annual report 2010

البنك الأهلي ش.م.ق

ahlibank QSC

a team working for you

IN THE NAME OF ALLAH
THE MOST GRACIOUS AND THE MOST MERCIFUL

His Highness
SHEIKH HAMAD BIN KHALIFA AL-THANI
Emir of the State of Qatar

His Highness
SHEIKH TAMIM BIN HAMAD BIN KHALIFA AL-THANI
Heir Apparent

البنك الأهلي ش.م.ق
ahlibank QSC

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www.ahlibank.com.qa

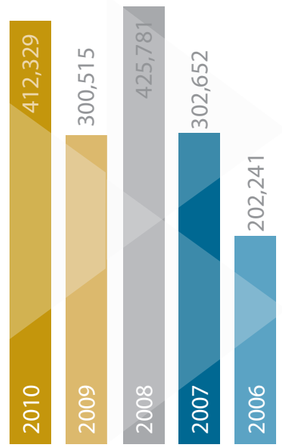
We take pride in channelling the individual expertise of our team towards realising one common objective - complete customer satisfaction. Whenever you approach us for your banking needs, be rest assured that there is a team working together to ensure that you receive the most personalised and optimum solution for your needs. Our team constantly strives to reward your trust by anticipating your needs and exceeding your expectations. You can confidently move forward towards accomplishing your goals with the assurance that there is **a team working especially for you at Ahli Bank.**

table of contents

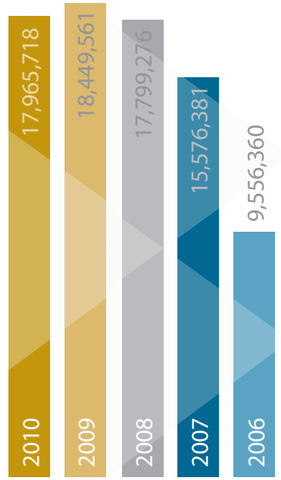
financial highlights

(Amounts in QR ' 000)

	2010 QR '000	2009 QR '000	2008 QR '000	2007 QR '000	2006 QR '000
Net Profit	412,329	300,515	425,781	302,652	202,241
Total Assets	17,965,718	18,449,561	17,799,276	15,576,381	9,556,360
Total Loans	11,338,854	12,407,056	11,547,061	10,105,785	6,294,372
Total Liabilities	15,901,448	16,496,986	16,158,893	14,052,534	8,373,890
Shareholders' Equity	2,064,270	1,952,575	1,640,383	1,523,847	1,182,470
Return on Average Assets	2.3%	1.7%	2.6%	2.7%	2.7%
Return on Average Equity	21%	17.5%	26.0%	24.6%	18.5%
Cost to Income Ratio	26.9%	31.4%	25.3%	30.0%	37.7%
Financial Leverage	7.5	8.3	9.6	9.1	6.9
Risk Asset Ratio	14.9%	15.2%	12.0%	12.9%	13.2%
Earnings per Share (QR)	6.5	4.9	7.3	5.2	3.5



net profit



total assets

total loans

shareholders' equity

board of directors' report

During 2010 we achieved a net profit of QR 412.3 million, an increase of 37.2% compared to the previous year. Return on Average Equity (ROAE) increased by 21%; Earnings per Share (EPS) increased from QR 4.94 to QR 6.48, up by 31.2%; and Return on Average Assets (ROAA) improved to 2.3%.

In the Name of Allah, the Most Gracious, the Most Merciful

Respected Shareholders,

It gives me immense pleasure to present to you the annual report for the fiscal year ending on 31 December 2010, which will provide you a brief insight into our financial performance and our achievements in various banking activities during 2010 as well as our aspirations for the year 2011.

During 2010 we achieved a net profit of QR 412.3 million, an increase of 37.2% compared to the previous year. Return on Average Equity (ROAE) increased by 21%; Earnings per Share (EPS) increased from QR 4.94 to QR 6.48, up by 31.2%; and Return on Average Assets (ROAA) improved to 2.3%.

The excellent results that we achieved were a direct outcome of the concerted efforts we undertook at all levels in order to surmount the financial crisis that had befallen the world in the last few years. Our country successfully withstood the challenges of the crisis, thanks to the prudent policies adopted by the State. In these circumstances it was quite imperative to formulate our own policies and controls in order to protect the Bank against the negative effects of the crisis. Our 2010 results are also indicative of our unwavering commitment to improve our performance benchmarks, to introduce innovative services and products, to keep pace with the economic boom witnessed by our country and to adequately respond to the ever-evolving requirements of our clients for both retail and corporate banking services.

Keeping in line with our broader policy of enhancing our performance levels, during 2010 we updated our credit & investment policy, the outsourcing policy and information security policies and procedures. Our anti-money laundering and terrorism financing policies and procedures were also revised in line with the requirements of the National Committee for Anti-Money Laundering and Terrorism Financing. We have also made certain essential amendments to the personal loans criteria in order to make them more competitive and more responsive to the needs of our clients.

During the year, we continued to upgrade our technological infrastructure by introducing new hardware & software to our system, including the comprehensive solutions for data management and other instruments. We also concentrated on enhancing our customers' access to our banking services by purchasing a new building for our Wakra branch and by expanding our ATM network from 38 to 45.

The customer benefits of the highly acclaimed 'MyHassad' savings scheme was further reinforced by introducing the 'MyHassad Contractual Savings Account' which gives customers the opportunity to earn handsome returns on their account balances as well as win the biggest prizes in the region. We launched our Platinum credit card and signed an agreement with one of the largest travel & tourism companies in the Country to offer their products and services against our Pearl Point rewards. During the year we successfully completed all the required procedures for the establishment of Ahli Brokerage Company, with a capital of QR 50 million. The Company, which is expected to be operational this year, will be offering independent brokerage services to both locals and individual investors.

We are looking forward towards the future with absolute confidence, especially since Qatar is on the threshold of a phenomenal infrastructure development drive, following the Country's successful bid to host the 2022 FIFA World Cup.

The Country is expected to announce a wide range of development projects, which will require a corresponding response from the banking sector. This year will see the Bank formulate new policies and plans with a view towards playing an active role in these projects.

We also have ambitious development plans in place, including expanding the scope of our services, both geographically and vertically, as well as offering new services and products that match the aspirations of our esteemed customers. During 2011, we intend to further enhance our investments in service technologies, open new branches, expand our ATM network and enhance our online corporate banking services.

You must be very well aware of the fact that corporate governance policies are receiving increased attention in all international and local establishments and organisations, who are responsible for supervising the operations of financial companies and institutions. In this context it has become imperative, in accordance with the governance directive issued in January 2009, that companies listed on Qatar Exchange should issue an annual corporate governance report for the information of their respective shareholders and customers, in order to confirm the Company's observance and implementation of corporate governance guidelines and principles.

In this respect, I kindly invite you to view our annual corporate governance report on our website www.ahlibank.com.qa and take notice of its contents.

In the light of the excellent results we reaped during 2010, I would like to recommend the following for the approval of the general assembly:

1. The financial statements and profit and loss accounts for the financial year that ended on 31 December 2010.
2. The distribution of a cash dividend of 50%, equivalent to QR 5 per share.

In conclusion, I would like to extend our most profound gratitude to HH Sheikh Hamad Bin Khalifa Al Thani, Emir of the State of Qatar and HH Sheikh Tamim Bin Hamad Bin Khalifa Al Thani, the Heir Apparent for their continued patronage as well as for their farsighted policies that continue to guide the Country towards unprecedented economic and social prosperity.

I would also like to express our sincere gratitude to HE Sheikh Hamad Bin Jassim Bin Jabor Al Thani, Prime Minister and Foreign Minister; HE Abdullah Bin Hamad Al Attiyah, Deputy Premier and Chairman of Emiri Diwan; HE Yousef Hussain Kamal, Minister of Economy and Finance; and HE Sheikh Jassim Bin Abdulaziz Al Thani, Minister of Business and Trade.

Our thanks and appreciation are also extended to HE Sheikh Abdullah Bin Saud Al Thani, Governor of Qatar Central Bank, HE Sheikh Fahad Bin Faisal Al Thani, Deputy Governor of Qatar Central Bank and all the employees of QCB for their continued support to the banking institutions in Qatar.

The support and guidance that we continue to receive from our strategic partner, Ahli United Bank, contributed immensely towards the results we achieved and the development witnessed by the Bank. They deserve our most profound thanks and appreciation. Thanks are also extended to the executive management and all our employees for their diligence and efforts, to our esteemed customers for their valuable trust, and to our respected shareholders for their unwavering support.

May Almighty Allah continue to bless us with the ability to satisfy our shareholders and customers and enable us to successfully contribute to the development of the banking sector in Qatar as well as the success and prosperity of our beloved nation.

Ahmed Bin Abdulrahman Al Mana
Chairman

board of directors

1


AHMED BIN ABDUL RAHMAN AL MANA
Chairman,
Chairman of the Policies, Development & Remuneration Committee

2


HAMAD A. AL MARZOUQ
Deputy Chairman,
Member of the Executive Committee

3


SHEIKH NASSER BIN ALI BIN SAUD AL-THANI
Director,
Chairman of the Executive Committee

4

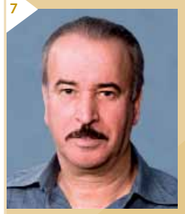

DR. AHMED MOHAMMED YOUSIF OBIDAN
Director,
Chairman of the Audit, Compliance & Risk Committee

5


SHEIKH FAISAL BIN ABDUL-AZIZ BIN JASSEM AL-THANI
Director,
Member of the Audit, Compliance & Risk Committee

6


AHMED ABDUL RAHMAN NASSER FAKHRO
Director,
Member of the Executive Committee,
Member of the Policies, Development & Remuneration Committee

7


VICTOR NAZIM REDDAH AGHA
Director,
Member of the Executive Committee

8


ADEL A. EL-LABBAN
Director,
Member of the Executive Committee,
Member of the Policies, Development & Remuneration Committee

9


ABDULLA AL-RAEESI
Director,
Member of the Audit, Compliance & Risk Committee,
Member of the Policies, Development & Remuneration Committee

10


BASSEL GAMAL ALY
Director,
Member of the Policies, Development & Remuneration Committee

1 AHMED BIN ABDULRAHMAN AL MANA
Chairman
Chairman of the
Policies, Development & Remuneration Committee

Member BOD, Ahli United Bank, Egypt; Former Undersecretary of Ministry of Industry and Agriculture; Former Member of Shura Council, and Former Rapporteur of Legal & Legislative Affairs Committee, (Shura Council) Doha.

2 HAMAD A. AL MARZOUQ
Deputy Chairman
Member of the Executive Committee

Deputy Chairman, Ahli United Bank, Bahrain; Deputy Chairman, Ahli United Bank (UK) plc; Chairman and Managing Director, Ahli United Bank KSC, Kuwait; Deputy Chairman, Ahli United Bank (Egypt) S.A.E; Deputy Chairman, Ahli Bank SAOG, Oman; Deputy Chairman, Commercial Bank of Iraq, Iraq.

3 SHEIKH NASSER BIN ALI BIN SAUD AL-THANI
Director
Chairman of the Executive Committee

Chairman and Managing Director of Qatar General Insurance & Re-insurance Company; Chairman of World Trade Centre - Doha; Board Member of Trust Bank - Algeria; Board Member of Trust Insurance Company - Algeria; Partner and Member of BOD General Contracting Company, Doha.

4 DR. AHMED MOHAMMED YOUSIF OBIDAN
Director
Chairman of the Audit, Compliance & Risk Committee

General Manager of Trans Orient Establishments; Member of the Shura Council; Head of the Culture and Media Committee, Shura Council.

5 SHEIKH FAISAL BIN ABDUL-AZIZ BIN JASSEM AL-THANI
Director
Member of the Audit, Compliance & Risk Committee

Owner and Director of Gulf American Trading & Contracting Company, Doha.

6 AHMED ABDULRAHMAN NASSER FAKHRO
Director
Member of the Executive Committee
Member of the
Policies, Development & Remuneration Committee

Director of Qatar Cinema and Film Distribution Company, Doha; Former Minister Plenipotentiary in the Ministry of Foreign Affairs, Doha.

7 VICTOR NAZIM REDDAH AGHA
Director
Member of the Executive Committee

General Director of Al-Sadd Travel Agency; General Director of Al-Sadd Exchange Company, Doha; Board Member of Doha Insurance Company; Former Board Member, Al-Sadd Sports Club, Doha.

8 ADEL A. EL-LABBAN
Director
Member of the Executive Committee
Member of the
Policies, Development & Remuneration Committee

Chief Executive Officer and Managing Director, Ahli United Bank B.S.C., Bahrain; Director, Ahli United Bank (UK) PLC; Director, Ahli United Bank K.S.C., Kuwait; Director, Ahli Bank Q.S.C., Qatar; Director, Ahli United Bank (Egypt) S.A.E.; Director, Ahli Bank S.A.O.G., Oman; Director, Commercial Bank of Iraq P.S.C., Iraq; Director, Middle East Financial Investment Co. Saudi Arabia; Director, United Bank for Commerce & Investment S.A.L., Libya; Director, Bahrain Association of Banks, Bahrain; Former Chief Executive Officer and Director of the United Bank of Kuwait PLC, UK; Former Managing Director, Commercial International Bank of Egypt, Egypt; Former Chairman, Commercial International Investment Company, Egypt; Former Vice President, Corporate Finance, Morgan Stanley, USA; Former Assistant Vice President, Arab Banking Corporation, Bahrain.

9 ABDULLA AL-RAEESI
Director
Member of the Audit, Compliance & Risk Committee
Member of the
Policies, Development & Remuneration Committee

Deputy Group CEO – Retail Banking Ahli United Bank, BSC; Director, Ahli United Bank SAE, Egypt; Director, International Chamber of Commerce, Bahrain; Former Director, Benefit Company, Bahrain; Former Acting CEO, Ahli Bank, Qatar; Deputy CEO, Retail Banking, Ahli United Bank, Bahrain; AGM & Head of Delivery Channels, Commercial Bank of Qatar; AGM, Support Group, Doha Bank, Qatar; Head of Business & Technology Consulting Group, Arthur Andersen.

10 BASSEL GAMAL ALY
Director
Member of the
Policies, Development & Remuneration Committee

Senior Deputy Group CEO in AUB; Director, Ahli United Bank (Egypt) SAE, Egypt; Board Member – Ahli United Bank Finance Company, Egypt; Board Member – United Bank for Commerce and Investment SAL-Libya; Member, Executive Committee – United Bank for Commerce and Investment SAL-Libya; Member, Compensation Committee - United Bank for Commerce and Investment SAL-Libya; Member, Credit and Investment Committee – United Bank for Commerce and Investment SAL-Libya; Member, Premises and Information Technology – United Bank for Commerce and Investment SAL-Libya; Formerly CEO, Ahli Bank QSC, Qatar.

CEO's statement

Ahli Bank's Net Interest Income grew by 72.5% to QR 566.4 million, influenced by a tighter management over its assets and liability. Gross Operating Income reached QR 688 million growing by 34.9% from QR 510 million in 2009.

Dear Clients and Business Friends,

I am proud to present to you our annual financial performance and milestones for the year ended 31 December 2010, which stands testimony to the Bank's solid foundation and its response to the global financial crisis with robust strategies and strict focus.

The strong growth momentum of the Qatari economy has distinguished itself against the rest of the GCC countries. Qatar's GDP for 2010 is estimated to have grown by 16%, which demonstrates its leading position as one among the highest in the world. The hydrocarbon sector has witnessed a strong growth due to the conclusion of the new production capacity thereby making Qatar the world's largest LNG exporter.

Business confidence received another major boost when FIFA awarded the organising rights of the 2022 Football World Cup to Doha, in the process unveiling large infrastructure, transport facilities and stadium projects.

In 2010, the Bank maintained its focus on its core business ensuring that the underlying profit from core operations remained on an upward course. Accordingly, the 2010 Net Profit of QR 412.3 million registered a growth of 37.2% over the 2009 Net Profit of QR 300.5 million. This achievement was a result of the excellent progress achieved in implementing the Bank's strategic intent to deliver a sustained profit growth based on disciplined risk and cost culture, as well as the continuous support it received from its strategic shareholder, Ahli United Bank. Net Interest Income grew by 72.5% to QR 566.4 million, influenced by a tighter management over its assets and liability. Gross Operating Income reached QR 688 million growing by 34.9% from QR 510 million in 2009.

Throughout 2010, the Bank consciously adopted a focused strategy of maintaining adequate liquidity and funding, while ensuring that funding costs remained at acceptable levels. Accordingly, our Customer Deposits have grown by 3.9% to QR 12,755 million this year.

The Bank has been closely monitoring the credit quality of its loan portfolio which is primarily local assets. Our existing relationships continue to be analysed in depth and are refined accordingly. There is an increase in the ratio of non-performing loans to loans and advances to 2.93% as at 31 December 2010 (31 December 2009: 1.86%), as our risk profile has become more selective. Accordingly, we continue to maintain adequate specific provisions coverage of 88.4%, reflecting our conservative policies in managing credit risk.

Our liability management continues to develop successful strategies in order to ensure lower concentration of liabilities and improved structure, with a pronounced focus on customer relationship building. Stress Test Scenarios are undertaken on a periodical basis. A large part of the Bank's funding is widely diversified between retail and commercial clients.

The Bank's Tier I capital position was strengthened by QR 160.6 million in 2010 as a result of Qatar Investment Authority's (QIA) further infusion of capital into Qatari banks. The QIA infusion increased the paid-up capital by QR 29.2 million in 2010 to reach QR 642.3 million. Subsequently in January 2011, QIA announced its decision to increase its stake in local banks by another 10% in order to support Qatar's banking system and strengthen their capital to meet the requirements of local development in the coming period as well as position its banking system to meet Basel III requirements. With this decision, the Bank's Tier I capital will increase by QR 321.2 million after the conclusion of the formalities with the authorities. The paid-up share capital will hence increase by QR 58.4 million to reach QR 700.8 million.

Our focus during the year was to reduce the Bank's funding costs through better penetration of our product offering and by utilising our strong network of 20 branches as well as the ABQ brand equity. We continue to invest in our delivery channels to provide our customers with competitive yet flexible alternative banking services.

As Qatar develops its capital market to meet its aspiration of becoming a leading financial centre as well as to attract capital inflow, I am pleased to announce that the Bank has been awarded a brokerage license under which it will soon operate a fully owned entity named Ahli Brokerage Co. to provide comprehensive brokerage services to both local and international investors.

Our Private Banking business has this year played an important role in leveraging further synergies within the AUB Group in offering our high net worth clients with diversified investment opportunities.

In conclusion, the Bank's financial position remains strong and our focus is on maintaining adequate levels of liquidity, strong capital position, acceptable credit quality, profitable operations and strong franchise.

We plan to further expand this sound foundation, to invest in technology to provide further convenience to our customers, and to focus on our business delivery in order to ensure the continuous delivery of high quality service that will satisfy the requirements of Qatar's expanding economy and the developments which will be ignited by Qatar hosting the 2022 Word Cup.

Finally I take this opportunity to thank our shareholders and customers for their confidence in our ability to create enhanced value for them, the Board of Directors for their direction and stewardship, our employees for their unequivocal dedication and commitment and Qatar Central Bank for its guidance and support.

Salah Murad
Chief Executive Officer

corporate governance

About Us

Ahli Bank QSC was incorporated in Qatar as a public shareholding company by virtue of the Emiri Decree No. 40 for 1983 to provide banking services to the commercial sector and individuals. Following the issuance of the Council of Ministers' decision and its verification on the 26th of August 2004, an agreement was reached with Ahli United Bank B.S.C (AUB) on the 30th of August 2004 to be a strategic shareholder in the Bank, owning 40% of the Bank's capital. On the 2nd of September 2004 an Agreement on Management and Technical Services was concluded, according to which AUB assumed the responsibility of managing the Bank and providing technical services for ten renewable years in addition to rendering banking expertise and cadres to the Bank.

Board of Directors

The Board of Directors consists of ten members whose membership is for a three-year period; six of whom are elected to represent the Qatari shareholders while AUB, appoints four members.

The Board of Directors undertakes its functions according to its charter which includes the bank statute, the policy of transacting personal accounts, policy and procedures of integrity of banking, in addition to the jurisdictions, specialties and responsibilities entrusted to it as per the instructions of Qatar Central Bank as represented in the Banks' management approach. The following describes the Board's major responsibilities:

1. Develop, enhance and reassess the work strategies, objectives, policies, as well as accredit and oversee internal monitoring systems annually.
2. Verify, assess and develop the Bank's organisational structure, and define the tasks, functions, duties and responsibilities.
3. Form committees and define their agenda as well as jurisdictions, duties and responsibilities, commission the powers of decision-making, set the powers of signature on behalf of the Bank and while transacting funds.
4. Assess recent and future risks that may face the Bank, and approve the risk and compliance policies as well as the relevant procedures.
5. Oversee, assess and develop the implementation of work programmes and procedures and verify their adequacy and suitability.
6. Appoint and supervise the internal audit system while ensuring its neutrality and independence.
7. Accredit a highly competent external auditor and enter into a contract with them and define their fees.
8. Review the executive management, the internal and external audit reports, and accredit the Bank's closing accounts.
9. Check the integrity and credibility of financial data and closing accounts as well as its activities' results, and maintain the rights of depositors and shareholders.
10. Maintain transparency and credibility while disclosing all important issues that affect the Bank's performance and its results, as well as the obligations and transactions of the relevant parties and the conflict in interests.
11. Support and underline governance values and the rules of professional ethics by accrediting governance rules and policies.
12. Transparently regulate the process of the Board Members' candidature and declare all the information pertinent to their candidature to shareholders.

This is in addition to any other undertakings or responsibilities which the Board may deem necessary to be carried out in order to fulfill the Bank's objectives.

The Board of Directors is considered to be the primary responsible body before the shareholders and other competent parties as well as before Qatar Central Bank and Qatar Financial Markets Authority and other official authorities in the country.

It is worth noting that there is a segregation of responsibilities between the Chairman of the Board, and the Chief Executive Officer, as both positions are assumed by two different persons.

The Board of Directors holds at least six meetings within one fiscal year as per Article 36 of the Bank Statute, and based on Article 37 of the same, all the board meetings are held after a notice is issued by the Chairman or the Vice Chairman, in case of the Chairman's absence, or at the request of at least two members of the Board by notifying each and every other member to their registered addresses in the Bank's records at least 15 days before the proposed meeting date. This notice shall consist of the date, time and venue of the meeting as well as a summary of the proposed issues for discussion at the meeting. Within this framework, the Board of Directors convened six times in 2010.

The Board has assigned a secretary to undertake the tasks of recording, co-ordinating and maintaining all minutes, records and files of the board meetings, in addition to all the reports submitted by and for the Board. The Secretary furnishes such records to all the board members, whenever necessary. The Secretary, under the supervision of the Chairman of the Board, shall also disseminate information, and co-ordinate all relevant issues between the Board and its members as well as with other stakeholders.

The following table shows details of the Board members:

Name	Position	Current Appointment	Expiry of Current Appointment	Designation
Ahmed Bin Abdul Rahman Al Mana	Chairman	2008	2011	Independent
Hamad A. Al-Marzouq	Vice Chairman	2008	AUB Representative	Non-executive
Sheikh Nasser Bin Ali Bin Saud Al-Thani	Member	2008	2011	Non-executive
Dr. Ahmed Mohammed Yousif Obidan	Member	2008	2011	Independent
Sheikh Faisal Bin Abdul-Aziz Bin Jassem Al-Thani	Member	2008	2011	Independent
Ahmed Abdul Rahman Nasser Fakhro	Member	2008	2011	Non-executive
Victor Nazim Reddah Agha	Member	2008	2011	Non-executive
Adel A. El-Labban	Member	2008	AUB Representative	Non-executive
Abdulla A. Al-Raeesi	Member	2008	AUB Representative	Independent
Bassel Gamal Aly	Member	2008	AUB Representative	Non-executive

Board of Directors' Committees

Three committees emanate from the Board of Directors, namely: the Executive Committee; the Audit, Compliance and Risk Committee, and the Policies, Development and Remuneration Committee, in addition to the Shari'a Supervisory Board that is assigned by the Board. The following is a summary about these committees:

Executive Committee

The Executive Committee consists of five members:

Name	Position
Sheikh Nasser Bin Ali Bin Saud Al-Thani	Chairman
Hamad A. Al-Marzouq	Member
Ahmed Abdul Rahman Nasser Fakhro	Member
Adel A. El-Labban	Member
Victor Nazim Reddah Agha	Member

The Executive Committee performs the tasks of managing and operating the Bank according to the annual budget, the action plan and the instructions related to the financial, administrative, operational and credit policies approved by the Board. It also undertakes the approval of different banking products, systems, plans and budgets as per the policy accredited by the Board. The Committee also undertakes the jurisdictions and powers vested upon it by the Board in terms of awarding, renewing and following up credit, investing and utilising funds that may exceed the powers of the executive administration, in addition to any other tasks entrusted to the Committee by the Board in order to fulfill the Bank's objectives.

The Committee holds its meeting three times a year, while its Chairman or his deputy may call for a meeting of the Committee at any other time than the periodically scheduled date whenever necessary. Within this framework, the Committee held its meetings three times in 2010.

Audit, Compliance and Risk Committee

The Audit, Compliance and Risk Committee consists of three members:

Name	Position
Dr. Ahmed Mohammed Yousif Obidan	Chairman
Sheikh Faisal Bin Abdul-Aziz Bin Jassem Al-Thani	Member
Abdulla A. Al-Raeesi	Member

The following are the most important responsibilities and functions of the Committee:

1. Provide recommendations to the Board regarding the appointment of external auditors and the audit fees.
2. Discuss issues with the external auditors before commencement of audits, specify the nature of the review scope and assess the efficiency of the external auditing process.
3. Review and monitor the integrity of the annual accounts before submission to the Board.

4. Review the management report and regulatory reports of the external auditor and consider the proposed responses of the Management.
5. Review the contents of the required regulatory reports or those prepared by the monitoring bodies and the Bank's responses thereof.
6. Test the way by which the Management guarantees and monitors to what extent the nature of the internal monitoring systems and risks management are suitable, and its level of efficiency.
7. On an annual basis, review the nature and scope of the internal auditing programme and compliance, as well as the adequacy of human resources to undertake responsibilities.
8. Discuss the results of auditing and compliance, and follow-up the implementation of the points agreed upon within the periods stated.
9. Ensure that there are enforced strategies, policies and work plans to manage and assess the risks which the Bank is facing.
10. Receive and review all the reports submitted by the Risk Management, and review the steps adopted by the Management to assess, monitor and oversee the same.
11. Agree to appoint or dismiss the Audit, Compliance and Risk Chairman and employees of auditing and compliance, and assess the performance of the Head of Audit and the Head of Compliance.

The Committee usually convenes at least four times a year; additional meetings may be held based upon the request of any of the committee members, internal audit, external auditors or the Management. Within this framework, the Committee convened four times in 2010.

It is worth noting that all members of the Audit, Compliance and Risk Committee are independent.

Policies, Development and Remuneration Committee

The Policies, Development and Remuneration Committee consists of five members:

Name	Position
Ahmed Bin Abdul Rahman Al Mana	Chairman of the Committee
Ahmed Abdul Rahman Nasser Fakhro	Member
Adel A. El-Labban	Member
Abdulla A. Al-Raeesi	Member
Bassel Gamal Aly	Member

This committee specialises in investigating, preparing and developing strategies, objectives, policies, systems, plans and budgets in accordance with the directions of the Board of Directors, and undertakes the tasks and responsibilities of compensations, bonuses, allowances, and incentives; in addition to any other tasks entrusted to it by the Board to fulfill the Bank's objectives.

The Committee convenes three times a year, while the Chairman or any authorised deputy may call for a meeting of the Committee at any time other than its scheduled date whenever necessary. Within this framework, the Committee convened twice in 2010.

It is noted that the Board of Directors has approved a policy of incentives and allowances for the Board Members and the Senior Management according to the following:

1. The board compensations are divided as follows:
   a) 50% sessions expenditures as per the percentage of the member attendance of sessions (according to the controls and parameters stipulated in this regard under the Companies Act No. 5 for 2002)
   b) 50% representation expenditures, calculated proportionally for the actual period of representation as members in the Board of Directors during the Bank's fiscal year.
2. All the funds to be determined as compensation for the Board of Directors will be determined according to the Bank's fiscal year.
3. All payments will be commensurate and subject to all restrictions and bases stipulated by the Commercial Companies Act and the Bank Statute.

The Board of Directors has also approved the formation of a committee for incentives, allowances, bonuses and benefits and has charged its tasks and responsibilities to the Committee of Policies, Development and Remuneration. This Committee undertakes the following:

1. Approve the general structure of the compensations, bonuses and remuneration system according to the Bank Statute, directions of Qatar Central Bank and the governance system; as well as the agreement of technical services and the guidance plans of AUB Group (B.S.C)
2. Recommend the systems, procedures and controls of awarding compensations and allowances and updating the same when necessary.
3. Recommend the total payable amount of allowances and compensations based upon the annual appraisal.
4. Determine the allowances and compensations payable to the General Manager and his deputies according to the annual performance appraisal system, and the same payable to the Head of Audit and the Manager of Compliance and the Risks Manager.
5. Recommend the compensations and allowances of the Board Members and the Committees emanating from it.

Shari'a Supervisory Board

The Shari'a Supervisory Board consists of three members who are appointed by the Board of Directors:

Name	Position
Dr. Ali Mohie Eldin Ali Alqarra Daghi	Chairman and Executive Member
Dr. Abdul-Aziz Khalifa Hamad Alqassar	Member
Dr. Farid Mohamed Hadi	Member

This Board is specialised in overseeing the activities of the Bank's Islamic branches and approving its compliance with Shari'a principles as well as appointing the Shari'a compliance audit, reviewing and verifying the branch activities from a Shari'a point of view and submitting reports of the same to the Board.

Nomination Committee

The Board of Directors assumes the responsibility of regulating the process of nominating candidates as Board Members in order to ensure complete transparency. All the information related to the procedures of shareholders' nomination will hence be disclosed according to the instructions of Qatar Central Bank in that respect.

The Bank's policy regarding competent parties and conflicts of interest:

The Bank has issued a number of policies and procedures in this regard which were approved by the Board of Directors. They are:

1. **Policy of transacting personal accounts:** It demonstrates the concepts of disclosure and commitment in transacting investment activities (by virtue of a special form for this purpose), the rules and procedures of transacting, the allowed and forbidden practices, and the stop periods of transaction by the Board of Directors, Executive Management and bank employees. It also includes the Register of Internal Reviewers which falls under the responsibility of the Head of Compliance.
2. **Policy and procedures regarding the integrity of banking activities:** It includes measures of adhering to rational governance, ethics, integrity and credibility that must be employed upon while undertaking banking activities. It also includes the prohibited, illegal and unprofessional practices that may lead to misbehaviour and bad ethics, including the practices of conflicts of interest between the employee and the Bank or the agent or any other parties. This policy also covers the principle of 'whistle blowing' in case any such prohibited, illegal or unprofessional practices took place, and ensures the full protection of the employee who blew the whistle. Based upon this policy, the Bank has set up an independent committee that is entrusted with reviewing cases of prohibited practices and deciding the disciplinary measures accordingly that may also amount to dismissal from work.
3. **Commercial Companies Act:** The Bank adheres to the Commercial Companies Act No. 5 for 2002, particularly Article No. 108 of the same, which stipulates the action to be taken in case there is any direct or indirect interests by the Chairman of the Board of Directors or any of the members, or one of the managers of contracts, projects or engagements that are concluded with the Bank.
4. **Instructions of Qatar Central Bank:** All the facilities awarded to the Chairman and members of the Board as well as their families and relatives, are reviewed by the Board at every meeting to make sure that such procedures were carried out according to the regulations and controls set forth by Qatar Central Bank.
5. **Code of Ethics:** It binds all employees not to use any internal information for personal benefit to avoid any conflicts of interest. All employees must have signed this code to ensure their knowledge and compliance thereto.
6. **Employees Code:** Article No. 109 of Chapter Nine of this code includes all the prohibited practices by the employees whether inside the bank or with any other parties outside the Bank, which may result in a conflict of interest. Chapter Ten of the same code prescribes the disciplinary measures and penalties imposed in this regard.

Internal Monitoring

The Bank follows an approved internal monitoring system through which all policies and measures pertinent to risk management are reviewed accurately in agreement with the directions, monitoring systems, economic factors and the market conditions that may decrease the bank exposure to different types of risks which the Bank may face, such as credit risks, market risks, liquidity risks and operational risks. The Committee of Credit and Investment analyses and follows up the different risks regularly. There are also some other specialised committees such as the Operational Risks Committee, Assets and Litigations Special Committee, and other committees all of which analyse and follow up the risks regularly according to certain policies, measures and plans approved by the Board, such as the policy and procedures of following up the market risks and the policy and procedures of following up the risks of liquidity, the policy and procedures of self-appraisal for operational risks, the work continuity plan, the recovery from disasters plan; in addition to many other policies, measures and plans. Such committees also report regularly to the Board of Directors through the committees emanating from the Board. The Risk Department reports to the Audit, Compliance and Risk Committee emanating from the Board.

The following are some of the most important regulatory issues that have been reported to the Board of Directors in 2010 aimed at enhancing internal monitoring in the Bank, which the Board has approved:

1. The policy of bonuses and allowances of the Board Members.
2. Updating the Credit and Investment Policy.
3. Updating the bank guide of policies and procedures pertinent to combating money laundering and terrorism financing.
4. Policy and framework of information security.
5. Updating the bank policies and measures with regard to outsourcing.

The administration of internal audit at the Bank is independent and is affiliated to the Audit, Compliance and Risk Committee emanating from the Board, and hence reports to it. The Manual for the Jurisdictions and Functions of this department has been approved by the Committee, in addition to its annual work plan based upon risks that cover all the activities, branches, administrations and sections of the Bank. Additionally the Committee is specialised in determining the allowances and bonuses of the internal audit administration.

Chartered Financial Controller (External Auditor)

After getting the approval of Qatar Central Bank, the Chartered Financial Controller is recommended by the Board of Directors to the General Assembly in order to approve its appointment for a period of not more than five years according to the instructions of Qatar Central Bank. Re-appointment for another term may be determined upon the elapse of two years from its last designation. Chapter Six of the Bank Statute prescribes the mechanism of appointing the Financial Controller, in addition to its duties and rights to review the files, records and documents of the Company any time, as well as attend the General Assembly meetings and express its opinion regarding the audit process, given that the Bank Auditors for the Fiscal year ended on the 31st of December 2010 were KPMG. The Audit, Compliance and Risk Committee is specialised in discussing the report of the Chartered Financial Controller and making its recommendations in this regard to the Board of Directors.

The Financial Controller enjoys complete independence, and attends meetings of the Bank's General Assembly. According to the instructions of Qatar Central Bank, the Bank may not undertake any financial transactions with the Controller or offer any facilities to the same, its employees or its family members to avoid any conflict in interest.

Disclosure

The Bank adheres to Article No. 121 of the Commercial Companies Act No. 5 for 2002 as per Article No. 46 of its statute. The annual report of the Controller includes availing all the necessary information to express their views regarding the financial data and the Bank's adherence to the international financial audit standards, given that the Bank's financial reports are available to all shareholders and customers through the Bank's main offices or its website. It is also distributed to the shareholders during the General Assembly Meeting of the Bank.

It is noteworthy that there has been no breaches or violations to the Bank Statute, or the Commercial Companies Act No. 5 for 2002, or the Qatar Central Bank Law No. 33 for 2006 and its amendments, and the instructions of Qatar Central Bank during the Fiscal Year that ended on the 31st of December 2010, in a manner that could have a material impact on the Bank's activities or its financial position.

Rights of Shareholders

A shareholder may inspect the Shareholders' Register of the Bank and may have full and free access to it within the normal business hours of the Bank, and may get a copy of it based upon Article 13 of the Articles of Association or the Bank Statute. Since the Bank is listed on Qatar Exchange (previously Doha Securities Market), and thus complies with the internal articles of the market and the systems, laws, and regulations regarding the processes of trading securities in the Country by disclosing and submitting the required information and documents to all shareholders.

Chapter Five of the Articles of Association and the Statute as well demonstrates the rights of shareholders regarding the Bank's General Assembly and dealing fairly with them, as well as practicing the right of voting and electing members of the Board on the Qatari part. Chapter Seven also includes the shareholders' rights related to distributing profits, whereas the Board proposes the distributed profits to shareholders at the General Assembly meeting as well as discussing the issue and approving it by the shareholders.

Compliance

The compliance function in Ahli Bank Q.S.C is an independent one, reporting directly to BOD through their Audit, Compliance and Risk Committee. The Department has an effective and comprehensive 'Compliance Framework and Manual' and 'Compliance Monitoring Framework' approved by BOD and these are based on risks including the assessment of all policies and procedures related to the Bank's operations to ensure strict compliance with applicable laws, regulations and standards.

The Compliance Monitoring Framework covers the following topics:

1. Objectives
2. Scope
3. Risk Assessment
4. Compliance Monitoring Program

Anti Money Laundering & Combating Financing Terrorism (AML & CFT)

Ahli Bank Q.S.C adopted effective and comprehensive AML & CFT Policy, Procedures and Internal Controls based on risks, covering the following topics:

1. Introduction
2. Objectives
3. Scope
4. Stages of Money Laundering
5. Financing Terrorism
6. Laws and Regulations
7. Know Your Customer (KYC) Policy and Procedures
   a. General
   b. Customer Acceptance Policy
   c. Customer Risk Classification
   d. Customer Identification Procedures
   e. Know Your Customer (KYC) Procedures in Products and Services
8. High Risk Customer requiring BOD Approval
9. AML & CFT requirements regarding Outsourced Activities
10. Program of Updating Customer Information and Documents
11. Type of Banking Operations and Red Flags
12. AML & CFT Monitoring System
13. Reporting Requirements and Procedures
14. Record Keeping and Retention Requirements
15. AML Screening Requirements and Training Courses
16. Internal and External Auditing
17. Updating AML & CFT Policy, Procedures and Controls
18. Penalties
19. Related References

Personal Account Dealing Policy

To establish clear and comprehensive controls in compliance with the applicable laws and regulations regarding employees dealing in their personal accounts and their relationship with the customers in providing the Bank's products and services, Ahli Bank Q.S.C has adopted a restricted policy in this regard in order to avoid the reputational risk associated with breaching the business and ethical conflicts of interest. This policy covers the following topics:

1. Employees and Connected Persons
2. Applicable and Exempted Securities
3. Personal Account Dealing, Undertaking and Declaration of Interest
4. General Dealing Rules and Investment Principles
5. Dealing Restrictions
6. Prohibited Practices
7. Prohibitions on Certain Employees
8. Regulations
9. Ahli Bank Stock Rules, Insider Traders and Closing Periods
10. Insider Register

Banking Integrity Policy and Procedures

In order to increase the effectiveness of the principle of transparency and to facilitate bank employees raising a concern, in confidence, about misconduct occurring within, or associated with the Bank, Ahli Bank Q.S.C has adopted the 'Banking Integrity Policy and Procedures' covering the following topics:

1. Roles and Responsibilities in Reporting Suspected Misconduct
2. Raising a Concern - 'Blowing the Whistle'
3. The Investigation (Outcome and Monitoring)
4. Frequent Questions and Answers

Penalties, Fines or Punishments Imposed on the Bank by Regulatory Authorities

Fines aggregating QR 162,250 (2009: QR 93,750) were imposed on the Bank in 2010 by Qatar Central Bank in respect of breaching its regulations.

business and operations review

RETAIL BANKING

During 2010 Retail Banking focused on offering the Bank's clients competitive and attractive products and services against the backdrop of the prevailing economic conditions.

Our customer base showed considerable resilience primarily because of our long term planning and management that ensured proper diversification across all customer segments.

Retail Banking continued to prudently grow its asset book by targeting low risk sub-segments of the market.

The credit card operations witnessed a new strategic agreement with leading providers and numerous alliances with key retail outlets.

In the first quarter of 2010, we launched the Platinum Credit Card for the premium segment. The new Platinum Credit Card comes with a wide range of value-added features.

In the second quarter of 2010, we launched an acquisition 'Salary Transfer' campaign offering free BlackBerry mobile phones for existing & new customers who transfer their salaries to Ahli Bank and receive a Personal or Auto Loan.

We also undertook a special promotion for credit cards and Emergency Salary Advance (ALM), offering customers the opportunity to win many valuable prizes.

In addition to the re-launch of a number of existing products and services, we continued to attract new customers through incentives, offers and unique products, like the highly successful MyHassad savings scheme and the Pearl Rewards initiative.

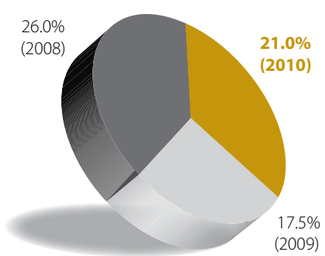
Ahli Bank's ATM network continues to be one of the most extensive in Qatar. The ATM network was extended to 45 outlets and is expected to expand to 50 during 2011.

Electronic banking services witnessed accelerated growth in 2010. Over 42,000 customers have now registered for electronic banking and over 250,000 transactions are carried out every month using the Ahli e-channel services.

We undertook these measures as part of our continuous efforts to improve our customer service. These efforts were rewarded in the form of enhanced customer loyalty.

The Contact Centre, which is equipped with the most sophisticated technology and high calibre employees, has been providing round-the-clock instant responses to customer queries.

Moving ahead, Retail Banking will focus on enhancing its product portfolio, delivery time, and overall customer experience. We expect a year of substantial growth as we continue to rely on our unrelenting drive towards becoming a totally customer-centric retail bank.



RETURN ON AVERAGE EQUITY

CORPORATE BANKING

The year 2010 was the first year of cautious recovery and positive business sentiment after the global economic downturn in the previous two years.

Corporate Banking continued to focus on strengthening its client relationships and mitigating risk exposure on its asset portfolio, while improving overall profitability. Cost of funds was successfully reduced through the prudent management of deposit rates and improvement in the liability mix. This, in turn, facilitated lower lending interest rates, which in turn encouraged higher investments and stimulated economic activities.

Trade finance services and treasury product offerings were further enhanced in order to improve our value proposition to the customers.

Our strategic partnership with Ahli United Bank, Bahrain, inspired us to successfully undertake large ticket multi currency transactions for select customers and improve cross border deal flows.

Corporate Banking, as in the past years, continued to be the major contributor to Ahli Bank's profitability and balance sheet.

The outlook for 2011 is positive, supported by the State of Qatar's planned infrastructure development, as Qatar aims to prepare ground for the 2022 FIFA World Cup, and the 20% projected growth in GDP. Ahli Bank is well positioned to take advantage of the projected growth in the economy and exploit the upcoming business opportunities. With a view towards maintaining our asset quality we will continue to exercise prudence.

PRIVATE BANKING

The market was successful in withstanding most of the challenges posed by the global economic crisis, thanks to the prudent steps undertaken by the Government of Qatar to safeguard the economy.

GDP growth in Qatar, supported by the ongoing investments in hydrocarbon projects, still ranks high among the GCC economies.

Even though liquidity was available in the market, rates were on a downward trend and clients were looking for investments with higher returns. Ahli Bank was successful in accommodating the needs of its customers.

The key strategic focus of Private Banking during 2010 was on forging an 'inclusive relationship' with our customers by offering exclusive and distinguished banking services that cover their requirements across the region and in the United Kingdom.

Our focus during 2010 was to build a strong deposit base and to substantially increase our market share. We managed to increase our client base by 20% and our portfolio almost doubled despite the challenging market conditions.

The division was able to cross sell value-added investment products to its clients and acquire an increased market share. We will continue to leverage on our extensive presence in the region and enhance the scope of services offered to our clients. Our objectives are backed by a sound economy as well as the planned infrastructure projects in anticipation of the 2022 FIFA World Cup. The future will see Private Banking increasing its market share as the market demand for tailor-made products and services are on an upward trend.

TREASURY

2010 was a year focused on the stabilisation of the global economy, and a renewed outlook for the future, leaving the past behind. Market conditions continued to remain challenging after the economic meltdown, volatility remained in the currency markets, and G7 official interest rates stayed at record lows during the year. Customers continued to benefit from a highly competitive domestic banking environment, adding further pressure to an already challenging business climate.

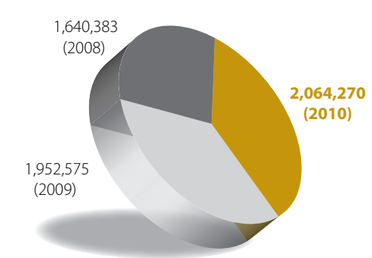
Treasury performed exceptionally well during this period, recording a near doubling of revenue growth in 2010, despite the competitive domestic operating environment.

We continued to expand our share in the domestic foreign exchange market, and enhanced our reputation as one of the best treasury functions in the Country.

Treasury prudently manages its key resources in order to ensure that it is at the forefront of an ever-changing market. Infrastructure continues to benefit from a policy of ongoing improvement, and further software developments during the year ahead will continue to benefit the operational functionality of this important area of the Bank.

Looking ahead, 2011 will be the time for sustaining the economic recovery of recent years. The corporate sector will be watched closely in anticipation of its return to a more positive economic outlook.

Treasury will continue to focus on providing our clients with solutions that meet their evolving needs, and we look forward towards the challenges ahead with optimism and enthusiasm.



TOTAL SHAREHOLDERS' EQUITY (QR '000)

INFORMATION TECHNOLOGY (IT)

During 2010 the IT Department focused on rebuilding and enhancing the in-house developed systems with a view towards achieving complete automation, near STP and enhanced business efficiency/customer TAT. The Department implemented a fully automated Trade Finance System for building capacity and achieving process efficiency and also worked closely with Qatar Central Bank on some of their critical projects such as QATCH, QPAY and Credit Bureau.

One of the key highlights of the year was the Department's ability to maintain 100% Uptime of all the critical systems (Equation, iMal, PowerCard, SWIFT, ECC, Cashier, ATMs, IVR, etc.) of the Bank with no known business impact or financial loss due to system disruptions or performance issues.

During the year the IT team successfully developed the following in-house systems:

- Corporate customer profitability reporting system
- Card & PIN issuance tracking system
- Retail MIS reporting system
- Interface between iMal Islamic and AML system
- Interface between iMal and e-mail system for sending e-statements
- QCB Balance Sheet Report in the new format prescribed by QCB

The Department commenced work on the system requirements for the new brokerage subsidiary of the Bank and was actively engaged in identifying e-business opportunities for the Bank. The year also saw the Department successfully implement the Enterprise Data Warehouse for Credit MIS and Financial Analytics and the Misys Trade Innovation Plus Trade Finance system.

The key focus of the Department in the coming year will be on the development and deployment of B2B and B2C online payment products. Plans are also underway to enhance the overall system performance in line with the evolving business environment.

During 2011 the Department also plans to implement the new brokerage system and establish a new state-of-the-art DR Data Centre. With a view towards strengthening IT security and enhancing network and data centre performance a host of new IT infrastructure tools and systems have been planned for the coming year.

HUMAN RESOURCES

Ahli Bank firmly believes that one of the key drivers of any organisation is its ability to provide high quality client focused service. With a view towards achieve the Bank's objective of adopting a more client focused culture, the Human Resources Department placed pronounced emphasis on recruiting the right calibre, enhancing the selection process, and providing specialised training for all the concerned employees with the aid of a well-structured training plan that focuses on the training and development needs of both existing employees and new recruits. The training plan focused on subjects like Managing Change, Customer Service, Selling Techniques, Relationship Building and Leadership and aimed to enhance the knowledge, skills, competency and efficiency of the employees. This, in turn, had a positive impact on the overall competency level and performance of the Bank.

By formulating and implementing an integrated and comprehensive programme that is aimed at attracting and retaining qualified Qatari nationals, Ahli Bank has actively engaged itself in the Qatarization drive of the State of Qatar.

The programme involves structured training courses conducted by experienced professionals, as well as on-the-job training programmes that will ensure the transformation of their knowledge and skills into actual operations.

The Department rewarded the loyalty of the Bank's employees by initiating the Ahli Bank Long Service Awards in honour of employees who have been working with the Bank for the past 20 years. Their dedication and loyalty have contributed immensely towards the Bank's ongoing progress.

The Human Resources Department is working closely with Qatar Foundation, Virginia Commonwealth University and many governmental organisations in line with the Bank's policy to actively participate in the social and humanitarian causes in the State of Qatar.

CORPORATE SOCIAL RESPONSIBILITY

Social Responsibility has received increased awareness from Qatari corporates in recent years, to the extent that this aspect has now become an integral part of Ahli Bank's corporate governance practices, thereby demonstrating the Bank's existence as a responsible corporate citizen of Qatar. Ahli Bank has been consistently participating in social activities, and has been contributing its bit by way of sponsorships or other material support to Social, Cultural, Medical, Educational, Environmental, Sports Events etc.

The Bank participated in the 2nd conference on Corporate Social Responsibility which was organised by the Ministry of Business & Trade as a Gold Sponsor.

The Bank is actively participating in the 'No… Drugs' campaign in co-ordination with the Ministry of Interior by displaying an awareness message over its ATM network. With a view towards encouraging young Qatari students seeking exciting career opportunities, the Bank is a regular participant in the annual Qatar Career Fair. The fair enables talented students to achieve their potential and contribute to the growth and development of the Country.

risk management review

In line with our primary strategic focus, the Bank's risk policies and procedures were reviewed and changed to make provision for new measures that will minimise the Bank's exposure to unnecessary risks during the current global financial crisis.

GENERAL

The adoption of sound risk management practices has contributed to the Bank's attainment of an upgrade to A- by Fitch in the ratings for investment grade.

In line with our primary strategic focus, the Bank's risk policies and procedures were reviewed and changed to make provision for new measures that will minimise the Bank's exposure to unnecessary risks during the current global financial crisis.

The measures make provision for the close monitoring of the Bank's exposures on a daily, weekly, monthly, and quarterly basis especially the exposures that are secured by shares and real estate. The Bank's liquidity is also monitored on a daily basis.

MAJOR RISK AREAS

The highlights of the developments in the major risk areas with respect to the business – namely credit, market, liquidity and operational risks – are as follows:

Credit Risk

Risk management implemented initiatives to instill a comprehensive credit risk management culture within the Bank's various business units. This programme has contributed significantly to the quality of business recorded as well as in the turnaround times provided to customers.

The enhanced relationship between risk management and various business unit teams has led to the adoption of prescribed risk management methodologies in both booking as well as maintenance and development of business. Basel III workshops helped raise awareness among the business development team and this will, no doubt, be reflected in the proposals generated and in the service provided to existing customers.

The Department took further steps to ensure the scientific quantification of risk ratings that are applied to credit exposures, instead of relying solely on qualitative or subjective evaluations. This has served to enhance the risk management quantification of the risk-return parameters, a significant contributor to profit generation capacities during the year.

The efforts devoted to the overall evaluation of the Bank's credit portfolio throughout the year contributed in no mean measure to the asset quality. The Portfolio was comprehensively analysed in terms of country, industry, product and single obligor group to detect concentration trends and enhance diversification. The Bank's exposure was also closely monitored with a view to detect warning signals of delinquency which would enable the management and the maintenance of a sound credit portfolio.

Market Risk

Market risk is the risk of a potential financial loss that may arise from adverse changes in the value of a financial instrument or a portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity and commodity prices and derivatives. This risk arises from asset-liability mismatch, changes that occur in the yield curve, and changes in volatilities/implied volatilities in the market value of derivatives.

Given the Bank's conservative strategy in terms of investments and trading, aggregate market risk levels are considered low. The Bank utilises quantitative risk management techniques to assist in estimating potential losses that may arise from adverse market movements. These are considered adequate from a need perspective and the existing scope of activities.

The periodic monitoring of liquidity as well as interest rate mismatches and adherence to foreign exchange limits with respect to laid down guidelines help manage possible scenarios in a proactive manner. The continued application of OPICS has significantly enhanced the capabilities of the treasury front and the back office functions.

The PANORAMA system has facilitated advanced reporting and monitoring mechanisms. This has supplemented existing capabilities and has contributed towards adopting quantitative analysis techniques that are in line with the global best practices, the local market and the regulatory requirements.

A stringent limit structure based on conservative grounds but reflecting business needs as well as market dictates has been prescribed. The robust control and monitoring processes and the effective follow-up mechanisms that have been adopted help to effectively manage market risk.

Liquidity Risk

Ahli Bank's liquidity risk is proactively managed by a process which makes provision for the regular estimation of the Bank's potential liquidity and funding requirements under different stress scenarios. It is measured by estimating the Bank's liquidity and potential funding requirements, and by ensuring continuously available liquidity to cover estimated needs and to capitalise on business expansion opportunities.

The Bank's liquidity policy comprises a prudent mix of liquidity control measures based on expected economic and bank-specific events. The updated policy includes mechanisms that ensure access to liquidity without the need to increase cost, and provides for the maintenance of a stock of liquid and marketable assets and an adequately diversified deposit base in terms of maturity and number of counter parties.

The Bank's Assets & Liabilities Committee (ALCO), which convened on a regular basis during the year, was vested with the responsibility of ensuring adherence to the duly approved liquidity policy. The information required to make key decisions was provided in the required formats to provide an objective assessment of the data. The presence of the risk management team members along with the senior management ensured that proper risk perspectives were brought into consideration in decision making.

Operational Risk

Operational risk refers to losses resulting from the inadequacy or failure of internal processes and systems or the materialisation of adverse external events. The Bank maintains an efficient operational risk management framework to quantify and mitigate operational risks.

The Bank utilises an 'Operational Risk Self Assessment' (ORSA) process to assess, document and report the operational risks encountered in the course of business. This is in line with the implementation of Basel II regulations. The Operational Risk Committee (ORC) approves the ORSA annually and reviews the operational risks faced by various functions in the Bank on a periodic basis, introducing appropriate controls wherever necessary. Furthermore, the internal audit and compliance functions conduct independent periodic reviews to assess the adequacy of checks and controls.

The Bank's Business Continuity Plan (BCP) was comprehensively and periodically tested after establishing the requisite infrastructure and the successful completion of system-specific trial runs. The developed BCP comprises extensive plans that are designed to minimise and mitigate operational risks arising from a potential failure of the communications networks and IT systems breakdown. This plan covers bank-wide operations and envisages scenarios of varying levels of contingency and measures to contend with the same. Additional investments in information technology to serve this purpose were implemented through the procurement of upgraded hardware. Departmental plans were also put in place during the year, providing detailed procedures for individual bank functions to be operative in case of need.

The Bank has also put in place a Disaster Recovery Plan (DRP) prescribing the recovery process and restoration of critical computer systems, including the local area network, database servers, internet, intranet and e-mail in the event of an interruption arising from an unplanned and unexpected disaster with a view to minimise potential loss of revenue.

The Disaster Recovery Plan (DRP)/Business Continuity Plan (BCP) was audited by an independent external auditor (KPMG) in 2010 and was found to be substantially compliant with Qatar Central Bank's requirements. Four BCP/DR tests were conducted in 2010 and plans are in place to ensure that the tests are conducted on a quarterly basis, going forward.

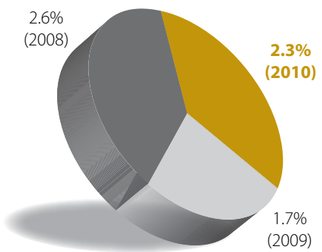
Basic fire fighting training was provided to selected staff with the assistance of Civil Defense Authority and an evacuation drill was conducted as part of the safety and security procedures.

The Bank conducted BCP and DRP Tests successfully, covering essential functions, to establish adequate levels of preparation to face a contingency scenario, thereby complying with the regulatory as well as auditing requirements.

Moreover, year 2010 witnessed the continued application of a comprehensive Succession Plan – developed by the Bank's HR Department and approved by the Board of Directors – to ensure proper management of adversities that could arise from staffing exigencies. The Plan provides guidelines for staff responsibilities, delegated authorities, and training and recruitment guidelines.

The comprehensive range of initiatives has ensured minimal incidence of material losses as a result of the identified operational risks during the year.

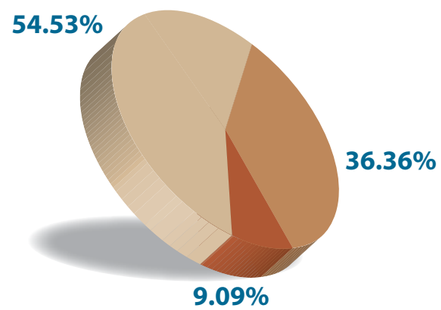
In the light of the present financial environment it remains a key objective to maximise shareholders' return through prudent risk management policies, continuously monitoring exposures, minimising exceptions and maintaining a healthy portfolio with enforceable documentation.



RETURN ON AVERAGE ASSETS

shareholding pattern

at 31 December 2010



- AHLI UNITED BANK BSC
- QATAR HOLDING
- PUBLIC & INSTITUITIONS

credit ratings

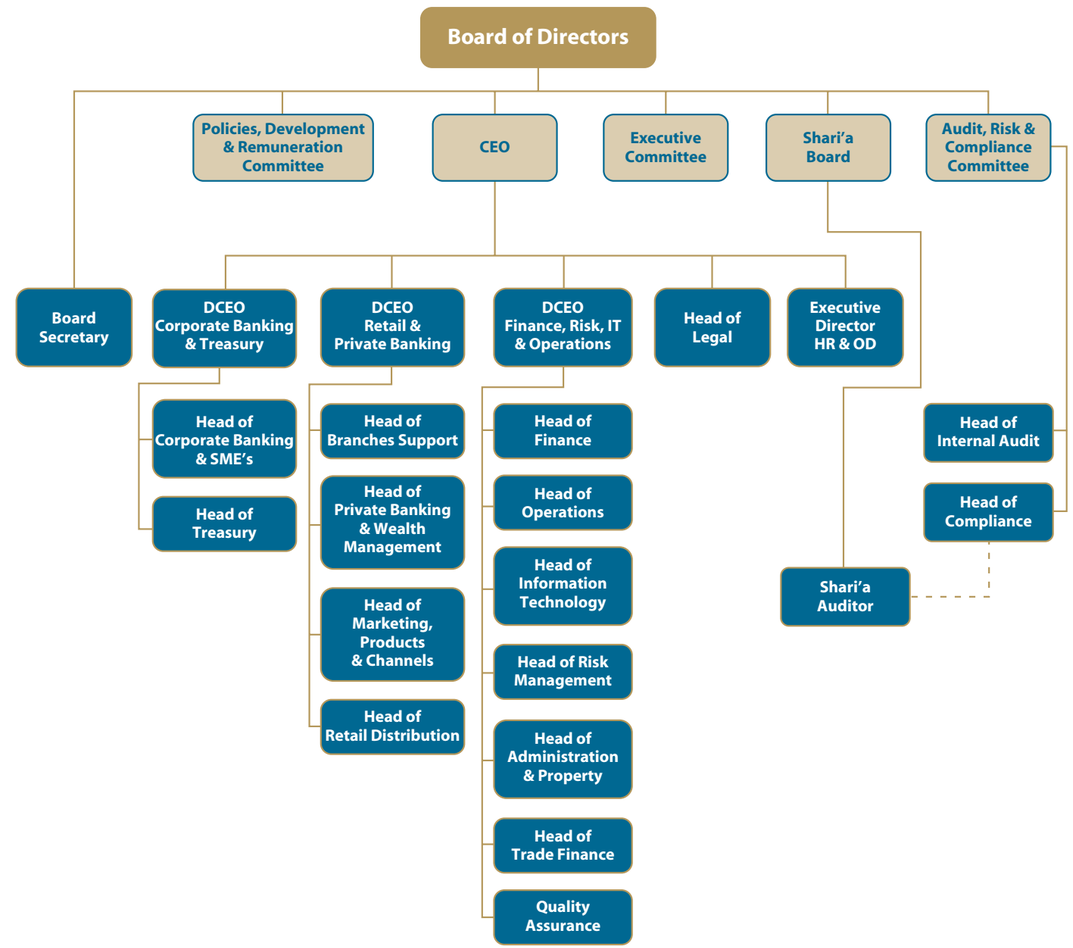
FITCH RATINGS (September 2010)

Long Term Issuer Default Rating (IDR)	A-
Short Term Issuer Default Rating	F2
Individual Rating	C
Support Rating	1
Outlook	Stable

CAPITAL INTELLIGENCE (July 2010)

Long Term Foreign Currency Rating	A-
Outlook	Stable

organisational structure



senior management

Salah Jassim Murad
Chief Executive Officer

Mahmoud Yahya Malkawi
Deputy CEO
Corporate Banking & Treasury

Yehia Gamaleldin El Batrawi
Deputy CEO
Retail, Private Banking & Wealth Management

Abdulla Mohd. Salman Almahmied
Executive Manager - Administration

Amr Abbas
Executive Director
- Human Resources & Organisation Development

D S Mohan
Head of IT

Maha Ragab
Head of Private Banking and Wealth Management

Mahalingam Shankar
Head of Finance

Mahmoud Eid
Head of Risk Management

Mohamed El-Shamy
Head of Audit

Mohamed Khalil Ahmed
Head of Branches - Support

Mohamed Ouf
Head of Legal

Viswalingam Nagarajan
Head of Central Operations

Zakaria Abedraboh
Head of Compliance

independent auditors' report

to the Shareholders of Ahli Bank Q.S.C.

Report on the Financial Statements

We have audited the accompanying financial statements of Ahli Bank Q.S.C. ("the Bank"), which comprise the statement of financial position as at 31 December 2010, and the statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and applicable provisions of Qatar Central Bank regulations.

Report on Other Legal and Regulatory Requirements

In addition, in our opinion, the Bank has maintained proper accounting records and financial statements are in agreement therewith. We have reviewed the accompanying report of the board of directors and confirm that the financial information contained therein is in agreement with the books and records of the Bank. We are not aware of any violations of the provisions of Qatar Central Bank Law No. 33 of 2006 or Qatar Commercial Law No. 5 of 2002 and the terms of Articles of Association which might have had a material effect on the business of the Bank or its financial position at 31 December 2010. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

Other Matter

The accompanying financial statements of the Bank as at and for the year ended 31 December 2009 were audited by another auditor, whose audit report dated 17 January 2010 expressed an unqualified opinion on those financial information.

Gopal Balasubramaniam
Partner
Auditor's Registration No. 251
17 January 2011
Doha, Qatar

statement of financial position

at 31 December 2010

	Notes	2010 QR '000	2009 QR '000
ASSETS			
Cash and balances with Qatar Central Bank	4	2,874,447	4,135,645
Due from banks and other financial institutions	5	562,362	958,284
Loans, advances and financing activities to customers	6	11,338,854	12,407,056
Financial investments	7	2,655,680	512,352
Property, furniture and equipment	8	182,897	162,664
Other assets	9	351,478	273,560
Total Assets		17,965,718	18,449,561
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks, Qatar Central Bank and other financial institutions	10	2,600,437	3,727,166
Customer deposits	11	11,461,343	10,982,977
Subordinated debt	12	182,000	182,000
Other liabilities	13	364,135	316,156
		14,607,915	15,208,299
Unrestricted investment accounts	14	1,293,533	1,288,687
Total Liabilities		15,901,448	16,496,986
EQUITY			
Share capital	15	642,383	613,184
Advance against share capital	15a	–	160,596
Statutory reserve	15b	775,929	644,532
Risk reserve	15c	218,684	218,684
Fair value reserve	15d	(6,242)	(15,422)
Proposed dividend	15e	321,192	306,592
Retained earnings		112,324	24,409
Total Equity		2,064,270	1,952,575
TOTAL LIABILITIES AND EQUITY		17,965,718	18,449,561

Ahmed Bin Abdulrahman Al Mana
Chairman

Hamad Al Marzouq
Deputy Chairman

Salah Murad
Chief Executive Officer

The attached notes 1 to 36 form an integral part of these financial statements.

income statement

year ended 31 December 2010

	Notes	2010 QR '000	2009 QR '000
Interest income	16	884,720	882,872
Interest expense	17	(391,502)	(589,989)
NET INTEREST INCOME		493,218	292,883
Income from Islamic financing and investing activities	22	159,483	132,801
Unrestricted investment account holders' share in the profit		(86,274)	(97,319)
NET INCOME FROM ISLAMIC FINANCING AND INVESTMENT ACTIVITIES		73,209	35,482
Fee and commission income	18	90,927	128,921
Fee and commission expense		(972)	(735)
NET FEE AND COMMISSION INCOME		89,955	128,186
Dividend income	19	4,248	3,347
Net gain from dealing in foreign currencies	20	22,366	20,601
Net gain on financial investments and derivatives	21	2,919	24,540
Other operating income	23	2,084	5,006
		31,617	53,494
TOTAL OPERATING INCOME		687,999	510,045
Impairment loss on available-for-sale investments		–	(2,015)
Provisions for credit losses on loans and advances	6	(90,628)	(47,193)
NET OPERATING INCOME		597,371	460,837
General and administrative expenses	24	(164,539)	(139,932)
Depreciation	8	(20,503)	(20,390)
OPERATING EXPENSES		(185,042)	(160,322)
PROFIT FOR THE YEAR		412,329	300,515
EARNINGS PER SHARE			
Basic and diluted – (QR)	25	6.48	4.94

The attached notes 1 to 36 form an integral part of these financial statements.

statement of comprehensive income

year ended 31 December 2010

	Notes	2010 QR '000	2009 QR '000
Profit for the year		412,329	300,515
Other comprehensive income			
Available- for-sale investments			
Fair value gains during the year		8,985	917
Reclassification adjustments for gains included in the income statement for the year on derecognition		(2,004)	(23,325)
Amortised during the year on reclassification to loans and receivables		(144)	(1,761)
		6,837	(24,169)
Cash flow hedges			
Fair value gains during the year		2,343	6,645
Other comprehensive gain (loss) for the year		9,180	(17,524)
Total comprehensive income for the year		421,509	282,991

The attached notes 1 to 36 form an integral part of these financial statements.

statement of cash flows

year ended 31 December 2010

	Notes	2010 QR '000	2009 QR '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		412,329	300,515
Adjustments for:			
Depreciation	8	20,503	20,390
Provision for credit losses/general provisions on loans & advances		108,627	60,994
Impairment losses on available-for-sale investments		–	2,015
Recoveries of provisions for credit losses		(17,999)	(13,801)
Loss/(Profit) on disposal of property, furniture and equipment		428	–
Provision for staff indemnity	13a	3,391	3,368
Net gain on financial investments and derivatives	21	(2,919)	(24,540)
Cash flows from operating activities before changes in operating assets and liabilities		524,360	348,941
Net change in assets			
Due from banks and other financial institutions		1,998	(42,220)
Loans, advances and financing activities to customers		982,135	(907,188)
Other assets		(77,919)	(28,906)
Net change in liabilities			
Due to banks, Qatar Central Bank and other financial institutions		(1,126,729)	237,173
Customers' deposits and unrestricted investment accounts		483,213	160,380
Other liabilities		35,699	(59,143)
Cash inflow (outflow) from operating activities		822,757	(290,963)
Payment of staff indemnity	13a	(1,418)	(2,160)
Net cash inflow (outflow) from operating activities		821,339	(293,123)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial investments		(1,854,572)	(384,515)
Proceeds from sale/redemption of financial investments and derivatives		235,710	547,878
Purchase of property, furniture and equipment	8	(41,182)	(15,678)
Proceeds from disposal of property, furniture and equipment		1,289	–
Net cash (outflow) inflow from investing activities		(1,658,755)	147,685
CASH FLOWS FROM FINANCING ACTIVITIES			
New shares issued	15	–	160,597
Advance against share capital	15	–	160,596
Dividend waived	15	14,599	–
Social and Development Levy for 2009	34	(7,513)	–
Dividend paid	15	(306,592)	(291,992)
Net cash (outflow) inflow from financing activities		(299,506)	29,201
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,136,922)	(116,237)
Cash and cash equivalents at 1 January		4,456,332	4,572,569
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	32	3,319,410	4,456,332
Operational cash flows from interest and dividend			
Interest received		846,016	837,641
Interest paid		445,053	563,685
Dividend received		4,248	3,347

The attached notes 1 to 36 form an integral part of these financial statements.

statement of changes in equity

year ended 31 December 2010

	Share capital QR '000	Advance against share capital QR '000	Statutory reserve QR '000	Risk reserve QR '000	Fair value reserve QR '000	Proposed dividend QR '000	Retained earnings QR '000	Total QR '000
Balance at 1 January 2010	613,184	160,596	644,532	218,684	(15,422)	306,592	24,409	1,952,575
Total comprehensive income for the year	–	–	–	–	9,180	–	412,329	421,509
Dividend paid (Note 15e)	–	–	–	–	–	(306,592)	–	(306,592)
Proposed dividend (Note 15e)	–	–	–	–	–	321,192	(321,192)	–
Dividends waived (Note 15f)	–	–	–	–	–	–	14,599	14,599
New shares issued (Note 15a)	29,199	(160,596)	131,397	–	–	–	–	–
Transfer to Social & Sports Fund for the year 2009 (Note 34)	–	–	–	–	–	–	(7,513)	(7,513)
Transfer to Social & Sports Fund for the year 2010 (Note 34)	–	–	–	–	–	–	(10,308)	(10,308)
Advance against share capital (Note 15a)	–	–	–	–	–	–	–	–
Balance at 31 December 2010	**642,383**	**–**	**775,929**	**218,684**	**(6,242)**	**321,192**	**112,324**	**2,064,270**

	Share capital QR '000	Advance against share capital QR '000	Statutory reserve QR '000	Risk reserve QR '000	Fair value reserve QR '000	Proposed dividend QR '000	Retained earnings QR '000	Total QR '000
Balance at 1 January 2009	583,984	–	513,135	218,684	2,102	291,992	30,486	1,640,383
Total comprehensive income for the year	–	–	–	–	(17,524)	–	300,515	282,991
Dividend paid (Note 15e)	–	–	–	–	–	(291,992)	–	(291,992)
Proposed dividend (Note 15e)	–	–	–	–	–	306,592	(306,592)	–
New shares issued (Note 15a)	29,200	–	131,397	–	–	–	–	160,597
Advance against share capital (Note 15a)	–	160,596	–	–	–	–	–	160,596
Balance at 31 December 2009	**613,184**	**160,596**	**644,532**	**218,684**	**(15,422)**	**306,592**	**24,409**	**1,952,575**

The attached notes 1 to 36 form an integral part of these financial statements.

notes to the financial statements

31 December 2010

1. CORPORATE INFORMATION

Ahli Bank Q.S.C. ("the Bank") was incorporated in the State of Qatar in 1983 as a public shareholding company under Emiri Decree No. 40 of 1983. The Bank is engaged in Commercial, Islamic and Retail banking services and operates through its registered Head Office located at Suhim Bin Hamad Street, Al-Sadd Area in Doha (postal address P.O. Box 2309, Doha, Qatar) and twenty branches established in the State of Qatar as of date.

The Bank signed a management contract with Ahli United Bank B.S.C, Bahrain in 2004 for a period of ten years on a renewable basis.

The financial statements for the year ended 31 December 2010 were authorized for issue in accordance with a resolution of the Board of Directors on 17 January 2011.

During the year, the Bank received preliminary approval from the QFMA (Commercial registration no 47943) to conduct brokerage activities. Subject to meeting the requirements of the QFMA, a trade license will be issued to commence the commercial operations in due course.

2. ACCOUNTING POLICIES

2.1 Basis of preparation, measurement and presentation

The financial statements have been prepared under the historical cost convention, except for measurement at fair value of derivatives and available for sale financial investments. The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. The financial statements are presented in Qatari Riyals (QR), which is the presentation and functional currency of the Bank, and all values are rounded to the nearest QR thousand except otherwise indicated.

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and in conformity with the Qatar Commercial Companies' Law and the applicable provisions of Qatar Central Bank rules and regulations.

The Bank presents its statement of financial position broadly in the order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date ("current") and more than 12 months of the statement of financial position date ("non-current") is presented in Note 3.2.7.

2.2 Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Going concern

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models are taken from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs, such as volatility, discount rates etc.

Impairment losses on loans, advances and financing activities to customers

The Bank reviews its individually significant loans, advances and financing activities to customers at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

notes to the financial statements

31 December 2010

2. ACCOUNTING POLICIES (continued)

2.2 Significant accounting judgments and estimates (continued)

Impairment of available-for-sale investments

The Bank treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost. The Bank treats 'significant' generally as 20% or more and 'prolonged' as greater than 9 months.

2.3 New standards, amendments and interpretations effective from 1 January 2010

'Improvements to IFRS' issued in April 2009 comprise amendments that lead to accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to various IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2010 with earlier adoption permitted. No changes to accounting policies were effected by the Bank as a result of these amendments.

2.4 New standards and interpretations issued but not adopted

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these financial statements:

- IAS 24 Related Party Disclosures (Revised) – effective annual periods commencing 1 January 2011
- IFRS 9: Financial Instruments – Classification and Measurement effective annual periods commencing 1 January 2013.

IFRS 9 was issued in November 2009 and replaces the parts of IAS 39 relating to the classification and measurement of financial assets. The standard is effective for annual periods beginning on or after 1 January 2013, even though earlier adoption is allowed as per the standard, as per instruction from Qatar Central Bank, the Banks in Qatar cannot go for early adoption in 2010.

2.5 Significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements are set out below:

a) Islamic banking

The Islamic branch carries out Islamic banking services through various Islamic modes of financing. The activities of the Islamic branch are conducted in accordance with the Islamic Shari'a, as determined by the Shari'a Control Board.

b) Foreign currency transactions

Transactions in foreign currencies are translated into Qatari Riyals at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are retranslated into Qatari Riyals at the rates ruling at the statement of financial position date. The resulting exchange gains and losses are taken to the income statement under "net gain from dealing in foreign currencies".

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined and the differences are included in the other comprehensive income as part of the fair value adjustment of the respective assets, unless they are part of an effective hedging strategy.

c) Derivatives

After initial recognition at transaction prices, being the best evidence of fair value upon initial recognition, derivatives are subsequently measured at fair value. Fair value represents quoted market price or internal pricing models as appropriate. Derivatives with positive fair value are included in the other assets and derivatives with negative fair value are included in the other liabilities. The resulting gains or losses from derivatives held for trading purposes are included in the income statement.

For the purpose of hedge accounting, hedges are classified as either fair value or cash flow hedges. Fair value hedges hedge the exposure to change in the fair value of a recognized asset or liability. Cash flow hedges hedge the exposure to the variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction. In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognized immediately in the income statement. The related aspect of the hedged item is adjusted against the carrying amount of the hedged item and recognized in the income statement.

notes to the financial statements

31 December 2010

2. ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

c) Derivatives (continued)

In relation to cash flow hedges which meet the conditions for hedge accounting, any gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially as cash flow hedge reserve in other comprehensive income. The gains or losses on cash flow hedges initially recognized in the statement of comprehensive income are transferred to the income statement in the period in which the hedged transaction impacts the income statement. Where the hedged transaction results in the recognition of an asset or a liability, the associated gains or losses that had initially been recognized in the statement of comprehensive income, are included in the initial measurement of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising in the fair value of the hedging instrument are taken directly to the income statement for the period.

Hedge accounting is discontinued when the hedging instrument expires, is terminated or exercised, or no longer qualifies for hedge accounting. For effective fair value hedges of financial instruments with fixed maturities, any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges, any cumulative gain or loss on the hedging instrument recognized as cash flow hedge reserve in other comprehensive income is held therein until the forecasted transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized as cash flow hedge reserve in other comprehensive income is transferred to the income statement.

d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

i) Interest and similar income

Interest income is recognised using the effective interest method, taking account of the principal outstanding and the rate applicable. Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

Interest that is 90 days or more overdue is excluded from income. Notional interest is recognised on impaired loans and advances and other financial assets based on the rate used to discount future cash flows to their net present values.

ii) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fee income from providing transaction services

Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, and brokerage fees. Loan syndication fees are recognised in the income statement when the syndication has been completed and the Bank retains no part of the loans for itself or retains part at the same effective rate as for the other participants.

notes to the financial statements

31 December 2010

2. ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

d) Revenue recognition (continued)

iii) Dividend income

Dividend income is recognised when the Bank's right to receive the dividend is established.

iv) Islamic financing

Revenues on Islamic financing transactions are recognised on an accrual basis using the reducing installment method. Income on non performing financing accounts is suspended when it is not certain that the Bank will receive it.

e) Financial investments

A financial investment is measured initially at transaction costs that are directly attributable to its acquisition or issue.

Subsequent to the initial measurement, available-for-sale financial investments are measured at fair value. Unrealised gains or losses arising from a change in the fair value is recognised as fair value reserve in other comprehensive income, until the investment is sold, at which time the cumulative gain and loss previously recognised as fair value reserve in other comprehensive income is included in the income statement.

Subsequent to the initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest rate method, less any allowance for impairment.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Amortized cost is calculated using the effective interest rate method by taking into account any premium or discount on acquisition and includes costs and fees that are an integral part of the effective interest rate.

In cases where objective evidence exist that a specific financial investment is impaired, the recoverable amount of that financial investment is determined and any impairment loss is recognised in the income statement as impairment loss on financial investments.

Reversal of impairment losses on equity instruments classified as available-for-sale investments are treated as an increase in fair value through other comprehensive income in the statement of comprehensive income. Reversal of impairment losses on debt instruments are reversed through the income statement to the extent such increases can be objectively related to an event occurring after the impairment loss was recognised.

f) Fair value

The fair value of financial assets traded in organized financial markets is determined by reference to quoted market bid prices on regulated exchange at the close of business on the statement of financial position date. For financial assets not traded in an active market, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same or discounted cash flow analysis. The fair value of liabilities with a demand feature is the amount payable on demand. Fair values of derivatives represent quoted market prices or internal pricing models as appropriate.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 29.

g) Date of recognition of financial instruments

All financial assets are recognised using the settlement date.

h) Due from banks, loans, advances and financing activities to customers

After initial measurement, due from banks, loans, advances and financing activities to customers are stated at amortised cost less any allowance for impairment.

Islamic financing activities such as Murabaha, which is a sale of goods with an agreed upon profit mark up, and Ijara, which is the transfer of ownership of services or leased assets for an agreed upon consideration, are stated at their gross principal amounts less any amount received, provision for credit losses, profit in suspense and unearned profit.

Due from banks, loans, advances and financing activities are written off and charged against specific provisions only in circumstances where all reasonable restructuring and collection activities have been exhausted. Recoveries from previously written off financing activities are written back to the specific provision.

notes to the financial statements

31 December 2010

2. ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

i) Property, furniture and equipment

Property, furniture and equipment is stated at cost less accumulated depreciation and accumulated impairment in value. Freehold land is not depreciated. Leasehold improvements are depreciated over the lesser of their estimated useful life or lease term. Depreciation on all other property, furniture and equipment is calculated on a straight-line basis over their estimated useful lives as follows:

Buildings	20 years
Leasehold improvements	5 years
Furniture and equipment	3 to 5 years
Vehicles	5 years

An item of property, furniture and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the property, furniture and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement in the year the asset is derecognised.

j) Derecognition of financial assets and financial liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement ; or
- the Bank has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

k) Impairment of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset, computed based on the present value of future cash flows, is determined and any impairment loss, is recognized in the income statement. The treatment of impairment of financial investments is disclosed in Note 2.5e.

Specific provisions for credit losses are calculated based on the difference between the book value of the loans and advances and their recoverable amount, being the net present value of the expected future cash flows, discounted at the original interest rates. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The Bank also makes 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 or deterioration in cash flows.

notes to the financial statements

31 December 2010

2. ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

k) Impairment of financial assets (continued)

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

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

Loans and advances are written off and charged against specific provision only in circumstances where all reasonable restructuring and collection activities have been exhausted.

l) Employee's termination benefits and pension funds

End of service gratuity plans-Defined benefits plan

The Bank provides for end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. The provision of employees' end of service benefits is included in the other provisions within other liabilities. The cost is included in general and administrative expenses as disclosed in Note 24.

Pension and Provident Fund plan-Defined contribution plan

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

m) Other provisions

The Bank makes a provision for any expected obligations (legal or constructive) or financial liabilities as a charge to the income statement based on the likelihood and expected amount of such liabilities at the statement of financial position date. Other provisions are disclosed in Note 13.

n) Contingent liabilities and other commitments

At the statement of financial position date, contingent liabilities and other commitments do not represent actual assets or liabilities.

o) Unrestricted investment accounts' share of profit

The Islamic branch profit for the year is distributed among unrestricted investment account holders and shareholders in accordance with Qatar Central Bank's instructions, which are summarized as follows:

The profit arrived at after taking into account all income and expenses at the end of the financial year is distributed between unrestricted investment account holders and shareholders. The share of profit of the unrestricted investment account holders is calculated on the basis of their daily deposit balances over the year, after reducing the agreed and declared Mudaraba fee.

In case of any expenses or losses, which arise out of misconduct on the part of the Bank due to non compliance with Qatar Central Bank's regulations and instructions, then such expenses or losses are not to be borne by the unrestricted investment account holders. Such matters are subject to Qatar Central Bank's decision.

Where the Islamic branch results at the end of a financial year is a net loss, the unrestricted investment account holders are not charged with any share of such loss, except as approved by Qatar Central Bank in its capacity as the regulator having responsibility of assessing the Bank's management for such losses, and compliance with Islamic Shari'a rules and principles.

The unrestricted investment accounts carry preferential rights over others in respect of utilisation of funds towards financing and investment activities.

notes to the financial statements

31 December 2010

2. ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

p) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash and balances with Qatar Central Bank other than the mandatory cash reserve, and balances due from banks and other financial institutions with an original maturity of three months or less, as disclosed in Note 32.

q) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the income statement and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement in "provision for credit losses". The premium received is recognised in the income statement in fee and commission income on a straight line basis over the life of the guarantee.

r) Fiduciary assets

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

s) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting arrangements, and the related assets and liabilities are presented gross in the statement of financial position.

t) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity.

Income and expenses directly associated with each segment are included in determining operating segment performance.

u) Earnings per share

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

v) Subordinated debt

Subordinated debt is initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortized cost less repayments.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

3.1 Financial Instruments

a) Definition and classification

Financial instruments cover all financial assets and liabilities of the Bank. Financial assets include cash and balances with Qatar Central Bank, due from banks and other financial institutions, loans, advances and financing activities to customers, financial investments and certain other assets. Financial liabilities include due to banks, Qatar Central Bank and other financial institutions, customer deposits, unrestricted investment accounts and certain other liabilities. Financial instruments also include certain contingent liabilities and commitments.

The significant accounting policies adopted by the Bank in respect of recognition and measurement of key financial instruments and their related income and expenses are disclosed in Note 2 "Significant accounting policies".

b) Fair value of financial instruments

Based on the methods used to determine the fair value of financial instruments explained in the notes to the financial statements, the carrying values of financial assets and liabilities, excluding held to maturity investments, are not significantly different from their fair values.

notes to the financial statements

31 December 2010

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management

3.2.1 Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit, liquidity, market, including trading and non-trading, and operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk Management Structure

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Executive Committee

The Executive Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and managing and monitoring relevant risk decisions.

Risk Management Department

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It is also responsible for monitoring compliance with risk principles, policies and limits, across the Bank. Each business group has a decentralised department which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This function also ensures the complete capture of the risks in risk measurement and reporting systems.

Treasury

Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure, as laid down by the Asset Liability Committee (ALCO) from time to time.

Internal Audit

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

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the business departments is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Executive Committee, and the head of each business division.

The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for impairment on a quarterly basis.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business departments have access to necessary and up-to-date information.

Frequent briefing is given to the senior management and all other relevant members of the Bank on the utilization of market limits, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

notes to the financial statements

31 December 2010

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.1 Introduction (continued)

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Bank. The effectiveness of hedges is assessed by the Treasury (based on economic considerations rather than the IFRS hedge accounting regulations). The effectiveness of all the hedge relationships is monitored by the Treasury quarterly at each reporting period. In situations of ineffectiveness, the Bank will enter into a new hedge relationship to mitigate risk on a continuous basis.

The Bank actively uses collaterals to reduce its credit risks (see 3.2.2 credit risk below for more detail).

Excessive risk concentration

Concentrations 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. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio, with limits set on geographic and industry sector exposures. Identified concentrations of credit risks are controlled and managed accordingly.

3.2.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge a financial obligation and cause the other party to incur a financial loss. In the case of derivatives this is limited to positive fair values. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of 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. Concentrations of credit risk indicate 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 group of customers in specific locations or businesses. It also obtains collaterals, when appropriate. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities,
- For commercial lending, mortgages over real estate properties, inventory, trade receivables, cash and securities.
- For retail lending, mortgages over residential properties and securities.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

The Bank also obtains corporate guarantees from parent companies for loans, advances and financing activities to their subsidiaries.

Details of the composition of the loans, advances and financing activities to customers are set out in Note 6.

Details of the industry sector analysis and the geographical distribution of assets, liabilities and commitments on behalf of customers are set out in Note 3.2.3.

notes to the financial statements

31 December 2010

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.2 Credit risk (continued)

a) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

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

	Gross maximum exposure 2010 QR '000	Gross maximum exposure 2009 QR '000
Cash and balances with Qatar Central Bank (excluding cash on hand)	2,809,640	4,056,110
Due from banks and other financial institutions	562,362	958,284
Loans, advances and financing activities to customers	11,338,854	12,407,056
Financial investments	2,559,267	428,950
Other assets	295,480	269,606
Total	17,565,603	18,120,006
Contingent liabilities	1,884,413	1,899,574
Unused credit facilities	3,997,195	3,255,574
Total	5,881,608	5,155,148
Total credit risk exposure	23,447,211	23,275,154

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. With gross-settled derivatives, the Bank is also exposed to a settlement risk, being the risk that the Bank honours its obligation but the counterparty fails to deliver the counter-value.
Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

b) Credit quality per class of financial assets

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

Bank's rating	Description of the grade	Mapping
Grade A	Low risk – excellent	High grade
Grade B	Standard/satisfactory risk	Standard grade
Grade C	Sub-standard – watch	Watch list/impaired
Grade D	Doubtful	Watch list/impaired
Grade E	Bad debts	Watch list/impaired

notes to the financial statements

31 December 2010

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.2 Credit risk (continued)

b) Credit quality per class of financial assets (continued)

The table below shows the credit quality by class of financial assets, based on the Bank's credit rating system:

	High grade QR '000	Standard grade QR '000	Watch list or impaired grade QR '000	Total QR '000
At 31 December 2010				
Cash and balances with Qatar Central Bank	2,809,640	–	–	2,809,640
Due from banks and other financial institutions	562,362	–	–	562,362
Loans, advances and financing activities to customers				
Retail	59,194	2,830,088	441	2,889,723
Real estate	258,004	1,629,181	–	1,887,185
Corporate	1,664,021	4,669,354	241,669	6,575,014
	1,981,219	9,128,623	242,110*	11,351,952
Collective Impairment Provision	–	(13,098)	–	(13,098)
Net Loans and advances	1,981,219	9,115,525	242,110	11,338,854
Financial investments				
Available-for-sale	2,437,991	88,516	–	2,526,507
Held-to-maturity	–	32,760	–	32,760
	2,437,991	121,276	–	2,559,267
Total	7,791,212	9,236,801	242,110	17,270,123

* Watch list or impaired grade loans are net of specific provisions.

At 31 December 2009				
Cash and balances with Qatar Central Bank	4,056,110	–	–	4,056,110
Due from banks and other financial institutions	958,284	–	–	958,284
Loans, advances and financing activities to customers				
Retail	150,071	2,924,369	4,209	3,078,649
Real estate	–	1,970,293	–	1,970,293
Corporate	2,254,886	5,081,999	21,229	7,358,114
	2,404,957	9,976,661	25,438	12,407,056
Financial investments				
Available-for-sale	333,093	63,097	–	396,190
Held-to-maturity	–	32,760	–	32,760
	333,093	95,857	–	428,950
Total	7,752,444	10,072,518	25,438	17,850,400

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

notes to the financial statements

31 December 2010

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.2 Credit risk (continued)

c) Age analysis by class of financial assets

The table below shows the age analysis by class of financial assets at the statement of financial position date:

	Neither past due nor impaired QR '000	Past due but not impaired QR '000	Impaired QR '000	Total QR '000
At 31 December 2010				
Cash and balances with Qatar Central Bank	2,809,640	–	–	2,809,640
Due from banks and other financial institutions	562,362	–	–	562,362
Loans, advances and financing activities to customers				
Retail	2,770,086	119,196	441	2,889,723
Real estate	1,887,185	–	–	1,887,185
Corporate	6,046,083	287,292	241,669	6,575,044
	10,703,354	406,488	242,110*	11,351,952
Collective impairment provision		(13,098)		(13,098)
Net loans, advances and financing activities to customers				11,338,854
Financial investments				
Available-for-sale	2,526,507	–	–	2,526,507
Held-to-maturity	32,760	–	–	32,760
	2,559,267	–	–	2,559,267
Other assets	295,480	–	–	295,480
Total	16,930,103	393,390	242,110	17,565,603

* Watch list or impaired grade loans are net of specific provisions.

	Neither past due nor impaired QR '000	Past due but not impaired QR '000	Net Impaired QR '000	Total QR '000
At 31 December 2009				
Cash and balances with Qatar Central Bank	4,056,110	–	–	4,056,110
Due from banks and other financial institutions	958,284	–	–	958,284
Loans, advances and financing activities to customers				
Retail	2,970,732	103,708	4,209	3,078,649
Real estate	1,970,293	–	–	1,970,293
Corporate	7,195,910	140,975	21,229	7,358,114
	12,136,935	244,683	25,438	12,407,056
Financial investments				
Available-for-sale	396,190	–	–	396,190
Held-to-maturity	32,760	–	–	32,760
	428,950	–	–	428,950
Other assets	269,606	–	–	269,606
Total	17,849,885	244,683	25,438	18,120,006

notes to the financial statements

31 December 2010

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.2 Credit risk (continued)

c) Age analysis by class of financial assets (continued)

Past due, but not impaired loans, advances and financing activities to customers include those that are past due by a few days. The majority of the past due loans, advances and financing activities to customers are not considered to be impaired. An analysis of past due, but not impaired loans and advances by age, is provided below:

	2010			2009		
	Less than 60 days QR '000	61 to 90 days QR '000	Total QR '000	Less than 60 days QR '000	61 to 90 days QR '000	Total QR '000
Loans, advances and financing activities to customers						
Retail	100,111	12,404	112,515	87,108	16,600	103,708
Corporate	229,387	51,488	280,875	140,975	–	140,975
	329,498	63,892	393,390	228,083	16,600	244,683

3.2.3 Concentration analysis

The distribution of assets, liabilities and contingent liabilities by geographic region and industry sector is as follows:

	2010			2009		
	Assets QR '000	Liabilities and equity QR '000	Contingent liabilities QR '000	Assets QR '000	Liabilities and equity QR '000	Contingent liabilities QR '000
By geographic region:						
Qatar	17,123,715	16,058,306	1,750,341	17,510,453	16,283,690	1,810,109
GCC countries	413,834	1,570,785	108,821	674,436	1,900,629	82,714
Others	428,169	336,627	25,251	264,672	265,242	6,751
Total	17,965,718	17,965,718	1,884,413	18,449,561	18,449,561	1,899,574
By industry sector:						
Government	2,910,086	40,427	12,320	1,803,103	541,279	17,882
Government agencies	827,958	2,084,629	–	656,749	939,061	–
Industry/Manufacturing	536,157	–	76,739	440,906	–	25,177
Commercial	4,037,381	4,995,548	542,765	4,520,192	5,608,090	488,044
Services	3,741,243	3,766,085	283,987	4,130,919	4,754,771	402,797
Contracting	638,387	–	957,345	1,064,152	–	965,674
Real estate	1,887,185	–	6,984	1,970,293	–	–
Personal	3,177,289	5,000,203	–	3,655,228	4,652,884	–
Other	210,032	2,078,826	4,273	208,019	1,953,476	–
Total	17,965,718	17,965,718	1,884,413	18,449,561	18,449,561	1,899,574

notes to the financial statements

31 December 2010

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.4 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates might affect the value of financial instruments or the future profitability of the Bank. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Board of Directors measure and manage interest rate risk by establishing levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Asset and liability interest rate gaps are reviewed on a weekly basis and hedging strategies are used to reduce the interest rate gaps to bring them within limits established by the Board of Directors.

The following table summarizes the repricing profile of the Bank's assets, liabilities and off balance sheet instruments:

	Up to 1 month QR '000	1-3 months QR '000	3-12 months QR '000	1-5 years QR '000	More than 5 years QR '000	Non-interest sensitive QR '000	Total QR '000
As at 31 December 2010							
Cash and balances with Qatar Central Bank	2,000,000	–	–	–	–	874,447	2,874,447
Due from banks and other financial institutions	477,661	36,400	–	–	–	48,301	562,362
Loans, advances and financing activities to customers	799,043	1,226,304	2,367,014	1,746,136	3,464,642	1,735,715	11,338,854
Financial investments	–	264,065	250,000	435,698	1,522,911	183,006	2,655,680
Property, furniture and equipment	–	–	–	–	–	182,897	182,897
Other assets	–	–	–	–	–	351,478	351,478
Total assets	3,276,704	1,526,769	2,617,014	2,181,834	4,987,553	3,375,844	17,965,718
Due to banks, Qatar Central Bank and other financial institutions	1,174,011	830,958	541,457	–	–	54,011	2,600,437
Customer deposits	3,969,542	2,996,130	2,622,362	659,196	–	1,214,113	11,461,343
Subordinated debt	–	182,000	–	–	–	–	182,000
Other liabilities	–	–	–	–	–	364,135	364,135
Unrestricted investment accounts	–	–	–	–	–	1,293,533	1,293,533
Equity	–	–	–	–	–	2,064,270	2,064,270
Total liabilities and equity	5,143,553	4,009,088	3,163,819	659,196	–	4,990,062	17,965,718
On balance sheet gap	(1,866,849)	(2,482,319)	(546,805)	1,522,638	4,987,553	(1,614,218)	–
Off balance sheet gap	–	604,471	(117,683)	(450,388)	(36,400)	–	
Interest rate sensitivity gap	(1,866,849)	(1,877,848)	(664,488)	1,072,250	4,951,153	(1,614,218)	
Cumulative interest rate sensitivity gap	(1,866,849)	(3,744,697)	(4,409,185)	(3,336,935)	1,614,218	–	

notes to the financial statements

31 December 2010

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.4 Interest rate risk (continued)

	Up to 1 month QR '000	1-3 months QR '000	3-12 months QR '000	1-5 years QR '000	More than 5 years QR '000	Non-interest sensitive QR '000	Total QR '000
As at 31 December 2009							
Cash and balances with Qatar Central Bank	3,390,000	–	–	–	–	745,645	4,135,645
Due from banks and other financial institutions	916,048	–	18,200	–	–	24,036	958,284
Loans, advances and financing activities to customers	1,000,107	2,500,826	1,852,437	1,637,593	3,591,081	1,825,012	12,407,056
Financial investments	–	12,558	–	50,062	315,791	133,941	512,352
Property, furniture and equipment	–	–	–	–	–	128,484	128,484
Other assets	–	–	–	–	–	307,740	307,740
Total assets	5,306,155	2,513,384	1,870,637	1,687,655	3,906,872	3,164,858	18,449,561
Due to banks, Qatar Central Bank and other financial institutions	3,017,852	549,305	–	–	–	160,009	3,727,166
Customer deposits	4,907,044	2,036,467	2,731,213	495,663	–	812,590	10,982,977
Subordinated debt	–	182,000	–	–	–	–	182,000
Other liabilities	–	–	–	–	–	316,156	316,156
Unrestricted investment accounts	–	–	–	–	–	1,288,687	1,288,687
Equity	–	–	–	–	–	1,952,575	1,952,575
Total liabilities and equity	7,924,896	2,767,772	2,731,213	495,663	–	4,530,017	18,449,561
On balance sheet gap	(2,618,741)	(254,388)	(860,576)	1,191,992	3,906,872	(1,365,159)	–
Off balance sheet gap	–	601,245	–	(601,245)	–	–	–
Interest rate sensitivity gap	(2,618,741)	346,857	(860,576)	590,747	3,906,872	(1,365,159)	–
Cumulative interest rate sensitivity gap	(2,618,741)	(2,271,884)	(3,132,460)	(2,541,713)	1,365,159	–	

Off balance sheet gap represents the net notional amounts of interest rate swaps, which are used to manage interest rate risk.

notes to the financial statements

31 December 2010

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.4 Interest rate risk (continued)

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2010, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of swaps designated as cash flow hedges at 31 December 2010 for the effects of the assumed changes in interest rates and based on the assumption that there are parallel shifts in the yield curve. The effect of decreases in interest rates is expected to have an equal and opposite effect of the increases shown.

		Sensitivity of net interest income		Sensitivity of equity	
	Change in basis points	2010 QR '000	2009 QR '000	2010 QR '000	2009 QR '000
Currency					
Qatari Riyal	25	3,211	2,271	–	–
US Dollar	25	1,778	2,026	91	41
		4,989	4,297	91	41

3.2.5 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank takes an exposure to the effect of fluctuation in prevailing foreign currency exchange rates on its financial position. The Board of Directors have set limits on the level of currency exposure, which are monitored daily.

The Bank had the following net open positions at the year end:

	2010 QR '000	2009 QR '000
US Dollar	172,070	549,629
Euro	(3,559)	(148)
Sterling Pounds	35	(1,112)
Others	58,541	59,725
	227,087	608,094

The others above include an exposure to Egyptian Pounds (EGY) amounting to QR 58,171 thousand (2009: QR 61,476 thousand). This exposure arises from the Bank's strategic investment made in 2006.

The Bank manages its currency exposures within limits laid down by the Board of Directors. Intra-day and overnight limits are laid down for each currency individually and in total. The Qatar Riyal is pegged to the US Dollar. Although the Bank is not exposed to any currency risk due to the peg, limits are set for US Dollar exposures. All other currency exposures are limited and the Bank is not significantly exposed to the other currencies.

notes to the financial statements

31 December 2010

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.6 Equity price risk

Equity price risk arises from fluctuations in equity indices and prices. The Board has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Bank's Credit and Investment Committee.

The non-trading equity price risk exposure arises from the Bank's investment portfolio.

The effect on equity, as a result of a change in the fair value of equity instruments held as available-for-sale investments at the year end, due to change in equity indices, with all other variables held constant, is as follows:

	Change in equity price %	Effect on equity 2010 QR '000	Effect on equity 2009 QR '000
Market index			
Qatar Exchange	10%	3,830	93

The effect of decreases in equity indices is expected to have an equal and opposite effect of the increases shown above.

3.2.7 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities.

In addition, the Bank maintains 4.75% of average customer deposits as a mandatory deposit with Qatar Central Bank.

The Bank's Asset and Liability Committee (ALCO) monitors the maturity profile on an overall basis with ongoing liquidity monitoring by the Treasury.

The maturity profile of the assets and liabilities at 31 December 2010 is as follows:

At 31 December 2010	Up to 1 month QR '000	1-3 months QR '000	3-12 months QR '000	1-5 years QR '000	Over 5 years QR '000	Total QR '000
Cash and balances with Qatar Central Bank	2,503,580	177,746	157,611	35,510	–	2,874,447
Due from banks and other financial institutions	525,962	36,400	–	–	–	562,362
Loans, advances and financing activities to customers	518,232	594,733	1,834,731	3,613,241	4,777,917	11,338,854
Financial investments	–	250,000	250,000	632,769	1,522,911	2,655,680
Property, furniture and equipment	–	–	–	–	182,897	182,897
Other assets	14,263	327,976	8,261	–	978	351,478
Total assets	3,562,037	1,386,855	2,250,603	4,281,520	6,484,703	17,965,718
Due to banks, Qatar Central Bank and other financial institutions	1,228,021	830,958	541,458	–	–	2,600,437
Customer deposits	4,576,599	3,299,658	2,925,890	659,196	–	11,461,343
Subordinated debt	–	–	–	–	182,000	182,000
Other liabilities	46,349	198,096	17,539	15,152	86,999	364,135
Unrestricted investment accounts	638,421	482,659	110,495	61,958	–	1,293,533
Equity	–	–	–	–	2,064,270	2,064,270
Total liabilities and equity	6,489,390	4,811,371	3,595,382	736,306	2,333,269	17,965,718
Net liquidity gap	(2,927,353)	(3,424,516)	(1,344,779)	3,545,214	4,151,434	–

notes to the financial statements

31 December 2010

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.7 Liquidity risk (continued)

The maturity profile of the assets and liabilities at 31 December 2009 is as follows:

At 31 December 2009	Up to 1 month QR '000	1-3 months QR '000	3-12 months QR '000	1-5 years QR '000	Over 5 years QR '000	Total QR '000
Cash and balances with Qatar Central Bank	3,838,813	114,849	154,030	27,953	–	4,135,645
Due from banks and other financial institutions	940,084	–	18,200	–	–	958,284
Loans, advances and financing activities to customers	694,677	1,133,577	2,170,857	3,703,072	4,704,873	12,407,056
Financial investments	–	–	–	50,062	462,290	512,352
Property, furniture and equipment	–	–	–	–	128,484	128,484
Other assets	26,217	242,876	2,121	35,643	883	307,740
Total assets	**5,499,791**	**1,491,302**	**2,345,208**	**3,816,730**	**5,296,530**	**18,449,561**
Due to banks, Qatar Central Bank and other financial institutions	3,177,861	549,305	–	–	–	3,727,166
Customer deposits	5,719,634	2,036,467	2,731,213	495,663	–	10,982,977
Subordinated debt	–	–	–	–	182,000	182,000
Other liabilities	20,141	187,783	10,867	32,368	64,997	316,156
Unrestricted investment accounts	377,343	714,516	137,427	59,401	–	1,288,687
Equity	–	–	–	–	1,952,575	1,952,575
Total liabilities and equity	**9,294,979**	**3,488,071**	**2,879,507**	**587,432**	**2,199,572**	**18,449,561**
Net liquidity gap	**(3,795,188)**	**(1,996,769)**	**(534,299)**	**3,229,298**	**3,096,958**	**–**

The above maturity profile reflects contractual maturities of assets and liabilities that have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and does not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of lines of credit.

notes to the financial statements

31 December 2010

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.7 Liquidity risk (continued)

Analysis of financial and contingent liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations:

At 31 December 2010	Up to 1 month QR '000	1-3 months QR '000	3-12 months QR '000	1-5 years QR '000	Over 5 years QR '000	Total QR '000
Financial liabilities						
Due to banks, Qatar Central Bank and other financial institutions	1,228,573	832,526	547,373	–	–	2,608,472
Customer deposits	4,586,884	3,317,868	2,962,762	663,900	–	11,531,414
Subordinated debt	297	593	2,669	14,237	189,445	207,241
Derivative financial instruments						
Contractual amounts payable	817,143	272,851	168,518	25,935	4,395	1,288,842
Contractual amounts receivable	(815,197)	(269,616)	(153,777)	(11,557)	(5,991)	(1,256,138)
Unrestricted investment accounts	639,598	485,459	112,243	62,356	–	1,299,655
Total	6,457,298	4,639,681	3,639,788	754,871	187,849	15,679,487
Contingent liabilities and commitments						
Unused credit facilities	399,719	399,719	1,199,158	1,998,599	–	3,997,195
Acceptances	21,373	14,063	3,630	–	–	39,066
Guarantees	153,353	260,590	569,615	578,110	348	1,562,016
Letters of credit	87,954	120,061	59,468	15,847	–	283,330
Total	662,399	794,433	1,831,871	2,592,556	348	5,881,607

At 31 December 2009	Up to 1 month QR '000	1-3 months QR '000	3-12 months QR '000	1-5 years QR '000	Over 5 years QR '000	Total QR '000
Financial liabilities						
Due to banks, Qatar Central Bank and other financial institutions	3,179,101	553,529	–	–	–	3,732,630
Customer deposits	5,794,782	2,086,084	2,833,983	521,031	–	11,235,880
Subordinated debt	288	576	2,590	13,813	192,360	209,627
Derivative financial instruments						
Contractual amounts payable	1,284,895	360,696	15,648	40,232	–	1,701,471
Contractual amounts receivable	(1,278,041)	(356,810)	(3,571)	(25,732)	–	(1,664,154)
Unrestricted investment accounts	378,455	720,926	140,809	62,806	–	1,302,996
Total	**9,359,480**	**3,365,001**	**2,989,459**	**612,150**	**192,360**	**16,518,450**
Contingent liabilities and commitments						
Unused credit facilities	325,557	325,557	2,604,460	–	–	3,255,574
Acceptances	16,920	23,804	3,953	–	–	44,677
Guarantees	324,747	257,439	398,178	490,273	–	1,470,637
Letters of credit	126,158	245,648	9,399	2,973	82	384,260
Total	**793,382**	**852,448**	**3,015,990**	**493,246**	**82**	**5,155,148**

notes to the financial statements

31 December 2010

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.8 Market risk

Market risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level of volatility of market rates or prices such as interest rates commodities prices, foreign exchange rates and equity prices. The Bank manages its market risks within the regulatory framework of limits defined by the Qatar Central Bank. Setting the internal framework for the management of market risks and ensuring compliance with this methodology is the responsibility of the Asset and Liability Committee (ALCO) which consists of senior management including members of the Risk management function. The Bank is exposed to interest rate risk created as a result of assets and liabilities mismatch or off balance sheet instruments that mature or reprice over a given period.

Both interest rate gaps and foreign exchange rate fluctuations are managed within the prescribed board limits. All risk exposures are monitored and reported on a daily basis to senior management and any breaches are escalated immediately. In addition all trading activity is continuously being monitored at ALCO level. The Bank utilizes the widely used Value-at-Risk (VaR) methodology to capture and control market risks which is popular globally since it encapsulates all known market risks such as volatility changes, correlation effects into a single unit of measurement and a limit can be assigned against it for control purposes. The Bank calculates the VaR metric on a daily basis for both trading purposes (1Day VaR) and regulatory purposes (10 Day VaR), which are monitored against set limits. The table below highlights year-on year changes.

	Foreign exchange QR '000	Interest rate QR '000	Equity QR '000	Effects of correlation QR '000	Total QR '000
At 31 December 2010	3,336	21	–	(351)	3,006
At 31 December 2009	6,082	37	–	(440)	5,679
Average daily					
2010	1,521	26	–	(322)	1,225
2009	3,116	6	–	(224)	2,898
Minimum					
2010	(8,504)	4	–	(136)	(8,636)
2009	(4,406)	(9)	–	(43)	(4,458)
Maximum					
2010	10,043	47	–	(684)	9,406
2009	10,215	46	–	(515)	9,746

notes to the financial statements

31 December 2010

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.9 Operational risk

Operational risk is the loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank manages its Operational risk primarily through the board approved Operational Risk Framework (ORF) consisting of the Operational Risk Policy (ORP) and the Operational Risk Committee (ORC), which has representation across all departments. The Bank utilizes a Basel II compliant approach known as 'Operational Risk Self Assessment' (ORSA) process to assess, document and report the operational risks encountered in the course of normal business activity.

The ORC approves the ORSA annually and reviews operational risks faced by various functions in the Bank on a regular basis throughout the year to track the status of open risks and introducing appropriate controls wherever necessary. The ORSA process for 2010 was successfully completed back in Oct 2010. Furthermore both compliance and internal audit perform independent periodic reviews to assess adequacy of check and controls.

The Bank has a robustly documented Business Continuity Plan (BCP) and Disaster Recovery (DR) Plan. These documents outline the procedures to be followed in a disaster scenario. The BCP aims to establish the level of impact upon the Banks business activity of having to operate from a different site in the event of an emergency or natural disaster. This includes access to critical computer systems, connectivity to local area network, database servers, internet, intranet and e-mails etc. This is a well established process and takes place periodically throughout the year and its completion is signed off by all concerned departments to confirm tests were successfully carried out by them. Both the BCP & DR processes were independently audited by external auditors back in April 2010 (in compliance with QCB requirements) and were found to be thorough and well implemented.

Basic fire fighting training is provided to staff fire wardens periodically with the assistance of Civil Defense Authority. An evacuation drill is normally conducted annually as part of safety and security procedures.

3.3 Summary of financial assets and financial liabilities per International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement

Financial assets such as balances with Qatar Central Bank (excluding cash), due from banks and other financial institutions, loans, advances and financing activities to customers, and certain other assets are reported at amortized cost.

Financial assets and liabilities resulting from derivative financial instruments are reported at fair value.

All other financial liabilities are reported at amortized cost.

4. CASH AND BALANCES WITH QATAR CENTRAL BANK

	2010 QR '000	2009 QR '000
Cash	64,807	79,535
Cash reserve with Qatar Central Bank	617,400	619,397
Other balances with Qatar Central Bank	2,192,240	3,436,713
Total	2,874,447	4,135,645

Cash reserve with Qatar Central Bank is a mandatory reserve and cannot be used to fund the Bank's day to day operations.

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2010 QR '000	2009 QR '000
Current accounts	48,300	24,036
Placements	514,062	916,048
Loans	–	18,200
Total	562,362	958,284

notes to the financial statements

31 December 2010

6. LOANS, ADVANCES AND FINANCING ACTIVITIES TO CUSTOMERS

a) By type

	31 December 2010 QR '000			31 December 2009 QR '000		
	Conventional	Islamic	Total	Conventional	Islamic	Total
Loans	8,516,971	1,693,933	10,210,904	8,819,911	1,827,320	10,647,231
Overdrafts	1,229,930	–	1,229,930	1,711,352	–	1,711,352
Bills discounted	26,276	–	26,276	44,836	–	44,836
Debt securities (iii)	65,983	24,027	90,010	67,238	38,087	105,415
Other advances	96,479	–	96,479	109,643	–	109,643
	9,935,639	1,717,960	11,653,599	10,753,070	1,865,407	12,618,477
Allowance for impairment	(271,880)	(42,865)	(314,745)	(209,113)	(2,308)	(211,421)
Net loans, advance and financing activities to customers	9,663,759	1,675,095	11,338,854	10,543,957	1,863,099	12,407,056

Notes:

i) Interest in suspense of QR 64,169 thousand (2009: QR 48,861 thousand) is for the purposes of Qatar Central Bank regulation and is included in allowance for impairment.

ii) Islamic financing activities to customers is carried at net of deferred profits of QR 76,634 thousand (2009: QR 96,459 thousand).

iii) Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Bank reclassified certain financial assets from available-for-sale to loans and advances category. The Bank identified assets eligible under the amendments, for which at 1 July 2008, it had clear change of intent to hold for the foreseeable future rather than to exit in the short term. Under IAS 39 as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date.

The carrying value of the financial assets reclassified to loans and advances at 1 July 2008 was QR 304,555 thousand (31 December 2010: QR 87,982 thousand and 31 December 2009: QR 103,250 thousand) with the fair value at 31 December 2010 of QR 90,129 thousand (31 December 2009: QR 107,794 thousand). Unrealized fair value gains on reclassified financial assets available-for-sale that were not impaired, were recorded directly in equity. As of July 2008, such unrealized fair value gains recorded directly in equity amounted to QR 14,579 thousand.

As of the reclassification date, the effective interest rates on reclassified financial assets available-for-sale ranged from 4.12% to 6.46% with expected recoverable cash flows of QR 483,080 thousand.

If the reclassification had not been made, there would not have been any effect on the Bank's income statement for the year ended 31 December 2010 (2009: Nil). Also, as at 31 December 2010, the equity would have included QR 1,909 thousand (31 December 2009: QR 1,724 thousand) of unrealized fair value losses on the reclassified financial assets available-for-sale, which were not impaired.

Included in the above debt securities are fixed rate securities and floating rate securities amounting to QR 46,677 thousand and QR 41,305 thousand respectively (31 December 2009: QR 48,697 thousand and QR 54,553 thousand respectively).

notes to the financial statements

31 December 2010

6. LOANS, ADVANCES AND FINANCING ACTIVITIES TO CUSTOMERS (continued)

b) By industry sector and geographic region before allowance for impairment

At 31 December 2010	Loans QR '000	Overdrafts QR '000	Bills discounted QR '000	Debt securities QR '000	Other advances QR '000	Total QR '000	%
By industry sector							
Government	92,524	462,188	–	28,238	–	582,950	5.00%
Government agencies	403,294	19	–	–	–	403,313	3.46%
Industry/Manufacturing	455,242	24,221	3,000	20,467	467	503,397	4.32%
Commercial	3,445,427	488,928	14,992	–	1,364	3,950,711	33.91%
Services	132,816	99,383	6,882	17,278	176	256,535	2.20%
Contracting	552,257	79,496	–	–	6,634	638,387	5.48%
Real estate	1,852,840	10,318	–	24,027	–	1,887,185	16.20%
Personal	3,276,504	65,377	1,402	–	87,838	3,431,121	29.43%
Total	10,210,904	1,229,930	26,276	90,010	96,479	11,653,599	100%
By geographic region							
Qatar	9,765,484	1,227,565	26,276	44,494	96,479	11,160,298	95.77%
Other GCC Countries	328,126	2,365	–	17,278	–	347,769	2.98%
Others	117,294	–	–	28,238	–	145,532	1.25%
Total	10,210,904	1,229,930	26,276	90,010	96,479	11,653,599	100%

GCC countries comprise the members of the Gulf Co-operation Council being Kingdom of Bahrain, State of Kuwait, Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates.

At 31 December 2009	Loans QR '000	Overdrafts QR '000	Bills discounted QR '000	Debt securities QR '000	Other advances QR '000	Total QR '000	%
By industry sector							
Government	145,043	837,485	–	29,783	–	1,012,311	8.01%
Government agencies	469,380	19	–	–	–	469,399	3.72%
Industry/Manufacturing	385,994	15,915	1,691	20,423	240	424,263	3.36%
Commercial	3,578,642	180,866	–	–	104,976	3,864,484	30.63%
Services	858,439	242,579	3,370	17,122	70	1,121,580	8.89%
Contracting	969,988	76,179	16,419	–	1,566	1,064,152	8.43%
Real estate	1,921,007	11,199	–	38,087	–	1,970,293	15.62%
Personal	2,318,738	347,110	23,356	–	2,791	2,691,995	21.34%
Total	10,647,231	1,711,352	44,836	105,415	109,643	12,618,477	100%
By geographic region							
Qatar	9,999,701	1,709,070	44,836	57,854	109,643	11,921,104	94.47%
Other GCC Countries	564,905	2,282	–	17,122	–	584,309	4.63%
Others	82,625	–	–	30,439	–	113,064	0.90%
Total	10,647,231	1,711,352	44,836	105,415	109,643	12,618,477	100%

notes to the financial statements

31 December 2010

6. LOANS, ADVANCES AND FINANCING ACTIVITIES TO CUSTOMERS (continued)

c) Age analysis of non-performing loans, advances and financing activities to customers

Loans, advances and financing activities to customers which are past due over three months are considered to be non-performing. The age analysis of non-performing loans, advances and financing activities to customers is as follows:

	2010			
	3 months to 1 year QR '000	1 - 3 years QR '000	Over 3 years QR '000	Total Total QR '000
1. Gross non-performing loans, advances and financing activities to customers	104,520	170,944	65,842	341,306
2. Gross performing loans under watch list	202,451	–	–	202,451
	306,971	170,944	65,842	543,757
Less: Allowance for impairment for non performing loans (1 above)	(41,907)	(155,749)	(64,291)	(261,947)
Less: Allowance for impairment for performing loans under watch list (2 above)	(39,700)	–	–	(39,700)
Net non-performing loans, advances and financing activities to customers	225,364	15,195	1,551	242,110

In addition the allowance for collective impairment has been made on the bank's loans, advances and financing activities to customers' portfolio (retail customers) for QR 13,098 thousands (2009; QR 2,000 thousand).

	2009			
	3 months to 1 year QR '000	1 - 3 years QR '000	Over 3 years QR '000	Total Total QR '000
Gross non-performing loans, advances and financing activities to customers	67,010	114,089	53,595	234,694
Less: Allowance for impairment	(50,571)	(108,181)	(52,669)	(211,421)
Net non-performing loans, advances and financing activities to customers	16,439	5,908	926	23,273

The aggregate amount of gross non-performing loans, advances and financing activities (excluding performin loans under watch list) to customers at 31 December 2010 represented 2.93% of total gross loans, advances and financing activities to customers (2009: 1.86%).

The fair value of collaterals held against the above impaired loans, advances and financing activities to customers was QR 37,950 thousand at 31 December 2010 (2009: QR 16,812 thousand).

notes to the financial statements

31 December 2010

6. LOANS, ADVANCES AND FINANCING ACTIVITIES TO CUSTOMERS (continued)

d) The movement in allowance for impairment (including interest in suspense) by major sectors is as follows

	2010				2009			
	Retail QR '000	Corporate QR '000	Real Estate QR '000	Total QR '000	Retail QR '000	Corporate QR '000	Real Estate QR '000	Total QR '000
At 1 January	177,093	34,328	–	211,421	113,461	35,644	–	149,105
Add/(Less):								
Amounts written off during the year	–	(8,391)	–	(8,391)	–	–	–	–
Charge for the year	70,815	59,427	–	130,242	78,147	5,753	–	83,900
Recoveries during year	(13,498)	(5,029)	–	(18,527)	(14,515)	(7,069)	–	(21,584)
At 31 December	234,410	80,335	–	314,745	177,093	34,328	–	211,421
Individually impaired loans and advances								
1. Gross impaired loans, advances and financing activities to customers	232,114	109,192	–	341,306	181,302	53,392	–	234,694
2. Gross performing loans under watch list	–	202,451	–	202,451	–	–	–	–
	232,114	311,643	–	543,757	181,302	53,392	–	234,694
Allowance for impairment for non performing loans (1 above)	(231,673)	(30,274)	–	(261,947)	(177,093)	(34,328)	–	(211,421)
Allowance for impairment for performing loans under watch list (2 above)	–	(39,700)	–	(39,700)	–	–	–	–
Net impaired loans, advances and financing activities to customers	441	241,669	–	242,110	4,209	19,064	–	23,273

In addition the allowance for collective impairement has been made on the bank's loans,advances and financing activities to customers' portfolio for QR 13,098 thousands (2009; QR 2,000 thousand).

notes to the financial statements

31 December 2010

7. FINANCIAL INVESTMENTS

	2010 QR '000	2009 QR '000
Available-for-sale investments (a)	2,622,920	479,592
Held to maturity investments (b)	32,760	32,760
Total	2,655,680	512,352

a) Available-for-sale investments

	2010			2009		
	Quoted QR '000	Unquoted QR '000	Total QR '000	Quoted QR '000	Unquoted QR '000	Total QR '000
Qatari Government debt securities	385,504	1,540,346	1,925,850	30,684	290,710	321,394
QCB securities	–	500,000	500,000	–	–	–
GCC Government debt securities	12,141	–	12,141	11,699	–	11,699
Other corporate debt securities	14,065	–	14,065	12,558	–	12,558
Managed funds	–	53,452	53,452	–	50,539	50,539
Equity securities	96,412	21,000	117,412	62,402	21,000	83,402
Total	508,122	2,114,798	2,622,920	117,343	362,249	479,592

Included in the available-for-sale investments are equity securities with a fair value of QR 864 thousand at 31 December 2010 (2009: QR 805 thousand) restricted due to the Bank holding directorship in the investee company.

Included in the debt securities are fixed rate securities and floating rate securities amounting to QR 1,937,991 thousand and QR 14,065 thousand respectively(2009: QR 333,093 thousand and QR 12,558 respectively).

b) Held to maturity investments

	2010			2009		
	Quoted QR '000	Unquoted QR '000	Total QR '000	Quoted QR '000	Unquoted QR '000	Total QR '000
Qatari Govt. debt securities	–	–	–	–	–	–
Other corporate debt securities	32,760	–	32,760	32,760	–	32,760
Total	32,760	–	32,760	32,760	–	32,760

All held to maturity investments are fixed rate securities. The fair value of the held to maturity investments at 31 December 2010 is QR 33,890 thousand (2009: QR 32,514 thousand).

notes to the financial statements

31 December 2010

8. PROPERTY, FURNITURE AND EQUIPMENT

At 31 December 2010	Land and building QR '000	Lease hold improvements QR '000	Furniture and equipment QR '000	Vehicles QR '000	Capital Work in progress QR '000	Total QR '000
Cost:						
At 1 January 2010	96,569	53,368	79,952	1,055	34,180	265,124
Additions during the year	28,420	1,490	3,533	–	7,739	41,182
Disposal during the year	–	(956)	–	(333)	–	(1,289)
At 31 December 2010	124,989	53,902	83,485	722	41,919	305,017
Accumulated depreciation:						
At 1 January 2010	13,395	26,875	61,333	857	–	102,460
Depreciation charge during the year	1,907	9,270	9,287	39	–	20,503
Depreciation related to disposal	–	(330)	–	(513)	–	(843)
At 31 December 2010	15,302	35,815	70,620	383	–	122,120
Net book value:						
At 31 December 2010	109,687	18,087	12,865	339	41,919	182,897

At 31 December 2009	Land and building QR '000	Lease hold improvements QR '000	Furniture and equipment QR '000	Vehicles QR '000	Capital Work in progress QR '000	Total QR '000
Cost:						
At 1 January 2009	96,569	49,749	73,570	1,055	28,503	249,446
Additions during the year	–	3,492	6,382	–	5,804	15,678
Transfers	–	127	–	–	(127)	–
At 31 December 2009	96,569	53,368	79,952	1,055	34,180	265,124
Accumulated depreciation:						
At 1 January 2009	10,790	17,818	52,635	827	–	82,070
Depreciation charge during the year	2,605	9,057	8,698	30	–	20,390
At 31 December 2009	13,395	26,875	61,333	857	–	102,460
Net book value:						
At 31 December 2009	83,174	26,493	18,619	198	34,180	162,664

notes to the financial statements

31 December 2010

9. OTHER ASSETS

	2010 QR '000	2009 QR '000
Interest receivable	232,521	190,107
Profit receivable (Islamic)	44,530	51,508
Advances and deposits	1,081	1,407
Accounts receivable	14,152	8,998
Prepaid expenses	4,670	2,547
QE clients receivable	29	2,212
Positive fair value of derivatives (Note 28)	4,248	318
Others	50,247	16,463
Total	351,478	273,560

10. DUE TO BANKS, QATAR CENTRAL BANK AND OTHER FINANCIAL INSTITUTIONS

	2010 QR '000	2009 QR '000
Balances due to Qatar Central Bank	9,948	55
Current accounts	25,804	160,009
Deposits	1,474,731	2,328,898
Loans from banks	212,876	–
Certificates of deposit	877,078	1,238,204
Total	2,600,437	3,727,166

11. CUSTOMER DEPOSITS

a) By type

	2010			2009		
	Conventional QR '000	Islamic QR '000	Total QR '000	Conventional QR '000	Islamic QR '000	Total QR '000
Current and call accounts	2,006,647	164,416	2,171,063	1,829,684	28,602	1,858,286
Saving accounts	568,575	–	568,575	237,010	–	237,010
Term deposits	8,721,705	–	8,721,705	8,887,681	–	8,887,681
	11,296,927	164,416	11,461,343	10,954,375	28,602	10,982,977

The total amount of customer deposits pledged against loans and advances was QR 680,948 thousand at 31 December 2010 (2009: QR 668,215 thousand).

b) By sector

	2010 QR '000	2009 QR '000
Government	40,427	541,279
Government agencies	2,074,681	939,006
Retail	4,000,203	3,652,884
Corporate	5,346,032	5,849,808
Total	11,461,343	10,982,977

notes to the financial statements

31 December 2010

12. SUBORDINATED DEBT

	2010 QR '000	2009 QR '000
USD 50 million Subordinated Medium Term Notes	182,000	182,000

This represents the first tranche of the QR 800 million debt approved by the shareholders in their extraordinary general meeting (EGM) held on 18 March 2007. This debt, denominated in USD, will qualify as tier 2 capital and the Bank has obtained all the necessary approvals from the regulator. The terms of the issue are summarised below:

Date of maturity	December 27, 2017
Call date	December 27, 2012
Interest rate	3 month LIBOR + 168 bps
Interest reset date	January 28, 2011 and thereafter at quarterly intervals

13. OTHER LIABILITIES

	2010 QR '000	2009 QR '000
Interest payable	65,899	119,164
Commission received in advance	44,346	53,387
Accrued expenses	18,578	10,737
Other provisions (a)	25,812	23,591
Staff provident fund	12,921	11,260
Staff pension fund	1,213	1,171
Dividends payable	6,193	4,646
Bills payable	14,295	9,008
QE clients payable	26,426	9,461
Negative fair value of derivatives (Note 28)	28,555	37,074
Others	119,897	36,657
Total	364,135	316,156

a) Other provisions

	2010				2009			
	Staff indemnity QR '000	Legal claims QR '000	Others QR '000	Total QR '000	Staff indemnity QR '000	Legal claims QR '000	Others QR '000	Total QR '000
At 1 January	16,101	4,756	2,734	23,591	14,893	4,756	2,592	22,241
Provision made during the year	3,391	–	248	3,639	3,368	–	142	3,510
	19,492	4,756	2,982	27,230	18,261	4,756	2,734	25,751
Payments made during the year	(1,418)	–	–	(1,418)	(2,160)	–	–	(2,160)
At 31 December	18,074	4,756	2,982	25,812	16,101	4,756	2,734	23,591

notes to the financial statements

31 December 2010

14. UNRESTRICTED INVESTMENT ACCOUNTS

	2010 QR '000	2009 QR '000
Call and Saving accounts	97,741	28,248
Term deposits	1,195,792	1,260,439
Total	1,293,533	1,288,687

15. EQUITY

a) Share capital

	2010 QR '000	2009 QR '000
Authorised		
Shares of QR 10 each	642,383	613,184

	Number of shares thousands	QR '000
Issued and fully paid		
At 1 January 2009	58,398	583,984
Issue of new shares on 2 March 2009	2,920	29,200
At 1 January 2010	61,318	613,184
Issue of new shares on 2 March 2010	2,920	29,199
At 31 December 2010	64,238	642,383

On 30 December 2009, the Bank received QR 160,596 thousand as advance against share capital for 2,919,922 ordinary shares by way of a private placement (tranche 2) to Qatar Investment Authority, in accordance with a resolution of the shareholders in their Extra-ordinary General Meeting held on 23 December 2008. The resolution approved the issue of equity shares up to 20% of the authorized capital of the Bank to Qatar Investment Authority at QR 55 per share, representing the closing price of the Bank's shares in the Qatar Exchange on 12 October 2008.

On 14 March 2010, the Bank issued these shares in respect of tranche 2 upon obtaining approval from Ministry of Finance and Trade.

In accordance with the Qatar Commercial Companies' Law No. 5 of 2002 and applicable provisions of Qatar Central Bank regulations, the share premium amounting to QR 131,396 thousand, representing the difference between the proceeds received and the nominal value of new shares issued was credited to the statutory reserve.

QIA holds 10% of the ordinary shares of the Bank outstanding as at 31 December 2008.

As at 31 December 2010, Ahli United Bank B.S.C., Bahrain holds 36.4% of the ordinary shares of the Bank with the remaining shares held by Qatar Investment Authority (9.1%) and members of the public (54.5%).

b) Statutory reserve

In accordance with the Bank's Articles of Association, 10% (2009: 10%) of the net profit for the year is required to be transferred to the statutory reserve until the reserve equals 100% of the paid up capital. This reserve is not available for distribution except in circumstances specified in the Qatar Commercial Companies' Law No. 5 of 2002 and with the approval of Qatar Central Bank. As the statutory reserve is already in excess of the minimum required amount, no transfers have been made from the current year's profits. However, the share premium arising from issue of new shares amounting to QR 131,396 thousand was credited to statutory reserve during the year. (Note 15a).

notes to the financial statements

31 December 2010

15. EQUITY (continued)

c) Risk reserve

In accordance with Qatar Central Bank rules and regulations, a risk reserve is made to cover contingencies on the loans, advances and financing activities to customers with a minimum requirement of 1.5% (2009: 1.5%) of the total direct credit facilities granted by the Bank and its branches inside and outside Qatar, after deduction of any allowance for impairment and deferred profits, with the exception of credit facilities granted to Qatar government and government establishments, collateralized credit and credit facilities granted against cash deposits. As the risk reserve is already in excess of the minimum required amount, no transfers have been made from the retained earnings in 2010.

d) Fair value reserve

	2010			2009		
	Available-for-sale investments QR '000	Cash flow hedges QR '000	Total QR '000	Available-for-sale investments QR '000	Cash flow hedges QR '000	Total QR '000
At 1 January	2,945	(18,367)	(15,422)	27,114	(25,012)	2,102
Realised during the year	(2,004)	–	(2,004)	(23,325)	–	(23,325)
Net movement in unrealised fair values during the year	8,985	2,343	11,328	917	6,645	7,562
Amortised during the year on reclassification to loans and receivables	(144)	–	(144)	(1,761)	–	(1,761)
At 31 December	9,782*	(16,024)	(6,242)	2,945*	(18,367)	(15,422)

* Includes QR 1,909 thousand (2009: QR 1,765 thousand – positive fair value reserve) relating to unamortised portion of negative fair value reserve on financial investments available-for-sale transferred to loans and receivables.

The fair value reserve includes a negative fair value of QR 19,613 thousand (2009: QR 22,122 thousand). The appropriation of profits will be restricted to the extent of the above negative fair value.

e) Proposed bonus shares and dividend

A cash dividend of QR 5 per share amounting to QR 321,192 thousand has been proposed by the Board of Directors for the year ended 31 December 2010 (2009: QR 5 per share totaling to QR 306,592 thousand).

The above proposed cash dividend is subject to the approval of the shareholders in their Annual General Meeting.

During the year, the Bank has paid an amount of QR 5 per share totaling to QR 306,592 thousand (2009: QR 5 per share totaling to QR 291,992 thousand as cash dividend for the year 2008) as cash dividend for the year 2009.

f) Dividends Waived

One of the shareholders, Qatar Holding L.L.C (a wholly owned subsidiary of Qatar Investment Authority) waived its dividend entitlement for 2009 of QR 14,599 thousand in April 2010.

notes to the financial statements

31 December 2010

16. INTEREST INCOME

	2010 QR '000	2009 QR '000
Balances with Qatar Central Bank	56,256	52,418
Due from banks and other financial institutions	5,438	9,686
Debt securities	56,443	35,876
Loans and advances to customers	766,583	784,892
Total	884,720	882,872

17. INTEREST EXPENSE

	2010 QR '000	2009 QR '000
Balances with Qatar Central Bank	377	9,381
Due to banks and other financial institutions	46,285	54,017
Customer deposits	344,840	526,591
Total	391,502	589,989

18. FEE AND COMMISSION INCOME

	2010 QR '000	2009 QR '000
Loans and advances and financing activities to customers	55,063	79,414
Indirect credit facilities	24,526	28,941
Banking services	5,783	7,932
Commission on investment activities for customers	2,060	4,160
Others	3,495	8,474
Total	90,927	128,921

19. DIVIDEND INCOME

	2010 QR '000	2009 QR '000
Available-for-sale investments	4,248	3,347

20. NET GAIN FROM DEALING IN FOREIGN CURRENCIES

	2010 QR '000	2009 QR '000
Gain from dealing in foreign currencies	22,345	19,992
Gain from revaluation of assets and liabilities	21	609
Total	22,366	20,601

21. NET GAIN ON FINANCIAL INVESTMENTS AND DERIVATIVES

	2010 QR '000	2009 QR '000
Net gain on sale of available-for-sale investments	1,931	23,325
Net gain on interest rate swaps held for trading	988	1,215
Total	2,919	24,540

notes to the financial statements

31 December 2010

22. INCOME FROM ISLAMIC FINANCING AND INVESTING ACTIVITIES (NET)

	2010 QR '000	2009 QR '000
Murabaha	34,806	54,541
Ijarah	81,343	75,242
Other	43,334	3,018
Total	159,483	132,801

23. OTHER OPERATING INCOME

	2010 QR '000	2009 QR '000
Recoveries of loans previously written off	–	1,917
Rental income	2,250	2,700
Loss on disposal of property, furniture & equipment	(428)	–
Others	262	389
Total	2,084	5,006

24. GENERAL AND ADMINISTRATIVE EXPENSES

	2010 QR '000	2009 QR '000
Staff costs	92,696	81,683
Marketing and advertising expenses	4,939	4,587
Communication, utilities and insurance	10,765	10,374
Director's remuneration	5,000	4,000
Rent and maintenance	10,594	9,593
Staff indemnity costs	3,391	3,368
Legal and professional fees	6,965	2,831
Printing and stationery	1,844	2,361
IT maintenance	6,575	3,708
Others	21,770	17,427
Total	164,539	139,932

25. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of shares in issue during the year.

	2010	2009
Profit for the year – QR'000	412,329	300,515
Weighted average number of shares	63,654,298	60,838,373
Basic and diluted earnings per share (in QR)	6.48	4.94
The weighted average number of shares has been calculated as follows:		
Qualifying shares at the beginning of the year	61,318,360	58,398,438
Effect of new share issue	2,335,938	2,439,935
Total	63,654,298	60,838,373

There were no potentially dilutive shares outstanding at any time during the year, therefore, the diluted earnings per share is equal to the basic earnings per share.

notes to the financial statements

31 December 2010

26. CONTINGENT LIABILITIES, GUARANTEES AND OTHER COMMITMENTS

a) Contingent liabilities

	2010 QR '000	2009 QR '000
Acceptances	39,066	44,677
Guarantees	1,562,016	1,470,637
Letters of credit (import and export)	283,330	384,260
	1,884,412	1,899,574

b) Commitments and other contingencies

	2010 QR '000	2009 QR '000
Unused credit facilities	3,997,195	3,255,574
Interest rate swaps	604,471	601,245
Forward foreign exchange contracts	1,082,143	1,706,395
Legal claims	25,293	23,793
Other commitment	9,674	17,412
	5,718,776	5,604,419
Total	7,603,188	7,503,993

Unused credit facilities

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

Legal claims

At the end of the financial year 2010, the Bank has allocated provisions of QR 4,756 thousand to meet probable legal claims against the Bank (2009: QR 4,756 thousand). In the opinion of the Board of Directors, the provisions taken are considered sufficient.

Acceptances, guarantees and letters of credit

Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract. Guarantees and standby letters of credit carry the same risk as loans. Credit guarantees can be in the form of irrevocable letters of credits, advance payment guarantees and endorsements liabilities from bills rediscounted.

Other commitment

This represents the contractual commitment on the purchase of a plot of land. As at the statement of financial position date, the land is still under development and the Bank has approximately 18.75% of the commited value payable in 5 quarterly instalments.

notes to the financial statements

31 December 2010

27. GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

At 31 December 2010	Qatar QR '000	GCC Countries QR '000	Europe QR '000	Others QR '000	Total QR '000
Cash and balances with Qatar Central Bank	2,874,447	–	–	–	2,874,447
Due from banks and other financial institutions	305,912	8,740	97,288	150,422	562,362
Loans, advances and financing activities to customers	10,891,069	330,491	36,400	80,894	11,338,854
Financial investments	2,517,912	74,603	5,055	58,110	2,655,680
Property, furniture and equipment	182,897	–	–	–	182,897
Other assets	351,478	–	–	–	351,478
Total assets	17,123,715	413,834	138,743	289,426	17,965,718
Due to banks, Qatar Central Bank and other financial institutions	1,367,120	935,155	122,147	176,015	2,600,437
Customer deposits	11,004,429	418,449	–	38,465	11,461,343
Subordinated debt	–	182,000	–	–	182,000
Other liabilities	364,135	–	–	–	364,135
Unrestricted investment accounts	1,258,352	35,181	–	–	1,293,533
Equity	2,064,270	–	–	–	2,064,270
Total liabilities and equity	16,058,306	1,570,785	122,147	214,480	17,965,718

At 31 December 2009	Qatar QR '000	GCC Countries QR '000	Europe QR '000	Others QR '000	Total QR '000
Cash and balances with Qatar Central Bank	4,135,645	–	–	–	4,135,645
Due from banks and other financial institutions	850,000	20,230	9,980	78,074	958,284
Loans, advances and financing activities to customers	11,712,504	584,309	46,214	64,029	12,407,056
Financial investments	376,080	69,897	4,899	61,476	512,352
Property, furniture and equipment	128,484	–	–	–	128,484
Other assets	307,740	–	–	–	307,740
Total assets	17,510,453	674,436	61,093	203,579	18,449,561
Due to banks, Qatar Central Bank and other financial institutions	2,461,627	1,003,987	36,803	224,749	3,727,166
Customer deposits	10,264,645	714,642	–	3,690	10,982,977
Subordinated debt	–	182,000	–	–	182,000
Other liabilities	316,156	–	–	–	316,156
Unrestricted investment accounts	1,288,687	–	–	–	1,288,687
Equity	1,952,575	–	–	–	1,952,575
Total liabilities and equity	16,283,690	1,900,629	36,803	228,439	18,449,561

notes to the financial statements

31 December 2010

28. DERIVATIVES

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

These include financial options, futures and forwards, interest rate swaps and currency swaps, which create rights and obligation that have the effect of transferring between the parties of the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, a derivative financial instrument gives one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instruments, as prices in financial markets change, those terms may become either favourable or unfavourable.

The table below shows the fair values of derivative financial instruments together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at period-end and are neither indicative of the market risk nor credit risk.

	2010			Principal value at maturity		
	Positive fair value QR '000	Negative fair value QR '000	Notional amount QR '000	Within 3 months QR '000	3-12 Months QR '000	1-5 Years QR '000
Derivatives held for trading:						
– Interest rate swaps*	–	(9,573)	109,200	–	109,200	–
– Forward foreign exchange contracts	4,248	(2,298)	1,082,143	659,390	422,644	109
	4,248	(11,871)	1,191,343	659,390	531,844	109
Derivatives held as cash flow hedges:						
– Interest rate swaps	–	(16,024)	279,724	–	14,977	264,747
Derivatives held as fair value hedges:						
– Interest rate swaps	–	(660)	215,547	–	102,707	112,840
Total	4,248	(28,555)	1,686,614	659,390	649,528	377,696

	2009			Principal value at maturity		
	Positive fair value QR '000	Negative fair value QR '000	Notional amount QR '000	Within 3 months QR '000	3-12 Months QR '000	1-5 Years QR '000
Derivatives held for trading:						
– Interest rate swaps*	–	(10,562)	109,200	–	–	109,200
– Forward foreign exchange contracts	318	(7,001)	1,706,395	1,703,669	1,558	1,168
	318	(17,563)	1,815,595	1,703,669	1,558	110,368
Derivatives held as cash flow hedges:						
– Interest rate swaps	–	(18,367)	349,299	–	5,579	343,720
Derivatives held as fair value hedges:						
– Interest rate swaps	–	(1,144)	142,746	–	–	142,746
Total	318	(37,074)	2,307,640	1,703,669	7,137	596,834

* These interest rate swap deals were originally intended to be hedge instruments qualifying under IAS 39. However, due to ineffective hedging relationship between the hedge instruments and the hedged items, these have been treated as derivatives held for trading.

notes to the financial statements

31 December 2010

28. DERIVATIVES (continued)

Cash flow hedges

A schedule of forecast principal balances on which the expected interest cash flows arise and the expected impact on the income statement are as follows:

	3 months or less QR '000	More than 3 months but less than 1 year QR '000	More than 1 year but less than 5 years QR '000	Total QR '000
At 31 December 2010				
Cash inflows from assets	352	985	3,030	4,367
Income statement	(3,283)	(5,785)	(6,956)	(16,024)
At 31 December 2009				
Cash inflows from assets	375	970	13,761	15,106
Income statement	(4,006)	(6,205)	(8,156)	(18,367)

No hedge ineffectiveness on cash flow hedges was recognised in 2010 (2009: Nil).

Derivative product types

Forwards exchange contracts are contractual agreements to either buy or sell a specified currency at a specific price and date in the future. Forwards exchange contracts are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Derivatives held for trading purposes

Most of the Bank's derivative trading activities relate to customer driven transactions as well as positioning and arbitrage. Positioning involves managing positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products.

Derivatives held for hedging purposes

The Bank has adopted a comprehensive system for the measurement and management of risk.

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate movements. This is achieved by hedging specific financial instruments and forecasted transactions, as well as strategic hedging against overall statement of financial position exposures.

The Bank uses forward foreign exchange contracts to hedge against specifically identified currency risks. In addition, the Bank uses interest rate swaps to hedge against the interest rate risk arising from specifically identified fixed rate exposures. The Bank also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate liabilities. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value or cash flow hedges.

Hedging of interest rate risk is also carried out by monitoring the duration of assets and liabilities and entering into interest rate swaps to hedge net interest rate exposures. Since hedging of net positions does not qualify for special hedge accounting, related derivatives are accounted for the same way as trading instruments.

notes to the financial statements

31 December 2010

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

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

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

31 December 2010	Level 1 QR '000	Level 2 QR '000	Level 3 QR '000	Total QR '000
Financial assets				
Derivatives – Forward contracts	–	4,248	–	4,248
Financial investments	806,860	1,795,060	–	2,601,920
Total	806,860	1,799,308	–	2,606,168
Financial liabilities				
Derivatives – Forward contracts	–	2,298	–	2,298
Interest rate swaps	–	26,257	–	26,257
Total	–	28,555	–	28,555

31 December 2009	Level 1 QR '000	Level 2 QR '000	Level 3 QR '000	Total QR '000
Financial assets				
Derivatives – Forward contracts	–	318	–	318
Financial investments	106,406	352,186	–	458,592
Total	106,406	352,504	–	458,910
Financial liabilities				
Derivatives – Forward contracts	–	7,001	–	7,001
Interest rate swaps	–	30,073	–	30,073
Total	–	37,074	–	37,074

During the year ending 31 December 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Financial investments in Level 2 above include Qatar Government Bonds amounting to QR 290,710 thousand, (2009: QR 290,710 thousand) which were issued in lieu of sale of real estate loans and Qatar Exchange equity investments to the Government of Qatar.

The fair value of the following financial instruments approximate their carrying values:

Financial assets	Financial liabilities
Cash and balances with Qatar Central Bank	Due to banks, Qatar Central Bank and other financial institutions
Due from banks and other financial institutions	Customer deposits
Loans, advances and financing activities to customers	Subordinated debt
Financial investments	Unrestricted investment accounts

The fair value of held to maturity investments at 31 December 2010 is QR 33,890 thousand (2009: QR 32,514 thousand).

notes to the financial statements

31 December 2010

29. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to call accounts, demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

30. FIDUCIARY ACTIVITIES

The Bank provides investment brokerage and custody services to customers. Those assets that are held in a fiduciary capacity are excluded from these financial statements and amount to QR 736,058 thousand at 31 December 2010 (2009: QR 749,774 thousand).

31. RELATED PARTY DISCLOSURES

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

The balances of related parties included in the financial statements are as follows:

	2010		2009	
	Directors QR '000	Shareholders QR '000	Directors QR '000	Shareholders QR '000
Assets				
Loans, advances and financing activities to customers	187,800	–	208,212	–
Financial investments	–	62,461	–	66,264
Liabilities				
Customer deposits	264,867	–	455,518	–
Due to banks, Qatar Central Bank and other financial institutions	–	75,000	–	463,382
Off balance sheet items				
Letters of guarantee, letters of credit, commitments and indirect credit facilities	24,085	–	8,503	–
Interest rate swaps	–	604,471	–	601,245
Income statement				
Interest and fee and commission income	6,106	2,724	5,162	363
Interest and fee and commission expense	5,176	5,016	2,415	13,195

Management fees due to Ahli United Bank B.S.C, Bahrain for the year amounted to QR 12,752 thousand (2009: QR 9,294 thousand). These fees are included in general and administrative expenses.

Board of Directors remuneration charged to the income statement for the year amounted to QR 5,000 thousand (2009: QR 4,000 thousand).

Compensation of key management personnel is as follows:

	2010 QR '000	2009 QR '000
Salaries and other short term benefits	9,275	11,023
Staff indemnity provision	4,127	2,967
Total	13,402	13,990
Balances of Loans to key management personnel	491	595

notes to the financial statements

31 December 2010

32. CASH AND CASH EQUIVALENTS

	2010 QR '000	2009 QR '000
Cash and balances with Qatar Central Bank (a)	257,047	126,248
Balances with banks and other financial institutions maturing in 3 months or less	3,062,363	4,330,084
Total	3,319,410	4,456,332

(a) Cash and balances with Qatar Central Bank does not include mandatory reserve deposit.

33. CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by Qatar Central Bank. The following table summarises the capital adequacy of the Bank under Basel-II requirements:

	2010 QR '000	2009 QR '000
Tier 1 capital	1,449,806	1,442,721
Tier 2 capital	330,316	311,031
Tier 1 + Tier 2 capital	1,780,122	1,753,752
Credit risk	10,233,322	10,265,192
Market risk	1,157,718	414,092
Operational risk	973,594	876,918
Total risk weighted assets	12, 364,634	11,556,202
Basel II-Tier 1 Ratio	11.7%	12.5%
Basel II-Tier 1 + Tier 2 Ratio	14.4%	15.2%

Tier 1 capital includes issued capital, advance against share capital, statutory reserve, other reserves and retained earnings.

Tier 2 capital includes risk reserve, subordinated debt and 45% of the fair value reserves.

The minimum required capital adequacy ratio is 10% under Qatar Central Bank requirements and 8% under Basel Committee on Banking Supervision requirements.

34. SOCIAL AND SPORTS FUND

During the year, the Bank made an appropriation of QR 10,308 thousands and QR 7,513 thousands representing 2.5% of the net profit for the year ended 31 December 2010 and 2009 respectively, pursuant to the Law No.13 for the year 2008 and further clarifications for the Law issued in 2010.

35. EVENTS AFTER THE REPORTING PERIOD

On 17 January 2011, the Bank received the final tranche of share capital of QR 321,191 thousand (5,839,844 ordinary shares) to be issued by way of a private placement to Qatar Investment Authority, in accordance with the resolution of the shareholders in their Extra-ordinary General Meeting held on 23 December 2008. The allotment to share capital will be executed after obtaining approvals from the regulatory authority . The new shares would not have any entitlement to dividend in respect of 2010 financial year.

notes to the financial statements

31 December 2010

36. SEGMENT INFORMATION

For management purposes, the Bank is organised into three major operating segments:

Retail and private banking and wealth management	Principally handling individual customers' deposit and current accounts, providing consumer loans, residential mortgages, overdrafts, credit cards and fund transfer facilities. Private banking and wealth management represents servicing high net worth individuals through a range of investment products, funds, credit facilities, trusts and alternative investments.
Corporate banking, treasury and investments	Principally handling loans and other credit facilities, and deposit and current accounts for corporate and institutional customers and providing money market, trading and treasury services, as well as management of the Bank's funding.
Islamic banking	Principally handling individual and corporate and institutional customers' deposits, current accounts, financing and investing activities etc., under Islamic Shari'a rules and regulations.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

Transactions between the segments, except Islamic banking, are conducted at approximate market rates on an arm's length basis and the interest is charged/credited based on a pool rate which approximates the cost of funds. Transactions between Islamic banking and the other business segments are restricted and carried out under Islamic Shari'a rules and regulations and subject to Shari'a Board approval.

Segment information for the year ended 31 December 2010 and 2009 are as follows:

31 December 2010	Retail & private banking and wealth management QR '000	Corporate banking, treasury and investments QR '000	Islamic banking QR '000	Total QR '000
Net interest income	206,278	286,940	–	493,218
Net income from Islamic activities	–	–	73,209	73,209
Other income	40,126	76,360	5,086	121,572
Total operating income	246,404	363,300	78,295	687,999
Provisions	(37,634)	(14,570)	(38,424)	(90,628)
General and administrative expenses	(92,419)	(65,810)	(6,310)	(164,539)
Depreciation	(14,880)	(4,545)	(1,078)	(20,503)
Profit for the year	101,471	278,375	32,483	412,329
Total assets	3,722,796	12,472,441	1,770,481	17,965,718
Total liabilities	5,887,139	8,487,070	1,527,239	15,901,448

notes to the financial statements

31 December 2010

36. SEGMENT INFORMATION (continued)

31 December 2009	Retail & private banking and wealth management QR '000	Corporate banking, treasury and investments QR '000	Islamic banking QR '000	Total QR '000
Net interest income	154,567	138,316	–	292,883
Net income from Islamic activities	–	–	35,482	35,482
Other income	38,493	134,920	8,267	181,680
Total operating income	**193,060**	**273,236**	**43,749**	**510,045**
Provisions	(44,945)	(2,238)	(2,025)	(49,208)
General and administrative expenses	(74,817)	(56,744)	(8,371)	(139,932)
Depreciation	(9,398)	(10,157)	(835)	(20,390)
Profit for the year	**63,900**	**204,097**	**32,518**	**300,515**
Total assets	**3,479,861**	**13,000,927**	**1,968,773**	**18,449,561**
Total liabilities	**5,013,621**	**9,636,873**	**1,846,492**	**16,496,986**

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2010 or 2009.

Intra-group transactions are eliminated from this segmental information.

notes to the financial statements

31 December 2010

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS

Islamic Banking

The Islamic branch accounts are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Qatar Central Bank regulations.

The statement of financial position and income statement of the Bank's Islamic Branch are presented below:

(i) Statement of financial position at 31 December 2010

	2010 QR '000	2009 QR '000
Assets		
Cash in hand	3,426	3,382
Receivable balances from financing activities*	1,651,068	1,827,320
Financial investments	56,032	68,680
Property, furniture and equipment	1,068	2,118
Other assets	58,887	67,273
Total assets	1,770,481	1,968,773
Liabilities		
Borrowings from financial institutions	46,000	–
Customer deposits	164,416	28,602
Other liabilities	23,290	17,985
	233,706	46,587
Unrestricted investment accounts	1,293,533	1,288,687
Total liabilities	1,527,239	1,335,274
Equity		
Funds provided by Head Office	210,759	600,981
Unappropriated profit	32,483	32,518
Total equity	243,242	633,499
Total liabilities and equity	1,770,481	1,968,773

*Receivable balances from financing activities

	2010 QR '000	2009 QR '000
Ijarah	1,000,811	939,908
Tawaruq	215,702	66,956
Murabaha	175,078	284,181
Syndication and others	259,477	536,275
Total	1,651,068	1,827,320

notes to the financial statements

31 December 2010

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS (continued)

(ii) Income statement for the year ended 31 December 2010

	2010 QR '000	2009 QR '000
Net income from financing activities	158,160	129,783
Net income from investing activities	1,323	3,018
Total income from financing and investing activities	**159,483**	**132,801**
Fee and other operating income	4,608	7,509
Net gain from dealing in foreign currencies	478	758
Provision for credit losses on receivables & general provisions	(38,424)	(2,025)
Net operating income	**126,145**	**139,043**
General and administrative expenses	(6,310)	(8,371)
Depreciation	(1,078)	(835)
Net profit for the year before the share of profit of unrestricted investment account holders	**118,757**	**129,837**
Less: Share of profit of unrestricted investment account holders	(86,274)	(97,319)
Net profit for the year due to shareholders	32,483	32,518

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