everything is possible

COMMERCIAL BANK

Annual Report 2012

His Highness
Sheikh Tamim bin Hamad Al Thani
Heir Apparent

His Highness
Sheikh Hamad bin Khalifa Al Thani
Emir of the State of Qatar

From the very beginning, Commercial Bank has played a part in serving the people, businesses and community of Qatar. Our origins are those of a pioneer, being the first private sector bank in the country and one that has focused constantly on bringing innovations to the market.

This year our Annual Report takes its theme from the 24-hour world in which we now operate. It shows glimpses of life in Qatar through different times of the day – from dawn to dusk and through the night. It shows our customers, employees and managers as they go about their lives and reflects the contribution that Commercial Bank makes to the communities in which we operate.

This year's report also marks an evolution of our brand, one that expresses our ongoing belief that *everything is possible.* It reflects our aim to help our customers succeed in their ambitions and to make the most of the opportunities our economy offers. In future, our iconic four-crescent symbol and name will be given a dynamic prominence, and the new design will project a modern image relevant to the next generation of digitally empowered customers.

Contents

6.00am

Fish Market on the Doha Corniche

Doha, once a small fishing and pearl diving village, now boasts an impressive city skyline and a per capita GDP that ranks amongst the highest in the world. Since its foundation in 1975 the Bank has played a role in the everyday lives of the people of Qatar.

Business at a Glance

About Commercial Bank

Headquartered in Doha, Commercial Bank offers a full range of corporate, retail and investment banking services. We also own and operate exclusive Diners Club franchises in Qatar and Oman. Our country-wide network includes 29 branches and 165 ATMs.

The Bank has been profitable every year since it was founded in 1975. Our successful strategy has diversified our income streams and expanded our GCC footprint, through strategic partnerships with the National Bank of Oman in Oman and United Arab Bank in the United Arab Emirates. Our continual investment in technology and people, together with our strong capital base, provides a solid foundation for further growth.

Commercial Bank has a robust financial position, with total assets of QAR 80.0 billion at 31 December 2012, and a capital adequacy ratio of 17% – well above the minimum required by the Qatar Central Bank. The Bank enjoys strong credit ratings of A from Fitch, A1 from Moody's and A- from Standard & Poors.

The Bank is listed on the Qatar Exchange and was the first Qatari bank to list its Global Depository Receipts, as well as bonds, on the London Stock Exchange.

Commercial Bank continues to play an important role in Qatar's economic development and is dedicated to supporting Qatar's community and social infrastructure, through our Corporate Social Responsibility programmes and sponsorship of prestigious sporting events, which help to raise Qatar's international profile.

Our business segments

Wholesale Banking Provides a range of conventional commercial and investment banking services and products to large, medium and small enterprises, including corporate lending, trade finance, syndicated loans, deposits, letter of credit and guarantees.

Retail Banking Provides a full suite of conventional retail banking services and products to retail customers in Qatar, including current and deposit accounts, wealth management, mortgage lending, personal and vehicle loans and credit card and other card services.

Associates and subsidiaries

National Bank of Oman (S.A.O.G.) Operates through 66 branches in Oman, one in Egypt and one in the United Arab Emirates.

United Arab Bank (P.J.S.C.) Operates through 15 branches in the United Arab Emirates.

Asteco Qatar W.L.L. A joint venture property management company.

Massoun Insurance Services L.L.C. A joint venture that provides tailored corporate and personal insurance products to the Bank's customers.

Gekko L.L.C. A joint venture company that provides contactless payment infrastructure and customer database management solutions.

Orient 1 Limited A fully owned subsidiary that owns and manages an exclusive Diners Club franchise in Qatar and Oman.

Global Card Services L.L.C. A limited liability company that issues Diners Club Credit Cards and acquires merchant rights in Oman.

Commercial Bank Investment Services (S.P.C.) A fully owned subsidiary that provides direct access to the Qatar Exchange, online trading and brokerage services.

History

- 1975 Commercial Bank founded as Qatar's first private sector bank
- 1997 First licensed broker on the Doha Securities Market
- 2005 Acquires stake in National Bank of Oman
- 2006 First Qatari bank to issue bonds totalling USD 500 million on the LSE
- 2007 Acquires stake in United Arab Bank
- 2008 First Qatari bank to list GDRs on the LSE
- 2009 Launches Regulation S/144A Lower Tier II and Senior Global Bond Offering totaling USD 1.6 billion
- 2010 First Qatari bank to list bond issue on the SIX Swiss Exchange
- 2011 Incorporates Commercial Bank Investment Services
- 2012 Launches Regulation S USD 500 million Senior unsecured bonds

Total assets

QAR **80.0** bn

up 12%

Capital strength

17.0%

Total Regulatory Capital Ratio

Financial Highlights

Key highlights

- Record net profit for the year up 7% to QAR 2.012 billion compared with QAR 1,884 billion achieved in 2011
- Net operating income up 4% to QAR 2.98 billion, increased from QAR 2.86 billion in 2011
- Non-interest income up 21% to QAR 1.12 billion compared with QAR 926 million for the same period in 2011 due to higher gains from the Bank's investment portfolio and an increase in foreign exchange income
- Net provisions for loans and advances were QAR 140 million, down 42% from QAR 239 million provided in the same period for 2011
- Total assets up 12% to QAR 80.0 billion
- Loans and advances to customers up 17% to QAR 48.6 billion, with growth in lending in both the Corporate and Retail businesses
- Customers' deposits up 9% to QAR 41.4 billion
- Contribution of Commercial Bank's associates to the Bank's net profit increased by 27% to QAR 259 million compared with QAR 203 million for 2011

Net profit

QAR **2.012** bn

up 7%

Earnings per share

QAR **8.13**

up from QAR 7.71

Customer loans and advances

QAR **48.6** bn

up 17%

Customers' deposits

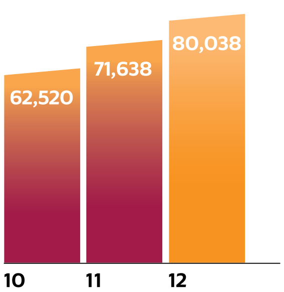
QAR **41.4** bn

up 9%

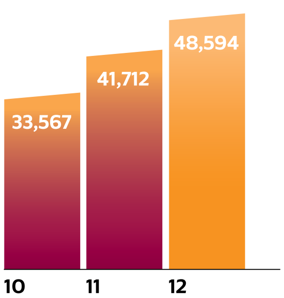
Financial highlights

QAR million, except per share amounts and as stated otherwise	2012	2011	2010	2009	2008
Net operating income	**2,984**	2,864	2,562	2,778	2,769
Net profit	**2,012**	1,884	1,635	1,524	1,702
Total assets	**80,038**	71,638	62,520	57,317	61,485
Lending to customers	**48,594**	41,712	33,567	31,929	33,898
Basic/diluted earnings per share in QAR	**8.13**	7.71	7.24	7.08	8.76
Dividends declared per ordinary share including bonus shares in QAR	**6.00**	6.00	7.00	6.00	7.00
Closing market price per ordinary share in QAR (at year end)	**70.90**	84.00	92.00	61.50	88.40
Book value per ordinary share in QAR	**60.37**	57.51	55.11	55.47	48.39
Long-term debt (at year end)	**12,177**	11,054	10,994	9,924	6,096
Shareholders' equity (at year end)	**14,939**	14,230	12,500	12,010	9,978
Return on average shareholders' equity	**13.80%**	14.10%	13.34%	13.86%	21.01%
Return on average assets	**2.65%**	2.81%	2.73%	2.56%	3.19%
Capital adequacy ratio	**17.00%**	17.91%	18.49%	18.86%	15.66%
Full-time employees (at year end)	**1,114**	1,115	1,207	1,239	1,241

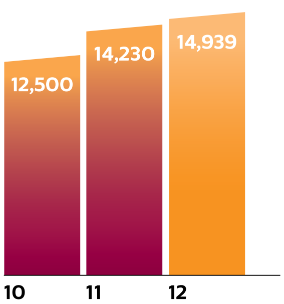
Total Assets
Million (QAR)



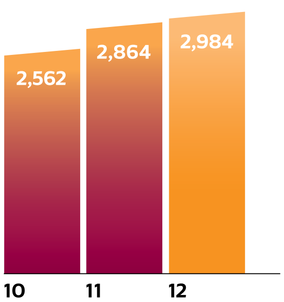
Lending to Customers
Million (QAR)



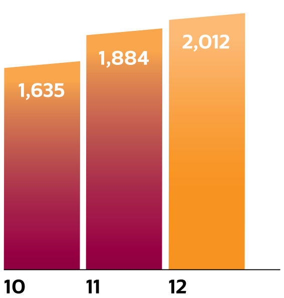
Shareholders' Equity
Million (QAR)



Net Operating Income
Million (QAR)



Net Profit
Million (QAR)



Forward-looking statements

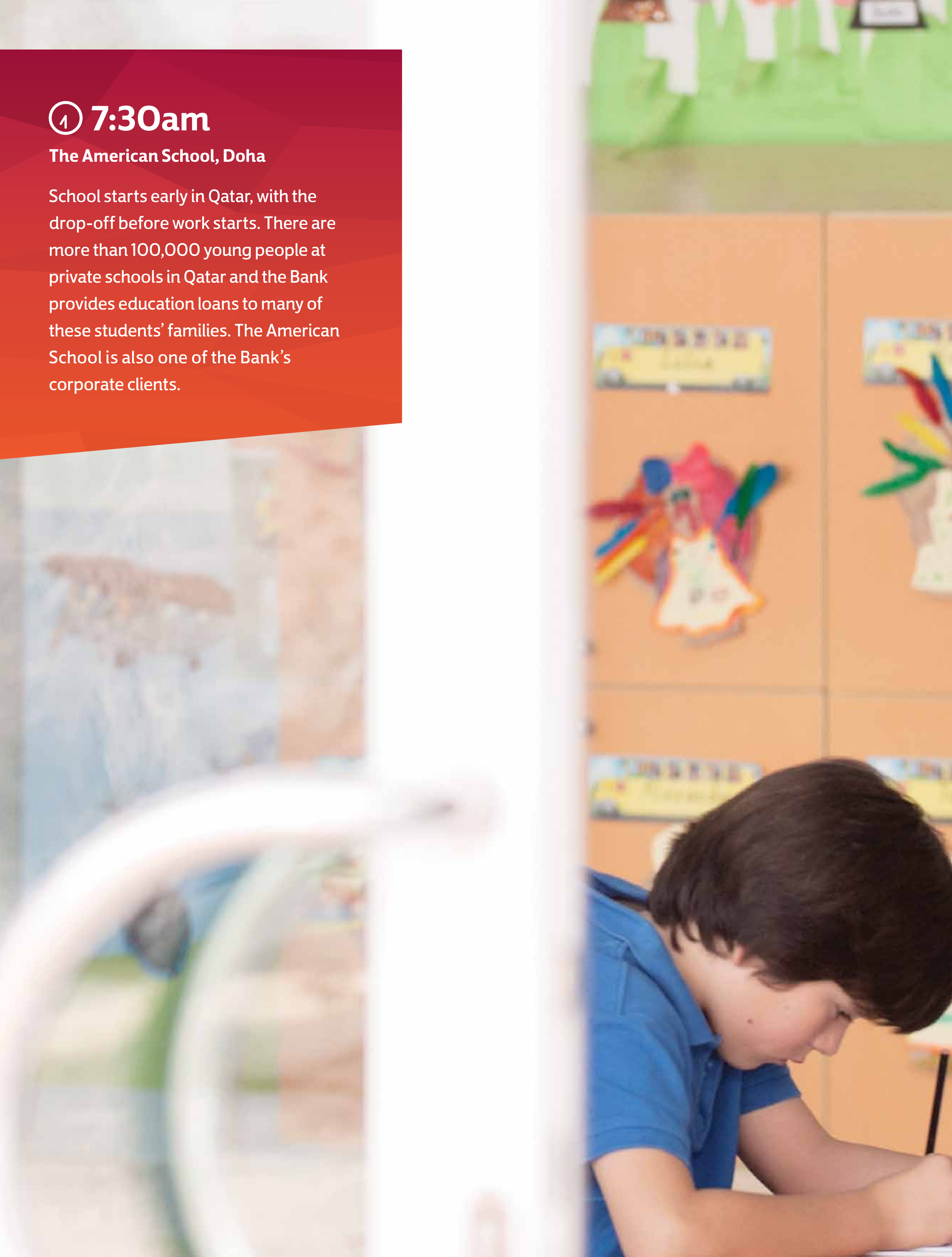
This document contains certain forward-looking statements with respect to certain plans and current goals and expectations of Commercial Bank and its associated companies relating to their future financial condition and performance. These forward-looking statements do not relate only to historical or current facts. By their nature forward-looking statements involve risk and uncertainty because they relate to future events and circumstances including a number of factors which are beyond Commercial Bank's control. As a result, Commercial Bank's actual future results may differ materially from the plans, goals and expectations set forth in Commercial Bank's forward-looking statements.

Any forward-looking statements made by or on behalf of Commercial Bank speak only as of the date they are made. Commercial Bank does not undertake to update forward-looking statements to reflect any changes in Commercial Bank's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. The information, statements and opinions contained in this presentation do not constitute a public offer under any applicable legislation or an offer to sell or solicitation of an offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

7:30am

The American School, Doha

School starts early in Qatar, with the drop-off before work starts. There are more than 100,000 young people at private schools in Qatar and the Bank provides education loans to many of these students' families. The American School is also one of the Bank's corporate clients.



Commercial Bank has successfully grown its lending and diversified revenue streams to deliver a record profit for the full year. Qatar's economy is expected to be driven by the Government's spending programme in 2013 and Commercial Bank is well positioned to support the future economic growth of Qatar and to deliver ongoing value to its shareholders.

Abdullah bin Khalifa Al Attiyah
Chairman

Chairman's Report

I am pleased to present The Commercial Bank of Qatar's Annual Report for the year ended 31 December 2012 on behalf of the Board of Directors.

2012 has been another difficult year for the world economy. Many of the emerging markets that have driven global activity have seen their growth slow, while demand in established economies has remained subdued. In Europe, Government finances are under substantial pressure and many Eurozone economies are struggling with austerity, recession and high unemployment. The US economic recovery remains fragile and fragmented as bi-partisan agreement to reduce debt has yet to be reached. Overall, the global economic outlook has deteriorated and growth forecasts for the majority of the world's economies were reduced in the second half of 2012.

Against this backdrop, Qatar's economy has continued to grow. Real GDP growth for 2012 is expected to be 6.3%, which is strong growth by current global standards. The economic growth in 2012 was supported by Government investment in infrastructure, healthcare, education and housing alongside increased contribution from other sectors of the economy. Credit demand in 2012 has been dominated by the Public Sector with continuing low levels of demand from the Private Sector. The banking sector has continued to strengthen and is well capitalised under the strong guidance and oversight of the Government and the Qatar Central Bank.

Commercial Bank has again reported excellent financial results in 2012. The net profit of QAR 2,012 million is a record annual result and an increase of 7% over the net profit of QAR 1,884 million achieved in 2011. This strong performance in 2012 is a demonstration of the Bank's agility in developing the strength of its product offering, broadening its client relationships, successfully growing its lending as well as the ongoing diversification of the Bank's revenue streams, specifically capturing opportunities in the investment portfolio. The Bank remains well capitalised, with a diversified funding base and continued growth in its customer deposits during 2012.

Our banking associates, United Arab Bank (UAB) and National Bank of Oman (NBO) have both had excellent years increasing revenue and profitability and growing their lending. UAB delivered another record net profit of AED 410 million, up 24%, while NBO increased its net profit by 19% to OMR 41 million. Both banks are strongly positioned to deliver further growth in their domestic markets and we continue to focus on strengthening our regional alliance.

The Board of Directors is recommending a cash dividend payout of 74% of net profit, which equates to QAR 6 per share, for approval at the Annual General Assembly. The level of dividend recognises our shareholders' ongoing loyalty and the Bank's strong financial performance in 2012.

Although global economic forecasts for the year ahead suggest that conditions will continue to be challenging, Qatar's economy remains relatively well insulated and is expected to be driven mainly by the Government's spending programme in 2013. While the public sector dominated credit growth in 2012, we expect a broader based demand to develop in the year ahead.

Commercial Bank continues to play an integral role in the growth and development of Qatar and is committed to playing a central role as the economy expands and diversifies. The Government has identified small and medium enterprises as a vital component in Qatar's economic future, and we are helping to support and nurture these businesses through our Enterprise Business which we launched at the start of the year.

The Bank is well positioned to support the growth in investment in infrastructure that will arise from Qatar's successful bid for the 2022 World Cup. The Bank is committed to its role in Qatar's social and cultural development. Our programme of corporate social responsibility aims to develop local talent, aid society by supporting socio-economic initiatives and promote the benefits of sport, culture and the arts.

On behalf of the Board of Directors, I would like to express our sincere appreciation for the continuing visionary leadership of His Highness the Emir and His Highness the Heir Apparent, and for the guidance and support received from His Highness the Prime Minister, His Excellency the Minister of Economy and Finance and His Excellency the Governor of Qatar Central Bank.

Commercial Bank is committed to delivering the highest standards of service and value to both our customers and to our shareholders, and in successfully delivering that ambition, we owe thanks to the loyalty, dedication and hard work of all our employees.

Abdullah bin Khalifa Al Attiyah
Chairman

Board of Directors

Standing from left:

Sh. Ahmed Bin Nasser Bin Faleh Al Thani - Director
Mr. Khalifa Abdullah Al Subaey - Director
Mr. Omar Hussain Alfardan - Director
Mr. Jassim Mohammad Jabor Al Mosallam - Director
Mr. Andrew Stevens - Group Chief Executive Officer
Mr. Abdullah Mohd Ibrahim Al Mannai - Director
Sh. Jabor Bin Ali Bin Jabor Al Thani - Director

Seated from left:

Sh. Abdullah Bin Ali Bin Jabor Al Thani - Vice Chairman
H.E. Abdullah Bin Khalifa Al Attiyah - Chairman
Mr. Hussain Ibrahim Alfardan - Managing Director

10.30am

Qatar Foundation

Qatar Foundation is home to eight world-class universities, and central to Qatar's development as a modern knowledge-based economy. Commercial Bank has direct links with the Foundation through MEEZA, a Qatar Foundation joint venture, which provides cloud services to the Bank's corporate customers, especially small and medium enterprises (SMEs). many SMEs have already benefited from this added-value service.

Commercial Bank has successfully achieved strong earnings in a challenging operating environment. The Bank has protected its core business in 2012 whilst delivering alternative sources of income. Our asset quality remains strong and we remain both well capitalised and funded to target growth sectors of the economy in the year ahead.

Hussain Ibrahim Alfardan
Managing Director

Managing Director's Report

Commercial Bank has delivered another record performance in 2012, achieving strong earnings in a challenging operating environment. Our business strategy has seen the Bank protect its core business in 2012, grow its domestic corporate and retail businesses and deliver alternative sources of income. There have also been continued strong performances by our alliance banks.

The Bank's net profit of QAR 2,012 million for the year ended 31 December 2012 was 7% higher than the profit for 2011.

Commercial Bank's net operating income was 4% higher in 2012, at QAR 2,984 million. Intense competitive pricing pressure and the regulatory cap on retail product pricing reduced lending yields, which were partially offset by a reduction in funding costs, leading to 4% decline in net interest income as contraction in net interest margins outweighed the benefits of higher lending volumes. Non-interest income rose by 21% to QAR 1,118 million, due to higher gains from our investment portfolio and an increase in foreign exchange income, partially offset by lower levels of net fee and commission income.

Our asset quality remains strong even as we grew total assets by 12% to QAR 80.0 billion at 31 December 2012. Lending to customers rose by QAR 6.9 billion to QAR 48.6 billion, with growth generated in both the Wholesale and Retail businesses, while the non-performing loan ratio reduced to 1.09%, compared with 1.20% at the end of 2011. To support the growth in lending, customers' deposits grew by 9% to QAR 41.4 billion.

Commercial Bank remains both well capitalised and funded to target growth sectors in the year ahead. The capital adequacy ratio was 17.0% at 31 December 2012 compared with 17.9% at the end of 2011 which is well above the Qatar Central Bank's required minimum level of 10%. During 2012, we continued to diversify our sources of funding. In February, the Bank repaid a syndicated loan facility of USD 650 million and arranged a new USD 455 million medium term loan with a club of international banks. In April, we issued USD 500 million of five-year unsecured fixed rate notes in the international capital markets, under our Euro Medium Term Note Programme.

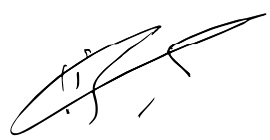
Commercial Bank's banking associates, United Arab Bank and National Bank of Oman, have once again delivered outstanding results, including a record net profit from United Arab Bank in the UAE; our alliance banks contributed QAR 259 million to the net profit for 2012, up 27% on 2011. The three banks benefit significantly from a close working relationship to deliver new product offerings and synergies across both operational efficiency and service delivery. I would like to thank the Board of Directors, executive management and staff at both banks for their contribution and the excellent performance as we continue to develop the regional alliance.

Commercial Bank provides a high-quality service offering to its customers through the channels that meet their specific needs. We continued to expand our branch network with the opening of new local community branches in Al Mesilla and Al Kharaitiyat which brought the total number of branches in Qatar to twenty nine; we intend to open more branches in 2013. We are also investing in our online and mobile banking platforms, ensuring our customers have access to diverse, convenient and cost-effective ways of banking.

I would like to express my sincere appreciation for the visionary and inspirational leadership of His Highness the Emir, Sheikh Hamad bin Khalifa Al Thani, and His Highness the Heir Apparent, Sheikh Tamim bin Hamad Al Thani, for promoting the Qatar economy during continued difficult times in global financial markets. I would also like to thank His Highness the Prime Minister, His Excellency the Minister of Economy and Finance, and His Excellency the Governor of the Qatar Central Bank for their guidance and support of the banking sector throughout the year.

I would also like to thank Commercial Bank's management and staff for their tireless contribution to our continued success, and acknowledge my appreciation for the continued support and encouragement of the Chairman, the Board of Directors and our shareholders.

Qatar's economy is expected to continue to grow strongly in 2013 with an increasing contribution from the non-hydrocarbon sector. The Government's capital spending on infrastructure and the broader public spending programme will help to ensure that growth seen in 2012 across a variety of sectors will continue in 2013. I look forward to 2013 with confidence that Commercial Bank is well positioned to play a central role in the ongoing development of the Qatar economy and build on its strengths to target growth sectors in the year ahead.

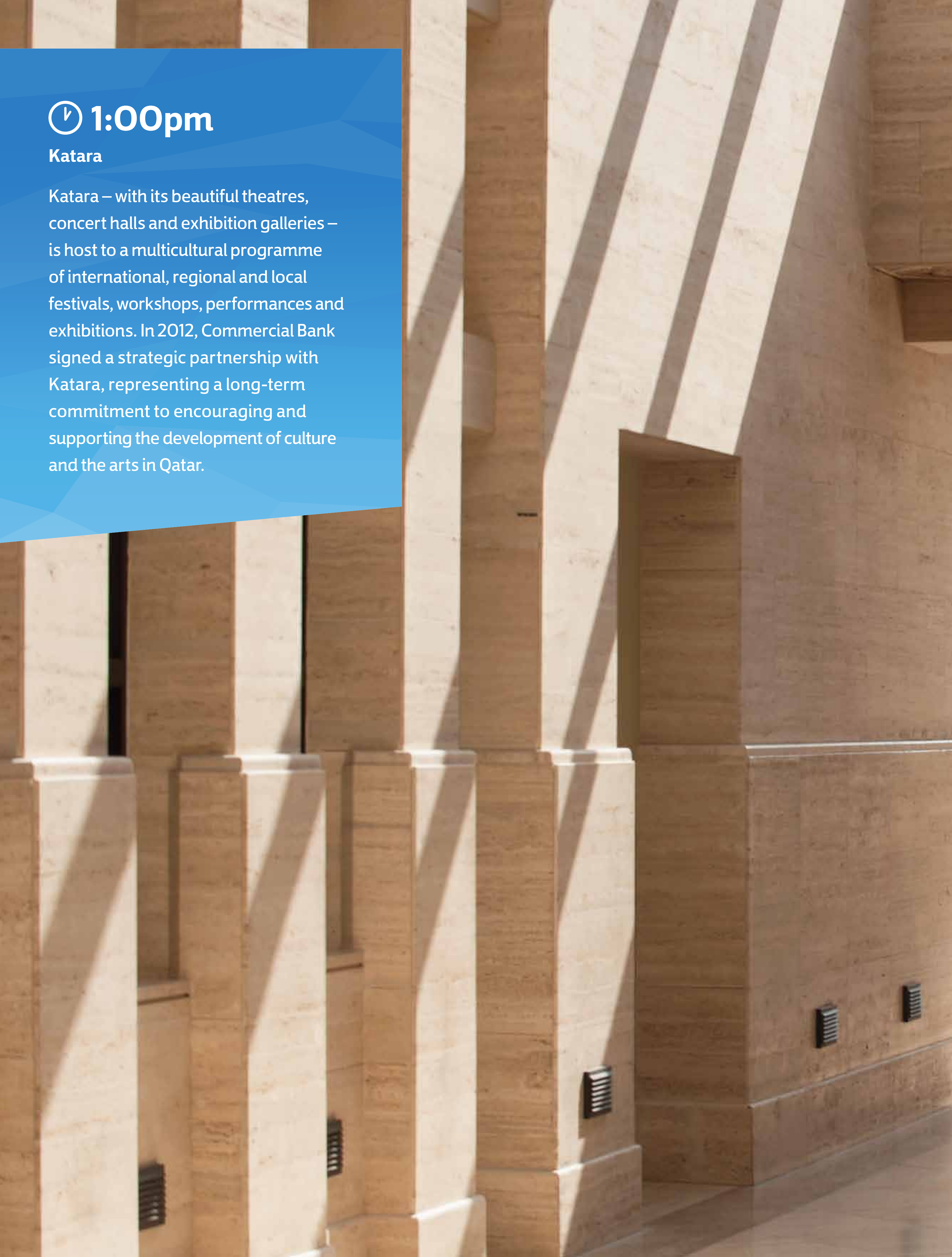


Hussain Ibrahim Alfardan
Managing Director

1:00pm

Katara

Katara – with its beautiful theatres, concert halls and exhibition galleries – is host to a multicultural programme of international, regional and local festivals, workshops, performances and exhibitions. In 2012, Commercial Bank signed a strategic partnership with Katara, representing a long-term commitment to encouraging and supporting the development of culture and the arts in Qatar.



Commercial Bank has maintained the progress seen in the first half of the year to deliver a record full year profit. This performance demonstrates the Bank's agility in broadening its client relationships as well as the diversification of its income streams to capture new opportunities for growth. In 2013, we will build on the success of 2012 by capturing market growth, developing core income across our Wholesale and Retail businesses and broadening the strength of our international presence.

Andrew C. Stevens
Group Chief Executive Officer

Management Review of Operations

Commercial Bank has delivered strong results in 2012 in an operating environment in which we have seen a slowdown in growth across the world and ongoing financial problems in established markets. In Qatar the economy has continued to grow in line with market expectations whilst the banking sector has been extremely competitive. The Bank has worked hard to maintain its market share in a lower margin environment in which pricing pressure has remained and has successfully grown its lending book, diversified its revenue and funding streams and maintained strong asset quality.

The Bank achieved a record full year net profit of QAR 2,012 million in 2012, an increase of 7%, compared with the net profit of QAR 1,884 million achieved in 2011. Commercial Bank's record performance demonstrates the Bank's agility in broadening its client relationships as well as the ongoing diversification of its income streams to capture new opportunities for growth.

Credit demand has been dominated by the Public Sector which was up by 46% since the beginning of the year, with continuing slower demand from the Private Sector which grew by 14%. Our loan book was 17% higher at QAR 48.6 billion with increased lending in both our Corporate and Retail businesses. We have also continued to grow our deposit base which increased by 9% for the full year, whilst further diversifying our funding sources in the first half of the year though the arrangement of a USD 455 million term loan with a club of international banks and the issuance of USD 500 million five-year unsecured fixed rate notes in the international debt capital markets.

Our affiliated banks in the UAE and Oman have delivered outstanding financial performances throughout 2012 with strong growth in lending and operating income and a 27% year-on-year improvement in profitability.

On 24 December 2012, we announced that the Bank had commenced negotiations with Anadolu Endustri Holding A.S. for the acquisition of a majority stake in Alternatifbank A.S. in Turkey. This proposed acquisition is consistent with our strategy. For many years we have communicated that our strategy includes looking for opportunities to expand internationally outside Qatar. Our focus is to become a pan-GCC player but opportunities within the GCC have been limited in recent years and we have spoken about the potential to broaden our presence beyond the GCC, if we found a relevant opportunity, and that opportunity fulfilled a number of criteria.

We believe that the proposed acquisition of a majority stake in a commercial bank of an appropriate size, operating in a stable economy with good growth prospects, in a country that is strategically and culturally aligned presents a natural next step in the execution of our international expansion. The negotiations for the acquisition of 70.8% majority of the shares in Alternatifbank are ongoing and are planned to be completed during March 2013.

Although global economic forecasts for the year ahead suggest that conditions will continue to be challenging, Qatar's economy remains relatively well insulated and will be driven mainly by the Government's spending programme and the services sector.

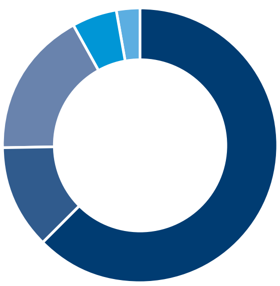
In 2013, we will build on the success of 2012 by capturing lending growth in our domestic market, and internationally in conjunction with our alliance partners. We will develop our core income across our Wholesale and Retail businesses without compromising risk management or asset quality and will seek to broaden the strength of our international presence in order to deliver solid returns to our shareholders.

Management Review of Operations Continued

Financial Results

QAR million	2012	2011
Net interest income	1,866	1,938
Non-interest income	1,118	926
Net operating income	2,984	2,864
Operating expenses	-1,028	-875
Provisions for impairment losses	-202	-308
Share of results of associates	258	203
Net profit for the year	**2,012**	**1,884**

Net Operating Income



- Net interest income
- Investment & dividend income
- Net fee income
- FX income
- Other income

Operating Expenses

QAR million	2012	2011
Staff costs	499	453
General and administrative expenses	407	308
Depreciation	122	114
Total operating expenses	**1,028**	**875**

Provisions for Impairment Losses

QAR million	2012	2011
Net provision/(recovery) for impairment on loans and advances	140	239
Impairment losses on financial investments	62	68
Total provisions for impairment losses	**202**	**307**

Ensuring our customers have a positive experience of the Bank is vital to our success, whether they access our services in branch, by telephone or online. Our brand and reputation depend on those experiences. 'Everything is possible' is a mindset that is embedded across all our businesses and is manifested in our everyday behaviour and actions; we aim to challenge ourselves constantly to bring this promise to life and to live up to it in all that we do.

Financial Results

Commercial Bank delivered a record financial performance in 2012 with net profit of QAR 2,012 million, up by 7% compared with QAR 1,884 million reported in 2011, reflecting strong growth in a challenging operating environment.

Net Operating Income

Net operating income increased by 4% to QAR 2,984 million for the year ended 31 December 2012 up from QAR 2,864 million achieved in 2011.

Net interest income was QAR 1,866 million for the year ended 31 December 2012, 4% lower than in 2011, reflecting growth in lending to customers offset by a reduction in the net interest margin to 2.95% in 2012 from 3.46% in 2011. The decline in net interest margin resulted from lower average yields on lending due to intensely competitive pricing pressure and the full year impact of regulatory changes, which capped pricing for retail products in 2011, partially offset by a reduction in the average cost of funds as a result of proactive management of the Bank's funding mix. The Bank's focus on low cost funding as the core tool in the management of its funding base led to a 31% increase in low cost funds in 2012.

Non-interest income was up 21% to QAR 1,118 million for 2012 compared with QAR 926 million in 2011. The increase in non-interest income was due to higher gains on the disposal of available-for-sale securities from the Bank's investment portfolio and an increase in foreign exchange income, partially offset by lower levels of net fee and commission income. 2012 has seen lower levels of loan-related fee income, in part offset by higher trade finance and other ancillary fee income.

Operating Expenses

Total operating expenses were up 17% to QAR 1,028 million for 2012 compared with QAR 875 million in 2011.

Staff costs were up by 10% to QAR 499 million reflecting annual salary increments for staff and investment in staff training and development. General and Administrative expenses, and depreciation were also up reflecting continued investment in the development of the Bank's infrastructure, service delivery capability and distribution network.

The cost to income ratio increased to 31.7% in 2012 compared with 28.5% in 2011.

The Bank's strategic outsourcing programme has enabled the Bank to improve its technology offering and service delivery to customers, to enhance controls and achieve cost synergies whilst allowing it to expand its scale of operation and channel delivery across businesses.

Provisions for Impairment Losses

The Bank's net provisions for impairment losses reduced to QAR 202 million in 2012 compared with QAR 307 million in 2011, and comprised provisions of QAR 140 million for loans and advances and QAR 62 million for financial investments.

In 2012, net impairment provisions on loans and advances to customers comprised QAR 130 million against the corporate lending portfolio, net of a recovery of QAR 29 million from a legacy Islamic banking customer, and QAR 10 million against the retail book compared with QAR 25 million in 2011.

Asset quality remains strong with an improvement in the non-performing loan ratio to 1.09% at 31 December 2012 from 1.20% at the end of 2011 due to lower levels of non-performing loans and a growing loan book.

The Bank also sets aside a risk reserve against its lending as part of shareholders' equity. At 31 December 2012, the risk reserve was QAR 925 million, representing 2% of total lending, meeting the minimum level set by the Qatar Central Bank for the end of 2012; the new regulation requires all banks to maintain a risk reserve of 2.5% by the end of 2013.

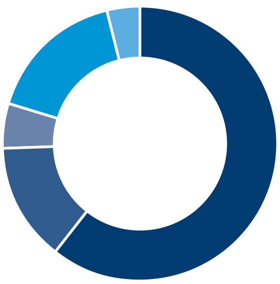
2.00pm

Commercial Bank, D-Ring Branch

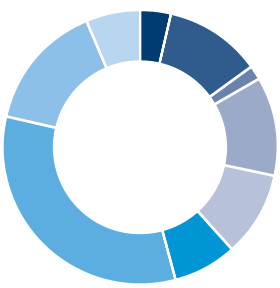
The flagship D-Ring Branch is within easy access to the Airport and strategically placed for the up-market Al Hilal residential area. The branch provides customers with a range of services from Sadara Privileged Banking to Investment and Brokerage. The branch also offers extended opening hours, part of the Bank's strategy to make its services more accessible throughout the day and ensure that they fit around our customers' working lives.

Management Review of Operations Continued

Total Assets



Loans and advances



Impairment provisions on the Bank's investment portfolio decreased to QAR 62 million for the year ended 31 December 2012 compared with QAR 68 million in 2011, reflecting a general improvement in the valuations of certain classes of investments.

Total Assets and Funding

The Bank's total assets increased by 12% to QAR 80.0 billion at 31 December 2012 compared with QAR 71.6 billion at the end of 2011. The increase in total assets was due to growth of QAR 6.9 billion in lending to customers and higher balances held with the Qatar Central Bank and other financial institutions which were up QAR 1.3 billion, partially offset by a reduction of QAR 0.6 billion in Financial Investments.

Loans and advances to customers were up 17% to QAR 48.6 billion at 31 December 2012, compared with QAR 41.7 billion at the end of 2011. The growth in lending in 2012 was generated by both the Corporate and Retail businesses, and was mainly through credit growth in the Private Sector in Services, Contracting, Commercial and Real Estate relating mainly to mortgage lending within the Retail book.

Financial Investments reduced to QAR 11.2 billion at 31 December 2012, 5% lower than at the end of December 2011. The decrease since the end of 2011 reflects, mainly, the maturity and sales of Government Bonds and Qatar Central Bank Treasury Bills offset by investment in new issues of Treasury Bills.

Customers' deposits have grown by 9% to QAR 41.4 billion at 31 December 2012, compared with QAR 38.0 billion in 2011, supporting growth in lending. The increase in deposits has come mainly from higher demand and call balances.

During 2012, the Bank has arranged a USD 455 million term loan with a club of international banks and issued, in April, USD 500 million of five-year unsecured fixed rate notes in the international capital markets, under its Euro Medium Term Note Programme. The Bank has also repaid a syndicated loan facility of USD 650 million which matured in February 2012.

Capital

The Bank's capital position remains strong with a capital adequacy ratio of 17.0% as at 31 December 2012 compared with 17.9% at the end of 2011, well above the Qatar Central Bank's required minimum level of 10%. The Tier 1 ratio reduced to 15.4% from 16.4% in 2011; the reduction in both ratios reflects, primarily, an increase in Risk Weighted Assets pertaining to the growth in the business during the year.

The Board of Directors has recommended a cash dividend payout for 2012 of 74% of net profit, which equates to QAR 6 per share, for approval at the Annual General Assembly.

Associates and Subsidiaries

Commercial Bank's associated companies contributed QAR 259 million to the Bank's financial performance in the year ended 31 December 2012, which represented 13% of the Bank's total net profit, compared with QAR 203 million in 2011. Commercial Bank's two banking associates, National Bank of Oman and United Arab Bank, have delivered outstanding financial performance throughout 2012 with strong growth in lending and operating income, and a 27% year-on-year improvement in profitability.

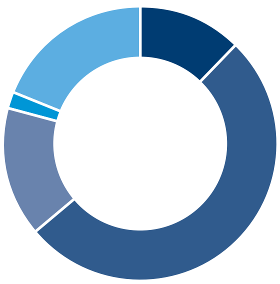
National Bank of Oman

National Bank of Oman (NBO) achieved strong results in 2012, with net profit after tax growing 19% to OMR 40.7 million, compared with OMR 34.2 million for the same period in 2011.

Operating income grew by OMR 6.4 million to OMR 98.6 million, from OMR 92.2 million in 2011 due, mainly, to an increase in net interest income which was up 16% to OMR 67.2 million. Interest income was up 15% and the cost of funds improved to 1.98% compared with 2.13% in 2011. Net interest spread was higher at 3.09% for the year ended 31 December 2012.

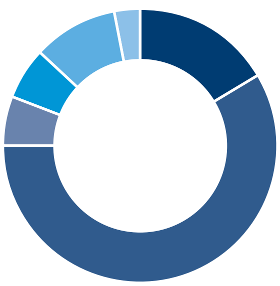
Operating expenses increased by 7% to OMR 46.7 million in 2012, mainly due to higher staff costs and marketing expenses. NBO's net impairment losses for 2012 were OMR 5.3 million, 48% lower than 2011 predominantly due to a reduction of OMR 3.3 million in credit losses and lower investment provisions which were down OMR 0.8 million in 2012.

Funding mix



- Due to banks and financial institutions
- Customers' deposits
- Other borrowed funds
- Other liabilities
- Shareholders' funds

Shareholders' equity



- Share capital
- Legal reserve
- Other reserves
- Risk Reserve
- Proposed dividend
- Retained earnings

Associates

QAR million	2012	2011
National Bank of Oman	123	102
United Arab Bank	134	102
	257	**204**
Asteco Qatar W.L.L.	(0)	–
Gekko L.L.C.	–	(2)
Massoun Insurance Services L.L.C.	2	1
Share of results of associates	**259**	**203**

During 2012, NBO grew its customer lending by 14% to OMR 1.9 billion and Customers' deposits increased by 18% to OMR 1.9 billion compared with the end of 2011.

The Board has proposed a cash dividend of OMR 0.0175 per share, subject to approval by the Oman Central Bank and the General Assembly.

The launch of Islamic banking in Oman opens up new opportunities for banks and NBO was the first conventional bank to commence Islamic banking operations launching its Sharia compliant Islamic window under the brand name 'Muzn'. Muzn seeks to offer a rich mix of Islamic products and services which cater to institutional, corporate and retail clientele.

The outlook for Oman's economy looks positive in 2013 with an increase in government spending and focus on infrastructure projects expected to boost economic growth. The Wholesale and Investment Banking franchise will continue to support domestic project financing and related activity while mortgages, small businesses, cards and low cost deposits will remain the focus of Retail Banking.

United Arab Bank

United Arab Bank (UAB) delivered a record net profit of AED 410 million for the year ended 31 December 2012 which represents an increase of 24% over the 2011 results of AED 330 million. UAB has continued to capitalise on the solid foundations that were laid in previous years. It has traditionally enjoyed one of the highest interest margins in the UAE along with one of the lowest levels of non-performing loans. This has allowed UAB to focus on implementing its strategy for increasing market share.

The total operating income for the year ended 31 December 2012 increased by 32% to AED 765 million, from AED 581 million for 2011. Growth in the number of customers has led to an increase in UAB's loans and advances of 35% to AED 10.9 billion as at 31 December 2012, with Customers' deposits at AED 10.1 billion, testament to the trust placed in UAB by its retail, commercial and institutional customers.

UAB has remained committed to ensuring the appropriate quality and mix of its assets with its non-performing loan ratio at 1.6% at 31 December 2012, the same level as in 2011. Liquidity is effectively managed with the Advances to Stable Resources Ratio at 86%, well below the cap of 100%. The Capital Adequacy Ratio is robust at 19% and remains well above the minimum required by the UAE Central Bank of 12%.

UAB has proposed a cash dividend of 25% of its paid-up capital for 2012, subject to approval by the UAE Central Bank and the General Assembly.

UAB's branch expansion plans continue with the opening of branches across the UAE, particularly in Abu Dhabi, providing UAB's customers with a more extensive network. In parallel, further investment has been made in the call centre and internet banking infrastructure to ensure efficient alternative banking channels for its customers.

A new core banking system went live in early 2012, with UAB winning recognition for the implementation project. Several back office processes were also outsourced to a globally recognised third party service provider, which has resulted in operational activities being performed to the highest standards of control and efficiency. There has also been a significant uplift in UAB's risk management practices to support the evolving breadth and complexity of its businesses. UAB is well positioned for 2013 to build on the strong momentum achieved in 2012.

2.30pm

Customer service training, Commercial Bank Academy

The new Academy is a dedicated Commercial Bank training facility. The Bank runs a comprehensive range of training programmes for all staff, from high school leavers to future leaders. Last year, 470 employees went through the Academy. The Future Leaders programme is specifically designed to fast track the careers of the next generation of Qatari leaders. During 2012, selected employees took part in intensive courses at the Academy, developed in conjunction with the Judge Business School at the University of Cambridge.

Asteco Qatar W.L.L.

Asteco Qatar is a Qatari incorporated joint venture company between Commercial Bank, United Development Company, Qatar Insurance Company and Asteco Property Management in the UAE. The company provides real estate brokerage and sales, facilities and management services, commercial and residential lettings, property valuations and property consultancy services.

Massoun Insurance Services L.L.C.

Massoun Insurance Services is a Qatari incorporated joint venture company between Commercial Bank and Qatar Insurance Company. The company was incorporated in 2010 and provides a range of insurance products which have been tailored to meet the specific needs of the Bank's retail and corporate customers.

Gekko L.L.C.

Gekko is a Qatari incorporated joint venture company between Commercial Bank and United Development Company. The company provides contactless payment infrastructure and customer database management solutions with its first implementation based at The Pearl Qatar.

Orient 1 Limited

Orient 1 is a fully owned subsidiary of the Bank incorporated in Bermuda and is engaged in supporting the credit card operations of the Diners Club franchise in the Sultanate of Oman.

Global Card Services L.L.C.

Global Card Services is a limited liability company registered in the Sultanate of Oman. The principal activities of the Company are to issue Diners Club credit cards in the Sultanate of Oman and to acquire merchant rights and other related services.

Commercial Bank Investment Services

Commercial Bank Investment Services (CBIS) was launched in early 2011 as a fully owned subsidiary of Commercial Bank. CBIS provides direct access to the Qatar Exchange and offers seamless online trading capabilities for individuals, institutions, corporate and foreign counterparties. In addition to its electronic trading platform, CBIS also provides access to three fully equipped brokerage lounges. CBIS has increased its share of the brokerage services market in 2012 to 2.90%.

Business Unit Review

Commercial Bank's two principal business units are Wholesale Banking and Retail Banking. Wholesale Banking brings together all of the Bank's offerings to small, medium and large corporates, both locally and internationally, while Retail Banking provides personal banking and wealth management services to high net worth individuals, affluent segment and consumers. The Bank's net operating income for the year ended 31 December 2012, by business unit, was:

Wholesale Banking

Commercial Bank offers a comprehensive range of financial services to domestic and international companies investing, trading or implementing projects in Qatar. These services include banking, treasury, investment banking, cash management, trade, transaction banking, corporate finance and advisory services.

Business Performance

Wholesale Banking's business continued to grow during 2012 despite the slower demand in the Private Sector. Net operating income was up by 2% to QAR 2,173 million for the year ended 31 December 2012. Net interest income was QAR 166 million lower reflecting, primarily, the competitive pricing pressures which have seen a reduction in yields on Corporate lending, whilst other income was up QAR 209 million compared with 2011.

Loans and advances to customers increased by 12% to QAR 37.3 billion at 31 December 2012 due to, mainly, to growth in lending to Services, Contracting, Commercial and Real Estate industries within the private sector. Customers' deposits increased 6% to QAR 29.6 billion reflecting the Bank's strong corporate customer relationships. Asset quality improved with Wholesale non-performing loans increasing by only QAR 9 million in 2012 and the provision for impairment losses reducing to QAR 130 million from QAR 209 million in 2011.

Domestic Banking

Domestic Banking provides comprehensive, cross-product banking solutions to local corporates based in Qatar. In 2012, Domestic Banking continued to focus on the development and deepening of corporate

Business unit review

QAR million	2012	2011
Wholesale Banking	2,173	2,130
Retail Banking	770	695
Subsidiaries	9	8
Other	32	31
Net Operating Income	**2,984**	**2,864**

Management Review of Operations Continued

relationships through leveraging its existing customer base more effectively along with developing new relationships.

Staffed with dedicated relationship managers who are driven to respond with solutions, Domestic Banking originates and builds strong customer links, which are nurtured in an atmosphere of trust and by cultivating a deep understanding of the local market in the context of individual customer needs. Commercial Bank firmly believes in the true spirit of partnership. This belief, together with the Bank's long-standing roots and reputation in Qatar, gives the team an edge in its thorough understanding of the financial, economic and cultural challenges facing today's corporate customers. Domestic Banking is able to anticipate and respond quickly to specific requirements with tailored and reliable solutions meeting individual customer needs.

Commercial Bank's specialist product expertise in treasury, trade finance and retail, allows the team to provide customer-focused solutions relevant in various financial systems, at different levels of maturity, and in different stages of development.

It is these capabilities, even when faced with the challenging market witnessed in 2012, which fuelled a number of transactions in the real estate, contracting and services industries that showcased the collective abilities of the Domestic Banking team and its strength in maintaining the customer relationships that the Bank values most.

Commercial Bank exhibited at the Qatar Motor Show on 25 – 28 January 2012, promoting its vehicle loans to over 120,000 visitors.

In 2012, Commercial Bank was one of the key sponsors of the annual International Chamber of Commerce (ICC) conference and hosted a training seminar for its Corporate Banking customers and staff. The seminar, conducted by industry experts from ICC Trade Finance, highlighted Commercial Bank's extensive experience in transaction banking and trade, provided insight into real-life practices and issues, and helped participants gain a thorough understanding of the recent changes to Uniform Customs and Practice for Documentary Credits 600, the global standard practices for letters of credit.

Government, Public Sector and International Banking

Government, Public Sector and International Banking are strategically important business units for the Bank. As a major Qatari bank, Commercial Bank continues to maintain close relationships with government and public sector institutions in Qatar. International Banking division manages banking relationships and business dealings with Multinational Companies operating in Qatar as well as global Financial Institutions and cross-border international corporate clients. The business unit, together with the Bank's Treasury, plays an important role in diversifying the Bank's funding sources, arranging bilateral and syndicated loans for the Bank, as well as expanding treasury and corporate deposit relationships with multinational companies, regional sovereign wealth funds, asset managers, and other non-banking financial institutions.

Commercial Bank's cross-border business strategy remains conservative and its primary focus is on business with banks and corporates in the GCC region. The Bank also actively participates in trade finance transactions for financial institutions in countries with large and growing trade and investment links with Qatar and the GCC. The Bank works closely with its Alliance Banks partners to exploit quality lending opportunities throughout the GCC and to implement a coordinated group financial institutions strategy, in line with their shared business objectives.

Commercial Bank has a strong presence in Qatar's infrastructure and contract finance sector, and is a major issuer of guarantees for large projects in Qatar. Qatar's successful bid to host the 2022 Football World Cup has fast-tracked more than USD 160 billion of infrastructure projects in sports, transportation, tourism, airlines, energy, utilities and other sectors over the next five years. Concurrent high government spending on the education, health, infrastructure and real estate sectors continues to stimulate the Qatar economy, and will boost private sector and contract finance activity. With a large client list of foreign companies operating in Qatar, and specialist sector expertise, the Multinational Companies business unit is well positioned to benefit from the expected surge in contract finance. The unit works closely with various embassies and trade promotion agencies in Qatar, and has presented to visiting business delegations from countries such as Korea, Malaysia and Finland.

Commercial Bank is a major trade bank for many Public Sector companies. The Financial Institutions Group has expanded its global network of correspondent bank relationships and continued to grow its trade finance book. The International Funds Transfer division maintained its record of superior service quality and consistently high performance. Once again, Commercial Bank was among the region's select small number of institutions to receive the Commerzbank 'STP Award 2011' for excellence in payments and the Citibank Performance Excellence Awards for high efficiency. The Financial Institutions Group also arranged the Bank's two-year club loan facility for USD 455 million with a group of international banks. The Trade Finance and Transaction Banking unit continued to upgrade its product and service offering during the year by establishing four new in-branch trade and cash service centres within the Bank's corporate branch network.

Commercial Bank expanded its strategic collaboration with Hana Bank, Korea, by establishing a Korean Business Desk, through which both banks now offer a wide range of conventional and innovative corporate and investment services to Korean companies operating in the GCC region, and to Qatari

Commercial Bank is the title sponsor of the Qatar Masters. Televised globally, it is one of the key events in the Qatar sporting calendar. The sponsorship represents the Bank's commitment to supporting the Qatar government's vision of making Qatar a destination for world-class sporting events.

Management Review of Operations Continued

companies looking to do business in Korea. The Korea Business Desk will enable Commercial Bank and Hana Bank to work together as the preferred partner bank in their respective countries, combining business synergies, resources and market knowledge.

With activity reviving in the syndicated loan markets, Commercial Bank was associated with several successful financings, all of which were significantly oversubscribed. In particular, the Bank was:

- Mandated Lead Arranger on a QAR 3.7 billion 10-year dual tranche syndicated facility for Bawabat Al Shamal Real Estate Company, to finance the development of the Doha Festival City project. Commercial Bank led the banking group and execution of one of the biggest private sector transactions closed in 2012;
- Mandated Lead Arranger and Book runner for the USD 200 million short- term oil import financing facility for Bangladesh Petroleum Corporation, guaranteed by Bangladesh Bank;
- Mandated Lead Arranger for the USD 138 million and EUR 135 million dual tranche term loan facility for Ulker Biskuvi Sanayi, which produces Turkey's best known brands of snack foods;
- Mandated Lead Arranger and Conventional Facility Agent for USD 55 million conventional facility for Turkiye Petrol Rafinerileri in Turkey engaged in refining and distributing petroleum products;
- Mandated Lead Arranger in the USD 190 million short-term loan facility for Bank of Ceylon, the largest bank in Sri Lanka and fully government owned;
- Lead Arranger in the USD 400 million SBLC backed term loan financing for Videocon Hydrocarbon Holdings Limited, supporting their activities in the oil and gas field sectors;
- Arranger role in the USD 150 million term loan facility for NMC Healthcare PLC, a leading hospital chain operator in the UAE.

Commercial Bank actively supports initiatives that are relevant to the Qatar and GCC banking sector, and closely interacts with key global trade and development institutions such as the ICC Banking Commission, SWIFT, Institute of International Finance, International Finance Corporation, IMF, Arab Trade Finance Program, ISDA and other development institutions.

Commercial Bank sponsored or participated in major banking industry events and conferences. These included being:

- Gold sponsor of the ICC Banking Commission meeting in Qatar which was attended by approximately 400 banking leaders and executives from 50 countries, and had a theme of "Reframing the Future of Trade Finance";
- Gold sponsor of the Qatar Projects 2012 Conference, which had a theme of "The journey to 2022", including the projects that are expected to be awarded in Qatar in the run-up to the 2022 World Cup;
- Gold sponsor of the Qatar Capital Markets conference, which focused on lessons learnt from financial conditions in regional and international markets, and the necessity to develop bond markets in fiscal surplus countries;
- Platinum sponsor for INTERCEM Doha, the world's leading cement industry event, which attracted over 500 delegates from 45 countries;
- Diamond sponsor of the 14th Forum of the Arab Business Community, which focused on the challenges and opportunities in the Arab world;
- Platinum sponsor of Cityscape Qatar, the leading real estate exhibition, which attracted over 2,000 participants and had more than 100 exhibitors from around the world.

The Bank also took part in the IMF, IIF, SIBOS and Asian Development Bank annual meetings.

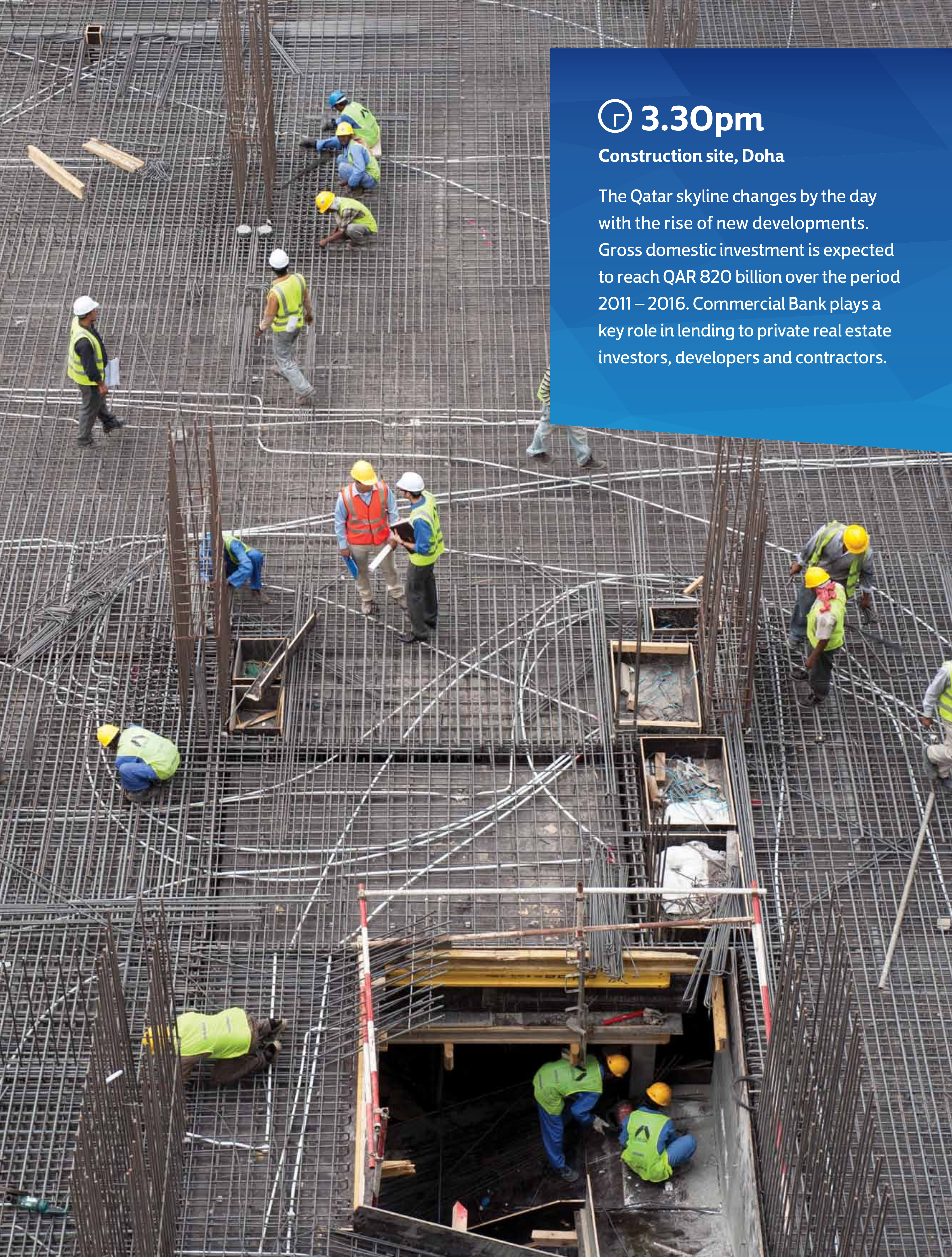
For the Government, Public Sector and International Banking group, the outlook for business growth in the coming years remains positive. The management team has been significantly strengthened, with the addition of senior and experienced international bankers. In 2013, the Bank will support Qatar's vision and infrastructure projects, grow its business with the Qatar Government and public sector institutions, grow its share of trade finance business, strengthen its business and presence in target markets (international financial centres and growth regions), and align its business growth to its cross-border strategy, preferred sectors, client needs and product platforms.

Enterprise Banking

Enterprise Banking provides a comprehensive range of products and value-added services to support small and medium enterprises (SMEs), thereby nurturing Qatar's entrepreneurial business community and encouraging growth in this sector. Our focus on this core sector demonstrates the Bank's commitment to the Qatar Government's Vision 2030, which identifies SMEs as the key constituent of the country's economic future. Through Enterprise Banking, we also partner with Qatar Development Bank's 'Al Dhameen' programme, which extends investment and working capital facilities to economically-viable SMEs and makes credit more accessible.

The Bank now provides dedicated relationship managers for SME customers in five branch locations at Umm Lekhba, Al Rayyan, D Ring, Bin Omran and Hamad Al Kabeer. The highly specialised team advises existing and potential entrepreneurs on:

- Working capital finance and term lending;
- Trade Finance facilities;
- Deposits, remittances, insurance and treasury solutions;
- Retail solutions for employees;
- Business Technology Solutions;
- Access to Advisory and Mentoring services.



3.30pm

Construction site, Doha

The Qatar skyline changes by the day with the rise of new developments. Gross domestic investment is expected to reach QAR 820 billion over the period 2011 – 2016. Commercial Bank plays a key role in lending to private real estate investors, developers and contractors.

Management Review of Operations Continued

Commercial Bank's exclusive agreement with MEEZA, signed on 12 January 2012, will provide the Bank's business customers with access to cloud-based HR and IT solutions.

During the year, Enterprise Banking rolled out a programme designed to provide tailored lending to SMEs. The credit programme specifically caters to the Enterprise market's characteristics, providing a smoother flow and faster turnaround times while taking into consideration SMEs' risk profile and factors such as the lack of detailed financial information. This initiative provides enhanced customer service and supports the Bank's objective of providing quick, easy and comprehensive solutions to SMEs.

Commercial Bank's SME services also include a range of business technology solutions, provided through the Bank's exclusive partnership with MEEZA, a Qatar Foundation Joint Venture. The suite of product solutions include cloud technology for email, webhosting, SharePoint services as well as HR and payroll solutions and relieves small business customers of administrative problems and the need for, and investment in, technology and operational resources. These solutions were formally launched in January 2012, and as the first of their kind in the region, were well received by customers, allowing them to increase their efficiency and focus on growing their business. The Bank's insurance joint venture, Massoun Insurance Services has developed a new product 'SME Shield' which provides wider protection and competitive insurance rates for SME Customers.

The Bank also supports SMEs by providing education and training to help them to grow. In May 2012, the Bank partnered with the College of North Atlantic, Qatar (CNA-Q) to host a workshop on 'Strategic Growth' for Enterprise customers. The workshop was conducted by an industry expert from CNA-Q and was attended by numerous business owners and key decision-makers. It addressed opportunities and challenges for SMEs, laying the foundation for future workshops and seminars. The workshop was followed in December 2012 by a second workshop on 'Capitalising on Strengths'. Commercial Bank was the Silver sponsor of the first Qatar International Trade Exhibition for Partners and Franchise which brought together SMEs from the Middle East and around the world to showcase their products and services to young Qatari entrepreneurs for potential partnerships, dealerships or franchises in Qatar and the Middle East.

Treasury

The Treasury department manages the Bank's funding and liquidity requirements. It also provides a full suite of foreign exchange and interest rate products and services for its customers, which help them to hedge their market risks. Commercial Bank's Treasury ranks at number two in the Qatari market for treasury activities and is regarded by correspondent banks as a market maker in US Dollar/Qatari Riyal spot, forwards and swap dealings. Customer transactions are done on a matched basis, resulting in no trading or market risk for the Bank.

During the year, the Treasury division identified and executed new opportunities for investment in QCB Treasury Bills, secondary trading on T-Bills and high yield placements. There has been an overall improvement in market activity and consequently the Bank witnessed an increase in foreign exchange flows in 2012.

Treasury has been instrumental in reducing the Bank's cost of funds during 2012 and continued to focus on balance sheet optimisation and liquidity management, and maintaining key liquidity ratios well above the minimum prescribed by the Qatar Central Bank.

Retail Banking

Retail Banking offers a comprehensive suite of products to its customers, including deposits and loans, credit cards, insurance and wealth management solutions. Customer centricity is the cornerstone of its approach, and it tailors its products and services to meet or exceed customers' needs.

Business Performance

Retail Banking continued to grow in 2012, delivering a strong core business performance, with lending to customers up 32% to QAR 11.3 billion and deposits up 17%, QAR 1.7 billion, to QAR 11.8 billion.

Net operating income increased by QAR 75 million to QAR 770 million with net interest income 23% higher than 2011 despite the regulatory restriction on banking fees and interest rates.

The strong increase in revenues is a testament to Retail Banking's focus on sustained and profitable growth, as it continued to leverage corporate synergies and the expanded branch network. There has also been an improvement in the asset quality of the loan book with a lower provision for impairment losses of QAR 10 million in 2012 compared with QAR 30 million in 2011.

Strategic Initiatives in 2012

Retail Banking continued to develop new products and services, releasing a wide range of asset, liability and insurance products during the year. It focused its retail asset growth on secured mortgage lending, semi-secured vehicle financing and expanding the credit card base. This asset growth was centred on customer profitability and leveraging organic growth opportunities.

In line with the Bank's strategy of changing the funding profile, Retail Banking introduced deposit products offering attractive medium and longer-term interest rates. New products included 'Term Saver', a customer deposit account offering higher interest rates which helps the bank to maintain long-term relationships with Retail and Private Banking customers. Retail Banking also launched a '60-Day Notice' deposit product.

Commercial Bank employees participated in the Qatar Central Bank marathon, held on the Doha Corniche, to celebrate Qatar's first National Sports Day on 14 February 2012.

5.00pm

Phone in hand

Smartphone penetration in Qatar is amongst the highest in the world. Commercial Bank was first to launch a Mobile Banking app, and continues to invest in its SMS, Mobile and Internet Banking platforms. The Bank has recently upgraded its website which is now a key channel for acquisition of new customers and a portal to all of the Bank's services. Ongoing investment in the website will allow customers to complete a wider range of transactions at their convenience, 24 hours a day.

Aligned to its premium brand, the Bank launched best-in-class and by 'invitation only' Diners Club Black and World MasterCard card products, targeting Private Banking clients. The Bank also re-launched Accolades, a reinvigorated cards loyalty programme, which enhances customer loyalty by offering an unrivalled selection of rewards for credit card customers. The Accolades programme allows customers to redeem vouchers with more than 100 valuable partners and brands.

Commercial Bank has a leading position in the vehicle finance market. Initiatives to enhance the Bank's offering during the year included a Vehicle Finance event in collaboration with authorised car dealers. The event offered customers special discounted rates for vehicle loans and insurance, and was extended due to high demand. The Bank also gave exclusive offers on vehicle loans for customers who visited its stand during The Qatar Motor Show.

Retail Banking continues to make progress against its strategic agenda, transforming the way it does business by streamlining operational processes and seamlessly integrating electronic delivery channels. The Bank's robust mobile banking platform is now compatible with iPad, Android and all smartphones, in addition to the iPhone, BlackBerry and mobile web. The platform was further enhanced to enable customers to pay Qtel bills, buy airtime and make bill enquiries, and to allow customers to pay Kahramaa bills. Commercial Bank also signed an agreement with a local exchange house which enables Payroll card holders to enjoy easy access to remittance services through the Bank's country-wide ATM network. This fulfils an important need for expatriate customers and reflects the growth of remittances.

Commercial Bank understands that young adults of Qatar are its future. In the latter part of 2012, the Bank launched a new Retail Banking segment, Pioneer Banking, offering more tailored solutions to serve customers in the age group of 18 – 35 living in Qatar. The Bank recognises that this particular age group consists of digital natives who seek dependable, quick and convenient technology solutions from their bank. Therefore, more focus was placed on building a stronger digital brand proposition during the past year to offer this audience a more proactive connection on the Bank's social networking channels, in addition to 'on the go' banking services through the Bank's streamlined mobile banking platform.

Retail Banking continues to identify new revenue streams, in particular in wealth management and bancassurance. During the year, Private Banking partnered with Commercial Bank Investment Services to offer personalised wealth management solutions which included initiating a six-month free brokerage service, aimed at boosting stock market activity and acquiring brokerage accounts. The Bank is designing wealth management and investment products that can be integrated with its Private Banking and Sadara Privileged Banking propositions.

The Sadara offering was also enhanced to provide customers with independent wealth management. The Sadara Investment Relationship Managers offer services ranging from a review of customers' financial situations to advice on specific investments. In addition, the Bank launched the Sadara Privileged Remote Relationship Management Unit, providing a premium relationship banking service by telephone and email for customers who are constantly on the move.

As part of its strategy to expand distribution, the Bank opened branches at Al Mesilla and Al Kharaitiyat during the year, taking the network to 29 branches. This expansion strategy aligns the Bank's branch network with Qatar's geographical developments, to support the growing population and ensure the highest standards of service are always within convenient reach for customers. In this way, Commercial Bank can be a partner for each community, aiding its financial development and working closely with all segments of society.

The branches are a key touchpoint for customers, so Commercial Bank has taken a series of steps to leverage its investment in the network. This has included an awareness campaign in leading English and Arabic newspapers, as well on the Bank's website,

A series of open door customer events were held between 13-27 March 2012 to showcase Commercial Bank's flagship branches. The D-Ring branch boasts a brokerage lounge where customers can keep an eye on equity markets from around the world, via newsfeeds and stock tickers.

under the title 'Open the doors to a Unique Banking Experience'. The campaign promoted Commercial Bank's state-of-the-art branches and highlighted the range of services, products and channels available to customers. The Bank also ran a number of events for high net worth and affluent customers at its flagship branches, giving them a private tour of the branch and an overview of the Bank's premium services.

Retail Banking continued to undertake initiatives to further enhance its service. This included rolling out a system allowing scanning and electronic submission of applications and supporting documents, to speed up account opening and processing. The branch network is supplemented by 165 ATMS that are strategically located to meet customers' needs. To ensure all customers find it easy to do business with the Bank, a number of ATMs have been installed for people with special needs, such as visual impairments or physical disabilities. These ATMs offer voice-enabled services and are designed to be accessible for wheelchair users.

Risk Management

The provision of financial services to customers carries significant risks. Accordingly, identifying, assessing and mitigating risk is a key priority for Commercial Bank. The Bank has a comprehensive risk governance framework in place, covering accountability, oversight, measurement and reporting of risk, encapsulated through the Board-approved Risk Charter which also outlines the Bank's enterprise-wide risk management activities and details high-level organisation, authorities and processes relating to all aspects of risk management. During 2012, Commercial Bank continued to deploy clear risk management objectives, and a well-established strategy to deliver them, through core risk management processes.

Responsibility for risk management resides at all levels within Commercial Bank from the Board and the Executive Committee down to each business manager and risk officer. Our risk management practices are well embedded and are cascaded down from the Board of Directors, sub-committees of the Board, to Management Committees and Executive Management.

Commercial Bank's Board is involved in risk decisions through the:

- Board Risk Committee (for risk policies, enterprise-wide risk reviews and portfolio monitoring);
- Board Executive Committee (for credit decisions and lending strategy); and
- Board Audit and Compliance Committee (for compliance and internal audit matters).

Commercial Bank's risk governance structure ensures that risk governance is able to respond with flexibility due to timely, complete and enterprise-wide risk information, enabling the Board to make critical decisions to minimise risk.

At management level, risk governance is implemented by adopting and integrating the necessary systems to identify, manage and report risk. The level and nature of aggregate risk arising in the business are captured by systems and reports.

Commercial Bank has actual or potential exposures to four principal categories of risk: Credit, Market, Liquidity and Operational.

Credit risk is the risk of a potential loss when a customer or market counterparty fails to fulfil its contractual obligation to the Bank. The risk arises mainly from wholesale and retail loans and advances, due from banks and non-trading investments. The Bank's credit risk management framework includes policies and procedures to monitor and manage this risk, and a comprehensive structure of delegated authorities.

Market risk is the risk of potential loss in value or earnings arising from changes in market factors such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads. This risk is managed by the Bank's Asset and Liability Committee (ALCO), which provides specific guidelines for market risk management.

Liquidity risk comprises two key risks: liquidity risk and structural risk. Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due. Structural risk concerns the management of non-contractual risk, which primarily arises from the impact on the Bank's balance sheet of changes in interest rates on income or foreign exchange rates on capital ratios. The Board of Directors has delegated responsibility for liquidity management to ALCO, which establishes parameters and determines strategic levels for these two risks.

Operational risk is inherent in the Bank's business activities and arises from events associated with its processes, people and systems, and from external factors other than credit, market and liquidity risk. Reputational risk is addressed through various operational risk management tools and is managed through a well-defined operational risk management cycle that comprises four major stages: risk identification, risk assessment, controls and monitoring and reporting.

During 2012, the Bank strengthened its risk management processes further by improving its market risk management, monitoring and reporting capabilities, extending its internal credit risk rating application to all business segments, fully integrating risk-based decisions and automating the operational risk incident reporting process.

Commercial Bank complies with the provisions of the applicable Basel II Framework, as advised by the Qatar Central Bank. The Bank is also working closely with the Qatar Central Bank, alongside other banks, on the consultation process for implementing Basel III in Qatar.

The governance framework, policies and administrative procedures and practices relating to the Bank's risk management align with global best practice, the recommendations of the Basel Committee and the guidelines of the Qatar Central Bank.

Corporate Social Responsibility

Commercial Bank's Corporate Communications Department is responsible for promoting and maintaining effective communication between the Bank and its existing and potential customers, key stakeholders and employees. This includes adopting integrated marketing campaigns that target all consumer segments within each business division.

In 2012, the Bank enhanced its brand equity by focusing largely on customer marketing communications, as well as industry conferences, seminars, public events and cultural projects. Corporate Social Responsibility (CSR) is part of the Bank's ethos, and Commercial Bank has therefore invested heavily in various community, sports, education, social, humanitarian and health initiatives in Qatar.

Committed to supporting the community in Qatar

Commercial Bank's corporate citizenship agenda is to support and encourage the Qatari community where we operate in a positive way. The Bank aims to be an outstanding corporate citizen by supporting socio-economic initiatives that benefit society as a whole, and initiated numerous campaigns and charity events in 2012.

Community outreach was a priority and the Bank focused on engaging with all segments of Qatari society. The Bank sponsored events such as a spelling bee competition for children, blood donation camps, Al Sadd Stadium's Disability Legacy programme and various other sports, cultural, educational and CSR initiatives. In early 2012, the Bank supported four notable charities, which contribute significantly to Qatar's social infrastructure and offer funds and services to people in need. Driven by its commitment to create a more humanitarian society, the Bank presented donations to The Qatar Society for Rehabilitation of Special Needs, Qatar National Cancer Society, Qatar Foundation for the Care of Orphans 'Dhreima' and Qatar Foundation for Elderly People Care.

Commercial Bank also supported the promotion of Qatari arts and culture programmes during the year and became a strategic partner of the Katara Cultural Village which has been designed to reinforce Qatar's flourishing cultural environment. The collaboration symbolises the Bank's commitment to supporting cultural activities in Qatar and making the country a regional arts and cultural hub.

Bringing sports and business together

Commercial Bank believes that sport plays an integral role in today's society. It promotes a better quality of life through healthier choices and encourages other values such as competition, endurance and good sportsmanship.

In 2012, Commercial Bank proudly celebrated Qatar's First National Sports Day with two days of fun-packed activities for its employees and their families. Employees also took part in Qatar Central Bank's Marathon which was held at the Doha Corniche.

Commercial Bank also co-sponsored 'Sailing Arabia – The Tour 2012', the regional sailing event across the Arabian Peninsula, through its sponsorship of the 'Team Commercialbank' boat. The event was a great initiative aimed at reinvigorating the region's rich maritime heritage.

Title sponsorship of the Commercial Bank Qatar Masters and the Grand Prix of Qatar MotoGP reflects the Bank's promotion of excellence in sports and its keen interest in enhancing Qatar's international sporting reputation. The events, which are viewed by a global audience of millions, demonstrate the Bank's commitment to the Qatari Government's vision of placing Qatar on the map as a venue for world-class sporting events.

In the latter part of 2012, Commercial Bank signed an agreement with Aspire Zone Foundation to be the principal sponsor of its 'Step into Health' programme. 'Step into Health' is designed to engage the people of Qatar in a self-managed lifelong programme which promotes a moderate amount of daily healthy activity.

Employee Development

Commercial Bank is committed to developing local talent in Qatar and building the region's professional skills and human and intellectual capital. As part of this, the Bank is dedicated to creating a robust talent and knowledge pool within Qatar's youth community who will proudly represent their country at a national and international level in the future.

In April 2012, Commercial Bank was a Diamond sponsor at the annual Qatar Career Fair, a knowledge-based community forum with significant investment in developing local talent. The Bank's involvement was an overwhelming success, with the Bank subsequently receiving a large number of job applications for a variety of positions.

Through a partnership with the College of North Atlantic - Qatar (CNA-Q), The Bank has a Banking Associate Programme which provides Qatari National school graduates with the banking and work-based skills to develop into senior bankers of the future. Thirty-one students participated in this highly successful programme before being appointed into roles within the Bank's branch network.

In 2012, the Bank launched Induction Programmes for new joiners. The first programme was delivered to Qatari Banking Associate students who are sponsored through banking training at CNA-Q. The second programme was run for recent Qatari and expatriate joiners to the bank.

The Future Leaders programme launched in June 2012, is run in partnership with Cambridge University. The programme will fast track the careers of the Bank's top performing and highest potential employees.

Investing in the future of our employees

Most recently, Commercial Bank launched several proprietary educational and professional career advancement programmes for the Bank's talented employees and high potential candidates. These include the Future Leaders Programme, Graduate Development Programme, Accelerated Leadership Programme and Career Management Programme. These programmes are designed to empower employees and enable them to excel in their fields. Coaching and mentoring are an integral part of all of the Bank's talent programmes, to optimise fully and accelerate the learning experience and allow talented employees to benefit from the broader experience of the coach and mentor population. Training programmes are run at the Commercial Bank Academy, which was inaugurated by the Bank's Managing Director in September 2012. This purpose designed learning centre offers training facilities of the highest order, in line with the Bank's ongoing partnership with world-class learning providers.

Through the launch of our Accelerated Leadership and Future Leaders programmes in conjunction with some of the world's leading universities and business schools, including Judge Business School (Cambridge), London Business School, HEC (Paris), The Centre for Creative Leadership (Brussels) and INSEAD (Paris), we have been able to accelerate the career progression of our most talented potential leaders. The success of the significant investment that the Bank has made is evidenced through the recent promotions of a number of talented Qatari staff into senior leadership roles in the Bank.

Commercial Bank is proud to be launching the Youth Leadership Acceleration Programme, in partnership with HEC (Paris) in Qatar. The programme is designed to encourage youth participants to grow into leaders who will contribute to the future of Qatar in line with the country's Vision 2030 plans and is set to be launched in the first quarter of 2013.

Supporting women in business

Commercial Bank strongly encourages the development of women in Qatar. All of the Bank's development programmes have a high percentage of female participants and are designed to empower women, in particular, with the skills and confidence required to succeed. The Bank is inspired by its female workforce and their commitment to excellence.

The Bank sponsored the third Qatar International Businesswomen Forum in October 2012, showing its commitment to playing a part in encouraging the economic empowerment of women. The Qatar International Businesswomen Forum emphasised the role of women in the development of economies of scale throughout the Arab world. The event was used as a platform to highlight the achievements of Qatari businesswomen and female entrepreneurs from the region, as well as the achievements of successful businesswomen from around the world.

Preserving Qatari Values and Traditions

Commercial Bank believes in putting the nation first and encouraging national pride by observing Qatar's traditional values, whilst looking towards the future with ambition. The Bank recognises that the people of Qatar are its greatest asset and is committed to promoting cultural practices that preserve Qatar's heritage for generations to come.

The Bank celebrated the 2012 National Day with the citizens and residents of Qatar by launching a non-profit-making public activity, recognising the human endeavours involved in building this great nation. The 'Doing Good For Qatar' campaign was designed to encourage the Qatari community to spread the joy of giving to others by volunteering time, effort or money, to any causes or ideas that show gratitude and also benefit the country. The campaign celebrated the Qatari values of giving back to society by encouraging all individuals to make public pledges for any cause or purpose that is close to their hearts, thus inculcating good citizenship and strong societal values within the community. To encourage and reward participation in the campaign, Commercial Bank rewarded several pledge-takers selected in a random draw at the campaign's conclusion.

Commercial Bank proudly continued its annual tradition of celebrating Qatari values by hosting a Garangao festival for Qatar's younger generation on the 14th day of the Holy Month of Ramadan. To engage all levels of the community, families were welcomed at Commercial Bank branches to enjoy various fun-filled Garangao festivities. In keeping with Qatari customs and traditions, children of all ages were given Garangao bags filled with an assortment of traditional treats and mementos.

In association with the Ministry of Social Affairs, Department of Developing Productive Families, the Bank again hosted a 'traditions tent' at the 2012 Commercial Bank Qatar Masters, featuring traditional Qatari hospitality and displaying elements from the country's rich heritage. Visitors enjoyed viewing a traditional arts and crafts display, including falconry and henna painting, available throughout the four-day golf tournament, showcasing the Bank's commitment to promoting Qatar to an international audience.

Acknowledgement

Commercial Bank's record performance has demonstrated its agility in broadening its business as well as the ongoing diversification of its income streams to capture new opportunities and deliver improvement in the Bank's performance. This has only been possible through the dedication and hard work of our valued employees and the leadership team. We are also extremely grateful for the ongoing support and guidance provided by the Chairman, Vice Chairman, Managing Director and Members of the Board. Under their leadership, we have continued to achieve growth and have sustained our reputation of being one of Qatar's most preferred and trusted banks.

In conclusion, we would like to thank His Excellency Sheikh Abdullah bin Saud Al Thani. Under his wise leadership, we have raised the Bank's credibility and brand equity in the region. The Qatar Central Bank has shown prudence with clear and consistent leadership, expertise and direction, enabling the Qatar financial market to achieve high growth, despite the worldwide economic problems.

'Everything is possible' is a mindset engraved in our core. Commercial Bank's legacy mirrors the nation's, and this holds true for its vision forward as well. The Bank has a vital interest in its people's progress, in line with Qatar's national vision 2030. We are proud to be inspired by Qatar and its people, and look forward to the future with ambition and confidence.

Andrew C Stevens
Group Chief Executive Officer

Responsibility statement

To the best of our knowledge, financial statements prepared in accordance with International Financial Reporting Standards give a true and fair view of the assets, liabilities, financial position and profit of The Commercial Bank of Qatar (Q.S.C.). We confirm that the management review, together with the notes to the financial statements, includes a fair review of development and performance of the business and the position of the Group together with a description of the principal risks and opportunities associated with the expected development of the Group.

26 February 2013

For and on behalf of the Board of Directors:

Mr. Hussain Ibrahim Alfardan
Managing Director

Mr. A. C. Stevens
Group Chief Executive Officer

7:30pm

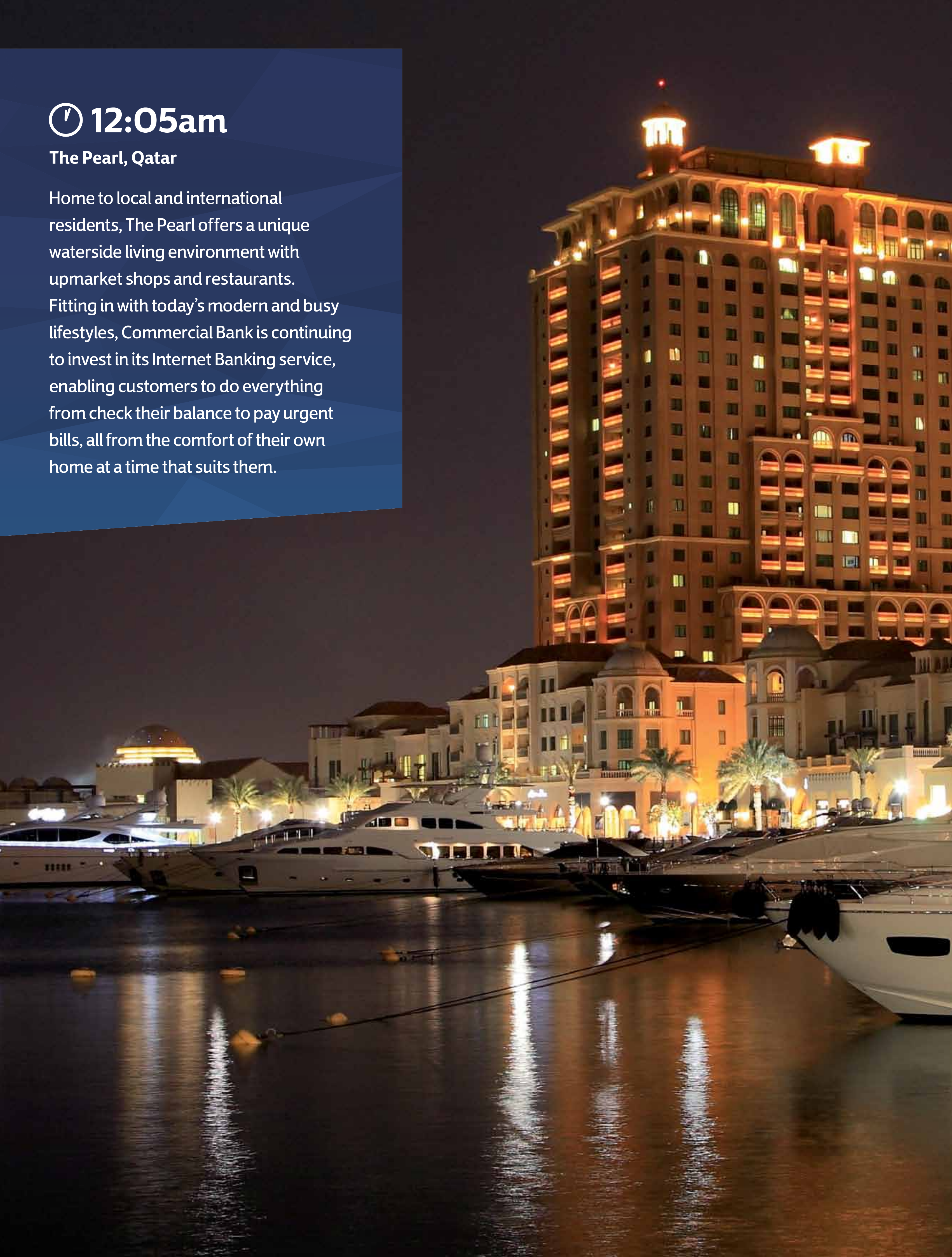
Souq Waqif, Doha

The Souq comes alive in early evening with merchants selling everything from pots and pans to herbs and spices. Since its origins as Qatar's first commercial bank, supporting trade and commerce has always been at the heart of Commercial Bank's operations. Today, the Bank has over 6,500 Point of Sale terminals installed at merchant outlets across Qatar and is the largest provider of Merchant services in the market.

12:05am

The Pearl, Qatar

Home to local and international residents, The Pearl offers a unique waterside living environment with upmarket shops and restaurants. Fitting in with today's modern and busy lifestyles, Commercial Bank is continuing to invest in its Internet Banking service, enabling customers to do everything from check their balance to pay urgent bills, all from the comfort of their own home at a time that suits them.



Annual Corporate Governance Report 2012

1. Introduction

The Bank is committed to strong corporate governance practices that allocate rights and responsibilities among the Bank's shareholders, the Board and executive management to provide for the effective oversight and management of the Bank in a manner that enhances shareholder value.

The Bank is required to comply with the Corporate Governance Guidelines for Banks and Financial Institutions issued by Qatar Central Bank (the QCB Guidelines) and the Corporate Governance Code for Joint Stock Companies listed on markets regulated by the Qatar Financial Markets Authority (the QFMA Code). In addition, the Bank seeks to adopt international best practices for Corporate Governance, including but not limited to those developed by the Organisation for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS) and the International Institute of Finance (IIF).

The shares of the Bank, represented by Global Depository Receipts, are listed on the London Stock Exchange. Debt securities issued or guaranteed by the Bank are listed on the London Stock Exchange and on the SIX Swiss Exchange. The Bank complies with the listing rules of those exchanges as well as those of the Qatar Exchange.

In view of the increasing focus on corporate governance and risk management, the Bank has taken active measures to further enhance and raise its corporate governance standards during 2012. Through the combined efforts of the Board of Directors, executive management and employees, the Bank has adopted governance charters and documents which are in line with applicable regulatory requirements and leading corporate governance practices. These standards are reviewed by the Board annually to ensure that the Bank maintains best practices in corporate governance. The Board Charter, Board Committees Charter and Corporate Governance Charter are available on the Bank's website www.cbq.qa and are also available in print to any shareholder upon request.

2. The Board of Directors

2.1 Role of the Board and Executive Management

The Board oversees the conduct of the Bank's business and is primarily responsible for providing effective governance over the Bank's key affairs, including the appointment of executive management, approval of business strategies, evaluation of performance and assessment of major risks facing the Bank.

In discharging its obligations, the Board exercises judgment in the best interests of the Bank and relies on the Bank's executive management to implement approved business strategies, resolve day-to-day operational issues, keep the Board informed, and maintain and promote high ethical standards. The Board delegates authority in management matters to the Bank's executive management subject to clear instructions in relation to such delegation of authority and the circumstances in which executive management shall be required to obtain Board approval prior to taking a decision on behalf of the Bank.

The Board has established clear rules in relation to the dealings of the Board and employees in securities issued by the Bank.

2.2 Board Composition and Directors' Qualifications

The size of the Board is in accordance with the Bank's Articles of Association, which currently provide for nine Directors. The organisation of the Board shall (i) be determined from time to time according to the requirements of the Bank, and (ii) be subject to the Directors' independence provisions set out below. The Board is required to consist of a balance of Non-Executive and Independent Directors.

The position of Chairman of the Board and Managing Director of the Bank may not be held by the same individual.

The Board is collectively required to possess professional knowledge, business expertise, industry knowledge and financial awareness sufficient to enable the Board to carry out its responsibilities, and Directors shall have experience and technical skills in the best interests of the Bank.

2.3 Secretary of the Board of Directors

The Secretary of the Board is entrusted to record, coordinate and register all meetings of the Board along with maintaining custody of records, reports and other materials sent to and received by the Board. The Secretary's functions also include distribution of information and coordination among members of the Board and between the Board and its stakeholders. The Secretary is also entrusted to ensure the timely access of members of the Board to all minutes of meetings, information, documents and records relating to the Bank.

2.4 Electing Directors

During 2012, the Bank has established a Nomination Committee which is tasked to uphold the transparency in the nomination process for Board membership. This Committee is responsible for recommending Board Members' appointments and nomination for election in the General Assembly.

Nominations and appointments are made in accordance to formal, rigorous and transparent procedures as per QFMA Corporate Governance Code and in line with the Bank's Articles of Association and relevant governance charters. To be elected to the Board, a nominee Director must receive a majority of votes cast in the election. Members

Corporate Governance
Continued

of the Board shall be elected for a period of three years, and a director may be re-elected more than once.

A Director's membership to the Board shall terminate in the event that, amongst other things, the Director is convicted of an offence of dishonour or breach of trust or is declared bankrupt.

Vacancies on the Board are filled in accordance with the Bank's Articles of Association.

2.5 Directors' Responsibilities
The responsibilities of the Chairman of the Board are as defined in the Bank's Articles of Association, the Commercial Companies Law and Directors' Job Descriptions.

Directors shall be given appropriate and timely information to enable them to maintain full and effective control over strategic, financial, operational, compliance and governance issues of the Bank.

Directors shall act in accordance with the Bank's Articles of Association, the Commercial Companies Law, the Board Charter, Board Committees Charter and Corporate Governance Charter.

Other than resolutions passed at each Annual General Assembly absolving the Board of Directors from responsibility, and provisions in the Articles of Association requiring that disputes against directors can only be brought in accordance with a resolution by the General Assembly, there are no provisions in effect protecting the Board of Directors and executive management from accountability.

2.6 Directors' Independence
At least one third of the Board shall comprise Independent Directors and a majority of the Board shall comprise Non-Executive Directors. Directors must notify the Board as soon as reasonably practicable in the event of any change in circumstances which may affect the evaluation of their independence. Non-Executive Directors must be able to dedicate suitable time and attention to the Board, and their directorship must not conflict with any other interests of such Directors.

2.7 Board Meetings
The Board shall hold meetings at least once every two months pursuant to either (i) written notice from the Chairman of the Board or his Deputy at least one week prior to the meeting, or (ii) the request of another member of the Board of Directors.

Notice of meetings issued by the Chairman of the Board shall include the meeting agenda. Directors may request that a matter be included on the meeting agenda.

Directors are expected to make every effort to attend, in person, all scheduled Board meetings and meetings of the committees of the Board on which they serve. A Board meeting shall only be validly called if a majority of Directors are in attendance (whether in person or by proxy) and provided that at least four Directors are present in person.

Voting in Board meetings shall be in accordance with the Bank's Articles of Association. Matters considered, and decisions taken, by the Board shall be recorded by means of minutes kept by the secretary of the Board.

As per the Board Charter, the Board meets a minimum of six times (once every two months at a minimum). The Board met a total of seven times in 2012 to conduct its duties and responsibilities.

2.8 Board Committees
Board committee members are appointed by the Board. Each Board committee has its own written terms of reference, duties and authorities as determined by the Board and defined in the Board Committees Charter and applicable job descriptions.

The standing Board committees are as follows:

Board Risk Committee
The Committee comprises three Board Members, and the current Members are Sh. Abdullah bin Ali bin Jabor Al Thani (Chairman), Sh. Ahmed bin Nasser bin Faleh Al Thani and Mr. Omar Hussain Al Fardan:

The Terms of Reference provide that the Committee is responsible for (i) all aspects of enterprise risk management including but not restricted to credit risk, market risk, liquidity risk and operational risk, (ii) setting forth risk policies, criteria and control mechanisms for all activities involving any types of risk, and (iii) overseeing all Bank risks through the Management Risk Committee (MRC).

The Committee is required to meet at least four times a year. The Board Risk Committee met a total of four times in 2012.

Policy, Strategy and Governance Committee
The Committee comprises four Board Members, and the current Members are H.E. Abdullah bin Khalifa Al Attiyah (Chairman), Sh. Abdullah bin Ali bin Jabor Al Thani, Mr. Hussain Ibrahim Al Fardan and Mr. Omar Hussain Al Fardan together with Mr. Andrew C. Stevens (Group Chief Executive Officer):

The Terms of Reference provide that the Committee (i) reviews and develops the long term strategy, brand, vision and mission of the Bank, (ii) reviews and develops the annual business plan and budget in line with the long term strategy and changes in economic, market, and regulatory environments, (iii) monitor and evaluate the Bank's performance periodically against the strategy, business plan and budget, (iv) review and pre-approve the Bank's proposed policies prior to final approval being sought from the Board of Directors unless the Board delegates its "final approval authority" to the Committee and (v) on a periodic basis, reviews and assesses any changes to international and local corporate governance practices and applicable regulations that could impact Commercial Bank's activities and recommends any required changes in practices and documentation to the Board of Directors for review and approval.

The Committee is required to meet at least four times a year, and at least once in each financial quarter of the year. The Policy, Strategy and Governance Committee met a total of 10 times in 2012.

Board Executive Committee
The Committee comprises four Board Members, and the current Members are H.E. Abdullah bin Khalifa Al Attiyah (Chairman), Sh. Abdullah bin Ali bin Jabor Al Thani, Mr. Hussain Ibrahim Al Fardan and Mr. Omar Hussain Al Fardan:

The Terms of Reference provide that the Committee (i) acts as a consultative body to the Board, which handles matters that require the Board's review, but may arise between Board meetings. In addition, this Committee deliberates matters, specifically credit matters, in detail which are not discussed at length in the meetings of the Board, and assists the Board in detailed reviews and analysis which could be done prior to a Board meeting and (ii) is also delegated certain approval authorities by the Board including the granting of major credit facilities and undertaking major investments within the approved limits as per the Bank's approved delegation of authority matrixes.

The Committee is required to meet at least once a month (12 times a year). The Board Executive Committee has met a total of 19 times in 2012.

Board Audit and Compliance Committee
The Committee comprises three Board Members, and the current Members are Mr. Khalifa Abdullah Al Subaey (Chairman), Sh. Jabor bin Ali bin Jabor Al Thani and Sh. Ahmed bin Nasser bin Faleh Al Thani as well as Mr. Abdulla Mohammed Ibrahim Al Mannai (alternate member):

The Terms of Reference provide that the Committee is responsible for (i) overseeing the quality and integrity of the accounting, auditing, internal control and financial reporting practices of the Bank, (ii) setting forth compliance and Anti-Money Laundering & Combating Financing Terrorism (AML/CFT) requirements, and defining criteria and control mechanisms for all activities involving Bank-wide related risks and (iii) recommending the appointment of the External Auditors to the Board and in turn the Board will review and recommend the same for approval in the Annual General Meeting.

The Board Audit and Compliance Committee is required to meet four times a year or more frequently if needed. The Board Audit and Compliance Committee met a total of six times in 2012.

Board Remuneration Committee
The Committee comprises three Board Members, and the current Members are Sh. Jabor bin Ali bin Jabor Al Thani (Chairman), Mr. Abdulla Mohammed Ibrahim Al Mannai and Mr. Hussain Ibrahim Al Fardan as well as Mr. Jassim Mohammed Jabor Al Mosallam (alternate member):

The Terms of Reference provide that the Committee is responsible for (i) setting the Bank's remuneration framework for the Board Members, management and employees, as outlined in the Directors' remuneration policy and Human Resources policy on management and employee compensation and benefits, respectively. Remuneration shall take into account the responsibilities and scope of the functions of the Board Members and the management as well as the performance of the Bank. Compensation includes fixed and performance related components that are based on the long-term performance of the Bank. The Committee is also responsible for (ii) presenting the Bank's remuneration framework to the Board, with the Directors' Remuneration Policy being subject to further approval by the shareholders in the General Assembly.

The Board Remuneration Committee is required to meet twice a year. The Board Remuneration Committee met once in 2012.

Board Nomination Committee
The Committee comprises two Board Members, and the current Members are Sh. Jabor bin Ali bin Jabor Al Thani (Chairman) and Mr. Jassim Mohammed Jabor Al Mosallam as well as Mr. Abdulla Mohammed Ibrahim Al Mannai (alternate member):

The Terms of Reference provide that the Committee (i) oversee the establishment of a nomination process for Board Members, (ii) follow "Fit and Proper Guidelines for Nomination of Board Members" annexed to the QFMA Corporate Governance Code, (iii) review candidate profiles of all new Board Members applying for election to the Board considering current Board composition, (iv) recommend appointment of new members to the Board for recommendation to the General Assembly, (v) review members for re-election and provide opinion to the Board for communication to the General Assembly and (vi) facilitate the performance of an annual self-assessment exercise for the full Board. The Board Nomination Committee is required to meet twice a year. The Board Nomination Committee has not yet met since it was formed in October 2012.

2.9 Directors' Remuneration
Remuneration of Directors is in accordance with QCB Circular No. 75/2011 and in compliance with the QCCL (Law 5 of 2002), QFMA Corporate Governance Code and the Bank's Articles of Association. This remuneration framework shall be presented to the shareholders in the General Assembly for approval and shall be made public. In conformity with the Bank's Remuneration Policy for the Board, remuneration shall take into account the responsibilities and scope of the functions of the Board Members as well as the performance of the Bank. Remuneration may take the form of (i) fixed salaries, (ii) directors' fees, (iii) in-kind benefits or (iv) a percentage of the Bank's profits. Directors may receive multiple forms of remuneration provided that remuneration by way of a percentage of the Bank's profits shall not, after deduction of expenses, depreciation and reserves and distribution of dividends of not less than 5% of the Bank's capital, exceed 10% of the net profit of the Bank. The amount of such remuneration shall be approved annually by the General Assembly, taking into account the level of profitability of the Bank.

Total remuneration earned by the Board in 2012 (including fixed remuneration and meeting attendance fees) was QAR 46.08 million. (2011: QAR 41.45 million).

2.10 Independent Advisors
The Board and its committees may retain counsel or consultants with respect to any issue relating to the Bank's affairs. Costs and expenses incurred pursuant to appointment of independent advisors or consultants shall be borne by the Bank.

Corporate Governance
Continued

For 2012, total costs incurred by the Bank with respect to retaining counsel and consultants amounted to QAR 20.3 million.

2.11 Independent and Non-Executive Members of the Board of Directors

As at 31 December 2012, the Board of Directors of the Bank comprised the following members:

Director	Position	First Appointment	Expiry of Current Appointment	Status
H.E. Abdullah bin Khalifa Al Attiyah	Chairman	1975	2014	Non-Executive, Independent
Sh. Abdullah bin Ali bin Jabor Al Thani	Vice Chairman	1990	2014	Non-Executive, Non-Independent
Mr. Hussain Ibrahim Al Fardan	Managing Director	1975	2014	Non-Executive, Non-Independent
Mr. Omar Hussain Al Fardan	Member	2002	2014	Non-Executive, Non-Independent
Mr. Jassim Mohammed Jabor Al Mosallam	Member	1975	2014	Non-Executive, Independent
Mr. Khalifa Abdullah Al Subaey	Member	1987	2014	Non-Executive, Independent
Sh. Jabor bin Ali bin Jabor Al Thani	Member	2002	2014	Non-Executive, Independent
Mr. Abdulla Mohammed Ibrahim Al Mannai	Member	1987	2014	Non-Executive, Independent
Sh. Ahmed bin Nasser bin Faleh Al Thani	Member	2009	2014	Non-Executive, Independent

The status of Board Members as Non-Executive, Independent or Non-Independent is determined in accordance with the QCB Guidelines.

Details of the education, experience and principal membership in other banks, financial institutions or companies, of Board Members is set out below:

H.E. Abdullah bin Khalifa Al Attiyah
Chairman
Chairman of the Board Executive Committee and the Policy, Strategy and Governance Committee.

State Minister. Vice Chairman of Qatar Insurance Company and United Development Company and Chairman of Gulf Publishing and Printing Company. Owner of Contraco Contracting Company.

Sh. Abdullah bin Ali bin Jabor Al Thani
Vice Chairman
Chairman of the Board Risk Committee and a Member of the Board Executive Committee and the Policy, Strategy and Governance Committee.

Director of National Bank of Oman and United Arab Bank. Owner of Vista Trading Company. Partner in Dar Al Manar, Domopan Qatar, Banz Group Qatar and Al Aqili Furnishings.

Mr. Hussain Ibrahim Al Fardan
Managing Director
Member of the Board Executive Committee, the Policy, Strategy and Governance Committee and the Remuneration Committee.

Started his career as a banker in Standard Chartered Bank. Chairman of Alfardan Group and United Development Company. Director of Qatar Insurance Company. Chairman of QIC International LLC. Founding member and Director of Investcorp Bahrain. Vice Chairman of Gulf Publishing and Printing Company and Qatar Businessmen's Association.

Mr. Omar Hussain Al Fardan
Board Member
Member of the Board Executive Committee, the Policy, Strategy and Governance Committee and the Board Risk Committee.

President and Director of companies comprising Alfardan Group. Director of United Development Company. Vice Chairman of United Arab Bank. Chairman of National Bank of Oman. President of Resorts Development Company. Chairman of Qatar District Cooling Company. Vice Chairman of Middle East Dredging Company. Director of Qatar Red Crescent Society.

Mr. Jassim Mohammed Jabor Al Mosallam
Board Member
Member of the Nomination Committee and Alternate Member of the Remuneration Committee.

Owner of Al Mosallam Trading Company. Director of Qatar German Medical Devices Company and Qatar Clay Bricks Company.

Mr. Khalifa Abdullah Al Subaey
Board Member, representing Qatar Insurance Company
Chairman of the Audit and Compliance Committee.

Started his career in the Finance Department of Qatar Petroleum. President and CEO of Qatar Insurance Company, Managing Director of QIC International LLC, Q-Re Insurance Company and Damaan Islamic Insurance Company (BEEMA). Director of United Development Company.

Sh. Jabor bin Ali bin Jabor Al Thani
Board Member
Chairman of the Remuneration Committee and the Nomination Committee and a Member of the Audit and Compliance Committee.

Director of Gulf Publishing and Printing Company and Qatar Clay Bricks Company. Owner of Al Maha Contracting Co.

Mr. Abdulla Mohammed Ibrahim Al Mannai
Board Member
Member of the Remuneration Committee and Alternate Member of the Nomination Committee and the Audit and Compliance Committee.

Owner of AMPEX, Qatar Marble and Islamic Mozaic Company. Member of the Qatar Businessmen's Association.

Sh. Ahmed bin Nasser bin Faleh Al Thani
Board Member, representing Naser Bin Faleh Group
Member of the Board Risk Committee and the Audit and Compliance Committee.

Director of United Development Company. Partner in Waset Trading Company and Ali Bin Nasser Al Thani and Brothers.

3. Executive Management

Executive Management (defined as the group of persons with operational responsibility for the Bank appointed by the Board) is responsible for the overall day-to-day management of the Bank

As at 31 December 2012, Executive Management of the Bank comprised the following:

Director	Position
Mr. Andrew C. Stevens	Group Chief Executive Officer (GCEO)
Mr. Abdulla Al Raisi	Deputy Chief Executive Officer
Mr. Nicholas Coleman	EGM & Group Chief Financial Officer
Mr. Sandeep Chouhan	EGM & Group Chief Operating Officer
Mr. Abduljalil Borhani	EGM, Strategic Clients
Mr. Stephen Mullins	EGM, Corporate Banking
Mr. Jerold Williamson	EGM & Chief Risk Officer
Mr. James Kneller	EGM & Head of Organizational Effectiveness
Mr. Alex Carre de Malberg	EGM & Global Head, Comcap
Mr. Dean Proctor	EGM, Retail & Consumer Banking
Mr. Fahad Badar	EGM, Government & International Banking
Mr. Sarmad Lone	Senior EGM & Head of Wholesale Banking
Mr. Jeremy Davies	EGM & Chief Marketing Officer
Mr. Khoda Fartash	EGM & Group Chief Legal Officer
Mr. Gary Williams	Senior AGM & Chief Internal Auditor
Mr. Mohamad Mansour	AGM & Head of Compliance & AML/CFT Unit

3.1 Education, Experience and Affiliations

Andrew C. Stevens
Group CEO, Commercial Bank of Qatar
Mr. Stevens began his banking career in 1980 with Standard Chartered Bank in Dublin, Ireland; he was later posted to Hong Kong, Bahrain, and their regional headquarters for Africa, Middle East and South Asia, and then seconded to lead the African business of Standard Chartered Bank in Uganda.

Since joining Commercial Bank of Qatar in 1989, Mr. Stevens has been heavily involved leading wholesale changes at the bank. In 1994, he was appointed as the Bank's first AGM of Retail Banking; was appointed as Director of Orient 1 in 1998, a 100% owned subsidiary, set up to manage credit card businesses across the Middle East.

In April of 2001, he was appointed General Manager of Commercial Bank of Qatar and in 2005, Chief Executive Officer. Mr. Stevens spearheaded the efforts that led to the acquisition of a 35% stake in the National Bank of Oman (NBO) in 2005, followed by the acquisition of 40% in United Arab Bank (UAB), Sharjah, UAE, in 2008.

Mr. Stevens holds a B.Com (Hons) in Banking and Finance from Birmingham University, UK. He presently serves as a director on the boards of both NBO and UAB. He is also a director of Qatar Insurance International LLC and serves on the Visa's International Senior Client Council.

Mr. Abdulla Al Raisi
Graduated from Portland State University in 1982 with a B.Sc. in Political Science & Social Science. Joined Commercial Bank in 1998; Deputy Chief Executive Officer since March 2007. Previously with QAFCO. Over 26 years experience, including extensive banking experience, in Arab Gulf States Folklore Center and Doha Bank respectively. Chairman of Commercial Bank Investment Services.

Corporate Governance
Continued

Mr. Nicholas Coleman
Graduated from London Guildhall University with a BA (Hons) in Economics. Joined Commercial Bank as EGM & Group Chief Financial Officer in 2008. Over 22 years experience as a seasoned banker with The Bank of New York in London, National Westminster Bank in London and Morgan Stanley in London. Previously with Arthur Young in Kuwait. Fellow of the Institute of Chartered Accountants in England and Wales. Director of United Arab Bank, Orient 1 Limited, Commercial Bank Investment Services, Gekko LLC and CBQ Finance Limited.

Mr. Sandeep Chouhan
Graduated from the National Institute of Technology, India. Joined Commercial Bank as Group Chief Operating Officer in June 2008. Previously with Barclays Bank in London. Over 20 years global experience in banking operations and technology, including five years with Morgan Stanley and eight years with Citigroup across EMEA, Asia and USA. Chartered Professional of the British Computer Society. Director of Orient 1 Limited.

Mr. Abdul Jalil Borhani
Graduated from Northern Arizona University in Business Administration in 1992. Joined Commercial Bank in 1993, beginning his career in corporate banking as relationship officer; promoted to EGM, Corporate Banking Officer in January 2009. Currently EGM, Strategic Clients.

Mr. Stephen Mullins
Joined Commercial Bank in 2009 as Group Chief Credit Officer and promoted to EGM Corporate Banking in September 2010. Over 35 years of banking experience including 24 years with National Westminster Bank Group, two years with ICICI Bank and eight years as Regional Head of Credit with Nedbank in their regional office in Hong Kong. Associate of the Institute of Bankers.

Mr. Jerold Williamson
Graduated from Loughborough University in the UK in 1981 in Banking and Finance. Joined Commercial Bank in 2011 as Chief Risk Officer. Previously with Midland Bank/HSBC, and Lloyds TSB Bank, with over 30 years experience in international, corporate, and retail banking, encompassing business, credit, internal audit and risk roles. Director of CBQ Finance Limited.

Mr. James Kneller
Joined Commercial Bank as EGM & Head of Organisational Effectiveness in 2011. Prior to joining, he led a management and business coaching consultancy based in London and before this, spent four years with Banco Santander as HR Director during the integration of their UK acquired businesses. He spent five years working within the Saudi Arabian based ALJ Group as both an HR Director and Business Head and has also held senior HR positions with Dixons, Granada Group and Sainsburys.

Mr. Alex Carre de Malberg.
Graduated from HEC (MBA), University of Massachusetts (MsChE) and ENSIC (Chemical Engineer). Joined Commercial Bank in 2011 as EGM & Global Head, Comcap, the investment banking, research and asset management division and parent of Commercial Bank Investment Services, the brokerage arm of Commercial Bank. Over 19 years of investment banking experience, of which the last five years were in the Gulf previously as co-head of Rothschild Middle East and head of investment banking at Abu Dhabi Investment Company. Started his investment banking career in New York with Lazard Freres, then Hong Kong and Singapore with Peregrine and one of its spin-offs, until he joined Rothschild in Paris in 1998. Director of Commercial Bank Investment Services.

Mr. Dean M. Proctor
Joined Commercial Bank in 2012 as EGM Retail & Consumer Banking. Previously CEO of Arbuthnot Latham & Co. Ltd, a private bank in the UK, for three years. Concurrently an Executive Director and Board Member of Arbuthnot Banking Group a UK listed company. Previously with Citibank working in the UK as Managing Director, UK Retail & Wealth Management including Egg Banking Plc and internationally as Head of Credit Cards for the Middle East based out of the UAE. Spent 14 years with Lloyds Bank Plc working in retail and corporate banking across all divisions. Chairman of Massoun Insurance Services and a Director of Asteco Qatar and Commercial Bank Investment Services.

Mr. Fahad Badar
Joined Commercial Bank in 2000 and currently serves as EGM Government & International Banking. Over 11 years of experience in various areas of the retail, corporate banking and operations divisions, where he has built strong relationships and an excellent reputation amongst key industry stakeholders, from customers to peers. He has a BA in Banking & Finance from the University of Wales and an MBA from Durham University.

Mr. Sarmad Lone
Joined Commercial Bank in 2012 as Senior EGM & Head of Wholesale Banking responsible for the Domestic Corporate, International, Multi-National, Government, Public Sector, Investment Banking (Comcap) and Enterprise/SME businesses. He has previously worked for more than 20 years with Morgan Stanley and Citibank in MENA and Asia. His last assignment with Morgan Stanley was Head of Investment Banking Middle East and North Africa. Before that, he held various senior management positions in Corporate and Investment Banking Group at Citibank. He was designated as a Senior Credit Officer (SCO) at Citibank.

Mr. Jeremy Davies
Joined Commercial Bank in 2012 as EGM & Chief Marketing Officer. Began marketing career at multinational advertising agency J Walter Thompson in 1990, after graduating in Law from Exeter University. Completed MBA at the Judge Business School, Cambridge, and became the founder and Managing Director of JWT's brand & digital consultancy. Joined the cable group NTL in 2001 as Marketing Director. Appointed Brand & Communications Director at Abbey National/Santander in 2003. In 2008, joined the E.ON Group as UK Brand and Communications Director, with responsibility for all UK marketing activities, as well as internal communications, PR and public affairs; appointed as Marketing Director of E.ON's new Energy Solutions Business in 2011, driving customer satisfaction improvements across E.ON's core markets across Europe.

Mr. Khoda Fartash

Joined Commercial Bank in 2007 and currently serves as EGM & Group Chief Legal Officer. Previously with the law firm Allen & Overy in London, Frankfurt and Milan. He has 12 years experience as a banking and finance lawyer and is a qualified English Solicitor and registered foreign lawyer at the Milan Bar. Graduated from Oxford University in 1997 with a BA (Hons) in Oriental Studies (Arabic).

Mr. Gary Williams

Joined Commercial Bank in 2010 as Senior AGM and Chief Internal Auditor. Previously with Standard Chartered Bank for 25 years, the last 12 of which were in Group Internal Audit and Operational Risk Assurance positions. Roles in the Group Internal Audit function included postings in the UK, Singapore, Hong Kong and South Korea. Final role in Standard Chartered Bank, prior to joining Commercial Bank was to establish and manage the Operational Risk Assurance function in 20 countries across the Africa, Middle East and Pakistan regions for the Bank.

Mr. Mohamad Mansour

Started banking career at the Treasury Bills Department of the Central Bank of Lebanon. Founding member and a former Senior Investigator and Research Analyst of the Financial Information Unit at the Central Bank of Lebanon; led numerous money laundering and terrorism financing investigations with regional and international counterparts as well as conducting the Bank's examinations on anti money laundering programs. A Certified Anti Money Laundering Specialist (CAMS), and Certified Compliance Officer, actively involved with local and international regulators on enhancing the AML/CFT implementation, raising awareness and introducing the latest AML & CFT information technology solutions.

3.2 Executive Committees

Executive Management functions through a number of committees, which support the role of the Group Chief Executive Officer (GCEO). The number of executive committees and their responsibilities are determined by the Board; membership of the various committees is determined by the GCEO. A summary of their main activities is set out below.

Management Executive Committee (EXCO)

EXCO is chaired by the GCEO and meets on a regular basis, monthly, or as required by the business. Its principal function is to develop the annual business plan and budget for the Bank, and to monitor performance against it.

Management Risk Committee (MRC)

The MRC is the highest authority at management levels on all risk-related issues of the Bank, and reports on all risk policy and portfolio issues to the Board Risk Committee. It monitors and controls levels of credit, retail and operational risk to ensure that the risk strategies and policies approved by the Board are adhered to and implemented. The MRC also sets up and monitors the policies and procedures relating to the management of business continuity. The Chief Risk Officer serves as chairman of the MRC, which meets at least four times a year, and more frequently if necessary.

Asset and Liability Committee (ALCO)

ALCO is a decision making body for developing policies relating to asset and liability and market risk management with the objective of maximising shareholder value, enhancing profitability, and protecting the Bank from facing adverse consequences arising from changes in extreme market conditions and compliance with regulatory guidelines. Its key functions are to formulate policies on market risk, liquidity risk and interest rate risk, and to ensure that such risks are effectively addressed, controlled, monitored and managed. The Group Chief Financial Officer serves as chairman of ALCO. Meetings of ALCO are held once a month or more frequently if necessary, particularly in the case of a volatile operating environment.

Group Special Assets Management (GSAM) Committee

Special Assets are those assets of the Bank which require extensive monitoring and control in order to minimise risk, prevent losses, maximise recoveries and restore profits through rehabilitation, restructuring, workout, collection or legal actions. The GSAM Committee supervises these activities, reviews related policies and procedures and monitors actions being taken on all accounts within the Special Asset portfolio. The Group Head of Special Assets Management serves as chairman of the committee. Meetings are held at least four times a year, or more frequently as deemed appropriate by the chairman.

Management Credit Committee (MCC)

The MCC reviews, recommends and implements approved credit policies and procedures relating to the Bank. The Committee reviews the delegated authorities related to credit and recommends amendments to the Board where appropriate. It also escalates its decisions relating to credit facilities which exceed its authority to the BEC. The Chief Risk Officer serves as chairman of MCC. Meetings are held as and when required.

Investment Committee

The Investment Committee reviews the delegated authorities related to investments and recommends amendments to the Board where appropriate. The Committee also assumes the responsibility to review and approve the range of investment products across the Bank. It also monitors and reviews the performance of all the investment portfolio activities. The Group Chief Executive Officer serves as chairman of the committee. Meetings are held at least four times a year, or more frequently as deemed appropriate by the Chairman.

Corporate Governance
Continued

Crisis Management Committee (CMC)
The CMC is mainly responsible in heading incidents which may result in a crisis situation for the Bank. The Committee ensures that a bank-wide Crisis Management Plan (CMP) is developed and communicated to all stakeholders including the establishment of a Crisis Management Team. It also ensures formal drills and training are conducted and a comprehensive communication process is developed regarding Crisis Management. In the event of an incident which may conceivably result in the activation of the Bank's Crisis Plan, the Bank's Call Tree will be used to communicate the incident to the Deputy Chief Executive Officer who will confer with the Group Chief Executive Officer as required and decide whether the Bank's Recovery Plans require to be actioned. In the event that the Bank's Recovery Plans are activated this will be rapidly communicated to all stakeholders by way of activation of the Bank's mobile phone Call Trees. The Group Chief Executive Officer serves as Chairman of the committee. Meetings are held as and when required.

3.3 Senior Management Remuneration
Total remuneration earned by the senior management in 2012 in QAR thousands was:

Fixed Remuneration	43,415
Discretionary Remuneration	21,980
Other Benefits	4,884
Total (2011: 53,611)	70,279

4. Ownership Structure
In accordance with Article (7) of the Bank's Articles of Association, no person (whether natural or juridical) shall own at any time more than 5% of the total shares in the Bank by any means other than inheritance, with the exception of (i) Qatar Investment Authority, Qatar Holding LLC or any of their associated companies and (ii) a custodian or depository bank holding shares in respect of an offering of Global Depositary Receipts.

As at 31 December 2012, 85.13% of the total number of shares in the Bank were held by Qatari nationals (whether individuals or entities) and 14.8% of such shares by foreign investors. As at 31 December 2012, in percentage terms, the largest shareholdings in the Bank were as follows.

Qatar Holding LLC	16.67%
Al Watani Fund 3	2.98%
Al Watani Fund 4	2.63%
Al Watani Fund 8	2.60%
Qatar National Bank SAQ	2.05%

5. Compliance, Internal Audit and Risk Governance

5.1 Compliance Culture
The Bank promotes a robust compliance culture across the organization and requires everyone, from the Board down to staff, to consistently comply with applicable laws, regulations and standards.

5.2 Compliance Set-up
The Bank has incorporated the regulatory requirements into the Bank's policies, procedures and systems. The Bank has comprehensive compliance and AML/CFT policies describing the compliance and AML/CFT functions at Commercial Bank Group, and this has been assessed and evaluated by internal and external bodies.

5.3 Compliance Milestones
Besides the achievements of the compliance and AML/CFT annual plan approved by the Board Audit and Compliance Committee, the Bank has completed the alignment to comply with the US (CISADA) regulations, impact assessment of US (FATCA) regulations, implementation of World Check Data file for international sanctions and blacklist checking.

5.4 Compliance Awareness
As a result of the Bank's commitments to the implementation of the regulatory requirements and to keep the Bank's staff up to the standard, the Bank has provided its staff with an AML compliance E-Learning course, live training and an induction program for new joiners, covering different aspects of regulatory requirements.

5.5 Internal Audit
The Bank's Internal Audit function is headed by the Chief Internal Auditor (CIA), who reports directly into the Board Audit and Compliance Committee. There was a total of 13 staff in the Internal Audit function as at 31 December 2012, including the CIA. The role of the Internal Audit function is to provide independent assurance to the Board and senior management of the Bank as to both the adequacy of controls and of the effectiveness of the operation of these controls.

This role is fulfilled by way of a combination of unit or process specific functional audits, assurance audits that usually involve the review of multiple units within the Bank based on a particular risk, theme or end-to-end process and credit reviews, which independently assess the quality of the Bank's credit portfolios. Audit work is in accordance with an audit plan which is approved by the Board Audit and Compliance Committee, which is derived from a twice yearly risk assessment exercise covering all auditable units, systems and processes across the entire Bank. In addition to planned audit assignments, the Internal Audit function is also involved in undertaking occasional, unscheduled investigation work. During 2012 the Internal Audit function produced a total of 38 audit and investigation reports, which covered a total of 177 units within the Bank's inventory of auditable units.

All audit work undertaken is in accordance with the Board Audit and Compliance Committee approved Internal Audit Charter and Standard Operating Procedures, which are based on the Institute of Internal Auditors standards.

5.6 Risk Governance

Risk governance is an integral part of the Bank's effective risk-based oversight and the Board is focused on assessing, managing, and mitigating risk.

Risk governance at the Bank is defined as the Board and management's oversight of risk. It is the Board which is ultimately responsible for ensuring that all risks to the Bank are identified, evaluated and suitably managed. To this end, it is ensured that:

- Complete risk information is transmitted to the Board.
- Non-executive directors have the required level of expertise.
- The Board provides a forum for vetting strategic risk issues.

The Bank's Board is involved in risk-decisions through the:

- Board Risk Committee (for risk policies, enterprise wide risk reviews and portfolio monitoring);
- Board Executive Committee (for credit decisions and lending strategy); and
- Board Audit and Compliance Committee (for compliance and internal audit matters).

At management level, risk governance is implemented by adopting and integrating the necessary systems to identify, manage, and report risk. The level and nature of aggregate risk arising in rapidly evolving balance sheets are captured by systems and reports.

Risk management units have the visibility, stature, and independence to consolidate institution-wide risks and elevate concerns to a level sufficient to prompt a response from management and the Board.

The Bank's risk governance structure ensures risk governance is able to respond with flexibility due to timelier, more complete, and enterprise-wide risk information, enabling the Board to make critical decisions to curtail risk earlier.

6. The Bank's Policies

6.1 Corporate Governance Charter

The Bank recognises that an effective corporate governance framework is the local component in the achievement of the Bank's corporate objectives and maximisation of shareholder's value. The Bank has established corporate governance practices and protocols in compliance with its Articles of Association and relevant requirements and in line with relevant corporate governance leading practices.

The Corporate Governance Charter captures the detailed guidelines of the Bank's governance framework.

6.2 Anti-Fraud Policy

The Bank promotes an anti-fraud control environment by adopting the following principles:

- Commitment to the principles of integrity, respect, accountability and to an environment of sound governance which includes robust internal controls;
- Commitment to a culture that safeguards public funds and property in order to protect shareholder interest;
- Zero tolerance approach to fraudulent and/or unethical conduct and hold all employees accountable for their actions; and
- Consistent handling of all cases regardless of positions held, connections to authorities, nationality or length of services.

6.3 Policy on Promotion

The Bank is committed to fostering ongoing education, professional and personal development and career advancement of our employees.

The Bank recognises that, in the course of meeting objectives, the duties and functions of its employees may change in complexity and responsibility and promotions are given pursuant to increased responsibility levels but subject to exceptional past performance. The added benefits of a promotion serve as an incentive for better work performance, enhance morale and create a sense of individual achievement and recognition.

A promotion may occur through:

1. A reclassification of an employee's existing position as a result of the employee performing duties at a higher degree of responsibility and complexity than the current classification calls for; or
2. The filling of a higher level vacancy (in the event of a vacancy, the Bank will first look internally for suitable candidates and no external advertisement of the vacancy shall run unless and until exhausting all internal recruitment avenues).

For promotion through the filling of a higher level vacancy, employees need only satisfy the qualifications as specified in the job description for the vacant position (and not the qualities, skills or knowledge of the incumbent) and are eligible for promotion:

1. Pursuant to successful completion of the probation period specified by the conditions of employment;
2. Pursuant to exceptional semi-annual and annual performance appraisals; and
3. Regardless of age, gender, nationality or religion.

6.4 Penalties or Fines Imposed on the Bank by Regulatory Authorities

Penalties imposed on the Bank in 2012 by Qatar Central Bank amounted to QAR 471,000 (2011: Nil) in respect of breaches of real estate ratios set by Qatar Central Bank.

6.5 Material Issues Regarding the Bank's Employees and Stakeholders

There are no material issues regarding the Bank's employees and stakeholders to be disclosed in this report.

6.6 Corporate Social Responsibility

The Bank, as a responsible corporate citizen, recognises its social responsibility to integrate business values and operations to meet the expectations and needs of its stakeholders.

Commerce + Conscience + Compassion = Corporate Social Responsibility

Corporate Governance
Continued

The Bank is committed to promoting sustainable development, protecting and conserving human life, health, natural resources and the environment and adding value to the communities in which it operates. In so doing, the Bank recognises the importance of both financial and non-financial commitment and contribution.

Corporate Social Responsibility (CSR) involves assessing all the ways that the Bank's actions and operations may potentially impact others. The Bank's approach to Corporate Social Responsibility is rooted in its core values which shape the way it does business, which are:

How the Bank Behaves

a. Stakeholder Engagement – establishing relationships with stakeholders and communities and soliciting their input and involvement on critical issues.

b. Health and Safety – conducting business with a high regard for the health and safety of employees, contractors and the communities including following local and best practice health and safety guidelines and standards.

c. Environmental Stewardship – operating in a safe and environmentally responsible manner and minimising the impact of operations on the environment, including by reducing waste.

What the Bank Invests in

a. Community Development – sustainable programmes to improve quality of life in the community.

b. Education and Training – programmes and learning opportunities to develop a skilled, competitive workforce.

c. Corporate Citizenship – philanthropic, social development and volunteer programs, community service projects, humanitarian works, arts and sports.

What the Bank Influences and Promotes

a. Human Rights – respect and protection of fundamental human and worker rights, including ensuring a discrimination-free work environment; equal opportunities; no racism of any form; no harassment of any form; regulated working hours and paid holidays; fair compensation and the principal of 'equal pay for equal work' for men and women.

b. Rule of Law – respect of local laws and promotion of the principles of justice, fairness and equality.

c. Transparency – promotion of openness in all business dealings.

d. High Performance – high performance team culture and a collaborative, supportive work environment where employees are encouraged to reach their full professional potential.

What the Bank Believes in

Code of Business Conduct – conducting business honestly and with integrity, maintaining ethical behavior in all operations, including fighting all forms of corruption. Enforcing strict principles of corporate governance and supporting transparency in all operations.

The Bank supports many charities and NGOs and actively promotes creative projects and activities useful to society. In addition to broad support of Sports, Cultural and Charitable activities, the Bank focuses its CSR programme on the promotion of Qatari youth development and related educational activities. In so supporting, the Bank strives to be more than a financial sponsor and is committed to engaging in a broad range of CSR activities to establish a long-standing and sustainable social platform, enabling positive change within the community. The ultimate objective of the Bank's CSR activities is to foster relationships that enhance community spirit in a responsible manner by contributing to the development of the nation and its communities for the benefit of Qatar's future generations.

6.7 Environmental Policy

The Bank is committed to protecting the natural resources and environments of the communities in which we serve and operate and minimising the impact of the Bank's activities on the environment.

In keeping with these beliefs and commitments, the Bank endeavours to ensure that all management and employees comply with the following environmental policies:

1. Conduct business in an environmentally responsible manner;
2. Comply with all applicable environmental laws and regulations;
3. Make environmental concerns an integral part of the planning and decision making process;
4. Control environmental impacts and prevent or minimize pollution, including operating a paperless environment;
5. Educate management and employees to be accountable for environmental stewardship;
6. Promote the efficient use of resources and reducing (and where possible eliminating) waste through recycling and pursuing opportunities to reuse waste;
7. Ensure the proper handling and disposal of all waste;
8. Assess the environmental condition of property interest acquired by the Bank and appropriately address the environmental impacts caused by these properties;
9. Support research and development of programmes and technologies aimed at minimizing the environmental impacts of company operations; and
10. Notify the Board of any pertinent environmental issues.

6.8 Health Policy

The Bank, recognising that good health and safety management has positive benefits to an organisation, is committed to providing and maintaining a healthy, safe and secure working environment for all employees.

The Bank is committed to:

1. Ensuring the health, safety, security and welfare of all its employees whilst at work;
2. Ensuring that visitors to the Bank's premises are not exposed to risks to their health and safety;
3. Identifying hazards, assessing risks and managing those risks;
4. Maintaining arrangements for ensuring the safe use, handling, storage and transport of articles and substances; and
5. Encouraging the development and maintenance of a positive attitude towards health and safety throughout the Bank.

The Bank maintains comprehensive Fire, Health and Safety policies and provides extensive Medical Insurance through an internationally recognized insurance provider for the benefit of all permanent staff.

6.9 Code of Ethics

The Bank-wide Code of Ethics serves as a guide to the everyday professional conduct of its employees. The Code covers all applicable laws and regulations and the highest standards of business ethics that the Bank's employees should be aware of and comply within the conduct of their day-to-day business activities. In addition to the Bank-wide Code of Ethics, the standards of conduct expected from the Board are also covered in the Board Charter. The Code extends to the Bank's subsidiaries and outsourced staff and covers the following specific issues:

- Compliance with laws and regulations;
- Board and employee conduct;
- Restrictions on acceptance of gifts or commissions;
- Avoidance of conflict of interest;
- Quality service and operational efficiency;
- Protection and proper use of company assets;
- Prohibition on insider trading;
- Media relations and publicity;
- Whistle-blowing;
- Relations between employees and the Bank;
- Use of proprietary and insider information and stakeholder information;
- Employee information and privacy; and
- Respect for human rights and prohibition of discrimination within the workplace.

Abdullah bin Khalifa Al Attiyah
Chairman

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

Report on the Consolidated Financial Statements

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

Board of Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the applicable provisions of Qatar Central Bank regulations.

Report on Other Legal and Regulatory Requirements

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

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

27 January 2013
Doha

Consolidated Statement of Financial Position

As at 31 December | **QAR '000s**

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

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

HE Abdullah bin Khalifa Al Attiyah
Chairman

Mr. Hussain Ibrahim Alfardan
Managing Director

Mr. A C Stevens
Group Chief Executive Officer

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

Consolidated Income Statement

For the year ended 31 December **QAR '000s**

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

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December — **QAR '000s**

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

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

Consolidated Statement of Changes in Equity

	Notes	Share capital	Legal reserve
Balance as at 1 January 2011		2,268,258	7,332,158
Total comprehensive income for the year			
Profit for the year		–	–
Other comprehensive loss	21	–	–
Total comprehensive income for the year		–	–
Transfer to risk reserve	20 (d)	–	–
Net movement in other reserves	20 (f)	–	–
Social and sports fund appropriation	22	–	–
Transactions with equity holders, recognised directly in equity			
Contributions by and distributions to equity holders:			
Increase in share capital	20 (a)	206,206	–
Increase in legal reserve	20 (b)	–	1,408,382
Dividends paid		–	–
Proposed dividends	20	–	–
Total contributions by and distributions to equity holders		206,206	1,408,382
Balance as at 31 December 2011		2,474,464	8,740,540
Balance as at 1 January 2012		2,474,464	8,740,540
Total comprehensive income for the year			
Profit for the year		–	–
Other comprehensive income	21	–	–
Total comprehensive income for the year			
Transfer to risk reserve	20 (d)	–	–
Net movement in other reserves	20 (f)	–	–
Social and sports fund appropriation	22	–	–
Transactions with equity holders, recognised directly in equity			
Contributions by and distributions to equity holders:			
Dividends paid		–	–
Proposed dividends	20 (g)	–	–
Total contributions by and distributions to equity holders		–	–
Balance as at 31 December 2012		**2,474,464**	**8,740,540**

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

QAR '000s

General reserve	Risk reserve	Fair value reserves	Other reserves	Retained earnings: Proposed dividend	Retained earnings: Other	Total Equity
26,500	648,000	56,648	469,706	1,587,781	110,806	12,499,857
–	–	–	–	–	1,883,971	1,883,971
–	–	(125,196)	–	–	–	(125,196)
–	–	(125,196)	–	–	1,883,971	1,758,775
–	157,600	–	–	–	(157,600)	–
–	–	–	86,750	–	(86,750)	–
–	–	–	–	–	(55,143)	(55,143)
–	–	–	–	–	–	206,206
–	–	–	–	–	–	1,408,382
–	–	–	–	(1,587,781)	–	(1,587,781)
–	–	–	–	1,484,678	(1,484,678)	–
–	–	–	–	(103,103)	(1,484,678)	26,807
26,500	805,600	(68,548)	556,456	1,484,678	210,606	14,230,296
26,500	805,600	(68,548)	556,456	1,484,678	210,606	14,230,296
–	–	–	–	–	2,012,294	2,012,294
–	–	231,773	–	–	–	231,773
–	–	231,773	–	–	2,012,294	2,244,067
–	119,000	–	–	–	(119,000)	–
–	–	–	117,148	–	(117,148)	–
–	–	–	–	–	(50,307)	(50,307)
–	–	–	–	(1,484,678)	–	(1,484,678)
–	–	–	–	1,484,678	(1,484,678)	–
–	–	–	–	–	(1,484,678)	(1,484,678)
26,500	**924,600**	**163,225**	**673,604**	**1,484,678**	**451,767**	**14,939,378**

Statement of Cash Flows

For the year ended 31 December **QAR '000s**

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

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

Notes to the Consolidated Financial Statements

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

1. Reporting entity

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

The principal subsidiaries of the Group are as follows:

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

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and the applicable provisions of Qatar Central Bank ("QCB") regulations.

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

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

Notes to the Consolidated Financial Statements
Continued

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

2. Basis of preparation (continued)

(d) Use of estimates and judgments
The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 5.

3. Significant accounting policies
The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation
(i) Subsidiaries

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

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

(ii) Special purpose entities

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

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

Notes to the Consolidated Financial Statements
Continued

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

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iii) Transactions eliminated on consolidation

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

(iv) Associates

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

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

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

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

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

(v) Joint ventures

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

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

(vi) Funds management

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

Notes to the Consolidated Financial Statements
Continued

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

3. Significant accounting policies (continued)

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

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

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

Foreign currency differences resulting from the settlement of foreign currency transactions and arising on translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

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

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

(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.

Notes to the Consolidated Financial Statements
Continued

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

3. Significant accounting policies (continued)

(c) Financial assets and financial liabilities (continued)
(ii) Classification (continued)
Financial liabilities
The Group has classified and measured its financial liabilities at amortised cost.

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

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

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

(iv) Offsetting
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

(v) Measurement principles
(i) Amortised cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment loss. The calculation of effective interest rate includes all fees paid or received that are an integral part of the effective interest rate (EIR).

Notes to the Consolidated Financial Statements
Continued

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

3. Significant accounting policies (continued)

(c) Financial assets and financial liabilities (continued)

(v) Measurement principles (continued)

(ii) Fair value measurement

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

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

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

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

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

(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.

Notes to the Consolidated Financial Statements
Continued

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

3. Significant accounting policies (continued)

(c) Financial assets and financial liabilities (continued)
(v) Measurement principles (continued)
(iii) Identification and measurement of impairment (continued)

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

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances to customers.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

In subsequent periods, the appreciation of fair value of previously impaired available-for-sale equity investment securities is recorded in fair value reserve. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Notes to the Consolidated Financial Statements
Continued

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

3. Significant accounting policies (continued)

(d) Cash and cash equivalents
Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents include amounts due from banks and amounts due to banks with an original maturity of 90 days or less.

(e) Loans and advances to customers
Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances to customers, cash and balances with central banks and due from banks are classified as 'loans and receivables'.

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

(f) Investment securities
Subsequent to initial recognition investment securities are accounted for depending on their classification as either 'held to maturity', 'fair value through profit or loss', or 'available-for-sale'.

(i) Held-to-maturity financial assets
Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which were not designated as at fair value through profit or loss or as available-for-sale. Held-to-maturity investments were carried at amortised cost using the effective interest method.

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

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

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

Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are transferred to profit or loss.

Notes to the Consolidated Financial Statements
Continued

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

3. Significant accounting policies (continued)

(g) Derivatives

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

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

Fair value hedges

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

(ii) Derivatives held for trading purposes

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

Notes to the Consolidated Financial Statements
Continued

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

3. Significant accounting policies (continued)

(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.

(ii) Subsequent costs

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

(iii) Depreciation

The depreciable amount is the cost of property and equipment, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset and is based on cost of the asset less its estimated residual value. Land is not depreciated.

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

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

(i) Impairment of non-financial assets

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

Notes to the Consolidated Financial Statements
Continued

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

3. Significant accounting policies (continued)

(j) Provisions
A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(k) Financial guarantees
Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and this initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

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

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

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

(m) Share capital and reserves
(i) Share issue costs
Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

3. Significant accounting policies (continued)

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

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

(p) Income from investment securities
Gains or losses on the disposal of investment securities are recognised in profit or loss as the difference between fair value of the consideration received and carrying amount of the investment securities.

Unrealised gains or losses on fair value changes from remeasurement of investment securities classified as held for trading or designated as fair value through profit or loss are recognised in profit or loss.

(q) Dividend income
Dividend income is recognised when the right to receive income is established.

(r) Earnings per share
The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

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

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

3. Significant accounting policies (continued)

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

(w) Parent bank financial information
Statement of financial position and income statement of the Parent bank, disclosed as supplementary information, is prepared following the same accounting policies as mentioned above except for; investment in subsidiaries, associates and joint ventures which are not consolidated and are carried at cost; and, any dividends received from subsidiaries, associates and joint ventures are recognised in the income statement.

(x) New standards and interpretations
During the period, the Group has adopted the following standards effective for the annual period beginning on or after 1 January 2012.

IFRS 7 Financial Instruments (Disclosures)

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

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

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

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

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

Standards and amendments issued but not adopted:

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

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management

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

The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance. The Group defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

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

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

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

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

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.

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

(a) Introduction and overview (continued)
Risk and other committees (continued)

4. Board Executive Committee is responsible for evaluating and granting credit facilities and approval of the Group's investment activities within authorized limits per Qatar Central Bank and Board of Directors' guidelines.
5. Management Credit Committee is the highest management level authority on all counterparty risk exposures product programmes, associated expenditure programmes there under and underwriting exposures on syndications and securities transactions.
6. Management Risk Committee is the highest management authority on all risk related issues in the Group and its subsidiaries and affiliates in which it has strategic investments. This committee provides recommendations on all risk policy and portfolio issues to the Board Risk Committee.
7. Asset and Liability Committee (ALCO) is a management committee which is a decision making body for developing policies relating to all asset and liability management matters.

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

(ii) Credit risk measurement
(a) Loans and advances

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

(b) Credit risk (continued)

(ii) Credit risk measurement (continued)

(a) Loans and advances (continued)

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

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

(b) Debt securities and other bills

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

(ii) Risk limit control and mitigation policies

Portfolio diversification

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

Collateral

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

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

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

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

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

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

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

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

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

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

The above table represents a worse-case scenario of credit risk exposure to the Group, without taking account of any collateral held or other credit enhancements attached. For assets recorded on the statement of financial position, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

(b) Credit risk (continued)
(iv)Concentration of risks of financial assets with credit risk exposure
Geographical sectors
The following table breaks down the Group's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorized by geographical region. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties.

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

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

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

					2012
	Qatar	**Other GCC**	**Other Middle East**	**Rest of the world**	**Total**
Guarantees	5,642,000	1,864,332	324,596	4,217,170	12,048,098
Letter of credit	3,889,389	47,995	100,475	3,503,981	7,541,840
Unutilised credit facilities	5,026,737	299,388	–	–	5,326,125
	14,558,126	**2,211,715**	**425,071**	**7,721,151**	**24,916,063**

					2011
	Qatar	Other GCC	Other Middle East	Rest of the world	Total
Guarantees	4,997,422	1,335,794	752,402	2,003,004	9,088,622
Letter of credit	1,292,280	37,020	7,031	3,881,261	5,217,592
Unutilised credit facilities	5,486,835	372,272	–	–	5,859,107
	11,776,537	1,745,086	759,433	5,884,265	20,165,321

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

(b) Credit risk (continued)

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

Industry sectors

The following table breaks down the Group's credit exposure at carrying amounts before taking into account collateral held or other credit enhancements, as categorized by the industry sectors of the Group's counterparties.

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

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

(b) Credit risk (continued)
(iv) Concentration of risks of financial assets with credit risk exposure (continued)
Credit risk exposure
The table below presents an analysis of financial assets by rating agency designation based on Standard & Poor's ratings or their equivalent:

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

(b) Credit risk (continued)
(v) Credit quality
The following table sets out the credit qualities of the Group's credit exposure at carrying amounts before taking into account collateral held or other credit enhancements.

	Loans and advances to customers		Due from banks		Investment securities – debt	
	2012	2011	**2012**	2011	**2012**	2011
Neither past due nor impaired:						
A: Low risk – excellent	10,695,370	14,251,335	7,713,461	8,013,589	9,154,311	10,046,901
B: Standard/satisfactory risk	37,084,177	26,978,058	2,018,101	1,258,331	855,966	478,108
	47,779,547	41,229,393	**9,731,562**	9,271,920	**10,010,277**	10,525,009
Past due but not impaired :						
A: Low risk – excellent	5,238	7,281	–	–	–	–
B: Standard/satisfactory risk	971,339	514,885	–	–	–	–
Carrying amount	**976,577**	522,166	**–**	–	**–**	–
Impaired:						
C: Substandard	92,569	184,255	–	–	–	–
D: Doubtful	73,025	66,096	–	–	–	–
E: Bad debts	299,569	257,275	–	–	202,126	260,842
	465,163	507,626	**–**	–	**202,126**	260,842
Less: impairment allowance-specific	(359,992)	(321,881)	–	–	(202,126)	(260,842)
Less: impairment allowance-Collective	(266,820)	(225,521)	–	–	–	–
	(161,649)	(39,776)	**–**	–	**–**	–
Carrying amount – net	**48,594,475**	41,711,783	**9,731,562**	9,271,920	**10,010,277**	10,525,009
Investment securities – debt						
Held to maturity					3,324,511	5,648,715
Available for sale					6,830,628	5,137,136
Investment securities designated at fair value through income statement					57,264	–
Less: impairment allowance					(202,126)	(260,842)
Carrying amount – net					**10,010,277**	10,525,009

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

(b) Credit risk (continued)
(v) Credit quality (continued)
Impaired loans and advances to customers and investment in debt securities
Individually impaired loans and advances to customers and investment debt securities (other than those carried at fair value through profit or loss) for which the Group determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan/investment security agreement(s).

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

Loans and advances to customers past due but not impaired
Past due but not impaired loans and advances to customers are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

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

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

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

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

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

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

(viii) Write-off policy
The Group writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when Group Credit determines that the loan or security is uncollectible. QCB approval is required for such write off when the amount to be written off exceeds Qatar Riyal hundred thousand.

This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status. The amount written off during the year was QAR 127 million (2011: QAR 867 million).

(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 fulfil lending commitments. The risk that the Group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

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

Moody's: Long Term A1, Short Term Prime 1 and financial strength C-, outlook stable.
Fitch: Long Term A, Short Term F1 and Financial strength C, outlook stable.
Standard & Poor's: Long Term A-, Short Term A-2, outlook stable.

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

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

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

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

(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.

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

(c) Liquidity risk (continued)
(iii) Maturity analysis (continued)

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

(c) Liquidity risk (continued)
(iii) Maturity analysis (continued)

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

(c) Liquidity risk (continued)

(iv) Maturity analysis (financial liabilities and derivatives)

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

	Carrying amount	Gross undiscounted cash flows	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years
31 December 2012							
Non-derivative financial liabilities							
Due to banks	9,855,682	9,877,210	7,601,115	523,714	–	1,752,381	–
Customer deposits	41,385,546	41,848,180	30,602,688	7,593,259	3,096,836	555,397	–
Debt securities	8,705,816	10,716,123	–	–	–	8,074,159	2,641,964
Other borrowings	3,471,515	3,566,207	–	–	1,867,944	1,698,263	–
Other liabilities	1,329,857	1,329,857	696,008	301,412	175,065	157,372	–
Total liabilities	**64,748,416**	**67,337,577**	**38,899,811**	**8,418,385**	**5,139,845**	**12,237,572**	**2,641,964**

Derivative financial instruments:

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

	Total	Up to 1 Year	1-5 years	More than 5 Years
Derivatives Held for Trading:				
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**

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

(c) Liquidity risk (continued)
(iv) Maturity analysis (financial liabilities and derivatives) (continued)

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

Derivative financial instruments:

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

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

(c) Liquidity risk (continued)
(v) Off-balance sheet items

	Below 1 year	Above 1 year	Total
As at December 2012			
Loan commitments	1,323,176	4,002,949	5,326,125
Guarantees and other financial facilities	16,952,282	2,637,656	19,589,938
Capital commitments	393,822	–	393,822
Total	**18,669,280**	**6,640,605**	**25,309,885**
As at December 2011			
Loan commitments	1,054,582	4,804,525	5,859,107
Guarantees and other financial facilities	12,214,409	2,091,805	14,306,214
Capital commitments	479,243	–	479,243
Total	13,748,234	6,896,330	20,644,564

(d) Market risks
The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposures to market risk into either trading or non-trading portfolios and by product type.

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

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

(d) Market risks (continued)

(i) Management of market risks (continued)

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.

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

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Group Treasury in its day-to-day monitoring activities.

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

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

(d) Market risks (continued)
(ii) Exposure to interest rate risk – non-trading portfolio (continued)
A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

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

	50 bp parallel increase	50 bp parallel decrease
Sensitivity of net interest income		
2012		
At 31 December	**(61,141)**	**61,141**
Average for the year	**(72,170)**	**72,170**
2011		
At 31 December	(80,387)	80,387
Average for the year	(70,798)	70,798
Sensitivity of reported equity to interest rate movements		
2012		
At 31 December	**1,350**	**(1,350)**
Average for the year	**1,400**	**(1,400)**
2011		
At 31 December	1,450	(1,450)
Average for the year	1,308	(1,308)

Interest rate movements affect reported equity in the following ways:

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

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

(d) Market risks (continued)
(iii) Exposure to other market risks – non-trading portfolios
Foreign currency transactions
The Group monitors any concentration risk in relation to any individual currency in regard to the translation of foreign currency transactions and monetary assets and liabilities. The table shows the net foreign currency exposure by major currencies at the end of the reporting period along with the sensitivities if there were to be a change in the currency exchange rate.

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

(f) Capital management

Regulatory capital

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

4. Financial risk management (continued)

(f) Capital management (continued)
Regulatory capital (continued)
Risk weighted assets and carrying amounts

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

5. Use of estimates and judgments

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

(i) Allowances for credit losses
Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy.

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

5. Use of estimates and judgments (continued)

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

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

(b) Critical accounting judgements in applying the Group's accounting policies
(i) Valuation of financial instruments
The Group's accounting policy on fair value measurements is discussed in the significant accounting policies section 3.(c)v.ii.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

Notes to the Consolidated Financial Statements
Continued

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

5. Use of estimates and judgments (continued)

(b) Critical accounting judgements in applying the Group's accounting policies (continued)
(i) Valuation of financial instruments (continued)
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:

	Level 1	Level 2	Carrying amount
31 December 2012			
Derivative assets	–	431,202	431,202
Investment securities	431,268	7,064,489	7,948,351
	431,268	**7,495,691**	**8,379,553**
Derivative liabilities	–	349,958	349,958
	–	**349,958**	**349,958**
31 December 2011			
Derivative assets	–	343,799	343,799
Investment securities	393,868	5,358,253	6,229,663
	393,868	5,702,052	6,573,462
Derivative liabilities	–	265,592	265,592
	–	265,592	265,592

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

Notes to the Consolidated Financial Statements
Continued

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

5. Use of estimates and judgments (continued)

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

(ii) Financial asset and liability classification

The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

- in classifying financial assets or liabilities as trading, the Group has determined that it meets the description of trading assets and liabilities set out in accounting policies.
- in designating financial assets at fair value through profit or loss, the Group has determined that it has met one of the criteria for this designation set out in accounting policies.
- in classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policies.

Details of the Group's classification of financial assets and liabilities are given in Note 7.

(iii) Qualifying hedge relationships

In designating financial instruments in qualifying hedge relationships, the Group has determined that it expects the hedges to be highly effective over the period of the hedging relationship.

(iv) Impairment of investments in equity and debt securities

Investments in equity and debt securities are evaluated for impairment on the basis described in the significant accounting policies section.

(v) Useful lives of property and equipment

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

(vi) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Notes to the Consolidated Financial Statements
Continued

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

6. Operating segments

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

Commercial Banking:

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

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

3. Subsidiaries:

a) Orient 1 and Global Card Services L.L.C. provide credit card services in the Sultanate of Oman.

b) Commercialbank Investment Services (S.P.C.) provides brokerage services in the State of Qatar.

c) CBQ Finance Limited.

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

6. Operating segments (continued)

(a) By operating segment

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

	Wholesale Banking	Retail Banking	Total Commercial Banking	Subsidiaries	Unallocated	Total
31 December 2012						
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)

Notes to the Consolidated Financial Statements
Continued

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

6. Operating segments (continued)

(a) By operating segment (continued)

	Wholesale Banking	Retail Banking	Total Commercial Banking	Subsidiaries	Unallocated	Total
31 December 2011						
Net interest income	1,524,416	415,023	1,939,439	2,059	(3,898)	1,937,600
Net fee, commission and other income	605,399	279,582	884,981	6,310	34,615	925,906
Segmental revenue	2,129,815	694,605	2,824,420	8,369	30,717	2,863,506
Impairment loss on investment securities	(68,197)	–	(68,197)	–	–	(68,197)
Net impairment loss on loans and advances to customers	(209,586)	(30,329)	(239,915)	512	–	(239,403)
Segmental profit			1,682,567	1,597	(3,613)	1,680,551
Share of results of associates	–	–	–	–	–	203,420
Net profit for the year	–	–	–	–	–	1,883,971
Other information						
Assets	56,575,141	9,243,798	65,818,939	250,857	1,641,768	67,711,564
Investments in associates	–	–	–	–	–	3,926,480
Liabilities	47,087,481	10,167,407	57,254,888	64,424	88,436	57,407,748
Contingent items	18,535,026	1,630,295	20,165,321	–	–	20,165,321

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

Notes to the Consolidated Financial Statements
Continued

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

6. Operating segments (continued)

(b) By geography

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

Notes to the Consolidated Financial Statements
Continued

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

6. Operating segments (continued)

(b) By geography (continued)

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

Notes to the Consolidated Financial Statements
Continued

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

6. Operating segments (continued)

(b) By geography (continued)

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

Notes to the Consolidated Financial Statements
Continued

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

6. Operating segments (continued)

(b) By geography (continued)

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

Notes to the Consolidated Financial Statements
Continued

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

7. Financial assets and liabilities

(a) Accounting classifications and fair values
The table below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities:

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

Notes to the Consolidated Financial Statements
Continued

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

7. Financial assets and liabilities (continued)

(a) Accounting classifications and fair values (continued)
The table below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities:

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

Notes to the Consolidated Financial Statements
Continued

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

8. Cash and balances with central bank

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

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

9. Due from banks

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

10. Loans and advances to customers
(a) By type

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

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

10. Loans and advances to customers (continued)

(b) By sector

	Loans	Overdrafts	Bills discounted	Bankers acceptances	Total
31 December 2012					
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**

Notes to the Consolidated Financial Statements
Continued

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

10. Loans and advances to customers (continued)

(b) By sector (continued)

	Loans	Overdrafts	Bills discounted	Bankers acceptances	Total
31 December 2011					
Government and related agencies	6,747,899	651,353	–	–	7,399,252
Non-banking financial institutions	645,616	7,723	–	–	653,339
Industry	2,279,857	78,593	–	23,410	2,381,860
Commercial	5,437,181	142,302	49,549	24,597	5,653,629
Services	2,569,793	107,341	9,454	10,822	2,697,410
Contracting	2,597,676	170,195	48,926	39,150	2,855,947
Real estate	13,272,787	15,824	998	–	13,289,609
Personal	6,846,331	773,517	3,978	–	7,623,826
Others	390,928	–	–	–	390,928
	40,788,068	1,946,848	112,905	97,979	42,945,800
Less: Deferred Profit					(686,615)
Specific impairment allowance					(321,881)
Collective impairment allowance					(225,521)
					(1,234,017)
Net loans and advances to customers					41,711,783

Notes to the Consolidated Financial Statements
Continued

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

10. Loans and advances to customers (continued)

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

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

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

Further analysis is as follows:

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

Notes to the Consolidated Financial Statements
Continued

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

11. Investment securities

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

	2012	2011
Available-for-sale	7,891,087	6,229,663
Held to maturity	3,213,828	5,502,976
Investment securities designated at fair value through income statement	57,264	–
Total	**11,162,179**	11,732,639

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

(a) Available-for-sale

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

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

Notes to the Consolidated Financial Statements
Continued

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

11. Investment securities (continued)

(b) Held to maturity

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

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

(c) Investment securities designated at fair value through income statement

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

Notes to the Consolidated Financial Statements
Continued

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

11. Investment securities (continued)

(d) Movement in impairment loss on investment securities

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

* Further breakup as follows:

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

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

Notes to the Consolidated Financial Statements
Continued

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

12. Investments in associates

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

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

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

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

13. Property and equipment:

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

Notes to the Consolidated Financial Statements
Continued

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

14. Other assets

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

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

15. Due to banks

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

16. Customer deposits
(a) By type

	2012	2011
Current and call deposits	14,845,171	11,350,636
Saving deposits	3,692,906	3,630,898
Time deposits	22,847,469	23,007,149
	41,385,546	37,988,683

(b) By sector

	2012	2011
Government	3,250,755	5,791,316
Government and semi government agencies	6,509,328	8,778,012
Individuals	11,756,110	10,071,423
Corporate	14,385,014	9,962,814
Non-banking financial institutions	5,484,339	3,385,118
	41,385,546	37,988,683

Notes to the Consolidated Financial Statements
Continued

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

17. Debt securities

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

17. Debt securities (continued)

Movements in debt securities are analysed as follows:

	2012	2011
Balance at beginning of the year	6,871,674	8,629,875
Additions	1,791,934	–
Repayments	–	(1,820,000)
Fair value adjustment	26,565	48,697
Amortisation of discount and transaction cost	15,643	13,101
Balance at 31 December	**8,705,816**	6,871,674

The table below shows the maturity profile of debt securities:

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

18. Other borrowings

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

Notes:

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

18. Other borrowings (continued)

Movements in other borrowings are analysed as follows:

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

The table below shows the maturity profile of other borrowings:

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

Notes to the Consolidated Financial Statements

Continued

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

19. Other liabilities

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

Notes to the Consolidated Financial Statements
Continued

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

19. Other liabilities (continued)

(i) Other provisions –

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

20. Equity

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

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

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

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

(b) Legal reserve
In accordance with Qatar Central Bank's Law No. 33 of 2006 as amended, 10% of the net profit for the year is required to be transferred to legal reserve until the legal reserve equals 100% of the paid up capital. This reserve is not available for distribution except in circumstances specified in the Qatar Commercial Companies' Law No. 5 of 2002 and is subject to the approval of QCB.

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

20. Equity (continued)

(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.

(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:

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

21. Other comprehensive income

	2012	2011
Available-for-sale investments:		
Positive change in fair value	362,267	62,207
Negative change in fair value	(4,966)	(142,874)
Net change in fair value	357,301	(80,667)
Net amount transferred to profit or loss	(136,245)	(42,367)
Share of other comprehensive income of associates	10,717	(2,162)
Total other comprehensive income	**231,773**	(125,196)

22. Contribution to Social and Sports Activities Support Fund ('Daam')

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

23. Interest income

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

24. Interest expense

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

Notes to the Consolidated Financial Statements
Continued

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

25. Fee and commission income

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

26. Fee and commission expense

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

27. Foreign exchange gain

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

28 Income from investment securities

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

Notes to the Consolidated Financial Statements
Continued

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

29. Other operating income

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

30. Staff costs

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

31. Other Expenses

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

Notes to the Consolidated Financial Statements
Continued

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

32. Earning per share

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

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

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

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

33. Contingent liabilities and other commitments
(a) Contingent liabilities

	2012	2011
Unused facilities	5,326,125	5,859,107
Guarantees	12,048,098	9,088,622
Letters of credit	7,541,840	5,217,592
Total	**24,916,063**	20,165,321

(b) Other commitments

	2012	2011
Forward foreign exchange contracts and derivatives at notional value	8,266,187	6,143,561
Capital commitments	393,822	479,243
Total	**8,660,009**	6,622,804

Notes to the Consolidated Financial Statements
Continued

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

33. Contingent liabilities and other commitments (continued)

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

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

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

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

34. Cash and cash equivalents

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

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

Notes to the Consolidated Financial Statements
Continued

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

35. Derivatives

	Positive fair value	Negative fair value	Notional amount	Notional/expected amount by term to maturity: within 3 months	3 – 12 months	1-5 years	More than 5 years
At 31 December 2012:							
Derivatives held for trading:							
Forward foreign exchange contracts and interest rate swaps	329,028	349,958	7,236,881	4,174,795	39,809	2,064,757	957,520
Derivatives held for fair value hedges:							
Cross currency Interest rate swaps	102,174	–	1,029,306	–	–	1,029,306	–
Total	**431,202**	**349,958**	**8,266,187**	**4,174,795**	**39,809**	**3,094,063**	**957,520**
At 31 December 2011:							
Derivatives held for trading:							
Forward foreign exchange contracts and interest rate swaps	268,189	265,592	5,114,255	1,977,434	61,246	2,048,204	1,027,371
Derivatives held for fair value hedges:							
Cross currency interest rate swaps	75,610	–	1,029,306	–	–	1,029,306	–
Total	343,799	265,592	6,143,561	1,977,434	61,246	3,077,510	1,027,371

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

36. Investment custodian

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

Notes to the Consolidated Financial Statements
Continued

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

37. Related parties disclosure

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

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

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

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

Notes to the Consolidated Financial Statements
Continued

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

38. Comparatives

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

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

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

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

Supplementary Information

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

Financial statements of the parent bank

(a) Statement of Financial Position – Parent Bank

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

Supplementary Information
Continued

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

Financial statements of the parent bank (continued)

(b) Income Statement – Parent Bank

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

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Commercial Bank was founded in 1975, as Qatar's first private sector bank. Today, we offer a complete range of banking services, including: current and savings accounts, loans, credit cards, insurance, brokerage and investment services. We are committed to delivering excellent service and innovation that makes banking easy and gives you greater flexibility over the way you manage your money.

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