

Board of Director's Report

On behalf of our Board of Directors, I am pleased to extend my thanks to our shareholders, senior management and staff for their commitment, dedication and contribution to the exceptional results achieved in 2010.

I am equally pleased to present our 2010 Annual Report which provides a descriptive overview of our 2010 performance, a comprehensive corporate governance report, a detailed income statement and balance sheet.

The global economic recovery continued to strengthen in 2010, whilst global activity expanded at an annual rate of 5¼ percent. Furthermore, the economic difficulties experienced in Europe did not impact negatively on our regional economies. Recovery in the Mena region and the GCC was underpinned by a rebound in oil prices from their 2009 levels and an orderly restructuring (of debt) which served to minimize any spillover of regional corporate defaults into the banking and financial sectors.

Looking forwards, specifically in Qatar, economic studies point to continuous double digit growth rates in both the oil and non-oil sectors in the coming years, supported by investments in hydrocarbons and infrastructure, in addition to the development of sport, leisure and transport projects needed to facilitate the successful realisation of the 2022 World Cup event.

al khaliji continues to view Qatar primarily from a corporate perspective. It is in the corporate sector where we believe the greatest present and future opportunities continue to reside, and this view has been significantly reinforced by the success of the recent 2022 World Cup Bid, which is expected to precipitate substantial construction and development of infrastructure across the country over the next several years.

From a financial perspective, the Qatari banking system is expected to remain resilient in the light of strong profitability, asset quality, and regulatory supervision and support. This position is further supported by the recently announced injection by the QIA of an additional 10 percent in the State's banks.

2010 proved to be a milestone year for al khaliji, underscored by an outstanding financial performance in all areas of the business. This performance can be seen as a validation of the Bank's underlying medium term, wholesale led strategy which was agreed and put into effect at the beginning of 2010.

al khaliji, comprising Al Khalij Commercial Bank (Q.S.C.) and Al Khaliji (France) S.A., registered an impressive increase in net profit, which reached QR 427 million, up 155 percent from QR 167 million in 2009.

Net interest income of QR 463 million was QR 184 million, or 66 percent, higher than in 2009. At the same time the net interest margin increased to 3.3 percent as of 31 December 2010, compared to 2.7 percent at end 2009. Net operating income at QR 760 million was up 46 percent on last year (QR 522 million).

There was a continued downward trend in the cost to income ratio which decreased from 75 percent to 52 percent. Conventional banking activities contributed 72 percent of the net operating income. Al Khaliji France S.A., a wholly owned subsidiary of al khaliji Group, and Islamic banking, respectively contributed 16 percent and 12 percent.

Earnings per share increased to QR 1.19, more than 2.5 times 2009's EPS. Return on average shareholder equity is 8.5 percent, and return on average assets is 2.3 percent (compared respectively to 3.5 percent and 1.1 percent at end 2009). Total shareholder equity, including paid-up share capital, reserves and retained profits, reached QR 5.26 billion, up 9 percent from QR 4.83 billion on 31 December 2009.

Before finishing, it is important to mention that all future plans of al khaliji remain subject to the proposed merger with IBQ. I should also like to re-affirm that we believe that this proposal will yield important long term benefits for our shareholders by creating a more competitive, financially stronger and significantly larger organisation. We are also of the considered view that the merger is highly appropriate for the Qatari financial market where the arguments for consolidation remain highly compelling. Last, the merger will be submitted for approval to the shareholders as soon as all required regulatory approvals are obtained.

In conclusion we wish to express our deepest gratitude, on behalf of the Board and the Bank, to His Highness Sheikh Hamad Bin Khalifa Al Thani, Emir of the State, and His Highness Sheikh Tamim Bin Hamad Al Thani, the Heir Apparent, for their continuous support to the Qatari financial sector and economy.

I would also like to express my sincere gratitude to H.E. Sheikh Abdullah Bin Saud Al-Thani, QCB Governor, for his leading role in developing the banking sector and to all regulators, in particular, the Ministry of Business and Trade and the Qatar Exchange for their unwavering support. Finally, I would like to thank al khaliji management and staff and al khaliji customers and shareholders for their continuous trust and confidence and confirm our full commitment to even more prosperous results in 2011 and subsequent years.

Hamad Bin Faisal Bin Thani Al-Thani
Chairman and Managing Director