The Commercial Bank of Qatar (Q.S.C.)

Annual Report 2011

Inspired by Qatar, we believe everything is possible

His Highness
Sheikh Tamim bin Hamad Al Thani
Heir Apparent

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

We are inspired by Qatar and the entrepreneurial ambition of our founders, who believed everything and anything is possible.

Constrained only by our imaginations, we apply our creativity and capability to help our customers fulfil their goals. We aim to grasp the opportunities our vibrant and dynamic economy offers to serve our community better.

Everything is possible is our promise. It is what we believe in and what drives everything the Bank does. Where there's a way, we'll find it.

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Commercial bank

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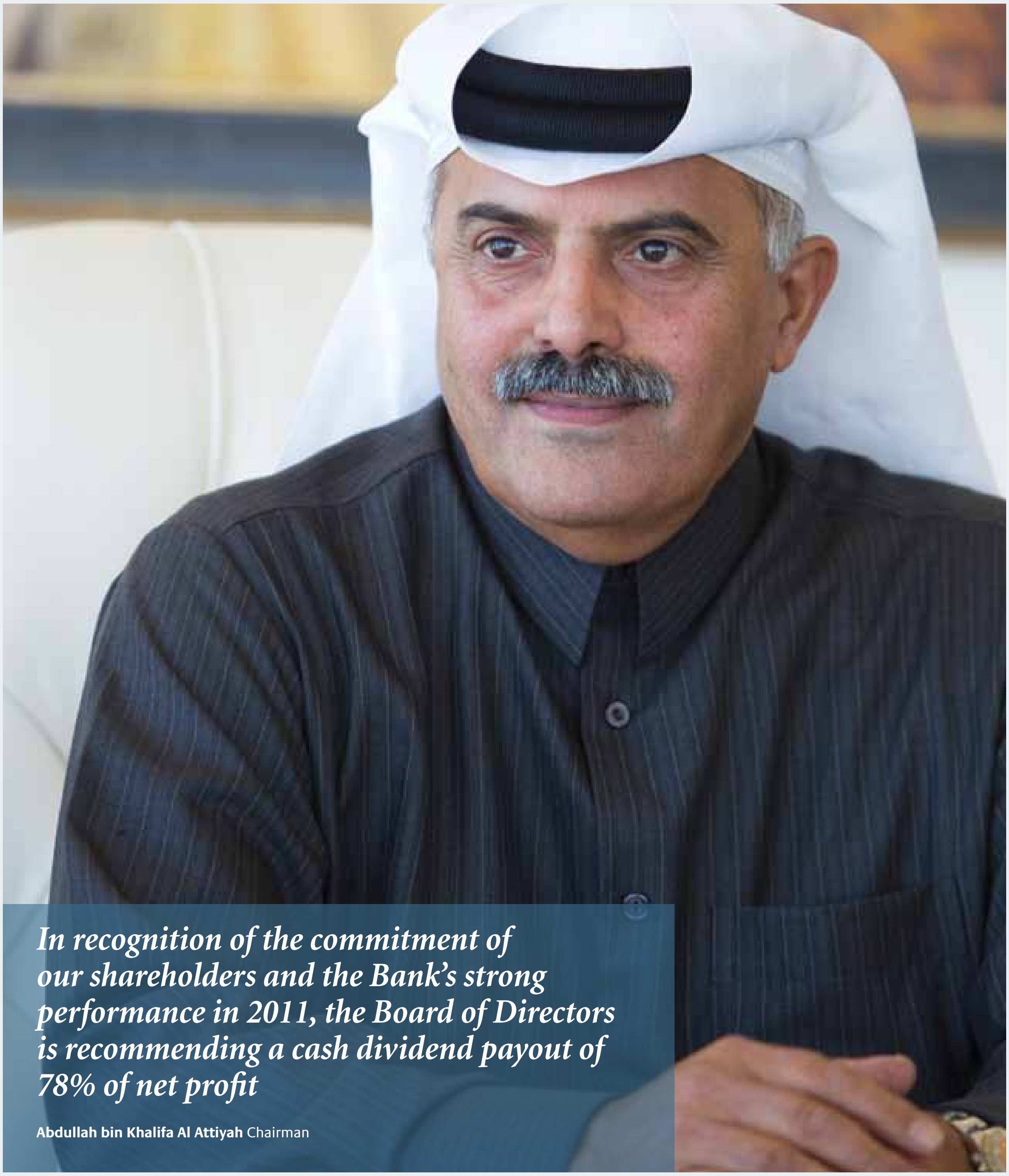
Chairman's Report



In recognition of the commitment of our shareholders and the Bank's strong performance in 2011, the Board of Directors is recommending a cash dividend payout of 78% of net profit

Abdullah bin Khalifa Al Attiyah Chairman

On behalf of the Board of Directors, I am pleased to present Commercial Bank of Qatar's Annual Report for the year ended 31 December 2011.

2011 proved to be yet another unsettling year for the financial markets. The Middle Eastern markets were unsettled in the first half of the year and the ongoing sovereign debt crisis in Europe has undermined the potential for global recovery. Many of the advanced and emerging economies of the world have also faced a marked slowdown in growth during the year.

Despite the challenging global market conditions, Qatar's economy has remained resilient and demonstrated significant progress and growth. The Qatar Government's public spending programme which focused on investment in infrastructure, education, health and transport has enabled it to post double digit growth rates in 2011. During the year, Qatar launched a number of projects that will enhance its position as a global player in the liquefied natural gas (LNG) and gas-to-liquefied (GTL) industries. Qatar also pressed ahead with various infrastructure projects which resulted in considerable growth in the non-hydrocarbon sectors. Qatar's banking sector remains profitable and well capitalised, supported by the strong oversight and support of both the Government and the Qatar Central Bank.

Commercialbank delivered a record set of results in 2011 with net profit of QR 1,884 million, 15% higher than the previous year. This strong performance demonstrates the success of the Bank's realigned corporate strategy which has focussed on areas of sustainable growth and business diversification. The Bank remains strongly capitalised, as a benefit of the final tranche of capital from the Qatar Investment Authority and a number of bi-lateral funding arrangements which have been put in place to support its growth.

In recognition of the commitment of our loyal shareholders and the Bank's strong performance in 2011, the Board of Directors is recommending, for approval at the Annual General Assembly, a cash dividend payout of 78% of net profit, which equates to QR 6 per share.

One of the significant changes for the Bank in 2011 was that, in line with Qatar Central Bank's directives, we have discontinued our Islamic Banking offering and have consolidated the remaining business.

As part of the strategic realignment, the Bank has developed a strategic partnership with a leading outsourcing company to outsource its back office processing and information technology services. This initiative is designed to improve Commercialbank's service delivery platform and will enable greater operational and cost efficiencies across our alliance banks; we are already seeing the benefits of this new partnership.

Our banking associates, National Bank of Oman (NBO) and United Arab Bank (UAB) have both shown strong growth and improvement in profitability. UAB delivered a record annual net profit of AED 330 million, while NBO achieved a net profit of RO 34 million, 26% higher than 2010. Both banks are strongly positioned to grow their businesses in their respective domestic markets.

Looking ahead, global economic forecasts suggest that growth may remain challenging in the near term. Qatar's economy is, however, expected to perform strongly in the context of both the regional and global economies and will benefit from continued hydrocarbon demand and ongoing infrastructure and industrial investment.

Commercialbank has played an integral role in the growth and prosperity of Qatar for several decades, providing leading banking services of trusted value. The banking sector continues to be of strategic importance to the economic development of Qatar and Commercialbank remains committed to playing a central role in the development and diversification of Qatar's economy. I believe that we can look forward with confidence to generating strong growth in the years ahead.

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

I would also like to thank the Bank's Board of Directors for their contribution in 2011, the Group's employees for their commitment and efforts, and our customers and shareholders for their ongoing support and trust.

Abdullah bin Khalifa Al Attiyah
Chairman

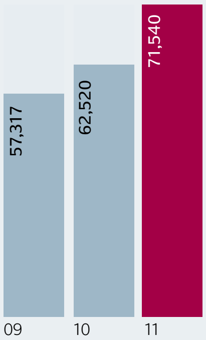
Board of Directors

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

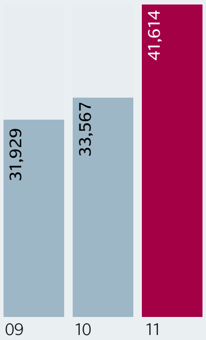
Seated from left:
Sh. Abdullah Bin Ali Bin Jabor Al Thani - Vice Chairman
H.E. Abdullah Bin Khalifa Al Attiyah - Chairman
Mr. Hussain Ibrahim Alfardan - Managing Director

Financial Highlights

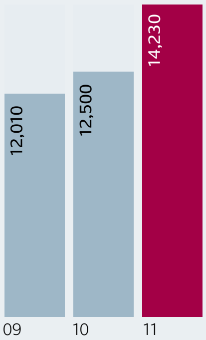
In QR million, except per share amounts and as stated otherwise	2011	2010	2009	2008	2007
Net interest income	1,938	1,695	1,584	1,218	876
Net operating income	2,864	2,562	2,778	2,769	1,943
Net profit	1,884	1,635	1,524	1,702	1,391
Total assets	71,540	62,520	57,317	61,485	45,397
Lending to customers	41,614	33,567	31,929	33,898	25,021
Basic/diluted earnings per share in QR	7.71	7.24	7.08	8.76	7.63
Dividends declared per ordinary share including bonus shares in QR	6.00	7.00	6.00	7.00	7.00
Closing market price per ordinary share in QR (at year end)	84.00	92.00	61.50	88.40	185.00
Book value per ordinary share in QR	57.51	55.11	55.47	48.39	44.43
Long-term debt (at year end)	11,054	10,994	9,924	6,096	7,623
Shareholders' equity (at year end)	14,230	12,500	12,010	9,978	6,228
Return on average shareholders' equity	14.10%	13.34%	13.86%	21.01%	23.45%
Return on average assets	2.81%	2.73%	2.56%	3.19%	3.67%
Capital adequacy ratio	17.91%	18.49%	18.86%	15.66%	11.85%
Full-time employees (at year end)	1,115	1,207	1,239	1,241	1,007



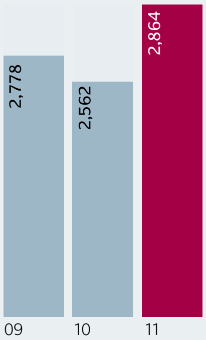
Total Assets
Million (QR)



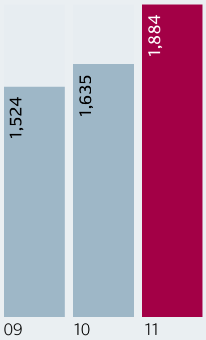
Lending to Customers
Million (QR)



Shareholders' Equity
Million (QR)



Net Operating Income
Million (QR)



Net Profit
Million (QR)

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

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

Managing Director's Report

The Bank achieved a net profit of QR 1,884 million in 2011, an increase of 15% over the previous year and the highest level of profit in the Bank's history

Hussain Ibrahim Alfardan Managing Director

Commercialbank has delivered a record performance in 2011 reflecting strong underlying growth and positive momentum in both revenue and lending, underpinned by the continuing strength of Qatar's economy. The Bank achieved a net profit of QR 1,884 million in 2011, an increase of 15% over the previous year and the highest level of profit in the Bank's history. This performance, achieved despite extremely testing global and regional market conditions, demonstrates continued growth in the Bank's core businesses and is a testament to our sound business strategy. The Bank continues to prosper from the successful realignment of the business to focus on growth sectors of the economy and diversification into new lines of business.

Net operating income increased by 12% to QR 2,864 million in 2011. The Bank's net interest income increased by 9% due to strong growth in lending partially offset by selective downward re-pricing coupled with tight liquidity and competitive pressures on the cost of funds. However, tight focus on balance sheet management has enabled the Bank to hold its net interest margin at 3.5%, slightly lower than 3.7% achieved in 2010. Fees and commission and other income was 25% higher in 2011 mainly from lending activity and also from dividends and gains delivered from the Bank's investment portfolio.

Total assets grew 14% to QR 71.5 billion at 31 December 2011 with lending to customers up 24% to QR 41.6 billion. Growth in lending during 2011 has been achieved in both the Public and Private Sectors. The Bank's customers' deposits grew 14% to QR 38.0 billion in spite of the tightening of liquidity and the outflow of Islamic deposits as a result of the closure of the Bank's Islamic Banking business.

The Bank's capital position remains strong with the capital adequacy ratio at 17.9% at 31 December 2011 compared with 18.5% as at the end of 2010, well above the Qatar Central Bank's minimum required level of 10%. On 17 January 2011, the Bank received the third and final subscription of QR 1.6 billion from Qatar Investment Authority which was used to issue new ordinary shares in the Bank in February 2011.

Commercialbank's banking associates National Bank of Oman and the United Arab Bank have also delivered strong performances, contributing QR 203 million for the year ended 31 December 2011, up 31%, compared with QR 155 million in 2010. The three banks continue to work closely together to deliver synergies in customer service, operational excellence and business growth. I would like to take this opportunity to thank the executive management and staff for their contribution and the impressive improvement in year on year performance at both alliance banks.

Commercialbank continues to focus on providing quality products and customer service to all its customers through a variety of channels. Three new branches were added to the Bank's branch network in 2011, at Umm Lekhba, Al Rayyan and D-Ring road, bringing the total number of branches in Qatar to twenty-seven. The Bank is investing in the latest technology to ensure that customers are served with the most diverse, convenient and cost-effective ways of banking through electronic channels.

I would like to express my deepest gratitude to His Highness the Emir, Sheikh Hamad Bin Khalifa Al Thani, and His Highness the Heir Apparent, Sheikh Tamim Bin Hamad Al Thani for their leadership in promoting the Qatari financial sector and the economy. I would also like to express my sincere thanks to His Highness the Prime Minister, His Excellency the Minister of Economy & Finance, and His Excellency the Governor of the Qatar Central Bank for their unwavering support of the banking sector.

Finally, I would like to thank the management and staff of Commercialbank for their exceptional commitment, teamwork and dedication, and record my appreciation for the continued support and encouragement of the Chairman, the Board of Directors and our shareholders.

Under the visionary leadership and guidance of His Highness the Emir, Sheikh Hamad bin Khalifa Al Thani, Qatar's economy is expected to continue its strong growth. The private sector is showing encouraging signs of recovery and the Bank is also well positioned to capitalise on opportunities in the public sector. I look forward to 2012 with the confidence that Commercialbank will continue to build on the strong momentum achieved in 2011.

Hussain Ibrahim Alfardan
Managing Director

The state of the art, D-ring Branch opened in 2011 with a sophisticated brokerage lounge offering customers wealth management and exclusive one-to-one relationship banking services.

Commercialbank and Tata Consultancy Services strategic partnership pursuing operational excellence.

Commercialbank is committed to supporting the Community in Qatar and the Bank actively supports initiatives including the Shaffalla Centre (pictured); Dhreima - Qatar Orphans Foundation; Hamad Medical Corporation's Blood Bank drive; Al Noor Institute for the Blind; Qatar National Cancer Society; Qatar Society for Rehabilitation of People with Special Needs; Qatar Red Crescent and many other non-profit organisations.

Management Review of Operations

We have focused on deepening our presence in our domestic market through the identification and pursuit of opportunities in growth sectors of the economy

Andrew C. Stevens Group Chief Executive Officer

Commercialbank's performance in 2011 has clearly demonstrated success in the delivery of our strategy. Despite ongoing financial market volatility and an increase in competitive pressure, we have built on the strategic realignment of the business undertaken in 2010, to grow our loan book, to diversify our income and to manage our funding cost. This has enabled the Bank to deliver a record net profit of QR 1,884 million for the year ended 31 December 2011, 15% higher than 2010.

The alliance banks have focused primarily on growing their own domestic franchise and this has successfully translated into strong increases in revenue, lending and profitability.

We have focused on deepening our presence in our domestic market through the identification and pursuit of opportunities in growth sectors of the economy. We have developed new relationships in the Public Sector and in the retail segment whilst enhancing our relationships with existing corporate customers where the strength of our market positioning has enabled us to take advantage of the increase in Private Sector credit demand. In addition, we have partnered with our alliance banks where suitable opportunities arose. These initiatives have resulted in an increase in total lending of 24% in 2011 to QR 41.6 billion. During the course of the year, we have seen pressure on pricing in the corporate market alongside regulatory changes for certain retail products which we have been able to offset through the diversity of our funding sources and the Bank's rigorous approach to balance sheet management.

We have developed additional sources of income through our insurance joint venture, Massoun Insurance Services and the launch of Commercialbank Investment Services our brokerage and asset management business.

In 2011, we entered into a five year strategic partnership agreement with Tata Consultancy Services for the outsourcing of back office processing and information technology services. We have made significant progress during the year delivering tangible improvements in controls, efficiency and customer service.

In 2012 we will continue to focus on delivery of our strategy. The Qatar economy remains well positioned in the context of global market conditions and is forecast to perform strongly. We expect to see continued domestic market growth, although the pace of this may be affected by global economic uncertainty. In the year ahead, we will continue to target new opportunities across both Public and Private Sectors, further diversify our income streams and achieve cost synergies through our strategic outsourcing partnership whilst continuing to concentrate on tight balance sheet management, strong asset quality and maintaining a low cost funding base.

Financial Results

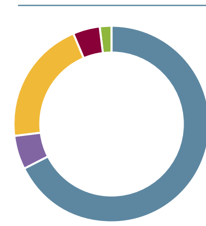
Commercialbank delivered a record net profit for the year ended 31 December 2011, up 15%, to QR 1,884 million from QR 1,635 million in 2010 reflecting strong underlying growth across its business segments.

	2011 QR million	2010 QR million
Net interest income	1,938	1,778
Non-interest income	926	784
Net operating income	2,864	2,562
Operating expenses	(875)	(787)
Provisions for impairment losses	(308)	(295)
Share of results of associates	203	155
Net profit for the year	**1,884**	**1,635**

Net Operating Income

Net operating income increased by 12% to QR 2,864 million for the year ended 31 December 2011 from QR 2,562 million for the same period in 2010.

Net Operating Income



Net interest income was up by 9% to QR 1,938 million in 2011 compared with QR 1,778 million for the year ended 31 December 2011. The increase in net interest income reflected strong growth in lending to customers and lower average cost of funds partially offset by lower asset yields arising from competitive pressure and regulatory changes which capped pricing for many retail lending products. The lower cost of funds is due to the progressive reduction in customer deposit rates during the first nine months of 2011, however, liquidity pressures and increased competition in the local market have had an adverse impact on the cost of deposits in the final quarter of the year. The Bank has continued to focus on tight balance sheet management centered on a low cost funding base which has enabled it to hold its the net interest margin at 3.5% for 2011, slightly lower compared with 3.7% in 2010.

Loans and advances to customers grew 24% to QR 41.6 billion as at 31 December 2011 compared with QR 33.6 billion at the end of 2010. The growth in lending reflects the successful delivery of the Bank's strategy to build new relationships in the Public Sector and expand its presence in the Private Sector, and was mainly in the Government and Semi-Government, Real Estate and Commercial Sectors of the economy.

Non-interest income grew by 18% to QR 926 million in 2011 from QR 784 million for the prior year due to new lending activity and an increase in gains on investments and dividend income.

Operating Expenses

The Bank's total operating expenses were up 11% to QR 875 million for the year ended 31 December 2011 compared with QR 787 million in 2010 due to costs associated with the business transformation programme and the strategic outsourcing partnership and higher staff and staff related costs; cost management will continue to be a strategic priority in 2012.

	2011 QR million	2010 QR million
Staff costs	453	423
General and administrative expenses	308	260
Depreciation	114	104
Total operating expenses	**875**	**787**

Staff costs increased 7% to QR 453 million in 2011 due, mainly, to annual salary increments for staff, additional salary increases for local staff in September and higher training costs, partially offset by reduction in staff numbers to 1,115 from 1,207 at the end of 2010; the lower headcount has been delivered through the Bank's outsourcing programme. The Bank has entered into an initial five year strategic partnership with TATA Consultancy Services (TCS) to outsource its back office processing and information technology services. This alliance will enable the Bank to improve its technology offering and service delivery to customers, enhance controls and achieve cost synergies within Commercialbank and across the alliance banks.

General and administrative expenses, and depreciation increased by 16% to QR 422 million for the year ended 31 December 2011 compared with QR 364 million for 2010 due to continued investment in the business through the business transformation programme, the implementation of the strategic outsourcing partnership and the delivery of improved customer service. The Bank continued its branch expansion programme in 2011, opening three new branches in Qatar to bring the total to twenty seven.

The Bank has improved its cost to income ratio to 28.5% in 2011 from 29.0% in 2010.

Provisions for Impairment Losses

The Bank's net provisions for impairment losses increased to QR 307 million in 2011 from QR 295 million in 2010 and comprised QR 239 million for loans and advances and QR 68 million for financial investments.

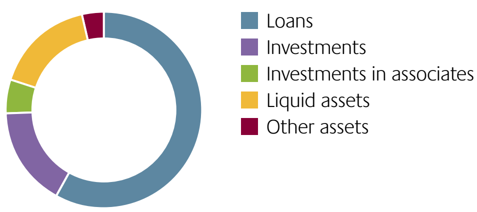
In 2011, impairment provisions on loans and advances to customers comprised QR 179 million against the corporate lending portfolio, QR 25 million against the retail book, QR 36 million for the legacy Islamic banking portfolio and a recovery of QR 1 million in Orient 1.

	2011 QR million	2010 QR million
Net provision/(recovery) for impairment on loans and advances	239	167
Impairment losses on financial investments	68	128
Total provisions for impairment losses	**307**	**295**

Asset quality has improved with the non-performing loan ratio reducing to 1.20% at 31 December 2011 from 3.16% at the end of 2010 due to a reduction in non-performing loans, write-off of fully provided historic loans and growth in lending during the year; the write-off of historic loans was allowed under instructions issued by the Qatar Central Bank to banks in September 2011. The Bank also sets aside a risk reserve against its lending as part of shareholders' equity; at 31 December 2011 the risk reserve was QR 806 million which represents 2% of total lending. Commercialbank meets the Qatar Central Bank's new regulation for the risk reserve which sets a minimum level of 2%; banks need to achieve this level by the end of 2012 and then 2.5% at the end of 2013.

Impairment provisions on the Bank's investment portfolio decreased to QR 68 million for the year ended 31 December 2011 compared with QR 128 million in 2010 reflecting a general improvement in asset valuations in certain classes of investments. However, the ongoing volatility in market conditions has necessitated impairment provisions in 2011, albeit at lower levels than the previous year.

Total Assets



The Bank's total assets were up by 14% to QR 71.5 billion at 31 December 2011 compared with QR 62.5 billion at the end of 2010. The increase in total assets reflects growth of 24% in lending to customers and an increase of 17% in financial investments to QR 11.7 billion due, mainly, to investments of QR 1.8 billion in Qatar Government bonds. Customers' deposits increased by 14% to QR 38.0 billion at the end of 2011 compared with QR 33.3 billion in 2010 despite the tightening of liquidity in the fourth quarter and the reduction in Islamic deposits due to the closure of the Bank's Islamic Banking business.

On 11 October 2011, the Bank repaid US$ 500 million of floating rate notes which were issued under its inaugural EMTN programme and entered into a small number of bi-lateral loan agreements with leading international and regional banks.

Associates

Commercialbank's associated companies contributed QR 203 million to the Bank's performance for the year ended 31 December 2011, which represents 11% of the Bank's profit compared with QR 155 million for 2010.

Commercialbank, together with its two banking associates, National Bank of Oman and United Arab Bank, continues to work together to align product offerings, operational excellence and cost synergies as part of the regional alliance strategy.

	2011 QR million	2010 QR million
National Bank of Oman	102	62
United Arab Bank	102	94
	204	**156**
Asteco Qatar W.L.L.	-	-
Gekko LLC	(2)	-
Massoun Insurance Services LLC	1	(1)
Share of results of associates	**203**	**155**

National Bank of Oman (NBO)

NBO delivered strong results in 2011 with net profit after tax up 26% to RO 34.2 million, compared with RO 27.2 million for the same period in 2010 against the backdrop of estimated real GDP growth of 6% in Oman and a 17% increase in government expenditure.

The Bank's net interest income grew by 5% to RO 58.2 million with the cost of funds improving to 2.13% for the year ended 31 December 2011 compared with 2.64% in 2010. Net interest spreads were lower at 3.18% in 2011.

Other income has been a strong driver of the revenue growth in 2011 delivering an increase in Operating income of 18% to RO 92.2 million from RO 78.1 million in 2010. Operating expenses increased by 9% to RO 43.5 million for the year ended 31 December 2011 as NBO continued to invest in its employees, systems and delivery channel network.

NBO's net provisions for credit losses and investments were higher than the previous year by RO 2.1 million, predominantly due to an increase in impairment of investments. Recoveries and release from provisions on credit losses and loans written off increased by RO 3.6 million during the year, a 43% improvement over the previous year. NBO continued with its commitment to improve asset quality, with the non-performing loans ratio at 2.9% at the end of December 2011 compared with 3.5% in 2010.

During the year ended 31 December 2011, customer lending grew by 23% to RO 1.7 billion and Customers' deposits grew 21% over the previous year to RO 1.6 billion

In the last quarter of 2011, NBO raised subordinated debt of RO 24.1 million through a private placement to strengthen its tier II capital. The regulatory capital now stands at RO 322 million providing a Capital Adequacy Ratio of 15.3%, well above the Central Bank's minimum requirement of 12%.

The Board has proposed a cash dividend of RO 0.0175 per share and a stock dividend of RO 0.0025 per share. This is subject to approval by the regulators and NBO's General Assembly.

NBO looks forward to 2012 with optimism as continued government spending is expected to maintain momentum in growing the business. Wholesale and Investment Banking will continue to support domestic project financing and related activity, whilst the provision of mortgages, the cards business and low cost deposits will remain the key focus for Retail Banking.

Management Review of Operations Continued

Participation in major domestic transactions and cross border activity in conjunction with Commercialbank will continue to be key to drive efficiencies and sharing best practices.

The Bank looks forward to offering Islamic Banking products as part of its franchise, following the recent approval by the Central Bank of Oman for introducing Islamic Banking in Oman.

United Arab Bank (UAB)

UAB delivered a record net profit of AED 330 million for the year ended 31 December 2011, a growth of 7%, from AED 308 million achieved in 2010. The growth reflected an increase of 19% in total operating income to AED 581 million although this was partially offset by higher operating expenses and lending provisions; the latter resulting mainly from a change in provisioning policy required by the Central Bank

UAB grew loans and advances by 46% to AED 8.1 billion at 31 December 2011 from AED 5.5 billion at the end of 2010 whilst Customers' deposits were up 61% to AED 7.8 billion, a reflection of the confidence and trust placed in UAB by its customers.

Key financial ratios remained strong with the Capital Adequacy Ratio at 20.3%, compared with the Central Bank's minimum requirement of 12% providing capital to support future growth, and a Stable Resources Ratio of 87% which was well below the cap of 100% set by the Central Bank of the UAE. UAB has proposed a cash dividend of 20% of its Paid up capital for 2011, which is subject to approval by the Central Bank and the General Assembly.

UAB has opened new branches in Sharjah, Ras Al Khaimah and Abu Dhabi during 2011 and intends to increase the branch footprint in 2012. The Bank also launched a 24/7 contact centre and a new, improved Internet banking serviced will be released early in 2012.

UAB has continued to develop its Sadara Wealth Management programme during 2011 ensuring that appropriate personnel and facilities are in place to meet customers' service needs. Products launched in 2010, such as UAB's mortgage offering, have helped to re-position the Bank at the forefront of the consumer's mind and have delivered increased business volumes in 2011.

In 2011, UAB has also implemented steps to improve its technology platform, reduced costs and enhanced its capability to mitigate risks. Working with Commercialbank, UAB has also outsourced its back office processing and information technology services to TATA Consultancy Services.

UAB is well-positioned to meet the challenges of 2012.

Asteco Qatar W.L.L.

Asteco Qatar is a Qatari incorporated joint venture company between Commercialbank, United Development Company (PSC), Qatar Insurance Company (Q.S.C.) and Asteco Property Management LLC. The company provides real estate brokerage and sales, facilities and management services, commercial and residential lettings, property valuations and property consultancy services.

Gekko LLC

Gekko is a Qatari incorporated joint venture company between Commercialbank and United Development Company (PSC). The company provides a state of the art contactless payment infrastructure and customer database management solution. Gekko's first implementation is at The Pearl Qatar and is designed to benefit residential owners, tenants, retailers and marina operators through the offer of a unique and convenient lifestyle service of credit and pre-paid payment cards and point of sale merchant terminals with functions unique to The Pearl Qatar such as security access and Loyalty Reward schemes.

Massoun Insurance Services LLC

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

Business Unit Review

Commercialbank operated under four main business units during 2011 which are structured principally by customer type and location. The Bank's net operating income for the year ended 31 December 2011 by business unit was:

	2011 QR million	2010 QR million
Corporate Banking	2,001	1,947
Retail Banking	649	466
Commercialbank Islamic Banking	175	98
Subsidiaries	8	10
Other	32	41
Net Operating Income	**2,864**	**2,562**

Once again, the Bank celebrated the successful delivery of our strategic sports sponsorship events, including the Grand Prix of Qatar MotoGP. The event enjoyed record attendance figures and was viewed by a global audience of millions.

Commercialbank and its alliance partners, National Bank of Oman and United Arab Bank, jointly sponsored a Farr 30 racing yacht to represent their respective Banks and countries - under the banner 'Team Commercialbank Group' in the inaugural 'Sailing Arabia – The Tour' event, in January 2011.

Commercialbank's Banking Associates program developed in close co-operation with the College of North Atlantic – Qatar, aimed at equipping our new Qatari employees' with banking knowledge and skills, honored the graduates sponsored by the Bank.

Management Review of Operations Continued

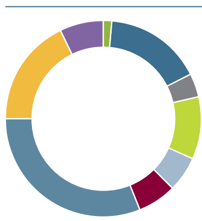
Corporate Banking

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

As part of the strategic realignment of the business towards the end of 2010, the Bank reorganised its Corporate Banking business to focus specifically on the Domestic Private Sector, the Government Public Sector and International Banking. At the end of 2011, Enterprise Banking was set up to concentrate on the small and medium enterprise segment of the market. This realignment has ensured that the Bank is well positioned to understand customer requirements more fully enabling it to enhance its offering to each of these key growth segments and remain focused in the development of both new and existing relationships.

Corporate Banking responded well to the increase in Public and Private Sector activity during the year, successfully identifying and capturing opportunities across all segments. Net operating income was QR 2,001 million for the year ended 31 December 2011, up QR 54 million from QR 1,947 million in 2010. Whilst net interest income was flat year-on-year reflecting competitive pricing pressures, fees and other income grew 12% to QR 592 million in 2011.

Loan & Advances



Loans and advances to customers increased by 15% to QR 30.3 billion at 31 December 2011 principally due to growth in the Government and Semi-Government, Real Estate and Commercial Sectors. Customers' deposits increased by 18% to QR 27.9 billion resulting from growth, mainly, from the Public Sector.

Domestic Banking has continued to focus on the development and deepening of relationships with customers to improve our understanding of their businesses in order to provide comprehensive, cross product solutions to meet their requirements. This has enabled the Bank to leverage its existing customer base more effectively alongside focusing on developing new relationships and income streams. An increased market share in the Private Sector has been achieved through commitment to the support and growth of local businesses in trade, industry, real estate, contracting and services. The Bank has also been active in domestic Private Sector loan originations and syndications.

The Bank seeks to improve the risk profile of its lending book and focusses on adding quality business. A key element in customer identification and risk assessment is the quality and development of staff. The Bank adopted the 'Omega Credit Skills Development Programme' in 2011, which is conducted by the Omega Performance Corporation, an internationally recognised certification. The Bank considers the programme an important element of its ongoing efforts to enhance the performance and skills of its employees by providing them with world-class learning and development opportunities. The Omega Credit Skills Development Programme enables bank staff to demonstrate high levels of technical expertise, covering all aspects of Commercial Lending and Financial Analysis which will help Commercialbank continually match the high standards required to maintain good asset quality.

Knowledge sharing remains central to the development of the Bank's presence amongst domestic businesses and in 2011, the Bank hosted a one day seminar on International Trade for its Corporate Banking customers entitled "Uniform Rules for Demand Guarantees (URDG 758) and Incoterms in International Trade". The seminar highlighted Commercialbank's extensive experience in global banking and trade and also provided insight into real-life practices and issues as well as assisting participants develop a thorough understanding of the recent changes to Uniform Rules for Demand Guarantees and Incoterms.

Enterprise Banking

In recognition of the small and medium enterprise segment of the domestic market, its strategic importance to the national agenda and the Qatar 2030 Vision, the Bank is committed to assisting and facilitating its growth and has dedicated a specialist team to the development of Commercialbank's platform in this particular area. An important development in this respect was the signing of a Memorandum of Understanding (MoU) with Qatar Development Bank (QDB), to work together on 'Al Dhameen' a loan assurance programme for Small and Medium Enterprises (SMEs), in Qatar. The Al-Dhameen indirect loan facility programme now offered by

Management Review of Operations Continued

Commercialbank helps economically-viable SMEs overcome certain financial barriers such as the lack of collateral required by banks. This facility provides SMEs with access to financing for investment and working capital and is extended to small business owners at affordable profit rates to facilitate the growth of this sector.

In January 2012, Commercialbank entered into an exclusive partnering agreement with MEEZA, a Qatar Foundation joint venture, for providing IT services and solutions for Small and Medium Enterprise business customers. Under this arrangement, Commercialbank is the only Bank in the region to offer business solutions to its customers in addition to core banking products and services. The suite of products includes cloud technology i.e. email, webhosting, sharepoint, as well as an HR and payroll solution and relieves the customer of the need to invest heavily in technology and skills whilst significantly reducing their administrative burden and paper work, allowing these entities to concentrate their time and efforts on growing their core business. The partnership is also aimed at acquiring company payrolls in order to improve penetration of salaried customers.

Government and International Banking has developed existing relationships in 2011 and delivered an increase in both lending and deposits. As the Government's public spending and infrastructure programme gathers pace, it is expected that there will be increased Public Sector lending opportunities. The Bank is well positioned to take advantage of these opportunities. Commercialbank continues to work closely with its alliance bank partners through International Banking, to access quality lending opportunities throughout the GCC in line with our shared business objectives.

In 2011, the Bank was a lead arranger on the US$ 2 billion Barzan Gas Project syndication and participated in the Emirates Airlines US$ 644 million financing for the purchase of two A380-800 Airbus and two Boeing B777-300ER aircraft and in the US$ 30 million club loan for the Government of Ras Al Khaimah.

An important aspect of the Bank's strategy is the development of international relationships with Qatar's international trade partners. The Bank signed a partnership with HANA Bank, a leading financial institution in Korea, to promote the growing trade and investment flows between Qatar and Korea. The partnership will offer a wide range of both conventional as well as innovative new corporate and investment services to Korean companies operating in the GCC region, and Qatari companies looking to do business in Korea.

With a strong and established network of international banking partners, Commercialbank has arrangements with a wide number of banks to facilitate and support its corporate and retail clients' business needs worldwide. It is also well positioned to assist global banks with their banking requirements offering the highest service standards.

In October, the Bank fielded a large delegation at the IIF and IMF/World Bank Group meetings in Washington to take advantage of the opportunity to interact and network with key industry players worldwide. Commercialbank organised forty-two bilateral meetings with banks from all over the world, resulting in many opportunities to develop business.

The Bank's continued efforts in developing international understanding about Qatar were evident in the sponsorship of the MEED Qatar Infrastructure Projects – London 2011 conference which focussed on the latest infrastructure projects in Qatar. A host of distinguished speakers and delegates attended the event, which proved to be an ideal opportunity to consider the investment possibilities in the region's most dynamic sectors, namely Power and Water, Transport and Social Infrastructure. This year's summit sessions explored opportunities for investment in Qatar at length alongside the process of funding and financing requirements for major projects.

The International funds transfer division was yet again awarded the prestigious 'Elite Quality Recognition Award' by a world leader in the banking sector, JP Morgan Chase. The award recognises Commercialbank's superior service quality and consistently high performance in the area of international money transfers. Commercialbank is one of the select few institutions in the region to receive the 'Elite Quality Recognition Award' in 2011, for both customer payments and inter-bank payments.

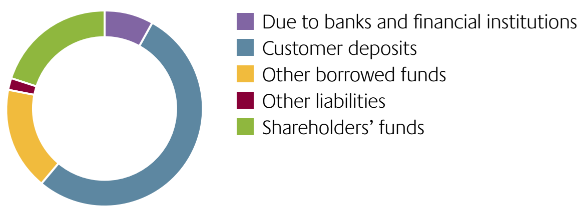
Treasury manages the funding and liquidity requirements for the Bank whilst also providing a full suite of foreign exchange and interest rate products and services for its customers which helps them in hedging their market risks. Commercialbank's Treasury ranks number two in the Qatari market for treasury activities, is regarded by correspondent banks as the market maker in US dollar/Qatari riyal spot forwards and swap dealings and is recognised for innovation and competitiveness in the market. Customer transactions are done on a matched basis, resulting in neither foreign exchange nor market risk for the Bank.

Commercialbank partnered with HANA Bank, a leading financial institution in Korea, to jointly promote the growing trade and investment flows between Qatar and Korea.

Commercialbank continues to actively participate in Qatar's world class sporting ambitions through supporting various initiatives at both a local and international level. The Bank continues to support Qatar on a world stage through its title ownership of the Commercialbank Qatar Masters.

Management Review of Operations Continued

Funding Mix



During the year, the Bank has upgraded its Treasury front office, Market Risk and back office systems to strengthen the risk monitoring process and also to facilitate the requirements of the growing business. The Bank has also diversified the sources of its funding base during the year by entering into a small number of bilateral loan agreements and sourcing new deposits both locally and internationally.

Throughout 2011, the Bank continued to focus on balance sheet and liquidity management given the ongoing volatility in the regional and global financial markets, maintaining its liquidity ratios well above the minimum level prescribed by the Qatar Central Bank. Treasury has also been instrumental in reducing the Bank's cost of funds during the year.

Retail Banking

Retail Banking offers a full suite of products and services to meet its customers' borrowing, transaction, insurance and wealth management requirements.

Retail Banking continued to execute on its strategy of acquiring and servicing high net worth and affluent customers whilst delivering superior levels of service across its customer base. In 2011, Private Banking was launched for the Bank's high net worth customers with skilled and highly experienced Private Bankers providing customised personal service and tailored offerings. For the affluent customers, the Bank's Sadara proposition was strengthened through increased service center and customer service staff, exclusive benefits and privileges and preferential products. For branch customers, various deposit and lending solutions were offered throughout the year, supported by improved service initiatives to attract new customer relationships and salaried accounts.

Profitability increased significantly for the year ended 31 December 2011 supported by an increased market share in lending. Net operating income increased by 39% to QR 649 million for the year ended 31 December 2011 from QR 466 million in 2010. Lending to customers increased to QR 7.7 billion at 31 December 2011 compared with QR 4.6 billion at the end of 2010. There was further improvement in loan provisions to QR 25 million for the year ended 31 December compared with QR 62 million in 2010 due to continued targeted prudential lending, tight credit criteria and strong performance in debt collections.

Retail Banking launched several new initiatives in 2011 showcasing the Bank's strategy of continuous innovation and customer service.

- The Limited Edition Cards Rewards Programme was launched for high net worth customers complementing the Private Banking proposition. The programme has been well received by its members who can redeem a range of prestigious and highly exclusive gifts from some of the world's most luxurious brands. From limited edition watches to the latest must-have bags, stunning jewellery and even yachts and cars, the programme is unique and the first of its kind in Qatar. Exclusive Diners Club lounges are now available across the Bank's network to service its high net worth credit card customers.
- Commercialbank extended its range of insurance products, facilitated through Massoun Insurance Services, to include life insurance, enhanced motor insurance including for luxury cars, property and home care insurance, travel insurance as well as structured products for Private Banking clients. The comprehensive suite of insurance products is tailored to meet varying customer needs.
- The Best Car Deals show which was organised over two weekends at the Doha Golf Club was a unique and first of its kind event in Qatar where the Bank hosted 15 dealerships covering 29 brands showcasing their vehicles at a single venue, complemented by the Bank's vehicle loan product. The initiative was very well received by customers as well as dealerships and it is proposed to hold the show again in 2012.
- The Bank continued to lead the way in electronic banking through its mobile banking, SMS and internet banking services. Amongst other new features was the introduction of Qtel bill payments through mobile phones.
- Three new branches were added to the Bank's branch network in 2011, at Umm Lekhba, Rayyan and D-Ring Road, bringing the branch network to 27 alongside 153 ATMs. The D Ring Branch inaugurated in December 2011 and strategically positioned near the up-market Al Hilal residential area, is a state-of-the-art, full service branch offering a brokerage and investments lounge, real estate services and insurance in addition to the complete suite of banking products.

Management Review of Operations Continued

Retail Banking is strategically well positioned for future growth and is fully aligned with the country's expected development. In 2012, emphasis will be on delivering high standards of service and quality products by further expansion of the branch network, investing in state-of-the-art ATMs and consolidating its dominant position in payments and mobile banking.

Commercialbank Islamic Banking

Commercialbank Islamic Banking offered a range of corporate and retail Islamic banking products through eight Islamic branches across Qatar. During the year, the Bank has dealt sensitively with the needs of both its customers and its dedicated Islamic staff and has, in compliance with the announcement from the Qatar Central Bank in Februray 2011, discontinued its Islamic banking services at the end of 31 December 2011. The legacy Islamic loan portfolio of QR 3.1 billion has been ring fenced and will be managed appropriately until maturity, or earlier repayment.

Orient 1 Limited (Orient 1)

Orient 1 is the exclusive provider of Diners Club credit card services in Qatar and Oman. Orient 1 recorded a consolidated net profit of QR 3.6 million for the year ended 31 December 2011 compared with QR 9.7 million in 2010. The reduction in profit from the previous year reflects the gain of QR 4.1 million from the successful divestment of Diners Club Services Egypt in 2010 together with the investment in 2011 in the recruitment of key senior staff to develop the business.

Commercialbank Capital

On 1 October 2011, Commercialbank Capital (ComCap) was established as a new business unit to deliver independent financial advice and customised capital solutions to the Bank's clients. Comcap provides advisory services on Mergers and Acquisitions, Joint Ventures, restructurings and disposals, financing through Equity, Debt or Mezzanine capital, Underwriting and Merchant banking capabilities for private or listed shares held in Qatar and Asset Management Services.

Comcap has positioned itself to target investment banking opportunities and provide reliable advisory services, both locally and internationally, at a time when international banks have downsized their investment banking services in the region. Comcap is already acting as financial advisor on a number of transactions and is currently marketing the Oman Logistic Fund which is co-sponsored by Arcapita, National Bank of Oman and Commercial Bank of Qatar, as placing agent.

During 2011, Comcap increased its assets under management to QR 1.3 billion and is positioned to augment this in 2012 through the distribution synergies established within the Bank and through partnerships with leading asset managers.

Comcap has also established a research unit that produces daily stock market updates, published a Qatar Stocks Handbook in December 2011 and provides comprehensive research reports on industry segments.

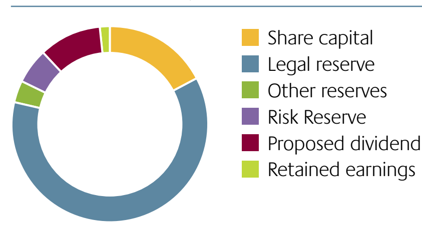
Commercialbank Investment Services (CBIS) was launched in May 2011 as a fully owned subsidiary of Commercialbank and has captured 2% of the brokerage services market at the end of December 2011. CBIS provides direct access to the Qatar Exchange and offers seamless online trading capabilities for individuals, institutions, corporates and foreign counterparties. In addition to an electronic trading platform, CBIS also provides access to three fully equipped brokerage lounges to its customers; a mobile trading platform is under development and will be launched early in 2012.

Capital

On 17 January 2011 the Bank received the third and final subscription of QR 1.6 billion from Qatar Investment Authority on behalf of Qatar Holding ("QH"), its subsidiary, and at the Extraordinary General Assembly held in 21 February 2011, the shareholders approved the issuance of 20,620,530 new ordinary shares to QH, increasing its shareholding in Commercialbank to 16.7%.

The Bank's capital position remains strong and well above Qatar Central Bank's required minimum level of 10% with the Bank's capital adequacy ratio at 17.9% as at 31 December 2011 compared with 18.5% at the end of 2010; the reduction in the ratio reflects the growth of the business in 2011, partially offset by the inclusion of the new capital.

Shareholders' Equity



The Board has recommended the distribution of a cash dividend of QR 6 per share for the year ended 31 December 2011 which will be presented for approval at the Bank's Annual General Assembly in February 2012.

Risk Management

The provision of financial services to customers carries with it significant risks and accordingly identification, assessment and mitigation of risk is a strategic priority for Commercialbank. The Bank has a comprehensive risk governance framework in place, covering accountability, oversight, measurement and reporting of risk, encapsulated through the Board approved Risk Charter which also outlines the enterprise-wide risk management activities of the Bank and details high level organisation, authorities and processes relating to all aspects of risk management, including:

Credit risk - being the risk of potential loss from a counterparty failure to meet obligations as they fall due;

Market risk - being the potential loss in value or earnings arising from changes in external market factors such as interest rates, foreign exchange rates, commodities and equities;

Liquidity risk - being the risk that the Bank does not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost;

Operational risk - being the risk arising from internal processes, people and systems or from external events;

Strategic risk - being the risk of a potential negative impact on shareholder value resulting from a business decision taken as part of the strategic planning process for organic growth and the identification of possible acquisitions.

Risk management practices are well embedded and exercised at several levels within the Bank cascaded down from the Board of Directors, sub-committees of the Board, Management Committees and Executive Management.

Within Commercialbank, risk management is based on the risk appetite and strategy set by the Board of Directors through the Risk, Credit, Audit and Policy & Strategy Committees. The strategy and resultant policies and procedures are implemented through specialist risk functions reporting into the Chief Risk Officer. Risk is provided the required level of independence and works closely with the other business units in the Bank to support their activities. The following represent the key objectives of the risk management framework:

- Ensure adherence/compliance of individual and portfolio performance is in line with agreed terms and policies;
- Institute prudent risk control mechanisms across the Bank;
- Ensure compliance with local legal and regulatory guidelines; and
- Maintain the primary relationship with the local regulators with respect to risk-related issues.

Risk has over ninety dedicated staff which underlines Commercialbank's commitment to a strong risk governance and management framework. During 2011, the Bank continued to tighten its internal controls and improved various processes in all areas of risk management.

At a macro-level, Commercialbank's Board of Directors is involved in risk-decisions through:

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

In addition, specific risk focused management committees (Risk, Asset & Liability Management and Investment) convene at a minimum of quarterly. The Board of Directors or their sub-committees are regularly updated on major risks that the Bank faces, including but not limited to credit risk.

During 2011, the Bank strengthened its Governance process by developing:

(i) a comprehensive Bank-wide Delegation of Authorities (DOA) manual providing clear understanding of the roles, responsibilities and accountabilities at all levels
(ii) a Risk Universe manual to identify the risks faced by the Bank in all its operations
(iii) organisation wide policies which provide the Bank with an environment to operate with greater consistency and control

From a Risk Infrastructure perspective, the Bank has developed and implemented a Bank-wide Risk Appetite Framework, upgraded and enhanced its Internal Risk Rating System, automated its Operational Risk Management Framework and ALM processes and initiated the implementation of an End-to-End Credit & Risk Workflow Management system.

The Bank is in compliance with the provisions of Basel II framework as advised by the Qatar Central Bank. In summary, the governance framework, policies and administrative procedures and practices relating to risk management in Commercialbank align well with global best practice, the recommendations of Basel Committee, and the guidelines of the Qatar Central Bank.

Corporate Communications

Corporate Communications provides fully integrated campaigns focusing on specific customer needs based on life events for each customer segment category.

The Bank continued to focus on direct marketing activity in 2011. Targeted customer marketing communications, including direct mail, e-mail shots and SMS media, were used to drive new business, personal lending, mortgages and wealth management business. The aim of this activity remains to facilitate an increase in cross sales and therefore customer retention.

The strategic objective of driving customers towards the Bank's sophisticated e-banking solutions across internet, telephone and mobile phone continued in 2011 and a number of fully integrated creative communication campaigns, focusing on specific customer needs and life stages, was undertaken in conjunction with the launch of the Bank's mobile banking services and e-statement service. These will reduce transactional business from the branch network and provide customers with increased convenience.

2011 saw a return to television as a brand building medium for Commercialbank, with the launch of impactful and engaging Ramadan/Eid and Qatar National Day brand development campaigns.

The Bank values its commitment to Corporate Social Responsibility in Qatar, and has invested in the community, Sports, Education, Social, Humanitarian and Health initiatives in Qatar.

Committed to supporting the Community in Qatar:

Commercialbank extends its support to a number of local organisations as part of its continuing efforts to inspire the community to uphold the values of solidarity, compassion and cooperation by helping those less fortunate.

These organisations include the Shaffalla Centre, Dhireima – Qatar Orphans Foundation, Hamad Medical Corporation's Blood Bank drive, Ministry of Social Affair's 'Productive Families' and Support for People with Special Needs' initiatives. Through its support of these non-profit organisations, the Bank aims to contribute to the development of the community led by active participation in various programmes and extending financial support for worthy causes.

In 2011 the Bank also extended its support to various initiatives including Reach Out To Asia (ROTA), a Qatari-based non-profit organisation that together with partners, volunteers, and local communities works to ensure that people affected by crisis across Asia have continuous access to relevant and high-quality primary and secondary education.

Bringing Sports and Business together:

Commercialbank dedicates significant efforts to promoting Qatar's sporting ambitions through support of local sports clubs and federations at both a local and international level including the Qatar Football Association and the Qatar Basketball Federation, recognising their ability to nurture individuals who are committed to achieving their goals.

The Bank is the title sponsor of the Commercialbank Qatar Masters Golf Tournament, a tournament which is part of the European and Asian PGA Tour calendars bringing world class golfing action to Qatar. The tournament is now in its 12th year and attracts a high quality field of international players and more spectators each year. Commercialbank is also the exclusive sponsor of the Commercialbank Grand Prix of Qatar, an event on the MotoGP calendar, which was held at night under floodlights in April at Doha's Lusail International International Circuit.

In conjunction with its alliance banking partners National Bank of Oman and United Arab Bank, Commercialbank also participated in Sailing Arabia – The Tour event, in January 2011. The Banks jointly sponsored a boat under the banner 'TEAM COMMERCIALBANK GROUP' which competed in a series of offshore races from Bahrain to Muscat in Oman, via Qatar, Abu Dhabi, Ras Al Khaimah and the Musandam Peninsula.

Support of sports events generates a sense of goodwill and a healthy spirit of competition among individuals and countries, and promotes Qatar as an open, progressive and thriving country that is flourishing and has much to offer the international community.

Education, the key to the future:

Commercialbank is committed to development of education in Qatar and participates in careers' fairs for major international universities held locally. 2011 saw the Bank's continued support and participation in the annual College

Supporting Qatar's drive to ensure broader and more challenging job opportunities for Qatari youth, Commercialbank actively participated in the fourth edition of the Qatar Career Fair (QCF), held under the patronage of His Highness Sheikh Tamim bin Hamad Al Thani, Heir Apparent of the State of Qatar.

Commercialbank sponsored the sixth annual Qatar Real Estate Exhibition (Q-REX) 2011, one of the industry's most high-profile events, held recently at the Doha International Exhibition Centre. The event, which featured the industry's most innovative and up-market real estate development projects, aimed to raise awareness of the distinctive and innovative residential and commercial developments and projects underway in the country.

of North Atlantic-Qatar careers fair and sponsorship of the annual Qatar Careers Fair. Such fairs provide the Bank with the opportunity to meet individuals with potential and interest in career opportunities in the banking sector whilst also providing students and graduates with a comprehensive overview of the opportunities in the financial sector in Qatar.

Commercialbank, in partnership with Qatar's Ministry of Labour, offers Qatari and non-Qatari high school graduates nominated by the Ministry a one month intensive summer training programme aimed with providing young students with a head-start in their career.

The Bank also continued to make donations to a range of expatriate schools in Qatar including IDEAL Indian School, Pakistan Education Centre and Philippine School and was involved in other initiatives designed to ensure active participation of youth in the community in which they live including sponsorship of the 'Run The World Festival' by The Youth Company, British Schools of the Middle East Games and the American University of Beirut fundraiser.

Championing the development of Women in Qatar:

In line with Qatar's National Vision 2030, Commercialbank recognises the vital role that women play in the nation's development. The Bank views the empowerment of women as a key element in the development of society and strongly supports the role of women in education and business. The Bank has been an active participant in The British Council's 'Springboard for Women's Development' and the Qatar Business Women Network. The Bank also provides financial assistance to the Al Bayan Education Complex for Girls.

Employee Development:

Commercialbank's employees constitute one of the organisation's most important assets and the dedication of each member of the Bank has contributed to its continued success in 2011.

The Bank is committed to ensuring that each member of the staff has every opportunity to achieve and develop, both personally and professionally, and also encourages participation from Qatari nationals on local and international management trainee programmes. In 2011, the Bank provided staff with over 18,000 hours of face to face training and 2,000 hours of e-learning. Nine members of our staff completed a course in private banking and twenty gained certificates under the Omega Credit Skills Development Programme.

The Bank's tie up with London Metropolitan Business School creates several avenues for development of Qatari staff evidencing potential under the scheme; the first group of employees successfully completed the Executive Leadership Programme in 2011. Today's youth are the statesmen of tomorrow and nurturing a motivated workforce eager to support the growth and development of Qatar is one of Commercialbank's primary aims; over 110 Interns were accommodated by the Bank throughout the year including 59 Qataris.

The Bank has improved its focus on the development of Qatari staff members into leadership roles as well as continuing to attract and develop young Qatari talent through its training programmes. In addition, the Bank follows an equal opportunity policy and is dedicated to equipping all employees with proper skills and knowledge through learning and development programmes to ensure that each and every member of the Bank is able to exceed customer expectations. In November, Commercialbank launched the Banking Associate Programme with CNAQ – Universal Agent an initiative designed to train young Qatari staff for branch positions.

At the end of December 2011, there were 1,115 staff in the Bank compared with 1,207 staff at the end of 2010; the Qatarization ratio within the Bank was 24%.

Honouring Cultural Traditions:

Commercialbank is committed to supporting initiatives that instill pride in the heritage and cultural practices of the Qatari people and their communities.

The Bank joined the citizens and residents of Qatar in celebrating the 2011's National Day on the 18 December at which it launched its 'everyday inspirational heroes' campaign. The campaign invited people to nominate an everyday hero that they felt made a real contribution to Qatari society. The nominations were assessed by the senior management team of Commercialbank and the winners were publicly acknowledged for their contribution.

The Bank hosts a Garangao festival each year as part of its broader commitment to celebrating the heritage of Qatar and sharing time-honoured traditions with newer generations. Known widely as the festival of children, Garangao is celebrated each year on the 14th day of the Holy Month of Ramadan and is both an opportunity for the development of societal harmony as well as promoting interaction among

Management Review of Operations Continued

people of all ages. Commercialbank's support of this Qatari tradition reflects the Bank's commitment to preserve the country's rich cultural heritage and customs.

Commercialbank also hosted a specially designed 'traditions tent' at the 2011 Commercialbank Qatar Masters featuring various local artisans who demonstrated Qatari food, henna painting, weaving and falconry, with the aim of promoting true Qatari culture and heritage, in association with the Ministry of Social Affairs.

Acknowledgement

Commercialbank has recorded strong growth across its business and in its profitability in 2011 which has been made possible by the commitment and hard work of our employees ad our Executive Management. We are also grateful for the continuing clear guidance, contribution and support provided by the Chairman, Managing Director and the Board of Directors which has enabled us to maintain our reputation as a trusted, secure and reliable regional banking group.

The Bank's strength and resilience is also due to the pro-active support and advice received from the Qatar Central Bank under the wise leadership of His Excellency Sheikh Abdullah bin Saud Al Thani. During these challenging times, the Qatar Central Bank has shown clear leadership and decisiveness enabling the Qatar financial sector to be held in high regard across global financial markets.

Qatar's economy is expected to outperform global growth trends in 2012 benefitting from ongoing Government spending on infrastructure, industrial projects and projects related to the 2022 World Cup. The Bank's strategy continues to be focused on sustainable long term growth in our core businesses with proactive management of risk, liquidity and capital. We will continue to strive to deliver greater value to our shareholders and quality service to our customers.

We are proud to be inspired by Qatar and its people and look forward to the future with confidence.

Andrew C Stevens
Group Chief Executive Officer

Responsibility Statement

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

28 February 2012

For and on behalf of the Board of Directors:

Mr. Hussain Ibrahim Alfardan
Managing Director

Mr. A. C. Stevens
Group Chief Executive Officer

Annual Corporate Governance Report 2011

1. Introduction

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

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

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

This report is prepared in accordance with the requirements of Article 30 of the QFMA Code.

In fulfilment of the Bank's responsibilities to its stakeholders (being any person who has an interest in the Bank including shareholders, customers, employees and creditors), the following standards have been approved and adopted by the Board and provide the framework for the Bank's corporate governance. These standards are reviewed by the Board periodically to ensure that the Bank maintains best practices in corporate governance, and that these practices provide for the effective oversight and management of the Bank.

2. The Board of Directors

2.1 Role of the Board and Executive Management

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

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

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

2.2 Board Composition and Directors' Qualifications

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

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

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

2.3 Electing Directors

The Board reviews the appropriate skills and characteristics required of Directors from time to time and the qualifications of potential nominee Directors, recommending suitable nominees for election to the Board. To be elected to the Board, a nominee Director must receive a simple majority of votes cast in the election.

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

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

2.4 Directors' Responsibilities

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

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

Directors shall act in accordance with the Bank's Articles of Association and the Commercial Companies Law.

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

2.5 Directors' Independence

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

2.6 Board Meetings

The Board shall hold meetings at least once every two months pursuant to either (i) written notice from the Chairman of the Board at least one week prior to the meeting, or (ii) written request submitted by at least two-thirds of the Directors.

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

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

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

2.7 Board Committees

Board committee members are appointed by the Board. Each Board committee has its own written terms of reference, duties and authorities as determined by the Board.

The standing Board committees are as follows:

- Board Risk Committee

The Committee comprises 3 Board Members, and the current Members are Sh. Abdullah bin Ali bin Jabor Al Thani (Chairman), Sh. Ahmed bin Nasser bin Faleh Al Thani and Mr. Omar Hussain Al Fardan:

The Terms of Reference provide that the Committee is responsible for (i) all aspects of enterprise risk management including but not limited to credit risk, market risk, operational risk, liquidity risk and reputational risk and (ii) setting the policy, criteria and control mechanisms on all risk issues and oversight of all Bank risks through the Management Risk Committee (MRC). The Committee is required to meet at least 4 times a year.

- Policy and Strategy Committee

The Committee comprises 4 Board Members, and the current Members are H.E. Abdullah bin Khalifa Al Attiyah (Chairman), Sh. Abdullah bin Ali bin Jabor Al Thani, Mr. Hussain Ibrahim Al Fardan, Mr. Omar Hussain Al Fardan together with Mr. Andrew C. Stevens (Group CEO):

The Terms of Reference provide that the Committee is responsible for approving all strategies, plans, budgets/objectives and policies procedures and systems, and for reviewing the performance of the Bank in relation to each of the foregoing. The Committee is also responsible for evaluating the compensation and remuneration of the Board of Directors and of Executive Management, having regard to the long term objectives of the Bank. The Committee meets at least four times a year, and at least once in each financial quarter of the year.

- Board Executive Committee

The Committee comprises 4 Board Members, and the current Members are H.E. Abdullah bin Khalifa Al Attiyah (Chairman), Sh. Abdullah bin Ali bin Jabor Al Thani, Mr. Hussain Ibrahim Al Fardan and Mr. Omar Hussain Al Fardan.

The Terms of Reference provide that the Committee is responsible for (i) handling matters which require review by the Board but arise between Board meetings, (ii) relieving the Board of detailed review of information and operations activities including evaluating and granting credit facilities and approving the Bank's investment activities within authorized limits (as dictated by QCB and Board guidelines), and (iii) generally reviewing all major functions of the Board and coordinating between the Board committees.

- Board Audit Committee

The Committee comprises 3 Board Members, and the current Members are Mr. Khalifa Abdullah Al Subaey (Chairman), Sh. Jabor bin Ali bin Jabor Al Thani, Sh. Ahmed bin Nasser bin Faleh Al Thani and Mr. Abdulla Mohammed Ibrahim Al Mannai (alternative member):

The Terms of Reference provide that the Committee is responsible for (i) setting the policy on all Audit issues,

(ii) maintaining oversight of all Bank audit issues, (iii) Compliance & Anti-Money Laundering and (iv) assisting the Board in fulfillment of its responsibility to oversee the quality and integrity of accounting, auditing, internal control and financial reporting practices of the Bank.

2.8 Directors' Remuneration

Remuneration of Directors is in accordance with the Bank's Articles of Association and may take the form of (i) fixed salaries, (ii) directors' fees, (iii) in-kind benefits or (iv) a percentage of the Bank's profits. Directors may receive multiple forms of remuneration provided that remuneration by way of a percentage of the Bank's profits shall not, after deduction of expenses, depreciation and reserves and distribution of dividends of not less than 5% of the Bank's capital, exceed 10% of the net profit of the Bank.

Total remuneration earned by the Board in 2011 (including fixed and variable remuneration and meeting attendance fees) was QR 41.45 million. (2010: QR 39.56 million)

2.9 Independent Advisors

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

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

As at 31st December 2011, the Board of Directors of the Bank comprised the following members:

Director	Position	First Appointment	Expiry of current Appointment	Status
H.E. Abdullah bin Khalifa Al Attiyah	Chairman	1980	2014	Non-Executive, Independent
Sh. Abdullah bin Ali bin Jabor Al Thani	Vice Chairman	1990	2014	Non-Executive, Non-Independent
Mr. Hussain Ibrahim Al Fardan	Managing Director	1975	2014	Non-Executive, Non-Independent
Mr. Jassim Mohammed Jabor Al Mosallam	Member	1975	2014	Non-Executive, Independent
Mr. Khalifa Abdullah Al Subaey	Member	1987	2014	Non-Executive, Independent
Mr. Abdulla Mohammed Ibrahim Al Mannai	Member	1987	2014	Non-Executive, Independent
Mr. Omar Hussain Al Fardan	Member	2002	2014	Non-Executive, Non-Independent
Sh. Jabor bin Ali bin Jabor Al Thani	Member	2002	2014	Non-Executive, Independent
Sh. Ahmed bin Nasser bin Faleh Al Thani	Member	2009	2014	Non-Executive, Independent

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

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

H.E. Abdullah bin Khalifa Al Attiyah

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

Sh. Abdullah bin Ali bin Jabor Al Thani

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

Mr. Hussain Ibrahim Al Fardan

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

Mr. Omar Hussain Al Fardan

Board Member. President and Director of companies comprising Alfardan Group. Director of United Development Company. Vice Chairman and Director of United Arab Bank. Chairman and Director of

National Bank of Oman. President of Resorts Development Company. Chairman of Qatar District Cooling Company. Vice Chairman of Middle East Dredging Company. Director of Qatar Red Crescent Society.

Mr. Jassim Mohammed Jabor Al Mosallam

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

Mr. Khalifa Abdullah Al Subaey

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

Sh. Jabor bin Ali bin Jabor Al Thani

Board Member. Director of Gulf Publishing and Printing Company. Owner of Al Maha Contracting Co. Partner in Banz Group Qatar.

Mr. Abdulla Mohammed Ibrahim Al Mannai

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

Sh. Ahmed bin Nasser bin Faleh Al Thani

Board Member, representing Naser Bin Faleh Group W.L.L. Director of United Development Company. Partner in Waset Trading Company and Ali Bin Nasser Al Thani and Brothers.

3. Executive Management

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

As at the date of this report, Executive Management of the Bank comprised the following:

Name	Position
Mr. Andrew C. Stevens	Group Chief Executive Officer
Mr. Abdulla Al Raisi	Deputy Chief Executive Officer
Mr. Hugh Thompson	EGM & Group Chief Legal Officer
Mr. Nicholas Coleman	EGM & Group Chief Financial Officer
Mr. Sandeep Chouhan	EGM & Group Chief Operating Officer
Mr. Abduljalil Borhani	EGM Strategic Clients
Mr. Rajbushan Buddhiraju	EGM Commercialbank Enterprise
Mr. Stephen Mullins	EGM Corporate Banking
Mr. Jerold Williamson	EGM & Chief Risk Officer
Mr. James Kneller	EGM & Head of Organizational Effectiveness
Mr. Alex Carre de Malberg	EGM & Global Head, Comcap
Mr. Dean Proctor	EGM Retail & Consumer Banking
Mr. Fahad Badar	EGM Government & International Banking
Mr. Jamal Tartir	EGM Private Banking

3.1 Education, Experience and Affiliations

Mr. Andrew C. Stevens

Graduated from Birmingham University in 1980 with a B.Com (Hons) in Banking and Finance. Joined Commercialbank in 1989; CEO of Commercialbank from 2001; Group CEO since 2008. Over 30 years extensive experience in international banking including diverse business development, business process re-engineering and change management. Director of National Bank of Oman, United Arab Bank, and CBQ Finance Limited. Chairman of Orient 1 Limited. Director of QIC International LLC and is on the Global Advisory Board of Diners Club International and Visa's International Senior Client Council.

Mr. Abdulla Al Raisi

Graduated from Portland State University in 1982 with a B.Sc. in Political & Social Sciences. Joined Commercialbank in 1998; Deputy CEO since March 2007. Previously with QAFCO. Over 26 years experience, including extensive banking experience, in Arab Gulf States Folklore Center and Doha Bank Ltd. respectively. Chairman of Commercialbank Investment Services.

Mr. Hugh Thompson

Graduated from Oxford University (M.A. Hons) with degree in Law. Qualified English solicitor. Joined Commercialbank in 2004, EGM & Group Chief Legal Officer since 2008. Previously with the law firm Richards Butler in Doha and London. Has 25 years experience as a banking lawyer in London, in both private practice and as an in-house lawyer with National Westminster Bank and Standard Chartered Banking Group, including secondment to the Bank of England. Director of Orient 1 Limited and CBQ Finance Limited.

Mr. Nicholas Coleman

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

Mr. Sandeep Chouhan

Graduated from National Institute of Technology, India. Joined Commercialbank as Group Chief Operating Officer in 2008. Previously with Barclays Bank in London. Over 20 years global experience in banking operations and technology, including 5 years with Morgan Stanley and 8 years with Citigroup across EMEA, Asia and USA. Chartered Professional of the British Computer Society. Director of Orient 1 Limited, Gekko LLC and Massoun Insurance Services.

Mr. Abdul Jalil Borhani

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

Mr. Rajbushan Buddhiraju

Bachelor of Engineering, Petroleum Engineering, Indian School of Mines, Dhanbad, India (1987); MBA Major in Marketing and Finance, Indian Institute of Management, Calcutta, India (1989). Joined Commercialbank as EGM - Retail Banking Officer in August 2008. Currently EGM Commercialbank Enterprise. Previously with Arab National Bank, Saudi Arabia as Retail and Consumer Banking Head. Over 21 years banking experience, including 13 years with Citibank in India, Singapore, Hungary and Poland holding positions including Relationship Manager for the high net worth segment, Product Manager for Liabilities, Credit Cards and Loans and Marketing Director for Retail Products including the distribution of mutual funds. Director of Commercialbank Investment Services.

Mr. Stephen Mullins

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

Mr. Jerold Williamson

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

Mr James Kneller

Joined the Bank as EGM & Head of Organizational Effectiveness in 2011. Prior to joining, Mr Kneller led a management and business coaching consultancy based in London and before this, spent 4 years with Banco Santander as HR Director during the integration of their UK acquired businesses. Mr Kneller spent 5 years working within the Saudi Arabian based ALJ Group as both an HR Director and Business Head and has also held senior HR positions with Dixons, Granada Group and Sainsburys.

Mr. Alex Carre de Malberg

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

Mr. Dean M. Proctor

Joined Commercialbank in 2012 as EGM Retail & Consumer Banking. Previously CEO of Arbuthnot Latham & Co. Ltd, a private bank in the UK, for 3 years. Concurrently an Executive Director and Board Member of Arbuthnot Banking Group a UK listed company. Previously with Citibank working in the UK as Managing Director, UK Retail & Wealth Management including Egg Banking Plc and internationally as Head of Credit Cards for the Middle East based out of UAE. Spent 14 years with Lloyds Bank Plc working in retail and corporate banking across all divisions.

Mr. Fahad Badar

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

Mr. Jamal A. Tartir

Graduated from Georgia State University with a BBA Degree in Finance. Joined Commercialbank in 2011 as EGM Private Banking. Previously Director and Chief Country Officer for Barclays Wealth in Qatar. Over 28 years international banking experience with highly regarded institutions in Qatar, Bahrain, Kuwait and Cyprus, including Investcorp, Merrill Lynch, NBK, Tijari Investment Co, Bank of Bahrain & Kuwait, Arab Jordan Investment Bank and Dar Al Mal Al Islami.

3.2 Executive Committees

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

Management Executive Committee (EXCO)

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

Management Risk Committee (MRC)

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

Asset and Liability Committee (ALCO)

ALCO is a decision making body for developing policies relating to asset and liability and market risk management including balance sheet structure, funding, pricing, hedging and investment. Its key functions are to formulate policies on market risk, liquidity risk and interest rate risk, and to ensure that such risks are effectively assessed, controlled, monitored and managed. The Group Chief Financial Officer serves as chairman of ALCO. Meetings of ALCO are held once a month, or more frequently if necessary, particularly in the case of a volatile operating environment.

Group Special Assets Management (GSAM) Committee

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

3.3 Senior Management Remuneration

Total remuneration earned by the senior management in 2011 in QR thousands was:

Fixed Remuneration	35,975
Discretionary Remuneration	12,864
Other Benefits	4,772
Total (2010: 52,532)	53,611

4. Ownership Structure

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

As at 31st December 2011, 82.02 % of the total number of shares in the Bank were held by Qatari nationals (whether individuals or entities) and 17.98 % of such shares by foreign investors. As at 31st December 2011, in percentage terms, the largest shareholdings in the Bank were as follows:

Qatar Holding LLC	16.67%
Deutsche Bank AG	3.46%
Al Watani Fund 3	3.07%
Al Watani Fund 4	3.03%
Qatar National Bank SAQ	2.61%
Nats Cumco LLC	2.26%

5. The Bank's Policies

5.1 Anti-Money Laundering

The Bank has in place effective policies and procedures, together with advanced monitoring systems, in line with QCB regulations, to assess and combat money laundering, terrorism financing, insider trading and abusive self-trading. These measures are continuously reviewed by the Bank and approved by the Board to ensure the ongoing application of, and adherence to, best practice.

5.2 Policy on Promotion

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

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

A promotion may occur through:

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

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

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

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

No penalties were imposed on the Bank in 2011 by Qatar Central Bank (2010: QR 1,636,000) in respect of breaches of Central Bank Regulations.

5.4 Material Issues Regarding the Bank's Employees and Stakeholders

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

5.5 Corporate Social Responsibility Policy

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

Commerce + Conscience + Compassion = Corporate Social Responsibility

The Bank is committed to promoting sustainable development; protection and conservation of human life, health, natural resources and the environment; and adding value to the communities in which we operate. In so doing, the Bank recognises the importance of both financial and non-financial commitment and contribution.

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

How the Bank Behaves

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

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

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

What the Bank Invests in

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

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

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

What the Bank Influences and Promotes

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

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

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

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

What the Bank Believes in

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

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

5.6 Environmental Policy

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

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

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

5.7 Health Policy

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

The Bank is committed to:

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

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

5.8 Code of Ethics Policy

The Bank has a Code of Ethics incorporating the guidelines under which it operates in terms of its ethical and moral business practices, as well as the expected standards of professional conduct for employees in dealings with customers, co-workers, and the community at large. The Code extends to all employees of the Bank, and covers the following specific issues:

1. Compliance with laws and regulations;
2. Employee conduct;
3. Restrictions on acceptance of gifts or commissions;
4. Protection and proper use of company assets;
5. Prohibition on insider trading;
6. Relations between employees and the Bank;
7. Respect for the privacy of employees;
8. Respect for human rights and prohibition of discrimination within the workplace.

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Commercial Bank of Qatar (Q.S.C.) (the 'Bank') and its subsidiaries (the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by board of directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the applicable provisions of Qatar Central Bank regulations.

Report on Other Legal and Regulatory Requirements

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

Firas Qoussous
Ernst & Young
Qatar Auditors' Registry No. 236
25 January 2012
Doha

Shari'ah Supervisory Board Report
Commercial Bank Islamic

The Commercial Bank of Qatar (Q.S.C) For the period ending 31 December 2011.

To the Shareholder of Commercial Bank of Qatar

As per the approved Shari'ah mandate agreed with the management of Commercial Bank Islamic/Commercial Bank of Qatar, we are required to report the following:

We have reviewed the principles followed and contracts related to transactions and activities undertaken Commercial Bank Islamic (the Bank), during the period on which we carried out the necessary review in order to express an opinion as to whether the Bank has undertaken its activities in accordance with Islamic Shari'ah principle and specific Fatwas, resolutions and guidelines issued by us.

It is the responsibility of the Bank's management to ensure that the bank operates in accordance with the rules and principles of Islamic Shari'ah. Our responsibility is restricted to express an independent opinion based on our review of the bank's operations and to report our opinion to you.

Our review included examination of the documentation and procedures adopted by the bank on a sample basis that covered all types of the bank's transactions.

Through the Executive Committee of the Shari'ah Supervisory Board, we have planned and executed our review in a manner that allowed us to obtain all information and explanations that we deemed necessary to provide us with sufficient evidential matter giving reasonable assurance that the Bank did not violate any of the rules or principles of Islamic Shari'ah.

In our opinion:

A. The contracts, operations executed by the Bank during the period ended 31st December 2011 that were reviewed, were carried out in accordance with the rules and principles of Islamic Shari'ah, and the SSB highlights the management cooperation in complying with recommendations and remarks made by the SSB upon topics that were under discussion, to the extent that achieve harmony with the shariah decisions.

B. The Profit and Loss statement and final distribution of profits and rates on the saving and investments accounts complies with the basis approved by us in accordance with the Islamic Shari'ah principles.

C. Since the management of the bank is not authorized to pay Zakat directly, the responsibility paying Zakat is that of the Shareholders.

We ask all Mighty Allah, Most Gracious, to grant us guidance and righteousness.

Abdul Aziz Al Khulaifi
SSB Chairman

Dr. Mohamed Ali Elgari
SSB Member

The Commercial Bank of Qatar (Q.S.C.)

Financial Statements 2011

The Commercial Bank of Qatar (Q.S.C.)

Consolidated Statement of Financial Position ("Balance Sheet")

as at 31 December 2011

		Figures in thousand Qatar Riyals	
	Notes	**2011**	2010
ASSETS			
Cash and balances with Central Bank	**6**	2,576,494	8,702,824
Due from banks and financial institutions	**7**	9,271,920	4,237,843
Loans, advances and financing activities for customers	**8**	41,613,804	33,566,666
Financial investments	**9**	11,732,639	10,023,650
Investment in associates	**10**	3,926,480	3,839,542
Property and equipment	**11**	1,070,328	1,069,022
Other assets	**12**	1,348,400	1,080,527
Total assets		**71,540,065**	62,520,074
LIABILITIES			
Due to banks and financial institutions	**13**	5,837,887	3,553,398
Customer deposits and unrestricted investment accounts	**14**	37,988,683	33,280,662
Borrowing under repurchase agreements		1,150,810	907,285
Debt issued and other borrowed funds	**15**	11,054,086	10,993,562
Other liabilities	**16**	1,278,303	1,285,310
Total liabilities		**57,309,769**	50,020,217
EQUITY			
Share capital	**17**	2,474,464	2,268,258
Legal reserve	**17**	8,740,540	7,332,158
General reserve	**17**	26,500	26,500
Cumulative changes in fair value	**17**	(68,548)	56,648
Risk reserve	**17**	805,600	648,000
Other reserves	**17**	556,456	469,706
Proposed dividend	**17**	1,484,678	1,587,781
Retained earnings		210,606	110,806
Total equity		**14,230,296**	12,499,857
Total liabilities and equity		**71,540,065**	62,520,074

The consolidated financial statements have been approved by the board of directors and signed on their behalf by the following on 25th January 2012.

HE Abdullah bin Khalifa Al Attiyah
Chairman

Mr. Hussain Ibrahim Alfardan
Managing Director

Mr. A C Stevens
Group Chief Executive Officer

The attached notes 1 to 31 form part of these consolidated financial statements.

The Commercial Bank of Qatar (Q.S.C.)

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	Notes	2011	2010
		Figures in thousand Qatar Riyals	
IInterest income from Conventional and Profit from Islamic Operations	**19**	2,876,150	2,988,727
Interest expense from Conventional and Share of Profit on Islamic Operations	**20**	(938,550)	(1,211,079)
Net interest income and Profit from Islamic Operations		**1,937,600**	1,777,648
Fee and commission income	**21**	752,587	643,168
Fee and commission expense		(166,978)	(116,812)
Net fee and commission income		**585,609**	526,356
Dividend income		24,188	11,883
Net gains from dealing in foreign currencies	**22**	129,536	122,697
Profit from financial investments	**23**	136,307	63,506
Other operating income	**24**	50,266	59,798
		340,297	257,884
Net operating income		**2,863,506**	2,561,888
General and administrative expenses	**25**	(761,651)	(683,414)
Depreciation	**11**	(113,704)	(103,848)
Impairment losses on loans and advances to customers, net		(239,403)	(166,523)
Impairment losses on financial investments		(68,197)	(127,995)
Total operating expenses and impairment losses		**(1,182,955)**	(1,081,780)
Profit before share of results of associates		**1,680,551**	1,480,108
Share of results of associates	**10**	203,420	155,173
Net profit for the year		**1,883,971**	1,635,281
Other comprehensive income			
Share of other comprehensive income of associates		(2,162)	15,299
Net movement in fair value of available for sale investments		(123,034)	147,213
Other comprehensive income for the year		**(125,196)**	162,512
Total comprehensive income for the year		**1,758,775**	1,797,793
- Basic/diluted earnings per share (QAR)	**26**	**7.71**	7.24

The attached notes 1 to 31 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

	Share Capital	Legal Reserve
Balance at 1 January 2010	2,165,156	6,627,925
Profit for the year	-	-
Other comprehensive for the year	-	-
Total comprehensive income for the year	-	-
Dividend from associates for 2009 transferred to retained earnings	-	-
Social and sports fund appropriation (note 18)	-	-
Statutory reserve for Global Card Services	-	41
Share of results of associates	-	-
Risk reserve as per QCB regulation	-	-
Dividends for the year 2009	-	-
Dividends waived (note 17)	-	-
Increase in share capital (note 17)	103,102	-
Increase in legal reserve (note 17)	-	704,192
Proposed cash dividend (note 17)	-	-
Balance at 31 December 2010	2,268,258	7,332,158
Balance at 1 January 2011	2,268,258	7,332,158
Profit for the year	-	-
Other comprehensive for the year	-	-
Total comprehensive income for the year	**-**	**-**
Dividend from associates for 2010 transferred to retained earnings	-	-
Social and sports fund appropriation (note 18)	-	-
Share of results of associates	-	-
Risk reserve as per OCB regulation	-	-
Dividends for the year 2010	-	-
Increase in share capital (note 17)	206,206	-
Increase in legal reserve (note 17)	-	1,408,382
Proposed cash dividend (note 17)	-	-
Balance at 31 December 2011	**2,474,464**	**8,740,540**

The attached notes 1 to 31 form part of these consolidated financial statements.

Figures in thousand Qatar Riyals

Shareholder's Advance	General Reserve	Cumulative Changes in Fair Value	Risk Reserve	Other Reserves	Retained Earnings: Proposed Dividend	Retained Earnings: Other	Total
807,294	26,500	(105,864)	638,300	416,565	1,299,093	135,214	12,010,183
-	-	-	-	-	-	1,635,281	1,635,281
-	-	162,512	-	-	-	-	162,512
-	-	162,512	-	-	-	1,635,281	1,797,793
-	-	-	-	(102,032)	-	102,032	-
-	-	-	-	-	-	(70,928)	(70,928)
-	-	-	-	-	-	-	41
-	-	-	-	155,173	-	(155,173)	-
-	-	-	9,700	-	-	(9,700)	-
-	-	-	-	-	(1,299,093)	-	(1,299,093)
-	-	-	-	-	-	61,861	61,861
(103,102)	-	-	-	-	-	-	-
(704,192)	-	-	-	-	-	-	-
-	-	-	-	-	1,587,781	(1,587,781)	-
-	26,500	56,648	648,000	469,706	1,587,781	110,806	12,499,857
-	26,500	56,648	648,000	469,706	1,587,781	110,806	12,499,857
-	-	-	-	-	-	1,883,971	1,883,971
-	-	(125,196)	-	-	-	-	(125,196)
-	**-**	**(125,196)**	**-**	**-**	**-**	**1,883,971**	**1,758,775**
-	-	-	-	(116,670)	-	116,670	-
-	-	-	-	-	-	(55,143)	(55,143)
-	-	-	-	203,420	-	(203,420)	-
-	-	-	157,600	-	-	(157,600)	-
-	-	-	-	-	(1,587,781)	-	(1,587,781)
-	-	-	-	-	-	-	206,206
-	-	-	-	-	-	-	1,408,382
-	-	-	-	-	1,484,678	(1,484,678)	-
-	**26,500**	**(68,548)**	**805,600**	**556,456**	**1,484,678**	**210,606**	**14,230,296**

The Commercial Bank of Qatar (Q.S.C.)

Consolidated Statement of Cash Flows

for the year ended 31 December 2011

Figures in thousand Qatar Riyals

	Notes	2011	2010
Cash flows from operating activities			
Net profit for the year		1,883,971	1,635,281
Adjustments for:			
Depreciation	11	113,704	103,848
Amortisation of transaction cost	15	15,113	14,579
Impairment losses on loans and advances, net		239,403	166,523
Impairment losses on financial investments		68,197	127,995
Profit from sale of property and equipment		(37)	(99)
Profit from sale of other assets		-	(1,144)
Share of results of associates	10	(203,420)	(155,173)
Profit from financial investments		(136,307)	(63,506)
Profit before changes in operating assets and liabilities		**1,980,624**	1,828,304
Net (increase) decrease in operating assets			
Due from banks and financial institutions		(165,878)	(496,521)
Loans, advances and financing activities for customers		(8,286,541)	(1,803,921)
Proceeds from sale of other assets		-	2,844
Other assets		(267,873)	(221,567)
Net increase (decrease) in operating liabilities			
Customer deposits and unrestricted investment accounts		4,708,021	7,009,114
Other liabilities		(54,106)	(66,689)
Contribution to Social and Sports Activities Support Fund (Daam)		(40,882)	(38,090)
Net cash (used in) from operating activities		**(2,126,635)**	6,213,474
Cash flows from Investing activities			
Purchase of financial investments		(4,795,399)	(2,029,678)
Investment in associates		(1,150)	(11,517)
Dividend received from associates		116,670	102,032
Proceeds from sale/maturity of financial investments		3,111,821	1,803,097
Purchase of property and equipment	11	(115,110)	(143,434)
Proceeds from sale of property and equipment		137	295
Net cash used in investing activities		**(1,683,031)**	(279,205)
Cash flows from Financing activities			
Net movements in borrowing under repurchase agreements		243,525	539,349
Net proceeds from debt issued and other borrowed funds	15	1,816,714	1,027,713
Repayment of debt issued other borrowed funds	15	(1,820,000)	-
Net proceeds from issue of shares and shareholder's advances	17	1,614,588	-
Dividends paid		(1,587,781)	(1,299,093)
Dividends waived	17	-	61,861
Net cash from financing activities		**267,046**	329,830
Net (decrease) increase in cash and cash equivalents during the year		(3,542,620)	6,264,099
Cash and cash equivalents at 1 January	31	7,370,339	1,106,240
Cash and cash equivalents at 31 December	31	**3,827,719**	7,370,339
Operational cash flows from interest and dividends:			
Interest/profit paid		975,121	1,243,824
Interest/profit received		2,883,151	3,026,446
Dividends received		24,188	11,883

The attached notes 1 to 31 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

At 31 December 2011

1. CORPORATE INFORMATION

The Commercial Bank of Qatar (Q.S.C.) ("the Bank") was incorporated in the State of Qatar in 1975 as a public shareholding company under Emiri Decree No.73 of 1974. The Bank and its subsidiaries (together the "Group") are engaged in conventional banking, brokerage services and credit card business and operate through its head office and branches established in the State of Qatar. The Bank also acts as a holding company for its subsidiaries: (a) Orient 1, engaged in credit card business in the Sultanate of Oman (b) CBQ Finance Ltd, primarily used for debt issuance on behalf of the Bank and (c) Commercialbank Investment Services provided brokerage and investment services in the State of Qatar.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on historical cost basis, except for available-for-sale investments and derivative financial instruments, that have been measured at fair value. The carrying values of recognised 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 consolidated financial statements are presented in Qatar Riyals (QAR), and all values are rounded to the nearest QAR thousand except when otherwise indicated.

Statement of compliance

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

The Group presents its statement of financial position broadly in the order of liquidity. An analysis regarding recovery or settlement within 12 months after the end of reporting date ("current") and more than 12 months of the reporting date ("non-current") is presented in Note 3.4.3.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

The Group sponsors the formation of special purpose entities (SPEs), primarily for the purpose of debt issuance and to accomplish certain specific and well defined objectives. The Group consolidates those SPEs if the substance of its relationship with them indicates that it has control over them. The consolidated financial statements of the Group include the financial statements of the Bank and its subsidiaries (listed below) fully owned by the Group:

Name of subsidiaries	Country of Incorporation	Share Capital
Orient 1 Limited	Bermuda	US$ 20,000,000
Global Card Services L.L.C.	Sultanate of Oman	OMR 500,000
CBQ Finance Limited	Bermuda	US$ 1,000
Commercialbank Investment Services	Qatar	QAR 100,000,000

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following standards effective for the annual period beginning on or after 1 January 2011.

IAS 24, 'Related Party Disclosures (Revised)'

The definition of a related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control. A partial exemption from the disclosures has been included for government-related entities.

For these entities, the general disclosure requirements of IAS 24 will not apply. Instead, alternative disclosures have been included, requiring: (a) The name of the government and the nature of its relationship with the reporting entity (b) The nature and amount of individually significant transactions (c) A qualitative or quantitative indication of the extent of other transactions that are collectively significant. This amendment did not give rise to any changes to the Group's financial statements.

IAS 32, 'Financial Instruments: Presentation - Classification of rights issues (Amendment)'

The definition of a financial liability has been amended to classify rights issues (and certain options or warrants) as equity instruments if: (a) The rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments and (b) In order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment provide reliefs to entities that issue rights (fixed in a currency other than their functional currency), from treating the rights as derivatives with fair value changes recorded in profit or loss. Rights issued in foreign currencies that were previously accounted for as derivatives will now be classified as equity instruments. This amendment did not give rise to any changes to the Group's financial statements.

Improvements to IFRS (issued May 2010)

'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

The following amendments, interpretations became effective in 2011, but did not have any impact on the accounting policies, financial position or performance of the Group

Standard/Interpretation	Content
IAS 12	Income Taxes – Tax recovery of underlying assets (Amendment)
IFRS 1	First-time adoption – Severe hyperinflation and removal of fixed dates for first-time adopters (Amendment)
IFRIC 14	Prepayments of a Minimum Funding Requirement (Amendment)
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

Standards, amendments and interpretations issued but not adopted

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

Standard/Interpretation	Content	Effective date
IFRS 9	Financial Instruments: Classification & Measurement (Part 1)	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies

Investment in Associates

The Group's investment in its associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence but not control.

Intangible assets identified upon acquisition of associates are included at fair value and amortised over the useful life of the intangible assets.

Under the equity method, the investment in the associates is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment.

The consolidated statement of comprehensive income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associates are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on the Group's investment in its associates. The Group determines at the end of the reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of comprehensive income.

Interest in a joint venture

A joint venture exists where the Group has a contractual arrangement with one or more parties to undertake activities typically, however not necessarily, through entities that are subject to joint control. As investments in associates, the Group recognises interests in a jointly controlled entity using the equity method. The explanations given above therefore apply for joint ventures.

Segment reporting

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

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

Foreign currency translation

(a) Functional and presentation currency

The consolidated financial statements are presented in Qatar Riyals, which is Group's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Foreign currency translation (continued)

(b) Transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates 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. The gain and losses on revaluation of foreign currency non-monetary available-for-sale investments are recognised in the consolidated statement of changes in equity.

(c) Group companies
As at the reporting date, the assets and liabilities of subsidiaries are translated into the Group's presentation currency at the rate of exchange ruling at the end of reporting date, and their statement of comprehensive incomes are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of comprehensive income.

Financial Instruments – initial recognition and subsequent measurement
The Group classifies its financial instruments in the following categories. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Management determines the classification of its financial instruments at initial recognition.

(a) Due from banks and financial institutions and Loans and advances to customers ("LaR")
Due from banks and Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Islamic financing such as Murabaha, Ijara and Musawama are stated at their gross principal amount less any amount received, allowance for impairment and unearned profit. Subsequent to initial measurement due from banks and financial institutions and loans and advances are carried at amortised cost using the effective interest rate method (EIR) less allowance for impairment.

(b) Held-to-maturity financial investments ("HTM")
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale.

Held-to-maturity financial investments are carried at amortised cost. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Financial Instruments – initial recognition and subsequent measurement (continued)

(c) Available-for-sale investments ("AFS")
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available for sale investments include equity and debt securities.

The Group uses trade date accounting for regular way contracts when recording financial assets and liabilities. Financial assets are initially recognised at fair value plus transaction costs.

Available-for-sale financial investments are carried at fair value subsequent to initial recognition.

Gains and losses arising from changes in the fair value of available-for-sale financial investments are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in consolidated statement of income. However, interest or profit calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available- for-sale are recognised in the consolidated statement of income.

(d) Debt issued and other borrowed funds
Financial instruments or their components issued by the Group, which are not designated at fair value through profit or loss, are classified as liabilities under 'Debt issued and other borrowed funds', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the EIR.

Derecognition of financial assets and financial liabilities

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Fair values

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Group's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

Hedge accounting

The Group makes use of derivative instruments to manage exposures to interest rate and foreign currency risks. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative instrument is recognised in the consolidated statement of comprehensive income. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated statement of comprehensive income.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the EIR. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Repurchase agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized on the statement of financial position as 'Borrowings under repurchase agreements', reflecting its economic substance as a loan to the Group. The differences between the sale and repurchase prices are treated as interest expense and are accrued over the life of the agreement using the effective interest rate method.

Unrestricted investment accounts

Profit distribution among unrestricted investment account holders and shareholders of Islamic Branch is guided by Qatar Central Bank regulations. All income and expenses of Islamic branch for the financial year are taken into consideration for profit distribution. The unrestricted investment account holders' share of profit is calculated on the basis of their daily deposit balances over the year, after deducting the pre-agreed and declared Mudaraba fee.

Expenses or losses which arise out of misconduct on the part of the Bank due to non compliance of regulatory instructions or sound banking norms, are not borne by the unrestricted investment account holders. In case of Islamic branch results at 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 who holds judgment authority on all such matters.

Leasing

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Revenue recognition

a) Interest income and expense

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

Income from financing and investment contracts under Islamic banking principles are recognized within 'income from Islamic finance and investment activities' in the consolidated statement of comprehensive income using a method that is analogous to the effective 'yield' rate.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

b) Fees and commission income
Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognized as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recognized ratably over the period in which the service is provided. Performance linked fees or fee components are recognized when the performance criteria are fulfilled.

c) Dividend income
Dividends are recognized in the consolidated statement of comprehensive income when the entity's right to receive payment is established.

Impairment of financial assets

a) Financial assets carried at amortised cost
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:
- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are significant, and individually or collectively for financial assets that are not significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

a) Financial assets carried at amortised cost (continued)
The amount of loan loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The resulting provision is not materially different from that resulting from the application of the Qatar Central Bank guidelines. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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.

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

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

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statement of comprehensive income in impairment charge for loans and advances.

b) Financial assets classified as available-for-sale
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in consolidated statement of comprehensive income is removed from equity and recognized in the consolidated statement of comprehensive income. Impairment losses recognized in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income. In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in consolidated statement of comprehensive income, the impairment loss is reversed through the consolidated statement of comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

c) Renegotiated loans
Renegotiated loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

Property and equipment

Land and buildings comprise mainly branches and offices. All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings 20 years,
- Furniture and equipment 3 - 8 years,
- Motor vehicles 5 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income/expenses in the consolidated statement of comprehensive income.

Properties acquired against settlement of customers' debts

Properties acquired against settlement of customers' debts are stated in the consolidated statement of financial position under the item «Other assets» at their acquisition value net of allowance for impairment.

According to Qatar Central Bank instructions, the Group should dispose of any land and properties acquired against settlement of debts within a period not exceeding three years from the date of acquisition although this period can be extended after obtaining approval from Qatar Central Bank.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances maturing within three months' from the date of placement, including cash and non-restricted balances with Qatar Central Bank and Due from/Due to Banks.

Provisions

Provisions for legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

The Group creates provisions charging the consolidated statement of comprehensive income for any potential claim, taking into consideration the value of the potential claim and its likelihood.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the consolidated statement of comprehensive income the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the end of reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

Any increase in the liability relating to guarantees is taken to the consolidated statement of comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

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

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

Fiduciary activities

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

Off-balance sheet

Off-balance sheet items include Group's obligations with respect to forward foreign exchange contracts, interest rate swaps and others. These do not constitute actual assets or liabilities at the balance sheet date except for assets and obligations relating to fair value gain or loss on these derivative financial instruments.

3.1 Financial instruments

Definition and classification

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

Note 2 describes the accounting policies followed by the Group in respect of recognition and measurement of the key financial instruments and their related income and expense.

Risk management

The Group derives its revenue from assuming and managing customer risk for profit. Through a robust governance structure, risk and return are evaluated to produce sustainable revenue, to reduce earnings volatility and increase shareholder value. The most important types of risk are credit risk, liquidity risk, market risk and operational risk.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

Risk management (continued)

Credit risk reflects the possible inability of a customer to meet his/her repayment or delivery obligations. Market risk, which includes foreign currency, interest rate risks and other price risks, is the risk of fluctuation in asset and commodity values caused by changes in market prices and yields. Liquidity risk results in the inability to accommodate liability maturities and withdrawals, fund asset growth or otherwise meet contractual obligations at reasonable market rates. Operational risk is the potential for loss resulting from events involving people, processes, technology, legal issues, external events or execution or regulatory issues.

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

Risk and other committees

The governance structure of the Group is headed by the Board of Directors. The Board of Directors evaluates risk involving the Group Chief Executive Officer and the following Board and Management committees:

1. Board Risk Committee is responsible for all aspects of Enterprise Risk Management including but not restricted to credit risk, market risk, and operational risk. This committee sets the policy on all risk issues and maintains oversight of all Group risks through the Management Risk Committee.

2. Board Audit Committee is responsible for setting the policy on all Audit issues and maintains oversight of all Bank audit issues through the Management Audit Committee. In addition, it is also be responsible for Compliance & Anti-Money Laundering.

3. Policy and Strategy Committee is a Board committee which is responsible for all policies and strategies of the business.

4. Board Executive Committee is responsible for evaluating and granting credit facilities and approval of the Group's investment activities within authorized limits per Qatar Central Bank and Board of Directors' guidelines.

5. Management Credit Committee is the highest management level authority on all counterparty risk exposures product programmes, associated expenditure programmes there under and underwriting exposures on syndications and securities transactions.

6. Management Risk Committee is the highest management authority on all risk related issues in the Group and its subsidiaries and affiliates in which it has strategic investments. This committee provides recommendations on all risk policy and portfolio issues to the Board Risk Committee.

7. Asset and Liability Committee (ALCO) is a management committee which is a decision making body for developing policies relating to all asset and liability management (ALM) matters.

8. Shari'ah Supervisory Board is an independent committee comprising three renowned external Islamic Scholars and Specialists in Islamic banking, to ensure that the activities, products and transactions of the Islamic branches are in compliance with Islamic principles (Shari'ah). The Shari'ah Board discharge their responsibilities by conducting periodical audits. All new Islamic products require Shari'ah board pre-approval. With the discontinuation of Islamic Banking at all conventional banks following the Qatar Central Bank's instruction in January 2011, this committee will cease to function from 31 December 2011.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Credit risk

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

3.2.1 Credit risk management

(a) Loans and Advances

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

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

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

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

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2.1 Credit risk management (continued)

(b) Debt securities and other bills

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

3.2.2 Risk limit control and mitigation policies

(a) Portfolio Diversification

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

(b) Collateral

In order to proactively respond to credit deterioration the Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

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

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

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

(c) Credit-related commitments

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2.2 Risk limit control and mitigation policies (continued)

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

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

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

The table below shows the maximum exposure to credit risk for the components of the statement of financial position including derivatives. The maximum exposure is shown gross, before the effect of any mitigation through the use of any collateral held or other credit enhancements. Where financial instruments are recorded at fair value, the amounts shown 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.

Figures in thousand Qatar Riyals

	2011	2010
Credit risk exposures relating to the on-balance sheet assets are as follows:		
Due from banks and financial institutions	9,271,920	4,237,843
Loans, advances and financing for customers:		
Retail loans	8,219,486	4,574,143
Corporate loans	30,311,478	26,355,949
Islamic finance	3,082,840	2,636,574
Financial investments	10,525,009	8,884,236
Other assets	827,037	710,244
On balance sheet total as at 31 December	**62,237,770**	47,398,989
Credit risk exposures relating to the off-balance sheet are as follows:		
Acceptances	97,979	91,583
Guarantees	9,088,622	8,532,654
Letter of credit	5,217,592	3,950,492
Unutilised credit facilities	5,859,107	6,376,592
Off balance sheet total as at 31 December	**20,263,300**	18,951,321
Total	**82,501,070**	66,350,310

Balances with Central bank are not included in the credit risk exposures as these attract a sovereign risk weight of zero.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2.4 Risk concentration for maximum exposure to credit risk by Sector

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows

Figures in thousand Qatar Riyals

	2011 Gross maximum exposure	2010 Gross maximum exposure
Funded		
Government	9,979,293	8,284,555
Government institutions & semi-government agencies	6,802,475	4,936,911
Industry	1,639,348	1,435,102
Commercial	4,305,847	3,704,427
Financial services	12,259,147	9,238,190
Contracting	2,561,315	2,655,493
Real estate	13,257,588	6,878,398
Consumers	7,338,519	6,433,652
Other sectors	4,094,238	3,832,261
Total funded	**62,237,770**	47,398,989
Un-funded		
Government institutions & semi-government agencies	868,527	498,343
Financial services	5,559,196	4,032,395
Commercial and others	13,835,577	14,420,583
Total un-funded	**20,263,300**	18,951,321
Total	**82,501,070**	66,350,310

Collateral and other credit enhancements

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 commercial lending, charges over real estate properties, inventory and trade receivables
- For retail lending, mortgages over residential properties.

The Group also obtains guarantees from parent companies for loans to their subsidiaries. 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 allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Total maximum exposure net of collateral is QAR 47.4 billion (2010: QAR 41 billion). The main types of collateral obtained are cash 2% (2010: 3%), mortgages 46% (2010: 47%), equity and debt securities 4% (2010: 3%); Government guarantees 21% (2010: 21%) and other tangible securities 27% (2010: 26%) of the total collateral.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2.5 Credit quality of financial assets with credit risk exposure

(a) The following table sets out the credit qualities of its loans and advances portfolio as per the Group's internal ratings.

Figures in thousand Qatar Riyals

	Neither past due nor impaired	Past due but not impaired	Impaired	Gross Total
31 December 2011				
Risk Grading				
A: Low risk – excellent	14,153,356	7,281	-	14,160,637
B: Standard/satisfactory risk	26,978,058	514,885	-	27,492,943
C: Sub-standard – watch	-	-	184,255	184,255
D: Doubtful	-	-	66,096	66,096
E: Bad debts	-	-	257,275	257,275
Gross	41,131,414	522,166	507,626	42,161,206
Less: allowance for impairment – (specific)				(321,881)
Less: allowance for impairment – (collective)				(225,521)
Net				**41,613,804**
31 December 2010				
Risk Grading				
A: Low risk – excellent	12,839,890	17,470	-	12,857,360
B: Standard/satisfactory risk	19,281,373	1,315,753	-	20,597,126
C: Sub-standard – watch	-	-	141,966	141,966
D: Doubtful	-	-	61,155	61,155
E: Bad debts	-	-	888,882	888,882
Gross	32,121,263	1,333,223	1,092,003	34,546,489
Less: allowance for impairment – (specific)				(899,785)
Less: allowance for impairment – (collective)				(80,038)
Net				33,566,666

(b) Due from banks and financial institutions

Exposures to due from banks and financial institutions are mostly Low Risk. There are no past due or impaired balances in the portfolio as at 31 December 2011 (2010: -nil-)

(c) Financial investments (debt securities)

Figures in thousand Qatar Riyals

	2011	2010
Held to maturity	5,612,315	6,166,900
Available for sale	5,137,136	3,000,640
Less allowance for impairment	(224,442)	(283,304)
Total	**10,525,009**	8,884,236

Exposures to financial investment include QAR 9.03 billion to Qatari Government bonds/Treasury bills which are "AA" rated. (2010: QAR 7.9 billion are "AA-" rated).

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2.5 Credit quality of financial assets with credit risk exposure (continued)

(d) Other assets

There are no past due or impaired balances as at 31 December 2011 and 2010.

(e) Loans, advances and financing to customers which are past due but not impaired

Loans and advances to customers less than 90 days as at 31 December 2011 past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

Figures in thousand Qatar Riyals

	Conventional		Commercial		
	Corporate	Retail	Islamic	2011	2010
Past due up to 30 days	38,504	262,980	27,314	328,798	418,461
Past due 31 – 60 days	13,877	48,047	4,568	66,492	759,160
Past due 61 – above days	58,869	67,056	951	126,876	155,602
Total	**111,250**	**378,083**	**32,833**	**522,166**	1,333,223

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

The aggregate collateral is QAR 189 million (2010: QAR 108 million) for past due up to 30 days, QAR 24 million (2010: QAR 29 million) for past due from 31 to 60 days and QAR 41 million (2010: QAR 34 million) for past due from 61 and above days.

(f) Impaired loans, advances and financing to customer

Impairment is identified by individual assessment of each loan as per local regulators regulations and IFRS. The impaired loans and advances to customers before taking into consideration the cash flows from collateral held is QAR 508 million (2010: QAR 1,092 million) Breakdown of the gross amount of impaired loans by operating segment are as follows:

Figures in thousand Qatar Riyals

	2011	2010
Individually impaired loans		
– Corporate	114,739	304,078
– Retail	176,610	705,142
– Islamic	216,277	82,783
	507,626	1,092,003

(g) Loans and advances to customers renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. Total value of renegotiated loans and advances as at 31 December 2011 was QAR 3,058 million (2010: QAR 1,329 million).

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.3 Market risk

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

The Group's proprietary investments are managed according to the Group's internal investment policy, which has been approved by the Board of Directors and drafted in accordance with the Qatar Central Bank guidelines. The Group's trading activities are conducted by Treasury and Investments Division. These activities are subject to business line guidelines and policies. The Group employs several techniques to measure and control activities including sensitivity analysis, position limits and risk based limits. The maximum limit of the Group's total proprietary investments (i.e. total of fair value through profit and loss, held to maturity and available for sale investment) portfolios is restricted to 70% of the Group's capital and reserves (Tier 1 capital). However the individual limit for the held for trading investment portfolio is 10% of capital and reserves (Tier 1 capital) with a maximum permissible loss to carry for local securities at any given time. Investment policy is reviewed by the Board of Directors annually and day to day limits are independently monitored by the Market Risk Management department.

Investment proposals are approved at the investment committee level and decisions driven by the investment strategy, which is developed by the business line under ALCO oversight and approved by the Board.

3.3.1 Foreign exchange risk

Foreign currency risk is the risk of loss that results from changes in foreign exchange rates. The Group's exposure to foreign currency risk is limited and is strictly controlled by the market risk and structural risk management policies established by the Group which govern the maximum trading and exposure limits that are permitted.

Figures in thousand Qatar Riyals

	Qatar Riyal	US Dollars	Euro	GBP	Other Currencies	Total
As at 31 December 2011						
On – balance sheet						
Assets	42,537,660	24,099,196	400,396	95,196	4,407,617	71,540,065
Liabilities and equities	(43,082,406)	(26,574,970)	(410,477)	(103,873)	(1,368,339)	(71,540,065)
Net currency position	**(544,746)**	**(2,475,774)**	**(10,081)**	**(8,677)**	**3,039,278**	**-**
Off – balance sheet						
Credit commitments Contingent liabilities)	**11,475,948**	**7,883,915**	**697,714**	**36,954**	**168,769**	**20,263,300**
As at 31 December 2010						
On - balance sheet						
Assets	43,676,663	14,581,882	186,821	133,641	3,941,067	62,520,074
Liabilities and equities	(44,406,865)	(16,615,492)	(184,216)	(132,463)	(1,181,038)	(62,520,074)
Net currency position	(730,202)	(2,033,610)	2,605	1,178	2,760,029	-
Off – balance sheet						
Credit commitments (Contingent liabilities)	11,234,124	6,842,013	669,975	22,578	182,631	18,951,321

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.3.1 Foreign exchange risk (continued)

The table below indicates the effect of a reasonably possible movement of the currency rate against the QAR, with all other variables held constant, on the consolidated statement of income. An equivalent decrease in each of the below currencies against the QAR would have resulted in an equivalent but opposite impact.

Figures in thousand Qatar Riyals

	Change in currency rate in %	Effect on consolidated statement of comprehensive income	
		2011	2010
EUR	10%	(1,008)	261
GBP	15%	(1,302)	177

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

3.3.2 Interest/Profit rate risk

a) Interest rate risk

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

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

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

The following table summarises the interest / profit rate sensitivity position at 31 December, by reference to the re-pricing period of the Group's assets, liabilities and off- balance sheet exposures:

Figures in thousand Qatar Riyals

	Up to 3 months	3-12 Months	Above 1 Year	Non-interest/ sensitive	Total
As at 31 December 2011					
Cash and balances with Central Bank	462,572	-	-	2,113,922	2,576,494
Due from banks and financial institutions	8,838,760	433,160	-	-	9,271,920
Loans, advances and financing activities for customers	26,309,909	13,317,281	1,986,614	-	41,613,804
Financial investments	430,326	2,220,981	7,873,702	1,207,630	11,732,639
Investment in associates	-	-	-	3,926,480	3,926,480
Property and equipment and other assets	595,253	44,374	-	1,779,101	2,418,728
Total assets	**36,636,820**	**16,015,796**	**9,860,316**	**9,027,133**	**71,540,065**
Due to banks and financial institutions	5,837,887	-	-	-	5,837,887
Customer deposits and unrestricted investment accounts	27,374,170	2,551,460	19,195	8,043,858	37,988,683
Borrowing under repurchase agreements	-	1,150,810	-	-	1,150,810
Debt issued and other borrowed funds	-	2,547,698	8,506,388	-	11,054,086
Other liabilities	421,043	50,453	-	806,807	1,278,303
Equity	-	-	-	14,230,296	14,230,296
Total liabilities and equity	**33,633,100**	**6,300,421**	**8,525,583**	**23,080,961**	**71,540,065**
Interest rate sensitivity gap	3,003,720	9,715,375	1,334,733	(14,053,828)	-
Cumulative interest rate sensitivity gap	**3,003,720**	**12,719,095**	**14,053,828**	**-**	**-**
As at 31 December 2010					
Cash and balances with Central bank	6,751,926	-	-	1,950,898	8,702,824
Due from banks and financial institutions	3,778,343	208,340	251,160	-	4,237,843
Loans, advances and financing activities for customers	18,954,846	12,755,003	1,856,817	-	33,566,666
Financial investments	1,146,285	456,309	7,281,642	1,139,414	10,023,650
Investment in associates	-	-	-	3,839,542	3,839,542
Property and equipment and other assets	513,588	47,858	-	1,588,103	2,149,549
Total assets	31,144,988	13,467,510	9,389,619	8,517,957	62,520,074
Due to banks and financial institutions	3,553,398	-	-	-	3,553,398
Customer deposits and unrestricted investment accounts	21,455,851	3,084,172	87,660	8,652,979	33,280,662
Borrowing under repurchase agreements	907,285	-	-	-	907,285
Debt issued and other borrowed funds	1,817,807	2,363,686	6,812,069	-	10,993,562
Other liabilities	399,326	36,440	301	849,243	1,285,310
Equity	-	-	-	12,499,857	12,499,857
Total liabilities and equity	28,133,667	5,484,298	6,900,030	22,002,079	62,520,074
Interest rate sensitivity gap	3,011,321	7,983,212	2,489,589	(13,484,122)	-
Cumulative interest rate sensitivity gap	3,011,321	10,994,533	13,484,122	-	-

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

c) Interest Rate Sensitivity

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

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rate on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities. The effect of decreases in interest rates is expected to be equal and opposite to the effect of the increases as shown below on the consolidated statement of comprehensive income and equity.

Figures in thousand Qatar Riyals

	Change in basis points Increase (decrease)	Sensitivity of consolidated net interest income		Sensitivity of consolidated equity	
		2011	2010	**2011**	2010
Currency					
QAR	25bp	(36,550)	(44,137)	7,757	3,800
USD/Others	25bp	(37,174)	(20,605)	4,798	3,351

3.3.3 Equity Price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as available-for-sale. A 10 per cent increase in the Qatar Exchange and Bombay stock exchange and a 15 per cent increase in the Abu Dhabi securities exchange market index at 31 December 2011 would have increased equity by QAR 39 million (2010: QAR 18 million). An equivalent decrease would have resulted in an equivalent but opposite impact.

Figures in thousand Qatar Riyals

Market indices	Change in equity indices	Effect on equity	
		2011	2010
Qatar Exchange	10%	14,564	11,557
Bombay Stock Exchange	10%	20,388	-
Abu Dhabi Securities Exchange	15%	3,941	6,224

3.4 Liquidity Risk

Liquidity is the ongoing ability to accommodate liability maturities, fund asset growth and meet other contractual obligations in a timely and cost effective fashion. Liquidity management involves the maintenance of an ample and diverse funding capacity, liquid assets and other source of cash to cushion fluctuations in asset and liability levels arising from unanticipated events or market turbulence.

3.4.1 Liquidity risk management process

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

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4.2 Funding approach

Sources of liquidity are regularly reviewed by ALCO to maintain a wide diversification by currency, geography, provider, product and term.

3.4.3 Non-derivative cash flows

The following table sets out the maturity profile of the Group's major assets and liabilities. The contractual/expected maturities of assets and liabilities have been determined on the basis of the remaining period at 31 December to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

The Bank is subject to certain prudential requirements as per Qatar Central Bank regulations. At 31 December 2011 the liquidity ratio was 112.55% (2010: 124.38%). The minimum ratio limit determined by Qatar Central Bank is 100%.

Figures in thousand Qatar Riyals

On balance sheet items	Within 1 month	1-3 Months	3-12 Months	Subtotal 1 Year	Above 1 Year	No maturity	Total
As at 31 December 2011							
Cash and balances with Central Bank	462,572	-	-	462,572	-	2,113,922	2,576,494
Due from banks and financial institutions	7,206,271	1,542,745	433,160	9,182,176	-	89,744	9,271,920
Loans, advances and financing activities for customers	4,945,466	525,353	1,070,332	6,541,151	35,072,653	-	41,613,804
Financial investments	12,055	173,670	2,200,018	2,385,743	8,139,266	1,207,630	11,732,639
Investment in associates	-	-	-	-	-	3,926,480	3,926,480
Property, equipment and other assets	476,922	118,331	44,374	639,627	-	1,779,101	2,418,728
Total assets	**13,103,286**	**2,360,099**	**3,747,884**	**19,211,269**	**43,211,919**	**9,116,877**	**71,540,065**
Due to banks and financial institutions	5,421,507	134,680	-	5,556,187	-	281,700	5,837,887
Customer deposits and unrestricted investment accounts	27,875,676	7,351,672	2,742,140	37,969,488	19,195	-	37,988,683
Borrowing under repurchase agreements	-	-	-	-	1,150,810	-	1,150,810
Debt issued and other borrowed funds	-	2,365,698	182,000	2,547,698	8,506,388	-	11,054,086
Other liabilities	372,662	131,480	50,453	554,595	-	723,708	1,278,303
Total liabilities	**33,669,845**	**9,983,530**	**2,974,593**	**46,627,968**	**9,676,393**	**1,005,408**	**57,309,769**
Maturity gap	**(20,566,559)**	**(7,623,431)**	**773,291**	**(27,416,699)**	**33,535,526**	**8,111,469**	**14,230,296**

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4.3 Non-derivative cash flows (continued)

Figures in thousand Qatar Riyals

On balance sheet items	Within 1 month	1-3 Months	3-12 Months	Subtotal 1 Year	Above 1 Year	No maturity	Total
As at 31 December 2010							
Cash and balances with Central Bank	6,751,926	-	-	6,751,926	-	1,950,898	8,702,824
Due from banks and financial institutions	3,456,091	261,120	208,340	3,925,551	251,160	61,132	4,237,843
Loans, advances and financing activities for customers	4,436,155	1,440,081	1,424,017	7,300,253	26,266,413	-	33,566,666
Financial investments	1,078,469	7,908	341,164	1,427,541	7,456,695	1,139,414	10,023,650
Investment in associates	-	-	-	-	-	3,839,542	3,839,542
Property, equipment and other assets	385,966	127,622	47,858	561,446	-	1,588,103	2,149,549
Total assets	16,108,607	1,836,731	2,021,379	19,966,717	33,974,268	8,579,089	62,520,074
Due to banks and financial institutions	3,008,238	545,160	-	3,553,398	-	-	3,553,398
Customer deposits and unrestricted investment accounts	21,563,564	7,042,066	4,587,372	33,193,002	87,660	-	33,280,662
Borrowing under repurchase agreements	-	907,285	-	907,285	-	-	907,285
Debt issued and other borrowed funds	-	-	1,817,807	1,817,807	9,175,755	-	10,993,562
Other liabilities	328,035	71,291	36,440	435,766	301	849,243	1,285,310
Total liabilities	24,899,837	8,565,802	6,441,619	39,907,258	9,263,716	849,243	50,020,217
Maturity gap	(8,791,230)	(6,729,071)	(4,420,240)	(19,940,541)	24,710,552	7,729,846	12,499,857

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4.3 Non-derivative cash flows (continued)

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

Figures in thousand Qatar Riyals

	Within 1 month	Up to 3 months	3-12 Months	Above 1 Year	Total
As at 31 December 2011					
Due to banks and financial institutions	5,719,918	135,075	-	-	5,854,993
Customer deposits and Unrestricted investment accounts	28,188,127	7,434,075	2,772,876	19,409	38,414,487
Borrowing under repurchase agreement	-	-	-	1,165,195	1,165,195
Debt issued and other borrowed funds	-	2,370,129	182,341	10,817,104	13,369,574
Total Liabilities	**33,908,045**	**9,939,279**	**2,955,217**	**12,001,708**	**58,804,249**
As at 31 December 2010					
Due to banks and financial institutions	3,024,018	548,020	-	-	3,572,038
Customer deposits and Unrestricted investment accounts	21,998,033	7,167,100	4,734,065	110,039	34,009,237
Borrowing under repurchase agreement	-	915,082	-	-	915,082
Debt issued and other borrowed funds	-	-	1,830,092	11,536,454	13,366,546
Total Liabilities	25,022,051	8,630,202	6,564,157	11,646,493	51,862,903

3.4.4 Derivative financial instruments

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

Figures in thousand Qatar Riyals

	Up to 1 Year	1 - 3 Years	Over 3 Years	Total
As at 31 December 2011				
Derivatives Held for Trading:				
Forward foreign exchange contracts				
- Outflows	(979,422)	-	-	(979,422)
- Inflows	979,199	-	-	979,199
Interest rate swaps				
- Outflows	(29,416)	(56,078)	(186,512)	(272,006)
- Inflows	30,796	58,104	188,394	277,294
Derivatives Held as Fair Value Hedges:				
Cross currency interest rate swaps				
- Outflows	(31,776)	(63,551)	(1,061,081)	(1,156,408)
- Inflows	31,880	63,761	1,091,105	1,186,746
Total outflows	**(1,040,614)**	**(119,629)**	**(1,247,593)**	**(2,407,836)**
Total inflows	**1,041,875**	**121,865**	**1,279,499**	**2,443,239**

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4.4 Derivative financial instruments (continued)

Figures in thousand Qatar Riyals

	Up to 1 Year	1 - 3 Years	Over 3 Years	Total
As at 31 December 2010				
Derivatives Held for Trading:				
Forward foreign exchange contracts				
- Outflows	(886,200)	-	-	(886,200)
- Inflows	886,044	-	-	886,044
Interest rate swaps				
- Outflows	(32,990)	(59,543)	(219,698)	(312,231)
- Inflows	34,410	61,593	221,822	317,825
Derivatives Held as Fair Value Hedges:				
Cross currency interest rate swaps				
- Outflows	(29,371)	(58,741)	(1,088,047)	(1,176,159)
- Inflows	32,101	64,202	1,130,762	1,227,065
Total outflows	(948,561)	(118,284)	(1,307,745)	(2,374,590)
Total inflows	952,555	125,795	1,352,584	2,430,934

3.4.5 Off-balance sheet items

The table below summarises the maturity profile of the Group's off balance sheet financial instruments based on the earliest contractual maturity date.

Figures in thousand Qatar Riyals

	Below 1 Year	Above 1 Year	Total
As at 31 December 2011			
Loan commitments	1,054,582	4,804,525	5,859,107
Guarantees, acceptances and other financial facilities	12,311,044	2,093,149	14,404,193
Capital commitments	479,243	-	479,243
Total	**13,844,869**	**6,897,674**	**20,742,543**
As at 31 December 2010			
Loan commitments	3,770,007	2,606,585	6,376,592
Guarantees, acceptances and other financial facilities	10,050,816	2,523,913	12,574,729
Capital commitments	263,100	206,900	470,000
Total	14,083,923	5,337,398	19,421,321

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.5.1 Fair value of financial assets and liabilities

Based on the methods used to determine the fair value of financial instruments explained in note 2, following are the financial assets and liabilities:

Figures in thousand Qatar Riyals

	Carrying value		Fair value	
	2011	2010	**2011**	2010
Financial assets				
Balances with Central Bank excluding cash	**2,211,906**	8,305,716	**2,211,906**	8,305,716
Due from banks and financial institutions	**9,271,920**	4,237,843	**9,271,920**	4,237,843
Loans, advances and financing activities for customers	**41,613,804**	33,566,666	**41,613,804**	33,566,666
Financial investments	**11,732,639**	10,023,650	**12,362,746**	10,622,413
Financial liabilities				
Due to banks and financial institutions	**5,837,887**	3,553,398	**5,837,887**	3,553,398
Customer deposits and unrestricted investment accounts	**37,988,683**	33,280,662	**37,988,683**	33,280,662
Borrowings under repurchase agreements	**1,150,810**	907,285	**1,150,810**	907,285
Debt issued and other borrowed funds	**11,054,086**	10,993,562	**11,608,034**	11,464,033

i) Due from banks and financial institutions
Due from banks includes inter-bank placements and lending to banks and financial institutions. The fair values of these financial instruments are not different from its carrying value as the total portfolio has a very short duration and are re-priced frequently.

ii) Loans, advances and financing activities for customers
Loans and advances are net of allowance for impairment. The estimated fair value of loans and advances is not significantly different from its carrying value, as a significant portion of the portfolio is subject to frequent re-pricing in line with market rates.

iii) Financial investments
Financial investments includes held to maturity, available for sale and held for trading investments. Investments classified as available for sale and held for trading are measured at fair value. Fair value for held-to-maturity investment is primarily based on market prices, where ever market price is not available, the Group establishes the fair value using valuation techniques that includes discounted cash flow analysis, recent arms length transactions and other valuation techniques commonly used by market participants. The fair values of held to maturity investments are stated in note 9.

iv) Due to banks and financial institutions
Due to banks includes interbank takings, short term borrowing, overnight and term deposits. The fair values of these financial instruments are not different from its carrying value as the total portfolio has a very short term duration and are re-priced frequently.

v) Debt issued and other borrowed funds
The estimated fair value of other borrowed funds represents the discounted value of estimated future cash flow expected to be paid using current market rates for similar loan facilities. The fair value of borrowed funds is disclosed in note 15.

vi) Customer deposits
The estimated fair value of non-interest bearing deposits approximate carrying value. The estimated fair value of interest bearing deposits is also not different from the carrying values on the balance sheet date, as almost the total portfolio maturity is of very short duration and is re-priced at market rates.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.5.2 Classes of financial instrument

The table below shows the financial instruments held by the Group by IAS 39 category

Figures in thousand Qatar Riyals

Financial assets	HFT	LaR	HTM	AFS	Total
31 December 2011					
Balances with Central Bank excluding cash	-	2,211,906	-	-	2,211,906
Due from banks and financial institutions	-	9,271,920	-	-	9,271,920
Loans and advances to customers	-	41,613,804	-	-	41,613,804
Financial investments	-	-	5,502,976	6,229,663	11,732,639
Positive fair value of derivatives	343,799	-	-	-	343,799
31 December 2010					
Balances with Central Bank excluding cash	-	8,305,716	-	-	8,305,716
Due from banks and financial institutions	-	4,237,843	-	-	4,237,843
Loans and advances to customers	-	33,566,666	-	-	33,566,666
Financial investments	-	-	6,023,907	3,999,743	10,023,650
Positive fair value of derivatives	242,391	-	-	-	242,391

Figures in thousand Qatar Riyals

Financial liabilities	At amortised cost	At fair value	HFT	Total
31 December 2011				
Due to banks and financial institutions	5,837,887	-	-	5,837,887
Customer deposits and unrestricted investment accounts	37,988,683	-	-	37,988,683
Borrowings under repurchase agreements	1,150,810	-	-	1,150,810
Debt issued and other borrowed funds	9,950,443	1,103,643	-	11,054,086
Negative fair value of derivatives	-	-	265,592	265,592
31 December 2010				
Due to banks and financial institutions	3,553,398	-	-	3,553,398
Customer deposits and unrestricted investment accounts	33,280,662	-	-	33,280,662
Borrowings under repurchase agreements	907,285	-	-	907,285
Debt issued and other borrowed funds	9,938,937	1,054,625	-	10,993,562
Negative fair value of derivatives	-	-	212,373	212,373

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.5.3 Fair value disclosures

The Group uses the following hierarchy for determining and disclosing the fair value of financial investments 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:

Figures in thousand Qatar Riyals

	31-Dec-11	Level 1	Level 2
Financial assets			
Financial investments available-for-sale			
Quoted investments :			
Qatar Government debt securities	547,448	-	547,448
Other debt securities	982,811	-	982,811
Equities	391,010	391,010	-
Unquoted investments :			
Qatar Government debt securities	3,102,658	-	3,102,658
Other debt securities	389,116	-	389,116
Equities	430,180	-	949
Investment funds	386,440	2,858	335,271
	6,229,663	**393,868**	**5,358,253**
Derivative instruments			
Interest rate swaps	267,470	-	267,470
Forward foreign exchange contracts	719	-	719
Cross currency interest rate swap	75,610	-	75,610
	343,799	**-**	**343,799**
Financial liabilities			
Derivative instruments			
Interest rate swaps	265,094	-	265,094
Forward foreign exchange contracts	498	-	498
	265,592	**-**	**265,592**

During the reporting period 31 December 2011, there were no transfers between Level 1 and Level 2 fair value measurements. All unquoted available for sale equities and investment funds are recorded at fair value except for investments with a carrying value of QR 478 million (2010: QR 469 million), which are recorded at cost since their fair value cannot be reliably estimated.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.5.3 Fair value disclosures (continued)

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

Figures in thousand Qatar Riyals

	31-Dec-10	Level 1	Level 2
Financial assets			
Financial investments available-for-sale			
Quoted investments :			
Qatar Government debt securities	479,762	-	479,762
Other debt securities	441,362	-	441,362
Equities	181,109	181,109	-
Unquoted investments :			
Qatar Government debt securities	1,520,060	-	1,520,060
Other debt securities	396,253	-	396,253
Islamic debt securities	22,892	-	22,892
Equities	408,046	-	1,528
Investment funds	550,259	60,242	427,186
	3,999,743	241,351	3,289,043
Derivative instruments			
Interest rate swaps	214,779	-	214,779
Forward foreign exchange contracts	194	-	194
Cross currency interest rate swap	27,418	-	27,418
	242,391	-	242,391
Financial liabilities			
Derivative instruments			
Interest rate swaps	212,316	-	212,316
Forward foreign exchange contracts	57	-	57
	212,373	-	212,373

3.6 Capital management

The Group’s objectives in managing capital, which is a broader concept than the ‘equity’ on the face of balance sheet, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities of the Group operate;
- To safeguard the Group’s ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.6 Capital management (continued)

The capital adequacy ratio of the Group is calculated in accordance with the Basel Committee guidelines as adopted by Qatar Central Bank, using the deduction method for its investments in associates.

Capital Adequacy

	Figures in thousand Qatar Riyals	
	2011	2010
Tier I Capital	10,051,703	8,293,545
Tier II Capital	924,683	918,365
Total Capital	**10,976,386**	9,211,910
Risk weighted assets	**61,287,535**	49,820,521
Tier I Capital ratio	16.40%	16.65%
Total Capital ratio	**17.91%**	18.49%

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

Tier II capital includes risk reserve (up to 1.25% of the risk weighted assets) and fair value reserve (45% if positive and 100% if negative) and subordinated debt.

The minimum ratio limit determined by Qatar Central Bank is 10% and the Basel Committee requirement is 8%

3.7 Risk management in relation to others' investments

The Group is managing customers' investments either directly or in the form of investment portfolios. The management of these investments by the Group could lead to some legal and operational risks. Accordingly, the Group takes necessary measures to control these risks.

Management of client's investment portfolios are guided by the terms and conditions recorded in written agreements signed by the respective clients. These portfolios are primarily invested in fixed income, capital guaranteed or coupon paying structures. Proper books of records for such portfolios are maintained as per Qatar Central Bank guidelines.

3.8 Operational risk

Operational risk is the risk of direct or indirect loss that may result from inadequate or failed technology, human performance, process or external events. The Group endeavours to minimise operational losses by ensuring that effective infrastructure, controls, system and individuals are in place throughout the organisation.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

(a) Impairment losses on loans and advances

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

(b) Impairment of available-for-sale investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates amongst other factors, the normal volatility in share price. The Group reviews its debt securities classified as available-for-sale debt instruments at each balance sheet date. This requires similar judgement as applied to the individual assessment of loans and advances. In addition, impairment may be relevant when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows. If any such evidence of impairment for available-for-sale financial assets exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in statement of income is removed from equity and recognized in the statement of income.

(c) Held-to-maturity investments

The Group follows the guidance contained in International Accounting Standard 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

(d) Impairment of held to maturity investments

For held-to-maturity investments, the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of income.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the 'Impairment losses on financial investments'.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(e) 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 is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

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

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

5. SEGMENT INFORMATION

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

- Conventional Banking:
  - Corporate Banking provides an extensive range of conventional (non-Islamic) funded and non-funded credit facilities, demand and time deposit services, currency exchange facilities, interest rate swaps and other derivative trading services, loan syndication and structured financing services to Corporate, Commercial and Multinational Customers. Money Market funds and proprietary investment portfolio are also managed by this business segment.

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

- Islamic Banking – provides Islamic principle (Shari'ah) compliant banking services such as current, savings, time and investment account services, consumer and finance leasing, trade finances to retail, corporate and commercial customers. In March 2011, Qatar Central Bank (QCB) requested all conventional banks to cease offering Islamic banking with effect from 31 December 2011. Therefore, in compliance with the QCB's directive, the Group ceased its Islamic banking operations as at 31 December 2011. The remaining Islamic financing as at 31 December 2011 will be held under Conventional Banking until the maturity/redemption of the underlying contracts.

- Subsidiaries:
  a) Orient 1 – a subsidiary of the Bank provides credit card services in the Sultanate of Oman.
  b) Commercialbank Investment Services – a subsidiary of the bank provides brokerage and investment services in the State of Qatar.

5. SEGMENT INFORMATION (continued)

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

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

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

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

(a) By operating segment

Figures in thousand Qatar Riyals

	Conventional						
	Corporate Banking	**Retail Banking**	**Total**	**Islamic Banking**	**Subsidiaries**	**Unallocated**	**Total**
31 December 2011							
Net interest/similar income	1,408,184	377,500	1,785,684	153,755	2,059	(3,898)	**1,937,600**
Other income	592,487	271,248	863,735	21,246	6,310	34,615	**925,906**
Segmental revenue	2,000,671	648,748	2,649,419	175,001	8,369	30,717	**2,863,506**
Impairment losses on loans and advances, net of recovery	(178,697)	(24,825)	(203,522)	(36,393)	512	-	**(239,403)**
Impairment losses on financial investments	(61,289)	-	(61,289)	(6,908)	-	-	**(68,197)**
Segmental profit			**1,575,627**	**106,940**	**1,597**	**(3,613)**	**1,680,551**
Share of results of associates							**203,420**
Net profit for the year							**1,883,971**
Other information							
Assets	53,613,429	8,850,790	62,464,219	3,256,741	250,857	1,641,768	**67,613,585**
Investments in associates	-	-	-	-	-	-	**3,926,480**
Liabilities	44,606,856	9,698,168	54,305,024	2,851,885	64,424	88,436	**57,309,769**
Contingent items	18,513,584	1,630,295	20,143,879	119,421	-	-	**20,263,300**

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

5. SEGMENT INFORMATION (continued)

(a) By operating segment (continued)

Figures in thousand Qatar Riyals

	Conventional						
	Corporate Banking	**Retail Banking**	**Total**	**Islamic Banking**	**Subsidiaries**	**Unallocated**	**Total**
31 December 2010							
Net interest/similar income	1,418,358	277,235	1,695,593	82,492	2,930	(3,367)	1,777,648
Other income	528,283	189,049	717,332	15,759	7,386	43,763	784,240
Segmental revenue	1,946,641	466,284	2,412,925	98,251	10,316	40,396	2,561,888
Impairment losses on loans and advances, net of recovery	(73,898)	(62,228)	(136,126)	(30,827)	430	-	(166,523)
Impairment losses on financial investments	(118,654)	-	(118,654)	(9,341)	-	-	(127,995)
Segmental profit			1,438,682	26,596	9,659	5,171	1,480,108
Share of results of associates						155,173	155,173
Net profit for the year							1,635,281
Other information							
Assets	47,385,860	5,158,064	52,543,924	4,363,747	87,307	1,685,554	58,680,532
Investments in associates	-	-	-	-	-	-	3,839,542
Liabilities	36,674,645	8,934,583	45,609,228	4,039,151	2,459	369,379	50,020,217
Contingent items	18,154,724	602,528	18,757,252	194,069	-	-	18,951,321

- Intra-group transactions are eliminated from this segmental information (Assets: QAR 157 million, Liabilities: QAR 85 million)

5. SEGMENT INFORMATION (continued)

(b) By geography

Geographically, the Group operates in Qatar. Its subsidiaries and associates are in Qatar, Sultanate of Oman and United Arab Emirates.

Figures in thousand Qatar Riyals

Statement of financial position	Qatar	Other GCC countries	Europe	North America	Others	Total
As at 31 December 2011						
Cash and balances with central bank	2,576,489	-	-	-	5	2,576,494
Due from banks and financial institutions	6,177,704	2,536,149	400,418	13,776	143,873	9,271,920
Loans, advances and financing activities for customers	38,891,947	2,180,481	427,192	54,600	59,584	41,613,804
Financial investments	8,704,686	695,646	1,526,661	534,185	271,461	11,732,639
Investment in associates	12,753	3,913,727	-	-	-	3,926,480
Property and equipment and other assets	2,416,999	-	-	-	1,729	2,418,728
Total assets	**58,780,578**	**9,326,003**	**2,354,271**	**602,561**	**476,652**	**71,540,065**
Due to banks and financial institutions	2,773,237	1,829,789	650,064	67,800	516,997	5,837,887
Customer deposits and unrestricted investment accounts	32,805,763	2,392,441	2,742,145	309	48,025	37,988,683
Borrowing under repurchase agreements	-	1,150,810	-	-	-	1,150,810
Debt issued and other borrowed funds	180,989	3,274,687	7,235,309	-	363,101	11,054,086
Other liabilities	1,277,700	-	-	-	603	1,278,303
Equity	14,230,296	-	-	-	-	14,230,296
Total liabilities and equity	**51,267,985**	**8,647,727**	**10,627,518**	**68,109**	**928,726**	**71,540,065**
As at 31 December 2010						
Cash and balances with central bank	8,702,819	-	-	-	5	8,702,824
Due from banks and financial institutions	3,451,732	490,220	229,330	16,793	49,768	4,237,843
Loans, advances and financing activities for customers	30,847,589	2,153,127	273,000	91,000	201,950	33,566,666
Financial investments	6,751,537	1,740,018	345,454	1,054,659	131,982	10,023,650
Investment in associates	13,330	3,826,212	-	-	-	3,839,542
Property and equipment and other assets	2,149,237	-	-	-	312	2,149,549
Total assets	51,916,244	8,209,577	847,784	1,162,452	384,017	62,520,074
Due to banks and financial institutions	670,350	2,629,671	56,183	89,931	107,263	3,553,398
Customer deposits and unrestricted investment accounts	27,045,231	3,081,989	2,808,617	-	344,825	33,280,662
Borrowing under repurchase agreements	-	-	907,285	-	-	907,285
Debt issued and other borrowed funds	-	2,363,686	8,629,876	-	-	10,993,562
Other liabilities	1,282,475	-	-	-	2,835	1,285,310
Equity	12,499,857	-	-	-	-	12,499,857
Total liabilities and equity	41,497,913	8,075,346	12,401,961	89,931	454,923	62,520,074

5. SEGMENT INFORMATION (continued)

(b) By geography (continued)

Figures in thousand Qatar Riyals

Statement of Income	Qatar	Other GCC countries	Europe	North America	Others	Total
Year ended 31 December 2011						
Net interest/similar income	1,856,417	107,205	(36,272)	7,314	2,936	1,937,600
Fee, commission and other income	891,619	12,758	1,338	5,768	14,423	925,906
Net operating income	2,748,036	119,963	(34,934)	13,082	17,359	2,863,506
General and administrative expenses	(754,428)	-	-	-	(7,223)	(761,651)
Depreciation	(113,643)	-	-	-	(61)	(113,704)
Impairment losses on loans and advances to customers, net	(130,098)	(109,817)	-	-	512	(239,403)
Impairment losses on financial investments	(1,314)	(20,410)	(23,133)	(7,822)	(15,518)	(68,197)
Profit before share of results of associates	1,748,553	(10,264)	(58,067)	5,260	(4,931)	1,680,551
Share of results of associates	(962)	204,382	-	-	-	203,420
Net profit for the year	**1,747,591**	**194,118**	**(58,067)**	**5,260**	**(4,931)**	**1,883,971**
Year ended 31 December 2010						
Net interest/similar income	1,762,401	62,594	(58,103)	7,234	3,522	1,777,648
Fee, commission and other income	765,290	(435)	1,205	8,268	9,912	784,240
Net operating income	2,527,691	62,159	(56,898)	15,502	13,434	2,561,888
General and administrative expenses	(682,331)	-	-	-	(1,083)	(683,414)
Depreciation	(103,844)	-	-	-	(4)	(103,848)
Impairment losses on loans and advances to customers, net	(139,348)	(27,605)	-	-	430	(166,523)
Impairment losses on financial investments	-	(18,574)	(65,006)	(37,118)	(7,297)	(127,995)
Profit before share of results of associates	1,602,168	15,980	(121,904)	(21,616)	5,480	1,480,108
Share of results of associates	(554)	155,727	-	-	-	155,173
Net profit for the year	1,601,614	171,707	(121,904)	(21,616)	5,480	1,635,281

6. CASH AND BALANCES WITH CENTRAL BANK

Figures in thousand Qatar Riyals

	2011	2010
Cash	364,588	397,108
Cash reserve with Qatar Central Bank*	1,749,334	1,553,790
Other balances with Qatar Central Bank	462,572	6,751,926
Total	**2,576,494**	8,702,824

*The cash reserve with Qatar Central Bank is not available for use in the Group's day to day operations.

7. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

Figures in thousand Qatar Riyals

	2011	2010
Demand accounts	89,744	61,518
Placements	8,929,827	3,858,785
Loans from banks and financial institutions	252,349	317,540
Total due from banks and financial institutions	**9,271,920**	4,237,843

8. LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS

Figures in thousand Qatar Riyals

i) By industry	**2011**	2010
Government	651,353	414,163
Government institutions and semi-government agencies	6,747,899	4,879,822
Industry	1,678,486	1,459,261
Commercial	4,328,606	3,743,323
Services	2,481,296	4,585,622
Contracting	2,634,055	2,715,842
Real estate	13,207,775	6,776,280
Consumption	7,464,372	7,059,602
Other	2,967,364	2,912,574
Sub Total	**42,161,206**	34,546,489
Allowance for impairment	(547,402)	(979,823)
Net loans, advances and financing activities	**41,613,804**	33,566,666

The total non-performing loans, advances and financing activities at 31 December 2011 amounted to QAR 508 million, representing 1.20% of the total loans, advances and financing activities on a 90 days basis of recognition of non-performing loans (2010: QAR 1,092 million representing 3.16% of the total loans, advances and financing activities).

During the year the Bank has written off fully provided bad debts after meeting the conditions stipulated in the instructions of Qatar Central Bank amounting to QAR 825 million.

Interest in suspense of QAR 73 million (2010: QAR 270 million) is, for the purpose of the Qatar Central Bank regulatory requirements, effectively included in the impairment allowance amount.

Islamic financing is carried at net of deferred profit QAR 686 million (2010: QAR 540 million).

Figures in thousand Qatar Riyals

ii) By type	**2011**	2010
Loans	36,943,008	29,717,548
Overdrafts	1,946,848	2,075,148
Bills discounted	112,905	69,286
Islamic financing activities	3,158,445	2,684,507
Sub Total	**42,161,206**	34,546,489
- Allowance for impairment	(547,402)	(979,823)
Net loans, advances and financing activities	**41,613,804**	33,566,666

8. LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS (continued)

Figures in thousand Qatar Riyals

iii) Movement in allowance for impairment	**2011** Total	2010 Total
Balance at 1 January	979,823	722,442
Allowance for individually impairment made during the year	296,820	398,015
Allowance for collective impairment made during the year	145,484	75,703
Amounts recovered during the year	(49,757)	(188,403)
Net allowance for impairment during the year *	392,547	285,315
Amount written off during the year	(824,968)	(27,934)
Balance at 31 December	**547,402**	979,823

* This includes net interest suspended during the year QAR 153 million (2010: QAR 119 million).

9. FINANCIAL INVESTMENTS

Figures in thousand Qatar Riyals

	2011	2010
Investments comprise the following		
a) Available-for-sale investments	6,229,663	3,999,743
b) Investments held-to-maturity	5,502,976	6,023,907
Balance at end of the year	**11,732,639**	10,023,650

i) Available-for-sale investments ("AFS")

By type

Figures in thousand Qatar Riyals

	2011		2010	
At fair value	**Listed**	**Unlisted**	Listed	Unlisted
Equities	391,010	430,180	181,109	408,046
Qatar Government bonds in USD	547,448	-	479,762	-
Qatar Government bonds in QAR	-	3,102,658	-	1,520,060
Other debt securities - Fixed rate	855,411	226,492	441,362	186,007
Other debt securities - Floating rate	127,400	162,624	-	233,138
Investment funds	-	386,440	-	550,259
Total	**1,921,269**	**4,308,394**	1,102,233	2,897,510

Impairment losses on financial investments during the year QAR 65 million (2010: QAR 124 million).

9. FINANCIAL INVESTMENTS (continued)

ii) Held-to-maturity investments ("HTM")

By type

Figures in thousand Qatar Riyals

	2011		2010	
At amortised cost	**Listed**	**Unlisted**	Listed	Unlisted
Qatar Government bonds in USD	747,529	-	753,976	-
Qatar Government bonds in QAR	-	3,843,019	-	3,811,568
Treasury bills	791,555	-	-	-
Securities issued by Central Bank	-	-	-	1,305,027
Other debt securities	-	120,873	-	153,336
Total *	**1,539,084**	**3,963,892**	753,976	5,269,931
By nature of income				
Fixed rate	1,539,084	3,843,019	753,976	5,119,734
Floating rate	-	120,873	-	150,197
Total *	**1,539,084**	**3,963,892**	753,976	5,269,931

* The fair value of held-to-maturity investments amounted to QAR 6,133 million at 31 December 2011 (2010: QAR 6,623 million).

Impairment losses on financial investments during the year amounted to QAR 3 million (2010: QAR 4 million).

The carrying value of financial investments pledged under Repo agreements is QAR 1,281 million (2010: QAR 1,102 million).

10. INVESTMENTS IN ASSOCIATES

The Group's investments in associates are as follows:

Figures in thousand Qatar Riyals

			Carrying value	
Name	**Country of incorporation**	**% interest held**	**2011**	2010
a) National Bank of Oman SAOG	Oman	**34.90%**	1,538,990	1,499,145
b) United Arab Bank PJSC	UAE	**40.00%**	2,374,737	2,328,621
c) Asteco LLC	Qatar	**30.00%**	2,256	2,181
d) GEKKO LLC	Qatar	**50.00%**	-	-
e) Massoun Insurance Services LLC	Qatar	**50.00%**	10,497	9,595
Total			**3,926,480**	3,839,542

Summarised financial information of associates:

Figures in thousand Qatar Riyals

	2011	2010
Total assets	11,662,151	9,034,977
Total liabilities	9,916,240	7,416,576
Total operating income	537,704	453,111
Total profit	203,420	155,173

10. INVESTMENTS IN ASSOCIATES (continued)

The movement in investment in associates are as follows:

Figures in thousand Qatar Riyals

	2011	2010
Balance at 1 January	3,839,542	3,759,865
Adjustment/acquisition during the year	1,940	11,517
Less : dividend received	(116,670)	(102,032)
Share of results of associate	**203,420**	155,173
Add : share of post acquisition fair value reserve	(2,162)	15,299
Exchange difference	410	(280)
Balance at 31 December	**3,926,480**	3,839,542

a) National Bank of Oman SAOG (NBO)

Shares of National Bank of Oman SAOG (NBO) are listed on the Muscat Securities Market and the quoted price as at 31 December 2011 was OMR 0.320 (2010: OMR 0.354). The estimated fair value of the investment based on this price is QAR 1,141 million (2010: QAR 1,262 million). Investment in associates for NBO at 31 December 2011 includes a goodwill of QAR 574 million (2010: QAR 574 million). At 31 December 2011, the Group conducted a value in use analysis to determine impairment, if any, and no impairment was noted. The value in use model considered all reasonable possible changes to the inputs.

Under a separate management agreement with NBO, the Group was responsible for the day to day management of NBO affairs subject to the overall supervision of NBO Board until March 2011. The Group does not have control over NBO as only 4 out of 11 members of the board of NBO are represented by the Group.

In compliance with the International Financial Reporting Standards 3, Bank has carried out one time 'purchase price allocation (PPA)' exercise of the value paid for the acquisition of 34.90% shares of NBO. PPA identifies the value paid for the tangible assets, intangible assets and the premium/goodwill arising on the acquisition. Derived values of intangible assets are QR 104 million amortized over the useful life of the intangible assets.

b) United Arab Bank (UAB)

Shares of United Arab Bank PJSC (UAB) are listed on the Abu Dhabi Securities Market and the quoted price as at 31 December 2011 was AED 3.64 (2010: AED 5.43). The estimated fair value of the investment based on this price as at 31 December 2011 is QAR 1,438 million (2010: QAR 2,144 million). Investment in associates for UAB at 31 December 2011 includes goodwill of QAR 1.4 billion (2010: QR 1.4 billion). At 31 December 2011, the Group conducted a value in use analysis to determine impairment, if any, and no impairment was noted. The value in use model considered all reasonable possible changes to the inputs.

Under a separate management service agreement with UAB, the Bank is responsible for the day to day management of UAB affairs subject to overall supervision of the UAB board. However the Group does not have control over UAB as only 4 out of 9 members of the board of UAB are represented by the Group.

In compliance with the International Financial Reporting Standards 3, Bank has carried out one time 'purchase price allocation (PPA)' exercise of the value paid for the acquisition of 40.00% shares of UAB. PPA identifies the value paid for the tangible assets, intangible assets and the premium/goodwill arising on the acquisition. Derived values of intangible assets are QR 280 million amortized over the useful life of the intangible assets.

c) Asteco LLC

Asteco is a locally incorporated entity primarily engaged in property management and sales.

10. INVESTMENTS IN ASSOCIATES (continued)

d) GEKKO LLC

GEKKO is a locally incorporated entity primarily engaged in the establishment of an electronic payment infrastructure.

e) Massoun Insurance Services LLC

Massoun is a locally incorporated joint venture company engaged in Insurance Brokerage business.

11. PROPERTY AND EQUIPMENT

Figures in thousand Qatar Riyals

	Land and buildings	Leasehold improvements	Furniture and equipment	Motor vehicles	Capital work-in-progress	Total
At 31 December 2011						
Cost:						
Balance at 1 January	788,823	70,112	490,361	6,915	216,487	1,572,698
Additions	1,202	227	1,721	354	111,606	115,110
Disposals	-	-	-	(551)	-	(551)
Transfers	20,671	-	119,462	-	(140,133)	-
Exchange differences	-	-	(2)	-	-	(2)
	810,696	70,339	611,542	6,718	187,960	1,687,255
Depreciation						
Balance at 1 January	138,398	52,101	307,573	5,604	-	503,676
Charge for the year	27,274	6,589	79,085	756	-	113,704
Disposals	-	-	-	(451)	-	(451)
Exchange differences	-	-	(2)	-	-	(2)
	165,672	58,690	386,656	5,909	-	616,927
Net carrying amount	**645,024**	**11,649**	**224,886**	**809**	**187,960**	**1,070,328**
At 31 December 2010						
Cost:						
Balance at 1 January	771,051	72,218	462,272	7,567	123,545	1,436,653
Additions	15,099	82	13,222	-	115,031	143,434
Disposals	-	(4,044)	(2,764)	(661)	-	(7,469)
Transfers	2,673	1,856	17,560	-	(22,089)	-
Exchange differences	-	-	71	9	-	80
	788,823	70,112	490,361	6,915	216,487	1,572,698
Depreciation						
Balance at 1 January	111,859	44,433	245,658	5,071	-	407,021
Charge for the year	26,539	11,712	64,540	1,057	-	103,848
Disposals	-	(4,044)	(2,696)	(533)	-	(7,273)
Exchange differences	-	-	71	9	-	80
	138,398	52,101	307,573	5,604	-	503,676
Net carrying amount	650,425	18,011	182,788	1,311	216,487	1,069,022

Capital work in progress includes QAR 63 million for new branches, QAR 63 million for branch renovations, QAR 25 million for CB Plaza car parking and QAR 37 million for various IT projects.

12. OTHER ASSETS

	Figures in thousand Qatar Riyals	
	2011	2010
Accrued income	295,828	319,055
Prepaid expenses	19,080	10,156
Accounts receivable	150,788	115,232
Properties acquired in settlement of debts (i)	412,206	295,628
Derivatives with a positive fair value (Note 28)	343,799	242,391
Clearing cheques	36,622	33,566
Sundry assets	90,077	64,499
Balance at 31 December	**1,348,400**	1,080,527

(i) This represents the value of the properties acquired in settlement of debts which are stated at their acquisition value net of any allowance for impairment. The estimated market value of these properties as at 31 December 2011 are not materially different from its carrying value.

13. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	Figures in thousand Qatar Riyals	
	2011	2010
Due to Central Bank	700,000	-
Current accounts	281,700	277,447
Placements with banks and financial institutions	4,856,187	3,275,951
Balance at 31 December	**5,837,887**	3,553,398

14. CUSTOMER DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

	Figures in thousand Qatar Riyals	
	2011	2010
i) By Type		
Demand and call deposits	10,107,570	7,207,024
Savings deposits	3,346,810	2,740,572
Time deposits	22,940,945	19,550,515
Islamic deposits	1,593,358	3,782,551
Balance at 31 December	**37,988,683**	33,280,662
ii) By sector		
Government	5,791,316	2,717,045
Government and semi-government agencies	8,778,012	5,067,320
Individuals	10,071,423	9,669,086
Corporate	13,347,932	15,807,211
Balance at 31 December	**37,988,683**	33,260,662

Accounts held as collateral included in customer deposits QAR 2,905 million (2010: QAR 3,114 million)

15. DEBT ISSUED AND OTHER BORROWED FUNDS

Syndicated Loan: This represents term borrowings raised through syndicated loan facilities from consortium of international and regional banks, to support the general funding needs of the Group as follows:

- In April 2007, the Group obtained a syndicated loan for an amount of US$ 650 million or QAR 2,366 million for a five year period to refinance two short term loans totalling US$ 490 million or QAR 1,784 million that were fully repaid in January 2007. This is an unsecured bullet repayment loan facility with a floating rate of interest linked to US$ LIBOR plus a margin of 27.5 basis points per annum. The fair value of the loan as at 31 December 2011 is QAR 2.37 billion (2010: QAR 2.39 billion).

Senior and Subordinated Notes: On 18 November 2010, the Commercial Bank of Qatar through CBQ Finance Limited, a wholly-owned subsidiary completed the issuance of the following notes:

- **Senior Notes:** US$ 1,000 million or QAR 3,640 million five-year Senior Notes paying a fixed coupon of 5.00% per annum. Interest is payable semi-annually in arrears and the principal is payable in full at maturity of five years. The estimated fair value of the Senior Notes as at 31 December 2011 was QAR 3.79 billion (2010: QAR 3.80 billion).

- **Subordinated Notes:** US$ 600 million or QAR 2,184 million ten-year Subordinated Notes paying a fixed coupon of 7.50% per annum. Interest is payable semi-annually in arrears and the principal is payable in full at maturity of ten years. The estimated fair value of the Subordinated Notes as at 31 December 2011 was QAR 2.52 billion (2010: QAR 2.43 billion).

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

- **CHF denominated Fixed Rate Bond:** On 7 December 2010, the Bank through CBQ Finance Limited, a wholly-owned subsidiary, completed the issuance of CHF 275 million five year bond paying a fixed coupon of 3.0% per annum. Interest and 0.01% agency commission is payable annually in arrears and the principal is payable in full at maturity on 7 December 2015. This bond has been irrevocably guaranteed by the Commercial Bank of Qatar and is listed and traded on the 'SIX' Swiss Exchange AG, Zurich.

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

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

	Figures in thousand Qatar Riyals	
	2011	2010
Syndicated loan	2,365,698	2,363,686
EMTN (Bonds) *	-	1,817,807
Senior Notes	3,615,093	3,607,278
Subordinated Notes	2,152,938	2,150,166
CHF Fixed Rate Bonds	1,103,643	1,054,625
Bilateral loan	1,816,714	-
Balance at 31 December	**11,054,086**	10,993,562

* The EMTN (Bonds) matured and were repaid on 12 October 2011.

15. DEBT ISSUED AND OTHER BORROWED FUNDS (continued)

Movements in debt issued and other borrowed funds are analysed as follows:

	Figures in thousand Qatar Riyals	
	2011	2010
Balance at beginning of the year	10,993,562	9,924,358
Additions to borrowings	1,816,714	1,027,713
Repayments	(1,820,000)	-
Fair value adjustment	48,697	26,912
Amortisation of discount and transaction cost	15,113	14,579
Balance at 31 December	**11,054,086**	10,993,562

The table below shows the maturity profile of debt issued and other borrowed funds:

	Figures in thousand Qatar Riyals	
	2011	2010
Up to 1 year	2,547,698	1,817,807
Between 1 and 3 years	5,249,807	2,363,686
Over 3 years	3,256,581	6,812,069
Balance at 31 December	**11,054,086**	10,993,562

16. OTHER LIABILITIES

	Figures in thousand Qatar Riyals	
	2011	2010
Deferred income	66,631	81,220
Accrued expenses	199,451	223,694
Other provisions –(note (i) below)	137,504	130,167
Derivatives with negative fair values (note 28)	265,592	212,373
Cash margins	120,733	147,565
Accounts payable	266,465	291,403
Directors' remuneration	36,000	36,000
Social responsibility fund	3,282	7,833
Social & Sports Activities Support Fund ("Daam") (note 18)	47,099	32,838
Dividend payable	9,988	7,950
Managers' cheque and payment order	16,704	18,494
Unclaimed balances	10,977	7,816
Sundry liabilities	97,877	87,957
Total	**1,278,303**	1,285,310

16. OTHER LIABILITIES (continued)

i) OTHER PROVISIONS

Figures in thousand Qatar Riyals

	Provident fund (a)	Pension fund (b)	Total 2011	Total 2010
Balance at 1 January	129,439	728	130,167	119,831
Provisions made during the year- Bank contribution	14,260	4,868	19,128	11,956
Earnings of the fund	3,684	-	3,684	2,240
Provident fund - staff contribution	7,220	2,434	9,654	10,367
Transferred to State retirement fund authority	-	(7,091)	(7,091)	(6,476)
Payments during the year	(18,038)	-	(18,038)	(7,751)
Balance at 31 December	**136,565**	**939**	**137,504**	130,167

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

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

17. EQUITY

Share capital

Issued, paid up capital and shareholder's advance

The issued, subscribed and paid up capital of the Bank is QAR 2,474,463,720 (2010: QAR 2,268,258,420) divided into 247,446,372 (2010: 226,825,842) ordinary shares of QAR 10 each.

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

Legal reserve

The proceeds of the additional 20,620,530 new ordinary shares issued during the year was credited to share capital (nominal value) at QAR 10 per ordinary share and to legal reserve (share premium) at QAR 68.30 per ordinary share, as per Article 154 of Commercial Companies Law no. 5 of 2002. There was no directly attributable cost for this transaction.

In accordance with the Central Bank Law, 10% of the net profit for the year is required to be transferred to the Legal Reserve until the reserve equals 100% of the paid up capital. This reserve is not available for distribution except in circumstances specified in the Commercial Companies Law No. 5 of 2002 and after approval of Qatar Central Bank. Legal reserve also includes the share premium arising on rights issues from the date of incorporation.

General reserve

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

17. EQUITY (continued)

Cumulative changes in fair value

The fair value reserve arises from the revaluation of the available-for-sale investments, change of post acquisition fair value reserve of its associates and exchange gain or loss on consolidation of subsidiaries and associates financial statements. The movement in fair value reserve during the year is as follows:

	Figures in thousand Qatar Riyals	
	2011	2010
Balance at 1 January	56,648	(105,864)
(Loss) gain on revaluation	(80,657)	177,910
Transferred to statement of income, net	(42,367)	(30,652)
Share of other comprehensive income of associates	(2,162)	15,299
Adjustment for exchange rate fluctuations	(10)	(45)
Balance at 31 December	**(68,548)**	56,648

Risk reserve

This represents a general reserve as per the regulation of Qatar Central Bank to cover a minimum 2.0% of the loan portfolio excluding specific provision, interest in suspense, deferred profits of Islamic financing, lending to Ministry of Finance of the State of Qatar, guaranteed by Ministry of Finance and lending against cash collaterals. This amount is not available for distribution without the prior approval of Qatar Central Bank.

Other reserves

This represents Group's share of profit from investment in associates net of cash dividend received. The movement in other reserves during the year is as follows:

	Figures in thousand Qatar Riyals	
	2011	2010
Balance at 1 January	469,706	416,565
Less : Dividend received from associates transferred to retained earnings	(116,670)	(102,032)
Add : Share of result of associates for the year	203,420	155,173
Balance at 31 December	**556,456**	469,706

Proposed dividend

The Board of Directors has proposed a cash dividend of 60% (or QAR 6 per share) for the year 2011. This is subject to approval at the Annual General Assembly.

Dividends paid

During the year, the shareholders approved a dividend of QAR 7 per share totalling QAR 1.59 billion in respect of the year ended 31 December 2010 (2010: QAR 6 per share totalling QAR 1.30 billion in respect of the year ended 31 December 2009).

Qatar Holding LLC waived its dividend entitlement of QAR 62 million for 2009 and this is reflected in the retained earnings in the Statement of Changes in Equity of 2010.

18. CONTRIBUTION TO SOCIAL AND SPORTS ACTIVITIES SUPPORT FUND ("DAAM")

Pursuant to Law No. 13 of 2008 and further clarification of the law issued in 2011, the Bank made an appropriation of QAR 47 million from retained earnings for its contribution to the Social and Sports Activities Support Fund ("Daam") of Qatar. This amount represents 2.5% of the net profit during the year ended 31 December 2011.

During the period, the Bank contributed QAR 8 million to the Social & Sports Activities Support Fund ("Daam") of Qatar in respect of prior years based on clarification received from the Chairman of the Fund pertaining to the basis of computation of the contribution.

19. INTEREST INCOME FROM CONVENTIONAL AND PROFIT FROM ISLAMIC OPERATIONS

Figures in thousand Qatar Riyals

	2011	2010
Loans, advances and financing activities for customers	2,315,636	2,471,703
Financial investments	508,922	399,554
Banks and financial institutions	51,592	117,470
Total	**2,876,150**	2,988,727

20. INTEREST EXPENSE FROM CONVENTIONAL AND SHARE OF PROFIT ON ISLAMIC OPERATIONS

Figures in thousand Qatar Riyals

	2011	2010
Customer deposits and unrestricted investment accounts	493,502	781,099
Debt issued and other borrowed funds	418,005	394,780
Due to banks and financial institutions	27,043	35,200
Total	**938,550**	1,211,079

21. FEE AND COMMISSION INCOME

Figures in thousand Qatar Riyals

	2011	2010
Loans and financing advisory service	358,418	268,496
Credit card	222,192	185,417
Indirect credit facilities	117,752	134,985
Banking and other operations	36,612	39,268
Investment activities for customers	17,613	15,002
Total	**752,587**	643,168

22. NET GAINS FROM DEALING IN FOREIGN CURRENCIES

Figures in thousand Qatar Riyals

	2011	2010
Profits from foreign currency transactions	126,802	124,244
Profits (losses) from revaluation of assets and liabilities	2,734	(1,547)
Total	**129,536**	122,697

23. PROFIT FROM FINANCIAL INVESTMENTS

Figures in thousand Qatar Riyals

	2011	2010
Available-for-sale	135,026	63,051
Held to maturity	1,281	455
Total	**136,307**	63,506

24. OTHER OPERATING INCOME

Figures in thousand Qatar Riyals

	2011	2010
Rental income	33,614	36,720
Gain on sale of property and equipment and other income	15,911	20,983
Management fees from associates	741	2,095
Total	**50,266**	59,798

25. GENERAL AND ADMINISTRATIVE EXPENSES

Figures in thousand Qatar Riyals

	2011	2010
Salaries and other benefits	428,037	409,051
Occupancy, IT Consumables and maintenance	77,261	70,336
Legal and professional charges	51,610	44,286
Marketing and promotional expenses	44,207	43,533
Communication, utilities and insurance	40,806	31,718
Directors' remuneration and meeting attendance fees	38,230	37,830
Outsourcing costs	26,301	5,857
Bank's contribution to provident fund and Qatari pension fund (note 16(i))	19,128	11,956
Supplies	7,173	6,557
Training programme costs	6,208	2,324
Travel and entertainment expenses	2,875	2,542
Other expenses	19,815	17,424
Total	**761,651**	683,414

26. EARNINGS PER SHARE

	2011	2010
Basic and diluted		
Net profit for the year in thousand QAR	1,883,971	1,635,281
Weighted average number of shares in thousands	244,509	225,723

The weighted average numbers of shares in thousands have been calculated as follows:

	2011	2010
Qualifying shares at the beginning of the year	226,826	216,515
Effect of share issued to Qatar Holding (QH)	17,683	9,208
Total	**244,509**	225,723
Basic and diluted earnings per share (QAR)	**7.71**	7.24

27. OFF-BALANCE SHEET ITEMS

Figures in thousand Qatar Riyals

		2011	2010
a)	Contingent liabilities		
	Acceptances	97,979	91,583
	Guarantees	9,088,622	8,532,654
	Letter of credit	5,217,592	3,950,492
	Un-utilized credit facilities granted to customers	5,859,107	6,376,592
		20,263,300	18,951,321
b)	Other undertakings and commitments		
	Foreign exchange contracts and derivatives at notional value	6,143,561	6,051,807
	Capital commitments	479,243	470,000

28. DERIVATIVE INSTRUMENTS

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

Figures in thousand Qatar Riyals

	Positive fair value	Negative fair value	Notional Amount	Within three months	3 - 12 months	1 – 5 years	More than 5 years
As at 31 December 2011							
Derivatives – Held for Trading							
Interest rate swaps and forward foreign exchange contracts	268,189	265,592	5,114,255	1,977,434	61,246	2,048,204	1,027,371
Derivatives – Held for Fair Value Hedges							
Cross currency interest rate swaps	75,610	-	1,029,306	-	-	1,029,306	-
As at 31 December 2010							
Derivatives – Held for Trading							
Interest rate swaps and forward foreign exchange contracts	214,973	212,373	5,022,501	1,783,144	86,554	2,059,228	1,093,575
Derivatives – Held for Fair Value Hedges							
Cross currency interest rate swaps	27,418	-	1,029,306	-	-	1,029,306	-

The bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the bank (i.e. assets) which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the bank requires margin deposits from counter-parties.

29. INVESTMENT CUSTODIAN

On the balance sheet date the Group holds QAR 175 million (2010: QAR 156 million) worth of international investment securities on behalf of its customers. Out of this amount, investment securities with a value of QAR 133 million equivalent to USD 36.5 million (2010: QAR 113 million equivalent to USD 31 million) are held with an international custody and settlement house. The remaining investment securities are held with the financial institutions through whom the securities were purchased. These financial institutions are industry leaders in their respective fields. The Group has established maximum limits for such holding with each financial institution according to its risk management policy.

30. TRANSACTIONS WITH RELATED PARTIES

The Group carries out various transactions with subsidiaries and associate companies and with members of the Board of Directors, the executive management or companies in which they have significant interest or any other parties of important influence in the Group's financial or operations decisions. The balances at the year-end with these accounts were as follows:

Figures in thousand Qatar Riyals

	2011	2010
Board members		
- Loans, advances and financing activities (a)	2,516,789	1,823,191
- Deposits	183,640	259,602
- Contingent liabilities, guarantees and other commitments	23,356	21,529
- Interest income earned from facilities granted to board members	35,233	44,929
- Other fee income earned from transactions with board members	3,252	782
- Interest paid on deposits accounts of board members	15,671	20,424
- Remuneration, meeting attendance fees and salaries paid to board members	41,454	39,558
Associated companies		
- NBO's deposit with the Group	675	109,957
- Bank's deposit with NBO	237,053	663
- NBO's contingent liabilities to the Group:		
• Letter of Guarantee	11,192	58,846
• Un-utilized credit facilities	254,800	254,800
• Interest rate swap (notional amount)	14,182	28,364
• Interest rate swap (fair value)	488	1,516
- UAB's deposit with the Group	183,369	309,796
- Bank's deposit with UAB	182,737	146,001
- UAB's contingent liabilities to the Group:		
• Letter of Guarantee	29,281	29,536
• Letter of Credit	620	339
- Asteco's deposit with the Group	6,148	7,311
- GEKKO's deposit with the Group	580	335
- Massoun's deposit with the Group	19,855	19,089
- Interest income earned from Associates	550	23
- Interest income incurred to Associates	836	3,633
Senior management compensation		
- Fixed remuneration	35,975	31,280
- Discretionary remuneration	12,864	14,604
- Fringe benefits	4,772	6,648

Additional Information

a) A significant portion of the loans, advances and financing activities' balance at 31 December with the members of the Board and the companies in which they have significant influence are secured against tangible collateral or personal guarantees. Moreover, the loans, advances and financing activities' are performing satisfactorily with all obligations honored as arranged. The pricing of any such transactions are primarily based on the banker customer relationship at the prevailing market rates.

31. CASH AND CASH EQUIVALENTS FOR STATEMENT OF CASH FLOWS

Figures in thousand Qatar Riyals

	2011	2010
Cash and balances with Central Bank *	827,160	7,149,034
Due from banks and financial institutions up to 90 days	8,838,446	3,774,703
Due to banks and financial institutions up to 90 days	(5,837,887)	(3,553,398)
Balance at end of the year	**3,827,719**	7,370,339

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

Supplementary Information at 31 December 2011

FINANCIAL STATEMENTS FOR THE PARENT BANK

Figures in thousand Qatar Riyals

Parent Bank Balance Sheet

As at 31 December 2011	2011	2010
ASSETS		
Cash and balances with Central Bank	2,576,489	8,702,819
Due from banks and financial institutions	9,271,621	4,237,457
Loans, advances and financing activities for customers	41,611,659	33,564,739
Financial investments	11,905,443	10,096,454
Investments in associate	3,403,682	3,402,532
Property and equipment	1,070,021	1,069,016
Other assets	1,346,857	1,080,221
Total assets	**71,185,772**	62,153,238
LIABILITIES		
Due to banks and financial institutions	5,837,053	3,553,398
Customers' deposits and unrestricted investment accounts	38,179,363	33,365,343
Borrowing under repurchase agreement	1,150,810	907,285
Debt issued and other borrowed funds	11,054,086	10,993,562
Other liabilities	1,270,595	1,282,475
Total liabilities	**57,491,907**	50,102,063
EQUITY		
Share capital	2,474,464	2,268,258
Legal reserve	8,740,365	7,331,982
General reserve	26,500	26,500
Cumulative changes in fair value	(63,403)	59,621
Risk reserves	805,600	648,000
Proposed dividend	1,484,678	1,587,781
Retained earnings	225,661	129,033
Total equity	**13,693,865**	12,051,175
Total liabilities and equity	**71,185,772**	62,153,238

Supplementary Information (continued)

At 31 December 2011

FINANCIAL STATEMENTS FOR THE PARENT BANK (continued)

Figures in thousand Qatar Riyals

Parent Bank Statement of Income

For the year ended 31 December 2011	2011	2010
Interest income from Conventional and Profit from Islamic Operations	2,875,771	2,988,251
Interest expense from Conventional and Share of Profit on Islamic Operations	(940,230)	(1,213,533)
Net interest income and Profit from Islamic Operations	**1,935,541**	1,774,718
Fees and commission income	750,573	642,775
Fees and commission expense	(166,366)	(116,696)
Net fees and commissions income	**584,207**	526,079
Dividend income	24,188	11,883
Net gains from dealing in foreign currencies	129,468	122,655
Profit from financial investments	136,307	63,506
Other operating income	45,426	52,731
	335,389	250,775
Net operating income	**2,855,137**	2,551,572
General and administrative expenses	(754,428)	(682,331)
Depreciation	(113,643)	(103,844)
Impairment losses on loans and advances to customers, net	(239,915)	(166,953)
Impairment losses on financial investments	(68,197)	(127,995)
Total operating expenses and impairment losses	**(1,176,183)**	(1,081,123)
Net profit for the year	**1,678,954**	1,470,449

Photography courtesy Commercialbank employees photo contest for Qatar National Day

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