Qatar Development Bank Q.S.C.C.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

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

Report on the financial statements

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

The Directors' responsibility for the Financial Statements

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

Auditors' responsibility

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

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

Opinion

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

Report on other legal and regulatory requirements

We have obtained all the information and explanation which we consider necessary for the purpose of our audit. The Bank has maintained proper accounting records and financial statements are in agreement therewith. We are not aware of any violations of the applicable provisions of Qatar Central Bank Law No. 13 of 2012, Qatar Commercial Law No. 5 of 2002 or the terms of the Articles of Association and amendments there to having occurred during the year which might have had a material adverse effect on the business of the Bank or its financial position at 31 December 2013.

Gopal Balasubramaniam
Partner
Auditor's Registry No. 251
Date: 12 January 2014
Doha

QATAR DEVELOPMENT BANK Q.S.C.C.

STATEMENT OF FINANCIAL POSITION

QAR '000s

As at 31 December	Note	2013	2012
ASSETS			
Cash and balances with Qatar Central Bank		129,478	1,174
Due from banks	7	885,231	605,959
Loans and advances to customers	8	2,429,907	1,321,921
Investment securities	9	1,839,075	1,522,986
Investment in associates and joint ventures	10	40,911	39,972
Investment properties	11	139,190	143,052
Property and equipment	12	68,226	33,688
Other assets	13	126,149	71,197
TOTAL ASSETS		5,658,167	3,739,949
LIABILITIES			
Due to banks		1,402,737	2,737
Other liabilities	14	158,216	123,814
TOTAL LIABILITIES		1,560,953	126,551
EQUITY			
Share capital	15	3,300,000	2,900,000
Legal reserve	15	105,942	93,401
General reserve	15	1,010	1,010
Risk reserve	15	78,570	43,915
Fair value reserve	15	276,940	255,831
Retained earnings		334,752	319,241
TOTAL EQUITY		4,097,214	3,613,398
TOTAL LIABILITIES AND EQUITY		5,658,167	3,739,949

These financial statements were approved by the Board of Directors on 12 January 2014 and were signed on its behalf by:

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Sheikh Abdullah Bin Saud Al-Thani

Chairman

....

Abdulaziz Bin Nasser Al-Khalifa

Chief Executive Officer

The attached notes 1 to 23 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

QAR '000s

For the year ended 31 December	Note	2013	2012
Interest income	17	109,401	105,519
Profit from Islamic financing		24,165	20,350
Interest expense		(2,635)	(4,118)
Net interest income and profit from Islamic financing		**130,931**	121,751
Fees and commission income	18	143,633	119,040
Income from investment securities	19	27,297	23,575
Rental income and other operating income		3,969	5,477
Foreign exchange gain		1,858	1,120
Net operating income		**307,688**	270,963
Staff and other costs	20	(162,407)	(151,564)
Depreciation	11 &12	(14,864)	(13,421)
Net impairment loss on investment securities	9	(8,130)	-
Net impairment loss on loans and advances to customers	8	(58,963)	(45,073)
		(244,364)	(210,058)
Share of losses of associates and joint ventures	10	(617)	(628)
Profit for the year		**62,707**	60,277
Other comprehensive income for the year			
Items that are or may be reclassified to profit or loss			
Fair value reserve (available-for-sale financial assets):			
Net change in fair value		29,239	97,991
Net amount transferred to profit or loss		(8,130)	(211)
Other comprehensive income for the year		**21,109**	97,780
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**83,816**	158,057

The attached notes 1 to 23 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

QAR '000s

	Share Capital	Legal reserve	General reserve	Risk reserve	Fair value reserve	Retained earnings	Total
Balance at 1 January 2013	2,900,000	93,401	1,010	43,915	255,831	319,241	3,613,398
Capital contribution	400,000	-	-	-	-	-	400,000
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	62,707	62,707
Other comprehensive income	-	-	-	-	21,109	-	21,109
Total comprehensive income for the year	-	-	-	-	**21,109**	**62,707**	**83,816**
Transfer to legal reserve	-	12,541	-	-	-	(12,541)	-
Transfer to risk reserve	-	-	-	34,655	-	(34,655)	-
Balance at 31 December 2013	**3,300,000**	**105,942**	**1,010**	**78,570**	**276,940**	**334,752**	**4,097,214**
Balance at 1 January 2012	2,900,000	81,346	1,010	30,273	158,051	284,661	3,455,341
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	60,277	60,277
Other comprehensive income	-	-	-	-	97,780	-	97,780
Total comprehensive income for the year	-	-	-	-	97,780	60,277	158,057
Transfer to legal reserve	-	12,055	-	-	-	(12,055)	-
Transfer to risk reserve	-	-	-	13,642	-	(13,642)	-
Transfer to general reserve	-	-	-	-	-	-	-
Balance at 31 December 2012	2,900,000	93,401	1,010	43,915	255,831	319,241	3,613,398

The attached notes 1 to 23 form part of these financial statements.

STATEMENT OF CASHFLOWS

QAR '000s

For the year ended 31 December	Note	2013	2012
Cash flows from operating activities			
Profit for the year		62,707	60,277
Adjustments for:			
Dividend received	19	(27,297)	(23,235)
Interest received		(133,566)	(125,869)
Interest paid		2,635	4,118
Net Impairment loss on loans and advances to customers	8	58,963	45,073
Net impairment loss on investment securities	9	8,130	-
Depreciation	11 &12	14,864	13,421
Net gain on sale of available-for-sale securities		-	(340)
Share of losses from associates and joint ventures	10	617	628
		(12,947)	(25,927)
Change in loans and advances to customers		(1,166,949)	(242,968)
Change in other assets		(54,952)	(39,612)
Change in due to banks		1,400,000	(101,443)
Change in other liabilities		34,402	36,747
		199,554	(373,203)
Dividend received	19	27,297	23,235
Interest received		133,566	125,869
Interest paid		(2,635)	(4,118)
Net cash from / (used in) operating activities		357,782	(228,217)
Cash flows from investing activities			
Acquisition of investment securities		(303,110)	(75,208)
Acquisition of associates and joint ventures	10	(1,556)	(40,600)
Acquisition of property and equipment, net of disposals		(45,540)	(5,933)
Net cash (used in) investing activities		(350,206)	(121,741)
Cash flows from financing activities			
Proceeds from capital contribution	15	400,000	-
Net cash from financing activities		400,000	-
Net increase / (decrease) in cash and cash equivalents		407,576	(349,958)
Cash and cash equivalents at 1 January		557,133	907,091
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	21	964,709	557,133

The attached notes 1 to 23 form part of these financial statements.

1 REPORTING ENTITY

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

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

As per the letter dated 23 September 2013 received from Ministry of Finance, the Bank is in the process of acquiring the Q-Media Services W.L.L.

2 BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Investment in associates and joint arrangements (equity-accounted investees)

An associate is an entity, including an unincorporated entity such as a partnership, over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Significant influence is presumed to exist when the Bank holds between 20 percent and 50 percent of the voting power of another entity.

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

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

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

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

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

(b) Foreign currency

Foreign currency transactions and balances

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

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

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

(c) Islamic financing activities

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and financial liabilities

(i) Recognition and initial measurement

The Bank initially recognizes loans and advances to customers, due from / to banks and other liabilities on the date at which they are originated. All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

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

(ii) Classification

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

- loans and receivables;
- available-for-sale

Financial liabilities

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

(iii) Derecognition

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

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

(iv) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS.

(v) Measurement principles

- **Amortized cost measurement**

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment loss. The calculation of effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and financial liabilities (continued)

(v) Measurement principles (continued)

- **Fair value measurement**

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

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

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

(vi) Identification and measurement of impairment

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Cash and cash equivalents

Cash and cash equivalents include notes on hand, unrestricted balances held with Qatar central bank and other local banks and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

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

(f) Loans and advances to customers

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

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

(g) Investment securities

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

Available-for-sale financial assets

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

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

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

(h) Investment properties

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Property and equipment

(i) Recognition and measurement

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

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

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.
When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognized in other income/other expenses in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

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

The estimated useful lives for property and equipment are as follows:

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

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

(j) Impairment of non-financial assets

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of non-financial assets (continued)

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

(k) Provisions

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

(l) Financial guarantees

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

(m) Employee benefits

(i) Defined contribution plans

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

(ii) Defined Benefit plans

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

(n) Fiduciary assets

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Interest income and expense

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

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

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

(p) Fees and commission income and expense

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

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

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

(q) Income from investment securities

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

(r) Rental income

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

(s) Dividend income

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

(t) Islamic financing

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) New standards and interpretations

a) New standards, amendments and interpretations effective from 1 January 2013

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

a. IFRS 10 Consolidated Financial Statements (2011)
b. IFRS 11 Joint Arrangements
c. IFRS 13 Fair Value Measurement.
d. Presentation of Items of Other Comprehensive Income (Amendments to IAS 1).

The nature and the effects of the changes are explained below.

(a) IFRS 10 - Consolidated financial statements

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

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

(b) Joint arrangements

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

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

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

(c) Fair value measurement

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

In accordance with the transitional provisions of IFRS 13, the Bank has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Bank's assets and liabilities.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) New standards and interpretations (continued)

(d) Presentation of items of OCI

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss.
The adoption of this amendment has resulted in the Bank modifying the presentation of items of OCI in its statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented on the same basis.

The change did not have a material impact on the Bank's financial statements.

b) New standards, amendments and interpretations issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2014, and have not been applied in preparing these financial statements. Those which are relevant to the Bank are set out below. The Bank does not plan to early adopt these standards.

- *'IFRS 9, Financial Instruments'*

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

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Group has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed.

For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) New standards and interpretations (continued)

b) New standards, amendments and interpretations issued but not yet effective (continued)

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

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria IAS 32 by explaining when an entity currently has a legally enforceable right to set off and when gross settlement is equivalent to net settlement.
The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier application is permitted.

The Bank is not expecting a significant impact from the adoption of these amendments.

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

4 FINANCIAL RISK MANAGEMENT

4.1 Introduction and overview

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

Risk management framework

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

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

Risk management structure

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

Internal Audit

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

Risk measurement and reporting systems

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

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

4.2 Credit risk

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

As at and for the year ended 31 December 2013 QAR '000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.1 Credit risk measurement

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

4.2.2 Risk limit control and mitigation policies

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

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

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

	Gross maximum exposure	
	Total 2013	**Total 2012**
Due from banks	885,231	605,959
Net loans and advances to customers	2,429,907	1,321,921
Investment securities – debt	1,192,205	984,354
Other assets	126,149	71,197
Total on balance sheet	**4,633,492**	2,983,431
Guarantees (AL Dahmeen & AL Tasdeer)	350,476	134,618
Contingent liabilities	175,863	118,504
Other commitments	1,485,039	685,038
Total off balance sheet	**2,011,378**	938,160
Total exposure	**6,644,870**	3,921,591

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

	Gross maximum exposure 2013	**Net maximum exposure 2013**	Gross maximum exposure 2012	Net maximum exposure 2012
Government	744,772	744,772	676,791	676,791
Financial institutions	1,121,543	1,121,543	697,274	697,274
Industry/manufacturing	3,794,415	3,794,415	2,260,081	2,260,081
Others	984,140	984,140	287,445	287,445
	6,644,870	6,644,870	3,921,591	3,921,591

As at and for the year ended 31 December 2013 QAR '000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

Credit risk exposure

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

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

Equivalent grades	2013	2012
High Grade (Low risk) : Neither past due nor impaired	2,139,898	940,707
Standard Grade / watch list : past due but not impaired	328,356	346,682
Impaired	113,378	129,631
	2,581,632	1,417,020

As at and for the year ended 31 December 2013 QAR '000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

ii) Credit quality by class of financial assets

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

	Loans and advances to customers		Due from banks		Investment securities – debt	
	2013	2012	2013	2012	2013	2012
Neither past due nor impaired(low risk):						
Low risk – excellent	2,139,898	940,707	885,231	605,959	-	-
	2,139,898	940,707	**885,231**	605,959	-	-
Past due but not impaired (special mentioned):						
Standard Grade /watch list	328,356	346,682	-	-	-	-
Carrying amount	**328,356**	346,682	-	-	-	-
Impaired						
Substandard (overdue > 3 months)	74,626	107,782	-	-	-	-
Doubtful (overdue > 6 months)	7,032	1,159	-	-	-	-
Loss (overdue > 9 months)	31,720	20,690	-	-	-	-
	113,378	129,631	-	-	-	-
Less: impairment allowance-specific	(151,725)	(95,099)	-	-	-	-
Carrying amount – net	**2,429,907**	1,321,921	**885,231**	605,959	-	-
Investment securities - debt						
Available for sale	-	-	-	-	1,193,815	984,354
Less: impairment allowance	-	-	-	-	(1,610)	-
Carrying amount – net	-	-	-	-	1,192,205	984,354
Total carrying amount	**2,429,907**	1,321,921	**885,231**	605,959	**1,192,205**	984,354

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

(a) Due from banks:
The amount due from banks consists of all high grade exposures. There were no past due on impaired balances as at 31 December 2013 (2012: Nil)

(b) Investment securities- debt:
The Bank recognised an impairment loss of 1.6 million on financial investments for the year ended 31 December 2013 (31 December 2012: Nil).

As at and for the year ended 31 December 2013 QAR '000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

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

(c) There were no impairment losses on other assets as at 31 December 2013 (2012: Nil). All other assets were of standard grade.

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

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

	2013	2012
Upto 30 days	178,483	226,280
30 to 60 days	106,673	91,668
60 – 90 days	43,200	28,733
Gross	**328,356**	346,681

iv) Collateral

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

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

The aggregate collateral is QAR 1,031 million (2012: QAR 1,812 million) for past due up to 30 days, QAR 367 million (2012: QAR 1,099 million) for past due from 31 to 60 days and QAR 529 million (2012: QAR 665 million) for past due from 61 and above days, QAR 135 million (2012: QAR 48 million).

As at and for the year ended 31 December 2013 QAR '000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 Liquidity risk

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

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

At 31 December 2013	Up to 1 Month	1 – 3 Months	3 – 12 Months	Sub total < 1 year	1 – 5 years	Over 5 years	No maturity	Total
Cash and balances with Qatar Central Bank	129,478	-	-	129,478	-	-	-	129,478
Due from banks	735,231	-	100,000	835,231	-	50,000	-	885,231
Loans and advances to customers	54,502	88,980	256,839	400,321	1,031,877	997,709	-	2,429,907
Investment securities	-	-	-	-	-	1,192,205	646,870	1,839,075
Investment in associates and joint ventures	-	-	-	-	-	-	40,911	40,911
Investment properties	-	-	-	-	-	-	139,190	139,190
Property and equipment	-	-	-	-	-	-	68,226	68,226
Other assets	-	-	-	-	-	-	126,149	126,149
Total assets	919,211	88,980	356,839	1,365,030	1,031,877	2,239,914	1,021,346	5,658,167
Due to banks	102,737	300,000	700,000	1,102,737	300,000	-	-	1,402,737
Other liabilities	158,216	-	-	158,216	-	-	-	158,216
Equity							4,097,214	4,097,214
Total liabilities and equity	260,953	300,000	700,000	1,260,953	300,000	-	4,097,214	5,658,167
Net liquidity gap	658,258	(211,020)	(343,161)	104,077	731,877	2,239,914	(3,075,868)	-
Cumulative liquidity gap	658,258	447,238	104,077	104,077	835,954	3,075,868	-	-

As at and for the year ended 31 December 2013 QAR '000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.3 Liquidity risk (continued)

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

4 FINANCIAL RISK MANAGEMENT (continued)

4.4 Market risk

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

a) Interest rate risk

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

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

As at and for the year ended 31 December 2013 QAR '000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.4 Market risk (continued)

a) Interest rate risk (continued)

The Bank's interest sensitivity position based on contractual repricing arrangements at 31 December 2013 was as follows:

	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non-interest sensitive	Total
Cash and balances with central bank	-	-	-	-	129,478	129,478
Due from banks	735,231	100,000	-	50,000	-	885,231
Loans and advances to customers	143,482	256,839	1,031,877	997,709	-	2,429,907
Investment securities	-	-	-	1,192,205	646,870	1,839,075
Investment in associates and joint ventures	-	-	-	-	40,911	40,911
Investment properties	-	-	-	-	139,190	139,190
Property and equipment	-	-	-	-	68,226	68,226
Other assets	-	-	-	-	126,149	126,149
Total assets	**878,713**	**356,839**	**1,031,877**	**2,239,914**	**1,150,824**	**5,658,167**
Due to banks	402,737	700,000	300,000	-	-	1,402,737
Other liabilities	-	-	-	-	158,216	158,216
Equity	-	-	-	-	4,097,214	4,097,214
Total liabilities and equity	**402,737**	**700,000**	**300,000**	**-**	**4,255,430**	**5,658,167**
On balance sheet interest rate sensitivity gap	**475,976**	**(343,161)**	**731,877**	**2,239,914**	**(3,104,606)**	**-**
Cumulative interest rate sensitivity gap	**475,976**	**132,815**	**864,692**	**3,104,606**	**-**	**-**

As at and for the year ended 31 December 2013 QAR '000s

4 FINANCIAL RISK MANAGEMENT (continued)

4.4 Market risk (continued)

a) Interest rate risk (continued)

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

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

As at and for the year ended 31 December 2013 QAR '000s

4 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)

4.4 Market risk (continued)

a) Interest rate risk (continued)

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

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

		Sensitivity of net interest income	
	Increase in basis points	**2013**	**2012**
Currency			
QR	+10	**11,045**	11,768

b) Currency risk

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

c) Equity price risk

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

Market indices	**Change in equity price**	**Effect on equity 2013**	Effect on equity 2012
Qatar Exchange	%10	**62,886**	25,583

4.5 Operational and other risks

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

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

As at and for the year ended 31 December 2013 QAR '000s

4 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)

4.6 Capital management

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

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

Capital comprises of share capital, general reserve and retained earnings amounting to QR 3.9 billion (2012: QR 3.5 billion).

5 FINANCIAL ASSETS AND LIABILITIES

(a) Accounting classifications and fair values

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

	Loans and receivables	**Available-for-sale**	**Other amortised cost**	**Total Carrying amount**	**Fair value**
31 December 2013					
Cash and balances with central bank	129,478	-	-	129,478	129,478
Due from banks	885,231	-	-	885,231	885,231
Loans and advances to customers	2,429,907	-	-	2,429,907	2,429,907
Investment securities	-	1,839,075	-	1,839,075	1,839,075
Other assets	-	-	126,149	126,149	126,149
	3,444,616	1,839,075	126,149	5,409,840	5,409,840
Due to banks	-	-	1,402,737	1,402,737	1,402,737
Other liabilities	-	-	158,216	158,216	158,216
	-	-	1,560,953	1,560,953	1,560,953

	Loans and receivables	Available-for-sale	Other amortised cost	Total Carrying amount	Fair value
31 December 2012					
Cash and balances with central bank	1,174	-	-	1,174	1,174
Due from banks	605,959	-	-	605,959	605,959
Loans and advances to customers	1,321,921	-	-	1,321,921	1,321,921
Investment securities	-	1,522,986	-	1,522,986	1,522,986
Other assets	-	-	71,197	71,197	71,197
	1,929,054	1,522,986	71,197	3,523,237	3,523,237
Due to banks	-	-	2,737	2,737	2,737
Other liabilities	-	-	123,814	123,814	123,814
	-	-	126,551	126,551	126,551

5 FINANCIAL ASSETS AND LIABILITIES (continued)

(a) Accounting classifications and fair values (continued)

Investment securities - at cost

At 31 December 2013, certain unquoted financial assets available for sale amounting to QR 18 million (2012: 19.04 million) are carried at cost due to non availability of quoted market prices or other reliable measures of their fair values. Management believes there is no impairment in their value.

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

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

6 USE OF ESTIMATES AND JUDGMENTS

(a) Key sources of estimation uncertainty

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable 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 judgments 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 impairments on specific counter parties are determined based on the Qatar Central Bank regulations.

(ii) Allowances for financial assets not carried at fair values through profit and loss

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

For an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In this respect, the Bank regards a decline in fair value in excess of 20% to be 'significant' and a decline in a quoted market price that persisted for nine months or longer to be 'prolonged'.

As at and for the year ended 31 December 2013 QAR '000s

6 USE OF ESTIMATES AND JUDGMENTS (continued)

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

(i) Valuation of financial instruments

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

31 December 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Investment securities	**1,821,068**		**18,006**	**1,839,075**

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

(ii) Impairment of investments in equity and debt securities

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

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

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

7 DUE FROM BANKS

	2013	**2012**
Current accounts	598,968	-
Call accounts	136,263	125,959
Placements	150,000	480,000
	885,231	605,959
The geographical distribution is set out below:		
Qatar	874,481	604,893
North America	10,587	846
Europe	163	81
Other GCC countries	-	139
	885,231	605,959

As at and for the year ended 31 December 2013 QAR '000s

8 LOANS AND ADVANCES TO CUSTOMERS

a) By type.	2013	2012
(i)Conventional banking loans and advances		
Non- agricultural and fishery loans	2,030,096	873,679
Agricultural and fishery loans	30,412	33,789
	2,060,508	907,468
Specific impairment on advances to customers	(151,725)	(95,099)
Conventional banking loans and advances	**1,908,783**	812,369
(ii)Islamic financing activities		
Murabaha	71,609	72,603
Istisna'a	447,083	471,607
Ijarah	39,791	12,168
	558,483	556,378
Deferred income on Islamic finances	(37,359)	(46,826)
Net financing activates	**521,124**	509,552
Net loan and advances and financing activities	**2,429,907**	1,321,921

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

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

	2013	2012
At 1 January	95,099	70,773
Charge for the year	68,512	35,317
Recoveries	(11,886)	(10,991)
At 31 December	**151,725**	95,099

Interest in suspense of QR 5,383 thousand as at 31 December 2013 (2012: QR 6,161 thousand) is for the purpose of Qatar Central Bank regulatory requirements, effectively included in the above allowance for impairment on loans and advances. Movement in interest in suspense during the year amounted to a net recovery of QR 778 thousand (2012: net charge of QR 360 thousand).

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

The net amount of non-performing loans and advances and financing activities to customers as at 31 December 2013 amounted to QR 113 million representing 4.3% (2012: QR 130 million representing 9.6 %) of the total gross loans and advances to customers.

e) Net impairment during the year:

	2013	2012
Loans and advances (net of recoveries)	57,404	24,326
Other provisions	2,337	21,107
Interest in suspense	(778)	(360)
For the year ended 31 December	58,963	45,073

As at and for the year ended 31 December 2013 QAR '000s

9 INVESTMENT SECURITIES

	2013			2012		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Available for sale investments						
a) By type						
Equity securities measured at fair value	635,382		635,382	519,592	-	519,592
Equity securities measured at cost		7,016	7,016	-	6,834	6,834
State of Qatar Bonds	701,347		701,347	467,041	-	467,041
Other debt securities	492,470	-	492,470	517,313		517,313
Investment funds		10,990	10,990	-	12,206	12,206
Total	**1,829,199**	**18,006**	**1,847,205**	1,503,946	19,040	1,522,986
Impairment loss	(8,130)	-	(8,130)	-	-	-
Total	**1,821,069**	**18,006**	**1,839,075**	1,503,946	19,040	1,522,986

The State of Qatar Bonds and other debt securities financial assets amounting to QR. 701.3 million and QR. 492.5 million respectively (2012: QR 467 million and QR. 517 million) represent investments in fixed rate securities. There are no investments in floating rate securities as at 31 December 2013.

The impairment losses recognized on the investments during 2013 amount to QR 8.1 million (2012: Nil).

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	2013	2012
Balance at 1 January	39,972	-
Investments acquired during the year	1,556	40,600
Share of results	(617)	(628)
Balance at 31 December	40,911	39,972

Name of the Company	Amount 2013	Amount 2012	Associates/ Joint venture	Country	Company's Activities	Ownership % 2013	Ownership % 2012
Al Shams advanced lighting technologies	**7,056**	5,500	Associate	Qatar	Manufacturing HID lamps and other lighting products	29.6%	19.7%
Qatar Business Incubator	**35,000**	35,000	Joint Venture	Qatar	Career development and entrepreneurship services for the youth of Qatar	50%	50%
The Bedaya Centre	**100**	100	Joint Venture	Qatar	Catering to the diversified needs of SMEs with tailor-made solutions and toolkits.	50%	50%

The financial position and results of associates and joint ventures based on financial statements, as at and for the year ended 31 December 2013 are as follows:

As at and for the year ended 31 December 2013 QAR '000s

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

31 December 2013	Al Shams advanced lighting technologies	Qatar Business incubator	The Bedaya Centre
Total assets	14,231	70,047	1,458
Total liabilities	8,856	47	1,258
Total revenue	2,137	-	-
Net loss	2,693	-	(6,700)
Share of net loss	617	-	-

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

11 INVESTMENT PROPERTIES

The movement in investment property is as follows:

	Buildings	Land	Total
Cost			
Balance at 1 January 2012	96,557	53,576	150,133
Acquisitions	-	-	-
Balance at 31 December 2012	96,557	53,576	150,133
Balance at 1 January 2013	96,557	53,576	150,133
Acquisitions	-	-	-
Balance at 31 December 2013	**96,557**	**53,576**	**150,133**
Accumulated depreciation			
Balance at 1 January 2012	(3,218)	-	(3,218)
Charge during the year	(3,863)	-	(3,863)
Balance at 31 December 2012	(7,081)	-	(7,081)
Balance at 1 January 2013	(7,081)	-	(7,081)
Charge during the year	(3,862)	-	(3,862)
Balance at 31 December 2013	**(10,943)**		**(10,943)**
Carrying amounts			
Balance at 1 January 2012	93,339	53,576	146,915
Balance at 31 December 2012	89,476	53,576	143,052
Balance at 31 December 2013	**85,614**	**53,576**	**139,190**

The investment property is valued at QR: 140 million as on 31 December 2013 (2012 QR: 147 million). This value is based on average market values carried out by independent valuers not connected with the Bank, by reference to market evidence of recent transactions for similar properties.

Rental income generated from this investment property amounting to QR 3,458 million (2012: QR 4,876 million) and no direct operating expenses were recognized in the statement of income during the year.

QAR '000s

12 PROPERTY AND EQUIPMENT

	Land and building	Furniture and fixtures	Office Equipment	Work-in-progress	Total
Cost					
Balance at 1 January 2012	23,343	10,103	23,236	-	56,682
Additions	34	423	5,476	-	5,933
Disposals	-	-	(5)	-	(5)
Balance at 31 December 2012	23,377	10,526	28,707	-	62,610
Balance at 1 January 2013	23,377	10,526	28,707	-	62,610
Additions	-	81	8,777	36,716*	45,574
Disposals	(34)	-	-	-	(34)
Balance at 31 December 2013	**23,343**	**10,607**	**37,484**	**36,716**	**108,150**
Accumulated Depreciation					
Balance at 1 January 2012	7965	5910	5493	-	19,368
Depreciation during the year	934	2,069	6,555	-	9,558
Disposals	-	-	(4)	-	(4)
Balance at 31 December 2012	8,899	7,979	12,044	-	28,922
Balance at 1 January 2013	8,899	7,979	12,044	-	28,922
Depreciation during the year	953	1,145	8,904	-	11,002
Disposals					
Balance at 31 December 2013	**9,852**	**9,124**	**20,948**	**-**	**39,924**
Carrying amounts					
Balance at 1 January 2012	15,378	4,193	17,743	-	37,314
Balance at 31 December 2012	14,478	2,548	16,663	-	33,688
Balance at 31 December 2013	**13,491**	**1,483**	**16,536**	**36,716**	**68,226**

*This represents the cost incurred on renovating the head office building. Management is in process of allocating these expenditures to the respective classes of assets.

As at and for the year ended 31 December 2013 QAR '000s

13 OTHER ASSETS

	2013	2012
Accrued interest receivable	46,569	41,927
Staff furniture allowance	9,462	8,505
Prepayments	6,837	3,201
Other receivables (a)	3,952	14,017
Work in progress (b)	58,807	-
Other debit balances	522	3,547
	126,149	71,197

(a) Other receivables include receivables from Qatar Business Incubator and Bedaya Centre amounting to QR 47 thousand and QR 3.9 million respectively.

(b) This represents the expenses incurred on construction of the Al-Farjan project in collaboration with Ministry of Business and Trade.

14 OTHER LIABILITIES

	2013	2012
Deferred income	81,513	68,029
Accruals and others	19,128	11,000
Accounts payable	7,207	3,961
Provision for end of service benefits (a)	10,395	8,117
Other provisions (b)	22,667	21,107
Board and committee's remuneration payable	7,150	4,000
Margin deposits	9,407	6,830
Loan fees payable	749	770
	158,216	123,814

(a) Provision for end-of-service benefits

	2013	2012
At 1 January	8,117	4,792
Provision made during the year	2,597	4,319
Payments during the year	(319)	(994)
At 31 December	10,395	8,117

(b) This represents the provision made during the year against guarantees (AL –Dahmeen).

15 EQUITY

Share capital
The authorised capital of the Bank amounts to QR 10,000 million (2011: QR 10,000 million) consisting of 1,000 million shares of QR 10 each. The paid up capital amounted to QR 3,300 million consisting of 330 million shares of QR 10 each. The Government of the State of Qatar is the ultimate parent and controlling party of the Bank.

During the year the Bank has received QR 400 million from the Government as a contribution towards the authorised capital.

As at and for the year ended 31 December 2013 QAR '000s

15 EQUITY (continued)

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

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

Risk reserve
In accordance with Qatar Central Bank rules and regulations, a risk reserve is made to cover contingencies on the loans, advances and financing activities to customers with a minimum requirement of 2.5% in 2013 (2012: 2%) of the total private sector exposure, net of cash secured facilities is made to cover contingencies on the private sector loans and advances. The Bank is currently transferring 3% to the reserve (2012: 3%).

Fair value reserve

Available-for-sale investments	**Positive fair value 2013**	**Negative fair value 2013**	**Total 2013**
At 1 January	260,628	(4,797)	255,831
Net movement in unrealized fair value during the year	16,965	4,144	21,109
At 31 December	**277,593**	**(653)**	**276,940**

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

16 CONTINGENT LIABILITIES AND COMMITMENTS

	2013	2012
Al-Tasdeer	158,835	11,333
Al- Dahmeen	191,641	123,285
Letters of guarantee	48,305	8,570
Letters of credit	127,558	109,934
Unutilised credit facilities	1,485,039	685,038
Capital commitments	13,026	13,206
Others	48,401	47,751
	2,072805	999,117

As at and for the year ended 31 December 2013 QAR '000s

16 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

i) Al-Tasdeer (export promotion agency)

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

ii) Guarantees, Al-Dahmeen and letters of credit

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

iii) Unutilized facilities

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

iv) Capital commitments

This includes the Bank's commitments towards the share capital of the investee company and fund as per the shareholders agreement.

17 INTEREST INCOME

	2013	2012
Due from banks	11,587	17,113
Loans and advances to customers	45,871	39,969
Debt securities	51,943	48,437
	109,401	105,519

18 FEE AND COMMISSION INCOME

	2013	2012
Fee income on loans and advances	5,663	6,229
Fee income on land loans department	130,105	108,990
Fee income on Al-Tasdeer	2,462	1,490
Fee income on Al- Dahmeen	2,654	733
Fee income on indirect facilities	2,749	1,598
	143,633	119,040

19 INCOME FROM INVESTMENT SECURITIES

	2013	2012
Net gains on sale of available-for-sale financial assets	-	340
Dividend income	27,297	23,235
	27,297	23,575

As at and for the year ended 31 December 2013 QAR '000s

20 STAFF AND OTHER COSTS

	2013	2012
Staff cost	104,735	95,598
Repairs and maintenance	3,485	4,308
Board of Directors and committee's remuneration	4,000	4,000
Advertisement	15,049	15,553
Professional and Governmental fees	23,758	20,616
Communication and insurance	1,868	3,645
Travel and entertainment	1,028	3,156
Printing and stationery	795	490
Others	7,689	4,198
	162,407	151,564

21 CASH AND CASH EQUIVALENTS

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

	2013	2012
Cash and balances with Qatar Central Bank	129,478	1,174
Current accounts with banks	598,968	-
Call accounts with banks	136,263	125,959
Term deposit with banks (with an original maturity of 90 days or less)	100,000	430,000
	964,709	557,133

22 RELATED PARTY DISCLOSURES

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

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

	2013 Government of State of Qatar	2012 Government of State of Qatar
a) Statement of financial position		
Financial investments	**701,347**	467,041
Other receivable (note 13a)	**3,952**	10,500
b) Statement of comprehensive income		
Interest on the State of Qatar bonds	**26,358**	22,101

Board of Directors remuneration amounted to QR 2,800 thousand (2012: QR 2,800 thousand).

Compensation of key management personnel is as follow:

	2013	2012
Salaries and other benefits	**7,443**	6,252

23 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation in the current period's financial statements. However, such reclassification does not have any effect on the net income, net assets and equity of the previous period.