

FINANCIAL STATEMENTS

Auditors' Report to the Shareholders of Qatar National Bank S.A.Q.

We have audited the accompanying consolidated balance sheet of Qatar National Bank S.A.Q. ("the Bank") as at 31st December 2004, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 31st December 2004, and the results of its operations and cash flows for the year then ended in accordance with

International Financial Reporting Standards and Qatar Central Bank regulations.

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

T. F. Sexton

Ernst & Young
Qatar Auditors' Registry No. 114

17th January 2005
Doha, State of Qatar

CONSOLIDATED BALANCE SHEET

As at 31st December 2004

	Note	2004 QR000	2003 QR000
ASSETS			
Cash and Deposits with Central Bank	4	1,700,369	810,808
Due from Banks and Other Financial Institutions	5	2,345,936	3,315,875
Loans and Advances to Customers	6	26,441,561	23,141,335
Investments	7	7,624,824	7,017,435
Properties, Furniture and Equipment	8	528,435	139,374
Other Assets	9	756,996	364,019
Total Assets		39,398,121	34,788,846
LIABILITIES and SHAREHOLDERS' EQUITY			
Liabilities			
Due to Banks and Other Financial Institutions	10	2,153,383	3,644,546
Customer Deposits	11	29,613,833	24,100,030
Other Liabilities	12	1,095,555	1,436,554
Total Liabilities		32,862,771	29,181,130
Shareholders' Equity			
Fully Paid Share Capital	14	1,038,208	1,038,208
Statutory Reserve	14	1,038,208	1,038,208
Other Reserves	14	1,770,034	1,770,034
Fair Value Reserve	14	1,439,387	777,871
Proposed Dividend	14	622,925	545,059
Retained Earnings		626,588	438,336
Total Shareholders' Equity		6,535,350	5,607,716
Total Liabilities and Shareholders' Equity		39,398,121	34,788,846

These financial statements were approved by the Board of Directors on 17th January 2005 and were signed on their behalf by:

Yousef Hussain Kamal
Chairman

Sheikh Hamad Bin Faisal Al-Thani
Vice Chairman

Saeed Abdullah Al Misnad
Chief Executive

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31st December 2004

	Note	2004 QR000	2003 QR000
Interest Income	15	1,413,793	1,340,725
Interest Expense	16	(504,730)	(482,838)
Net Interest Income		909,063	857,887
Fees and Commissions Income	17	178,971	147,968
Fees and Commissions Expense		(14,374)	(7,698)
Net Fees and Commissions		164,597	140,270
Dividend Income	18	52,658	34,172
Net Gains from Dealing in Foreign Currencies	19	38,555	24,448
Gains from Investments	20	19,092	2,213
Loss from Investment in Associates	7	-	(532)
Other Operating Income		8,461	1,117
Total Operating Income		1,192,426	1,059,575
General and Administrative Expenses	21	(308,198)	(262,527)
Depreciation		(27,159)	(33,543)
Provisions for Impairment of Loans and Advances	6	(42,839)	(82,708)
Investment Revaluation Gains / (Losses)		7,749	(28,988)
Other (Provisions) / Recoveries	13	(3,435)	23,803
Provision for Pension Fund		-	(23,938)
Recovery of Provision for Properties Acquired against Settlement of Debts		6,585	-
Net Profit Before Taxes		825,129	651,674
Taxes		(10,132)	(10,551)
Net Profit for the Year		814,997	641,123
Basic Earnings Per Share (QR)	22	7.9	6.2
Fully Diluted Earnings Per Share (QR)	22	7.9	6.2

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31st December 2004

	Share Capital QR000	Statutory Reserve QR000	Other Reserves QR000	Fair Value Reserve QR000	Proposed Dividend QR000	Retained Earnings QR000	Total QR000
Balance at 1st January 2003	1,038,208	1,038,208	1,770,034	321,178	467,193	346,092	4,980,913
Dividend Paid for the Year 2002	-	-	-	-	(467,193)	-	(467,193)
Directors' Fees Paid for the Year 2002	-	-	-	-	-	(3,820)	(3,820)
Net Profit for the Year	-	-	-	-	-	641,123	641,123
Net Movement in Fair Value Reserve	-	-	-	456,693	-	-	456,693
Proposed Dividend	-	-	-	-	545,059	(545,059)	-
Balance at 31st December 2003	1,038,208	1,038,208	1,770,034	777,871	545,059	438,336	5,607,716
Balance at 1st January 2004	1,038,208	1,038,208	1,770,034	777,871	545,059	438,336	5,607,716
Dividend Paid for the Year 2003	-	-	-	-	(545,059)	-	(545,059)
Directors' Fees Paid for the Year 2003	-	-	-	-	-	(3,820)	(3,820)
Net Profit for the Year	-	-	-	-	-	814,997	814,997
Net Movement in Fair Value Reserve	-	-	-	661,516	-	-	661,516
Proposed Dividend	-	-	-	-	622,925	(622,925)	-
Balance at 31st December 2004	1,038,208	1,038,208	1,770,034	1,439,387	622,925	626,588	6,535,350

Retained earnings as at 31st December 2004 include QR4.56 million in respect of proposed directors' fees for the year 2004 (2003:QR3.82 million).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December 2004

	Note	2004 QR000	2003 QR000
Cash Flow From Operating Activities			
Net Profit for the Year Before Taxes		825,129	651,674
Reconciliation Of Net Profit To Net Cash Flow From Operating Activities			
Depreciation		27,159	33,543
Provisions for Impairment of Loans and Advances		42,839	82,708
Investment Revaluation (Gains) / Losses	7	(7,749)	28,988
Other Provisions		11,262	37,508
Release of Other Provisions		(18,291)	(31,628)
Profit on Sale of Properties, Furniture and Equipment		(6,738)	(14)
Profit on Sale of Investments		(19,092)	(981)
Tax Paid		(13,327)	(9,986)
Amortisation of Premium or Discount on Investments		2,960	2,833
Gain from Investment in Associates		-	(703)
Recovery of Provision for Property Acquired Against Settlement of Debts		(6,585)	-
		837,567	793,942
Net (Increase) / Decrease In Assets			
Due from Banks		(259,704)	24,299
Loans and Advances		(840,096)	(3,270,934)
Other Assets		(229,009)	(186,540)
Net Increase / (Decrease) In Liabilities			
Due to Banks		(1,615,619)	1,623,659
Customer Deposits		1,900,865	499,840
Other Liabilities		(794,686)	963,031
Net Cash (Outflow) / Inflow From Operating Activities		(1,000,682)	447,297
Cash Flow From Investing Activities			
Purchase of Investments		(993,851)	(1,491,390)
Sale / Redemption of Investments		2,097,743	62,000
Sale of Associate		-	8,544
Acquisition of Subsidiary, Net of Cash Acquired	29	203,744	-
Purchase of Properties, Furniture and Equipment		(37,432)	(85,083)
Sale of Properties, Furniture and Equipment		21,639	229
Net Cash Inflow / (Outflow) From Investing Activities		1,291,843	(1,505,700)
Cash Flow From Financing Activities			
Dividend Paid		(548,178)	(467,390)
Net Cash Outflow from Financing Activities		(548,178)	(467,390)
Net Cash (Outflow) / Inflow During The Year			
Changes in Foreign Exchange Rates		(30,444)	(55,025)
Balance at 1st January		3,140,533	4,721,351
Balance at 31st December	30	2,853,072	3,140,533

The accompanying notes form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Qatar National Bank S.A.Q. ("the Bank") was incorporated in the State of Qatar on 6th June 1964 as a Joint Stock Company under Emiri Decree No. 7 issued in 1964.

The Bank is engaged in commercial banking activities and operates through its head office in Doha and a total of 32 branches and offices in Qatar and two branches in the United Kingdom and France. In addition, QNB owns 100% of the issued share capital of Ansbacher Holdings Limited, a wealth management financial institution with operations in the UK, Switzerland, Bahamas, Cayman Islands, and Channel Islands. It owns Ansbacher Holdings Limited through a Luxembourg based holding company, QNB International Holdings Limited.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation and Consolidation

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair values of derivatives and available for sale securities and in accordance with International Financial Reporting Standards and related interpretations and the laws and regulations of Qatar Central Bank.

The consolidated financial statements comprise the financial statements of Qatar National Bank and its subsidiaries. All intercompany balances and transactions have been eliminated in full. The details of these subsidiaries are as follows:

Name of Subsidiary	Country of Incorporation	Share Capital QR000	Ownership %
QNB International Holdings Limited	Luxembourg	492,559	100%
Ansbacher Holdings Limited	Channel Islands	176	100%

b) Foreign Currencies

The consolidated financial statements are denominated in Qatari Riyals. Transactions in foreign currencies are translated into Qatari Riyals at the exchange rates prevailing at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into Qatari Riyals at the rates ruling at the balance sheet date. Exchange gains and losses resulting therefrom appear in the statement of income under net gains from dealing in foreign currencies. Translation differences arising from the application of closing rates of exchange to the opening balances of assets and liabilities of overseas branches and subsidiaries are taken directly to other reserves.

c) Derivatives

Derivatives are initially measured at cost and are subsequently stated at fair value. Fair values represent quoted market prices or internal pricing models as appropriate. Derivatives with positive market values are included in other assets and derivatives with negative market values are included in other liabilities. The resultant gains and losses from derivatives held for trading purposes are included in the statement of income.

For the purpose of hedge accounting, hedges are classified as either fair value or cash flow hedges. Fair value hedges hedge the exposure to changes in the fair value of a recognised asset or liability. Cash flow hedges hedge exposure to the variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the statement of income. The related aspect of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the statement of income.

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

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

Hedge accounting is discontinued when the hedging instrument expires, is terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in shareholders' equity is held therein until the forecasted transaction occurs. When the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in shareholders' equity is transferred to the statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

d) Revenue Recognition

Revenues are recognised on an accrual basis. Interest income and expense are recognised using the effective yield method. Interest income on non-performing loans is suspended if doubt exists with regard to the collectability of the interest or the original loan.

Management fees and commission income on syndicated loans are amortised over the period of the transaction using the effective yield method, if applicable. Fees and commission income on other services are accounted for on the date of the transaction giving rise to that income.

Dividend income is recognised when declared.

e) Investments

Available for sale investments are measured at fair value on an individual basis. Unrealised gains arising from a change in the fair value are recognised directly in the fair value reserve under shareholders' equity until the investment is sold, at which time the cumulative gain previously recognised in shareholders' equity is included in the statement of income. In accordance with Qatar Central Bank regulations, unrealised losses occurring on a specific investment due to changes in its fair value are recognised in the statement of income if they exceed the specific fair value reserve for that investment.

Future unrealised gains on that investment are recognised in the statement of income to the extent of unrealised losses previously recognised. Any excess is taken to the fair value reserve. In cases where objective evidence exists that a specific investment is impaired, the recoverable amount of that investment is determined and any impairment loss is recognised in the statement of income as a provision for impairment of investments.

Held to maturity investments are measured at amortised cost, less provision for impairment. In cases where objective evidence exists that a specific investment is impaired, the recoverable amount of that investment is determined and any impairment loss is recognised in the statement of income as a provision for impairment of investments.

Originated debt securities include investments which are purchased directly from the issuer other than those purchased with the intent to be sold in the short term. Originated debt securities are stated at amortised cost, less provision for impairment. In cases where objective evidence exists that a specific investment is impaired, the recoverable amount of that investment is determined and any impairment loss is recognised in the statement of income under provision for impairment of investments.

f) Fair Value

The fair value of financial assets traded in organised financial markets is determined by reference to quoted market bid prices on a regulated exchange at the close of business on the balance sheet date. For financial assets where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same, or cost.

g) Date of Recognition of Financial Transactions

All financial assets and liabilities are recognised using the settlement date.

h) Loans and Advances

Loans and advances are stated at cost less any provisions for their impairment and interest in suspense.

Specific provisions for the impairment of loans are calculated based on the difference between the book value of the loans and advances and their recoverable amount, being the net present value of the expected future cash flows, discounted at the original interest rates, together with a detailed appraisal of the lending portfolio by the management following Qatar Central Bank regulations. In accordance with Qatar Central Bank regulations, a general provision is made to cover impaired loans and advances which are known from experience to be present in any banking portfolio with a minimum requirement of 1% of loans and advances to the private sector.

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

i) Properties Acquired Against Settlement of Debts

Properties acquired against settlement of debts appear under other assets at their net acquired values. Unrealised losses due to the diminution in the fair value of these assets appear in the statement of income. Future unrealised gains on these properties are recognised in the statement of income to the extent of unrealised losses previously recognised.

In accordance with Qatar Central Bank regulations, all properties acquired against settlement of debts must be sold within three years. Any extension or transfer to fixed assets must be with Qatar Central Bank approval.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

j) Properties, Furniture and Equipment

Properties, furniture and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

	Years
Buildings	20
Equipment, Furniture and Fittings	3 to 7
Motor Vehicles	5

Freehold land is stated at cost.

k) Impairment of Financial Assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognised in the statement of income.

l) Employees' Termination Benefits and Pension Fund

The Bank makes a provision for all termination indemnities payable to employees in accordance with the Bank's regulations, calculated on the basis of the individual's period of service at the balance sheet date. The provision for employees' termination benefits is included in other provisions within other liabilities.

The Bank calculates its share in the pension fund in accordance with the pension fund law. The cost is considered as part of staff costs within general and administrative expenses and is disclosed in note 21.

m) Other Provisions

The Bank takes provisions for any expected legal or financial liabilities as a charge to the statement of income based on the likelihood and expected amount of such liabilities at the balance sheet date. Other provisions are disclosed in note 13.

n) Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of acquisition over the Bank's interest in the fair value of the subsidiaries' net assets. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment on an annual basis.

o) Contingent Liabilities and Other Commitments

At the balance sheet date contingent liabilities and other commitments do not represent actual assets or liabilities.

p) Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash, balances with Central Banks and balances with banks and other financial institutions with less than three months maturity as disclosed in note 30.

q) Taxes

Taxes are calculated based on tax laws and regulations either in Qatar or other countries in which the bank operates. Tax provision is made based on an evaluation of the expected tax liability.

3. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS

I. FINANCIAL INSTRUMENTS

a) Definition and Classification

Financial instruments cover all financial assets and liabilities of the Bank. Financial assets include cash balances, on demand balances and placements with banks and other financial institutions, investments, and loans and advances to customers and banks. Financial liabilities include customer deposits and due to banks. Financial instruments also include contingent liabilities and commitments included in off-balance sheet items.

Note 2 explains the accounting policies used to recognise and measure the major financial instruments and their related income and expense.

b) Fair Value of Financial Instruments

Based on the methods used to determine the fair value of financial instruments explained in the notes accompanying the financial statements, the book values of financial assets and liabilities, excluding held to maturity investments and originated debt securities, are not significantly different from their fair values. The fair value of held to maturity investments and originated debt securities is disclosed in note 7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

II. RISK MANAGEMENT

a) Derivatives Used in Risk Management

In the ordinary course of business, the Bank utilises the following derivative financial instruments for both trading and hedging purposes:

Swaps are commitments to exchange one set of cash flows for another. In the case of interest rate swaps, counterparties generally exchange fixed and floating interest payments in a single currency without exchanging principal. In the case of currency swaps, fixed interest payments and principal are exchanged in different currencies. In the case of cross-currency interest rate swaps, principal, fixed and floating interest payments are exchanged in different currencies.

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and changes in future contract values are settled daily.

Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement for the difference between a contracted interest rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Derivatives Held for Trading Purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order to enable them to transfer, modify or reduce current and future risks. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products.

Derivatives Held for Hedging Purposes

The Bank has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves reducing the Bank's exposure to fluctuations in foreign exchange rates and interest rates to acceptable levels as determined by the Bank, within the guidelines issued by Qatar Central Bank. The Bank has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Bank has established a level of interest rate risk by setting limits on interest rate gaps for stipulated periods. Asset and liability interest rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce interest rate gaps to within the established limits.

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to adjust its own exposure to currency and interest rate risks. This is generally achieved by hedging specific transactions in the balance sheet.

The Bank uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses interest rate swaps and interest rate futures to hedge against the interest rate risk arising from specifically identified fixed interest rate exposures. The Bank also uses interest rate swaps to hedge against the cash flow risk arising on certain floating rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instruments, are formally documented and the transactions are accounted for as fair value or cash flow hedges. Note 26 discloses the derivative financial instruments used by the Bank.

b) Credit Risk

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

The Bank controls the credit risk arising from derivatives and foreign exchange contracts through its credit approval process and the use of risk control limits and monitoring procedures. The Bank uses the same credit risk procedures when entering into derivative and foreign exchange transactions as it does for traditional lending products.

Note 6 discloses the distribution of loans and advances by industrial sector. Note 25 discloses the geographical distribution of the Bank's assets and liabilities.

c) Market Risk Arising From Investments

The Bank takes on exposure to market risks from equity products due to general and specific market movements. The Bank applies an internal methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Bank has a set of limits on the value of risk that may be accepted, which is monitored on a daily basis. Note 7 discloses the fair value of investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

(All amounts are shown in thousands of Qatari Riyals)

3. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (Continued)

d) Interest Rate Risk

Interest rate risk reflects the risk of a change in interest rates which might affect future earnings. Exposure to interest rate risk is managed by the Bank using, where appropriate, various off-balance sheet instruments, primarily interest rate swaps. Maturities of assets and liabilities have been determined on the basis of contractual pricing or maturity dates, whichever dates are earlier.

The following tables summarise the repricing profile of the Bank's assets, liabilities and off-balance sheet exposures.

	Within 3 Months	3 - 12 Months	1 - 5 Years	More than 5 Years	Non-Interest Sensitive	Total	Effective Interest Rate
As at 31st December 2004:							
Cash and Deposits with Central Banks	363,019	-	-	-	1,337,350	1,700,369	
Due from Banks	1,815,515	166,264	-	-	364,157	2,345,936	1.95%
Loans and Advances	20,380,381	3,341,974	934,100	920,799	864,307	26,441,561	4.06%
Investments	539,845	1,296,185	1,688,684	1,649,180	2,450,930	7,624,824	5.53%
Other Assets	-	-	-	-	1,285,431	1,285,431	
Total Assets	23,098,760	4,804,423	2,622,784	2,569,979	6,302,175	39,398,121	
Due to Banks	1,919,112	126,499	-	-	107,772	2,153,383	1.64%
Customer Deposits	25,042,723	1,416,992	421,443	28,103	2,704,572	29,613,833	1.58%
Other Liabilities	-	-	-	-	1,095,555	1,095,555	
Shareholders' Equity	-	-	-	-	6,535,350	6,535,350	
Total Liabilities and Equity	26,961,835	1,543,491	421,443	28,103	10,443,249	39,398,121	
Balance Sheet Items	(3,863,075)	3,260,932	2,201,341	2,541,876	(4,141,074)	-	
Off-Balance Sheet Items	1,070,504	293,015	(1,117,960)	(245,559)	-	-	
Interest Rate Sensitivity Gap	(2,792,571)	3,553,947	1,083,381	2,296,317	(4,141,074)	-	
Cumulative Interest Rate Sensitivity Gap	(2,792,571)	761,376	1,844,757	4,141,074	-	-	

As at 31st December 2003:

Cash and Deposits with Central Banks	-	-	-	-	810,808	810,808	
Due from Banks	2,967,780	92,936	-	-	255,159	3,315,875	1.79%
Loans and Advances	20,840,119	1,475,457	442,188	10,369	373,202	23,141,335	4.16%
Investments	293,878	3,030,264	527,812	1,710,931	1,454,550	7,017,435	5.60%
Other Assets	-	-	-	-	503,393	503,393	
Total Assets	24,101,777	4,598,657	970,000	1,721,300	3,397,112	34,788,846	
Due to Banks	3,208,759	315,466	-	-	120,321	3,644,546	1.42%
Customer Deposits	20,054,791	1,678,478	719,678	-	1,647,083	24,100,030	1.60%
Other Liabilities	-	-	-	-	1,436,554	1,436,554	
Shareholders' Equity	-	-	-	-	5,607,716	5,607,716	
Total Liabilities and Equity	23,263,550	1,993,944	719,678	-	8,811,674	34,788,846	
Balance Sheet Items	838,227	2,604,713	250,322	1,721,300	(5,414,562)	-	
Off-Balance Sheet Items	718,887	339,816	(644,603)	(414,100)	-	-	
Interest Rate Sensitivity Gap	1,557,114	2,944,529	(394,281)	1,307,200	(5,414,562)	-	
Cumulative Interest Rate Sensitivity Gap	1,557,114	4,501,643	4,107,362	5,414,562	-	-	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

(All amounts are shown in thousands of Qatari Riyals)

3. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (Continued)

e) Liquidity Risk

Liquidity risk is the risk that an institution will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or credit down-grades, which may cause certain sources of funding to cease immediately. To mitigate this risk, the Bank has a diversification of funding sources and a diversified portfolio of high quality liquid assets and readily marketable securities. The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date 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.

	Within 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	More than 5 Years	Total
As at 31st December 2004:						
Cash and Deposits with Central Banks	1,700,369	-	-	-	-	1,700,369
Due from Banks	1,779,287	17,760	112,637	436,252	-	2,345,936
Loans and Advances	2,859,999	4,495,442	5,874,692	12,125,394	1,086,034	26,441,561
Investments	2,552,093	167,555	1,309,749	2,193,694	1,401,733	7,624,824
Other Assets	575,015	98,819	308	379,116	232,173	1,285,431
Total Assets	9,466,763	4,779,576	7,297,386	15,134,456	2,719,940	39,398,121
Due to Banks	1,842,777	237,796	72,810	-	-	2,153,383
Customer Deposits	24,582,034	3,424,987	1,311,024	295,788	-	29,613,833
Other Liabilities	706,531	42,679	36,844	309,904	6,534,947	7,630,905
Total Liabilities and Equity	27,131,342	3,705,462	1,420,678	605,692	6,534,947	39,398,121
Difference	(17,664,579)	1,074,114	5,876,708	14,528,764	(3,815,007)	-
As at 31st December 2003:						
Cash and Deposits with Central Banks	810,808	-	-	-	-	810,808
Due from Banks	2,698,949	261,013	37,304	318,609	-	3,315,875
Loans and Advances	4,131,591	3,113,385	2,506,996	11,938,912	1,450,451	23,141,335
Investments	1,454,549	36,405	2,030,265	1,772,496	1,723,720	7,017,435
Other Assets	146,784	1,154	53,502	2,336	299,617	503,393
Total Assets	9,242,681	3,411,957	4,628,067	14,032,353	3,473,788	34,788,846
Due to Banks	2,362,984	966,098	315,464	-	-	3,644,546
Customer Deposits	18,267,702	2,885,686	2,233,050	713,592	-	24,100,030
Other Liabilities	807,087	2,082	52,353	18,329	6,164,419	7,044,270
Total Liabilities and Equity	21,437,773	3,853,866	2,600,867	731,921	6,164,419	34,788,846
Difference	(12,195,092)	(441,909)	2,027,200	13,300,432	(2,690,631)	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

(All amounts are shown in thousands of Qatari Riyals)

3. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (Continued)

f) Currency Risk

The Bank takes on exposure to the effect of fluctuations in prevailing foreign currency exchange rates on its financial position. The Bank has a set of limits on the level of currency exposure, which are monitored daily. The Bank has the following significant net exposures denominated in foreign currencies:

	QR	US\$	Euro	UK£	Currencies	Other Total
As at 31st December 2004:						
Assets	14,462,585	17,545,030	3,979,866	2,615,934	794,706	39,398,121
Liabilities and Equity	20,049,921	12,472,098	3,574,158	2,764,427	537,517	39,398,121
Net Balance Sheet Position	(5,587,336)	5,072,932	405,708	(148,493)	257,189	-

As at 31st December 2003:

Assets	15,058,584	15,084,365	3,175,686	909,735	560,476	31,055,925
Liabilities and Equity	20,778,497	9,413,055	3,177,486	831,485	588,323	31,055,925
Net Balance Sheet Position	(5,719,913)	5,671,310	(1,800)	78,250	(27,847)	-

g) Capital Adequacy

	Assets		Weighted Assets	
	2004	2003	2004	2003
Cash and Deposits with Central Banks	1,700,369	810,808	-	-
Due from Banks and Other Financial Institutions	2,345,936	3,315,875	477,637	699,839
Loans and Advances	26,441,561	23,141,335	11,487,900	8,220,200
Investments	7,624,824	7,017,435	4,429,034	3,018,657
Properties, Furniture and Equipment	528,435	139,374	528,435	139,374
Other Assets	756,996	364,019	717,087	285,414
Contingent Liabilities and Other Commitments	28,605,034	23,297,380	6,081,522	3,771,452
Total Weighted Assets			23,721,615	16,134,936

	Assets		Capital Adequacy Ratio	
	2004	2003	2004	2003
Tier 1 Capital	4,468,478	4,280,966	19%	27%
Tier 1 and Tier 2 Capital	5,265,625	4,767,930	22%	30%

The minimum accepted capital adequacy ratio is 10% under Qatar Central Bank requirements and 8% under Basle requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

(All amounts are shown in thousands of Qatari Riyals)

h) Risk of Managing Customer Investments

The Bank provides custody and corporate administration to third parties in relation to mutual funds marketed by the Bank. These services give rise to legal and operating risk. Such risks are mitigated through detailed daily procedures and internal audits to assure compliance. Note 27 lists mutual funds marketed by the Bank.

i) Operational and Other Risks

Operational risk is the risk of direct or indirect loss due to an event or action causing failure of technology, process infrastructure, personnel, and other risks having an operational risk impact. The Bank seeks to minimise actual or potential losses from operational risks failure through a framework of policies and procedures that identify, assess, control, manage, and report those risks.

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

4. CASH AND BALANCES WITH CENTRAL BANKS

	2004	2003
Cash	163,540	172,867
Cash Reserve with Qatar Central Bank	644,344	630,237
Other Balances with Qatar Central Bank	890,794	7,704
Balance with Other Central Banks	1,691	-
Total	1,700,369	810,808

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

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2004	2003
Current Accounts	478,255	255,159
Placements	1,284,044	2,570,693
Loans	583,637	490,023
Total	2,345,936	3,315,875

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

(All amounts are shown in thousands of Qatari Riyals)

6. LOANS AND ADVANCES TO CUSTOMERS

	2004	2003
a) By Type		
Loans	26,195,500	21,586,143
Overdrafts	1,171,141	2,495,872
Bills Discounted	21,986	4,969
Total Loans and Advances	27,388,627	24,086,984
Specific Provision for Impairment of Loans	(604,001)	(619,265)
General Provision for Impairment of Loans	(149,422)	(136,922)
Interest In suspense	(193,643)	(189,462)
Net Loans and Advances	26,441,561	23,141,335

The aggregate amount of non-performing loans and advances amounted to QR666.6 million, 2.4% of total loans and advances (2003: QR679.9 million, 2.8% of total loans and advances).

b) By Industry	Loans & Advances	Overdrafts	Bills Discounted	2004 Total	2003 Total
Government	10,106,243	107,762	-	10,214,005	11,774,679
Government Agencies	3,437,522	15,497	-	3,453,019	2,437,116
Industry	741,092	6,513	-	747,605	433,815
Commercial	737,271	306,777	20,948	1,044,048	1,609,689
Services	890,923	1,378	-	913,249	1,052,734
Contracting	169,765	138,423	-	308,188	307,946
Real Estate	4,145,418	26,528	-	4,171,946	2,055,564
Personal	5,159,694	527,798	332	5,687,824	4,229,587
Others	807,572	40,465	706	848,743	185,854
Total Loans and Advances	26,195,500	1,171,141	21,986	27,388,627	24,086,984

c) Movement in Provisions for the Impairment of Loans

	Specific Provision	General Provision	Interest in Suspense	2004 Total	2003 Total
Balance at 1st January	619,265	136,922	189,462	945,649	840,410
Foreign Currency Translation	2,800	-	94	2,894	7,249
Net Provisions during the Year	29,760	12,500	14,756	57,016	108,884
Provisions Made during the Year	100,164	12,500	40,406	153,070	180,387
Recoveries during the Year	(70,404)	-	(25,650)	(96,054)	(71,503)
Provisions relating to Acquired Subsidiary	2,954	-	271	3,225	-
Written Off during the Year	(50,778)	-	(10,940)	(61,718)	(10,894)
Balance at 31st December	604,001	149,422	193,643	947,066	945,649

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

(All amounts are shown in thousands of Qatari Riyals)

7. INVESTMENTS

Investments as at 31st December 2004 totalled QR7,624,824,000 (2003:QR7,017,435,000). The analysis of investments is detailed below:

a) Originated Debt Securities	2004	2003
- By Issuer		
State of Qatar Debt Securities	1,419,604	2,993,230
Other Debt Securities	1,542,153	1,258,488
Total	2,961,757	4,251,718
- By Interest Rate		
Fixed Rate Securities	1,637,939	1,477,013
Floating Rate Securities	1,323,818	2,774,705
Total	2,961,757	4,251,718

The fair value of originated debt securities is QR3,023 million (2003:QR4,380 million).

b) Available for Sale Investments	2004		2003	
	Quoted	Unquoted	Quoted	Unquoted
Equities	2,381,936	23,182	1,439,824	11,936
State of Qatar Bonds	240,569	-	250,985	-
Other Bonds	954,151	345,711	342,025	-
Mutual Funds	970	5,491	970	1,820
Total	3,577,626	374,384	2,033,804	13,756

Fixed rate securities and floating rate securities amounted to QR411.3 million and QR1,129 million respectively (2003: QR408.3 million and QR184.7 million).

When International Accounting Standard IAS 39- Financial Instruments: Recognition and Measurement was first adopted, the Bank elected to take unrealised gains and losses on available for sale investments to the fair value reserve within shareholders' equity. In accordance with Qatar Central Bank regulations, the Bank recognised a revaluation gain of QR7.7 million (2003: a revaluation loss of QR29.0 million) in respect of the appreciation in value of those available for sale investments against which a revaluation loss was recognised in previous years. The Bank's management consider that the effect of this accounting treatment is immaterial in the context of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

(All amounts are shown in thousands of Qatari Riyals)

c) Held to Maturity Investments	2004		2003	
	Quoted	Unquoted	Quoted	Unquoted
- By Issuer				
State of Qatar Bonds	648,995	-	652,694	-
Other Bonds	62,092	-	65,463	-
Total	711,087	-	718,157	-
- By Interest Rate				
Fixed Rate Securities	711,087	-	718,157	-
Floating Rate Securities	-	-	-	-
Total	711,087	-	718,157	-

The fair value of held to maturity investments is QR883.2 million (2003: QR877.4 million).

d) Investment in Associates	2004	2003
Balance at 1st January	-	9,669
Share of Losses	-	(532)
Associates Sold / Transferred	-	(9,137)
Balance at 31st December	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

(All amounts are shown in thousands of Qatari Riyals)

8. PROPERTIES, FURNITURE AND EQUIPMENT

	Land & Buildings	Leasehold Improvements	Equipment & Furniture	Motor Vehicles	Total
Cost					
Balance at 1st January 2004	129,979	61,001	171,339	1,714	364,033
Additions / Transfers	5,639	12,353	19,109	331	37,432
Relating to Subsidiary	361,309	10,848	134,451	656	507,264
Disposals	-	(14,400)	(2,493)	(861)	(17,754)
Foreign Currency Translation	3,436	1,680	1,128	-	6,244
Balance at 31st December 2004	500,363	71,482	323,534	1,840	897,219
Accumulated Depreciation					
Balance at 1st January 2004	38,146	45,905	139,192	1,416	224,659
Charged during the Year	3,135	5,021	18,807	196	27,159
Relating to Subsidiary	24,175	8,512	99,282	440	132,409
Disposals	-	(14,400)	(2,388)	(766)	(17,554)
Foreign Currency Translation	-	1,332	779	-	2,111
Balance at 31st December 2004	65,456	46,370	255,672	1,286	368,784
Net Book Amount					
At 31st December 2004	434,907	25,112	67,862	554	528,435
At 31st December 2003	91,833	15,096	32,147	298	139,374

9. OTHER ASSETS

	2004	2003
Interest Receivable	274,046	103,130
Prepaid Expenses	16,984	7,795
Capital Expenditure in Progress	12,896	15,264
Properties Acquired Against Settlement of Debts	19,093	27,209
Positive Fair Value of Derivatives (Note 26)	125,979	94,765
Sundry Debtors	65,225	7,814
Goodwill	42,925	-
Others	199,848	108,042
Total	756,996	364,019

Properties acquired against settlement of debts are disclosed net of revaluation provision amounting to QR9.4 million (2003: QR16.0 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

(All amounts are shown in thousands of Qatari Riyals)

10. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS	2004	2003
Balances with Qatar Central Bank	61,352	411,970
Current Accounts	160,002	190,236
Deposits	1,932,029	3,042,340
Total	2,153,383	3,644,546

11. CUSTOMER DEPOSITS	2004	2003
a) By Type		
Current and Call Accounts	10,348,320	7,878,718
Saving Accounts	490,942	372,603
Time Deposits	18,774,571	15,848,709
Total	29,613,833	24,100,030

Customer deposits include QR112.8 million of margins held for direct and indirect facilities (2003: QR43.5 million).

b) By Sector	2004	2003
Government	4,391,725	5,827,764
Government Agencies	8,381,365	6,923,653
Individuals	10,657,178	8,846,681
Corporate	6,183,565	2,501,932
Total	29,613,833	24,100,030

12. OTHER LIABILITIES	2004	2003
Interest Payable	155,481	81,909
Expenses Payable	65,538	33,519
Other Provisions (Note 13)	73,935	75,120
Staff Provident Fund	75,570	66,729
Tax Payable	11,489	5,117
Negative Fair Value of Derivatives (Note 26)	161,498	140,128
Initial Public Offering Proceeds	-	659,734
Others	552,044	374,298
Total	1,095,555	1,436,554

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

(All amounts are shown in thousands of Qatari Riyals)

13. OTHER PROVISIONS	Staff Indemnity	Legal Provisions	2004 Total	2003 Total
Balance at 1st January	69,008	6,112	75,120	93,178
Provisions Made during the Year	7,827	5,000	12,827	13,570
	76,835	11,112	87,947	106,748
Provisions Relating to Subsidiary	-	5,844	5,844	-
Paid and Recovered during the Year	(18,291)	(1,565)	(19,856)	(31,628)
Balance at 31st December	58,544	15,391	73,935	75,120

14. SHAREHOLDERS' EQUITY

a) Share Capital

The authorised, issued and fully paid share capital of the Bank totalling QR1,038 million consists of 103,820,772 shares of QR10 each (2003: 103,820,772 shares of QR10 each). The Government of Qatar holds 50% of the ordinary shares of the Bank with the remaining 50% held by members of the public.

b) Statutory Reserve

In accordance with Qatar Central Bank Law, at least 20% of the net profit for the year is required to be transferred to the statutory reserve until the reserve equals 100% of the paid up capital. This reserve is not available for distribution except in circumstances specified in the Qatar Commercial Companies Law No. 5 of 2002 and after Qatar Central Bank approval.

c) Other Reserves

Other reserves represent a general reserve which, in accordance with the Bank's Articles of Association, shall be employed according to a resolution of the General Assembly upon the recommendation from the Board of Directors and after Qatar Central Bank approval.

d) Fair Value Reserve	Cash Flow Hedges	Available for Sale Investments	2004 Total	2003 Total
Balance at 1st January	(45,018)	822,889	777,871	321,178
Net Changes in Fair Value	9,950	665,055	675,005	456,711
Transfer to Statement of Income	-	(13,489)	(13,489)	(18)
Net Movement during the Year	9,950	651,566	661,516	456,693
Balance at 31st December	(35,068)	1,474,455	1,439,387	777,871

e) Dividend Paid and Proposed

The Board of Directors has proposed a cash dividend of 60.0% (QR 6.0 per share) for the year ended 31st December 2004 (2003: 52.5% (QR 5.25 per share)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

(All amounts are shown in thousands of Qatari Riyals)

15. INTEREST INCOME	2004	2003
Due from Central Banks	1,099	2,046
Due from Banks and Other Financial Institutions	59,177	72,733
Bonds	312,382	293,111
Loans and Advances	1,041,135	972,835
Total	1,413,793	1,340,725

16. INTEREST EXPENSE	2004	2003
Due to Banks and Other Financial Institutions	79,574	68,721
Customer Deposits	395,313	378,836
Others	29,843	35,281
Total	504,730	482,838

17. FEES AND COMMISSIONS INCOME	2004	2003
Loans and Advances	88,292	69,696
Off Balance Sheet Items	26,127	23,466
Bank Services	39,497	29,631
Investment Activities for Customers	21,640	23,774
Others	3,415	1,401
Total	178,971	147,968

18. DIVIDEND INCOME	2004	2003
Available for Sale Securities	52,534	34,095
Mutual Funds	124	77
Total	52,658	34,172

19. NET GAINS FROM DEALING IN FOREIGN CURRENCIES	2004	2003
Dealing in Foreign Currencies	30,427	19,996
Revaluation of Assets and Liabilities	4,449	4,053
Revaluation of Derivatives	3,679	399
Total	38,555	24,448

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

(All amounts are shown in thousands of Qatari Riyals)

20. INCOME FROM INVESTMENTS	2004	2003
a) Income from Sale		
Available for Sale Investments	5,603	963
Investment in Associates	-	1,232
	5,603	2,195
b) Income Transferred from Fair Value Reserve		
Available for Sale Investments	13,489	18
Total	19,092	2,213

21. GENERAL AND ADMINISTRATIVE EXPENSES	2004	2003
Staff Costs	173,235	156,029
Staff Provident Fund Costs	3,165	2,961
Staff Indemnity Costs	7,827	10,264
Training	6,637	3,331
Advertising	11,942	8,242
Professional fees	20,638	9,958
Communication and Insurance	18,459	15,934
Occupancy and Maintenance	19,642	18,934
Computer and IT costs	9,266	8,932
Community Support	19,394	14,943
Others	17,993	12,999
Total	308,198	262,527

The total number of staff employed by the Bank as at 31st December 2004 was 1,096, of which 347 were employees of subsidiaries (2003: 694 employees).

22. EARNINGS PER SHARE

Earnings per share for the Bank are calculated by dividing the net profit by the weighted average number of ordinary shares in issue during the year.

	2004	2003
Net Profit for the Year (QR 000)	814,997	641,123
Weighted Average Number of Shares	103,820,772	103,820,772
Earnings Per Share (QR)	7.9	6.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

(All amounts are shown in thousands of Qatari Riyals)

23. CONTINGENT LIABILITIES AND OTHER COMMITMENTS	2004	2003
a) Contingent Liabilities		
Unused Facilities	5,043,631	3,426,106
Acceptances	136,156	83,237
Guarantees	4,672,337	3,273,802
Letters of Credit	2,224,187	2,038,399
Others	591,425	2,318,355
Total	12,667,736	11,139,899
b) Other Commitments		
Forward Foreign Exchange Contracts	6,670,117	4,299,959
Interest Rate Swaps	5,348,606	4,851,006
Options, Caps and Floors	3,798,370	2,884,344
Marketed Mutual Funds	120,205	122,172
Total	15,937,298	12,157,481

24. SEGMENT INFORMATION

The Bank is organised into two main business segments which comprise commercial banking and wealth management activities.

Geographically, the Bank operates in Qatar and through its branches and subsidiaries in Europe. Qatar operations contribute 98% in terms of profit (2003: 99%) and hold 72% of the Bank's assets (2003: 80%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

(All amounts are shown in thousands of Qatari Riyals)

25. GEOGRAPHICAL DISTRIBUTION

	Qatar	Other GCC Countries	Europe	North America	Other	Total
As at 31st December 2004						
Cash and Deposits with						
Central Banks	1,680,587	1	16,987	315	2,479	1,700,369
Due from Banks	293,195	375,087	1,231,434	224,899	221,321	2,345,936
Loans and Advances	21,082,642	157,005	4,041,030	76,672	1,084,212	26,441,561
Investments	3,956,935	535,183	1,791,089	164,146	1,177,471	7,624,824
	27,013,359	1,067,276	7,080,540	466,032	2,485,483	38,112,690
Other Assets						1,285,431
Total Assets						39,398,121
Due to Banks	837,650	758,478	226,009	1,752	329,494	2,153,383
Customer Deposits	24,211,702	100,335	2,264,206	757,816	2,279,774	29,613,833
	25,049,352	858,813	2,490,215	759,568	2,609,268	31,767,216
Other Liabilities						1,095,555
Shareholders' Equity						6,535,350
Total Liabilities and Equity						39,398,121
As at 31st December 2003						
Cash and Deposits with						
Central Banks	803,339	9	3,932	105	3,423	810,808
Due from Banks	59,621	838,311	1,766,442	387,929	263,572	3,315,875
Loans and Advances	20,266,193	253,449	2,404,858	-	216,835	23,141,335
Investments	4,537,388	352,354	958,308	48,955	1,120,430	7,017,435
	25,666,541	1,444,123	5,133,540	436,989	1,604,260	34,285,453
Other Assets						503,393
Total Assets						34,788,846
Due to Banks	1,481,536	941,725	166,777	94	1,054,414	3,644,546
Customer Deposits	22,905,173	72,570	299,705	339,863	482,719	24,100,030
	24,386,709	1,014,295	466,482	339,957	1,537,133	27,744,576
Other Liabilities						1,436,554
Shareholders' Equity						5,607,716
Total Liabilities and Equity						34,788,846

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

(All amounts are shown in thousands of Qatari Riyals)

26. DERIVATIVES

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, or market risk.

Notional amount by term to maturity

	Positive Fair Value	Negative Fair Value	Notional Amount	Within 3 Months	3 - 12 Months	1-5 Years	More than 5 Years
As at 31st December 2004:							
a) Derivatives Held for Trading:							
Forward Foreign Exchange Contracts	99,459	98,704	6,670,117	5,225,555	501,379	943,183	-
Options	4,072	4,072	900,471	412,677	487,794	-	-
Caps and Floors	14,554	14,554	2,897,899	-	-	525,665	2,372,234
Interest Rate Swaps	3,679	4,885	3,748,259	-	-	-	3,748,259
b) Derivatives Held as Cash Flow Hedges:							
Interest Rate Swaps	4,215	39,283	1,600,347	-	79,534	1,126,567	394,246
Total	125,979	161,498	15,817,093	5,638,232	1,068,707	2,595,415	6,514,739

As at 31st December 2003:

a) Derivatives Held for Trading:

Forward Foreign Exchange Contracts	80,520	80,497	4,299,959	3,186,756	1,113,203	-	-
Options	292	292	62,870	62,870	-	-	-
Caps and Floors	9,817	9,817	2,821,474	-	-	-	2,821,474
Interest Rate Swaps	-	368	3,640,500	3,640,500	-	-	-

b) Derivatives Held as Cash Flow Hedges:

Interest Rate Swaps	4,136	49,154	1,210,506	20,609	36,405	760,318	393,174
Total	94,765	140,128	12,035,309	6,910,735	1,149,608	760,318	3,214,648

27. MUTUAL FUNDS

As part of the Bank's investment activities, the following mutual funds were marketed by the Bank:

	2004	2003
Al Watani Capital Guaranteed Fund-Class A	11,726	25,396
Al Watani Capital Guaranteed Fund-Class B	14,114	25,036
Al Watani Amana-Notes 1	11,515	71,740
Al Watani Amana-Notes 2	82,850	-
Total	120,205	122,172

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2004

(All amounts are shown in thousands of Qatari Riyals)

28. RELATED PARTIES

The Bank has transactions in the ordinary course of business with directors, officers of the Bank and entities of which they are principal owners. At the balance sheet date, such significant balances included:

	2004	2003
Balance Sheet Items		
Loans and Advances	386,037	189,621
Deposits	435,481	367,134
Contingent Liabilities and Other Commitments	88,373	91,113
Statement of Income Items		
Interest Income and Commissions	16,217	9,985
Interest Expense and Commissions	15,550	81

The Bank also has significant commercial transactions with the Government which are disclosed in notes 6 and 11. All the transactions with the related parties are substantially on the same terms, including interest rates and collateral, as those prevailing in comparable transactions with unrelated parties.

29. ACQUISITION OF SUBSIDIARY

In November 2004, QNB Group acquired 100% of the share capital of Ansbacher Holdings Limited, a wealth management financial institution with operations in the UK, Switzerland, Bahamas, Cayman Islands, and Channel islands. The consolidated financial statements include the financial statements of Ansbacher Holdings Limited as at 1st November 2004. The acquired company did not contribute any income to the Bank for the period from 1st November 2004 to 31st December 2004. The details of the assets and liabilities acquired and the goodwill arising are as follows:

Cash and Cash Equivalents	844,939
Loans and Advances to Customers	2,502,974
Investments	1,015,912
Properties, Furniture and Equipment	374,855
Other Assets	129,340
Due to Banks and Other Financial Institutions	(124,455)
Customer Deposits	(3,612,941)
Other Liabilities	(532,354)
Goodwill	42,925
Cost of Acquisition	641,195
Less: Cash and Cash Equivalents in Subsidiary Acquired	(844,939)
Net Cash Inflow on Acquisition	203,744

30. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

	2004	2003
Cash and Deposits with Central Banks	1,056,025	180,571
Due from Banks Maturing in 3 months	1,797,047	2,959,962
Total	2,853,072	3,140,533

Cash and Deposits with Central Banks do not include mandatory reserve deposits.

31. COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified in order to conform with the current year's presentation.