HSBC BANK MIDDLE EAST LIMITED
QATAR BRANCH

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2012

HSBC Bank Middle East Limited - Qatar Branch

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To:
The Management
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 2012, 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 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the applicable provisions of the Qatar Central Bank regulations.

Report on other legal and regulatory requirements

We have obtained all the information and explanation which we consider necessary for the purpose of our audit, The Bank has maintained proper accounting records and the financial statements are in agreement therewith. We are not aware of any violations of the provisions of Qatar Central Bank Law No. 33 of 2006 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 2012.

28 February 2013	Gopal Balasubramaniam
Doha	KPMG
State of Qatar	Qatar Auditors' Registry No. 251

STATEMENT OF FINANCIAL POSITION In thousands of Qatari Riyals

As at 31 December	Note	2012	2011
ASSETS			
Cash and balances with Qatar Central Bank	6	1,122,205	1,996,064
Due from banks	7	3,419,741	2,916,456
Loans and advances to customers	8	7,299,633	6,982,922
Investment securities	9	5,100,529	5,938,176
Property and equipment	10	34,386	43,616
Intangible assets	11	2,211	1,690
Other assets	12	248,286	206,243
TOTAL ASSETS		**17,226,991**	18,085,167
LIABILITIES			
Due to banks	13	2,081,564	2,607,503
Customer deposits	14	9,704,925	10,105,753
Debt securities	15	2,110,479	2,100,483
Other liabilities	16	1,087,055	967,240
TOTAL LIABILITIES		**14,984,023**	15,780,979
EQUITY			
Share Capital	17(a)	100,000	10,000
Legal reserve	17(b)	52,123	10,000
Fair value reserve	17(c)	69,603	86,022
Actuarial valuation adjustment	17(d)	(5,910)	(3,650)
Share based payment reserve	17(e)	992	9,579
Other reserve	17(f)	121,183	121,183
Retained earnings		1,904,977	2,071,054
TOTAL EQUITY		**2,242,968**	2,304,188
TOTAL LIABILITIES AND EQUITY		**17,226,991**	18,085,167

The financial statements were approved and signed on behalf of the Management of HSBC Bank Middle East Limited - Qatar Branch by the following on 28 February 2013

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 In thousands of Qatari Riyals

For the year ended 31 December	Note	2012	2011
Interest income	18	447,397	486,756
Interest expense	18	(67,876)	(88,150)
Net interest income		379,521	398,606
Fee and commission income		247,603	277,608
Fee and commission expense		(13,247)	(13,417)
Net fee and commission income	19	234,356	264,191
Foreign exchange gain	20	146,597	153,083
Income from investment securities	21	2,352	(2,157)
Other operating income	22	18,880	8,148
Net operating income		**781,706**	821,871
Staff costs	23	(138,415)	(173,094)
Depreciation and amortization		(9,507)	(10,410)
Net impairment loss on loans and advances to customers	8(c)	717	(51,724)
Other expenses	24	(166,144)	(178,062)
Profit for the year before tax		**468,357**	408,581
Tax expense	25	(47,127)	(48,272)
Profit for the year		**421,230**	360,309

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

STATEMENT OF COMPREHENSIVE INCOME

In thousands of Qatari Riyals

For the year ended 31 December	Note	2012	2011
Profit for the year		421,230	360,309
Other comprehensive income for the year, net of tax			
Net change in fair value of available-for-sale financial assets	17(c)	(16,419)	67,870
Actuarial gain/(loss) on defined benefit plan	16.1	(2,260)	2,183
Other comprehensive income for the year, net of tax		**(18,679)**	70,053
Total comprehensive income for the year		**402,551**	430,362

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

STATEMENT OF CHANGES IN EQUITY

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 2011	10,000	10,000	18,152	(5,833)	4,599	121,183	1,710,745	1,868,846
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	360,309	360,309
Other comprehensive income								
Defined benefit plan actuarial gain	-	-	-	2,183	-	-	-	2,183
Net change in fair value of available-for-sale investments	-	-	67,870	-	-	-	-	67,870
Total comprehensive income for the year	-	-	67,870	2,183	-	-	360,309	430,362
Fair value of share based payments	-	-	-	-	4,980	-	-	4,980
Balance at 31 December 2011	10,000	10,000	86,022	(3,650)	9,579	121,183	2,071,054	2,304,188
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
Other comprehensive income								
Defined benefit plan actuarial loss	-	-	-	(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**

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

STATEMENT OF CASH FLOWS In thousands of Qatari Riyals

For the year ended 31 December	Note	2012	2011
Cash flows from operating activities			
Profit for the year before tax		468,357	408,581
Adjustments for:			
Net impairment loss on loans and advances to customers	8(c)	(717)	51,724
Depreciation and amortization		9,507	10,410
Write-off of property and equipment		552	-
Provision for employees end of service benefits	16.1	1,577	8,435
Amortization of debt securities		9,996	-
Changes in fair value of derivatives		823	876
Interest income		(447,397)	(486,756)
Interest expense		67,876	88,150
(Gain) / loss on disposal of property and equipment		234	315
Cash generated before change in operating assets and liabilities		110,808	81,735
Change in cash reserve with Qatar Central Bank		(18,436)	46,559
Change in loans and advances to customers		(315,994)	(340,053)
Change in other assets		(21,592)	41,400
Change in customer deposits		(400,828)	(1,062,842)
Change in due to banks		(525,539)	(1,283,296)
Change in other liabilities		113,371	(3,443)
		(1,058,610)	(2,519,940)
Employees end of service benefits paid	16.1	(7,410)	(11,200)
Interest received		426,999	495,464
Interest paid		(67,291)	(152,059)
Tax paid	16.2	(44,904)	(49,190)
Net cash used in operating activities		(751,216)	(2,236,925)
Cash flows from investing activities			
Acquisition of investment securities		(3,335,913)	(4,401,793)
Proceeds from sale of investment securities		4,154,887	1,080,020
Acquisition of property and equipment and intangible assets		(2,056)	(3,789)
Proceeds from disposal of property and equipment		472	908
Net cash from / (used in) investing activities		817,390	(3,324,654)
Cash flows from financing activities			
Issue of debt securities		-	313,356
Profits remitted to Head Office		(455,184)	-
Net cash (used in) / from financing activities		(455,184)	313,356
Net decrease in cash and cash equivalents		(389,010)	(5,248,223)
Cash and cash equivalents as at 1 January		4,416,019	9,664,242
Cash and cash equivalents as at 31 December	28	**4,027,009**	4,416,019

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

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”) issued 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial assets and financial liabilities

Financial assets include cash and bank balances with Qatar Central bank, current accounts and placements with banks, loans and advances to customers, investment securities, derivatives and certain other assets. Financial liabilities include customer deposits and due to banks. Financial instruments also include contingent liabilities and commitments not recognised and certain other liabilities adequately disclosed in the respective notes to the financial statements.

i) Recognition and initial measurement

The Bank initially recognizes loans and advances to customers and customer deposits on the date that they are originated. All other financial assets and liabilities are initially recognized on the trade date at which the bank becomes a party to the contractual provisions of the instrument.

ii) Classification

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

- loans and receivables;
- available-for-sale; or
- held for trading.

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

iii) De-recognition

The Bank derecognises 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 derecognises 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 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) Measurement

Cash and cash equivalents

Cash and cash equivalents comprise notes and coins on hand, due from banks and balances with Qatar Central Bank all having an original maturity of less than 90 days. This excludes the cash reserve with Qatar Central Bank which is not available for use by the Bank.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v) Measurement (continued)

Loans and advances to customers and due from banks

Loans and advances to customers and due from banks are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortised cost using the effective interest method, less any impairment losses. Loans and advances to customers are shown at amortised cost after deducting any provisions for impairment losses. Specific provision for impairment is calculated after considering the difference between the carrying amount and the recoverable amount, which is the present value of the expected cash flows discounted at the original effective interest rate. Loans and advances to customers are written off only in circumstances where all reasonable restructuring and collection efforts have been exhausted.

The Bank also assesses a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in country risk, industry as well as identified structural weaknesses.

Available-for-sale financial assets

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. 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.

Held-for-trading financial assets

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 income statement. Subsequently their fair values are remeasured, and gains and losses from changes therein are recognised in the profit or loss.

Customer deposits and due to banks

Customer deposits and due to banks are measured at amortised cost. The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation.

Other assets and liabilities

All other assets and liabilities which are financial instruments are stated at amortised cost.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured 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 2012.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

vi) Fair values of financial assets and financial liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties on an arm's length basis. Differences can therefore arise between the book values under the historical cost method and fair value estimates.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The fair value of the marketable financial assets represents the quoted prices at the statement of financial position date and in case of non availability of quoted prices for some financial assets, its fair value will be arrived at using a suitable price model.

The fair values of loans and advances were principally estimated at their book values less attributable specific provision for loan losses as the financing is mostly on a floating rate basis and the applicable margins approximate the current spreads that would apply for similar lending. The fair value of the Bank's other financial assets and financial liabilities are not materially different from their carrying values. For the disclosure of fair value hierarchy please refer note 4(e).

vii) Identification and measurement of impairment

The carrying amount of the Bank's assets is reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss.

Impairment loss is recognised in the profit or loss, whenever the carrying amount of the asset exceeds its recoverable amount.

Financial assets

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by considering together financial assets with similar characteristics.

At each reporting date the Bank assesses whether there is objective evidence that financial assets 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, and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

vii) Identification and measurement of impairment (continued)

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.

c) Property and equipment

Items of property and equipment are carried at historical cost less accumulated depreciation less any impairment losses. Subsequent costs included in the asset's carrying amount are recognised only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

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

Leasehold improvements	Over the period of lease
Machinery and office equipment	3 to 6 years
Office furniture	6 years
Motor vehicles	5 years

The depreciation method and the useful lives as well as residual values are reassessed annually. Gains and losses on disposals are included in the income statement.

d) 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 generated software	3-5 years
Purchased software	3-5 years

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Provisions

The Bank recognizes provisions in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision is created by charging the profit or loss for any obligations or contingent liabilities as per the calculated value for these obligations and the expectation of their realisation at the date of statement of financial position.

f) 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iv) Share based payments (continued)

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.

g) Interest income and expense

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

The calculation of effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to acquisition or issue of a financial asset or liability.

h) 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.

i) 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.

j) 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.

k) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) 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.

m) Fiduciary assets

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

n) Comparatives

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

o) Standards, amendments and interpretations issued

New standards, amendments and interpretations effective from 1 January 2012

i) IFRS 7 (amendment) – Disclosures: Transfer of financial assets

The amendments to IFRS 7 introduce new disclosure requirements about transfers of financial assets including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

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

ii) 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 Company as a result of these amendments.

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 2012, and have not been applied in preparing these financial statements. Those which are relevant to the Bank are set out below:

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 amendment is effective for annual periods beginning after 1 July 2012 with an option of early application.

The Bank is not expecting a significant impact from the adoption of this amendment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Bank. However, the Bank may need to assess the impact of the change in measurement principles of the expected return on plan assets. IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

The Bank is not expecting a significant impact from the adoption of this amendment.

iii) Amendments to IFRS 7 and IAS 32 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. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Based on the new disclosure requirements the Company / Group will have 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.

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

iv) 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. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables.

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

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Group has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Standards, amendments and interpretations issued (continued)

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

v) 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. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013.

Early adoption of standards

The Bank did not early adopt any new or amended standards or interpretations in 2012.

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.

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

a) Introduction and overview (continued)

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.

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.

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

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

		2012	2011
Credit risk exposures relating to assets recorded on the statement of financial position are as follows:			
Balances with Qatar Central Bank	6	1,073,282	1,957,906
Due from banks	7	3,419,741	2,916,456
Loans and advances to customers	8	7,299,633	6,982,922
Investment securities – debt	9	5,100,529	5,938,176
Other financial assets		146,353	127,451
Total as at 31 December		**17,039,538**	17,922,911
Other credit risk exposures are as follows:			
Guarantees	27	12,363,800	13,318,803
Letter of credit	27	818,824	588,558
Unutilized credit facilities	27	7,784,625	7,716,907
Total as at 31 December		**20,967,249**	**21,624,268**

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**	**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
	13,445,586	**2,522,420**	**409,602**	**661,930**	**17,039,538**

	Qatar	Other GCC	Other Middle east	Rest of the world	2011 Total
Balances with Qatar Central Bank	1,957,906	-	-	-	1,957,906
Due from banks	1,036,310	1,209,576	92	670,478	2,916,456
Loans and advances to customers	6,634,266	311,196	-	37,460	6,982,922
Investment securities – debt	5,938,176	-	-	-	5,938,176
Other financial assets	127,451	-	-	-	127,451
	15,694,109	1,520,772	92	707,938	17,922,911

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

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

Geographical sectors (continued)

	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
	20,148,425	21,996	8,463	788,365	20,967,249

	Qatar	Other GCC	Other Middle east	Rest of the world	2011 Total
Guarantees	13,318,803	-	-	-	13,318,803
Letter of credit	-	15,810	6,083	566,665	588,558
Unutilized credit facilities	7,716,907	-	-	-	7,716,907
	21,035,710	15,810	6,083	566,665	21,624,268

Industry sectors

An analysis of concentrations of credit risk from gross loans and advances and investment securities as at 31 December 2012 is shown below:

	Gross exposure 2012	Gross exposure 2011
Government	7,206,197	8,536,775
Industry	4,835	36,907
Commercial	1,607,304	1,908,556
Services	687,070	197,968
Contracting	806,800	1,044,865
Personal	1,970,645	1,976,558
Others	1,209,211	114,755
	13,492,062	**13,816,384**

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

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	
	2012	2011	**2012**	2011	**2012**	2011
Neither past due nor impaired (low risk)						
Grade 1	2,376,829	3,297,742	3,419,741	2,916,456	-	-
Grade 2	4,744,475	3,411,378	-	-	-	-
Past due but not impaired (specially mentioned)						
Grade 2	304,864	407,167	-	-	-	-
Impaired						
Grade 3 – substandard	3,173	6,740	-	-	-	-
Grade 4 – doubtful	289,067	329,063	-	-	-	-
Grade 5 – loss	673,125	426,118	-	-	-	-
	8,391,533	7,878,208	**3,419,741**	2,916,456	**-**	-
Less: interest in suspense	(661,167)	(463,451)				
Less: impairment allowance – specific	(413,638)	(406,603)	-	-	-	-
Less: impairment allowance – collective	(17,095)	(24,848)	-	-	-	-
	(430,733)	(431,451)	-	-	-	-
Carrying amount - net	**7,299,633**	6,982,922	**3,419,741**	2,916,456	**-**	-
Investment securities –debt						
Available-for-sale	-	-	-	-	4,846,100	5,181,818
Investment securities at fair value through profit and loss	-	-	-	-	254,429	756,358
Carrying amount - net	-	-	-	-	**5,100,529**	5,938,176
Total carrying amount	**7,299,633**	6,982,922	**3,419,741**	2,916,456	**5,100,529**	5,938,176

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 4 and 5 in the Bank's internal credit risk grading system in accordance with Qatar Central Bank regulations and adequate provisions are held against them as required by the Qatar Central Bank Guidelines – Instructions to Banks.

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

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.

	2012	2011
Upto 30 days	286,040	399,224
30 to 90 days	18,824	7,943
Gross	**304,864**	407,167

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:

	2012	2011
Against customer deposits	108,098	122,941
Against bank guarantees	221,465	188,502
Against real estate mortgages	1,122,673	497,831
Personal guarantees	6,706	10,735
Unsecured	6,932,591	7,058,199
	8,391,533	7,878,208

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.

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

Total impairment allowance to gross lending

	2012	2011
Individually assessed impairment allowances	4.93%	5.16%
Collectively assessed impairment allowances	0.20%	0.31%
Total	**5.13%**	5.47%

Financial investments

The table below presents an analysis of government bonds by rating agency designation at 31 December 2012:

	2012	2011
Unrated	5,100,529	5,938,176

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.

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (Continued)

i). Maturity analysis

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

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 2012	**Carrying Amount**	**Less than 1 month**	**1 – 3 Months**	**3 months – 1 year**	**1 – 5 Years**	**More than 5 years**
Assets						
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	2,095,087	-
Financial Investments	5,100,529	-	948,628	2,387,283	1,764,618	-
Other assets	248,286	248,286	-	-	-	-
Total assets	**17,190,394**	**5,470,593**	**2,518,473**	**5,341,623**	**3,859,705**	**-**
Liabilities						
Customer deposits	9,704,925	4,692,914	2,393,517	2,378,648	239,846	-
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	-
Total liabilities	**14,984,023**	**6,006,009**	**2,469,493**	**5,933,346**	**575,175**	**-**
Difference	**2,206,371**	**(535,416)**	**48,980**	**(591,723)**	**3,284,530**	**-**

As at 31 December 2011	Carrying Amount	Less than 1 month	1 – 3 months	3 months – 1 year	1 – 5 years	More than 5 years
Assets						
Cash and balances with Qatar Central Bank	1,996,064	1,996,064	-	-	-	-
Due from banks	2,916,456	1,605,516	546,225	764,715	-	-
Loans and advances to customers	6,982,922	2,606,825	1,207,043	755,830	2,413,224	-
Investment securities	5,938,176	29,996	1,546,148	2,193,655	2,168,377	-
Other assets	206,243	206,243	-	-		-
Total assets	18,039,861	6,444,644	3,299,416	3,714,200	4,581,601	-
Liabilities						
Customer deposits	10,105,753	9,274,025	310,167	315,118	206,443	-
Due to banks	2,607,503	1,514,203	1,093,300	-	-	-
Debt securities	2,100,483	-	-	-	2,100,483	
Other liabilities	967,240	940,719	-	-	26,521	-
Total liabilities	15,780,979	11,728,947	1,403,467	315,118	2,333,447	-
Difference	2,258,882	(5,284,303)	1,895,949	3,399,082	2,248,154	-

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (Continued)

i). Maturity analysis (continued)

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

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

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**
Non-derivative financial liabilities						
Due to banks	2,081,564	248,988	75,976	1,756,600	-	-
Customer deposits	9,704,925	4,692,914	2,393,517	2,378,648	239,846	-
Debt securities	2,110,479	-	-	1,798,098	312,381	-
Other financial liabilities	919,854	896,906	-	-	22,948	-
Total liabilities	**14,816,822**	**5,838,808**	**2,469,493**	**5,933,346**	**575,175**	**-**

As at 31 December 2011	Carrying Amount	Less than 1 month	1 – 3 months	3 months – 1 year	1 – 5 years	More than 5 years
Liabilities						
Due to banks	2,607,503	1,514,203	1,093,300	-	-	-
Customer deposits	10,105,753	9,274,025	310,167	315,118	206,443	-
Debt securities	2,100,483	-	-	-	2,100,483	
Other financial liabilities	740,322	713,801	-	-	26,521	-
Total liabilities	15,554,061	11,502,029	1,403,467	315,118	2,333,447	-

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 2012.

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.

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

e) Market risk (continued)

Interest rate risk (continued)

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

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 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	0.25	-	-	-	-	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
Total assets		**4,128,601**	**2,517,559**	**5,391,864**	**3,982,555**	**2,159,782**	**18,180,361**
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
Total liabilities		**4,662,405**	**433,666**	**3,896,735**	**486,425**	**5,337,591**	**14,816,822**

As at 31 December 2011 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	0.76	300,000	-	-	-	1,696,064	1,996,064
Due from banks	0.42	1,446,077	546,225	764,715	-	159,439	2,916,456
Loans and advances to customers	4.83	2,899,631	1207,043	755,830	2,413,224	602,480	7,878,208
Investment securities	1.76	29,996	1,546,148	2,193,655	2,168,377	-	5,938,176
Other financial assets	-	-	-	-	-	127,451	127,451
Total assets		4,675,704	3,299,416	3,714,200	4,581,601	2,585,434	18,856,355
Customer deposits	0.44	5,492,355	310,167	315,118	206,443	3,781,670	10,105,753
Due to banks	0.52	1,190,359	1,093,300	-	-	323,844	2,607,503
Debt securities	1.6	-	-	-	2,100,483	-	2,100,483
Other financial liabilities	-	-	-	-	-	740,322	740,322
Total liabilities		6,682,714	1,403,467	315,118	2,306,926	4,845,836	15,554,061

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.

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

e) Market risk (continued)

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

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:

	Qatar Riyals	US Dollars	Euro	Sterling Pounds	Other Currencies	Total
As at 31 December 2012						
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)
Net currency position	**(126,423)**	**112,410**	**(4,108)**	**(3,673)**	**21,795**	**-**
As at 31 December 2011						
Assets	12,509,512	4,509,013	573,698	254,400	238,544	18,085,167
Liabilities and equity	(12,648,514)	(4,463,891)	(561,717)	(282,788)	(128,257)	(18,085,167)
Net currency position	(139,002)	45,122	11,981	(28,388)	110,287	-

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

e) Market risk (continued)

Foreign currency sensitivity analysis

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

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 2012	2011
Euro	+10%	(410)	(1,198)
Euro	-10%	410	1,198
Sterling	+10%	(367)	(2,838)
Sterling	-10%	367	2,838
Other currencies	+10%	(2,180)	(11,029)
Other currencies	-10%	2180	11,029

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:

2012 Financial assets	Loans and receivables	Financial investments	Other amortised cost	Total carrying amount	Fair value
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
	11,841,579	**5,100,529**	**146,353**	**17,088,461**	**17,105,376**
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
	-	**-**	**14,816,822**	**14,816,822**	**14,808,720**

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

e) Market risk (continued)

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

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

2011 Financial assets	Loans and receivables	Financial investments	Other amortised cost	Total carrying amount	Fair value
Cash and balances with Qatar Central Bank	1,996,064	-	-	1,996,064	1,996,064
Due from banks	2,916,456	-	-	2,916,456	2,916,490
Loans and advances to customers	6,982,922	-	-	6,982,922	7,028,377
Investment securities	-	5,938,176	-	5,938,176	5,938,176
Other financial assets	-	-	127,451	127,451	127,451
	11,895,442	5,938,176	127,451	17,961,069	18,006,558
Financial liabilities					
Customer deposits	-	-	10,105,753	10,105,753	10,107,962
Due to banks	-	-	2,607,503	2,607,503	2,607,505
Debt securities			2,100,483	2,100,483	2,089,417
Other financial liabilities	-	-	740,321	740,321	740,321
	-	-	15,554,060	15,554,060	15,555,620

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.

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)

Level in the fair value hierarchy	Fair value measurement at end of 31 December 2011 using:			
	Fair value	Level 1	Level 2	Level 3
Financial Assets				
Financial investments	5,938,176	-	5,938,176	-
Derivative financial instruments	(876)	-	(876)	-

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% (2011: 2.38% to 4.10%) for State of Qatar bonds and 1.33% (2011: 1.01%) 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 2012, the bank has reported a capital reserve ratio of 8.99% (2011: 9.9%) 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 adequacy as per Basel Capital Adequacy

As per the Qatar Central Bank regulations, foreign banks are exempt from maintaining the Capital adequacy ratio where they rely on the Group capital adequacy ratio and are an integral part of their Group's Capital Adequacy returns. However, the Bank is required to submit its Head office capital adequacy percentage to the Qatar Central Bank on a quarterly basis in accordance with the instructions to the Banks issued by the Qatar Central Bank.

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 2012, the gross values of loans and advances to customers totalled QR 8,391 million (31 December 2011: QR 7,878 million) and provision for impairment on loans and advances amounted to QR 430 million (31 December 2011: QR 431 million).

5. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

Useful lives, residual values and related depreciation charges of property and equipment

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.

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.

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

6. CASH AND BALANCES WITH QATAR CENTRAL BANK

	2012	2011
Cash	48,923	38,158
Cash reserve with Qatar Central Bank*	514,937	496,501
Other balances with Qatar Central Bank	558,345	1,461,405
	1,122,205	1,996,064

*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

	2012	2011
Demand accounts	185,279	159,439
Placements	2,961,349	2,538,527
Loans to banks	273,113	218,490
	3,419,741	2,916,456

Included in placements with banks is QR.2.96 billion (2011: QR 1.72 billion) with Group entities which are placed at market rates of interest. The average rate on placements with banks for 2012 was 0.16 % (2011: 0.37 %).

8. LOANS AND ADVANCES TO CUSTOMERS

a) By type	**2012**	2011
Loans	6,236,907	6,171,207
Overdrafts	1,474,295	1,151,725
Bills discounted	13,330	11,671
Other loans **	667,001	543,605
Gross loans and advances	**8,391,533**	7,878,208
Specific provision on personal customers	(378,027)	(366,581)
Specific provision on corporate customers	(35,611)	(40,022)
Collective impairment provision – personal	(5,950)	(10,257)
Collective impairment provision – corporate	(11,145)	(14,591)
	(430,733)	(431,451)
Interest in suspense	(661,167)	(463,835)
Net loans and advances (Note 8.1)	**7,299,633**	6,982,922

The aggregate amount of non-performing loans and advances to customers amounted to QR. 965.36 million, which represents 11.50% of total loans and advances to customers (2011: QR 762.46 million representing 9.67% of total loans and advances to customers).

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

Note 8.1	**2012**	2011
Government and related agencies	2,105,668	2,598,599
Corporate	4,225,291	3,312,947
Retail	968,674	1,071,376
	7,299,633	6,982,922

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

8. LOANS AND FINANCING ACTIVITIES TO CUSTOMERS (CONTINUED)

b) By industry

	Loans	Overdrafts	Bills discounted	Other Loans	Total 2012	Total 2011
General trade	576,408	350,566	13,330	667,001	1,607,305	1,908,556
Industry	4514	319	-	-	4,833	36,905
Housing and construction	780592	26,208	-	-	806,800	833,669
Personal	1,058,229	912,416	-	-	1,970,645	1,876,558
Services	670268	16,802	-	-	687,070	250,508
Others	3,146,894	167,985	-	-	3,314,880	2,972,012
Total	**6,236,905**	**1,474,296**	**13,330**	**667,001**	**8,391,533**	7,878,208
Less: interest in suspense					(661,167)	(463,835)
Specific impairment of loans and advances to customers					(413,638)	(406,603)
Collective impairment allowance					(17,095)	(24,848)
					7,299,633	6,982,922

The average interest rate at the reporting date, excluding non-performing loans was 4.35% (2011: 5.55%).

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

	Provisions	Interest in suspense	Total 2012	Total 2011
Balance as at 1 January	431,451	463,835	**895,286**	698,079
Provisions made during the year	22,774	232,421	**255,195**	235,170
Recoveries during the year	(23,491)	(35,087)	**(58,581)**	(37,963)
	(717)	197,334	**196,614**	197,207
Written off during the year	-	-	**-**	-
Balance as at 31 December	**430,733**	**661,167**	**1,091,900**	**895,286**

9. INVESTMENT SECURITIES

Investment securities as at 31 December 2012 totalled QR 5,100 million (2011: QR 5,938 million). The analysis of investment securities is detailed below:

	2012	2011
Available for sale	4,846,100	5,181,818
Investment securities at fair value through profit and loss	254,429	756,358
	5,100,529	5,938,176

a) Available-for-sale

	2012			2011		
	Total	**Quoted**	**Unquoted**	Total	Quoted	Unquoted
State of Qatar QAR Bonds	1,510,189	-	1,510,189	1,536,383	-	1,536,383
Treasury bills	3,335,911	3,335,911	-	3,645,435	-	3,645,435
Total	4,846,100	3,335,911	1,510,189	5,181,818	-	5,181,818

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

	2012	2011
Opening balance	5,181,818	2,548,533
Additions during the year	3,335,913	3,645,435
Net redemptions during the year	(3,655,212)	(1,080,020)
Fair value movements during the year	(16,419)	67,870
	4,846,100	5,181,818

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

9. INVESTMENT SECURITIES (CONTINUED)

b) Investment securities at fair value through profit and loss

	2012			2011		
	Unquoted	**Quoted**	**Total**	Unquoted	Quoted	Total
State of Qatar QAR Bonds	254,429	-	254,429	631,994	-	631,994
Treasury bills	-	-	-	124,364	-	124,364
Total	254,429	-	254,429	756,358	-	756,358

The financial investments amounting to QR 5,100 million (2011: QR 5,938 million) represent investments in fixed rate securities.

10. PROPERTY AND EQUIPMENT

	Leasehold improvements	**Machinery & office equipment**	**Furniture**	**Motor vehicles**	Total
Cost					
Balance at 1 January 2011	44,885	21,995	17,873	723	85,476
Acquisitions	198	1,146	382	-	1,726
Disposals	(3,683)	(29)	(323)	(116)	(4,151)
Balance at 31 December 2011	41,400	23,112	17,932	607	83,051
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	39,893	18,788	14,836	529	74,046

	Leasehold improvements	**Machinery & office equipment**	**Furniture**	**Motor vehicles**	**Total**
Accumulated depreciation					
Balance at 1 January 2011	10,501	15,772	5,593	494	32,360
Charged during the year	4,691	3,009	2,225	78	10,003
Disposals	(2,657)	(28)	(127)	(116)	(2,928)
Balance at 31 December 2011	12,535	18,753	7,691	456	39,435
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	15,375	16,563	7,278	444	39,660
Carrying amounts					
Balance at 31 December 2012	**24,518**	**2,225**	**7,558**	**85**	**34,386**
Balance at 31 December 2011	28,865	4,359	10,241	151	43,616

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

11. INTANGIBLE ASSETS

	Software	Work in progress	Total
Cost			
Balance at 1 January 2011	921	-	921
Acquisitions/ transfers	1,348	715	2,063
Disposals/ transfers	-	-	-
Balance at 31 December 2011	2,269	715	2,984
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	**1,951**	**1,660**	**3,611**

	Software	Work in progress	Total
Accumulated Depreciation			
Balance at 1 January 2011	887	-	887
Amortisation for the year	407	-	407
Disposals during the year	-	-	-
Balance at 31 December 2011	1,294	-	1,294
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	**1,400**	**-**	**1,400**
Carrying amounts			
Balance at 31 December 2012	**551**	**1,660**	**2,211**
Balance at 31 December 2011	975	715	1,690

12. OTHER ASSETS

	2012	2011
Interest receivable	146,551	126,153
Items in the course of collection	74,225	41,782
Prepaid expenses and accrued income	14,480	13,697
Others	13,030	24,611
	248,286	206,243

13. DUE TO BANKS

	2012	2011
Current accounts	158,970	272,650
Short term loans from banks	1,922,594	2,334,853
	2,081,564	2,607,503

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

14. CUSTOMER DEPOSITS

(a) By type

	2012	2011
Current and call deposits	6,991,087	6,563,523
Savings deposits	1,223,759	1,295,057
Time deposits	1,490,079	2,247,173
	9,704,925	10,105,753

Certain customer deposits amounting to QR 108 million have been secured against credit facilities (2011: QR.123 million).

(b) By sector

	2012	2011
Government and semi government agencies	393,452	621,554
Individuals	4,587,111	4,907,665
Corporate	4,502,515	4,528,096
Non-banking financial institutions	221,847	48,438
	9,704,925	10,105,753

15. DEBT SECURITIES

As at 31 December 2012, the bank had five floating rate notes in USD, Euro and GBP, issued through its head office (HBME) totalling to QR. 2,110 million (2011: QR 2,100 million) having interest rates ranging between 1.40% - 1.74% with earliest and latest maturities being 24 June 2013 and 28 June 2016 respectively.

16. OTHER LIABILITIES

	2012	2011
Interest payable	7,860	7,275
Accrued expenses payable	52,760	146
Provision for employees end of service benefits (Note 16.1)	22,948	26,521
Tax provision (Note 16.2)	48,015	45,792
Negative fair value of derivatives (note 29)	53	876
Deferred income	25,730	21,306
Cash margins	108,699	95,086
Unclaimed balances	3,008	1,760
Due in relation to acceptances	667,001	543,605
Others	150,981	224,873
	1,087,055	967,240

	2012	2011
Discount rate	1.70% p.a	1.60% p.a.
Rate of increase in basic salaries	3.10% p.a	3.60% p.a.
Combined rate of resignation and employment termination	12.60% p.a	13.00% p.a.

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

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:

	2012	2011
Defined benefit obligations as at 1 January	26,521	31,469
Charge for the year	1,577	8,435
Payments for the year	(7,410)	(11,200)
Loss/ (gain) on actuarial valuation	2,260	(2,183)
Defined benefit obligation as at 31 December	**22,948**	26,521

Obligations arising under defined benefit scheme are actuarial valued using 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.

The Bank is using faster recognition method for recognition of actuarial (gain) / loss. In this respect loss of QR 2.26 million (2011: gain of QR 2.18 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 (2011: QR 1.7 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:

	2012	2011
Balance at 1 January	45,792	46,710
Tax provision (note 25a)	47,127	48,272
Tax paid	(44,904)	(49,190)
Balance at 31 December	**48,015**	45,792

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 Qatar Central Bank regulations.

During the year, the Bank obtained approval from Qatar Central Bank to increase its capital from QR 10 million to QR 100 million by transferring QR 90 million from retained earnings. The capital was increased to comply with the licensing requirements of Qatar Financial Market Authority (QFMA) to practice Custody Services in Qatar

(b) Legal reserve

In accordance with 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 42.12 million has been transferred to legal reserve.

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

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

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.

	2012	2011
Available-for-sale financial assets:		
Balance at 1 January	86,022	18,152
Positive change in fair value	4,840	70,435
Negative change in fair value	(21,259)	(2,565)
Net change in fair value	(16,419)	67,870
Net amount transferred to profit and loss	-	-
Total other comprehensive income, net of tax	**(16,419)**	67,870
Balance at 31 December	**69,603**	86,022

(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 8.58 million (2011: QR 4.98 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

	2012	2011
Interest income		
From banks	35,369	27,431
Investment securities	107,512	90,609
Loans and advances to customers	304,516	368,716
	447,397	486,756
Interest expense		
To banks	16,485	7,381
Debt securities	36,392	30,935
Customer deposits	14,999	49,834
	67,876	88,150
Net interest income	**379,521**	398,606

As at and for the year ended 31 December 2012 In thousands of Qatari Riyal

19. NET FEE AND COMMISSION INCOME

	2012	2011
Commission on loans and advances	49,726	49,767
Commission on indirect credit facilities	130,915	102,248
Commission on other investment activities	8,383	25,359
Others	45,332	86,817
	234,356	264,191

20. FOREIGN EXCHANGE GAIN

	2012	2011
Dealing in foreign currencies	**146,597**	153,083

21. INCOME FROM INVESTMENT SECURITIES

	2012	2011
Changes in fair value of financial assets as fair value through profit and loss	3,175	(1,281)
Net income/ (loss) from derivatives held for trading purposes	(823)	(876)
	2,352	(2,157)

22. OTHER OPERATING INCOME

	2012	2011
Rent received from third parties	11,142	3,000
Occupancy and maintenance income	7,738	4,587
Others	-	561
	18,880	8,148

23. STAFF COSTS

	2012	2011
Staff salaries	133,742	162,680
Staff indemnity costs	3,511	8,435
Training	1,162	1,979
	138,415	173,094

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24. OTHER EXPENSES

	2012	2011
Marketing and promotion	11,617	14,033
Legal and professional charges	9,140	5,399
Communication, utilities and insurance	7,552	7,788
Occupancy and maintenance	50,711	46,510
Head office charges	6,930	1,114
Middle East Management office charges	37,180	52,953
Group Recharges	4,934	10,492
Information Technology expenses	28,695	26,526
Travelling and entertainment	1,328	1,054
Licence and permit expenses	545	382
Operating losses	930	1,557
Security costs	810	648
Staff recruitment costs	191	324
Miscellaneous expenses	5,581	9,282
	166,144	178,062

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

	2012	2011
Current tax expense	47,127	38,509
Prior year tax charge	-	9,763
Total income tax expense	**47,127**	48,272

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

	Effective tax rate	**2012**	Effective tax rate	2011
Profit before tax		468,357		408,581
Tax exempt revenues		(61,615)		(73,119)
Cost related to exempt income		27,967		40,736
Disallowed expenses		1,556		8,891
Total taxable income of the year		**436,265**		385,089
Current tax expense	**11%**	47,127	10%	38,509

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.

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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:

	2012	2011
Outstanding at the beginning of the year	308,211	234,198
Granted during the year	86,349	132,597
Exercised during the year	(164,358)	(34,908)
Expired during the year	(57,840)	(23,676)
Outstanding at the end of the year	**172,362**	308,211

27. CONTINGENT LIABILITIES AND OTHER COMMITMENTS

	2012	2011
a) **Contingent liabilities**		
Unused facilities – cancellable	7,754,886	7,635,322
Unused facilities – non cancellable	29,739	81,585
Irrevocable loan commitments	7,784,625	7,716,907
Guarantees	12,363,800	13,318,803
Letters of credit	818,824	588,558
Others	384,244	608,484
	21,351,493	22,232,752
b) **Other Commitments**		
Foreign exchange contracts	4,700,326	2,399,981
Interest rate swaps	645,274	3,586,513
	5,345,600	5,986,494
Total Contingencies and commitments	**26,697,093**	28,219,246

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.

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27. CONTINGENT LIABILITIES AND OTHER COMMITMENTS (CONTINUED)

Lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2012	2011
Less than one year	62,006	58,968
Between one and five years	277,352	258,695
Over five years	100,162	172,084
	439,520	489,747

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. 45.16 million (2011: QR 40.65 million).

28. CASH AND CASH EQUIVALENTS

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

	2012	2011
Cash and balances with Qatar Central Bank	607,268	1,499,563
Due from banks	3,419,741	2,916,456
	4,027,009	4,416,019

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

29. DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Bank uses interest rate 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.

				Notional amount by term to maturity		
	Positive fair value	Negative fair value	Notional Amount	Within three Months	3-12 Months	1–5 Years
As at 31 December 2012						
Held for trading - (Interest rate swaps)	-	4,105	109,245	-	-	**109,245**
Held for trading - (Cross currency swaps)	4,052	-	859,624	-	-	**859,624**
As at 31 December 2011						
Held for trading - (Interest rate swaps)	-	876	109,245	-	-	109,245

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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
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
Total assets	**13,633,039**	**2,522,420**	**525,121**	**65,880**	**480,531**	**17,226,991**
Liabilities and equity						
Customer deposits and unrestricted investment accounts	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
Total liabilities and equity	**13,052,776**	**4,114,882**	**18,228**	**33,692**	**7,413**	**17,226,991**

	Qatar	Other GCC Countries	Europe	North America	Others	Total
As at 31 December 2011						
Assets						
Cash and balances with QCB	1,996,064	-	-	-	-	1,996,064
Due from banks	1,036,310	1,209,668	579,073	79,347	12,058	2,916,456
Loans and advances and other financing activities	6,634,266	311,196	37,460	-	-	6,982,922
Financial investments	5,938,176	-	-	-		5,938,176
Property and equipment	45,616	-	-	-	-	45,616
Intangible assets	1,690	-	-	-	-	1,690
Other assets	206,243	-	-	-	-	206,243
Total assets	15,858,365	1,520,864	616,533	79,347	12,058	18,087,167
Liabilities and equity						
Customer deposits	10,105,753	-	-	-	-	10,105,753
Due to banks	417,781	2,015,500	100,880	7,259	66,083	2,607,503
Debt securities issued	-	-	2,100,483	-	-	2,100,483
Other liabilities	967,240	-	-	-	-	967,240
Equity	2,304,188	-	-	-	-	2,304,188
Total liabilities and equity	13,794,962	2,015,500	2,201,363	7,259	66,083	18,085,167

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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:

	2012	2011
On Balance Sheet Items		
Assets:		
Current accounts	343,251	531,033
Other assets	2,978,390	1,720,812
Liabilities:		
Current accounts	75,147	41,147
Other liabilities	4,112,400	4,182,062
Off Balance Sheet Items		
Guarantees	1,234,704	1,314,428
Foreign exchange contracts and derivatives	2,350,911	2,350,911
Items of income statement		
Income of interest and commission	31,412	12,056
Expenses of interest and commission	18,377	7,269
Other expense	76,681	88,601
Transactions with key management personnel		
Salaries and benefits to key management personnel	3,758	3,225

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

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 2012 was QR 14.09 billion. (2011: QR 16.15 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 2012.