Barwa Bank P.Q.S.C

Consolidated Financial Statements

For the year ended 31 December 2011

Barwa Bank P.Q.S.C

Consolidated financial statements for the year ended 31 December 2011

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BARWA BANK

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Barwa Bank (the "Bank") and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated statements of income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of the Board of Directors and Auditors

These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the Board of Directors of the Bank. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2011, and the results of its operations, changes in equity and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank and the applicable provisions of Qatar Central Bank regulations.

Other regulatory matters

We have obtained all the information and explanation which we considered necessary for the purpose of our audit. The Group has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We are not aware of any violations of the provision of Qatar Central Bank Law No. 33 of 2006, Qatar Commercial Companies Law No. 5 of 2002 or the terms of Articles of Association, and the amendments thereto, having occurred during the year which might have had a material effect on the business of the Bank or its consolidated financial position as at 31 December 2011.

19 April 2012
Doha
State of Qatar

Gopal Balasubramaniam
KPMG
Qatar Auditor's Registry No. 251

BARWA BANK P.Q.S.C
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER **QR' 000s**

	Note	2011	2010
ASSETS			*(Restated)*
Cash and balances with Qatar Central Bank	7	1,159,350	855,980
Balances and placements with banks and other financial institutions	8	1,878,943	1,556,738
Receivables and balances from financing activities	9	9,218,139	2,028,271
Investment securities	10	4,841,872	2,270,225
Investment in associates	11	167,387	92,094
Other assets	12	862,617	151,324
Investment properties	13	48,252	49,535
Fixed assets	14	126,970	66,502
Intangible assets	15	810,566	787,622
Total assets		**19,114,096**	7,858,291
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
Liabilities			
Placements from financial institutions	16	4,230,196	1,720,769
Customer current accounts	17	1,326,238	138,530
Other liabilities	18	701,200	123,565
Total liabilities		**6,257,634**	1,982,864
Unrestricted investment accounts	19	**8,013,189**	3,025,669
Equity			
Share capital	20.1	1,908,691	1,908,691
Subscriptions for rights issue	20.1	1,746,094	-
Legal reserve	20.2	986,417	934,912
Treasury shares	20.3	(38,349)	(38,349)
Risk reserve	20.4	125,657	27,722
Other reserve	20.5	94,042	-
Investment fair value reserve	10	19,573	16,494
Foreign currency translation reserve		764	754
Retained earnings		181	-
Total equity attributable to Owners of the Bank		**4,843,070**	2,850,224
Minority interest		203	(466)
Total equity		**4,843,273**	2,849,758
Total liabilities, unrestricted investment accounts and equity		**19,114,096**	7,858,291

These consolidated financial statements were approved by the Board of Directors on 19 April 2012 and were signed on its behalf by:

Mohammed Bin Hamad Bin Jassim Al Thani
Chairman

Steven Troop
Chief Executive Officer

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

BARWA BANK P.Q.S.C
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER **QR' 000s**

	Note	2011	2010
Income from financing activities, net	21	309,785	108,920
Income from investing activities, net	22	237,810	94,794
Total income from financing and investing activities, net		**547,595**	203,714
Commission and fee income		112,506	154,241
Commission and fee expenses		(1,330)	(2,250)
Commission and fee income, net	23	**111,176**	151,991
Other income		6,945	3,742
Total income, net		**665,716**	359,447
Net recoveries of receivables and balances from financing activities	9	29,221	3,024
Impairment loss on investments carried at fair value through equity	10	(14,264)	(12,010)
Loss on share swap		-	(11,420)
Impairment loss on other assets		-	(16,261)
Impairment loss on investment properties	13	(1,283)	-
Impairment loss on intangible assets	15	(403)	(6,066)
General and administrative expenses	24	(331,839)	(245,685)
Depreciation and amortisation	14,15	(36,925)	(11,105)
Total expenses		**(355,493)**	(299,523)
Profit before unrestricted investment account holders' share of profit and share of results from associates		**310,223**	59,924
Provision for unrestricted investment account holders' share of profit	19	**(118,636)**	(77,465)
Share of results from associates	11	**52,755**	42,434
Profit for the year		**244,342**	24,893
Profit attributable to:			
Owners of the Bank		243,663	27,727
Minority interest		679	(2,834)
Profit for the year		**244,342**	**24,893**
Basic and diluted earnings per share (QR)	32	**1.30**	0.15

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

BARWA BANK P.Q.S.C
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER **QR' 000s**

	Note	2011	2010
OPERATING ACTIVITIES			
Profit for the year		244,342	24,893
Adjustments for:			
Net gain on sale of investments	22	(23,281)	(30,762)
Loss on share swap		-	11,420
Dividend income	22	(16,482)	(494)
Share of results from associates	11	(52,755)	(42,434)
Impairment of receivables and balances from financing activities	9	49,241	-
Impairment of investment property	13	1,283	-
Impairment of investment securities	10	14,264	12,010
Depreciation and amortization	14,15	36,925	11,105
Impairment of software	15	403	6,066
End of service benefits provision	18.1	7,872	6,988
		261,812	(1,208)
Change in receivables and balances from financing activities		(7,239,109)	(251,487)
Change in other assets		(711,293)	(13,209)
Change in placements with financial institutions		(456,346)	-
Change in placements from financial institutions		2,509,427	805,555
Change in customer current accounts		1,187,708	131,466
Change in unrestricted investment accounts		4,987,520	1,936,941
Change in other liabilities		488,431	52,542
Change in reserve account with Qatar Central Bank		(256,255)	(75,306)
		771,895	2,585,294
Dividend income received	22	16,482	2,394
End of service benefits paid	18.1	(3,404)	(2,704)
Net cash from operating activities		**784,973**	2,584,984
INVESTING ACTIVITIES			
Acquisition of investment securities		(2,586,481)	(1,804,117)
Addition of fixed and intangible assets	14,15	(22,460)	(9,241)
Acquisition of investment property		-	(35,380)
Acquisition of business	6	(9,152)	-
Cash acquired on acquisition of subsidiary		-	567,869
Net cash used in investing activities		**(2,618,093)**	(1,280,869)
FINANCING ACTIVITIES			
Proceeds from subscriptions of rights issue	20.1	1,746,094	-
Net cash from financing activities		**1,746,094**	-
Net increase in cash and cash equivalents		**(87,026)**	1,304,115
Cash and cash equivalents at the beginning of the year		2,286,193	982,078
Cash and cash equivalents at the end of the year	31	**2,199,167**	2,286,193

The accompanying notes 1 to 36 form an integral part of these consolidated financial

BARWA BANK P.Q.S.C
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER **QR' 000s**

	Share capital	Subscriptions for rights issue	Legal reserve	Treasury shares	Risk reserve	Other reserve	Investment fair value reserve	Foreign currency translation reserve	Retained earnings	Total owners' equity	Minority interest	Total equity
Balance at 1 January 2011	1,908,691	-	934,912	(38,349)	27,722	-	18,756	754	-	2,852,486	(466)	2,852,020
Fair value reserve reversal due to change in accounting policy for debt-type instruments	-	-	-	-	-	-	(2,262)	-	-	(2,262)	-	(2,262)
Balance at 1 January 2011 – restated	**1,908,691**	**-**	**934,912**	**(38,349)**	**27,722**	**-**	**16,494**	**754**	**-**	**2,850,224**	**(466)**	**2,849,758**
Net change in fair value of investments classified as fair value through equity	-	-	-	-	-	-	(11,874)	-	-	(11,874)	-	(11,874)
Change in fair value of investments classified as fair value through equity reclassified to consolidated income statement on impairment	-	-	-	-	-	-	14,264	-	-	14,264	-	14,264
Reclassification between reserves	-	-	-	-	-	-	171	(171)	-	-	-	-
Share of associate's fair value reserve changes	-	-	-	-	-	-	518		-	518	-	518
Foreign currency translation reserve reclassified to consolidated income statement	-	-	-	-	-	-	-	181	-	181	-	181
Total income and expense for the year recognised directly in equity	-	-	-	-	-	-	3,079	10	-	3,089	-	3,089
Net profit for the year	-	-	-	-	-	-	-	-	243,663	243,663	679	244,342
Total income and expense for the year	-	-	-	-	-	-	**3,079**	**10**	**243,663**	**246,752**	**679**	**247,431**
Subscriptions for rights issue	-	1,746,094	-	-	-	-	-	-	-	1,746,094	-	1,746,094
Transfer to legal reserve	-	-	51,505	-	-	-	-	-	(51,505)	-	-	-
Transfer to risk reserve	-	-	-	-	97,935	-	-	-	(97,935)	-	-	-
Transfer to other reserve	-	-	-	-	-	94,042	-	-	(94,042)	-	-	-
Change of ownership interest in a subsidiary resulted in loss of control	-	-	-	-	-	-	-	-	-	-	(10)	(10)
Balance at 31 December 2011	**1,908,691**	**1,746,094**	**986,417**	**(38,349)**	**125,657**	**94,042**	**19,573**	**764**	**181**	**4,843,070**	**203**	**4,843,273**

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

BARWA BANK P.Q.S.C
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER **QR' 000s**

	Share capital	Subscrip-tions for rights issue	Legal reserve	Treasury shares	Risk reserve	Other reserve	Investment fair value reserve	Foreign currency translation reserve	Retained earnings	Total owners' equity	Minority interest	*(Restated)* Total equity
Balance at 1 January 2010	759,200	-	176,564	-	2,768	-	(359)	-	-	938,173	111	938,284
Net change in fair value of investments classified as fair value through equity	-	-	-	-	-	-	6,320	-	-	6,320	-	6,320
Change in fair value of investments classified as fair value through equity reclassified to consolidated income statement on impairment	-	-	-	-	-	-	12,010	-	-	12,010	-	12,010
Change in fair value of investments classified as fair value through equity reclassified to consolidated income statement on disposal of an associate	-	-	-	-	-	-	456	-	-	456	-	456
Share of associate's fair value reserve changes	-	-	-	-	-	-	329	-	-	329	-	329
Foreign currency translation differences for foreign operations	-	-	-	-	-	-	-	842	-	842	-	842
Foreign currency translation reserve reclassified to consolidated income statement on disposal of an associate	-	-	-	-	-	-	-	(88)	-	(88)	-	(88)
Total income and expense for the year recognised directly in equity	-	-	-	-	-	-	19,115	754	-	19,869	-	19,869
Net profit for the year	-	-	-	-	-		-	-	27,727	27,727	(2,834)	24,893
Total income and expense for the year	-	-	-	-	-	-	19,115	754	27,727	47,596	(2,834)	44,762
Transfer to legal reserve	-	-	2,773	-	-	-	-	-	(2,773)	-	-	-
Transfer to risk reserve	-	-	-	-	24,954	-	-	-	(24,954)	-	-	-
Minority interest transferred through business combination	-	-	-	-	-	-	-	-	-	-	2,257	2,257
Treasury shares held by subsidiaries	-	-	(26,079)	(38,349)	-	-	-	-	-	(64,428)	-	(64,428)
Issue of shares on business combination	1,149,491	-	781,654	-	-	-	-	-	-	1,931,145	-	1,931,145
Effect of change in accounting policy (note no. 2e)	-	-	-	-	-	-	(2,262)	-	-	(2,262)	-	(2,262)
Balance at 31 December 2010 – restated	1,908,691	-	934,912	(38,349)	27,722	-	16,494	754	-	2,850,224	(466)	2,849,758

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

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Barwa Bank (the "Bank") was incorporated with Qatari Shareholding in the State of Qatar under Commercial Registration No. 38012 dated 28 January 2008 (the "date of incorporation"). The Bank commenced its activities on 1 February 2009 under Qatar Central Bank ("QCB") License No. RM/19/2008 and the share capital was introduced on 1 July 2009. The Bank operates through its head office situated on Grand Hamad Street, Doha and its 5 branches in Doha, State of Qatar.

The Bank and its subsidiaries (together referred to as the "Group") are primarily engaged in investing, financing and advisory activities in accordance with Islamic Shari'a principles as determined by the Shari'a Committee of the Bank and provisions of its Memorandum and Articles of Association. Investment activities are carried out for proprietary purpose and on behalf of customers.

The Bank is 37.34% owned by Barwa Real Estate Company Q.S.C., a Qatari listed company, 12.13% by Qatar Holding, the strategic and direct investment arm of the Qatar Investment Authority, the sovereign wealth fund of the State of Qatar. The remaining shares are owned by several individuals and corporates.

2. BASIS OF PREPARATION

a. Statement of compliance

The consolidated financial statements are prepared in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") and the applicable provisions of the QCB regulations. In line with the requirements of AAOIFI, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standards ("IFRS").

b. Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for investments classified as fair value through the income statement and investments classified as fair value through equity, which are both measured at fair value.

c. Functional and presentation currency

The consolidated financial statements are presented in Qatari Riyals, which is the Bank's functional currency. Financial information is presented in Qatari Riyals and rounded to the nearest thousand except when otherwise indicated.

d. Use of estimates and judgements

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 34.

2. BASIS OF PREPARATION (CONTINUED)

e. Standards, amendments and interpretations issued

Standards, amendments and interpretations issued and effective on or after 1 January 2011

Statement of Financial Accounting No. 1: '*Conceptual Framework for Financial Reporting by Islamic Financial Institutions'*

The amended conceptual framework provides the basis for the Financial Accounting Standards issued by AAOIFI. The amended framework introduces the concept of substance and form compared to the concept of form over substance. The statement states that it is necessary that information, transactions and other events are accounted for and presented in accordance with its substance and economic reality as well as the legal form. The adoption of this statement did not have any impact on the accounting policies, financial position or performance of the Group.

Financial Accounting Standard 25: '*Investment in sukuk, shares and similar instruments'*

FAS 25 replaces FAS 17 'Investments' and enhances the scope of the standard by introducing investments in debt-type and equity-type investments rather than limiting the scope to investment in equity and Sukuk under the old standard. It states that financial investments could be classified as either debt-type instruments or equity-type instruments (excluding certain investments outside the scope of the standard). Investments in equity-type instruments could be classified either as investment at fair value through income statement or through equity.

As defined in FAS 25, investment securities are recategorised from the date of initial recognition. This has no impact on the consolidated income statement and earnings per share of the prior year presented. Further, there have been no restatements as at 1 January 2010 as there were no quoted debt securities classified as fair value through equity as at that date.

The Group has applied the standard retrospectively in accordance with the transitional provisions and its impact on the consolidated financial statements are as follows:

	QR' 000s	
	2011	2010
The investment securities balance decreased by	7,278	2,262
The investment fair value reserve balance decreased by	7,278	2,262

IAS 24: 'Related Party Disclosures' (revised)

The revised standard clarifies and simplifies the definition of a related party and reduces the requirement for government related entities to disclose details of all transactions with the government and other government-related entities. The adoption of the revised standard did not have any significant impact on the related party disclosure of the Group.

Improvements to IFRS issued in 2010

This contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. Improvements to IFRS comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2011 with earlier adoption permitted. No changes to accounting policies were made by the Group as a result of these amendments.

2. BASIS OF PREPARATION (CONTINUED)

e. Standards, amendments and interpretations issued (continued)

Standards, amendments and interpretations issued but not yet effective

A number of new standards, amendments to standards and interpretations have been issued that are not yet effective for the year ended 31 December 2011, and have not been applied in preparing these consolidated financial statements:

- IFRS 10, Consolidated Financial Statements.
- IFRS 11, Joint Arrangements.
- IFRS 12, Disclosure of Interest in Other Entities.
- IFRS 13, Fair Value Measurement.

The above standards are effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the expected impact of these standards on the consolidated financial statements in future periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies, which comply with FAS as issued by AAOIFI have been applied consistently for all periods presented except for the changes in accounting policies as detailed in note 2(e) to these consolidated financial statements. The Group uses guidance from the relevant International Financial Reporting Standard ("IFRS") for matters that are not covered by FAS.

a. Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date control is acquired and de-consolidated from the date control ceases.

Acquisition costs incurred on business combinations are expensed.

Special purpose entities

Special purposes entities ("SPEs") are entities that are created to accomplish a narrow and well-defined objective. SPEs are consolidated, if based on evaluation of the substance of relationship with the Group and the SPEs' risks and rewards, the Group concludes that it control the SPEs.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is acquired.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Basis of consolidation (continued)

Goodwill is measured at the acquisition date as the total of:

a) the fair value of the consideration transferred; plus
b) the recognised amount of any minority interest in the acquiree;
c) plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
d) fair value of the net recognised amount of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

Transactions eliminated on consolidation

Intra-group balances, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

The consolidated financial statements of the Group include the financial statements of the Bank and its subsidiaries and special purpose entities as listed below:

	Country of Incorporation	Date of Acquisition	Percentage ownership
The First Investor P.Q.S.C. ("TFI") (i)	Qatar	13 December 2009	100%
First Finance Company P.Q.S.C. ("FFC") (ii)	Qatar	12 July 2010	100%
First Leasing Company P.Q.S.C. ("FLC") (iii)	Qatar	13 July 2010	100%
Bait Al Mashura Financial Consultancy Company (iv)	Qatar	13 July 2010	70%
Al Sabat Investment (SPE)	Qatar	30 August 2010	100%
Assass Investment (SPE)	Qatar	31 August 2010	100%
Cedra Investment (SPE)	Qatar	30 August 2010	100%
Hassana Investment (SPE)	Qatar	31 August 2010	100%

(i) TFI was incorporated on 19 January 1999, pursuant to the provision of Qatar Commercial Companies Law No 5 of 2002 and is registered with the QCB under License No. RM/DT/2/2000. TFI provides a full range of investment banking products and services that comply with Shari'a principles.

(ii) FFC was incorporated as a Private Qatari Shareholding Company on 30 November 1999 under Commercial Registration No. 22228, and on 13 July 2006 was converted into a public shareholding company. After the acquisition by the Bank, FFC was converted into a private shareholding company. FFC is engaged in Shari'a compliant financing and investing activities in accordance with its Articles of Association and QCB regulations.

(iii) FLC was incorporated as a Private Qatari Shareholding Company in the State of Qatar under Commercial Registration No. 38915 dated 21 April 2008. FLC is primarily engaged in the Islamic leasing business.

(iv) Bait Al Mashura was incorporated under the Laws of Qatar as Closed Private Shareholding Company and it provide Shari'a consultancy services to financial institutions.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Basis of consolidation (continued)

Minority interests

Minority interest is recognised initially at their share of the identifiable assets, liabilities and contingent liabilities recognised in purchase accounting, excluding goodwill. Minority interest is presented within equity separately from owners' equity. Minority interest in the results of the Group is disclosed separately in the consolidated income statement as an allocation of the consolidated income for the year. Similarly, in the consolidated statement of changes in equity minority interest is disclosed separately.

b. Cash and cash equivalents

Cash and cash equivalents for the purpose of the consolidated statement of cash flows include cash, unrestricted balances held with the QCB and highly liquid financial assets with original maturities of less than three months that are subject to insignificant risk of changes in fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost.

c. Balances and placements with banks and financial institutions

These represent placements in the form of wakala and murabaha contracts. Placements are usually short term in nature and are stated at their amortised cost.

d. Receivables and balances from financing activities

Receivables and balances from financing activities represent Shari'a compliant retail and commercial financing with fixed or determinable payments. These include financing through Murabaha, Ijarah, Musawama and other modes of Islamic financing. Receivables and balances from financing activities are stated at amortised cost less impairment allowances, if any.

e. Investment securities

Investment securities comprise investments in debt-type and equity-type financial instruments. Investment securities exclude investments in subsidiaries and associate companies.

Debt-type instruments are securities with fixed or determinable payments of profits and capital to the holder of the instrument. Debt type instruments carried at amortised cost are managed on a contractual yield basis, and these are neither classified as held for trading nor as fair value through income statement on initial recognition.

Investments in equity-type instruments do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Investments in equity type instruments carried at fair value through income statement include investments held for trading purposes and investments designated as fair value through income statement. Held for trading investments are acquired or originated principally for the purpose of generating a profit from short term fluctuations in the market price. Investments measured at fair value through income statement include investments for which performance is evaluated on a fair value basis. Equity-type investments which are not designated as fair value through income statement upon initial recognition or held for trading investments are classified as investments at fair value through equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Financial assets and liabilities

i. Recognition

The Group initially recognizes all financial assets and liabilities (including regular way contracts) on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

ii. De-recognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Group also derecognises an asset when it is deemed to be uncollectible. The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

iii. Measurement

Financial assets are initially measured at fair value and subsequently remeasured, depending on classification at either fair value or amortised cost, or in certain cases carried at cost including transaction costs, except for financial assets measured at fair value through income statement.

The fair value of the financial assets represent the quoted bid price at the reporting date and in case of non-availability of quoted prices for certain financial assets, fair value is determined using suitable pricing models. Investments classified as fair value through equity that do not have a quoted market price or other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances, if any.

Investments at fair value through income statement are remeasured at their fair value at the end of each reporting period and the resultant remeasurement gain or loss is recognised in consolidated income statement in the period in which it arises. Subsequent to initial recognition, investments classified at amortised cost are remeasured at amortised cost using the effective profit method less any impairment allowance, if any. All gains or losses arising from the amoritisation process and those arising on de-recognition or impairment of the investments, are recognised in the consolidated income statement.

Investments at fair value through equity are remeasured at their fair values at the end of each reporting period and the resultant gain or loss, arising from a change in the fair value of investments are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. When the investments classified as fair value through equity are sold, impaired, collected or otherwise disposed off, the cumulative gain or loss previously recognised in the consolidated statement of changes in equity is transferred to the consolidated income statement.

Investments which do not have a quoted market price or other appropriate methods from which to derive a reliable measure of fair value on a continuous basis, are stated at cost less impairment allowance (if any).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Financial assets and liabilities (continued)

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative amortisation using the effective profit method for any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

iv. Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

v. Identification and measurement of impairment

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.

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

Impairment is the difference between the carrying amount and the present value of the estimated future cash flows discounted at the original effective profit rate.

Significant financial assets are assessed for impairment on an individual basis. All significant financial assets found not to be impaired are assessed collectively for any impairment that has been incurred but not yet identified. All financial assets that are not individually significant are collectively assessed for impairment by grouping assets together on the basis that they share similar credit risk characteristics.

Investments carried at fair value through equity

Impairment losses on investments classified as fair value through equity are recognised by transferring the cumulative loss that has been recognised directly in equity to the consolidated income statement. The cumulative loss that is removed from equity and recognised in the consolidated income statement is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in the consolidated income statement. Impairment is the difference between cost and fair value, less any impairment loss previously recognized in the consolidated

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Financial assets and liabilities (continued)

v. Identification and measurement of impairment (continued)

income statement. Where investments classified as fair value through equity are carried at cost, impairment is the difference between the carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

Reversal of impairment losses

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the consolidated income statement. For investments classified as fair value through equity, the reversal is recognised directly in equity.

vi. Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

g. Investment in associates

An associate is an entity over which the Group exerts significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 to 50 percent of the voting power of the investee entity. Such investments are accounted for under the equity method of accounting. Where an investee is acquired and held exclusively for resale, it is accounted for as a non-current asset held for resale.

Under the equity method, the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's equity. Goodwill relating to an investee is included in the carrying amount of the investment and is not amortised. The Group recognises in consolidated income statement its share of the total recognised profit or loss of the associate from the date that significant influence effectively commenced until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the associate arising from changes in the associate's reserves. The Group's share of those changes are recognised directly in the equity. Unrealised gains on transactions with associates are eliminated to the extent of the Group's share in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

An assessment for impairment of investments in associates is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

All amounts recognised in other comprehensive income in relation to a disposed associates are accounted for on the same basis as would be required if the associates had directly disposed of the related assets or liabilities. Therefore, the Group reclassifies the share of reserves from associates to consolidated income statement as a reclassification adjustment, when the Group lossess significant influence over the associate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Investment properties

Investment properties are held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured at cost including transaction costs less impairment loss, if any.

i. Fixed assets

Items of fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Depreciation is charged to the consolidated income statement on a straight line basis over the estimated useful lives of items of fixed assets. The estimated useful lives are as follows:

• Buildings	20 years
• Office equipment	3-5 years
• Furniture and fixtures	3-5 years
• Motor vehicles	5-7 years
• Computer equipment	3-5 years

The depreciation methods and useful lives as well as residual values are reassessed annually. The carrying values of fixed assets are reviewed for impairment on an annual basis for events or changes in circumstances which indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. Land is not depreciated.

An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the consolidated income statement in the year the asset is derecognised.

The cost of replacing a component of an item of fixed asset is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The cost of day to day servicing of fixed asset is recognised in the consolidated income statement as the expense is incurred.

j. Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries and associates. Goodwill is the excess of the fair value of consideration transferred and the recognised amount of any minority interests in the acquiree over the net recognised fair value of the identifiable assets acquired and liabilities assumed. When the excess is negative, a gain is recognised immediately in the consolidated income statement. Subsequent to acquisition, goodwill is measured at cost less accumulated impairment losses. An impairment test for goodwill is carried out regularly.

In respect of associates, goodwill is included in the carrying amount of the associate, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the associate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Intangible assets (continued)

Customer contracts

Customer contract have a finite usefull life and are carried at cost less accumulated amortisation and accumulated impairment lossess, if any. Amortisation is calculated using the straight line method to allocate the cost of customer contracts over their usefull life.

Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses, and is amoritised over a period of 3 years.

k. Impairment of non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

l. Customer current accounts

Balances in current accounts are recognised when received by the Group. The transactions are measured as the amount received by the Group at the time of contracting. Customer current accounts are measured at amortised cost.

m. Unrestricted investment accounts

Unrestricted investment accounts, including customer savings accounts, are funds held by the Bank, which it can invest at its own discretion. The unrestricted investment account holder authorises the Bank to invest the account holders' funds in a manner that the Bank deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. All unrestricted investment accounts are carried at cost plus accrued profits and related reserves less amounts settled.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Provisions

Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

o. Dividends

Dividends to shareholders are recognised as a liability in the period in which they are declared.

p. Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the reporting date. All differences are taken to the consolidated income statement. Non-monetary assets and liabilities denominated in foreign currencies are translated into Qatar Riyals at the foreign exchange rates prevailing at the date of the transaction.

q. Revenue recognition

Income from financing transactions is recognised on a time apportioned basis over the period of the contract. Income on non-performing financing accounts is suspended until realization in accordance with QCB's instructions.

Income from investment banking services (presented in commission and fee income), including placement, advisory, marketing and performance fees, is recognised as per contractual terms when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Group. Significant acts in relation to a transaction are determined based on the terms agreed in the contracts for each transaction. The assessment of whether economic benefits from a transaction will flow to the Group is based on the extent of binding firm commitments received from other parties.

Fees and commission income that are integral to the effective profit rate on a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management, arrangement and syndication fees, are recognised as the related services are performed.

Income from placements is recognized on a time apportioned basis as to yield a constant periodic rate of return based on the balance outstanding.

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

r. Unrestricted investment account holders' share of profit

Net profit for the year is distributed among unrestricted account holders and owners in accordance with QCB's instructions, which are summarised as follows:

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r. Unrestricted investment account holders' share of profit (continued)

- In case of any expense or loss, which arises due to non-compliance with QCB's regulations and instructions, then such expenses or loss shall not be borne by the unrestricted investment account holders. Such matter is subject to QCB's decision.
- In case the Bank reports net losses, then QCB in compliance of Islamic Shari's rules will decide the losses treatment.
- As the unrestricted investment accounts and the Bank's funds are pooled for the investment purposes, no priority has been given to either party in the appropriation of profit.
- The Bank's share as a Mudarib for managing unrestricted investment accounts is accrued based on the terms and conditions of the related Mudaraba agreements.

s. Employee benefits

Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid in the short-term if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Post employment benefits

a) Defined contribution scheme
The Group makes contributions to the Retirement and Pension Authority as a percentage of the employees' salaries in accordance with the requirements of Qatar Labour law pertaining to retirement and pensions, wherever required. The Group's share of contributions to these schemes, which are defined contribution scheme is charged to the consolidated income statement.

a) Defined benefit scheme
The Group provides for employees end of service benefits determined in accordance with the requirements of Qatar Labour law pertaining to retirement and pensions, wherever required. These unfunded charges are made by the Group on the basis of employees' salaries and the number of years of service at the statement of financial position date.

t. Zakah

As per the Articles of Association of the Bank, it is the responsibility of the owners to pay Zakah. Zakah per share is calculated in accordance with AAOIFI's Accounting Standard No. 9 and the Shari'a Supervisory Board Resolutions.

u. Operating ijarah

Operating ijarah is an operating lease that does not include a promise that the legal title in the leased asset will pass to the lessee at the end of the lease. Operating leases where the risks and rewards of ownership are effectively retained by the lessor are classified as operating ijarah. Installments due are recognised in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with Group's other components. An operating segment's results are reviewed regularly by the Management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see note 33).

Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise, mainly the Group's other assets, related general and administrative expenses

w. Taxation

The Group is currently exempt from income tax. However, the Bank and certain subsidiaries of the Group that meet the Tax Law criteria are required to file income tax returns with the Public Revenues and Taxes department. The Bank and certain of its subsidiaries have filed their income tax returns for the year ended 31 December 2010 pursuant to Circular No. 4/2011 issued by Ministry of Economic and Finance and the related assessment order is awaited.

4. RISK MANAGMENT

Risk Management Framework

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures related to their activities. The Group is exposed to following risks:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Operational risk

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

Risk Management Structure

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

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

Risk Measurement and Reporting Systems

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries.

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

Internal Audit

Risk management processes are audited by the Group Internal Audit function which examines both the adequacy and compliance with the procedures in addition to a specific audit of the Group Risk function itself as per the approved audit plan. Group Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

a) Credit Risk

The Group manages credit risk through diversification of investments, capital markets, lending and financing activities to avoid undue concentrations of credit risk with individuals or groups of customers in specific locations or businesses. It also obtains collaterals when appropriate.

4. RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

Credit risk arises from all transactions that give rise to actual, contingent or potential claims against any counterparty, obligor or customer (collectively referred as “counterparties”). It is the risk that a loss will be incurred if counterparty defaults or fails to honour a financial obligation that is due. It takes into account both probability of involuntary default, wherein the counterparty does not possess the financial means to repay, and strategic default, wherein counterparty with the ability to repay deliberately defaults.

Credit risk may have the following results:

- Delay in payment obligation;
- Partial loss of the credit exposure; or
- Complete loss of the credit exposure.

For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

The Board of Directors has delegated responsibility for the oversight of credit risk to its Risk Committee, which is responsible for management of the Group’s credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, compliance with QCB regulations, other applicable legal and statutory requirements;
- Establishing the authorisation structure for the approval and renewal of credit facilities. Facilities exceeding a certain threshold require Board of Directors approval;
- Developing and maintaining the Group’s risk grading in order to categorise exposures according to the degree of financial risk;
- Limiting geographical exposures, concentration risk based on internal and external ratings, exposure limits and QCB guidelines;
- Collateralising the exposures by adequate tangible and intangible collaterals. The types of collaterals obtained include cash, mortgages over real estate properties, pledges over shares and personal/corporate guarantees, as appropriate;
- Reviewing business units compliance of agreed exposure limits, including those for selected industries, country risk and product types. Regular review of the credit quality of Group’s portfolios is performed and appropriate corrective actions are taken when required;
- The Bank has recently deployed the Moody’s Risk Analyst Rating System, in order to effectively monitor the credit risk on the Bank’s portfolio and align capital adequacy to such risks. The system is globally proven and enables the Bank to rate credit risk on a more objective basis.

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4. RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

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

Where financial assets are recorded at fair value, the amounts shown below represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in fair values.

31 December 2011	**Gross carrying amount**	**Outstanding provision and suspended profit**	**Gross maximum exposure**
Balances with Qatar Central Bank	1,086,087	-	1,086,087
Balances and placements with banks and other financial institutions	1,878,943	-	1,878,943
Receivables and balances from financing activities	9,450,701	(232,562)	9,218,139
Investment securities – Sukuks	4,484,327	-	4,484,327
Other financial assets	846,882	(3,586)	843,296
	17,746,940	**(236,148)**	**17,510,792**
Contingent liabilities	7,653,917	-	7,653,917
	25,400,857	**(236,148)**	**25,164,709**

31 December 2010	Gross carrying amount	Outstanding provision and suspended profit	Gross maximum exposure
Balances with Qatar Central Bank	834,094	-	834,094
Balances and placements with banks and other financial institutions	1,556,738	-	1,556,738
Receivables and balances from financing activities	2,282,235	(253,964)	2,028,271
Investment securities – Sukuks	1,525,906	-	1,525,906
Other financial assets	145,071	(16,261)	128,810
	6,344,044	(270,225)	6,073,819
Contingent liabilities	140,957	-	140,957
	6,485,001	(270,225)	6,214,776

Cash and balances with QCB
Credit risk on balances with QCB is considered to be negligible.

Contingent liabilities
Contingent liabilities represent unused facilities, letter of credit and guarantees.

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4. RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

Exposure to credit risk (continued)
Age analysis of financial assets is as follows:

2011	**Neither past due nor impaired**	**Past due but not impaired**					**Past due and impaired**	**Total**
		<30 days	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**Above 121days**		
Balances with Qatar Central Bank	1,086,087	-	-	-	-	-	-	1,086,087
Balances and placements with banks and other financial institutions	1,878,943	-	-	-	-	-	-	1,878,943
Investment securities – Sukuks	4,484,327	-	-	-	-	-	-	4,484,327
Receivables and balances from financing activities	8,562,549	357,694	76,109	19,703	-	-	434,646	9,450,701
Other financial assets	843,296	-	-	-	-	-	3,586	846,882
Total	**16,855,202**	**357,694**	**76,109**	**19,703**	**-**	**-**	**438,232**	**17,746,940**

2010	Neither past due nor impaired	Past due but not impaired					Past due and impaired	Total
		<30 days	31 to 60 days	61 to 90 days	91 to 120 days	Above 121days		
Balances with Qatar Central Bank	834,094	-	-	-	-	-	-	834,094
Balances and placements with banks and other financial institutions	1,556,738	-	-	-	-	-	-	1,556,738
Investment securities – Sukuks	1,525,906	-	-	-	-	-	-	1,525,906
Receivables and balances from financing activities	1,703,664	263,823	55,280	1,200	162	-	258,106	2,282,235
Other financial assets	128,810	-	-	-	-	-	16,261	145,071
Total	5,749,212	263,823	55,280	1,200	162	-	274,367	6,344,044

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4. RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

Credit risk exposure for Sukuks

Neither past due nor impaired	**2011**	2010
Equivalent grades		
AAA to AA-	45,994	82,451
A+ to A-	360,520	193,455
BBB+ to BB-	200,360	-
Unrated – Qatar Central Bank	3,750,000	1,250,000
Unrated – others	127,453	-
	4,484,327	1,525,906

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses on its receivables and balances from financing activities. The main component of this allowance is a specific loss component that relates to individually significant exposures. The Group's policy is to classify receivables and balances from financing activities past due for 90 to 180 days as substandard, 181 to 270 days as doubtful and more than 270 days as loss assets which comply with the Qatar Central Bank regulations. The provision for impairment of receivables and balances from financing activities, including profit in suspense, amounts to QR 232.6 million (2010: 253.9 million).

Write-offs

The Group writes off receivables and balances from financing activities (and any related allowances for impairment) when management determines that the receivables and balances are uncollectible and after QCB approval is obtained, wherever applicable. This is determined only after all possible efforts of collections have been exhausted. During the year, the Group has written off QR 0.98 million (2010: 0.69 million) of receivables and balances from financing activities.

Collateral

The Group holds collateral against certain receivables and balances from financing activities in the form of mortgages/pledges over properties, listed/unlisted securities, other assets and guarantees. Collateral fair values are estimated at the time of lending and updated periodically, generally at annual intervals. Generally collaterals are not obtained for the exposure to other banks and financial institutions. Total fair value of collateral received by the Group, based on latest valuations, amounted to QR 5,471.4 million (2010: 626.77 million).

Concentration risk

Concentration risk is any single exposure or group of exposures with the potential to produce losses large enough to threaten the Group's health or ability to maintain its core operations. Such concentrations include:

- Significant exposures to an individual counterparty or group of related counterparties;
- Credit exposures to counterparties in the same economic sector or geographical region; and
- Indirect credit exposures arising from the Group's credit risk mitigation activities (e.g. exposure to a single collateral type or to credit protection provided by a single counterparty).

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4. RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

Concentration risk (continued)

An analysis of the concentration of credit risk from balances with the QCB, balances and placements with banks and other financial institutions, receivables and balances from financing activities and investment securities - Sukuks at the reporting date is shown below:

2011	**Balances with the QCB**	**Balances and placements with banks and other financial institutions**	**Receivables and balances from financing activities**	**Investment securities – Sukuks**
Carrying amounts	**1,086,087**	**1,878,943**	**9,218,139**	**4,484,327**
Concentration by sector:				
Corporate:				
Contracting and engineering	-	-	266,459	-
Government	-	-	766,030	3,835,747
Trading	-	-	1,688,124	-
Manufacturing and industry	-	-	540,129	-
Real estate	-	-	1,950,195	-
Services and others	-	-	1,124,467	248,600
Retail	-	-	1,747,742	-
Financial institutions	1,086,087	1,878,943	1,134,993	399,980
	1,086,087	**1,878,943**	**9,218,139**	**4,484,327**
Concentration by location:				
State of Qatar	1,086,087	898,246	7,696,020	3,943,017
Other GCC countries and South Asia	-	467,400	1,430,126	468,480
Asia Pacific	-	481	-	18,207
North America	-	135,387	-	
Europe	-	377,429	91,993	54,623
	1,086,087	**1,878,943**	**9,218,139**	**4,484,327**

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4. RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

2010	Balances with the QCB	Balances and placements with banks and other financial institutions	Receivables and balances from financing activities	Investment securities – Sukuks
Carrying amounts	834,094	1,556,738	2,028,271	1,525,906
Concentration by sector:				
Corporate:				
Contracting and engineering	-	-	30,838	-
Government	-	-	-	1,250,000
Trading	-	-	368,665	-
Manufacturing and industry	-	-	26,995	16,861
Real estate	-	-	547,467	-
Services and others	-	-	38,315	-
Retail	-	-	1,015,991	-
Financial institutions	834,094	1,556,738	-	259,045
	834,094	1,556,738	2,028,271	1,525,906
Concentration by location:				
State of Qatar	834,094	1,537,991	1,999,727	1,333,825
Other GCC countries and South Asia	-	467	28,544	192,081
Asia Pacific	-	2	-	-
North America	-	16,995	-	-
Europe	-	1,264	-	-
Others	-	19	-	-
	834,094	1,556,738	2,028,271	1,525,906

4. RISK MANAGEMENT (CONTINUED)

b) Liquidity risk

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

Liquidity risk management process

The Group's approach to managing liquidity is to ensure, as far as possible that it has sufficient liquidity to meet liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk of damage to the Group's reputation.

The primary objective of liquidity risk management over which the Asset and Liability Committee (ALCO) has oversight, is to provide a planning mechanism for unanticipated changes in the demand or needs for liquidity created by customer behavior or abnormal market conditions. The ALCO emphasizes the maximization 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. A contingency plan is also in place which is reviewed periodically.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. Liquidity policies and procedures are subject to review and approval of the Board of Directors and ALCO. A summary report, including any exceptions and remedial action taken, is submitted regularly to the Board of Directors and ALCO.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of liquid assets to deposits from customers. For this purpose liquid assets include cash and cash equivalents and investment securities for which there is an active and liquid market. The Group ratio of liquid assets to customer deposits at the reporting date was 81% (2010: 99%).

The Group is also subject to certain prudential requirements as per QCB regulations. At the reporting date, the liquidity ratio of the Group determined as per QCB requirements was 152% (2010: 466%). The minimum liquidity ratio determined by the QCB is 100%.

4. RISK MANAGEMENT (CONTINUED)

b) Liquidity risk (continued)

The tables below show the gross undiscounted cash flows of the Group's non-derivative financial liabilities on the basis of the earliest possible contractual maturity. The Group's expected cash flows do not vary significantly from this analysis.

2011	**Carrying amounts**	**Less than 1 month**	**1 – 3 months**	**3 months to 1 year**	**1 – 5 years**	**More than 5 years**
Liabilities and unrestricted investment accounts						
Liabilities						
Placements from financial institutions	4,230,196	2,860,648	720,125	649,423	-	-
Customer current accounts	1,326,238	1,326,238	-	-	-	-
Other financial liabilities	643,742	365,606	196,489	60,940	20,707	-
Total liabilities	**6,200,176**	4,552,492	916,614	710,363	20,707	-
Unrestricted investment accounts	**8,013,189**	447,283	4,018,274	2,969,447	578,185	-
Total liabilities and unrestricted investment accounts	**14,213,365**	**4,999,775**	**4,934,888**	**3,679,810**	**598,892**	-

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4. RISK MANAGEMENT (CONTINUED)

b) Liquidity risk (continued)

2010	Carrying amounts	Less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	More than 5 years
Liabilities and unrestricted investment accounts						
Liabilities						
Placements from financial institutions	1,720,769	1,242,582	67,749	222,222	188,216	-
Customer current accounts	138,530	138,530	-	-	-	-
Other financial liabilities	101,690	33,666	30,650	11,562	5,899	19,913
Total liabilities	1,960,989	1,414,778	98,399	233,784	194,115	19,913
Unrestricted investment accounts	3,025,669	729,894	461,994	1,833,781	-	-
Total liabilities and unrestricted investment accounts	4,986,658	2,144,672	560,393	2,067,565	194,115	19,913

4. RISK MANAGEMENT (CONTINUED)

c) Market risk

Market risk is the risk that changes in market prices, such as profit rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

The Board of Directors has set risk limits based on country limits. These limits are closely monitored by senior management and reviewed by ALCO on a regular basis.

The authority to approve and implement the market risk management mechanism rests with the ALCO and the Risk Management and Compliance Committee (RMCC), while the ALCO and the RMCC has delegated the responsibility to implement market risk management mechanisms to the Risk Management department.

i) Profit rate risk

Profit rate risk is the risk to earnings or capital arising from a movement of profit rates. It arises from differences between the timing of rate changes and the timing of cash flows (repricing risk); from changing rate relationships among benchmark profit rates that affect the Bank's activities (basis risk) and from changing profit rate relationships across the spectrum of maturities.

The Islamic Financial Services Board ("IFSB") has issued a document on Risk Management guidelines for Institutions (other than Insurance Institutions) offering only Islamic Financial Service ("IIFS"). This includes sections on 'Rate of Return Risk' and 'Liquidity Risk'. The Group adheres to the guidelines on 'Rate of Return Risk' and 'Liquidity Risk', as issued by the QCB and the IFSB.

The principal risk to which portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market profit rates. The profit distribution to URIA is based on profit sharing agreements. However, the profit sharing agreements will result in displaced commercial risk when the Group's results do allow the Group to distribute profits in line with the market rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. The ALCO monitors the compliance with these limits assisted by Treasury in its day-to-day monitoring activities. A summary of the Group's profit rate gap position on its portfolios is as follows:

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4. RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

i) Profit rate risk (continued)

		Profit rate sensitivities based on the re-pricing periods				
2011	**Carrying amounts**	**Less than 3 months**	**3 – 6 months**	**6 – 12 months**	**1 – 5 years**	**Exposed to fixed profit rate**
Balances and placements with banks and other financial institutions	1,878,943	-	-	-	-	1,878,943
Receivables and balances from financing activities	9,218,139	3,865,415	820,245	-	-	4,532,479
Investment securities – Sukuks	4,484,327	-	-	127,453	-	4,356,874
Total assets	**15,581,409**	3,865,415	820,245	127,453	-	10,768,296
Liabilities and unrestricted investment accounts						
Liabilities						
Placements from financial institutions	4,230,196	-	-	-	-	4,230,196
Total liabilities	**4,230,196**	-	-	-	-	4,230,196
Unrestricted investment accounts	**8,013,189**	4,465,557	905,032	2,064,415	578,185	-
Total liabilities and unrestricted investment accounts	**12,243,385**	4,465,557	905,032	2,064,415	578,185	4,230,196
Net gap	**3,338,024**	(600,142)	(84,787)	(1,936,962)	(578,185)	6,538,100

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4. RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

i) Profit rate risk (continued)

		Profit rate sensitivities based on the re-pricing periods				
2010	Carrying amounts	Less than 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Exposed to fixed profit rate
Balances and placements with banks and other financial institutions	1,459,802	-	-	-	-	1,459,802
Receivables and balances from financing activities	2,028,271	549,973	-	-	-	1,478,298
Investment securities – Sukuks	1,525,906	-	-	-	-	1,525,906
Total assets	5,013,979	549,973	-	-	-	4,464,006
Liabilities and unrestricted investment accounts						
Liabilities						
Placements from financial institutions	1,720,769	-	-	-	-	1,720,769
Total liabilities	1,720,769	-	-	-	-	1,720,769
Unrestricted investment accounts	3,025,669	729,894	461,994	1,833,781	-	-
Total liabilities and unrestricted investment accounts	4,746,438	729,894	461,994	1,833,781	-	1,720,769
Net gap	267,541	(179,921)	(461,994)	(1,833,781)	-	2,743,237

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4. RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

i) Profit rate risk (continued)

The following table demonstrates the sensitivity of the Group's consolidated income statement to a reasonable possible change in profit rates, with all other variables held constant. The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates on the income generated for one year, based on the floating rate non-trading financial assets and financial liabilities.

Profit rate sensitivities

At the reporting date the profit rate profile of the Group's profit-bearing financial assets and liabilities were:

	2011	2010
Exposed to fixed rate		
Financial assets	10,768,296	4,464,006
Financial liabilities	(4,230,196)	(1,720,769)
Net gap	**6,538,100**	2,743,237
Exposed to variable rate		
Financial assets	4,813,113	549,973
Financial liabilities (including URIA)	(8,013,189)	(3,025,669)
Net gap	**(3,200,076)**	(2,475,696)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through income statement. Therefore a change in profit rates at the reporting date would not affect the consolidated income statement. The Group's fixed rate financial assets comprise of placement with other banks with an effective profit rate of 0.5% - 1% (2010: 1.5% - 2.5%), Sukuks with an effective profit rate of 5% - 7% (2010: 5% - 7%), QR based financing with effective profit rate of 5% - 8% (2010: 6% - 8%) and USD based financing with effective profit rate of 3% - 6% (2010: 3% - 5%). Moreover, the Group's fixed rate financial liabilities comprise of short term placements from other banks with an effective profit rate of 0.5% - 1% (2010: 1% - 2%).

Cash flow sensitivity analysis for variable rate instruments

The following table demonstrates the sensitivity of the Group's consolidated income statement to a reasonable possible change in profit rates, with all other variables held constant. The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates on the income generated for one year, based on the floating rate non-trading financial assets and liabilities.

2011	**Consolidated income statement**	
	50 bps Increase	**50 bps Decrease**
Financial assets	**24,066**	**(24,066)**
Financial liabilities	**(40,066)**	**40,066**

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4. RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

i) Profit rate risk (continued)

2010	Consolidated income statement 50 bps Increase	50 bps Decrease
Financial assets	3,642	(2,750)
Financial liabilities	(15,128)	15,128

ii) Foreign exchange risk

Foreign exchange risks arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within approved limits established by the Board of Directors.

As at the reporting date the net foreign currency exposures, other than USD which is pegged to the Qatari Riyal, and their respective sensitivities to a 500 bps change was as follows:

2011		**Effect on consolidated income statement**	
	Net foreign currency exposure	**500 bps Increase**	**500 bps Decrease**
EUR	**6,611**	**331**	**(331)**
GBP	**21,977**	**1,099**	**(1,099)**
Others	**33,680**	**1,684**	**(1,684)**

2010		Effect on consolidated income statement	
	Net foreign currency exposure	500 bps Increase	500 bps Decrease
EUR	22,157	1,108	(1,108)
GBP	6,169	308	(308)
Others	39,235	1,962	(1,962)

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4. RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

iii) Equity price risk

Equity price risk is the risk that the fair value of equity securities decreases as a result of adverse changes in equity prices or indices, or fair value in the case of unquoted equities. Equity price risk arises from the Group's investment portfolio. The Group manages this risk through diversification of its investments in terms of geographical distribution and industry concentration and by arranging representation on the Board of Directors within the investee company, wherever possible in case of unquoted equity investments. Investments are managed within maximum concentration risk limits, approved by the Board of Directors.

The effect on equity price risk as a result of a change in the fair value of financial instruments classified as investments classified as fair value through equity and fair value through income statement, due to a 5% change in equity prices, with all other variables held constant, is as follows:

2011	**Equity exposure**	**Effect on consolidated statement of changes in equity**	
		Increase	**Decrease**
Quoted	**97,040**	**4,852**	**(4,852)**
Unquoted	**260,505**	**13,025**	**(13,025)**

2010	Equity exposure	Effect on consolidated statement of changes in equity	
		Increase	Decrease
Quoted	81,807	4,090	(4,090)
Unquoted	662,512	33,126	(33,126)

d) Operational risk

Operational risk is the risk of direct or indirect loss due to an event or action causing failure of technology, process infrastructure, personnel and other risks having an operational risk impact. The Group seeks to minimise actual or potential losses from operational risks failure through a framework of policies and procedures that identify, assess, control, manage and report those risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

In addition, the Group has put in place loss event management/loss data reporting mechanisms to capture and monitor the actual losses/potential loss events. The loss event management forms the backbone of risk management and it necessitates an extraction of loss events from internal and external sources and cleansing the systems and processes to minimize losses.

4. RISK MANAGEMENT (CONTINUED)

e) Other risks

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

f) Capital management

The Group's policy is to maintain a strong capital base so as to maintain shareholders', creditors' and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital. The Group's objectives for managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders;
- to provide an adequate return to owners by pricing products and services that commensurates the level of risk; and
- to comply with the external regulatory requirements.

The Group's capital adequacy is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Qatar Central Bank.

	2011	2010
Tier 1 capital	3,920,049	1,935,365
Tier 2 capital	134,809	8,776
Total capital	**4,054,858**	1,944,141
Total risk weighted assets	**12,988,377**	4,281,217
Tier 1 Capital adequacy ratio	**30.2%**	45.2%
Total Capital adequacy ratio	**31.2%**	45.4%

Tier 1 capital includes paid up share capital, legal reserve, rights issue receipts and retained earnings including current year profit.

Tier 2 capital includes the risk reserve and any negative investment fair value reserve.

The minimum accepted capital adequacy ratio determined by Qatar Central Bank is 10% whilst the minimum determined by the Basel Committee on Banking Supervision requirements is 8%.

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5. FAIR VALUES AND CLASSIFICATION OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The estimated fair values of the Group's financial instruments are provided in the table below.

2011	Investments classified as fair value through income statement	Investments classified as fair value through equity	Other Amortised cost	Total carrying value	Fair value
Cash and balances with Qatar Central Bank	-	-	1,159,350	1,159,350	1,159,350
Balances and placements with banks and other financial institutions	-	-	1,878,943	1,878,943	1,878,943
Receivables and balances from financing activities	-	-	9,218,139	9,218,139	9,218,139
Investment securities	1,120	356,425	4,484,327	4,841,872	4,849,150
Other financial assets	-	-	843,296	843,296	843,296
Total financial assets	**1,120**	**356,425**	**17,584,055**	**17,941,600**	**17,948,878**
Liabilities and unrestricted investment accounts					
Liabilities					
Placements from financial institutions	-	-	4,230,196	4,230,196	4,230,196
Customer current accounts	-	-	1,326,238	1,326,238	1,326,238
Other financial liabilities	-	-	643,742	643,742	643,742
Total liabilities	**-**	**-**	**6,200,176**	**6,200,176**	**6,200,176**
Unrestricted investment accounts	**-**	**-**	**8,013,189**	**8,013,189**	**8,013,189**
Total liabilities and unrestricted investment accounts	**-**	**-**	**14,213,365**	**14,213,365**	**14,213,365**

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5. FAIR VALUES AND CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONTINUED)

2010	Investments classified as fair value through income statement	Investments classified as fair value through equity	Other amortized cost	Total carrying value	Fair value
Cash and balances with Qatar Central Bank	-	-	855,980	855,980	855,980
Balances and placements with banks and other financial institutions	-	-	1,556,738	1,556,738	1,556,738
Receivables and balances from financing activities	-	-	2,028,271	2,028,271	2,028,271
Investment securities	-	744,319	1,525,906	2,270,225	2,272,487
Other financial assets	-	-	128,810	128,810	128,810
Total financial assets	-	744,319	6,095,705	6,840,024	6,842,286
Liabilities and unrestricted investment accounts					
Liabilities					
Placements from financial institutions	-	-	1,720,769	1,720,769	1,720,769
Customer current accounts	-	-	138,530	138,530	138,530
Other financial liabilities	-	-	101,690	101,690	101,690
Total liabilities	-	-	1,960,989	1,960,989	1,960,989
Unrestricted investment accounts	-	-	3,025,669	3,025,669	3,025,669
Total liabilities and unrestricted investment accounts	-	-	4,986,658	4,986,658	4,986,658

Fair Value Hierarchy

The fair values of investments carried at fair value through income statement and through equity comprise QR 97 million (2010: QR 82 million) under the level 1 category, QR 46 million under level 2 category (2010: QR 28 million), and QR 214 million (2010: QR 634 million) under level 3 of the fair value hierarchy.

Level 1 fair values are based on quoted prices (unadjusted) in active markets for identical assets. Level 2 fair values are based on inputs other than quoted prices included within level 1 that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices). Level 3 fair values are based on inputs for assets that are not based on observable market data.

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6. BUSINESS COMBINATION

Acquisition of Islamic Banking Business

On 30 September 2011, the Bank acquired the Retail Islamic Banking unit ("the business") of a local conventional bank for purchase consideration of QR 9.1 million paid in cash. At the time of the acquisition fair value of the identifiable net liabilities of the business was QR 15.8 million.

The fair values of the identifiable assets and liabilities of the business as at 30 September 2011 were as follows:

	30 September 2011
Cash and bank balances	-
Receivables and balances from financing activities	82,706
Other assets	896
Fixed assets	5,557
Customer deposits – current accounts	(9,700)
Customer deposits – URIA	(94,649)
Other liabilities	(658)
Fair value of net identifiable liabilities acquired	**(15,848)**
Fair value of purchase consideration (paid in the form of cash)	(9,152)
Fair value of net identifiable liabilities acquired	(15,848)
Recognised Identifiable intangible – customer contracts	25,000
Goodwill on business combination	**-**

	30 September 2011
Net cash inflows on acquisition:	
Net cash acquired	-
Net cash paid	(9,152)
	(9,152)

7. CASH AND BALANCES WITH QATAR CENTRAL BANK

	2011	2010
Cash in vaults	44,889	8,665
Cash at ATMs	26,723	12,923
Cash in hand	1,651	298
Reserve account with QCB	382,780	126,525
Current account with QCB	703,307	707,569
	1,159,350	**855,980**

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

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8. BALANCES AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011	2010
Current accounts	31,036	96,936
Placements with Islamic banks	1,838,758	1,336,106
Call and saving accounts with Islamic banks	9,149	123,696
	1,878,943	1,556,738

9. RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES

	2011	2010
By type:		
Murabaha financing arrangement	1,499,415	67,408
Less: deferred profit	(102,828)	(9,573)
	1,396,587	57,835
Commodity murabaha financing arrangement	6,296,298	804,305
Less: deferred profit	(482,365)	(12,952)
	5,813,933	791,353
Tawaruk financing arrangement	224,994	176,523
Less: deferred profit	(38,784)	(32,843)
	186,210	143,680
Istisna financing arrangement	282,614	38,220
Less: deferred profit	(3,463)	(6,015)
	279,151	32,205
Musawama financing arrangement	1,330,772	1,065,274
Less: deferred profit	(243,683)	(192,364)
	1,087,089	872,910
Ijarah financing arrangement	714,565	408,895
Less: deferred profit	(35,524)	(65,523)
	679,041	343,372
Wakala financing arrangement	-	30,870
Less: deferred profit	-	(87)
	-	30,783
Mudaraba financing arrangement	992	1,404
Credit card receivables	2,492	695
Other financing arrangements, net	5,206	7,998
	9,450,701	2,282,235
Provision for impairment of receivables and balances from financing activities	(161,904)	(195,104)
Profit in suspense	(70,658)	(58,860)
	9,218,139	2,028,271

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9. RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (CONTINUED)

	2011	2010
By sector:		
Consumer	2,294,396	1,475,830
Real estate	2,167,495	549,973
Contracting	288,100	46,442
Industry	554,280	34,894
Trading	1,727,200	439,107
General services	677,098	774
Financial services	1,155,660	-
Government	776,042	-
Government institutions	714,087	-
Others	3,328	55,210
	10,357,686	2,602,230
Deferred profits	(906,985)	(319,995)
Provision for impairment	(161,904)	(195,104)
Profit in suspense	(70,658)	(58,860)
	9,218,139	2,028,271
By Customer:		
Retail	2,294,396	1,503,485
Corporate	8,063,290	1,098,745
	10,357,686	2,602,230
Deferred profits	(906,985)	(319,995)
Provision for impairment	(161,904)	(195,104)
Profit in suspense	(70,658)	(58,860)
	9,218,139	2,028,271

The total non-performing receivables and balances from financing activities at 31 December 2011 amounted to QR 435 million, representing 4.2% of the gross receivables and balances from financing activities (31 December 2010 : 460 million, representing 18%).

The movement in provision for impairment of receivables and balances from financing activities is as follows:

	2011	2010
Balance at the beginning of the year	195,104	-
Provisions transferred due to a business combination	592	198,819
Charge during the year	49,241	17,451
Reversed during the year	(78,462)	(20,475)
	(29,221)	(3,024)
Reclassification to other asset	(3,586)	-
Written off during the year	(985)	(691)
Balance at end of the year	**161,904**	195,104

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9. RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (CONTINUED)

The movement for profit in suspense is as follows:

	2011	2010
Balance at the beginning of the year	58,860	-
Transfer due to a business combination	-	45,082
Profit suspended during the year	18,316	16,062
Reversed during the year	(6,392)	(2,279)
	11,924	13,783
Written off during the year	(126)	(5)
Balance at end of the year	**70,658**	58,860

10. INVESTMENT SECURITIES

	2011	2010
Investment securities designated as fair value through income statement		
Equities and funds		
- Quoted	1,120	-
Investments securities classified as fair value through equity		
Equities and funds		
- Quoted	95,920	81,807
- Unquoted	260,505	662,512
Investments carried at amortised cost		
Sukuks		
- Quoted	606,874	275,906
- Unquoted	3,877,453	1,250,000
	4,841,872	2,270,225

The cumulative change in fair value of investment securities classified as fair value through equity during the year was as follows:

	2011	2010 Re-stated
Balance at the beginning of the year	16,494	(359)
Net change in fair value	(11,874)	6,320
Reclassified to consolidated income statement on impairment	14,264	12,010
Reclassification to foreign currency translation reserve	171	-
Reclassified to consolidated income statement on disposal of an associate	-	456
Share of associate's fair value reserve changes	518	329
Fair value reserve reversal due to change in accounting policy for debt-type instruments (refer note no.2e)	-	(2,262)
Balance at end of the year	19,573	16,494

As at 31 December 2011, the cumulative positive and negative balances in the fair value reserve are QR 24.9 million (2010: QR 23.5 million) and QR 5.3 million (2010: QR 7.0 million), respectively.

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11. INVESTMENT IN ASSOCIATES

The Group has the following investments in associates:

	Emdad Equipment Leasing Company Qatar W.L.L. ("Emdad")	**Tanween W.L.L. (formerly Quality International Qatar)**	**Beaucraft W.L.L.**	**Total 2011**	Total 2010
Balance as at 1 January	37,561	54,172	361	92,094	28,386
Acquired through business combination	-	-	-	-	62,837
Share of results from associates	(4,750)	57,505	-	52,755	42,434
Share of associate's fair value reserve changes	-	518	-	518	329
Dividend received from associate	-	-	-	-	(1,147)
Impairment	-	-	(181)	(181)	-
Other movements	(811)	(1,988)	-	(2,799)	907
Tranfer to investment in subsidiary on increase in ownership	-	-	-	-	(943)
Disposal during the year	-	-	-	-	(40,709)
Investment during the year	-	25,000	-	25,000	-
Balance as at 31 December	**32,000**	**135,207**	**180**	**167,387**	92,094

The Group holds a 39.24% equity stake in Emdad Equipment Leasing Company Qatar W.L.L., an unlisted company incorporated in the State of Qatar, which provides equipment leasing services.

The Group holds a 48% (2010: 38%) interest in Tanween W.L.L., an unlisted company incorporated in the State of Qatar, which provides real estate development management services. The Group legally owns 50% (2010: 40%) of Tanween W.L.L., of which 2% (2010: 2%) is held on behalf of its investors.

Income recognised from the share of profit of associates is not available for distribution, except dividend received / receivable from the associates.

The financial position and results of Emdad and Tanween as at and for the year ended 31 December 2011 are as follows:

2011	**Emdad**	**Tanween**
Total assets	**78,891**	**327,850**
Total liabilities	**2,385**	**65,695**
Total revenue	**3,218**	**316,268**

2010	Emdad	Tanween
Total assets	88,957	182,061
Total liabilities	918	44,403
Total revenue	1,120	237,114

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12. OTHER ASSETS

	2011	2010
Due from a related party	-	40,503
Operating lease receivables	5,626	-
Advances for investment	-	1,809
Client receivables	23,202	41,642
Advance for trade finance related activities	-	15,511
Accrued income	95,244	17,097
Cheques under collection	695,760	-
Project receivables	5,850	18,257
Prepayments and advances	11,177	11,288
Projects under progress	7,827	12,074
Security deposits	1,753	1,563
Others	19,764	7,841
	866,203	167,585
Provision for impairment	(3,586)	(16,261)
	862,617	151,324

Cheques under collection represent pending cheques for clearing, received from the shareholders in lieu of subscriptions from the rights issue which were honored subsequently.

13. INVESTMENT PROPERTIES

	Land	**Contruction work in progress – Building**	**2011**	2010
Balance at 1 January	43,808	5,727	49,535	-
Acquired through business combination	-	-	-	14,155
Additions	-	-	-	35,380
Impairment		(1,283)	(1,283)	-
Balance at 31 December	**43,808**	**4,444**	**48,252**	49,535

The land located in Qatar has a fair value of QR 46.8 million (2010: QR 43.8 million) based on the latest valution from an external valuer. Based on the latest market valuation of the building under construction, the Group has recorded an impairment loss of QR 1.3 million during the year.

FOR THE YEAR ENDED 31 DECEMBER 2011 QR' 000s

14. FIXED ASSETS

	Land	Buildings	Office equipment	Furniture & fixtures	Motor vehicles	Computer equipment	Total 2011
Cost							
As at 1 January	30,187	14,327	336	20,992	12,851	14,825	93,518
Additions	-	720	7,823	7,410	2,734	3,773	22,460
Tranferred from a related party	-	101,296	762	13,345	-	11,557	126,960
Acquired through business combination	-	-	4,529	851	-	177	5,557
Disposals	-	-	(211)	(13,255)	(694)	(1,033)	(15,193)
As at 31 December	30,187	116,343	13,239	29,343	14,891	29,299	233,302
Depreciation							
As at 1 January	-	2,925	139	8,643	7,115	8,194	27,016
Charge for the year	-	18,651	3,524	1,835	2,453	8,809	35,272
Transferred from a related party	-	39,985	238	2,742	-	4,816	47,781
Disposals	-	-	(91)	(2,687)	(206)	(753)	(3,737)
As at 31 December	-	61,561	3,810	10,533	9,362	21,066	106,332
Net book value							
As at 31 December	**30,187**	**54,782**	**9,429**	**18,810**	**5,529**	**8,233**	**126,970**

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14. FIXED ASSETS (CONTINUED)

	Land	Buildings	Office equipment	Furniture & fixtures	Motor vehicles	Computer equipment	Total 2010
Cost							
As at 1 January	-	-	-	13,506	204	3,629	17,339
Additions	-	-	334	1,727	917	6,626	9,604
Acquired through business combination	30,187	14,327	168	7,642	11,730	4,570	68,624
Disposals	-	-	(166)	(1,883)	-	-	(2,049)
As at 31 December	30,187	14,327	336	20,992	12,851	14,825	93,518
Depreciation							
As at 1 January	-	-	-	1,687	80	1,386	3,153
Charge for the year / period	-	345	111	2,736	2,136	3,120	8,448
Acquired through business combination	-	2,580	116	5,223	4,899	3,688	16,506
Disposals	-	-	(88)	(1,003)	-	-	(1,091)
As at 31 December	-	2,925	139	8,643	7,115	8,194	27,016
Net book value							
As at 31 December	30,187	11,402	197	12,349	5,736	6,631	66,502

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15. INTANGIBLE ASSETS

	Software	**Customer contracts**	**Goodwill**	**Total 2011**	Total 2010
Balance at 1 January	10,392	-	777,230	787,622	203,103
Arising on acquisition	-	25,000	-	25,000	593,242
Amortization	(1,028)	(625)	-	(1,653)	(2,657)
Impairment	(403)	-	-	(403)	(6,066)
Balance at 31 December	**8,961**	**24,375**	**777,230**	**810,566**	787,622

	FFC	**FLC**	**TFI**	**Total**
Goodwill:				
Fair value of purchase consideration	1,653,609	277,536	436,181	**2,367,326**
Minority interest	**-**	1,555	**-**	**1,555**
Less: Fair value of net identifiable assets acquired	(1,115,805)	(242,768)	(233,078)	**(1,591,651)**
	537,804	36,323	203,103	**777,230**

Impairment testing for cash-generating unit containing goodwill

For the purpose of impairment testing, goodwill is allocated to the cash generating units ("CGU"), being the Group's subsidiaries, which represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. The impairment testing of the CGU carried out at the year end did not result in any impairment.

16. PLACEMENTS FROM FINANCIAL INSTITUTIONS

	2011	2010
Reverse murabaha	1,401,935	-
Loans from Islamic banks	8,335	37,739
Placements from QCB	752,737	-
Other placements	2,067,189	1,683,030
	4,230,196	1,720,769

17. CUSTOMER CURRENT ACCOUNTS

	2011	2010
Current accounts:		
- Banks	29,065	35,871
- Corporate	1,168,776	69,637
- Individuals	128,397	33,022
	1,326,238	138,530

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18. OTHER LIABILITIES

	Note	2011	2010
Due to a related party		62,347	3,853
Unearned commission income		49,254	14,228
Suppliers' payable		159,434	7,682
Accrued expenses		82,466	50,483
Employees' end of service benefits	18.1	20,557	16,089
Pensions payable		-	3,511
Payable to shareholders – oversubscribed rights issue amount	20.1	233,842	-
Cash margins		50,145	-
Others		43,155	27,719
		701,200	123,565

18.1 Movement in employees' end of service benefits is as follows:

	2011	2010
Balance at beginning of the year	16,089	4,218
Acquired through business combination	-	7,587
Charge for the year	7,872	6,988
Paid during the year	(3,404)	(2,704)
Balance at end of the year	**20,557**	16,089

19. UNRESTRICTED INVESTMENT ACCOUNTS

	2011	2010
By type:		
Saving accounts	184,300	25,064
Term accounts	7,552,155	2,674,861
Call accounts	262,983	239,335
	7,999,438	2,939,260
Profit payable to unrestricted investment account holders'	13,751	86,409
	8,013,189	3,025,669
By sector:		
Corporate	7,448,678	2,011,422
Retail	550,760	927,838
	7,999,438	2,939,260
Profit payable to unrestricted investment account holders'	13,751	86,409
	8,013,189	3,025,669

FOR THE YEAR ENDED 31 DECEMBER 2011 QR' 000s

19. UNRESTRICTED INVESTMENT ACCOUNTS (CONTINUED)

Details of return on unrestricted investment accounts during the year are as follows:

	2011	2010
By term:		
Saving accounts	749	287
Call accounts	865	725
1 month	27,207	1,694
3 month	19,109	3,479
6 month	42,076	605
9 month	80	-
12 month	28,550	70,675
	118,636	77,465

20. EQUITY

20.1 Share capital

	2011	2010
Authorised capital		
250,000,000 ordinary shares of QR 10	**2,500,000**	2,500,000
Issued and paid up capital		
190,869,100 ordinary shares of QR 10 each	**1,908,691**	1,908,691

The Bank has only one class of equity shares and the holders of these shares have equal rights.

During the year, the Bank proceeded with a rights issue (109,130,900 shares at QR 16 each share, including premium of QR 6 each share), raising QR 1,746 million. At the reporting date, subscriptions received from the rights issue were presented as “Subscriptions for rights issue” within equity as the necessary legal formalities were only completed after the reporting date. The rights issue was oversubscribed by QR 233.8 million, and hence the amounts received from this oversubscription have been disclosed as part of the other liabilities.

Post the reporting date, the Bank increased its authorised share capital from QR 2,500 million to QR 6,000 million.

20.2 Legal reserve

In accordance with Qatar Central Bank Law No. 33 of 2006 and memorandum and articles of association of the Bank, 20% of net profit attributable to the Owners of the Bank 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 Qatar Commercial Companies Law No. 5 of 2002 and after Qatar Central Bank approval. For the current year QR 51.51 million (2010: QR 2.77 million) was appropriated to the legal reserve .

FOR THE YEAR ENDED 31 DECEMBER 2011 QR' 000s

20. EQUITY (CONTINUED)

20.3 Treasury shares

Treasury shares represent 3,835,000 ordinary shares (2010: 3,835,000 ordinary shares) of Barwa Bank with nominal value of QR 10 each. These shares are held by FFC and TFI and carried at cost of QR 16.8 each. Treasury shares are presented as a deduction from equity.

20.4 Risk reserve

In accordance with Qatar Central Bank regulations, a risk reserve should be created to cover contingencies on both the public and private sector financing activities, with a minimum requirement of 1.5% of the total private sector exposure granted by the Group inside and outside Qatar after the exclusion of the specific provisions and profit in suspense. The finance provided to/or secured by the Ministry of Finance or finance against cash guarantees is excluded from the gross direct finance, which should be appropriated from owners' profit according to the QCB circular 87/2008. Based on the profit for the year, QR 97.93 million (2010: QR 24.95 million) was tranferred to the risk reserve from the retained earnings.

20.5 Other reserve

In accordance with Qatar Central Bank regulations, income recognised from the share of profit from assoiciates is not available for distribution, except to the extent of dividend received from the assoicates, and should be transferred to a separate reserve account in owners equity. During the year, QR 94.04 million was approriated to the other reserve from retained earnings on account of share of profit from associates, recognised in 2010 and 2011, net of any dividend amount. No such appropriation was made in 2010 due to insufficient retanied profits.

21. INCOME FROM FINANCING ACTIVITIES, NET

	2011	2010
Income from financing activities	325,769	142,951
Finance costs	(15,984)	(34,031)
	309,785	108,920

22. INCOME FROM INVESTING ACTIVITIES, NET

	2011	2010
Income from placements with Islamic Banks	6,850	19,916
Income from investment in sukuks, net of amortization	223,101	49,984
Net gain on sale of investments	23,281	30,762
Dividend income	16,482	494
Foreign exchange gain	1,187	-
	270,901	101,156
Profit paid on placements and borrowings from other Islamic banks	(31,674)	(6,362)
Investment related expenses	(1,417)	-
	237,810	94,794

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23. COMMISSION AND FEE INCOME, NET

	2011	2010
Management fee	35,720	15,221
Commission income	33,801	2,414
Advisory fee	20,077	45,647
Placement fee	19,844	25,308
Arrangement fee	-	33,021
Structuring fee	-	30,446
Performance fee	3,064	2,184
	112,506	154,241
Commission expense	(1,330)	(2,250)
	111,176	151,991

24. GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
Staff salaries and allowances	188,992	147,197
Rent	29,453	25,417
Advertising and marketing expenses	23,312	12,940
Communication and utilities	21,605	6,906
Legal and professional fees	19,483	9,035
IT expenses	15,942	9,051
Other expenses	33,052	35,139
	331,839	245,685

25. CONTINGENCIES AND COMMITMENTS

	2011	2010
Contingencies		
Unused financing facilities	2,847,730	21,693
Letter of credit	367,258	20,659
Letter of gurantees	4,438,929	98,605
	7,653,917	140,957
Operating lease commitments		
- Within one year	19,793	19,793

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26. CONCENTRATION OF ASSETS, LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS

a. Geographical sector

2011	Qatar	Other GCC and South Asia	Europe	North America	Others	Total
Cash and balances with Qatar Central Bank	,159,350	-	-	-	-	1,159,350
Balances and placements with banks and other financial institutions	898,246	467,400	377,429	135,387	481	1,878,943
Receivables and balances from financing activities	7,696,020	1,430,126	91,993	-	-	9,218,139
Investment securities	4,102,229	584,130	97,141	7,454	50,918	4,841,872
Investment in associates	167,207	180				167,387
Investment properties	48,252	-	-	-	-	48,252
	14,071,304	**2,481,836**	**566,563**	**142,841**	**51,399**	**17,313,943**
Other assets						1,800,153
Total assets						**19,114,096**
Liabilities and unrestricted investment accounts						
Unrestricted investment accounts	8,011,917	1,272	-	-	-	8,013,189
Placements from financial institutions	2,776,297	1,283,490	170,409	-	-	4,230,196
Customer current accounts	1,326,238	-	-	-	-	1,326,238
	12,114,452	**1,284,762**	**170,409**	**-**	**-**	**13,569,623**
Other liabilities						701,200
Total liabilities and unrestricted investment accounts						**14,270,823**

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26. CONCENTRATION OF ASSETS, LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS (CONTINUED)

a. Geographical sector (continued)

2010	Qatar	Other GCC	Europe	North America	Others	Total
Cash and balances with Qatar Central Bank	855,980	-	-	-	-	855,980
Balances and placements with banks and other financial institutions	1,537,991	467	1,264	16,995	21	1,556,738
Receivables and balances from financing activities	1,999,727	28,544	-	-	-	2,028,271
Investment securities	1,907,328	313,238	42,203	7,456	-	2,270,225
Investment in associates	91,733	361	-	-	-	92,094
Investment properties	49,535	-	-	-	-	49,535
	6,442,294	342,610	43,467	24,451	21	6,852,843
Other assets						1,005,448
Total assets						7,858,291
Liabilities and unrestricted investment accounts						
Unrestricted investment accounts	3,025,669	-	-	-	-	3,025,669
Placements from financial institutions	1,720,769	-	-	-	-	1,720,769
Customer current accounts	138,530	-	-	-	-	138,530
	4,884,968	-	-	-	-	4,884,968
Other liabilities						123,565
Total liabilities and unrestricted investment accounts						5,008,533

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26. CONCENTRATION OF ASSETS, LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS (CONTINUED)

b. Industry sector (continued)

2011	Contracting, construction, engineering manufacturing and industry	Government	Real Estate	Financial institutions	Individuals	Services and others	Total
Cash and balances with Qatar Central Bank	-	-	-	1,159,350	-	-	1,159,350
Balances and placements with banks and other financial institutions	-	-	-	1,878,943	-	-	1,878,943
Receivables and balances from financing activities	2,494,712	766,030	1,950,195	1,134,993	1,747,742	1,124,467	9,218,139
Investment securities	85,933	3,835,747	103,482	448,849	-	367,861	4,841,872
Investment in associates	32,000	-	135,207	-	-	180	167,387
Investment properties	-	-	48,252	-	-	-	48,252
	2,612,645	**4,601,777**	**2,237,136**	**4,622,135**	**1,747,742**	**1,492,508**	**17,313,943**
Other assets							1,800,153
Total assets							**19,114,096**
Liabilities and unrestricted investment accounts							
Unrestricted investment accounts	1,816,355	3,556,284	256,881	1,409,800	430,470	543,399	8,013,189
Placements from financial institutions	-	-	-	4,230,196	-	-	4,230,196
Customer current accounts	273,708	771,711	85,338	37,042	128,322	30,117	1,326,238
	2,090,063	**4,327,995**	**342,219**	**5,677,038**	**558,792**	**573,516**	**13,569,623**
Other liabilities							701,200
Total liabilities and unrestricted investment accounts							**14,270,823**

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26. CONCENTRATION OF ASSETS, LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTS (CONTINUED)

b. Industry sector (continued)

2010	Contracting, construction, engineering manufacturing and industry	Real Estate	Financial institutions	Individuals	Service and others	Total
Cash and balances with Qatar Central Bank	-	-	855,980	-	-	855,980
Balances and placements with banks and other financial institutions	-	-	1,556,738	-	-	1,556,738
Receivables and balances from financing activities	426,498	547,467	-	1,015,991	38,315	2,028,271
Investment securities	215,631	57,367	1,986,554	-	10,673	2,270,225
Investment in associates	37,561	54,172	-	-	361	92,094
Investment properties	-	49,535	-	-	-	49,535
	679,690	708,541	4,399,272	1,015,991	49,349	6,852,843
Other assets						1,005,448
Total assets						7,858,291
Liabilities and unrestricted investment accounts						
Unrestricted investment accounts	-	239,335	-	2,786,334	-	3,025,669
Placements from financial institutions	-	-	1,720,769	-	-	1,720,769
Customer current accounts	-	69,637	35,871	33,022	-	138,530
	-	308,972	1,756,640	2,819,356	-	4,884,968
Other liabilities						123,565
Total liabilities and unrestricted investment accounts						5,008,553

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27. MATURITY PROFILE

2011	Upto 3 months	3 to 6 months	6 months - 1 year	1 to 3 years	Over 3 years	Not Specified	Total
Cash and balances with Qatar Central Bank	776,570	-	-	-	382,780	-	1,159,350
Balances and placements with banks and other financial institutions	1,422,597	456,346	-	-	-	-	1,878,943
Receivables and balances from financing activities	254,934	804,355	411,929	1,806,077	5,940,844	-	9,218,139
Investment securities	1,120	-	-	309,851	4,530,901	-	4,841,872
Investment in associates	-	-	-	-	167,387	-	167,387
Investment properties	-	-	-	-	48,252	-	48,252
Other assets	-	-	-	-	-	1,800,153	1,800,153
Total assets	**2,455,221**	**1,260,701**	**411,929**	**2,115,928**	**11,070,164**	**1,800,153**	**19,114,096**
Liabilities and unrestricted investment accounts							
Unrestricted investment accounts	4,465,557	905,032	2,064,415	578,185	-	-	8,013,189
Placements from financial institutions	3,580,773	548,750	100,673	-	-	-	4,230,196
Customer current accounts	1,326,238	-	-	-	-	-	1,326,238
Other liabilities	-	-	-	-	-	701,200	701,200
Total liabilities and unrestricted investment accounts	**9,372,568**	**1,453,782**	**2,165,088**	**578,185**	**-**	**701,200**	**14,270,823**
Net gap	**(6,917,347)**	**(193,081)**	**(1,753,159)**	**1,537,743**	**11,070,164**	**1,098,953**	**4,843,273**

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27. MATURITY PROFILE (CONTINUED)

2010	Upto 3 months	3 to 6 months	6 months - 1 year	1 to 3 years	Over 3 years	Not Specified	Total
Cash and balances with Qatar Central Bank	855,980	-	-	-	-	-	855,980
Balances and placements with banks and other financial institutions	1,391,738	165,000	-	-	-	-	1,556,738
Receivables and balances from financing activities	208,676	240,127	851,899	703,790	23,779	-	2,028,271
Investment securities	375,000	-	-	645,225	1,250,000	-	2,270,225
Investment in associates	-	-	-	-	92,094	-	92,094
Investment properties	-	-	-	-	49,535	-	49,535
Other assets	-	-	-	-	-	1,005,448	1,005,448
Total assets	2,831,394	405,127	851,899	1,349,015	1,415,408	1,005,448	7,858,291
Liabilities and unrestricted investment accounts							
Unrestricted investment accounts	729,894	461,994	1,833,781	-	-	-	3,025,669
Placements from financial institutions	1,242,582	67,749	222,222	188,216	-	-	1,720,769
Customer current accounts	138,530	-	-	-	-	-	138,530
Other liabilities	-	-	-	-	-	123,565	123,565
Total liabilities and unrestricted investment accounts	2,111,006	529,743	2,056,003	188,216	-	123,565	5,008,533
Net gap	720,388	(124,616)	(1,204,104)	1,160,799	1,415,408	881,883	2,849,758

28. ZAKAH

Zakah is directly borne by the Owners. The Group does not collect or pay Zakah on behalf of its owners in accordance with the Articles of Association of the Group.

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29. SHARI'A SUPERVISORY BOARD

The Shari'a Supervisory Board of the Group consists of three scholars who specialize in Shari'a principles and they ensure the Group's compliance with general Islamic principles and work in accordance with the issued Fatwas and guiding rules. The Shari'a Supervisory Board review includes examining documents and procedures adopted by the Group to ensure Islamic Shari'a principles are complied with.

30. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include the significant shareholders and entities over which the Group and the shareholders exercise significant influence, directors and executive management of the Group. The details of transactions and the balances with related parties during the year are as follows:

	2011	2010
Consolidated statement of financial position		
Receivables and balances from financing activities	**648,532**	549,973
Current accounts	**1,897**	28,362
Unrestricted investment accounts	**3,867,182**	817,605
Due from a related party – other assets	**-**	40,503
Due to a related party – other liabilities	**62,347**	3,853
Consolidated income statement		
Income from financing activities	**18,690**	16,500
Commission and fee income	**35,909**	97,730
Provision for return on unrestricted investment accounts	**22,720**	11,705
Compensation of key management personnel		
Salaries and other benefits	**40,025**	32,341

Key management personnel are those that possess significant decision making and direction setting responsibilities within the Group including heads of departments and other key decision makers.

31. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following balances with maturities of less than three months:

	2011	2010
Cash and balances with Qatar Central Bank (excluding restricted QCB reserve account)	776,570	729,455
Balances and placements with banks and other financial institutions	1,422,597	1,556,738
	2,199,167	2,286,193

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32. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Bank for the year by the weighted average number of shares outstanding during the year as follows:

	2011	2010
Profit for the year	**243,663**	27,727
Weighted average number of outstianding shares (000's)	**187,034**	187,034
Basic and diluted earnings per share (QR)	**1.30**	0.15

33. OPERATING SEGMENTS

The Group has four reportable segments, as described below. The segments offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the segments, mangement reviews internal management reports on atleast quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Treasury: Undertakes the Group's funding and centralised liquidity management activities through borrowings and investing in liquid assets.

Retail Banking: Includes financing activities, customer deposits, unrestricted investment accounts and other transactions and balances with retail customers.

Corporate Banking: Includes financing activities, customer deposits, unrestricted investment accounts and other transactions and balances with corporate customers.

Investment Banking: Includes financial advisory services, including deal sourcing, structuring, valuations and advisory services, equity structuring, restructuring and placement; debt structuring, restructuring and placement including project finance, securitisation and sukuk; client portfolios management, structuring of liquidity products; structuring and marketing and management of open and closed ended funds; structuring, acquisition, placement and initial public offering of private equities; and private equity, equity structuring, private placements and initial public offerings.

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33. OPERATING SEGMENTS (CONTINUED)

2011	**Corporate banking**	**Retail banking**	**Treasury**	**Investment banking**	**Un-allocated portion**	**Total**
Total income from financing and investing activities	185,597	137,926	261,764	11,383	-	**596,670**
Net comission income	39,714	5,695	-	65,767	-	**111,176**
Profit / (loss) the year	35,756	62,302	88,342	76,124	(18,182)	**244,342**
Total assets	7,555,441	1,892,107	8,434,910	454,408	777,230	**19,114,096**
Total liabilities and unrestricted investment accounts	9,395,428	690,785	4,096,249	25,646	61,979	**14,270,823**

2010	Corporate banking	Retail banking	Treasury	Investment banking	Un-allocated portion	Total
Total income from financing and investing activities	75,167	53,996	55,026	20,066	(541)	203,714
Net comission income	7,817	2,701	-	139,454	2,019	151,991
Profit / (loss) the year	46,724	(107,529)	51,884	99,879	(66,065)	24,893
Total assets	1,102,973	1,095,754	4,159,027	404,634	1,095,903	7,858,291
Total liabilities and unrestricted investment accounts	1,121,868	2,597,863	1,260,870	31,146	(3,214)	5,008,533

34. CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

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

Impairment of receivables and balances from financing activities

The Group reviews its financing portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgments 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 Islamic financing before the decrease can be identified with an individual financing 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. The impairment recorded based on the historical cash flows is in line with the Qatar Central Bank regulations.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of financing with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired portfolios of financing, but the individual impaired items cannot be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the modeling assumptions and parameters used in determining collective allowances.

Impairment of investments classified as fair value through equity

The Group treats investments classified as fair value through equity as impaired when there has been a “significant” or “prolonged” decline in the fair value below its cost or where other objective evidence of impairment exists. In addition to qualitative factors, the Group considers "significant" as 20% or more and "prolonged" as greater than 6 months in accordance with Qatar Central Bank regulations.

Impairment may also 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.

34. CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES (CONTINUED)

Impairment of investments classified as fair value through equity investments (continued)

In case where objective evidence exists that investment securities are impaired, the recoverable amount of that investment is determined and any resulting impairment loss is recognised in the consolidated income statement as a provision for impairment of investment securities.

Fair valuation of investment securities

The determination of fair values for unquoted investments requires management to make estimates and assumptions that may affect the reported amount of assets at the reporting date.

Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

The Group uses fair values of financial assets that are traded in active markets based on quoted market prices. Where active quoted market prices are not available, the Group uses widely recognised valuation models including common and more simple financial instruments that use only observable market data and require little management judgment and estimation. The determination of fair values for unquoted investments where no observable market data is available, requires management to make estimates and assumptions that may affect the reported amount of assets at the consolidated financial position date .

Classification of investment securities

Management decides on the acquisition date of an investment whether it should be classified as fair value through income statement, investments classified as fair value through equity or investment carried at amortised cost, in accordance with the guidelines prescribed by FAS and as described in the accounting policies in note 3.

Useful lives of fixed assets

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

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35. FINANCIAL STATEMENTS OF THE PARENT

Statement of Financial Position of the Parent as at 31 December:

	2011	2010
Assets		
Cash and balances with Qatar Central Bank	1,157,699	855,683
Balances and placements with banks and other financial institutions	1,838,047	1,152,868
Receivables and balances from financing activities	8,034,067	952,245
Investment securities	4,583,817	1,983,748
Investment in subsidiaries and associate	2,368,612	2,368,612
Other assets	813,253	29,364
Fixed assets	77,605	4,930
Intangible assets	28,329	4,353
Total assets	**18,901,429**	7,351,803
Liabilities, unrestricted investment accounts and equity		
Liabilities		
Customer current accounts	1,347,089	138,530
Placements from financial institutions	4,221,861	1,224,455
Other liabilities	599,092	61,580
Total liabilities	**6,168,042**	1,424,565
Unrestricted investment accounts	**8,108,985**	3,167,725
Equity		
Share capital	1,908,691	1,908,691
Subscriptions for rights issue	1,746,094	-
Legal reserve	957,910	957,910
Investment fair value reserve	(404)	5,974
Retained earnings / (accumulated losses)	12,111	(113,062)
Total equity	**4,624,402**	2,759,513
Total liabilities, unrestricted investment accounts and equity	**18,901,429**	7,351,803

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35. FINANCIAL STATEMENTS OF THE PARENT (CONTINUED)

Income Statement of the Parent for the year ended 31 December:

	2011	2010
Income		
Income from financing activities, net	180,221	69,026
Income from investing activities, net	213,207	55,069
Total income from financing and investing activities	**393,428**	124,095
Commission and fee income	44,455	11,392
Commission and fee expenses	(1,330)	(2,250)
Commission and fee income, net	**43,125**	9,142
Other income	-	450
Share of results of associate	-	46
Provision for doubtful debts	(19,038)	-
Dividend from a subsidiary	66,583	-
Total income, net	**484,098**	133,733
General and administrative expenses	(210,876)	(138,636)
Depreciation	(29,413)	(3,930)
Profit / (loss) before unrestricted investment account holders' share of profit	**243,809**	(8,833)
Provision for unrestricted investment account holders' share of profit	(118,636)	(78,800)
Net profit / (loss) for the year	**125,173**	(87,633)

36. COMPARATIVE FIGURES

Certain comparative information have been reclassified where necessary, to preserve comparability with the current year presentation. Such reclassification did not have any impact on the declared profit or the equity for the year 2010.