRS 11, Joint Arrangements.
- IFRS 12, Disclosure of Interest in Other Entities.
- IFRS 13, Fair Value Measurement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) New standards and interpretations (continued)

The above standards are effective for annual periods beginning on or after 1 January 2013. The Bank is currently assessing the impact of these standards on future periods.

c) The Bank did not early adopt any standards or interpretations.

4 FINANCIAL RISK MANAGEMENT

4.1 Introduction and overview

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

Risk management framework

Risk is inherent in the Bank's activities and being a development bank with a specific mandate to lend to developmental oriented sectors at relaxed terms and covenants which includes a concessional interest rate not proportional to the inherent risk of the lending, non-availability of secondary collaterals and a relatively higher risk appetite and tolerances, the management of all inherent risk is critical to the sustainability of our business both at a tactical as well as strategic level. The board and management of the Bank fully recognize the business critical importance of risk management and has put in place a robust 'fit for purpose' risk management framework to proactively identify, assess and measure, monitor and manage risks within the predefined appetite and tolerances. This process of risk management is critical to the fulfillment of Bank's strategic business objectives and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The Bank is exposed to credit risk, operating risk and market risk, which include trading and non-trading risks. The risk management framework in the Bank is now integrated with its strategic planning process and therefore, also defines standards for managing strategic and business risks such as changes in the environment, technology and industry.

Risk management structure

The Board of Directors is ultimately responsible for defining and monitoring risk control and management processes. Executive Management Committees like ALCO and Operational risk and Business continuity planning committee execute the Board approved risk strategies and report on significant risk exposures.

Internal Audit

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

Risk measurement and reporting systems

Risk is measured and assessed by a variety of tools and methodologies which include quantitative models and qualitative risk scorecards. Whereas risk is measured and assessed both on an inherent and residual basis, monitoring and controlling risks is primarily performed based on risk limits established by the Board. These limits reflect the business strategy of the Bank and the market environment as well as the level of risk that the Board is willing to accept.

The risk MIS collects , processes and analyzes pertinent business and risk information at transaction and portfolio level and reports to the head of each business division, Risk Committees and ultimately to Board of Directors.

4.1.2 Credit risk

Credit risk is the risk that a customer or counterparty of the Bank will be unable or unwilling to meet a commitment entered into with the Bank. It arises from lending (both direct and indirect), trade finance, treasury and other activities undertaken by the Bank.

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

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Introduction and overview (continued)

4.1.2 Credit risk (continued)

4.1.2.1 Credit risk measurement

The Bank has in place proper governance structure, risk framework, standards, policies and procedures for the control and monitoring of all such risks.

4.1.2.2 Risk limit control and mitigation policies

The Bank seeks to manage its credit risks exposure through effective customer selection and due diligence processes, well-structured approval matrix and a proactive credit monitoring and collection practices. To reduce concentration risks bank diversifies its lending, investing and financing activities across sectors, industries, products and borrowers. In terms of collateral coverage, typically only the primary collateral (assets being financed) is obtained in line with its mandate of supporting the private enterprise, however, in exceptional cases (decided by ICC and Board for very high risk projects) mortgage over Real Estate or pledge over equity instruments is asked for. financed) is obtained in line with its mandate of supporting the private enterprise , however, in exceptional cases (decided by ICC and Board for very high risk projects) mortgage over Real Estate or pledge over equity instruments is asked for.

4.1.2.3 Maximum exposure to credit risk before collateral held or other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including off balance sheet items. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure	
	Total 2012	Total 2011
Due from banks	605,959	911,733
Loans and advances to customers	1,321,921	1,124,829
Investment securities – debt	984,354	814,455
Other assets	71,197	31,585
Total on balance sheet	**2,983,431**	2,882,602
AL Dhameen & AL Tasdeer Guarantees	134,618	105,218
Contingent liabilities	118,504	64,735
Other commitments	685,038	523,741
Total off balance sheet	**938,160**	693,694
Total exposure	**3,921,591**	3,576,296

i) Risk concentration for maximum exposure to credit risk by industry sector

	Gross maximum exposure 2012	**Net maximum exposure 2012**	Gross maximum exposure 2011	Net maximum exposure 2011
Government	676,791	676,791	553,664	553,664
Financial institutions	697,274	697,274	1,131,992	1,131,992
Industry/manufacturing	2,260,081	2,260,081	1,818,523	1,818,523
Others	287,445	287,445	72,117	72,117
	3,921,591	**3,921,591**	3,576,296	3,576,296

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

4 FINANCIAL RISK MANAGEMENT (continued)

4.1.2 Credit risk (continued)

Credit risk exposure

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

Bank's rating	Description of the grade	Mapping
Grade 1	Low risk – excellent	High grade
Grade 2	Standard/satisfactory risk	Standard grade
Grade 3	Sub-standard	Impaired
Grade 4	Doubtful	Impaired
Grade 5	Loss	Impaired

Equivalent grades	2012	2011
High Grade (Low risk)	940,707	876,412
Standard Grade	346,681	164,653
Watch List or Impaired	129,631	154,537
	1,417,019	1,195,602

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

4 FINANCIAL RISK MANAGEMENT (continued)

4.1.2 Credit risk (continued)

ii) Credit quality by class of financial assets

The table below summarizes the credit quality by class of financial asset, based on the Bank's internal credit classification methodology:

	Loans and advances to customers		Due from banks		Investment securities – debt	
	2012	2011	2012	2011	2012	2011
Neither past due nor impaired(low risk):						
Low risk – excellent	940,707	876,412	605,959	911,733	-	-
	940,707	876,412	**605,959**	911,733	-	-
Past due but not impaired (special mentioned):						
Standard Grade	346,681	164,653	-	-	-	-
Carrying amount	**346,681**	164,653	-	-	-	-
Impaired						
Substandard (overdue > 3 months)	107,782	125,510	-	-	-	-
Doubtful (overdue > 6 months)	1,159	966	-	-	-	-
Loss (overdue > 9 months)	20,690	28,061	-	-	-	-
	129,631	154,537	-	-	-	-
Less: impairment allowance-specific	(95,099)	(70,773)	-	-	-	-
Carrying amount – net	**1,321,921**	1,124,829	**605,959**	911,733	-	-
Investment securities - debt						
Available for sale	-	-	-	-	984,354	814,455
Less: impairment allowance	-	-	-	-	-	-
Carrying amount – net	-	-	-	-	984,354	814,455
Total carrying amount	**1,321,921**	1,124,828	**605,959**	911,733	984,354	814,455

It is the Bank's policy to maintain accurate and consistent risk ratings across the loans portfolio. This facilitates focused management of the applicable risks and the comparison of financing exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

(a) Due from banks:
The amount due from banks consists of all high grade exposures. There were no past due on impaired balances as at 31 December 2012 (2011: Nil)

(b) Investment securities- debt:
There were no impairment losses on financial investments for the year ended 31 December 2012 (31 December 2011: Nil). All the debt securities were of high grade at 31 December 2012 with neither past due nor impaired exposures.

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

4 FINANCIAL RISK MANAGEMENT (continued)

4.1.2 Credit risk (continued)

ii) Credit quality by class of financial assets (continued)

(c) There were no impairment losses on other assets as at 31 December 2012 (2011: Nil). All other assets were of standard grade.

iii) Aging analysis of Past dues but not impaired category of loans and advances

Past due but not impaired loans and advances to customers are those for which contractual interest or principal payments are past due, but the Bank 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 Bank.

	2012	2011
Upto 30 days	226,280	56,718
30 to 60 days	91,668	67,001
60 – 90 days	28,733	40,934
Gross	**346,681**	164,653

iv) 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 indexes of similar assets.

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

The aggregate collateral is QAR 1,813 million (2011: QAR 862 million) for past due up to 30 days, QAR 1,099 million (2011: QAR 846 million) for past due from 31 to 60 days and QAR 665 million (2010: QAR 15 million) for past due from 61 and above days, QAR 48 million (2011: QAR 0.7 million).

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

4 FINANCIAL RISK MANAGEMENT (continued)

4.1.3 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its funding requirements. Liquidity risk arises from fluctuations in cash flows due to market disruptions or credit down grades, which may cause certain sources of funding to cease immediately. Bank has a very low exposure to liquidity risk since all its assets are predominantly financed by Capital. Hence, pure liquidity and asset liability risks like maturity mismatch, interest rate risk in the Banking book are very minimal.

The table below set out the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date.

At 31 December 2012	Up to 1 Month	1 – 3 Months	3 – 12 Months	Sub total < 1 year	1 – 5 years	Over 5 years	No maturity	Total
Cash and balances with Qatar Central Bank	1,174	-	-	1,174	-	-	-	1,174
Due from banks	275,959	-	280,000	555,959	-	50,000	-	605,959
Loans and advances to customers	27,548	51,090	188,868	267,506	1,054,415	-	-	1,321,921
Investment securities	-	-	-	-	-	984,354	538,632	1,522,986
Investment in associates and joint ventures	-	-	-	-	-	-	39,972	39,972
Investment properties	-	-	-	-	-	-	143,052	143,052
Property and equipment	-	-	-	-	-	-	33,688	33,688
Other assets	-	-	-	-	-	-	71,197	71,197
Total assets	304,681	51,090	468,868	824,639	1,054,415	1,034,354	826,541	3,739,949
Due to banks	2,737	-	-	2,737	-	-	-	2,737
Other liabilities	123,814	-	-	123,814	-	-	-	123,814
Equity	-	-	-	-	-	-	3,613,398	3,613,398
Total liabilities and equity	126,551	-	-	126,551	-	-	3,613,398	3,739,949
Net liquidity gap	178,130	51,090	468,868	698,088	1,054,415	1,034,354	(2,786,857)	-
Cumulative liquidity gap	178,130	229,220	698,088	698,088	1,752,503	2,786,857	-	-

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

4 FINANCIAL RISK MANAGEMENT (continued)

4.1.3 Liquidity risk (continued)

At 31 December 2011	Up to 1 Month	1 – 3 months	3 – 12 Months	Sub total < 1 year	1 – 5 years	Over 5 years	No maturity	*Total*
Cash and balances with Qatar Central Bank	45,358	-	-	45,358	-	-	-	45,358
Due from banks	361,733	500,000	-	861,733	-	50,000	-	911,733
Loans and advances to customers	69,023	32,500	149,637	251,160	873,669	-	-	1,124,829
Investment securities	-	-	-	-	-	553,664	795,996	1,349,660
Investment properties	-	-	-	-	-	-	146,915	146,915
Property and equipment	-	-	-	-	-	-	37,314	37,314
Other assets	-	-	-	-	-	-	31,585	31,585
Total assets	476,114	532,500	149,637	1,158,251	873,669	603,664	1,011,810	3,647,394
Due to banks	102,060	404	1,212	103,676	505	-	-	104,181
Other liabilities	-	-	-	-	-	-	87,872	87,872
Equity	-	-	-	-	-	-	3,455,341	3,455,341
Total liabilities and equity	102,060	404	1,212	103,676	505	-	3,543,213	3,647,394
Net liquidity gap	374,054	532,096	148,425	1,054,575	873,164	603,664	(2,531,403)	-
Cumulative liquidity gap	374,054	906,150	1,054,575	1,054,575	1,927,739	2,531,403	-	-

4 FINANCIAL RISK MANAGEMENT (continued)

4.1.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

a) Interest rate risk

Bank has an Interest rate risk exposure due to its investments in fixed income bonds. Interest rate risk in its fixed income bond portfolio is managed by way of a well laid out process of issuer due diligence and bond selection in line with Portfolio objectives. The investment and treasury policy of the bank defines issuer due diligence standards, approval authorities, Risk control limits and reporting. Bank uses variety of measures to measure interest rate risk sensitivity of its portfolio which includes duration and stress testing. VaR measures are also used wherever data is available.

The following table summarizes the re-pricing profile of the Bank assets, liabilities and off balance sheet exposures:

QAR '000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.1.4 Market risk (continued)

a) Interest rate risk (continued)

The Bank's interest sensitivity position based on contractual repricing arrangements at 31 December 2012 was as follows:

	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest sensitive	Total
Cash and balances with central bank	-	-	-	-	1,174	1,174
Due from banks	275,959	280,000	-	50,000	-	605,959
Loans and advances to customers	78,638	188,868	1,054,415	-	-	1,321,921
Investment securities	-	-	-	984,354	538,632	1,522,986
Investment in associates and joint ventures	-	-	-	-	39,972	39,972
Investment properties	-	-	-	-	143,052	143,052
Property and equipment	-	-	-	-	33,688	33,688
Other assets	-	-	-	-	71,197	71,197
Total assets	**354,597**	**468,868**	**1,054,415**	**1,034,354**	**827,715**	**3,739,949**
Due to banks	2,737	-	-	-	-	2,737
Other liabilities	-	-	-	-	123,814	123,814
Equity	-	-	-	-	3,613,398	3,613,398
Total liabilities and equity	**2,737**	**-**	**-**	**-**	**3,737,212**	**3,739,949**
On balance sheet interest rate sensitivity gap	**351,860**	**468,868**	**1,054,415**	**1,034,354**	**(2,909,497)**	**-**
Cumulative interest rate sensitivity gap	**351,860**	**820,728**	**1,875,143**	**2,909,497**	**-**	**-**

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

4 FINANCIAL RISK MANAGEMENT (continued)

4.1.4 Market risk (continued)

a) Interest rate risk (continued)

The Bank's interest sensitivity position based on contractual repricing arrangements at 31 December 2011 was as follows:

	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest sensitive	Total
Cash and balances with central bank	-	-	-	-	45,358	45,358
Due from banks	861,733	-	-	50,000	-	911,733
Loans and advances to customers	101,523	149,637	873,669	-	-	1,124,829
Investment securities	-	-	-	553,664	795,996	1,349,660
Investment properties	-	-	-	-	146,915	146,915
Property and equipment	-	-	-	-	37,314	37,314
Other assets	-	-	-	-	31,585	31,585
Total assets	963,256	149,637	873,669	603,664	1,057,168	3,647,394
Due to banks	102,464	1,212	505	-	-	104,181
Other liabilities	-	-	-	-	87,872	87,872
Equity	-	-	-	-	3,455,341	3,455,341
Total liabilities and equity	102,464	1,212	505	-	3,543,213	3,647,394
On balance sheet interest rate sensitivity gap	860,792	148,425	873,164	603,664	(2,486,045)	-
Cumulative interest rate sensitivity gap	860,792	1,009,217	1,882,381	2,486,045	-	-

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

4 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)

4.1.4 Market risk (continued)

a) Interest rate risk (continued)

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

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at reporting date. The effect of decreases in basis points is expected to be equal and opposite to the effect of the increases shown.

	Increase in basis points	Sensitivity of net interest income	
		2012	2011
Currency			
QR	+10	**11,768**	10,690

b) Currency risk

In the opinion of the management, the Bank's exposure to currency risk is minimal as most of the foreign currency financial assets and liabilities are denominated in US Dollars. As the Qatari Riyal is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

c) Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity and the value of individual investments. The effect on equity due to a reasonable possible change in equity indices, with all other variables held constant, is as follows:

Market indices	Change in equity price	Effect on equity 2012	Effect on equity 2011
Qatar Exchange	%10	**25,583**	15,805

4.1.5 Operational and other risks

Operational risk refers to the loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank endeavors to minimize operational losses by ensuring that effective infrastructure, controls, systems and individuals are in place throughout the organization. An enterprise wide Risk and Control Self-Assessment (RCSA) Process helps the bank to identify risks, test controls and track and report significant operational risk exposures through KRI's and operational risk loss data. Likewise regulatory, legal and reputation risks are assessed by way of risk scorecards and controlled through. External legal advice is obtained from lawyers to confirm legal and regulatory requirements, where required.

Other risks to which the Bank is exposed are regulatory risk, legal risk and reputational risk. Regulatory risk is controlled through a framework of compliance policies and procedures. Legal risk is managed through the effective use of external legal advisers. Reputational risk is controlled through the regular examination of issues that are considered to have reputational repercussions for the Bank, with guidelines and policies being issued as appropriate.

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

4 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)

4.1.6 Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong ratings and healthy capital ratios in order to support its business and to maximize shareholders value. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue additional capital securities. No changes were made in the objectives, policies and process from the previous years.

The Bank maintains an actively managed capital base to cover risks inherent in the business.

Capital comprises of share capital, general reserve and retained earnings amounting to QR 3.5 billion (2011: QR 3.2 billion).

5 FINANCIAL ASSETS AND LIABILITIES

(a) Accounting classifications and fair values

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

	Loans and receivables	Available-for-sale	Other amortised cost	Total Carrying amount	Fair value
31 December 2012					
Cash and balances with central bank	-	-	1,174	1,174	1,174
Due from banks	-	-	605,959	605,959	605,959
Loans and advances to customers	1,321,921	-	-	1,321,921	1,321,921
Investment securities	-	1,522,986	-	1,522,986	1,522,986
Other assets	-	-	71,197	71,197	71,197
	1,321,921	**1,522,986**	**678,330**	**3,523,237**	**3,523,237**
Due to banks	-	-	2,737	2,737	2,737
Other liabilities	-	-	123,814	123,814	123,814
	-	**-**	**126,551**	**126,551**	**126,551**

	Loans and receivables	Available-for-sale	Other amortised cost	Total Carrying amount	Fair value
31 December 2011					
Cash and balances with central bank	-	-	45,358	45,358	45,358
Due from banks	-	-	911,733	911,733	911,733
Loans and advances to customers	1,124,829	-	-	1,124,829	1,124,829
Investment securities	-	1,349,660	-	1,349,660	1,349,660
Other assets	-	-	31,585	31,585	31,585
	1,124,829	1,349,660	988,676	3,463,165	3,463,165
Due to banks	-	-	104,181	104,181	104,181
Other liabilities	-	-	87,872	87,872	87,872
	-	-	192,053	192,053	192,053

5 FINANCIAL ASSETS AND LIABILITIES (continued)

(a) Accounting classifications and fair values (continued)

Investment Securities - at cost

At 31 December 2012, certain unquoted financial assets available for sale amounting to QR 19.04 million (2011: 16.5 million) are carried at cost due to non availability of quoted market prices or other reliable measures of their fair values. Management believes there is no impairment in their value.

The fair value hierarchy disclosures required as per IFRS 7 have been disclosed under Note: 6

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt instruments the fair values are calculated based on quoted market price.

6 USE OF ESTIMATES AND JUDGMENTS

(a) Key sources of estimation uncertainty

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

(i) Allowances for credit losses

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

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

(ii) Determining fair values

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

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

6 USE OF ESTIMATES AND JUDGMENTS (continued)

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

(i) Valuation of financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Investment Securities	**1,503,946**	**-**	**19,040**	**1,522,986**

31 December 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Investment Securities	1,333,126	-	16,534	1,349,660

During the year ended 31 December 2012, there were no transfers between Level 1 and Level 3 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

(ii) 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.

(iii) Useful lives of property and equipment / investment property

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

7 DUE FROM BANKS

	2012	2011
Current accounts	-	6,542
Call accounts	125,959	125,191
Placements	480,000	780,000
	605,959	911,733
The geographical distribution is set out below:		
Qatar	604,893	909,273
North America	846	1,240
Europe	81	642
Other GCC countries	139	578
	605,959	911,733

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

8 LOANS AND ADVANCES TO CUSTOMERS

a) By type.	2012	2011
(i)Conventional Banking Loans and Advances		
Non- agricultural and fishery loans	873,679	774,226
Agricultural and fishery loans	33,789	40,597
	907,468	814,823
Specific impairment on advances to customers	(95,099)	(70,773)
Conventional Banking Loans and Advances	**812,369**	744,050
(ii)Financing activities		
Murabaha	72,603	30,096
Istisna'a	471,607	362,427
Ijarah	12,168	3,574
	556,378	396,097
Deferred income on Islamic finances	(46,826)	(15,318)
Net Financing Activates	**509,552**	380,779
Net Loan and Advances and Financing Activities	**1,321,921**	1,124,829

b) All loans and advances are to corporate customers and small and medium sized entities located in the State of Qatar.

c) The movement in the allowance for impairment of loans and advances is as follows:

	2012	2011
At 1 January	70,773	23,251
Charge for the year	35,317	52,094
Recoveries	(10,991)	(4,572)
At 31 December	**95,099**	70,773

Interest in suspense of QR 6,161 thousand as on 31 December 2012 (2011: QR 5,801 thousand) is for the purpose of Qatar Central Bank regulatory requirements, effectively included in the above allowance for impairment on loans and advances. Movement in interest in suspense during the year amounted to net charge of QR 360 thousand (2011: net recovery of QR 4,656 thousand).

d) Details of non-performing loans are as follows:

The net amount of non-performing loans and advances and financing activities to customers as at 31 December 2012 amounted to QR 130 million representing 9.6% (2011: QR 149 million representing 12 %) of the total gross loans and advances to customers.

e) **Net Impairment during the year:**

	2012	2011
Loans and advances (net of recoveries)	24,326	47,522
Other provisions (note 14b)	21,107	-
Interest in suspense	(360)	(4,656)
For the year ended 31 December 2012	**45,073**	42,866

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

9 INVESTMENT SECURITIES

	2012 Quoted	2012 Unquoted	2012 Total	2011 Quoted	2011 Unquoted	2011 Total
Available for sale investments						
a) By type						
Equities	519,592	6,834	526,426	520,568	7,834	528,402
State of Qatar Bonds	-	467,041	467,041	-	372,626	372,626
Other debt securities	-	517,313	517,313	-	441,829	441,829
Investment funds	-	12,206	12,206	-	8,700	8,700
Total	**519,592**	**1,003,394**	**1,522,986**	520,568	830,989	1,351,557
Impairment Loss	-	-	-	(1,897)	-	(1,897)
Total	**519,592**	**1,003,394**	**1,522,986**	518,671	830,989	1,349,660

The State of Qatar Bonds and other debt securities financial assets amounting to QR. 467 million and QR. 517 million respectively (2011: QR 373 million and QR. 442 million) represent investments in fixed rate securities. There are no investments in floating rate securities as at 31 December 2012.

There impairment losses recognized on the investments during 2012 are amounting QR Nil thousand (2011: 1,897).

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	2012	2011
Balance at 1 January	-	-
Foreign currency translation	-	-
Investments acquired during the year	40,600	-
Share of results	(628)	-
Cash dividend	-	-
Associates/Joint ventures sold / transferred	-	-
Other movements	-	-
Balance at 31 December	39,972	-

Name of the Company	Amount 2012	Amount 2011	Associates/ Joint venture	Country	Company's Activities	Ownership % 2012	Ownership % 2011
Al Shams advanced lighting technologies	**5,500**	1,000	Associate	Qatar	Manufacturing HID lamps and other lighting products	19.7%	3.59%
Qatar Business Incubator	**35,000**	-	Joint Venture	Qatar	Career development and entrepreneurship services for the youth of Qatar	50%	-
The Bedaya Centre	**100**	-	Joint Venture	Qatar	Catering to the diversified needs of SMEs with tailor-made solutions and toolkits.	50%	-

The financial position and results of associates and joint ventures based on financial statements, as at and for the year ended 31 December 2012 are as follows:

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

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

31 December 2012	Al Shams advanced lighting technologies	Qatar Business Incubator	The Bedaya Centre
Total assets	15,740	78,182	1,172
Total liabilities	8,408	8,182	5,173
Total revenue	1,170	-	-
Net loss	(3,212)	-	(4,201)
Share of net loss	(528)	-	*(100)

*The Bank has recognised the share of loss up to the cost of the investment.

11 INVESTMENT PROPERTIES

The movement in investment property is as follows:

	Buildings	Land	Total
Cost			
Balance at 1 January 2011	-	-	-
Acquisitions	96,557	53,576	150,133
Balance at 31 December 2011	96,557	53,576	150,133
Balance at 1 January 2012	96,557	53,576	150,133
Acquisitions	-	-	-
Balance at 31 December 2012	**96,557**	**53,576**	**150,133**
Accumulated depreciation			
Balance at 1 January 2011	-	-	-
Charge during the year	(3,218)	-	(3,218)
Balance at 31 December 2011	(3,218)	-	(3,218)
Balance at 1 January 2012	(3,218)	-	(3,218)
Charge during the year	(3,863)	-	(3,863)
Balance at 31 December 2012	**(7,081)**	**-**	**(7,081)**
Carrying amounts			
Balance at 1 January 2011	96,557	53,576	150,133
Balance at 31 December 2011	93,339	53,576	146,915
Balance at 31 December 2012	**89,476**	**53,576**	**143,052**

The investment property is valued at QR: 147 million as on 31 December 2012 (2011 QR:158 million). This value is based on average market values carried out by independent valuers not connected with the Bank, by reference to market evidence of recent transactions for similar properties.

Rental income generated from this investment property amounting to QR: 4,876 million (2011: QR 1.64 million) and no direct operating expenses were recognized in the statement of income during the year

QAR '000s

12 PROPERTY AND EQUIPMENT

	Land and building	Furniture and fixtures	Office Equipment	Work-in-progress	Total
Cost					
Balance at 1 January 2011	23,300	9,510	6,492	8,611	47,913
Additions	43	593	16,744	(8,611)	8,769
Disposals	-	-	-	-	-
Balance at 31 December 2011	23,343	10,103	23,236	-	56,682
Balance at 1 January 2012	23,343	10,103	23,236	-	56,682
Additions	34	423	5,476	-	5,933
Disposals	-	-	(5)	-	(5)
Balance at 31 December 2012	23,377	10,526	28,707	-	62,610
Accumulated Depreciation					
Balance at 1 January 2011	6,982	4,096	4,294	-	15,372
Depreciation during the year	983	1,814	1,199	-	3,996
Disposals	-	-	-	-	-
Balance at 31 December 2011	7,965	5,910	5,493	-	19,368
Balance at 1 January 2012	7965	5910	5493	-	19,368
Depreciation during the year	934	2,068	6,555	-	9,558
Disposals	-	-	(4)	-	(4)
Balance at 31 December 2012	8,899	7,978	12,044	-	28,922
Carrying amounts					
Balance at 1 January 2011	16,318	5,414	2,198	8,611	32,541
Balance at 31 December 2011	15,378	4,193	17,743	-	37,314
Balance at 31 December 2012	14,478	2,547	16,663	-	33,688

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

13 OTHER ASSETS

	2012	2011
Accrued interest receivable	41,927	23,015
Staff furniture allowance	8,505	6,335
Prepayments	3,201	1,231
Other receivables (a)	14,017	-
Other debit balances	3,547	1,004
	71,197	31,585

(a) Other receivables include receivable from Qatar Business Incubator and Bedaya Centre amounting to QR 9 million and QR 1.5 million respectively.

14 OTHER LIABILITIES

	2012	2011
Deferred income	68,029	70,248
Accruals and others	11,000	5,743
Accounts payable	3,961	3,366
Provision for end of service benefits (a)	8,117	4,792
Other provisions (b)	21,107	-
Board of Directors remuneration payable	4,000	3,000
Margin deposits	6,830	236
Loan fees payable	768	487
	123,814	87,872

(a) Provision for end-of-service benefits

	2012	2011
At 1 January	4,792	1,912
Provision made during the year	4,319	3,443
Payments during the year	(994)	(563)
At 31 December	8,117	4,792

(b) This represents the total provision made during the year against AL -Dhameen QR 19.9 million and AL- Tasdeer QR 1.1 million respectively.

15 EQUITY

Share capital
The authorised capital of the Bank amounts to QR 10,000 million (2011: QR 10,000 million) consisting of 1,000 million shares of QR 10 each. The paid up capital amounted to QR 2,900 million consisting of 290 million shares of QR 10 each. The Government of the State of Qatar is the ultimate parent and controlling party of the Bank.

Additional capital contribution
This represents additional funding provided by the Government of the State of Qatar.

Legal reserve
In accordance with the Bank's Articles of Association, at least 20% of the net profit for the year is required to be transferred to the legal reserve until the reserve equals 100% of the paid up capital. The minimum required percentage of transfer to legal reserve as per Qatar Central Bank rules and regulations is 10% (2011: 10%). This reserve is not available for distribution except in circumstances specified in the Qatar Commercial Companies Law No. 5 of 2002 and with the approval of Qatar Central Bank.

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

15 EQUITY (continued)

General reserve

The general reserve was created in 1997 in accordance with Article 31 (3) of the Articles of Association. This reserve can be used at the discretion of the General Assembly, after obtaining the approval of Qatar Central Bank.

Risk reserve

In accordance with Qatar Central Bank rules and regulations, a risk reserve is made to cover contingencies on the loans, advances and financing activities to customers with a minimum requirement of 2% in 2012 (2011: 1.5%) of the total private sector exposure, net of cash secured facilities is made to cover contingencies on the private sector loans and advances. The Bank is currently providing risk reserve by 3% (2011: 2.5%).

Cumulative changes in fair value

Available-for-sale investments	**Positive fair value 2012**	**Negative fair value 2012**	**Total 2012**
At 1 January	161,412	(3,361)	158,051
Realized during the year	(211)	-	(211)
Net movement in unrealized fair value during the year	99,427	(1,436)	97,991
At 31 December	**260,628**	**(4,797)**	**255,831**

Available-for-sale investments	Positive fair value 2011	Negative fair value 2011	Total 2011
At 1 January	114,676	(4,463)	110,213
Realized during the year	(6,204)	-	(6,204)
Net movement in unrealized fair value during the year	52,940	1,102	54,042
At 31 December	161,412	(3,361)	158,051

16 CONTINGENT LIABILITIES AND COMMITMENTS

	2012	2011
Al-Tasdeer Export promotion agency	11,333	37,524
Al- Dahmeen	123,285	67,694
Letters of guarantee	8,570	-
Letters of credit	109,934	64,735
Unutilised credit facilities	685,038	523,741
Others	47,751	34,555
	985,911	728,249

i) **Al-Tasdeer** (export promotion agency)

This commits the Bank to make payments to its customers, contingent upon the credit default of their overseas importers as per the terms of the contracts, thereby providing them guarantee to cover their credit risk.

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

16 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

ii) Guarantees, Al-Dahmeen and letters of credit

Letters of credit, guarantees, Al-Dahmeen (Financial guarantee provided to customers in partnership with other banks) commit the Bank to make payments on behalf of customer's contingent upon their failure to perform under the terms of the contract. Guarantees, Al-Dahmeen and standby letters of credit carry the same risk as loans. Credit guarantees can be in the form of irrevocable letters of credit, credit insurance, advance payment guarantees and endorsement liabilities from bills rediscounted.

iii) Unutilized facilities

Commitments to extend credit represent contractual commitments to fund loans and revolving credits. Commitments generally have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. The commitments generally have expiry dates of less than one year.

17 INTEREST INCOME AND PROFIT FROM ISLAMC FINANCING

	2012	2011
Due from banks	17,113	48,899
Loans and advances to customers	39,969	50,300
Debt securities	48,437	30,742
Investment fund	-	358
Profit from Islamic financing activities	20,350	2,525
	125,869	132,824

18 FEE AND COMMISSION INCOME

	2012	2011
Fee income on loans and advances	6,229	2,697
Fee income on land loans department	108,990	58,987
Fee income on Al-Tasdeer Export promotion agency	1,490	446
Fee income on Al- Dahmeen	733	728
Fee income on indirect facilities	1,598	717
	119,040	63,575

19 INCOME FROM INVESTMENT SECURITIES

	2012	2011
Net gains on sale of available-for-sale financial assets	340	10,249
Dividend income	23,235	15,220
	23,575	25,469

20 STAFF AND OTHER COSTS

	2012	2011
Staff cost	95,598	67,185
Repairs and maintenance	4,308	5,234
Board of Directors remuneration	4,000	3,000
Advertisement	15,553	9,947
Professional and Governmental fees	20,616	17,659
Communication and insurance	3,645	3,519
Travel and entertainment	3,156	1,632
Printing and stationery	490	854
Others	4,198	5,627
	151,564	114,657

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

21 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following amounts:

	2012	2011
Cash and balances with Qatar Central Bank	1,174	45,358
Current accounts with banks	-	6,542
Call accounts with banks	125,959	125,191
Term deposit with banks (with an original maturity of 90 days or less)	480,000	780,000
	607,133	957,091

22 RELATED PARTY DISCLOSURES

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

The year–end balances in respect of related parties included in the financial statements are as follows:

	2012 Government of State of Qatar	2011 Government of State of Qatar
a) Statement of financial position		
Financial investments	**467,040**	61,659
Other receivable (note 13a)	**10,500**	-
b) Statement of comprehensive income		
Interest on the State of Qatar bonds	**22,101**	13,950

Board of Directors remuneration amounted to QR 2,800 thousand (2011: QR 1,750 thousand).

Compensation of key management personnel is as follow:

	2012	2011
Salaries and other benefits	6,252	6,382