HSBC BANK MIDDLE EAST LIMITED
QATAR BRANCH

FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2011

HSBC

HSBC Bank Middle East Limited - Qatar Branch

FINANCIAL STATEMENTS
As at and for the year ended 31 December 2011

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INDEPENDENT AUDITORS' REPORT

To:
The Management
HSBC Bank Middle East Limited - Qatar Branch

Report on the financial statements

We have audited the accompanying financial statements of HSBC Bank Middle East Limited - Qatar Branch (the "Bank"), which comprise the statement of financial position as at 31 December 2011, and the income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Report on other legal and regulatory requirements

We have obtained all the information and explanation which we consider necessary for the purpose of our audit. The Bank has maintained proper accounting records and financial statements are in agreement therewith. We are not aware of any violations of the applicable provisions of Qatar Central Bank Law No. 33 of 2006 and Qatar Commercial Law No. 5 of 2002 and amendments thereto which might have had a material effect on the business of the Bank or its financial position at 31 December 2011.

29 February 2012
Doha
State of Qatar

Gopal Balasubramaniam
KPMG
Qatar Auditors' Registry No. 251

Statement of financial position
As at 31 December 2011

In thousands of Qatari Riyals

	Note	2011	2010
ASSETS			
Cash and balances with Qatar Central Bank	5	1,996,064	8,416,196
Due from banks and other financial institutions	6	2,916,456	1,791,106
Loans and advances and other financing activities	7	6,439,315	6,185,868
Financial investments	8	5,938,176	2,548,533
Property and equipment	9	45,306	53,150
Other assets	10	206,243	256,357
Total assets		**17,541,560**	19,251,210
LIABILITIES AND EQUITY			
LIABILITIES			
Customer deposits	11	10,099,232	10,662,657
Due to banks and other financial institutions	12	2,607,503	3,890,799
Debt securities issued	13	2,100,483	1,787,127
Other liabilities	14	423,633	535,843
		15,230,851	16,876,426
Unrestricted investment accounts	15	6,521	505,938
Total liabilities		**15,237,372**	17,382,364
EQUITY (Page 6)			
Share capital	16(a)	10,000	10,000
Legal reserve	16(b)	10,000	10,000
Other reserve	16(c)	121,183	121,183
Fair value reserve	16(d)	86,022	18,152
Actuarial valuation adjustment	16(e)	(3,650)	(5,833)
Share based payment reserve	16(f)	9,579	4,599
Retained earnings		2,071,054	1,710,745
Total equity		**2,304,188**	1,868,846
Total liabilities and equity		**17,541,560**	19,251,210

The financial statements were approved and signed on behalf of the Management of HSBC Bank Middle East Limited - Qatar Branch by the following on 29 February 2012.

Abdul Hakeem Mostafawi
Chief Executive Officer

Aravind Krishnaswamy
Chief Financial Officer

The attached notes 1 to 34 form an integral part of these financial statements.

Income statement
For the year ended 31 December 2011

In thousands of Qatari Riyals

	Note	2011	2010
Interest income	17	427,875	660,544
Interest expense	17	(83,261)	(197,206)
Net interest income		344,614	463,338
Fee and commission income		277,608	271,130
Fee and commission expense		(13,417)	(13,732)
Net fee and commission income	18	264,191	257,398
Profit from foreign currency transactions	19	150,926	111,187
Other operating income	20	8,148	10,139
Income from Islamic finance and investment activities	21	58,881	83,653
Unrestricted investment account holders' share of profit		(4,889)	(8,123)
Net operating income		**821,871**	917,592
Net impairment loss on loans and advances	7(c)	(51,724)	(105,215)
Depreciation	9	(10,410)	(9,434)
General and administrative expenses	22	(351,156)	(314,116)
Profit before income tax		**408,581**	488,827
Income tax expense	23	(48,272)	(44,037)
Profit for the year		**360,309**	444,790

The attached notes 1 to 34 form an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 December 2011

In thousands of Qatari Riyals

	Note	2011	2010
Profit for the year		**360,309**	444,790
Other comprehensive income			
Net change in fair value of available-for-sale financial assets	8 (a)	67,870	10,659
Actuarial gain / (loss) on defined benefit plan	14.1	2,183	(2,558)
Total other comprehensive income for the year		**70,053**	8,101
Total comprehensive income for the year		**430,362**	452,891

The attached notes 1 to 34 form an integral part of these financial statements.

Statement of changes in equity
For the year ended 31 December 2011

In thousands of Qatari Riyals

	Share capital	Legal reserve	Other reserve	Fair value reserve	Actuarial valuation adjustment	Share based payments reserve	Retained earnings	Total
Balance at 1 January 2010	10,000	10,000	121,183	7,493	(3,275)	2,575	1,265,955	1,413,931
Comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	444,790	444,790
Other comprehensive income								
Defined benefit plan actuarial loss	-	-	-	-	(2,558)	-	-	(2,558)
Net change in fair value of available-for-sale financial assets	-	-	-	10,659	-	-	-	10,659
Total other comprehensive income	-	-	-	10,659	(2,558)	-	-	8,101
Total comprehensive income for the year	-	-	-	10,659	(2,558)	-	444,790	452,891
Fair value of share based payments	-	-	-	-	-	2,024	-	2,024
Balance at 31 December 2010	10,000	10,000	121,183	18,152	(5,833)	4,599	1,710,745	1,868,846
Balance at 1 January 2011	**10,000**	**10,000**	**121,183**	**18,152**	**(5,833)**	**4,599**	**1,710,745**	**1,868,846**
Comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	360,309	360,309
Other comprehensive income								
Defined benefit plan actuarial gain	-	-	-	-	2,183	-	-	2,183
Net change in fair value of available-for-sale financial assets	-	-	-	67,870	-	-	-	67,870
Total other comprehensive income	-	-	-	67,870	2,183	-	-	70,053
Total comprehensive income for the year	-	-	-	67,870	2,183	-	360,309	430,362
Fair value of share based payments	-	-	-	-	-	4,980	-	4,980
Balance at 31 December 2011	**10,000**	**10,000**	**121,183**	**86,022**	**(3,650)**	**9,579**	**2,071,054**	**2,304,188**

The attached notes 1 to 34 form an integral part of these financial statements.

Statement of cash flows
For the year ended 31 December 2011

In thousands of Qatari Riyals

	Note	2011	2010
Cash flows from operating activities			
Profit before income tax		408,581	488,827
Adjustments for:			
Depreciation	9	10,410	9,434
Interest income		(427,875)	(660,544)
Interest expense		83,261	197,206
Provision for impairment of loans and advances, net	7(c)	51,724	105,215
Provision for employees end of service benefits	14	8,435	6,566
Changes in fair value of derivatives	19	876	-
(Gain) / loss on sale of plant and equipment		315	(3)
		135,727	146,701
Change in cash reserve with Qatar Central Bank		46,559	(44,921)
Change in loans and advances and other financing activities		(305,171)	331,360
Change in other assets		41,400	(17,911)
Change in customer deposits and unrestricted investment accounts		(1,062,842)	1,488,635
Change in due to banks and other financial institutions		(1,283,296)	482,881
Change in other liabilities		(38,331)	62,706
		(2,465,954)	2,449,451
Employees end of service benefits paid	14.1	(11,200)	(6,937)
Interest received		436,589	648,113
Interest paid		(147,170)	(263,227)
Income tax paid	14.2	(49,190)	(162,690)
Net cash (used in) / from operating activities		(2,236,925)	2,664,710
Cash flows from investing activities			
Net purchase / (proceeds from redemption) of financial investments		(3,321,773)	668,839
Purchase of plant and equipment	9	(3,789)	(19,675)
Proceeds from sale of plant and equipment		908	1,648
Net cash (used in) / from investing activities		(3,324,654)	650,812
Cash flows from financing activities			-
Issue of debt securities		313,356	1,787,127
Net cash from financing activities		313,356	1,787,127
Net (decrease) / increase in cash and cash equivalents		(5,248,223)	5,102,649
Cash and cash equivalents at 1 January		9,664,242	4,561,593
Cash and cash equivalents at 31 December	30	**4,416,019**	9,664,242

The attached notes 1 to 34 form an integral part of these financial statements.

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

The principal activities of the Bank in Qatar are commercial banking services which are carried out from three branches. During the year, the Qatar Central Bank vide circular no 315/275/2011 has directed all conventional banks to cease booking any new Islamic business through their Islamic windows from 31 January 2011, which has been complied with by the Bank.

2. BASIS OF PREPARATION

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimating uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the note 33.

e) Standards, amendments and interpretations issued

New standards, amendments and interpretations issued and that are effective on or after 1 January 2011

i) IAS 24 (Revised) 'Related party disclosures'

The revised standard was issued in November 2009. The revised standard clarifies and simplifies the definition of a related party and removes 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 disclosures of the Bank.

ii) Improvements to IFRSs (2010)

Improvements to IFRS issued in 2010 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. Except for the amendments to IFRS 7 – which mainly apply to Banks and Financial Institutions, there were no significant changes to the current accounting policies of the Bank as a result of these amendments.

2. BASIS OF PREPARATION (CONTINUED)

New standards, amendments and interpretations issued and that are effective on or after 1 January 2011 (continued)

Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures
The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements.

New standards, amendments and interpretations issued but not yet effective

The new standards, amendments to standards and interpretations which have been issued but are not yet effective for the year ended 31 December 2011 have not been applied in preparing these financial statements:

i) IAS 1 (amendment) - Presentation of items of other comprehensive income

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 July 2012 with an option of early application.

The application of this amendment is not expected to have a significant impact on the financial statements of the Bank.

ii) IAS 32 (amendment) – Presentation

The amendments clarify the offsetting criteria in IAS 32 to address inconsistencies in their application. An entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The amendments are effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted if the Bank also makes the disclosures required by the amendments to IFRS 7. These amendments are to be applied retrospectively.

The Bank does not expect any significant impact on the financial statements on adoption of these amendments.

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

The amendments to IFRS 7 introduce new disclosure requirements;

Transfer of financial assets
Transfers of financial assets are required to be disclosed including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments are effective for annual periods beginning on or after 1 July 2011, but entities are not required to provide the disclosures for any period presented that begins before the date of initial application of the amendments. Early adoption is permitted.

Offset of financial assets and liabilities
Disclosures are required for financial assets and financial liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments to IFRS are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The amendments are to be applied retrospectively.

The Bank does not expect to have any significant impact on the financial statements on adoption of these amendments.

2. BASIS OF PREPARATION (CONTINUED)

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

iv) IFRS 9 'Financial Instruments'

Standard issued November 2009
IFRS 9 (2009) 'Financial Instruments' is the first standard issued as part of a wider project to replace IAS 39 'Financial instruments: recognition and measurement'. IFRS 9 (2009) retains and simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment and hedge accounting continues to apply. The 2009 standard did not address financial liabilities.

Standard issued October 2010
IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and de-recognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 "reassessment of Embedded Derivatives". The Bank is considering the implications of the standard, the impact on the Bank.

In its November 2011 meeting, the IASB has tentatively decided to defer the mandatory effective date to 1 January 2015. As per QCB instructions, early adoption of IFRS 9 is not yet permitted.

v) IFRS 13 - Fair value measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

vi) IAS 19 (2011) - Employee benefits
The amended IAS 19 includes the following requirements:

- actuarial gains and losses are recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and

- expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

The amended standard is effective for annual periods beginning on or after 1 January 2013 with an option of early adoption. The Bank is yet to assess the full impact of the standard.

The standard is effective for annual periods beginning on or after 1 January 2013 with an option of early adoption.

Early adoption of standards

The Bank did not early adopt any new or amended standards or interpretations in 2011.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Financial instruments

Financial instruments represent the Bank's financial assets and liabilities. Financial assets include cash and bank balances with Qatar Central bank, current accounts and placements with banks and other financial institutions, loans and advances and other financing activities, available-for-sale investments, financial assets held at fair value through profit and loss, derivatives and certain other assets. Financial liabilities include customer deposits, debt securities issued and due to banks and other financial institutions. Financial instruments also include contingent liabilities and commitments not recognised and certain other liabilities adequately disclosed in the respective notes to the financial statements.

i) Recognition

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

A financial asset or a financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit and loss) transaction costs that are directly attributable to its acquisition or issue.

ii) De-recognition

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

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

iii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by an accounting standard, or for gains and losses arising from a group of similar transactions.

iv) Measurement

Cash and cash equivalents

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

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

Loans and advances and other financing activities and placements with banks and other financial institutions

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Financial Instruments (continued)

iv) Measurement (continued)

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

Islamic financing to customers such as Murabaha are stated at their gross principal amount less any amount received, provision for impairment, profit in suspense and unearned profit.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates or equity prices. Available-for-sale financial assets are measured at fair value on an individual basis.

Available-for-sale financial assets of the Bank represent investments in quoted and unquoted Government bonds and treasury bills. Available-for-sale financial assets, which are quoted and not hedged, are subsequently remeasured at fair value. Any gain or loss arising from a change in their fair value is recognised directly in other comprehensive income, until the investment is sold or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income under fair value reserve will be included in the profit or loss.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Bank manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Bank's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognised in profit or loss.

Financial assets designated as at fair value through profit or loss comprise debt instruments that otherwise would have been classified as available-for-sale.

Customer deposits, debt securities issued and due to banks and other financial institutions

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

Unrestricted investment accounts

Profit from Islamic activities for the year is distributed among unrestricted account holders in accordance with Qatar Central Bank (QCB) regulations. 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 agreed and declared Mudaraba fee.

Expenses or losses which arise out of misconduct on the part of the Bank due to non compliance of regulatory instructions or sound banking norms, are not borne by the unrestricted investment account holders. In case the result of Islamic activities is a net loss, the unrestricted investment account holders are not charged with any share of such loss, except as approved by Qatar Central Bank that holds judgment authority on all such matters.

Other assets and liabilities

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

a) Financial Instruments (continued)

iv) Measurement (continued)

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently also remeasured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative financial instruments include interest rate swaps and forward foreign exchange contracts. The resultant gains and losses from derivatives held for trading purposes are included in the profit or loss. The Bank does not hold any derivatives for hedging purposes as at 31 December 2011.

i) Fair values of financial instruments

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

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

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actually and regularly occurring market transactions on an arm’s length basis. In case of non availability of quoted prices for any financial asset, its fair value will be arrived at using a suitable price model including recent arm’s length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or an option pricing model. For reference to similar instruments, instruments must have similar credit ratings.

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

b) Impairment of assets

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

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

i) Financial assets

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

At each reporting date the Bank assesses whether there is objective evidence that financial assets are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Impairment of assets (continued)

i) Financial assets (continued)

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers, or economic conditions that correlate with defaults in the group. In addition, for investments in available-for-sale financial assets, a 'significant' or 'prolonged' decline in fair value below cost is objective evidence of impairment.

ii) Non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

c) Property and equipment

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

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

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

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

d) Provisions

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

e) Employee benefits

a. Defined contribution plan

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Employee benefits (continued)

b. Defined benefit scheme

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

c. Short term benefits

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

d. Share based payments

The Bank has no specific share-based payment arrangements of its own and participates in the HSBC Holdings PLC's plans.

Restricted share awards

Achievement shares are utilised to promote widespread interest in HSBC Holdings PLC's shares among employees and to help foster employee engagement. They are awarded to eligible employees after taking into account the employee's performance in the prior year. Shares are awarded without corporate performance conditions and are released to employees after three years provided the employees have remained continuously employed by the Group for this period. The Bank accounts for such plans as equity settled. For equity-settled share-based payment transactions, the fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Bank revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the profit or loss, with a corresponding adjustment to equity. The shares are accounted for in the books of the Bank till they vest, at which time the ownership is transferred to the employee.

Savings-related share option plans

The savings-related share option plans invite eligible employees to enter into savings contracts to save up to £250 per month, with the option to use the savings to acquire shares. The aim of the plan is to align the interests of all employees to the creation of shareholder value. The options are exercisable within six months following either the third or the fifth anniversary of the commencement of the savings contract depending on conditions set at grant. The exercise price is set at a 20 per cent (2010: 20 per cent) discount to the market value at the date of grant.

f) Interest income and expense

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Fee and commission

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

h) Taxation

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

i) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Bank at the spot exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

j) Leases

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

k) Off-balance sheet items

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

l) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received, and the initial fair value is amortised over the life of the financial guarantee. Subsequent to initial recognition, the Bank's liability under each guarantee is carried at the higher of the amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).

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

m) Fiduciary assets

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

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

a) Risk management

The Bank, in the normal course of its business derives its revenue mainly from assuming and managing customer risk for profit. Through a robust governance structure, risk and return are evaluated to produce sustainable revenue to reduce earnings volatility and increase shareholders' return. The Bank's lines of business are exposed to the following risks:

- credit risk;
- liquidity risk;
- market risk; and
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

The management committee has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Bank established Asset and Liability (ALCO), Credit and Operational Risk Committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas.

The Bank's Market risk and Structural risk management policies envisage the use of interest rate derivative contracts and foreign exchange derivative contracts as part of its risk management process. The Bank has entered into certain derivatives to reduce the risk attached to interest rate movements.

b) Credit risk

Credit risk is the risk that a customer or counterparty of the Bank will be unable or unwilling to meet a financial commitment that it entered into with the Bank. It arises from lending, trade finance, treasury and other activities undertaken by the Bank. The Bank has in place standards, policies and procedures adopted by the entire group for the control and monitoring of all such risks.

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

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

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

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

The Asset and Liability committee (ALCO) chaired by the Chief Executive Officer, includes heads of the various departments of the Bank. The ALCO receives reports on large credit exposures, asset concentrations, industry exposures, levels of bad debts provisioning and unutilised limits. Special attention is paid to the management of problem loans to provide intensive management and control to maximise recoveries of doubtful debts.

For financial investments and other receivables, external rating such as Standard & Poor's rating or Moody's rating or their equivalents are used by Treasury for managing the credit risk exposures.

For the year ended 31 December 2011 In thousands of Qatari Riyal

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

Exposure to credit risk	Note	Gross Maximum Exposure 2011	2010
Balances with Qatar Central Bank (excluding cash)	5	1,957,906	8,359,809
Due from banks and other financial institutions	6	2,916,456	1,791,106
Loans and advances and other financing activities	7	6,439,315	6,185,868
Financial investments	8	5,938,176	2,548,533
Other financial assets		127,451	136,561
Total exposure on statement of financial position		17,379,304	19,021,877
Loan commitments and other credit related liabilities	24	28,762,851	22,468,971
Total credit risk exposure		**46,142,155**	41,490,848

None of the balances with Qatar Central Bank, banks and other financial institutions, available-for-sale financial assets, financial assets held at fair value through profit and loss and certain other assets, that are subject to credit risk, are past due or impaired. Further the balances with Qatar Central Bank and certain other assets are not graded due to minimum exposure to credit risk.

Exposure to credit risk has been further analysed based on credit grading, as impaired, past due but not impaired and neither past due nor impaired.

	Loans and advances and other financing activities		Due from banks and other financial institutions		Financial investments	
	2011	2010	**2011**	2010	**2011**	2010
Grade 1 : Low risk / excellent	3,297,742	1,177,308	2,916,456	1,791,106	5,938,176	2,548,533
Grade 2 : Standard / satisfactory risk	3,274,398	5,140,273	-	-	-	-
Grade 3 : Substandard / watch	6,740	7,872	-	-	-	-
Grade 4 : Doubtful	329,603	267,893	-	-	-	-
Grade 5 : Bad debts	426,118	290,601	-	-	-	-
Gross amount	**7,334,601**	6,883,947	**2,916,456**	1,791,106	**5,938,176**	2,548,533
Individual Impairment Provision						
Personal	(366,404)	(323,830)	-	-	-	-
Corporate	(39,929)	(36,286)	-	-	-	-
Total	**(406,333)**	(360,116)	-	-	-	-
Collective impairment provision						
Personal	(10,527)	(14,351)	-	-	-	-
Corporate	(14,591)	(5,260)	-	-	-	-
Total	**(25,118)**	(19,611)	-	-	-	-
Interest in suspense	(404,962)	(233,903)	-	-	-	-
Financing activities deferred profit	(58,873)	(84,449)	-	-	-	-
Total carrying amount, net	**6,439,315**	6,185,868	**2,916,456**	1,791,106	**5,938,176**	2,548,533

For the year ended 31 December 2011 In thousands of Qatari Riyal

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

Impaired loans and securities

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

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Allowances for impairment

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

Past due but not impaired

Loans and advances where contractual interest or principle payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/x available and/or the stage of collection of amounts owed to the Bank.

Write-off policy

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

Total impairment allowance to gross lending

	2011	2010
Individually assessed impairment allowances	11.06%	8.63%
Collectively assessed impairment allowances	0.34%	0.28%
Total	**11.40%**	8.91%

Financial investments

The table below represents an analysis of government bonds and call deposits by rating agency designation at 31 December 2011, based on Standard & Poor's ratings or their equivalent:

	2011	2010
AA- to AA+	-	-
Unrated	5,938,176	2,548,533
Total	**5,938,176**	2,548,533

For the year ended 31 December 2011 In thousands of Qatari Riyal

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

Concentration of assets

The Bank monitors concentration of credit risk by industry and geographic location. An analysis of concentrations of credit risk from net loans and advances and financial investments at the reporting date is shown below:

By Industry	Loans	Overdrafts	Bills Discounted	Financial investments	Total 2011	Total 2010
Government and semi-government agencies	2,393,260	205,339	-	5,938,176	**8,536,775**	3,953,970
Industry	34,982	1,923	-	-	**36,905**	63,792
Commercial	1,206,270	147,801	10,880	-	**1,364,951**	1,173,448
Services	182,023	15,154	791	-	**197,968**	1,326,444
Contracting	1,008,953	35,912	-	-	**1,044,865**	750,743
Consumers	1,232,783	743,775	-	-	**1,976,558**	1,651,436
Other	112,934	1,821	-	-	**114,755**	512,647
	6,171,205	**1,151,725**	**11,671**	**5,938,176**	**13,272,777**	9,432,480

Collateral

The Bank holds collateral against loans and advances and other financing activities, in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. The Bank re-evaluates the securities provided on a regular and periodical basis. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. A breakdown of loans and advances granted to customers and banks against different types of collaterals is shown below:

	2011	2010
Against customer deposits	122,941	534,001
Against bank guarantees	188,502	312,077
Against real estate mortgages	497,831	1,735,660
Personal guarantees	10,735	10,229
Unsecured	6,514,592	4,291,980
	7,334,601	6,883,947

c) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend. Minimum ratios of liquid assets to customer deposits are established and monitored regularly.

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to current liabilities. For this purpose liquid assets are considered as including cash and cash equivalents, financial investments and placements with banks and other financial institutions and current liabilities include loans to banks and customer deposits. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Qatar Central Bank. Details of the Bank's ratio of net liquid assets to current liabilities at the reporting date and during the reporting period were as follows:

For the year ended 31 December 2011 In thousands of Qatari Riyal

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (Continued)

	Note	**2011**	2010
Cash and cash equivalents	30	4,416,019	9,664,242
Financial investments	8	5,938,176	2,548,533
Total liquid assets		10,354,195	12,212,775
Customer deposits and unrestricted investment accounts	11	10,105,753	11,168,595
Due to banks and other financial institutions	12	2,607,503	3,890,799
Total current liabilities		**12,713,256**	15,059,394
Ratio of liquid assets to current liabilities		**81%**	81%

Maturity of financial assets and liabilities

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

	As at 31 December 2011 (gross undiscounted cash flows)					
	Less than 1 month	**Months 1 – 3**	**3 – 12 months**	**1 – 5 Years**	**5 years and above**	**Total**
Assets						
Cash and balances with Qatar Central Bank	1,996,064	-	-	-	-	1,996,064
Due from banks and other financial institutions	1,605,516	546,225	764,715	-	-	2,916,456
Loans and advances and other financing activities	2,958,504	1,207,043	755,830	2,413,224	-	7,334,601
Financial investments	29,996	1,546,148	2,193,655	2,168,377	-	5,938,176
Other financial assets	127,451	-	-	-	-	127,451
Total assets	**6,717,531**	**3,299,416**	**3,714,200**	**4,581,601**	**-**	**18,312,748**
Liabilities						
Customer deposits and unrestricted investment accounts	9,274,025	310,167	315,118	206,443	-	10,105,753
Due to banks and other financial institutions	1,514,203	1,093,300	-	-	-	2,607,503
Debt securities issued	-	-	-	2,100,483	-	2,100,483
Other financial liabilities	170,195	-	-	26,521	-	196,716
Total liabilities	**10,958,423**	**1,403,467**	**315,118**	**2,333,447**	**-**	**15,010,455**
Maturity gap	**(4,240,892)**	**1,895,949**	**3,399,082**	**2,248,154**	**-**	**3,302,294**

For the year ended 31 December 2011 In thousands of Qatari Riyal

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (Continued)

	As at 31 December 2010 (gross undiscounted cash flows)					
	Less than 1 month	1 – 3 Months	3 – 12 months	1 – 5 Years	5 years and above	Total
Assets						
Cash and balances with Qatar Central Bank	8,416,196	-	-	-	-	8,416,196
Due from banks and other financial institutions	1,697,279	93,827	-	-	-	1,791,106
Loans and advances and other financing activities	1,513,872	2,238,013	1,220,630	1,911,432	-	6,883,947
Financial investments	65,011	-	1,003,852	1,479,670	-	2,548,533
Other financial assets	136,561	-	-	-	-	136,561
Total assets	11,828,919	2,331,840	2,224,482	3,391,102	-	19,776,343
Liabilities						
Customer deposits	8,851,419	914,080	1,301,874	101,222	-	11,168,595
Due to banks and other financial institutions	2,823,202	1,067,597	-	-	-	3,890,799
Debt securities issued	-	-	-	1,787,127	-	1,787,127
Other financial liabilities	298,569	-	-	-	-	298,569
Total liabilities	11,973,190	1,981,677	1,301,874	1,888,349	-	17,145,090
Maturity gap	(144,271)	350,163	922,608	1,502,753	-	2,631,253

d) Risk of Management of others' investments

The Bank is engaged in selling of investments, which are managed by other HSBC entities or third parties and does not manage investments on behalf of customers. The Bank does not hold any assets or liabilities in favour or on behalf of other parties as at 31 December 2011.

e) Market risk

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

Interest rate risk

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

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

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4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

e) Market risk (continued)

Interest rate risk (continued)

As at 31 December 2011

Assets (Carrying Amount)	**Effective Interest Rate (%)**	**Less than 1 month**	**1 – 3 Months**	**3 – 12 Months**	**More than 1 year**	**Non-interest bearing**	**Total**
Cash and balances with Qatar Central Bank	0.76	300,000	-	-	-	1,696,064	1,996,064
Due from banks and other financial Institutions	0.42	1,446,077	546,225	764,715	-	159,439	2,916,456
Loans and advances and other financing activities	4.83	2,899,631	1,207,043	755,830	2,413,224	58,873	7,334,601
Financial investments	1.76	29,996	1,546,148	2,193,655	2,168,377	-	5,938,176
Other financial assets		127,451	-	-	-	-	127,451
Total assets		**4,803,155**	**3,299,416**	**3,714,200**	**4,581,601**	**1,914,376**	**18,312,748**
Customer deposits and unrestricted investment accounts	0.44	5,492,355	310,167	315,118	206,443	3,781,670	10,105,753
Due to banks and other financial Institutions	0.52	1,190,359	1,093,300	-	-	323,844	2,607,503
Debt Securities issued	1.6	-	-	-	2,100,483	-	2,100,483
Other financial liabilities	-	-	-	-	-	196,716	196,716
Total liabilities		**6,682,714**	**1,403,467**	**315,118**	**2,306,926**	**4,302,230**	**15,010,455**

As at 31 December 2010

Assets (Carrying Amount)	**Effective Interest Rate (%)**	**Less than 1 month**	**1 – 3 Months**	**3 – 12 Months**	**More than 1 year**	**Non-interest bearing**	**Total**
Cash and balances with Qatar Central Bank	1.54	7,265,000	-	-	-	1,151,196	8,416,196
Due from banks and other financial Institutions	0.35	1,533,745	93,827	-	-	163,534	1,791,106
Loans and advances and other financing activities	7.8	1,513,872	2,238,013	1,220,630	1,911,432	-	6,883,947
Financial investments	3.01	65,011		1,003,852	1,479,670	-	2,548,533
Other financial assets		136,561	-	-	-	-	136,561
Total assets		10,514,189	2,331,840	2,224,482	3,391,102	1,314,730	19,776,343
Liabilities							
Customer deposits	1.24	5,598,143	914,080	1,301,874	101,222	3,253,276	11,168,595
Due to banks and other	1.12	2,219,044	1,067,597	-	-	604,158	3,890,799

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financial Institutions							
Debt Securities issued	1.6	-	-	-	1,787,127	-	1,787,127
Other financial liabilities	-	298,569	-	-	-	-	298,569
Total liabilities		8,115,756	1,981,677	1,301,874	1,888,349	3,857,434	17,145,090

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

e) Market risk (continued)

Interest rate risk (continued)

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

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's profit or loss.

Scenario	**Impact during a year**	**2011**	2010
10 basis points up	Increase in net interest income by	1,757	4,049
10 basis points down	(Decrease) in net interest income by	(1,757)	(4,049)

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

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

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

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

Foreign currency risk

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

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

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

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

e) Market risk (continued)

Foreign currency risk (continued)

	Qatar Riyals	**US Dollars**	**Euro**	**Sterling Pounds**	**Other Currencies**	**Total**
As at 31 December 2011						
Assets	12,462,500	4,170,629	522,129	228,651	157,651	17,541,560
Liabilities and equity	(12,601,502)	(4,125,507)	(510,148)	(257,039)	(47,364)	(17,541,560)
Net currency position	**(139,002)**	**45,122**	**11,981**	**(28,388)**	**110,287**	**-**
As at 31 December 2010						
Assets	15,073,971	3,556,157	318,121	159,678	143,283	19,251,210
Liabilities and equity	(15,223,470)	(3,170,526)	(505,153)	(212,833)	(139,228)	(19,251,210)
Net currency position	(149,499)	385,631	(187,032)	(53,155)	4,055	-

Foreign currency sensitivity analysis

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

Currency	**Change in currency rate in %**	**Effect on profit or loss 2011**	**2010**
Euro	+10%	(1,198)	(18,703)
Euro	-10%	1,198	18,703
Sterling	+10%	(2,838)	(5,315)
Sterling	-10%	2,838	5,315
Other currencies	+10%	(11,029)	405
Other currencies	-10%	11,029	(405)

Equity risk

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

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

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

	2011				
Financial assets	**Loans and receivables**	**Financial investments**	**Other amortised cost**	**Total carrying amount**	**Fair value**
Cash and balances with Qatar Central Bank	1,996,064	-	-	1,996,064	1,996,064
Due from banks and other financial institutions	2,916,456	-	-	2,916,456	2,916,490

For the year ended 31 December 2011 In thousands of Qatari Riyal

Loans and advances and other financing activities	6,439,315		-	6,439,315	6,483,700
Financial investments	-	5,938,176	-	5,938,176	5,938,176
Other financial assets	-	-	127,451	127,451	127,451
	11,351,835	**5,938,176**	**127,451**	**17,417,462**	**17,461,881**
Financial liabilities					
Customer deposits and unrestricted investment accounts	-	-	10,105,753	10,105,753	10,107,962
Due to banks and other financial institutions	-	-	2,607,503	2,607,503	2,606,280
Debt Securities issued	-	-	2,100,483	2,100,483	2,089,417
Other financial liabilities	-	-	196,716	196,716	196,716
	-	**-**	**15,010,455**	**15,010,455**	**15,000,375**

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

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

	2010				
Financial assets	Loans and receivables	Financial investments	Other amortised cost	Total carrying amount	Fair value
Cash and balances with Qatar Central Bank	8,416,196	-	-	8,416,196	8,416,196
Due from banks and other financial institutions	1,791,106	-	-	1,791,106	1,794,424
Loans and advances and other financing activities	6,185,868	-	-	6,185,868	6,185,144
Financial investments	-	2,548,533	-	2,548,533	2,548,533
Other financial assets	-	-	136,561	136,561	136,561
	16,393,170	2,548,533	136,561	19,078,264	19,080,858
Financial liabilities					
Customer deposits	-	-	11,168,595	11,168,595	11,167,349
Due to banks and other financial institutions	-	-	3,890,799	3,890,799	3,889,537
Debt securities issued			1,787,127	1,787,127	1,780,777
Other financial liabilities	-	-	298,569	298,569	298,569
	-	-	17,145,090	17,145,090	17,136,232

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market price in an active market for a similar instrument, quoted price for an identical instrument in markets that are considered less active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using unobservable inputs.

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

For the year ended 31 December 2011 In thousands of Qatari Riyal

Level in the fair value hierarchy	Fair value measurement at end of 31 December 2010 using:			
	Fair value	Level 1	Level 2	Level 3
Financial investments	2,548,533	-	2,548,533	-

Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the market yield curve of identical securities i.e. with similar maturities and currencies at the reporting date. These range from 2.38% to 3.77% (2010: 3.53% to 4.10%) for State of Qatar bonds and 1.01% for Treasury bills.

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

g) Operational risk

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

h) Capital management

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

In implementing current capital requirements, the QCB requires the Bank to maintain a prescribed ratio of capital and reserves to net assets at 3% as a minimum. As at 31 December 2011, the Bank has reported a capital reserve ratio of 9.9% (2010: 7.35%) to the QCB.

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

Capital adequacy as per Basel Capital Adequacy

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

For the year ended 31 December 2011 In thousands of Qatari Riyal

5. CASH AND BALANCES WITH QATAR CENTRAL BANK

	2011	2010
Cash	38,158	56,387
Cash reserve with Qatar Central Bank	496,501	543,060
Other balances with Qatar Central Bank	1,461,405	7,816,749
	1,996,064	8,416,196

The cash reserve with the Qatar Central Bank is a mandatory reserve and is not available to fund the Bank's day-to-day operations.

6. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011	2010
Demand accounts	159,439	167,058
Placements with banks	2,757,017	1,624,048
	2,916,456	1,791,106

Included in placements with banks is QR.1.72 billion (2010: QR 1.41 billion) with Group entities which are placed at market rates of interest. The average rate on placements with banks for 2011 was 0.37 % (2010: 0.32 %).

7. LOANS AND ADVANCES AND OTHER FINANCING ACTIVITIES

For the year ended 31 December 2011 In thousands of Qatari Riyal

a) By type	2011	2010
(i) Conventional Banking Loans and Advances		
Loans	5,475,535	4,122,046
Overdrafts;	1,151,725	839,016
Bills discounted	11,671	18,970
	6,638,931	4,980,032
(ii) Financing Activities		
Due from Islamic financing activities to customers	695,670	1,903,915
Gross loans and advances	**7,334,601**	6,883,947
Specific provision on personal customers	(366,581)	(323,830)
Specific provision on corporate customers	(40,022)	(36,286)
Collective impairment provision – corporate	(14,591)	(5,260)
Collective impairment provision – personal	(10,257)	(14,351)
	(431,451)	(379,727)
Interest in suspense	(404,962)	(233,903)
Financing activities deferred profit	(58,873)	(84,449)
Net loans and advances	**6,439,315**	6,185,868

Non-performing loans and advances as at 31 December 2011 amount to QR 762.46 million representing 10.39% of the gross loans and advances (2010: QR 566.37 million representing 8.22% of total loans as at 31 December 2010).

b) By industry

Gross loans and advances	Overdrafts	Bills discounted	Murabaha receivables	Loans	**Total 2011**	Total 2010
General trade	147,801	10,880	35,822	1,170,448	**1,364,951**	1,173,448
Industries	1,923	-	2,352	32,630	**36,905**	63,792
Housing and construction	35,912	-	50,735	747,022	**833,669**	750,743
Personal	743,775	-	109,584	1,023,199	**1,876,558**	1,651,436
Services	100,039	791	1,088	148,590	**250,508**	1,326,444
Others	122,275	-	496,089	2,353,646	**2,972,010**	1,918,084
Total	**1,151,725**	**11,671**	**695,670**	**5,475,535**	**7,334,601**	6,883,947

7. LOANS AND ADVANCES AND OTHER FINANCING ACTIVITIES (continued)

The average interest rate at the reporting date, excluding non-performing loans was 10.57% (2010: 9.99%).

c) Movement in impaired allowances for loans & advances:

	Provisions	**Interest in suspense**	**Total 2011**	Total 2010
Balance as at 1 January	379,727	233,903	**613,630**	408,682
Provisions made during the year	54,620	180,550	**235,170**	210,103
Recoveries during the year	(2,896)	(9,491)	**(12,387)**	(5,096)
	51,724	171,059	**222,785**	205,007
Provision written off	-	-	**-**	(59)
Balance as at 31 December	**431,451**	**404,962**	**836,418**	613,630

8. FINANCIAL INVESTMENTS

	2011	2010
Available-for-sale investments (a)	5,181,818	2,548,533
Financial assets at fair value through profit and loss (b)	756,358	-

In thousands of Qatari Riyal

	5,938,176	2,548,533

a) Available-for-sale investments

	2011			2010		
	Total	**Quoted**	**Unquoted**	Total	Quoted	Unquoted
State of Qatar QAR bonds	1,536,383	-	1,536,383	1,479,670	-	1,479,670
Treasury bills	3,645,435	-	3,645,435	- -		-
Certificates of deposit	-	-	-	1,068,863	-	1,068,863
Total	**5,181,818**	**-**	**5,181,818**	2,548,533	-	2,548,533

The movements in available-for-sale financial assets during the year were as follows:

	2011	2010
Opening balance	2,548,533	3,206,713
Additions during the year	3,645,435	2,105,595
Net redemptions during the year	(1,080,020)	(2,774,434)
Fair value movements during the year	67,870	10,659
	5,181,818	2,548,533

b) Financial assets at fair value through profit and loss

	2011			2010		
	Total	**Quoted**	**Unquoted**	Total	Quoted	Unquoted
State of Qatar QAR bonds	631,994	-	631,994	-	-	-
Treasury bills	124,364	-	124,364	- -		-
Total	**756,358**	**-**	**756,358**	-	-	-

The financial investments amounting to QR. 5,938 million (2010: QR 2,548 million) represent investments in fixed rate securities.

9. PROPERTY AND EQUIPMENT

	Leasehold improvements	**Machinery & office equipment**	**Furniture**	**Motor vehicles**	**Capital work in progres s**	Total
Cost						
Balance at 1 January 2010	31,600	19,826	15,019	723	1,569	68,737
Additions during the year	13,396	3,269	3,010	-	-	19,675
Disposals during the year	(111)	(179)	(156)	-	(1,569)	(2,015)
Balance at 31 December 2010	44,885	22,916	17,873	723	-	86,397
Additions during the year	198	2,494	382	-	715	3,789
Disposals during the year	(3,683)	(29)	(323)	(116)	-	(4,151)
Balance at 31 December 2011	**41,400**	**25,381**	**17,932**	**607**	**715**	**86,035**
Accumulated depreciation						
Balance at 1 January 2010	6,366	13,769	3,633	415	-	24,183
Charge for the year	4,246	2,993	2,116	79	-	9,434
Disposals during the year	(111)	(103)	(156)	-	-	(370)
Balance at 31 December 2010	10,501	16,659	5,593	494	-	33,247

Notes to the financial statements
For the year ended 31 December 2011 In thousands of Qatari Riyal

Charge for the year	4,691	3,416	2,225	78	-	10,410
Disposals during the year	(2,657)	(28)	(127)	(116)	-	(2,928)
Balance at 31 December 2011	**12,535**	**20,047**	**7,691**	**456**	**-**	**40,729**
Net book value						
As at 31 December 2011	**28,865**	**5,334**	**10,241**	**151**	**715**	**45,306**
As at 31 December 2010	34,384	6,257	12,280	229	-	53,150

10. OTHER ASSETS

	2011	2010
Accrued interest income	126,153	134,867
Items in the course of collection	41,782	58,863
Prepaid expenses and accrued income	13,697	13,484
Others	24,611	49,143
	206,243	256,357

11. CUSTOMER DEPOSITS

(a) By type

	2011	2010
(i) Conventional banking customer deposits		
Demand and call deposits	6,533,415	5,711,406
Savings deposits	1,294,637	984,604
Time deposits	2,234,047	3,818,393
	10,062,099	10,514,403
(ii) Islamic banking current accounts	37,133	148,254
	10,099,232	10,662,657

Certain customer deposits amounting to QR 123 million have been secured against credit facilities (2010: QR. 534 million).

(b) By sector

	2011	2010
Government	621,554	383,671
Individuals	4,907,665	6,064,962
Corporate	4,570,013	4,214,024
	10,099,232	10,662,657

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011	2010
Current accounts	272,650	608,402
Short term borrowings	2,334,853	3,282,397
	2,607,503	3,890,799

13. DEBT SECURITIES ISSUED

As at 31 December 2011, the Bank had five floating rate notes issued through its Head office (HBME), totalling to QAR 2,100 (2010: QAR 1,787) million having interest rates ranging between 1.40% – 1.74%, with earliest and latest maturities being 24 June 2013 and 28 June 2016, respectively.

14. OTHER LIABILITIES

	2011	2010
Provision for employees' end of service benefits (note 14.1)	26,521	31,469
Income tax payable (note 14.2)	45,792	46,710
Interest payable	7,275	71,184
Deferred income	21,306	17,636

In thousands of Qatari Riyal

Cash margins	95,086	163,190
Negative fair value of interest rate swaps (note 27)	876	-
Accrued expenses and others	226,777	205,654
	423,633	535,843

14.1 Employees' end of service benefits scheme

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

	2011	2010
Defined benefit obligations as at 1 January	31,469	29,282
Provisions made during the year	8,435	6,566
Payments for the year	(11,200)	(6,937)
(Gain) / loss on actuarial valuation	(2,183)	2,558
Defined benefit obligation as at 31 December	26,521	31,469

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

	2011	2010
Discount rate	1.6%	1.89 % p.a.
Rate of increase in basic salaries	3.6%	4.0% p.a.
Combined rate of resignation and employment termination	13%	11.2% p.a.

The mortality assumption for all employees has been set according to UK standard mortality tables as AM92 for males and AF92 for females.

The Bank is using faster recognition method for recognition of actuarial (gain) / loss. In this respect, a gain of QR 2,183 million (2010: loss of QR 2.558 million) is directly recognized in the statement of other comprehensive income.

Defined contribution plan
The Bank also contributed to the retirement fund relating to the provision for the Qatari employees amounting to QR 1.7 million (2010: QR 2.08 million) set up in accordance with instructions received from Qatar Retirement Pension Authority and in accordance with the Retirement and Pension Law, the same amount is deposited with the pension authorities on monthly basis.

14.2 Income tax payable

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

	2011	2010
Income tax payable as at 1 January	46,710	165,363
Income tax expense	48,272	44,037
Income tax paid	(49,190)	(162,690)
Income tax payable as at 31 December	**45,792**	46,710

15. UNRESTRICTED INVESTMENT ACCOUNTS

	2011	2010
Saving accounts and term investments	**6,521**	505,938

The return on the unrestricted investment accounts shall be computed according to the returns actually distributed on 31 December 2011, ranging from 0.45% to 2.92%.

16. Equity

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

(b) Legal reserve

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In accordance with Qatar Central Bank regulations, 10% of the net profit for the year before taxation is transferred to the legal reserve until the reserve totals 100% of capital. As the reserve has reached 100% of the Capital, no amount is transferred to the reserve account during the year.

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

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

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

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

(f) Share based payments reserve
The Share based payments reserve includes the impact of the change in share option reserve amounting to QR 4.980 million (2010: QR 2.02 million) for the equity settled share option plan.

17. NET INTEREST INCOME

Interest income	**2011**	2010
Due from banks and other financial institutions	27,431	9,864
Financial investments – Bonds, treasury bills and certificates of deposit	90,609	99,178
Loans and advances and other financing activities	309,835	551,502
Total interest income	**427,875**	660,544
Interest expense		
Due to banks and other financial institutions and debt securities issued	38,316	58,760
Customer deposits	44,945	138,446
Total interest expense	**83,261**	197,206
Net interest income	**344,614**	463,338

18. NET FEE AND COMMISSION INCOME

	2011	2010
Commission on loans and advances	49,767	56,397
Commission on indirect credit facilities	102,248	94,119
Commission on investment activities for others	25,359	25,712
Others	86,817	81,170
	264,191	257,398

19. PROFIT FROM FOREIGN CURRENCY TRANSACTIONS

	2011	2010
Profit from foreign currency transactions	151,802	111,190

For the year ended 31 December 2011 In thousands of Qatari Riyal

(Loss) from dealing in foreign currency derivatives	(876)	(3)
	150,926	111,187

20. OTHER OPERATING INCOME

	2011	2010
Rent received from third parties	3,000	296
Net change in fair value of available-for-sale financial assets transferred to income statement	-	7,494
Occupancy and maintenance income	4,587	2,046
Others	561	303
	8,148	10,139

21. INCOME FROM ISLAMIC FINANCE AND INVESTMENT ACTIVITIES

	2011	2010
Profit on financial investments	-	140
Profit from financing to customers	58,881	83,513
	58,881	83,653

22. GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
Staff salaries and benefits	162,679	156,011
End of service benefits	8,435	6,566
Marketing and promotion	14,033	8,177
Legal and professional charges	5,399	5,885
Communication, utilities and insurance	7,788	9,545
Occupancy and maintenance	46,510	45,686
Head office charges	1,114	5,173
Middle East Management office charges	61,842	35,888
Information Technology expenses	25,951	22,919
Travelling and entertainment	1,054	1,260
Training expenses	1,979	1,263
Licence and permit expenses	382	512
Operating losses	1557	1,896
Security costs	648	1,161
Staff recruitment costs	324	560
Miscellaneous expenses	11,461	11,614
	351,156	314,116

23. INCOME TAX EXPENSE

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

(a) Recognised in the income statement

	2011	2010
Current tax expense	38,509	44,037
Prior year tax charge	9,763	-
Total income tax expense	**48,272**	44,037

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The tax assessments until 2003 have been finalized, whereas the assessments from the year 2004 onwards are still pending finalization with the Tax Department. During the year, the Tax Department has issued a corrective tax assessment for the years 2005 to 2009 with an additional tax liability. A prior year tax charge of QR 9.763 million has been recorded based on discussions / communication with the Tax authorities.

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

	Effective tax rate	**2011**	Effective tax rate	2010
Profit before tax		408,581		488,827
Tax exempt revenues		(73,119)		(104,739)
Cost related to exempted income		40,736		-
Disallowable provisions written-off		51,680		105,215
Allowed deductible expenses		(42,788)		(48,930)
Total taxable income of the year		**385,089**		440,373
Current tax expense	**10%**	**38,509**	10%	44,037

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

24. COMMITMENTS AND CONTINGENT LIABILITIES

	2011	2010
a) Deferred or Contingent Commitments		
Irrevocable loan commitments	7,716,907	1,760,496
Guarantees	13,318,803	12,797,963
Acceptances	543,605	508,725
Letters of credit	588,558	252,829
Others	608,484	876,171
	22,776,357	16,196,184
b) Other Undertakings and Commitments		
Foreign exchange contracts	2,399,981	2,889,469
Interest rate swaps	3,586,513	3,383,318
	5,986,494	6,272,787
Total Contingencies and commitments	**28,762,851**	22,468,971

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

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

25. OPERATING LEASE COMMITMENTS

Non cancellable operating lease rentals are payable as follows:

	2011	2010
Less than one year	58,968	35,974
Between one and five years	258,695	245,756
Over five years	172,084	224,779
	489,747	506,509

For the year ended 31 December 2011 In thousands of Qatari Riyal

The amount paid towards lease rentals during the year is QR. 40.65 million (2010: QR 38.57 million).

26. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

			Principle Value at Maturity			
	Positive fair value	**Negative fair value**	**Notional Amount**	**Within three Months**	**3-12 Months**	**1–5 Years**
As at 31 December 2011						
Held for trading - (Interest rate swaps)	**-**	**876**	**109,245**	**-**	**-**	**109,245**
As at 31 December 2010						
Held for trading - (Interest rate swaps)	-	-	-	-	-	**-**

The bank has foreign exchange contracts having a notional amount of QR 2,400 million (2010: QR 2,889 million) and interest rate swaps having a notional amount of QR 3,587 million (2010: QR 3,383 million) as at 31 December 2011, which have all been back-to-back hedged with other HSBC branches outside Qatar.

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27. GEOGRAPHICAL INFORMATION

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

2011	**Qatar**	**Other GCC Countries**	**Europe**	**North America**	**Others**	**Total**
As at 31 December 2011						
Assets						
Cash and balances with QCB	1,996,064	-	-	-	-	1,996,064
Due from banks and other financial institutions	1,036,310	1,209,668	579,073	79,347	12,058	2,916,456
Loans and advances and other financing activities	6,090,659	311,196	37,460	-	-	6,439,315
Financial investments	5,938,176	-	-	-	-	5,938,176
Property, plant and equipment	45,306	-	-	-	-	45,306
Other assets	206,243	-	-	-	-	206,243
Total assets	**15,312,758**	**1,520,864**	**616,533**	**79,347**	**12,058**	**17,541,560**
Liabilities and equity						
Customer deposits and unrestricted investment accounts	10,105,753	-	-	-	-	10,105,753
Due to banks and other financial institutions	417,781	2,015,500	100,880	7,259	66,083	2,607,503
Debt securities issued	-	-	2,100,483	-	-	2,100,483
Other liabilities	423,633	-	-	-	-	423,633
Equity	2,304,188	-	-	-	-	2,304,188
Total liabilities and equity	**13,251,355**	**2,015,500**	**2,201,363**	**7,259**	**66,083**	**17,541,560**

2010	Qatar	Other GCC Countries	Europe	North America	Others	Total
As at 31 December 2010						
Assets						
Cash and balances with QCB	8,416,196	-	-	-	-	8,416,196
Due from banks and other financial institutions	206,886	1,375,719	173,355	10,678	24,468	1,791,106
Loans and advances and other financing activities	6,185,868	-	-	-	-	6,185,868
Financial investments	2,548,533	-	-	-	-	2,548,533
Property, plant and equipment	53,150	-	-	-	-	53,150
Other assets	256,357	-	-	-	-	256,357
Total assets	17,666,990	1,375,719	173,355	10,678	24,468	19,251,210
Liabilities and equity						
Customer deposits	11,168,595	-	-	-	-	11,168,595
Due to banks and other financial institutions	182,239	1,604,084	1,691,952	372,877	39,647	3,890,799
Debt securities issued	-	-	1,787,127	-	-	1,787,127
Other liabilities	535,843	-	-	-	-	535,843
Equity	1,868,846	-	-	-	-	1,868,846
Total liabilities and equity	13,755,523	1,604,084	3,479,079	372,877	39,647	19,251,210

For the year ended 31 December 2011 In thousands of Qatari Riyal

28. TRANSACTIONS WITH RELATED PARTIES

Related parties represent Head Office and key management personnel of the Bank and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Bank's management.

The Bank carries out various transactions with other group entities or other parties having important influence in the Bank's financial or operations decisions. The balances at the year-end with these accounts were as follows:-

	2011	2010
On Balance Sheet Items		
Assets:		
Current accounts	531,033	409,703
Other assets	1,720,812	1,427,923
Liabilities:		
Current accounts	41,147	114,658
Other liabilities	4,182,062	3,952,962
Off Balance Sheet Items		
Guarantees	1,314,428	1,291,279
Foreign exchange contracts and derivatives	2,350,911	2,870,838
Items of income statement		
Income of interest and commission	12,056	10,905
Expenses of interest and commission	7,269	38,956
Other expense	88,601	64,146
Transactions with key management personnel		
Salaries and benefits to key management personnel	3,225	3,083

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

29. CASH AND CASH EQUIVALENTS

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

	2011	2010
Cash and balances with Qatar Central Bank (excluding cash reserve)	1,499,563	7,873,136
Due from banks and other financial institutions maturing within 90 days	2,916,456	1,791,106
	4,416,019	9,664,242

30. SHARE-BASED PAYMENTS

Achievement shares are utilised to promote widespread interest in HSBC Holding PLC's shares among employees and to help foster employee engagement.

They are awarded to eligible employees after taking into account the employee's performance in the prior year. Shares are awarded without corporate performance conditions and are released to employees after three years provided that the employees have remained continuously employed by the Bank for this period.

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

For the year ended 31 December 2011 In thousands of Qatari Riyal

30. SHARE-BASED PAYMENTS (continued)

Restricted share awards

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

	2011	2010
Outstanding at the beginning of the year	17,690	40,443
Granted during the year	291	9,716
Exercised during the year	(17,981)	(10,976)
Expired during the year		(21,493)
Outstanding at the end of the year	-	17,690

Share options outstanding at the end of the year were as follows:

Expiry date	**2011**	2010
2011	-	17,690
	-	17,690

31. CUSTODIAN AND CLEARANCE SERVICES

The Bank offers custodial services to local and foreign financial institutions, corporate and high net worth individuals. The services include safe custody of assets, reconciliations, corporate actions processing, cash management and reporting. The value of assets under custody as at 31 December 2011 was QR 16.15 billion. (2010: QR 17.88 billion).

32. USE OF ESTIMATES AND JUDGEMENTS

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

Impairment on loans and advances

The Bank reviews its problem loans and advances on a monthly basis to assess whether a provision for impairment should be recorded in the profit or loss. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions. As at 31 December 2011, the carrying values of loans and advances and other financing activities totalled QR 7,335 million (31 December 2010: QR 6,884 million) and provision for impairment on loans and advances amounted to QR 431 million (31 December 2010: QR 380 million).

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

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

Classification of investments in securities

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

The Bank classifies as available-for-sale investments those financial assets that are not investments carried at fair value through profit or loss nor are held to maturity nor loans or receivables.

33. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation in the current year's financial statements. Such reclassification did not have any impact on the declared profit or the equity for the year 2010.

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS

Islamic Banking

During the year, the Qatar Central Bank vide circular no 315/275/2011 has directed all conventional banks to cease booking any new Islamic business through their Islamic windows from 31 January 2011, which has been complied with by the Bank.

The statement of financial position and income statement of the Bank's ceased Islamic banking activities are presented below;

Statement of financial position
As at 31 December 2011

In thousands of Qatari Riyals

	2011	2010
ASSETS		
Cash in hand	-	2,781
Financing activities to customers	641,157	1,819,466
Other assets	6,252	27,840
Total assets	**647, 409**	1,850,087
LIABILITIES AND EQUITY		
Customer current accounts	30,612	148,254
Other liabilities	2,884	12,454
Total liabilities	**33,496**	160,708
Unrestricted investment accounts	6,521	505,938
Total liabilities and Unrestricted investment accounts	**40,017**	666,646
Equity		
Due to head office	333,056	963,097
Retained earnings	274,336	220,344
Total equity	**607,392**	1,183,441
Total liabilities and equity	**647,409**	1,850,087
Contingencies and commitments	-	-

Income statement
For the year ended 31 December 2011

In thousands of Qatar Riyal

	2011	2010
Income from financing activities	61,368	82,345
Income from investing activities	-	140
Total income from financing and investing activities	**61,368**	82,485
Fee and commission income	11,212	16,153
Profit from foreign currency transactions	1,752	4,295
Total operating income	**74,332**	102,933
General administrative expenses	(15,758)	(17,295)
Net impairment loss on financing activities to customers	307	(1,985)
Total expenses	(15,451)	(19,280)
Profit for the year	**58,881**	83,653
Less: Unrestricted Investment Account Holders' Share of Profits	(4,889)	(8,123)
Profit for the year	**53,992**	75,530