

**HSBC BANK MIDDLE EAST LIMITED  
QATAR BRANCH**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 DECEMBER 2013**

**HSBC Bank Middle East Limited - Qatar Branch**

**FINANCIAL STATEMENTS**

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## **INDEPENDENT AUDITORS' REPORT TO THE MANAGEMENT OF HSBC BANK MIDDLE EAST LIMITED – QATAR BRANCH**

### **Report on the financial statements**

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

#### *Management's responsibility for the financial statements*

The management of the Bank is 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 the 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 of 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 consider internal control 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 at 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 the financial statements are in agreement therewith. We are not aware of any violations of the provisions of Qatar Central Bank Law No. 13 of 2012 and Qatar Commercial Law No. 5 of 2002 which might have had a material adverse effect on the business of the Bank or its financial position as at 31 December 2013.

26 February 2014  
Doha  
State of Qatar

Gopal Balasubramaniam  
KPMG  
Qatar Auditors' Registry No.  
251

**STATEMENT OF FINANCIAL POSITION****As at 31 December 2013**

In thousands of Qatari Riyals

	Note	2013	2012
<b>ASSETS</b>			
Cash and balances with Qatar Central Bank	6	883,035	1,122,205
Due from banks	7	2,346,037	3,419,741
Loans and advances to customers	8	7,426,002	7,299,633
Investment securities	9	6,371,256	5,100,529
Property and equipment	10	29,753	34,386
Intangible assets	11	2,424	2,211
Other assets	12	231,385	248,286
<b>TOTAL ASSETS</b>		<b><u>17,289,892</u></b>	<b><u>17,226,991</u></b>
<b>LIABILITIES</b>			
Due to banks	13	2,817,739	2,081,564
Customer deposits	14	10,412,651	9,704,925
Debt securities	15	313,243	2,110,479
Other liabilities	16	1,439,548	1,087,055
<b>TOTAL LIABILITIES</b>		<b><u>14,983,181</u></b>	<b><u>14,984,023</u></b>
<b>EQUITY</b>			
Share Capital	17(a)	100,000	100,000
Legal reserve	17(b)	88,611	52,123
Fair value reserve	17(c)	42,386	69,603
Actuarial valuation adjustment	17(d)	(6,857)	(5,910)
Share based payment reserve	17(e)	1,129	992
Other reserve	17(f)	121,183	121,183
Retained earnings		1,960,259	1,904,977
<b>TOTAL EQUITY</b>		<b><u>2,306,711</u></b>	<b><u>2,242,968</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>17,289,892</u></b>	<b><u>17,226,991</u></b>

The financial statements were approved and signed on behalf of the Management of HSBC Bank Middle East Limited - Qatar Branch by the following on 26 February 2014

Abdul Hakeem Mostafawi  
Chief Executive Officer

Aravind Krishnaswamy  
Chief Financial Officer

The attached notes 1 to 33 form an integral part of these financial statements.

**INCOME STATEMENT**

For the year ended 31 December 2013

In thousands of Qatari Riyals

	Note	2013	2012
Interest income	18	398,588	447,397
Interest expense	18	<u>(44,429)</u>	<u>(67,876)</u>
<b>Net interest income</b>		<b><u>354,159</u></b>	<b><u>379,521</u></b>
Fee and commission income		235,723	247,603
Fee and commission expense		<u>(11,352)</u>	<u>(13,247)</u>
<b>Net fee and commission income</b>	19	<b><u>224,371</u></b>	<b><u>234,356</u></b>
Foreign exchange gain	20	121,372	146,597
Income from investment securities	21	2,659	2,352
Other operating income	22	<u>14,843</u>	<u>18,880</u>
<b>Net operating income</b>		<b><u>717,404</u></b>	<b><u>781,706</u></b>
Staff costs	23	(129,255)	(138,415)
Depreciation and amortization		(8,845)	(9,507)
Net (impairment loss)/reversal on loans and advances to customers	8(c)	(11,160)	717
Other expenses	24	<u>(170,091)</u>	<u>(166,144)</u>
<b>Profit for the year before tax</b>		<b><u>398,053</u></b>	<b><u>468,357</u></b>
Tax expense	25	<u>(33,170)</u>	<u>(47,127)</u>
<b>Profit for the year</b>		<b><u><u>364,883</u></u></b>	<b><u><u>421,230</u></u></b>

The attached notes 1 to 33 form an integral part of these financial statements.

**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 31 December 2013**

In thousands of Qatari Riyals

	<b>Note</b>	<b>2013</b>	2012
<b>Profit for the year</b>		364,883	421,230
<b>Other comprehensive income for the year</b>			
<b>Items that are, or may, be reclassified subsequently to profit or loss</b>			
Net change in fair value of available-for-sale financial assets	17(c)	(27,217)	(16,419)
Actuarial (loss) on defined benefit plan	16.1	<u>(947)</u>	<u>(2,260)</u>
<b>Other comprehensive income for the year</b>		<u><b>(28,164)</b></u>	<u>(18,679)</u>
<b>Total comprehensive income for the year</b>		<u><b>336,719</b></u>	<u>402,551</u>

The attached notes 1 to 33 form an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2013**

In thousands of Qatari Riyals

	Share Capital	Legal reserve	Fair value reserve	Actuarial valuation adjustment	Share based payments reserve	Other reserve	Retained earnings	Total
Balance at 1 January 2012	10,000	10,000	86,022	(3,650)	9,579	121,183	2,071,054	2,304,188
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	421,230	421,230
<u>Other comprehensive income</u>								
Defined benefit plan actuarial gain	-	-	-	(2,260)	-	-	-	(2,260)
Net change in fair value of available-for-sale investments	-	-	(16,419)	-	-	-	-	(16,419)
Total comprehensive income for the year	-	-	(16,419)	(2,260)	-	-	421,230	402,551
Transfer to legal reserve (note 17b)	-	42,123	-	-	-	-	(42,123)	-
Increase in share capital (note 17a)	90,000	-	-	-	-	-	(90,000)	-
Profits remitted to Head Office	-	-	-	-	-	-	(455,184)	(455,184)
Fair value of share based payments	-	-	-	-	(8,587)	-	-	(8,587)
Balance at 31 December 2012	100,000	52,123	69,603	(5,910)	992	121,183	1,904,977	2,242,968
<b>Balance at 1 January 2013</b>	<b>100,000</b>	<b>52,123</b>	<b>69,603</b>	<b>(5,910)</b>	<b>992</b>	<b>121,183</b>	<b>1,904,977</b>	<b>2,242,968</b>
<b>Total comprehensive income for the year</b>								
Profit for the year	-	-	-	-	-	-	364,883	364,883
<u>Other comprehensive income</u>								
Defined benefit plan actuarial loss	-	-	-	(947)	-	-	-	(947)
Net change in fair value of available-for-sale investments	-	-	(27,217)	-	-	-	-	(27,217)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(27,217)</b>	<b>(947)</b>	<b>-</b>	<b>-</b>	<b>364,883</b>	<b>336,719</b>
Transfer to legal reserve (note 17b)	-	36,488	-	-	-	-	(36,488)	-
Profits remitted to Head Office	-	-	-	-	-	-	(273,113)	(273,113)
Fair value of share based payments	-	-	-	-	137	-	-	137
<b>Balance at 31 December 2013</b>	<b>100,000</b>	<b>88,611</b>	<b>42,386</b>	<b>(6,857)</b>	<b>1,129</b>	<b>121,183</b>	<b>1,960,259</b>	<b>2,306,711</b>

The attached notes 1 to 33 form an integral part of these financial statements.



**STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2013**

In thousands of Qatari Riyals

	Note	2013	2012
<b>Cash flows from operating activities</b>			
Profit for the year before tax		398,053	468,357
Adjustments for:			
Net impairment loss/(reversal) on loans and advances to customers	8(c)	11,160	(717)
Depreciation and amortization		8,845	9,507
Write-off of property and equipment		-	552
Provision for employees end of service benefits	16.1	8,401	1,577
Amortization of premium on debt securities		2,846	9,996
Changes in fair value of derivatives		(1,550)	823
Interest income		(398,588)	(447,397)
Interest expense		44,429	67,876
Loss on disposal of property and equipment		58	234
Cash generated before change in operating assets and liabilities		73,654	110,808
Change in cash reserve with Qatar Central Bank		6,661	(18,436)
Change in loans and advances to customers		(137,529)	(315,994)
Change in other assets		13,467	(21,592)
Change in customer deposits		707,726	(400,828)
Change in due to banks		736,175	(525,939)
Change in other liabilities		354,515	113,371
		1,754,669	(1,058,610)
Employees end of service benefits paid	16.1	(3,817)	(7,410)
Interest received		403,519	426,999
Interest paid		(47,382)	(67,291)
Tax paid	16.2	(37,580)	(44,904)
<b>Net cash from/(used in) operating activities</b>		<u>2,069,409</u>	<u>(751,216)</u>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities		(4,641,066)	(3,335,913)
Net redemptions of investment securities		3,343,122	4,154,887
Acquisition of property and equipment and intangible assets		(4,524)	(2,056)
Proceeds from disposal of property and equipment		41	472
<b>Net cash (used in)/from investing activities</b>		<u>(1,302,427)</u>	<u>817,390</u>
<b>Cash flows from financing activities</b>			
Redemption of debt securities		(1,800,082)	-
Profits remitted to Head Office		(273,113)	(455,184)
<b>Net cash (used in) financing activities</b>		<u>(2,073,195)</u>	<u>(455,184)</u>
<b>Net decrease in cash and cash equivalents</b>		(1,306,213)	(389,010)
Cash and cash equivalents as at 1 January		4,027,009	4,416,019
<b>Cash and cash equivalents as at 31 December</b>	28	<u><u>2,720,796</u></u>	<u><u>4,027,009</u></u>

The attached notes 1 to 33 form an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

In thousands of Qatari Riyal

**1. REPORTING ENTITY**

HSBC Bank Middle East Limited (the "Head Office") is a Company incorporated in Jersey and its ultimate holding Company is HSBC Holdings plc (the "Group"), which is incorporated in England. These financial statements represent the assets, liabilities and results of HSBC Bank Middle East Limited, Qatar Branch (the "Bank"). The principal office address of the Bank in Qatar is P.O. Box 57, Doha.

The principal activities of the Bank in Qatar are commercial banking services which are carried out from three branches.

**2. BASIS OF PREPARATION****a) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and the applicable provisions of the Qatar Central Bank ("QCB") regulations.

**b) Basis of measurement**

These financial statements have been prepared on the historical cost basis, except for available-for-sale financial assets; financial assets held at fair value through profit and loss and derivative financial instruments which are measured at fair value.

**c) Functional and presentation currency**

The financial statements are presented in Qatari riyals which is the Bank's functional currency and all values are rounded to the nearest thousand (QR '000) except when otherwise indicated.

**d) Use of estimates and judgements**

The preparation of financial statements 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 estimates are revised and in any future periods affected.

In particular, information about significant areas of estimating uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the note 5.

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

**a) 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 recognised in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

In thousands of Qatari Riyal

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****b) Financial assets and financial liabilities****i) Recognition**

The Bank initially recognises loans and advances and customer deposits on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on 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**

The Bank classifies its financial assets into one of the following categories:

- Loans and receivables;
- Available-for-sale; and
- At fair value through profit or loss, and within this category as:
  - Held for trading; or
  - Designated at fair value through profit or loss.

**Financial liabilities**

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

**iii) De-recognition**

The Bank de-recognizes a financial asset when the contractual rights to receive cash flows from that asset expire or it transfers the right to receive the contractual cash flows of that asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred.

The Bank de-recognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

**iv) Offsetting**

Financial assets and liabilities are set off 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 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 by an accounting standard, or for gains and losses arising from a group of similar transactions.

**v) Amortised cost measurement**

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial 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 deduction for impairment.

**vi) 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 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, 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.

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

In thousands of Qatari Riyal

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****b) Financial assets and financial liabilities (continued)****vi) Fair value measurement (continued)**

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

If an asset or liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

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

**vii) 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.

The Bank considers evidence of impairment for loans and advances at both specific and collective level. All individually significant loans and advances are assessed for specific impairment at least quarterly and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value.

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.

The Bank writes off a loan, wither partially or in full, and any related allowance for impairment losses, when the Bank determines that there is no realistic prospect of recovery.

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

In thousands of Qatari Riyal

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****c) Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, balances held with Qatar Central Bank, due to banks, items in the course of collection from banks or in transmission to other banks, and certificates of deposits. Cash and cash equivalents include highly liquid financial assets with original 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 amortised cost in the statement of financial position.

**d) Loans and advances**

'Loans and advances' 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 include loans and advances to customers and due from banks.

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

**e) Investment securities**

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either available-for-sale or held for trading.

**i). Available-for-sale**

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. Available-for-sale financial assets are measured at fair value on an individual basis.

Interest income is recognised in profit or loss using the effective interest method. 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 reclassified to profit or loss as a reclassification adjustment.

**ii). Held for trading**

Government bonds and treasury bills are classified as held for trading if they have been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. These financial assets are recognised on trade date, when the bank enters into contractual arrangements with counterparties to purchase or sell the financial instruments, and are normally derecognised when sold. Measurement is initially at fair value, with transaction costs taken to the profit or loss. Subsequently their fair values are re-measured, and gains and losses from changes therein are recognised in the profit or loss.

**f) Derivative financial instruments**

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative financial instruments include interest rate swaps, cross currency swaps and forward exchange swaps. The resultant gains and losses from derivatives held for trading purposes are included in the profit or loss. The Bank does not hold any derivatives for hedging purposes as at 31 December 2013.

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

In thousands of Qatari Riyal

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****g) Intangible assets**

Intangible assets includes computer software, both purchased and internally generated software. The cost of internally generated software comprises all directly attributable costs necessary to create the software to be capable of operating in the manner intended by management. Costs incurred in the on going maintenance of software are expensed immediately as incurred.

Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

Intangible assets that have a finite useful life are stated at cost less amortisation and accumulated impairment losses and are amortised over their estimated useful lives. Estimated useful life is the lower of legal duration and expected useful life.

Intangible assets with finite useful lives are amortised on a straight-line basis over their useful lives as follows:

Internally developed software	3-5 years
Purchased software	3-5 years

**h) Property and equipment****i) Recognition and measurement**

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

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

**ii) Subsequent costs**

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

**iii) Depreciation**

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

Depreciation is computed on a straight line basis over the estimated useful lives of each asset category as follows:

Leasehold improvements	Over the lease period
Machinery and office equipment	3 – 7 years
Office furniture	5 years
Motor vehicles	5 years

Property and equipment is subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

In thousands of Qatari Riyal

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****i) 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. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

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.

**j) Customer deposits, due to banks and debt securities**

Customer deposits, due to banks and debt securities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

**k) Provisions**

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognised because it not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

**l) Employee benefits****i) Defined contribution plan**

With respect to the Qatari employees, the Bank is required to make contributions to Government Pensions Retirement Authority as a percentage of the employees' salaries from 1 April 2003, in accordance with the requirements of Law No. 24 of 2002 pertaining to Retirement and Pensions. The Qatar Retirement and Pension Authority is then liable to pay the Qatari Staff for their pension entitlement. The Bank's liability is discharged once the share of contribution is made. The Banks' contributions to this scheme are charged to the profit or loss in the year to which they relate.

**ii) Defined benefit scheme**

For the expatriate employees the Bank provides end of service benefits determined in accordance with Bank's regulations and the Labour Law of Qatar, based on employees' salaries and the number of years of service at the date of statement of financial position. Provisions for this unfunded commitment which represents a defined benefit plan under International Accounting Standard (IAS) 19 – 'Employee Benefits', have been made by calculating the notional liability at the date of statement of financial position. The actuary has used the "Projected Unit Credit Method" in determining the liability. Any short fall or excess in the actuarial valuation is taken to statement of other comprehensive income.

**iii) Short term benefits**

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

**iv) Share based payments**

Shares in HSBC Holdings plc. are awarded to employees in certain cases. Equity settled share based payment arrangements entitle employees to receive equity instruments in HSBC.

The cost of equity-settled share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted and recognised as an expense on a straight-line basis over the vesting period, with a corresponding credit to 'share based payment reserve'. The vesting period is the period during which all the specified vesting conditions of the arrangement are to be satisfied. The fair value of equity instruments that are made available immediately, with no vesting period attached to the award, are expensed immediately.

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

In thousands of Qatari Riyal

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****iv) Share based payments (continued)**

Fair value is determined by using appropriate valuation models, taking into account the terms and conditions of the award. Vesting conditions include service conditions and performance conditions; any other features of a share-based payment arrangement are non-vesting conditions. Market performance conditions and non-vesting conditions are taken into account when estimating the fair value of equity instruments at the date of grant, so that an award is treated as vesting irrespective of whether the market performance condition or non-vesting condition is satisfied, provided all other vesting conditions are satisfied.

Vesting conditions, other than market performance conditions, are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On a cumulative basis, no expense is recognised for equity instruments that do not vest because of a failure to satisfy non-market performance or service conditions.

Where an award has been modified, as a minimum the expense of the original award continues to be recognised as if it had not been modified. Where the effect of a modification is to increase the fair value of an award or increase the number of equity instruments, the incremental fair value of the award of the extra equity instruments is recognised in addition to the expense of the original grant, measured at the date of modification, over the modified vesting period.

A cancellation that occurs during the vesting period is treated as an acceleration of vesting, and recognised immediately for the amount that would otherwise have been recognised for services over the vesting period.

**m) Interest income and expense**

Interest income and expense for all financial instruments except for those classified as held for trading or designated at fair value (except for debt securities issued by the Bank and derivatives managed in conjunction with those debt securities) are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability (or Bank of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by the Bank that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**n) Non interest income**

Fee income is earned from a diverse range of services provided by the Bank to its customers. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as an arrangement for the acquisition of shares or other securities);
- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in 'Interest income'.

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with related interest income, expense and dividends.



**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****n) Non interest income (continued)**

Net income/ (expense) from financial instruments designated at fair value includes:

- all gains and losses from changes in the fair value of financial liabilities designated at fair value;
- all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial liabilities designated at fair value; and
- interest income, interest expense and dividend income in respect of:
  - financial liabilities designated at fair value; and
  - derivatives managed in conjunction with the above, except for interest arising from the Bank's issued debt securities and derivatives managed in conjunction with those debt securities, which is recognised in 'Interest expense'.

**o) Fee and commission**

Fee and commission income and expenses 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 commissions including commission and fees arising from negotiating or participating in the negotiation of, a transaction for a third party on completion of the underlying transaction are recognised as and when the service has been provided. Other service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis.

**p) Taxation**

Income tax on the profit for the year comprises current year tax and adjustments relating to previous year's income tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates effective at the date of statement of financial position as per Qatar Income Tax Law No. 21 of 2009, after any adjustment to tax payable in respect of previous years.

**q) Leases**

The leases entered into by the Bank are primarily operating leases. Leases of buildings wherein the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. The total payments made under operating leases are charged to the profit or loss on a payment basis over the period of the lease.

**r) Off-balance sheet items**

These are items that the Bank is a party to, including obligations for foreign exchange forwards and letters of credit, guarantees and others that do not constitute actual assets or liabilities at the date of statement of financial position and are therefore shown as memorandum items.

**s) Financial guarantees**

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, and guarantees. Financial guarantees are initially recognised at fair value, which is the fee received or receivable. The initial fair value is amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

Any increase in the liability relating to financial guarantees is taken to the income statement as provision for credit losses. The fee received is recognised in the income statement as fees and commission income.

**t) Fiduciary assets**

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

**u) Comparatives**

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

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

In thousands of Qatari Riyal

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****v) Standards, amendments and interpretations issued****New standards, amendments and interpretations effective from 1 January 2013****i) IAS 1 (amendment) – Presentation of items of other comprehensive income**

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

The 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 had no significant impact on the financial statements.

Notwithstanding the above, the following new standards which became also effective, did not have a material impact on the financial position or performance of the Bank.

**ii) IAS 19 – Employee benefits (2011)**

IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. IAS 19 (2011) requires the Bank to determine the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on net defined liability (asset) now comprises: interest cost on the defined benefit obligation and interest income on plan assets. Previously, interest income on plan assets was determined based on their long-term rate of expected return.

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

**iii) Amendments to IFRS 7 on offsetting financial assets and financial liabilities (2011)**

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

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

**iv) IFRS 13 – 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.

The adoption this standard resulted in the valuation adjustment of QAR 9.4 million as a result of adoption of the new methodology for calculating the CVA (credit valuation adjustment) on counter party exposures.

**v) Improvements to IFRSs (2011)**

Improvements to IFRS issued in 2011 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. There were no significant changes to the current accounting policies of the Bank as a result of these amendments.

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****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 after 1 January 2013, and have not been applied in preparing these financial statements. Those which are relevant to the Bank are set out below:

**i) IFRS 9 – Financial instruments**

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

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.

The Bank is currently assessing the impact of this standard for future periods. The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalized.

**Early adoption of standards**

The Bank did not early adopt any new or amended standards or interpretations in 2013.

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

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**4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT****a) Introduction and overview**

All the Bank's activities involve, to varying degrees, the analysis, evaluation, acceptance and management of risks or combinations of risks. The most important categories of risk that the Bank is exposed to are credit risk (including cross-border country risk), market risk, liquidity risk and operational risks. Market risk includes foreign exchange, interest rate and equity price risks.

The management of these various risk categories is discussed below.

The risk profiles of the Bank and of individual operating entities change constantly under the influence of a wide range of factors. The risk management framework established by the Bank fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interdependencies.

**Risk governance and ownership**

A well-established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk at Bank, regional, customer group and operating entity levels.

The HBME Board approves the group's risk appetite framework, plans and performance targets for the group and its principal operating subsidiaries, the appointment of senior officers, the delegation of authorities for credit and other risks and the establishment of effective control procedures. The HBME Audit and Risk Committee is responsible for advising the HBME Board on material risk matters and providing non-executive oversight of risk. Under authority delegated by the HBME Board, the separately convened HBME Risk Management Committee ('RMC') formulates high-level group risk management policy, exercises delegated risk authorities and oversees the implementation of risk appetite and controls. The RMC together with the Asset and Liability Committee ('ALCO') monitors all categories of risk, receives reports on actual performance and emerging issues, determines action to be taken and reviews the efficacy of the Bank's risk management framework.

In their oversight and stewardship of risk management at group level, RMC are supported by a dedicated Risk function headed by the Chief Risk Officer ('CRO'), who is a member of RMC and reports to Chief Executive Officer and to the Global CRO.

**Risk appetite**

The Bank's approach to risk is encapsulated within our risk appetite framework.

The framework is maintained at regional and global business levels, operating through governance bodies, processes and metrics designed to assist in risk management. Risk appetite statements define, at various levels of the business, the qualitative and quantitative expressions of the risks which the Bank is prepared to embrace in alignment with its strategy and business plans. Quantitative metrics are assigned to five key categories: earnings, capital and liquidity, impairments and expected losses, risk category and diversification and scenario stress testing. Measurement against the metrics serves to:

- guide underlying business activity, ensuring it is aligned to risk appetite statements;
- determine risk-adjusted remuneration;
- enable the key underlying assumptions to be monitored and, where necessary, adjusted through subsequent business planning cycles; and
- promptly identify business decisions needed to mitigate risk.

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

In thousands of Qatari Riyal

**4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)****b) Credit risk**

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off-balance sheet products such as guarantees and derivatives, and from the Bank's holdings of debt and other securities. Credit risk generates the largest regulatory capital requirement of the risks the Bank incur. The Bank has in place standards, policies and procedures adopted by the entire group for the control and monitoring of all such risks.

The Group is responsible for the formulation of high-level credit risk policies, provision of high-level centralised oversight and management of credit risk, control exposures to banks, monitor exposures to intra HSBC Group. Cross border risk is controlled through the imposition of country limits, with sub-limits by maturity and type of business. Transactions with higher risk countries are considered on a case by case basis. The Group is also responsible for the credit approval process, a key element of which is the Bank's facility grading system.

However the local management together with the Middle East Management office is responsible for the quality of credit portfolio. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties, and continually assessing the credit worthiness of the counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or banks or businesses. It also obtains security where appropriate.

The Credit Risk function is headed by the Chief Risk Officer and reports to the Chief Executive Officer, with a functional reporting line to the Regional Chief Risk Officer. The Bank implement credit policies, procedures and lending guidelines that meet local requirements while conforming to the HSBC Group standards.

**i). Maximum exposure to credit risk before collateral held or other credit enhancements**

		2013	2012
<b>Credit risk exposures relating to assets recorded on the statement of financial position are as follows:</b>			
Balances with Qatar Central Bank	6	839,988	1,073,282
Due from banks	7	2,346,037	3,419,741
Loans and advances to customers	8	7,426,002	7,299,633
Investment securities – debt	9	6,371,256	5,100,529
Other financial assets		141,620	146,353
<b>Total as at 31 December</b>		<b>17,124,903</b>	<b>17,039,538</b>
<b>Other credit risk exposures are as follows:</b>			
Guarantees	27	12,332,246	12,363,800
Letter of credit	27	278,656	818,824
Unutilized credit facilities	27	8,001,100	7,784,625
<b>Total as at 31 December</b>		<b>20,612,002</b>	<b>20,967,249</b>

## NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2013

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## 4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

## b) Credit risk (Continued)

## ii) Concentration of risks of financial assets with credit risk exposure

The Bank monitors concentration of credit risk by geographic location and industry. An analysis of concentrations of credit risk at the date of statement of financial position is shown below:

## Geographical sectors

	Qatar	Other GCC	Other Middle east	Rest of the world	2013 Total
Balances with Qatar Central Bank	839,988	-	-	-	839,988
Due from banks	443,113	13,094	203	1,889,627	2,346,037
Loans and advances to customers	7,064,604	-	355,839	5,559	7,426,002
Investment securities – debt	6,371,256	-	-	-	6,371,256
Other financial assets	141,620	-	-	-	141,620
	<b>14,860,581</b>	<b>13,094</b>	<b>356,042</b>	<b>1,895,186</b>	<b>17,124,903</b>

	Qatar	Other GCC	Other Middle east	Rest of the world	2012 Total
Balances with Qatar Central Bank	1,073,282	-	-	-	1,073,282
Due from banks	273,113	2,522,420	177	624,031	3,419,741
Loans and advances to customers	6,852,309	-	409,425	37,899	7,299,633
Investment securities – debt	5,100,529	-	-	-	5,100,529
Other financial assets	146,353	-	-	-	146,353
	<b>13,445,586</b>	<b>2,522,420</b>	<b>409,602</b>	<b>661,930</b>	<b>17,039,538</b>

	Qatar	Other GCC	Other Middle east	Rest of the world	2013 Total
Guarantees	12,332,246	-	-	-	12,332,246
Letter of credit	-	2,843	13	275,800	278,656
Unutilized credit facilities	8,001,100	-	-	-	8,001,100
	<b>20,333,346</b>	<b>2,843</b>	<b>13</b>	<b>275,800</b>	<b>20,612,002</b>

	Qatar	Other GCC	Other Middle east	Rest of the world	2012 Total
Guarantees	12,363,800	-	-	-	12,363,800
Letter of credit	-	21,996	8,463	788,365	818,824
Unutilized credit facilities	7,784,625	-	-	-	7,784,625
	<b>20,148,425</b>	<b>21,996</b>	<b>8,463</b>	<b>788,365</b>	<b>20,967,249</b>

## Industry sectors

An analysis of concentrations of credit risk from gross loans and advances and investment securities - debt as at 31 December 2013 is shown below:

	Gross exposure 2013	Gross exposure 2012
Government	6,507,332	7,206,197
Industry	3,493	4,835
Commercial	1,813,336	1,607,304
Services	2,973,130	687,070
Contracting	949,596	806,800
Personal	2,251,641	1,970,645
Others	687,154	1,209,211
	<b>15,185,682</b>	<b>13,492,062</b>

## NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2013

In thousands of Qatari Riyal

## 4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

## b) Credit risk (Continued)

## iii) Credit quality

The Bank's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. In the case of individually significant accounts, risk ratings are reviewed regularly and any amendments are implemented promptly. Within the Bank's retail business, risk is assessed and managed using a wide range of risk and pricing models to generate portfolio data.

	Loans and advances to customers		Due from banks		Investment securities	
	2013	2012	2013	2012	2013	2012
<b>Neither past due nor impaired (low risk)</b>						
Grade 1	2,744,771	2,376,829	2,346,037	3,419,741	-	-
Grade 2	4,485,070	4,744,475	-	-	-	-
<b>Past due but not impaired (specially mentioned)</b>						
Grade 2	306,586	304,864	-	-	-	-
<b>Impaired</b>						
Grade 3 – substandard	6,751	3,173	-	-	-	-
Grade 4 – doubtful	288,600	289,067	-	-	-	-
Grade 5 – loss	982,648	673,125	-	-	-	-
	<b>8,814,426</b>	<b>8,391,533</b>	<b>2,346,037</b>	<b>3,419,741</b>	-	-
Less: interest in suspense	(963,411)	(661,167)	-	-	-	-
Less: impairment allowance – specific	(417,446)	(413,638)	-	-	-	-
Less: impairment allowance – collective	(7,567)	(17,095)	-	-	-	-
	<b>(425,013)</b>	<b>(430,733)</b>	-	-	-	-
<b>Carrying amount - net</b>	<b>7,426,002</b>	<b>7,299,633</b>	<b>2,346,037</b>	<b>3,419,741</b>	-	-
<b>Investment in debt securities</b>						
Available-for-sale	-	-	-	-	5,649,615	4,846,100
Investment securities at fair value through profit and loss	-	-	-	-	721,641	254,429
<b>Carrying amount - net</b>	-	-	-	-	<b>6,371,256</b>	<b>5,100,529</b>
<b>Total carrying amount</b>	<b>7,426,002</b>	<b>7,299,633</b>	<b>2,346,037</b>	<b>3,419,741</b>	<b>6,371,256</b>	<b>5,100,529</b>

**Impaired loans and advances to customers and investments in debt securities**

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 3, 4 and 5 in the Bank's internal credit risk grading system in accordance with the Qatar Central Bank regulations and adequate provisions are held against them as required by the Qatar Central Bank Guidelines – Instructions to Banks.

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**4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)****b) Credit risk (Continued)****iii). Credit quality (continued)****Allowances for impairment**

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

**Past due but not impaired**

Loans and advances where contractual interest or principle 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.

	<b>2013</b>	2012
Upto 30 days	280,826	286,040
30 to 90 days	25,760	18,824
<b>Gross</b>	<b>306,586</b>	<b>304,864</b>

**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 holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. A breakdown of loans and advances granted to customers and banks against different types of collaterals is shown below:

	<b>2013</b>	2012
Against customer deposits	80,693	108,098
Against bank guarantees	105,260	221,465
Against real estate mortgages	1,255,992	1,122,673
Personal guarantees	8,058	6,706
Unsecured	7,364,423	6,932,591
	<b>8,814,426</b>	<b>8,391,533</b>

**vi) Write-off policy**

The Bank writes off a loan (and any related allowances for impairment losses) when the Bank's credit committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. These write-offs of loan balances are subject to QCB approval.



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**4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)****b) Credit risk (Continued)****Total impairment allowance to gross lending**

	<b>2013</b>	2012
Individually assessed impairment allowances	4.73%	4.93%
Collectively assessed impairment allowances	<u>0.08%</u>	<u>0.20%</u>
<b>Total</b>	<u><b>4.81%</b></u>	<u><b>5.13%</b></u>

**Financial investments**

The table below presents an analysis of government bonds by rating agency designation at 31 December 2013:

	<b>2013</b>	2012
Rated AA-	<u><b>6,371,256</b></u>	<u><b>5,100,529</b></u>

**c) Liquidity risk**

Liquidity risk is the risk that the Bank 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 statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank 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). Maturity analysis**

The following table sets 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 date of statement of financial position to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained. The expected maturities of the Bank's assets and liabilities do not differ substantially from their contractual maturities.

**As at 31 December 2013**

	<b>Carrying Amount</b>	<b>Less than 1 month</b>	<b>1 – 3 Months</b>	<b>3 months – 1 year</b>	<b>1 – 5 Years</b>	<b>More than 5 years</b>
<b>Assets</b>						
Cash and balances with Qatar Central Bank	883,035	374,759	-	-	508,276	-
Due from banks	2,346,037	1,990,991	81,933	273,113	-	-
Loans and advances to customers	7,426,002	1,900,464	598,496	581,088	3,764,091	581,863
Financial Investments	6,371,256	2,677,168	1,537,446	2,156,642	-	-
Other assets	231,385	231,385	-	-	-	-
<b>Total assets</b>	<u><b>17,257,715</b></u>	<u><b>7,174,767</b></u>	<u><b>2,217,875</b></u>	<u><b>3,010,843</b></u>	<u><b>4,272,367</b></u>	<u><b>581,863</b></u>
<b>Liabilities</b>						
Customer deposits	10,412,651	9,646,191	425,249	296,485	44,726	-
Debt securities	313,243	-	-	94,529	218,714	-
Due to banks	2,817,739	2,077,639	726,512	13,588	-	-
Other liabilities	1,439,548	1,417,925	-	-	21,623	-
<b>Total liabilities</b>	<u><b>14,983,181</b></u>	<u><b>13,141,755</b></u>	<u><b>1,151,761</b></u>	<u><b>404,602</b></u>	<u><b>285,063</b></u>	<u><b>-</b></u>
<b>Difference</b>	<u><b>2,274,534</b></u>	<u><b>(5,966,988)</b></u>	<u><b>1,066,114</b></u>	<u><b>2,606,241</b></u>	<u><b>3,987,304</b></u>	<u><b>581,863</b></u>

## NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2013

In thousands of Qatari Riyal

## 4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

## c) Liquidity risk (Continued)

## i) Maturity analysis (Continued)

As at 31 December 2012

	Carrying Amount	Less than 1 month	1 – 3 Months	3 months – 1 year	1 – 5 Years	More than 5 years
<b>Assets</b>						
Cash and balances with Qatar Central Bank	1,122,205	1,122,205	-	-	-	-
Due from banks	3,419,741	1,181,896	417,245	1,820,600	-	-
Loans and advances to customers	7,299,633	2,918,206	1,152,600	1,133,740	1,327,667	767,420
Financial Investments	5,100,529	-	948,628	2,387,283	1,764,618	-
Other assets	248,286	248,286	-	-	-	-
<b>Total assets</b>	<b>17,190,394</b>	<b>5,470,593</b>	<b>2,518,473</b>	<b>5,341,623</b>	<b>3,092,285</b>	<b>767,420</b>
<b>Liabilities</b>						
Customer deposits	9,704,925	8,831,154	357,690	342,037	174,044	-
Debt securities	2,110,479	-	-	1,798,098	312,381	-
Due to banks	2,081,564	248,988	75,976	1,756,600	-	-
Other liabilities	1,087,055	1,064,107	-	-	22,948	-
<b>Total liabilities</b>	<b>14,984,023</b>	<b>10,144,249</b>	<b>433,666</b>	<b>3,896,735</b>	<b>509,373</b>	<b>-</b>
<b>Difference</b>	<b>2,206,371</b>	<b>(4,673,656)</b>	<b>2,084,807</b>	<b>1,444,888</b>	<b>2,582,912</b>	<b>767,420</b>

The following table sets out the maturity profile of the Bank's financial liabilities.

As at 31 December 2013

	Carrying Amount	Less than 1 month	1 – 3 Months	3 months – 1 year	1 – 5 Years	More than 5 years
<b>Non-derivative financial liabilities</b>						
Due to banks	2,817,739	2,077,639	726,512	13,588	-	-
Customer deposits	10,412,651	9,646,191	425,249	296,485	44,726	-
Debt securities	313,243	-	-	94,529	218,714	-
Other financial liabilities	1,280,619	1,258,996	-	-	21,623	-
<b>Total liabilities</b>	<b>14,824,252</b>	<b>12,982,826</b>	<b>1,151,761</b>	<b>404,602</b>	<b>285,063</b>	<b>-</b>

As at 31 December 2012

	Carrying Amount	Less than 1 month	1 – 3 Months	3 months – 1 year	1 – 5 Years	More than 5 years
<b>Non-derivative financial liabilities</b>						
Due to banks	2,081,564	248,988	75,976	1,756,600	-	-
Customer deposits	9,704,925	8,831,154	357,690	342,037	174,044	-
Debt securities	2,110,479	-	-	1,798,098	312,381	-
Other financial liabilities	919,854	896,906	-	-	22,948	-
<b>Total liabilities</b>	<b>14,816,822</b>	<b>9,977,048</b>	<b>433,666</b>	<b>3,896,735</b>	<b>509,373</b>	<b>-</b>

## d) Risk of management of others' investments

The Bank is engaged in selling of investments, which are managed by other HSBC entities or third parties and does not manage investments on behalf of customers. The Bank does not hold any assets or liabilities in favour or on behalf of other parties as at 31 December 2013.

## NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2013

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## 4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

## e) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

## Interest rate risk

The Bank is exposed to interest rate risk as a result of holding financial assets and liabilities with different maturity dates or repricing dates. These interest rate mismatch positions are regularly monitored by the local Asset and Liability Committee ("ALCO") and managed within the risk limits approved and assigned by the Group's Executive Committee. The primary objective of such interest rate risk management is to limit potential adverse effects of interest rate movements on net interest income and to seek enhanced net interest income within the approved limits.

A summary of the Bank's interest rate sensitivity position based on the earlier of contractual re-pricing and maturity dates is as follows. It is expected that non-interest bearing assets and liabilities should be replaced on their respective maturity dates by assets and liabilities of a similar nature.

## As at 31 December

2013 Assets (Carrying Amount)	Effective interest rate (%)	Less than 1 month	1 – 3 Months	3 – 12 months	More than 1 year	Non- interest bearing	Total
Assets							
Cash and balances with Qatar Central Bank	-	-	-	-	-	883,035	883,035
Due from banks	0.71	1,838,246	81,933	273,113	-	152,745	2,346,037
Loans and advances to customers	3.19	2,252,590	598,496	581,088	4,345,954	1,036,298	8,814,426
Investment securities	2.11	2,677,168	1,537,446	2,156,642	-	-	6,371,256
Other financial assets	-	-	-	-	-	141,620	141,620
<b>Total assets</b>		<b>6,768,004</b>	<b>2,217,875</b>	<b>3,010,843</b>	<b>4,345,954</b>	<b>2,213,698</b>	<b>18,556,374</b>

Customer deposits	0.10	4,776,063	425,249	296,485	44,726	4,870,128	10,412,651
Due to banks	0.34	1,822,767	726,512	13,588	-	254,872	2,817,739
Debt securities	1.55	-	-	94,529	218,714	-	313,243
Other financial liabilities	-	-	-	-	-	1,280,619	1,280,619
<b>Total liabilities</b>		<b>6,598,830</b>	<b>1,151,761</b>	<b>404,602</b>	<b>263,440</b>	<b>6,405,619</b>	<b>14,824,252</b>

## As at 31 December

2012 Assets (Carrying Amount)	Effective interest rate (%)	Less than 1 month	1 – 3 Months	3 – 12 months	More than 1 year	Non- interest bearing	Total
Assets							
Cash and balances with Qatar Central Bank	-	-	-	-	-	1,122,205	1,122,205
Due from banks	0.73	996,618	417,245	1,820,600	-	185,278	3,419,741
Loans and advances to customers	3.88	3,131,983	1,151,686	1,183,981	2,217,937	705,946	8,391,533
Investment securities	2.36	-	948,628	2,387,283	1,764,618	-	5,100,529
Other financial assets	-	-	-	-	-	146,353	146,353
<b>Total assets</b>		<b>4,128,601</b>	<b>2,517,559</b>	<b>5,391,864</b>	<b>3,982,555</b>	<b>2,159,782</b>	<b>18,180,361</b>
Customer deposits	0.14	4,612,927	357,690	342,037	174,044	4,218,227	9,704,925
Due to banks	0.54	49,478	75,976	1,756,600	-	199,510	2,081,564
Debt securities	1.73	-	-	1,798,098	312,381	-	2,110,479
Other financial liabilities	-	-	-	-	-	919,854	919,854
<b>Total liabilities</b>		<b>4,662,405</b>	<b>433,666</b>	<b>3,896,735</b>	<b>486,425</b>	<b>5,337,591</b>	<b>14,816,822</b>

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

In thousands of Qatari Riyal

**4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)****e) Market risk (continued)****Interest rate risk (continued)**

The sensitivity gap is represented by the net notional amounts of financial instruments, which are used to manage interest rate risk. Effective interest rates have been calculated excluding non-performing loans and advances and non-interest bearing accounts due to customers.

**Interest rate sensitivity**

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

One of the principal tools used by the Bank to monitor and limit market risk exposure is VaR. VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence (for HSBC, 99 per cent). The Bank calculates VaR daily. The VaR model used by the Bank is predominantly based on historical simulation. The historical simulation model derives plausible future scenarios from historical market rates time series, taking account of inter-relationships between different markets and rates, for example between interest rates and foreign exchange rates. Potential movements in market prices are calculated with reference to market data from the last two years.

The Group uses VaR limits for total market risk and specific foreign exchange, interest rate, and equity and other price risks. The overall structure of VaR limits is subject to review and approval by ALCO. VaR limits are allocated to trading portfolios. VaR is measured on a daily basis. Daily reports of utilization of VaR limits are submitted to Group Risk and regular summaries are submitted to ALCO.

The Bank augments its VaR limits with other position and sensitivity limit structures. Additionally, the Bank applies a wide range of stress testing, both on individual portfolios and on the Group's consolidated positions. The Bank's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on the market risk exposures of the Bank.

**Foreign currency risk**

The Bank is exposed to currency risk on lending and borrowings that are denominated in a currency other than the respective functional currency of Bank. The Bank has a set of limits on the level of currency exposure, which are monitored daily. In respect of monetary assets and liabilities denominated in foreign currencies, the Bank ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Bank buys and sells currencies (spot transactions) to assist customers in meeting their business needs. Exposures to currency fluctuations associated with these activities are minimal because of their back-to-back nature. Foreign exchange transactions also expose the Bank to settlement risks.

As at the date of statement of financial position, the Bank had the following significant net open foreign currency exposure:

	<b>Qatar Riyals</b>	<b>US Dollars</b>	<b>Euro</b>	<b>Sterling Pounds</b>	<b>Other Currencies</b>	<b>Total</b>
<b>As at 31 December 2013</b>						
Assets	12,990,541	2,725,129	184,453	1,252,859	136,910	17,289,892
Liabilities and equity	(13,299,826)	(2,774,189)	(432,913)	(149,765)	(633,199)	(17,289,892)
<b>Net currency position</b>	<b>(309,285)</b>	<b>(49,060)</b>	<b>(248,460)</b>	<b>1,103,094</b>	<b>(496,289)</b>	<b>-</b>
<b>As at 31 December 2012</b>						
Assets	10,737,852	5,480,831	487,525	229,929	290,854	17,226,991
Liabilities and equity	(10,864,169)	(5,368,422)	(491,633)	(233,602)	(269,059)	(17,226,991)
<b>Net currency position</b>	<b>(126,423)</b>	<b>112,410</b>	<b>(4,108)</b>	<b>(3,673)</b>	<b>21,795</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

In thousands of Qatari Riyal

**4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)****e) Market risk (continued)****Foreign currency sensitivity analysis**

The table below indicates the effect of a possible movement of a currency rate against the QAR on the income statement with all other variables held constant:

Currency	Change in currency rate in %	Effect on income statement	
		2013	2012
Euro	+10%	(24,846)	(410)
Euro	-10%	24,846	410
Sterling	+10%	(110,309)	(367)
Sterling	-10%	110,309	367
Other currencies	+10%	(49,628)	(2,180)
Other currencies	-10%	49,628	2180

**Equity risk**

Equity price risk is subject to regular monitoring by Bank's Market Risk (Global Markets), but is not currently significant in relation to the overall results and financial position of the Bank.

**Accounting classifications and fair values (net carrying amount)**

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

2013	Loans and receivables	Financial investments	Other amortised cost	Total carrying amount	Fair value
<b>Financial assets</b>					
Cash and balances with Qatar Central Bank	839,988	-	-	839,988	839,988
Due from banks	2,346,037	-	-	2,346,037	2,346,037
Loans and advances to customers	7,426,002	-	-	7,426,002	7,426,002
Investment securities	-	6,371,256	-	6,371,256	6,371,256
Other financial assets	-	-	141,620	141,620	141,620
	<b>10,612,027</b>	<b>6,371,256</b>	<b>141,620</b>	<b>17,124,903</b>	<b>17,124,903</b>
<b>Financial liabilities</b>					
Customer deposits	-	-	10,412,651	10,412,651	10,412,651
Due to banks	-	-	2,817,739	2,817,739	2,817,739
Debt securities	-	-	313,243	313,243	313,243
Other financial liabilities	-	-	1,280,619	1,280,619	1,280,619
	-	-	<b>14,824,252</b>	<b>14,824,252</b>	<b>14,824,252</b>

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

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**4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)****e) Market risk (continued)****Accounting classifications and fair values (net carrying amount) (continued)**

2012	Loans and receivables	Financial investments	Other amortised cost	Total carrying amount	Fair value
Financial assets					
Cash and balances with Qatar Central Bank	1,122,205	-	-	1,122,205	1,122,205
Due from banks	3,419,741	-	-	3,419,741	3,426,506
Loans and advances to customers	7,299,633	-	-	7,299,633	7,309,783
Investment securities	-	5,100,529	-	5,100,529	5,100,529
Other financial assets	-	-	146,353	146,353	146,353
	<b>11,841,579</b>	<b>5,100,529</b>	<b>146,353</b>	<b>17,088,461</b>	<b>17,105,376</b>
Financial liabilities					
Customer deposits	-	-	9,704,925	9,704,925	9,702,264
Due to banks	-	-	2,081,564	2,081,564	2,076,123
Debt securities	-	-	2,110,479	2,110,479	2,110,479
Other financial liabilities	-	-	919,854	919,854	919,854
	<b>-</b>	<b>-</b>	<b>14,816,822</b>	<b>14,816,822</b>	<b>14,808,720</b>

The Bank 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 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 price in an active market for a similar instrument, quoted price for an identical instrument in markets that are considered less active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using unobservable inputs.

For the purpose of disclosure of fair value of financial assets which are carried at amortised cost, the level 2 valuation method has been used except for the impaired financing assets for which the level 3 valuation method has been used. There have been no transfers between levels 1, 2 and 3 during the year 2013 and 2012.

Level in the fair value hierarchy	Fair value measurement at end of 31 December 2013 using:			
	Fair value	Level 1	Level 2	Level 3
<b>Financial Assets</b>				
Financial investments	6,371,256	-	5,312,850	1,058,406
Derivative financial instruments	1,497	-	-	1,497
Level in the fair value hierarchy	Fair value measurement at end of 31 December 2012 using:			
	Fair value	Level 1	Level 2	Level 3
Financial Assets				
Financial investments	5,100,529	-	3,335,911	1,764,618
Derivative financial instruments	(53)	-	-	(53)

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

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**4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)****e) Market risk (continued)****Interest rates used for determining fair value**

The interest rate used to discount estimated cash flows, when applicable, are based on the market yield curve of identical securities i.e. with similar maturities and currencies at the reporting date. These range from 3.09% to 4.36% (2012: 3.09% to 4.36%) for State of Qatar bonds and 1.38% (2011: 1.33%) for treasury bills.

**f) Operational risk**

Operational risk is the risk of direct or indirect loss that may result from inadequate or failed technology, human performance, process or external events. The Bank endeavours to minimise operational losses by ensuring that effective infrastructure, controls, systems and individuals are in place throughout the organisation. Regulatory, legal and reputation risks are controlled through a set of internal policies and procedures. External legal advice has been obtained from lawyers to confirm legal and regulatory requirements, where required.

**g) Capital management**

The Bank's regulator (The Qatar Central Bank – "QCB") sets and monitors capital requirements and the banking operations are supervised by QCB. If additional capital is required, the Head Office will infuse the required capital to maintain the capital ratios required by QCB.

In implementing current capital requirements, the QCB requires the Bank to maintain a prescribed ratio of capital and reserves to the total net assets at 3% as a minimum. As at 31 December 2013, the bank has reported a capital reserve ratio of 11.07% (2012: 8.99%) to the QCB.

The Bank has complied with externally imposed capital requirements throughout the financial year. There have been no material changes in the Bank's management of capital during the financial year.

**Capital and reserves to net assets**

The Bank's regulatory capital position at 31 December was as follows:

	<b>2013</b>	2012
Total capital (capital, reserves and retained earnings)	<b>2,270,053</b>	2,178,283
Net assets (total assets net of specific loan provision and interest in suspense)	<b>17,289,892</b>	17,226,991
Ratio of capital and reserves to total net assets	<b>13.13%</b>	12.64%

**5. USE OF ESTIMATES AND JUDGEMENTS**

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

**Impairment on loans and advances**

The Bank reviews its problem loans and advances on a monthly basis to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions. As at 31 December 2013, the gross values of loans and advances to customers totalled QR 8,798 million (31 December 2012: QR 8,391 million) and provision for impairment on loans and advances amounted to QR 426 million (31 December 2012: QR 430 million).

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

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**5. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)****Useful lives, residual values and related depreciation charges of property and equipment**

The Bank's management determines the estimated useful lives, residual values and related depreciation charges of its property and equipment. These estimates are determined after considering the expected usage of the asset, physical wear and tear, technical or commercial obsolescence.

**Classification of investments in securities**

The Bank classifies its financial assets as available-for-sale investments if they are neither held to maturity investments nor carried at fair value through profit and loss, and they are not loans or receivables.

The Bank classifies a financial asset at fair value through profit and loss if it is held for trading or is designated as such on initial recognition. Financial assets are designated at fair value through profit or loss, if the Bank manages such investments and makes purchases and sale decisions based on their fair value in accordance with the Bank's documented risk management or investment strategy.



**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

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**6. CASH AND BALANCES WITH QATAR CENTRAL BANK**

	<b>2013</b>	2012
Cash	43,047	48,923
Cash reserve with Qatar Central Bank*	508,276	514,937
Other balances with Qatar Central Bank	331,712	558,345
	<u><b>883,035</b></u>	<u>1,122,205</u>

\*The cash reserve with the Qatar Central Bank is a mandatory reserve and is not available for use in the Bank's day-to-day operations.

**7. DUE FROM BANKS**

	<b>2013</b>	2012
Demand accounts	152,682	185,279
Placements	1,838,309	2,961,349
Loans to banks	355,046	273,113
	<u><b>2,346,037</b></u>	<u>3,419,741</u>

Included in placements with banks is QR 1.46 billion (2012: QR 2.96 billion) with Group entities which are placed at market rates of interest. The average rate on placements with banks for 2013 was 0.26 % (2012: 0.16 %).

**8. LOANS AND ADVANCES TO CUSTOMERS**

<b>a) By type</b>	<b>2013</b>	2012
Loans	6,001,636	6,236,907
Overdrafts	1,784,451	1,474,295
Bills discounted	8,413	13,330
Other loans **	1,019,926	667,001
<b>Gross loans and advances</b>	<u><b>8,814,426</b></u>	<u>8,391,533</u>
Specific provision on personal customers	(381,196)	(378,027)
Specific provision on corporate customers	(36,250)	(35,611)
Collective impairment provision – personal	(4,133)	(5,950)
Collective impairment provision – corporate	(3,434)	(11,145)
	(425,013)	(430,733)
Interest in suspense	(963,411)	(661,167)
<b>Net loans and advances (Note 8.1)</b>	<u><b>7,426,002</b></u>	<u>7,299,633</u>

The aggregate amount of non-performing loans and advances to customers amounted to QR. 1,277.99 million, which represents 14.50% of total loans and advances to customers (2012: QR 965.36 million representing 11.50% of total loans and advances to customers).

\*\* This includes due from customers in relation to the acceptances pertaining to trade finance.

<b>Note 8.1</b>	<b>2013</b>	2012
Government and related agencies	1,700,442	2,105,668
Corporate	4,770,407	4,225,291
Retail	955,153	968,674
	<u><b>7,426,002</b></u>	<u>7,299,633</u>

## NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2013

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## 8. LOANS AND FINANCING ACTIVITIES TO CUSTOMERS (CONTINUED)

## b) By industry

	Loans	Overdrafts	Bills discounted	Other Loans	Total 2013	Total 2012
General trade	1,574,244	80,284	6,085	1,019,926	2,680,539	1,607,305
Industry	2,602	3,439	-	-	6,041	4,833
Housing and construction	984,298	41,420	-	-	1,025,718	806,800
Personal	795,038	1,490,608	-	-	2,285,646	1,970,645
Services	1,009,504	29,027	2,328	-	1,040,859	687,070
Others	1,635,951	139,672	-	-	1,775,623	3,314,880
<b>Total</b>	<b>6,001,637</b>	<b>1,784,450</b>	<b>8,413</b>	<b>1,019,926</b>	<b>8,814,426</b>	<b>8,391,533</b>
Less: interest in suspense					(963,411)	(661,167)
Specific impairment of loans and advances to customers					(417,446)	(413,638)
Collective impairment allowance					(7,567)	(17,095)
					<b>7,426,002</b>	<b>7,299,633</b>

The average interest rate at the reporting date, excluding non-performing loans was 3.81% (2012: 4.35%).

## c) Movement in impairment losses on loans and advances to customers:

	Provisions	Interest in suspense	Total 2013	Total 2012
Balance as at 1 January	430,733	661,167	1,091,900	895,286
Provisions made during the year (note 8.1)	15,234	323,225	338,459	255,195
Recoveries during the year	(20,954)	(20,981)	(41,935)	(58,581)
	(5,720)	302,244	296,524	196,614
<b>Balance as at 31 December</b>	<b>425,013</b>	<b>963,411</b>	<b>1,388,424</b>	1,091,900

8.1 Provision made during the year does not include a provision of QR 16.88 million made in respect of a contingent liability.

## 9. INVESTMENT SECURITIES

Investment securities as at 31 December 2013 totalled QR 6,371 million (2012: QR 5,100 million). The analysis of investment securities is detailed below:

	2013	2012
Available for sale	5,649,615	4,846,100
Investment securities at fair value through profit and loss	721,641	254,429
	<b>6,371,256</b>	<b>5,100,529</b>

## a) Available-for-sale

	2013			2012		
	Total	Quoted	Unquoted	Total	Quoted	Unquoted
State of Qatar QAR Bonds	2,102,629	1,044,223	1,058,406	1,510,189	-	1,510,189
Treasury bills	3,546,986	3,546,986	-	3,335,911	3,335,911	-
<b>Total</b>	<b>5,649,615</b>	<b>4,591,209</b>	<b>1,058,406</b>	<b>4,846,100</b>	<b>3,335,911</b>	<b>1,510,189</b>

The movements in available-for-sale investment securities during the year were as follows:

	2013	2012
Opening balance	4,846,100	5,181,818
Additions during the year	4,172,446	3,335,913
Net redemptions during the year	(3,341,714)	(3,655,212)
Fair value movements during the year	(27,217)	(16,419)
	<b>5,649,615</b>	<b>4,846,100</b>

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## 9. INVESTMENT SECURITIES (CONTINUED)

## b) Investment securities at fair value through profit and loss

	2013			2012		
	Total	Quoted	Unquoted	Total	Quoted	Unquoted
State of Qatar QAR Bonds	324,549	-	324,549	254,429	-	254,429
Treasury bills	397,092	397,092	-	-	-	-
<b>Total</b>	<b>721,641</b>	<b>397,092</b>	<b>324,549</b>	<b>254,429</b>	<b>-</b>	<b>254,429</b>

The financial investments amounting to QR 6,371 million (2012: QR 5,100 million) represent investments in fixed rate securities.

## 10. PROPERTY AND EQUIPMENT

	<u>Leasehold improvements</u>	<u>Machinery &amp; office equipment</u>	<u>Furniture</u>	<u>Motor vehicles</u>	<u>Total</u>
<b>Cost</b>					
Balance at 1 January 2012	41,400	23,112	17,932	607	83,051
Acquisitions	315	320	10	-	645
Disposals	(1,822)	(4,644)	(3,106)	(78)	(9,650)
Balance at 31 December 2012	<b>39,893</b>	<b>18,788</b>	<b>14,836</b>	<b>529</b>	<b>74,046</b>
Balance at 1 January 2013	39,893	18,788	14,836	529	74,046
Acquisitions	2,145	910	574	-	3,629
Disposals	(1,066)	(1,443)	(643)	(137)	(3,289)
<b>Balance at 31 December 2013</b>	<b>40,972</b>	<b>18,255</b>	<b>14,767</b>	<b>392</b>	<b>74,386</b>
<b>Accumulated depreciation</b>					
Balance at 1 January 2012	12,535	18,753	7,691	456	39,435
Charged during the year	4,635	2,395	2,092	67	9,189
Disposals	(1,795)	(4,585)	(2,505)	(79)	(8,964)
Balance at 31 December 2012	<b>15,375</b>	<b>16,563</b>	<b>7,278</b>	<b>444</b>	<b>39,660</b>
Balance at 1 January 2013	15,375	16,563	7,278	444	39,660
Charged during the year	4,876	1,231	1,993	63	8,163
Disposals	(980)	(1,443)	(630)	(137)	(3,190)
<b>Balance at 31 December 2013</b>	<b>19,271</b>	<b>16,351</b>	<b>8,641</b>	<b>370</b>	<b>44,633</b>
<b>Carrying amounts</b>					
Balance at 31 December 2013	<b>21,701</b>	<b>1,904</b>	<b>6,126</b>	<b>22</b>	<b>29,753</b>
Balance at 31 December 2012	24,518	2,225	7,558	85	34,386

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**11. INTANGIBLE ASSETS**

	<u>Software</u>	<u>Work in progress</u>	<u>Total</u>
<b>Cost</b>			
Balance at 1 January 2012	2,269	715	2,984
Acquisitions/ transfers	404	1,007	1,411
Disposals/ transfers	(722)	(62)	(784)
Balance at 31 December 2012	<u>1,951</u>	<u>1,660</u>	<u>3,611</u>
Balance at 1 January 2013	1,951	1,660	3,611
Acquisitions/ transfers	1,224	312	1,536
Disposals/ transfers	-	(641)	(641)
<b>Balance at 31 December 2013</b>	<b><u>3,175</u></b>	<b><u>1,331</u></b>	<b><u>4,506</u></b>

	<u>Software</u>	<u>Work in progress</u>	<u>Total</u>
<b>Amortization</b>			
Balance at 1 January 2012	1,294	-	1,294
Amortisation for the year	318	-	318
Disposals during the year	(212)	-	(212)
Balance at 31 December 2012	<u>1,400</u>	<u>-</u>	<u>1,400</u>
Balance at 1 January 2013	1,400	-	1,400
Amortisation for the year	682	-	682
Disposals during the year	-	-	-
<b>Balance at 31 December 2013</b>	<b><u>2,082</u></b>	<b><u>-</u></b>	<b><u>2,082</u></b>
<b>Carrying amounts</b>			
<b>Balance at 31 December 2013</b>	<b><u>1,093</u></b>	<b><u>1,331</u></b>	<b><u>2,424</u></b>
Balance at 31 December 2012	<u>551</u>	<u>1,660</u>	<u>2,211</u>

**12. OTHER ASSETS**

	<b>2013</b>	2012
Interest receivable	141,620	146,551
Items in the course of collection	56,389	74,225
Positive fair value of derivatives (note 29)	1,497	-
Prepaid expenses and accrued income	17,529	14,480
Others	14,350	13,030
	<u><b>231,385</b></u>	<u>248,286</u>

**13. DUE TO BANKS**

	<b>2013</b>	2012
Current accounts	254,872	158,970
Short term loans from banks	2,562,867	1,922,594
	<u><b>2,817,739</b></u>	<u>2,081,564</u>

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**14. CUSTOMER DEPOSITS****(a) By type**

	<b>2013</b>	2012
Current and call deposits	7,773,480	6,991,087
Savings deposits	1,249,883	1,223,759
Time deposits	1,389,288	1,490,079
	<u><b>10,412,651</b></u>	<u>9,704,925</u>

Certain customer deposits amounting to QR 80.6 million have been secured against credit facilities (2012: QR.108 million).

**(b) By sector**

	<b>2013</b>	2012
Government and semi government agencies	370,762	393,452
Individuals	4,986,526	4,587,111
Corporate	4,785,125	4,502,515
Non-banking financial institutions	270,238	221,847
	<u><b>10,412,651</b></u>	<u>9,704,925</u>

**15. DEBT SECURITIES**

As at 31 December 2013, the bank had two floating rate notes in USD, issued through its head office (HBME) totalling to QR 313 million (2012: QR 2,110 million) having interest rates ranging between 1.24% - 1.39% with earliest and latest maturities being 07 September 2014 and 28 June 2016 respectively. During the year, three floating rate notes in USD, Euro and GBP have matured amounting to QR 1,800 million.

**16. OTHER LIABILITIES**

	<b>2013</b>	2012
Interest payable	4,907	7,860
Accrued expenses payable	43,380	52,760
Provision for employees end of service benefits (Note 16.1)	28,479	22,948
Tax provision (Note 16.2)	43,605	48,015
Negative fair value of derivatives (note 29)	-	53
Deferred income	37,748	25,730
Cash margins	109,077	108,699
Unclaimed balances	5,620	3,008
Due in relation to acceptances	1,019,926	667,001
Others	146,806	150,981
	<u><b>1,439,548</b></u>	<u>1,087,055</u>

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

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**16. OTHER LIABILITIES (CONTINUED)****16.1 Employees' end of service benefits scheme**

The movements in the present value of defined benefit obligation during the year are as follows:

	<b>2013</b>	2012
Defined benefit obligations as at 1 January	22,948	26,521
Charge for the year	8,401	1,577
Payments for the year	(3,817)	(7,410)
Loss on actuarial valuation	947	2,260
Defined benefit obligation as at 31 December	<u><b>28,479</b></u>	<u>22,948</u>

Obligations arising under defined benefit scheme are actuarial valued using the projected unit credit method based on the following assumptions:

The mortality assumption for all employees has been set according to the UK standard mortality tables as AM 92 for males and AF 92 for females.

	<b>2013</b>	2012
Discount rate	2.20% p.a	1.70% p.a
Rate of increase in basic salaries	3.10% p.a	3.10% p.a
Combined rate of resignation and employment termination	12.50% p.a	12.60% p.a

Actuarial loss of QR 0.94 million (2012: QR 2.26 million) is directly recognized in the statement of other comprehensive income.

**Defined contribution plan**

The Bank also contributed to the retirement fund relating to the provision for the Qatari employees amounting to QR 1.1 million (2012: QR 1.1 million) set up in accordance with instructions received from Qatar Retirement Pension Authority and in accordance with the Retirement and Pension Law, the same amount is deposited with the pension authorities on monthly basis.

**16.2 Tax payable**

The movement in tax payable during the year is as follows:

	<b>2013</b>	2012
Balance at 1 January	48,015	45,792
Tax provision (note 25a)	33,170	47,127
Tax paid	(37,580)	(44,904)
Balance at 31 December	<u><b>43,605</b></u>	<u>48,015</u>

**17. CAPITAL AND RESERVES****(a) Capital**

Represent funds provided to the Bank by the Head Office, which are interest free and represent the minimum capital prescribed by the Qatar Central Bank regulations.

**(b) Legal reserve**

In accordance with the Qatar Central Bank regulations, 10% of the net profit for the year before taxation is transferred to the legal reserve until the reserve totals 100% of capital. During the year, QR 36.48 million has been transferred to legal reserve.

This reserve is not available for distribution except in circumstances specified in the Qatar Central Bank regulations and after the Qatar Central Bank approval.

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**17. CAPITAL AND RESERVES (CONTINUED)****(c) Fair value reserve**

The fair value reserve includes the impact from the net changes in the fair value of available-for-sale financial assets and the impact to the profit and loss of available-for-sale financial assets sold during the year.

	<b>2013</b>	2012
<b>Available-for-sale financial assets:</b>		
Balance at 1 January	69,603	86,022
Positive change in fair value	47,576	4,840
Negative change in fair value	(74,793)	(21,259)
Net change in fair value	(27,217)	(16,419)
Net amount transferred to profit and loss	-	-
<b>Total other comprehensive income, net of tax</b>	<b>(27,217)</b>	<b>(16,419)</b>
Balance at 31 December	<b>42,386</b>	<b>69,603</b>

**(d) Actuarial valuation adjustment**

During the year the Bank has valued the expatriate staff end of service benefits liability using the Projected Unit Credit Method in accordance with IAS 19 "Employee Benefits" (using an emerging cash flow model). The resultant gain or loss has been transferred to the reserve.

**(e) Share based payment reserve**

The share based payments reserve includes the impact of the change in share option reserve amounting to QR 0.13 million (2012: QR 8.58 million) for the equity settled share option plan.

**(f) Other reserve**

The opening balance of QR 121.18 million represents 1% of the loan balance transferred out of retained earnings to "Other reserve". Subsequently, further to the exemption of such transfer issued by QCB, the transfer is no longer required. However, the amount transferred has been retained as a reserve.

**18. NET INTEREST INCOME**

<b>Interest income</b>	<b>2013</b>	2012
From banks	32,812	35,369
Investment securities	124,267	107,512
Loans and advances to customers	241,509	304,516
	<b>398,588</b>	<b>447,397</b>
<b>Interest expense</b>		
To banks	13,703	16,485
Debt securities	19,239	36,392
Customer deposits	11,487	14,999
	<b>44,429</b>	<b>67,876</b>
<b>Net interest income</b>	<b>354,159</b>	<b>379,521</b>

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**19. NET FEE AND COMMISSION INCOME**

	<b>2013</b>	2012
Commission on loans and advances	53,449	49,726
Commission on indirect credit facilities	120,697	130,915
Commission on other investment activities	7,961	8,383
Others	42,264	45,332
	<u><b>224,371</b></u>	<u>234,356</u>

**20. FOREIGN EXCHANGE GAIN**

	<b>2013</b>	2012
Dealing in foreign currencies	<u><b>121,372</b></u>	<u>146,597</u>

**21. INCOME FROM INVESTMENT SECURITIES**

	<b>2013</b>	2012
Changes in fair value of financial assets as fair value through profit and loss	1,109	3,175
Net income/ (loss) from derivatives held for trading purposes	<u>1,550</u>	<u>(823)</u>
	<u><b>2,659</b></u>	<u>2,352</u>

**22. OTHER OPERATING INCOME**

	<b>2013</b>	2012
Rent received from third parties	12,207	11,142
Occupancy and maintenance income	2,636	7,738
	<u><b>14,843</b></u>	<u>18,880</u>

**23. STAFF COSTS**

	<b>2013</b>	2012
Staff salaries	120,496	133,742
Staff indemnity costs	8,340	3,511
Training	419	1,162
	<u><b>129,255</b></u>	<u>138,415</u>

**24. OTHER EXPENSES**

	<b>2013</b>	2012
Marketing and promotion	9,242	11,617
Legal and professional charges	8,521	9,140
Communication, utilities and insurance	8,450	7,552
Occupancy and maintenance	53,155	50,711
Head office charges	5,746	6,930
Middle East Management office charges	37,748	37,180
Group Recharges	4,957	4,934
Information Technology expenses	30,562	28,695
Travelling and entertainment	1,725	1,328
Licence and permit expenses	313	545
Operating losses	2,434	930
Security costs	814	810
Staff recruitment costs	208	191
Miscellaneous expenses	6,216	5,581
	<u><b>170,091</b></u>	<u>166,144</u>



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**25. TAX EXPENSE**

Income tax expense for the year has been computed in accordance with the provisions and requirements of the Qatar Income Tax Law No. 21 of 2009.

**(a) Recognised in the income statement**

	<b>2013</b>	2012
Current tax expense	34,884	47,127
Prior year tax charge	(1,714)	-
<b>Total income tax expense</b>	<b><u>33,170</u></b>	<b><u>47,127</u></b>

**(b) Reconciliation between profits before tax to income tax expense**

	<b>Effective tax rate</b>	<b>2013</b>	<b>Effective tax rate</b>	2012
Profit before tax		398,053		468,357
Tax exempt revenues		(123,196)		(61,615)
Cost related to exempt income		7,416		27,967
Disallowed expenses		3,824		1,556
<b>Total taxable income for the year</b>		<b><u>286,097</u></b>		<b><u>436,265</u></b>
Current tax expense	<u>11%</u>	<b><u>33,170</u></b>	<u>11%</u>	<b><u>47,127</u></b>

Under the provisions of Qatar Tax Laws, deductibility of provisions for loan losses is restricted to 10% of the net taxable income of the Bank before provisions and taxation.

**26. SHARE-BASED PAYMENTS**

Shares are utilised to promote widespread interest in HSBC Holdings shares among employees and to help foster employee engagement.

The shares are accounted in the books of the Bank till they vest, at which time the ownership is transferred to the employee.

Movements in the number of share options outstanding are as follows:

	<b>2013</b>	2012
Outstanding at the beginning of the year	172,362	308,211
Granted during the year	55,756	86,349
Exercised during the year	(94,143)	(164,358)
Expired during the year	(2,338)	(28,337)
Transferred during the year	(4,538)	(29,503)
<b>Outstanding at the end of the year</b>	<b><u>127,099</u></b>	<b><u>172,362</u></b>

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**27. CONTINGENT LIABILITIES AND OTHER COMMITMENTS**

	<b>2013</b>	2012
<b>a) Contingent liabilities</b>		
Unused facilities – cancellable	7,976,026	7,754,886
Unused facilities – non cancellable	25,074	29,739
Irrevocable loan commitments	8,001,100	7,784,625
Guarantees	12,332,246	12,363,800
Letters of credit	278,656	818,824
Others	494,387	384,244
	<b><u>21,106,389</u></b>	<b><u>21,351,493</u></b>
<b>b) Other Commitments</b>		
Foreign exchange contracts	8,099,063	4,700,326
Interest rate swaps	1,265,984	645,274
	<b><u>9,365,047</u></b>	<b><u>5,345,600</u></b>
Total Contingencies and commitments	<b><u>30,471,436</u></b>	<b><u>26,697,093</u></b>

**Unused facilities**

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and overdraft facilities. Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period of one to three months.

**Guarantees and Letters of credit**

The Bank guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties. For these instruments, the contractual amount of the financial instrument represents the maximum potential credit risk, if the counterparty does not perform according to the terms of the contract. A large majority of these expire without being drawn upon, and as a result, the contractual notional principal amounts are not representative of the actual future credit exposure or liquidity requirements of the Bank. In the absence of any process for accurate determination of credit risk of these credit related contingent liabilities, the contractual or notional principal amount has been considered as the credit exposure.

**Lease commitments**

Non-cancellable operating lease rentals are payable as follows:

	<b>2013</b>	2012
Less than one year	65,590	62,006
Between one and five years	287,224	277,352
Over five years	25,105	100,162
	<b><u>377,919</u></b>	<b><u>439,520</u></b>

The Bank leases a number of branches and office premises under operating leases. The leases typically run for a period up to 10 years, with an option to renew the lease after that period. The amount paid towards lease rentals during the year is QR. 48.72 million (2012: QR 45.16 million).

**28. CASH AND CASH EQUIVALENTS**

For the purpose of preparing the statement of cash flow, cash and cash equivalents include the following:

	<b>2013</b>	2012
Cash and balances with Qatar Central Bank	374,759	607,268
Due from banks	2,346,037	3,419,741
	<b><u>2,720,796</u></b>	<b><u>4,027,009</u></b>

\*Cash and balances with Qatar Central Bank do not include the mandatory cash reserve.

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**29. DERIVATIVE FINANCIAL INSTRUMENTS**

In the ordinary course of business, the Bank uses interest rate swaps and cross currency swaps for trading purposes.

Interest rate swaps are commitments to exchange one set of cash flows for another.

The table below shows the positive and negative fair values of derivative financial instruments together with the notional amounts by the term of maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved and the credit and market risk, which can be identified from the derivatives fair value.

	Positive fair value	Negative fair value	Notional Amount	Notional amount by term to maturity		
				Within three Months	3-12 Months	1-5 Years
<b>As at 31 December 2013</b>						
Held for trading - (Interest rate swaps)	-	1,339	109,245	-	-	109,245
Held for trading - (Cross currency swaps)	2,836	-	859,624	-	-	859,624
<b>As at 31 December 2012</b>						
Held for trading - (Interest rate swaps)	-	4,105	109,245	-	-	109,245
Held for trading - (Cross currency swaps)	4,052	-	859,624	-	-	859,624

**30. GEOGRAPHICAL INFORMATION**

The Bank is organised into one main business segment, which comprises commercial banking activities including credit cards. Geographically, the Bank operates in Qatar and majority of the profits are generated in Qatar. Substantially all the assets are held in Qatar and other GCC countries.

	Qatar	Other GCC Countries	Europe	North America	Others	Total
<b>As at 31 December 2013</b>						
<b>Assets</b>						
Cash and balances with QCB	883,035	-	-	-	-	883,035
Due from banks	443,114	13,094	1,377,208	91,038	421,583	2,346,037
Loans and advances to customers	7,062,500	-	-	6,610	355,839	7,424,949
Investment securities	6,371,256	-	-	-	-	6,371,256
Property and equipment	29,753	-	-	-	-	29,753
Intangible assets	2,424	-	-	-	-	2,424
Other assets	231,385	-	-	-	-	231,385
<b>Total assets</b>	<b>15,023,467</b>	<b>13,094</b>	<b>1,377,208</b>	<b>97,648</b>	<b>777,422</b>	<b>17,288,839</b>
<b>Liabilities and equity</b>						
Customer deposits	9,932,609	60,410	211,492	17,159	190,981	10,412,651
Due to banks	-	2,562,867	-	-	254,872	2,817,739
Debt securities issued	-	313,243	-	-	-	313,243
Other liabilities	1,439,553	-	-	-	-	1,439,553
Equity	2,305,653	-	-	-	-	2,305,653
<b>Total liabilities and equity</b>	<b>13,677,815</b>	<b>2,936,520</b>	<b>211,492</b>	<b>17,159</b>	<b>445,853</b>	<b>17,288,839</b>

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

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**30. GEOGRAPHICAL INFORMATION (CONTINUED)**

	Qatar	Other GCC Countries	Europe	North America	Others	Total
As at 31 December 2012						
Assets						
Cash and balances with QCB	1,122,205	-	-	-	-	1,122,205
Due from banks	273,113	2,522,420	487,222	65,880	71,106	3,419,741
Loans and advances to customers	6,852,309	-	37,899	-	409,425	7,299,633
Investment securities	5,100,529	-	-	-	-	5,100,529
Property and equipment	34,386	-	-	-	-	34,386
Intangible assets	2,211	-	-	-	-	2,211
Other assets	248,286	-	-	-	-	248,286
<b>Total assets</b>	<b>13,633,039</b>	<b>2,522,420</b>	<b>525,121</b>	<b>65,880</b>	<b>480,531</b>	<b>17,226,991</b>
Liabilities and equity						
Customer deposits	9,704,925	-	-	-	-	9,704,925
Due to banks	17,828	2,004,403	18,228	33,692	7,413	2,081,564
Debt securities issued	-	2,110,479	-	-	-	2,110,479
Other liabilities	1,087,055	-	-	-	-	1,087,055
Equity	2,242,968	-	-	-	-	2,242,968
<b>Total liabilities and equity</b>	<b>13,052,776</b>	<b>4,114,882</b>	<b>18,228</b>	<b>33,692</b>	<b>7,413</b>	<b>17,226,991</b>

**31. RELATED PARTIES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include Head Office and key management personnel of the Bank and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Bank's management.

The related party transactions and balances included in these financial statements are as follows:

	2013	2012
<b>On Balance Sheet Items</b>		
<u>Assets:</u>		
Current accounts	184,648	343,251
Other assets	1,468,421	2,978,390
<u>Liabilities:</u>		
Current accounts	67,755	75,147
Other liabilities	4,705,541	4,112,400
<b>Off Balance Sheet Items</b>		
Guarantees	836,728	1,234,704
Foreign exchange contracts and derivatives	4,477,211	2,350,911
<b>Items of income statement</b>		
Income of interest and commission	29,867	31,412
Expenses of interest and commission	16,140	18,377
Other expense	76,722	76,681
<b>Transactions with key management personnel</b>		
Salaries and benefits to key management personnel	3,758	3,758

Balances receivable from and payables to Group entities are not secured and carry interest rates as per the terms agreed.

**NOTES TO THE FINANCIAL STATEMENTS****As at and for the year ended 31 December 2013**

In thousands of Qatari Riyal

**32. CUSTODIAN AND CLEARANCE SERVICES**

The Bank offers custodial services to local and foreign financial institutions, corporate and high net worth individuals. The services include safe custody of assets, reconciliations, corporate actions processing, cash management and reporting. The value of assets under custody as at 31 December 2013 was QR 22.49 billion. (2012: QR 14.09 billion).

**33. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the presentation in the current year's financial statements. Such reclassification did not have any impact on the declared profit or the equity for the year 2013.