Your Financial Partner

ANNUAL REPORT 2009

البنك الأهلي ش.م.ق

ahlibank QSC

IN THE NAME OF ALLAH
THE MOST GRACIOUS AND THE MOST MERCIFUL

His Highness
SHEIKH HAMAD BIN KHALIFA AL-THANI
Emir of the State of Qatar

His Highness
SHEIKH TAMIM BIN HAMAD BIN KHALIFA AL-THANI
Heir Apparent

البنك الأهلي ش.م.ق
ahlibank QSC

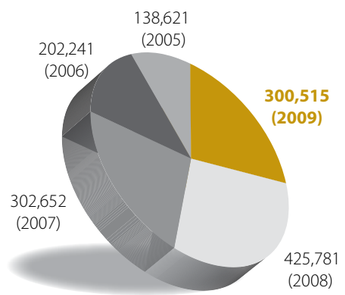
Suhaim Bin Hamad Street, Al Sadd Area
P. O. Box 2309, Doha, Qatar
Tel : (+974) 423 2222, Fax : (+974) 444 4652
www.ahlibank.com.qa

table of contents

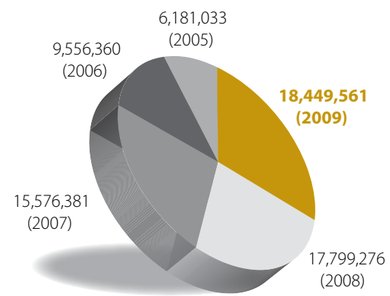
Ahli Bank strives to be the preferred banking partner of both retail and corporate customers by being a progressive and responsive organisation that truly focuses on the core requirements of its varied clientele. With meticulously tailored products and services, the Bank aims to meet its clients' expectations for both conventional and Islamic banking services.

financial highlights

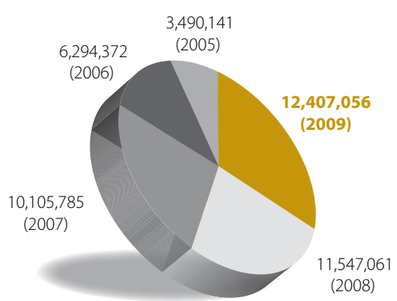
(Amounts in QR '000)



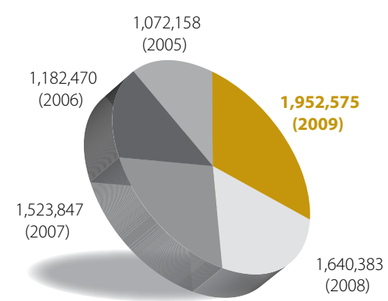
NET PROFIT



TOTAL ASSETS



TOTAL LOANS



SHAREHOLDERS' EQUITY

	2009 QR'000	2008 QR'000	2007 QR'000	2006 QR'000	2005 QR'000
Net Profit	**300,515**	425,781	302,652	202,241	138,621
Total Assets	**18,449,561**	17,799,276	15,576,381	9,556,360	6,181,033
Total Loans	**12,407,056**	11,547,061	10,105,785	6,294,372	3,490,141
Total Liabilities	**16,496,986**	16,158,893	14,052,534	8,373,890	5,108,875
Shareholders' Equity	**1,952,575**	1,640,383	1,523,847	1,182,470	1,072,158
Return on Average Assets	**1.7%**	2.6%	2.7%	2.7%	2.8%
Return on Average Equity	**17.5%**	26.0%	24.6%	18.5%	15.0%
Cost to Income Ratio	**31.4%**	25.3%	30.0%	37.7%	39.4%
Financial Leverage	**8.3**	9.6	9.1	6.9	4.6
Risk Asset Ratio	**15.2%**	12.0%	12.9%	13.2%	19.5%
Earnings per Share (QR)	**4.9**	7.3	5.2	3.5	2.4

board of directors' report

Respected Shareholders,

I have immense pleasure in presenting to you the annual report for the fiscal year that ended on 31 December 2009, which will provide you with a brief insight into our financial performance and our achievements in various banking activities during 2009 and our plans for the year 2010.

During the last two years almost all the economic and financial institutions passed through adverse circumstances, pressing challenges and significant issues that had a negative impact on the economic and banking activities of all the countries; hence it was only natural that our country as well as our financial and banking institutions were also affected by this crisis. However, Qatar was successful in withstanding most of the challenges of the global economic crisis; thanks to the wise economic and financial policies adopted by the Government and the actions and decisions it took to secure the credibility and efficiency of the banking system as well as protect the interests of the shareholders and customers of this important sector.

Even though the Bank witnessed many difficulties and challenges during the year 2009, it was still able to realise excellent results; thanks to its cautious approach, prudent policy and seamless risk management strategy, which has made Ahli Bank, the Bank with the least exposure to risks compared to other banks operating in Qatar. At the end of 2009, our net profit had reached QR 300.5 million, return on average equity had touched 17.5% and the return on assets stood at 1.7%. Subsequently, our earnings per share reached QR 4.94 and our assets increased by 4% to QR 18.4 billion from QR 17.8 billion registered during 2008.

During 2009 the Bank continued its efforts to upgrade its performance and extend better services and products to its esteemed customers. It adopted various policies and systems to protect the Bank's customers against any risks in an environment characterized by challenges and intense competition.

During the year, we undertook a comprehensive review of all our committees, policies and operational systems. The review covered risks, liquidity, instruments and derivatives policies. Apart from this we also revised our policies regarding expenses and internal and external loans. Policies related to reputation risks as well as transparency and integrity were also formulated, for the first time, during 2009.

Year 2009 experienced substantial development in customer service and new products. The strength of our ATM network was expanded to 39 reflecting the Bank's commitment to have an ATM presence in almost all the key geographical locations of this country. The Bank launched its SMS banking service as well as the unique ALM service, which offers customers the convenience of making advance withdrawals from their salary accounts from any Ahli Bank ATM. In addition, the MyHassad savings scheme was restructured to make way for more rewards.

The Bank is presently in an advantageous position, from where it can move forward and realise further achievements and successes. According to our plan for this year, we will be launching more products and services, and will be increasing our branches to 22, and our ATMs to 50. We will be also further developing our electronic banking services to cover most of the economic sectors,

The Bank is presently in an advantageous position, from where it can move forward and realise further achievements and successes.

and will be expanding our Islamic banking activities by launching Call Investment Deposit Accounts and other Islamic products and services. Our priority will always be to offer distinguished banking services, both inside and outside the country, by drawing on the experience and expertise of Ahli United Bank, our strategic partner, which has an effective presence in the GCC region and the UK.

In spite of the financial crisis that affected most of the financial and banking institutions around the world, the Bank enjoys a favourable rating of A- from Fitch and Capital Intelligence. This rating represents an impartial testimony, from internationally recognised institutions, of the Bank's competent management and capital efficiency, which have, at the same time, downgraded the ratings of major GCC and international establishments.

Following the approval of the esteemed assembly to include Islamic banking in our scope of operations, we obtained the required consent from Qatar Central Bank, paving the way for Al Hilal Islamic Banking Services to take off in full steam. The Shari'a Advisory and Supervisory Board of Ahli United Bank, our strategic partner, has been authorised to ensure that the operations of Al Hilal Islamic Banking Services are conducted in a Shari'a-compliant manner. The Board includes a team of renowned Islamic scholars who are well known for their vast experience and expertise in Islamic banking. It is chaired by Dr. Ali Mohiyudeen Al Qurradaghi, Professor of Islamic Studies at Qatar University, and includes Dr. Abdulaziz Al Aqassar, Professor of Islamic Studies at Kuwait University and Dr. Farid Mohammed Hadi, Professor of Islamic Studies at Bahrain University.

Against the backdrop of the above-mentioned achievements and results, I have recommended to the esteemed assembly the distribution of a 50% cash dividend, equivalent to QR 5 per share.

In conclusion, I would like to extend our thanks and most profound gratitude to HH Sheikh Hamad Bin Khalifa Al-Thani, Emir of the State of Qatar and HH Sheikh Tamim Bin Hamad Bin Khalifa Al-Thani, the Heir Apparent for their continued guidance and patronage.

Thanks and appreciation are also extended to HE Sheikh Hamad Bin Jassim Bin Jabor Al-Thani, Prime Minister and Minister of Foreign Affairs; HE Dr. Khalid Bin Mohammed Al-Attiyah, Minister of State for International Co-operation and Acting Minister of Business and Trade; HE Mr. Yousef Hussain Kamal, Minister of Economy and Finance; HE Sheikh Abdullah Bin Saud Al-Thani, Governor of Qatar Central Bank; HE Sheikh Fahad Bin Faisal Al-Thani, Deputy Governor of Qatar Central Bank and all the employees of QCB for their continued support to the banking institutions in Qatar.

I would also like to express our gratitude to Ahli United Bank, our strategic partner, for their patronage of all our activities. The expertise of Ahli United Bank has contributed a great deal towards our achievements of 2009.

Thanks are also extended to the executive management and all our employees for their diligence and efforts, to our esteemed customers for their valuable trust, and to our respected shareholders for their unwavering support.

I pray to Almighty Allah to help us to achieve our objectives, protect our beloved country and guide our leaders, our government and our people towards further success and prosperity.

Ahmed Bin Abdulrahman Al Mana
Chairman

board of directors

AHMED BIN ABDULRAHMAN AL MANA
Chairman, Chairman of the Policies & Development Committee

Member BOD, Ahli United Bank, Egypt; Former Undersecretary of Ministry of Industry and Agriculture; Former Member of Shura Council, and Former Rapporteur of Legal & legislative Affairs Committee, (Shura Council) Doha.

HAMAD A. AL MARZOUQ
Deputy Chairman, Member of the Executive Committee

Deputy Chairman, Ahli United Bank, Bahrain; Deputy Chairman, Ahli United Bank (UK) plc; Chairman and Managing Director, Bank of Kuwait & the Middle East KSC, Kuwait; Deputy Chairman, Ahli United Bank (Egypt) S.A.E; Deputy Chairman, Ahli Bank SAOG, Oman; Deputy Chairman, Commercial Bank of Iraq, Iraq.

SHEIKH NASSER BIN ALI BIN SAUD AL-THANI
Director, Chairman of the Executive Committee

Chairman and Managing Director of Qatar General Insurance & Re-insurance Company; Chairman of World Trade Centre - Doha; Board Member of Trust Bank - Algeria; Board Member of Trust Insurance Company - Algeria; Partner and Member of BOD General Contracting Company, Doha.

DR. AHMED MOHAMMED YOUSIF OBIDAN
Director, Chairman of the Audit Committee

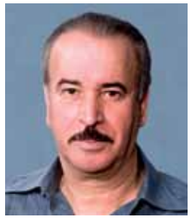
General Manager of Trans Orient Establishments. Member of the Shura Council. Head of the Culture and Media Committee, Shura Council.

SHEIKH FAISAL BIN ABDUL-AZIZ BIN JASSEM AL-THANI
Director, Member of the Audit Committee

Owner and Director of Gulf American Trading & Contracting Company, Doha.

AHMED ABDULRAHMAN NASSER FAKHRO
Director, Member of the Executive Committee, Member of the Policies & Development Committee

Director of Qatar Cinema and Film Distribution Company, Doha; Former Minister Plenipotentiary in the Ministry of Foreign Affairs, Doha.



VICTOR NAZIM REDDAH AGHA
Director, Member of the Executive Committee

General Director of Al-Sadd Travel Agency; General Director of Al-Sadd Exchange Company, Doha. Former Board Member Al-Sadd Sports Club, Doha.

ADEL A. EL-LABBAN
Director, Member of the Executive Committee, Member of the Policies & Development Committee

Group CEO & Managing Director, Ahli United Bank, Bahrain; Director, Ahli United Bank (UK) plc; Director, Bank of Kuwait & the Middle East KSC, Kuwait; Director, Ahli United Bank (Egypt) S.A.E., Egypt; Director Ahli Bank SAOG, Oman; Director, Commercial Bank of Iraq; Director Kuwait & Middle East Financial Investment Co. (KMEFIC), Kuwait; Board Member of Bahrain Stock Exchange; Director - Board of Trustees, Bankers Society of Bahrain; Formerly Chief Executive Officer and Director of the United Bank of Kuwait PLC, London; Managing Director, Commercial International Bank of Egypt; Chairman, Commercial International Investment Company; Vice President, Corporate Finance, Morgan Stanley; Director, National Work Fund, Bahrain; Director, Bahrain Institute of Banking & Finance (BIBF).

ABDULLA AL-RAEESI
Director, Member of the Audit Committee, Member of the Policies & Development Committee

Deputy Group CEO-Retail Banking Ahli United Bank, Bahrain; Director, Ahli United Bank SAE, Egypt; Director, International Chamber of Commerce, Bahrain; Former Director, Benefit Company, Bahrain; Former Acting CEO, Ahli Bank, Qatar; Deputy CEO Retail Banking, Ahli United Bank, Bahrain; AGM & Head of Delivery Channels, Commercial Bank of Qatar; AGM, Support Group, Doha Bank, Qatar; Head of Business & Technology Consulting Group, Arthur Andersen.

BASSEL GAMAL
Senior Deputy Group Chief Executive Officer – Banking Group

Director, Ahli Bank QSC, Qatar; Director, Bank of Kuwait & the Middle East KSC, Kuwait; Director, Ahli United Bank (Egypt) SAE, Egypt; Board Member-Ahli United Bank Finance Company, Egypt; Board Member – United Bank for Commerce and Investment SAL-Libya; Member, executive committee – United Bank for Commerce and Investment SAL-Libya; Member, compensation committee - United Bank for Commerce and Investment SAL-Libya); Member credit and investment committee – United Bank for Commerce and Investment SAL-Libya; Member premises and information technology – United Bank for Commerce and Investment SAL-Libya; Formerly CEO, Ahli Bank QSC, Qatar; DCEO-Risk, Finance & Operations, Ahli Bank QSC, Qatar.

CEO's statement

Ahli Bank was able to end the year with a net profit of QR 300.5 million; this achievement reflects sustained core earnings derived from the main retail and commercial businesses within Qatar.

It is my pleasure to share with you the performance and milestones that the Bank achieved during the year amid the global economic downturn in which financial institutions were threatened by unprecedented challenges with major fallouts in certain international markets. The region has not escaped it, as we have recently witnessed, defaults and rescheduling of matured obligations of both financial institutions and corporates.

The operating environment in the State of Qatar has been the least effected. Its GDP growth, which is estimated to be 9% in 2009 and is mainly supported by ongoing investments in hydrocarbon projects, tops the Gulf economies. During the year, the Government of Qatar announced more than US$ 10 billion worth of financial programmes in support of its banks, which include recapitalization of the banks and the 'buy and sell back' of all the banks' equity investment and real estate portfolio.

Ahli Bank was able to end the year with a net profit of QR 300.5 million, compared to QR 425.8 million in 2008. Though this represents a drop of 29% from 2008, nevertheless this achievement reflects sustained core earnings derived from the main retail and commercial businesses within Qatar. Return on average shareholders' equity stood at 17.5% against 26% in 2008, and earnings per share stood at QR 4.94 per share from QR 7.29 per share in the previous year.

The performance results of 2009 has been mainly influenced by the cautious stand towards business risk in an unpredictable business environment and the decline in investment income as a result of the Bank's exit from the local equity market in 2008. Accordingly, Loans & Advances have grown up by QR 860 million and the Bank's non interest income has declined by 19% from the 2008 level to QR 181.7 million.

The Bank has identified and increased its provision level on its retail loan portfolio resulting in increased loan provisions from QR 5.8 million in 2008 to QR 47.2 million this year. This increase in provision reflects our conservative approach towards managing asset risks and will ensure a healthier balance sheet.

Our focus during the year was to build a stronger platform for a stable deposit base through the branch network and to reduce concentration on the liability, resulting in efficient balance sheet management. Therefore the liability growth recorded is 2% over 2008, reaching QR 16,497 million in 2009.

The Bank's paid-up capital increased during the year to QR 613.18 million as a result of the decision announced by the Government in 2008 to support its banking system by buying in up to 20% of the banks' shares. As a result, Ahli Bank received QR 320.6 million, being 10% of the capital, in 2009. This initiative from the Government sends a strong signal of Qatar's unequivocal support to its local banks.

Our focus during the year was to build a solid service platform for our customers leveraging on our technological strength through the launch of SMS push/pull banking service, in parallel with our current Internet platform and our 24-hour contact centre. We successfully concluded various ties with our corporates for the successful launch of our automated salary advance service through our network of automated teller machines. Our branch network had a remarkable success in the promotion of our unique MyGlobal account providing cross border banking service to our customers.

The Board of Directors has approved the next robust 5-year business plan that aims to steer the Bank towards achieving its set goals through a thorough scan of the local environment under a SWOT audit that will result in identifying future business opportunities.

Our rigorous risk management and disciplined cost cultures have stood us in good stead in 2009. We will continue to implement the same principles to continue to lead us towards sustained delivery of shareholder value, with balance and efficient usage of capital.

Finally, I wish to thank the Board of Directors for their council and advice during the year, as well as all the management and employees for their continued dedication in meeting the challenges that confronted our business during the past year. We look forward towards serving the interests of our clients and shareholders in the year ahead.

Salah Murad
Chief Executive Officer

corporate governance

Ahli Bank's Board of Directors has the primary responsibility of drawing up and developing a business strategy for the Bank, as well as finalizing the overall corporate objectives and policies. As the ultimate authority in the Bank, accountable to shareholders and Qatar Central Bank (QCB), the Board is also responsible for establishing the Bank's organizational structure, specialized committees and the delegation of powers relevant to the supervision and evaluation of performance. The Board's powers and functions are subject to the Bank's Articles of Association and QCB regulations.

The Board of Directors comprises of ten members who serve for a three-year term. Six elected directors represent the Qatari shareholders while the other four directors are appointed by Ahli United Bank B.S.C (AUB), the strategic partner of Ahli Bank Q.S.C.

BOD meetings during 2009 were held on the following dates:
19 January 2009; 15 March 2009; 11 May 2009; 14 June 2009; 19 October 2009 and 20 December 2009.

There are three Board Committees established, namely the Executive Committee, Audit, Compliance and Risk Committee and the Policies and Development Committee.

The Executive Committee comprises of five directors; within its delegated authority, the Executive Committee is responsible for the Bank's day-to-day management, annual budget, business plan and regulations governing the financial, administrative and operating policies. It is also responsible for approving and recommending to the Board the various banking systems and products, all within the policies established by the Board of Directors. The Executive Committee may also exercise the power of granting credit facilities within the limits authorized by the Board.

Executive Committee

The Audit, Compliance and Risk Committee comprises of three independent directors. The Committee is responsible for overseeing both internal and external audits as well as follow ups and risk assessment. It is also responsible for ascertaining that the internal audit is performed according to comprehensive and professional audit programmes that extend throughout all divisions, departments and branches of the Bank, as well as all activities and risks. Additionally, the Audit, Compliance and Risk Committee must ensure that the follow-up processes are conducted in accordance with the Central Bank's regulations and instructions.

Audit, Compliance and Risk Committee

The Policies and Development Committee is responsible for reviewing, preparing and developing the Bank's strategies, objectives, policies, rules, plans and budgets as delegated by the Board. In some instances, the Board may assign other functions to the Committee, whenever it feels that such assignment will be conducive for achieving the Bank's objectives.

Name of Director	Position	Current Appointment	Expiry of Current Appointment	Status
Ahmed Abdulrahman Al-Mana	Chairman	2008	2011	Independent
Hamad Abdulmohsen Al-Marzooq	Deputy Chairman	2008	AUB Representative	Non-executive
Nasser Ali Saud Al-Thani	Member	2008	2011	Non-executive
Ahmed Mohamed Yousef Obidan	Member	2008	2011	Independent
Faisal Abdulaziz Jassim Al-Thani	Member	2008	2011	Independent
Adel Mohammad El-Labban	Member	2008	AUB Representative	Non-executive
Ahmed Abdulrahman Naser Fakhro	Member	2008	2011	Non-executive
Victor Nazeem Agha	Member	2008	2011	Non-executive
Abdulla Ahmed Al-Raeesi	Member	2008	AUB Representative	Independent
Bassel Gamal Aly	Member	2008	AUB Representative	Non-executive

Policies and Development Committee

The organisational structure of the Bank comprises of clear and defined areas of responsibility headed by the Deputy CEO's reporting to the CEO.

1. Risk, Finance, Operations and Information Technology
2. Retail, Private Banking and Wealth Management
3. Corporate Banking, Treasury and Investments

The Human Resources and Legal Departments report directly to the Chief Executive Officer. The Legal Department is responsible for ensuring that the Bank's operations are subject to the Qatari law and follow the directives of the Central Bank, and is also responsible for any bank-related legal matters. The Bank discharges its day-to-day business through five committees: Credit and Investment Committee, Assets and Liability Committee, Special Assets Committee, Operational Risk Committee, and Management Committee.

The Credit and Investment Committee is responsible, inter alia, for establishing acceptable standards of risk structure, controlling the Bank's risk classifications, and for reviewing the detailed regulations governing credit evaluation and facilities.

The Asset and Liability Committee is responsible, inter alia, for reviewing and monitoring the Bank's approved strategies and ensuring their proper implementation and performance. It is also responsible for the review and allocation of all liquidity approximations, for the mode of interest rate risks management, and for the control of the Bank's budget structure to ensure compliance with the regulatory authority requirements.

The Special Asset Committee is responsible for the periodic and regular follow-up of those accounts that are classified as 'watch list' or non-performing. This committee is in charge of the management and follow-up of the portfolio of non-performing loans or investments.

The Operational Risk Committee is accountable for several control responsibilities, such as ensuring that the Bank's regulations remain consistent with the rules of Qatar Central Bank and other regulatory authorities like Basel II. The Committee is also responsible for ensuring that the Bank is able to survive and avoid any gross losses in the event of any operational interruption. Review of operational shortfall is also part of the Committee's functions. One of the major responsibilities of this committee is to identify the operating risks and the action to be taken to monitor and minimize such risks.

The Management Committee provides a forum for collective management decision-making and is responsible, inter alia, for implementing policies and procedures and for developing and maintaining an effective internal control environment. It is also responsible for monitoring returns on capital and budgetary performance in the light of credit market and operational risk parameters.

The Bank has established a clear framework within which all responsibilities towards shareholders and customers are carried out. For instance, the functions and duties of the Board Committees are conducted under the supervision of the Board of Directors.

Qatar Central Bank maintains regular scrutiny of the Bank's operations in its capacity as the main regulatory authority for ensuring compliance with the rules and regulations governing banking institutions in the Country.

This is done to ensure that public interest is well protected and that the rights of the shareholders and customers are maintained. Additionally, the external auditors play a significant role in providing the Board of Directors with any observations and recommendations intended to address any failure or shortfall, and ensure that the Bank's accounting records are subject to internationally recognised standards.

Compliance

The compliance function in Ahli Bank Q.S.C is an independent one reporting directly to BOD through their Audit, Compliance and Risk Committee; the department has effective and comprehensive "Compliance Framework and Manual" and "Compliance Monitoring Framework" approved by BOD and these are based on risk including the assessment of all policies and procedures related to the bank's operations to ensure strict compliance with applicable laws, regulations and standards.

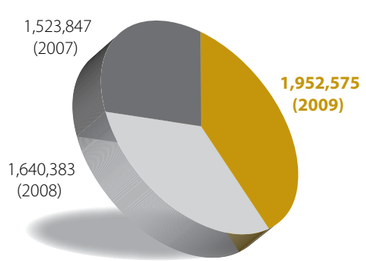
The Compliance Monitoring Framework covers the following topics:

1. Objectives
2. Scope
3. Risk Assessment
4. Compliance Monitoring Program

Anti Money Laundering & Combating Financing Terrorism (AML & CFT)

Ahli Bank Q.S.C adopted effective and comprehensive AML & CFT Policy, Procedures and Internal controls based on risk covering the following topics:

1. Objectives
2. Scope
3. Stages of Money Laundering
4. Financing Terrorism
5. Laws and Regulations
6. Know Your Customer (KYC) Policy and Procedures
7. Know Your Customer (KYC) Procedures in Products and Services
8. Customer Acceptance Policy
9. Customer Risk Classification
10. Customer Identification Procedures
11. Program of Updating Customer Information and Documents
12. Type of Banking Operations and Red Flags
13. AML & CFT Monitoring System
14. Reporting Requirements and Procedures
15. Record Keeping and Retention Requirements
16. AML Training Courses
17. Internal & External Auditing
18. Updating AML & CFT Policy, Procedures and Controls
19. Penalties



SHAREHOLDERS' EQUITY

Personal Account Dealing Policy

To establish clear and comprehensive controls in compliance with the applicable laws and regulations regarding employees dealing in their personal accounts and their relationship with the customers in providing bank's products and services in order to avoid the reputational risk associated with breaching the business and ethical conflicts of interest Ahli Bank Q.S.C adopted restricted policy in this regard; this policy covers the following topics:

1. Employees and Connected Persons
2. Applicable and Exempted Securities
3. Personal Account Dealing, Undertaking and Declaration of Interest
4. General Dealing Rules and Investment Principles
5. Dealing Restrictions
6. Prohibited Practices
7. Prohibitions on Certain Employees
8. Regulations
9. Ahli Bank Stock Rules, Insider Traders and Closing Periods
10. Insider Register

Banking Integrity Policy and Procedures

In order to increase the effectiveness of the principle of transparency and to facilitate bank employees raising a concern, in confidence, about misconduct occurring within, or associated with the bank Ahli Bank Q.S.C has adopted "Banking Integrity Policy and Procedures" covering the following topics:

1. Roles and Responsibilities in Reporting Suspected Misconduct
2. Raising a Concern "Blowing the Whistle"
3. The Investigation (Outcome and Monitoring)
4. Frequent Questions and Answers

Penalties, fines or punishments imposed on the bank by regulatory authorities

Fines aggregating QR. 93,750 (2008: QR. 365,600) were imposed on the bank in 2009 by Qatar Central Bank in respect of breaching its regulations.

business and risk review

Retail Banking

In line with the Group's strategy, retail banking in Ahli Bank strives to be the provider of preferred banking services for Qatari nationals and expatriates alike. With innovative and carefully tailored products and exceptional service, the Bank aims to exceed clients' expectations in an increasingly competitive environment.

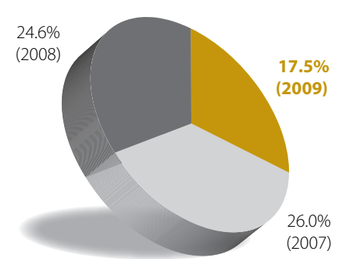
RETAIL BANKING

Products & Services

In conjunction with its strategic partner, Ahli Bank offers a wide range of banking products and services designed to match the requirements of customers with varied backgrounds throughout the GCC, Middle East and the UK.

Our credit cards have some of the best features, as customers earn loyalty points for the money spent through our credit cards apart from getting personal insurance and medical assistance. The Bank is also planning to launch the Platinum Card for the premium segment in the first quarter of 2010. The Ahli Platinum Card comes with a range of value-added features not offered by any other bank in Qatar.

The Bank launched its new MyHassad scheme, jointly with the group entities in Bahrain and Kuwait, offering the highest prize money in the region. There are 6000 weekly, quarterly and loyalty prizes worth QR 100 million for the three participating banks.



RETURN ON AVERAGE EQUITY

During 2009, Ahli Bank introduce a new product –partial salary advance – which enables customers to get partial salary advance from any Ahli Bank ATM in times of emergency.

The Bank continued with its innovative and unique product, MyGlobal, which provides an opportunity to open accounts within the Group banks for convenient remittance facility. The product, which was introduced two years back, has so far received a tremendous response.

Branch Network

With a view to reach our customer' doorsteps, the Bank opened two branches in 2009, taking its total branch network to twenty-one, spread across various geographical areas in Qatar. At present the Bank has seventeen conventional branches and four Islamic branches.

E-Banking

Backed by the latest and safest technology and security features, Ahli Bank provides full fledged e-banking services to enable customers to operate their accounts through Internet banking, ATMs, contact centre and SMS-based mobile banking.

Presently, the Bank has a well distributed network of thirty nine ATMs spread across major shopping malls and prime areas. The Souq Waqf ATM is the latest addition to our network, which accepts all types of credit and debit cards. Apart from dispensing Qatari Riyals, some of our ATMs dispense other foreign currencies as well. We are committed to further expand our ATM network in 2010.

ISLAMIC BANKING

Al Hilal Islamic Banking continued its business and earnings growth trend in 2009, by increasing its market share and expanding its customer base. This was achieved in partnership with other functions of the Corporate, Consumer and Treasury Group, which worked seamlessly to deliver structured solutions to Islamic banking customers.

Al Hilal houses a dedicated Islamic Banking Division within its infrastructure and represents a horizontal cut across all major banking products and offerings including consumer, corporate and institutional offerings, commercial and SME financing, and various Islamic financing services.

Al Hilal Islamic Banking's contribution to the overall profit of the Bank stood at 10.82%.

Al Hilal Islamic has a well structured Shari'a-compliant Islamic banking organisational set-up, which caters to all aspects of product development, business development, Shari'a-compliance and audit. As a result, Al Hilal Islamic has earned the distinction of being among the top tier providers of Islamic banking products and services in Qatar. The Islamic Banking Division Team works with seamless connectivity with the Bank's relationship and product teams to originate structure and distribute large ticket transactions.

Achievements during 2009 include the launch of Al Hilal Phone Banking services. In addition, structured derivative-linked Islamic investment products were introduced to provide attractive returns along with capital protection.

The Al Hilal Islamic Banking branch network also grew with the addition of its fourth Al Hilal Islamic branch in Merqab. This is a reassurance that Al Hilal Islamic Banking is rendering excellent and innovative Islamic banking products and services to its valued customers through its network of branches.

Our Shari'a Supervisory Board is comprised of eminent scholars who are well aware of the business dynamics. They continue to inspire and guide us in developing and promoting innovative Shari'a-compliant solutions.

CORPORATE BANKING

In view of the difficult economic environment, Corporate Banking focused on strengthening its client relationships, mitigating risk exposure of its asset portfolio and selectively re-pricing the loan book. The flow of credit was directed mainly to our existing customers, government and quasi-governments entities. This was accompanied by a rigorous monitoring system for the asset portfolio while ensuring that the asset base remains profitable. The above strategies helped to maintain the positive loan growth of 16% in 2009.

Corporate Banking is the main contributor to Al Hilal Islamic Banking, which enhanced its product offerings to include trade finance products during 2009.

Trade finance services for corporate customers, as in the past years, were a significant contributor to the Corporate Banking business in terms of both volume as well as bottom-line.

Our strategic partnership with Ahli United Bank, Bahrain, facilitated us in catering to large ticket transactions and multi-currency facilities of our selected customers and improved cross border deal flow.

Corporate Banking continued to be the major contributor to Ahli Bank's profitability and balance sheet.

We are optimistic for 2010, backed by the State of Qatar's planned infrastructure development and the projected 16% growth in the Country's GDP. Ahli Bank is well positioned to take advantage of the projected growth in the economy and to exploit the business opportunities. We will continue to exercise prudence and be selective on high quality business.

PRIVATE BANKING

Private Banking made huge strides by expanding its market share as well as the scope of its operations. The Private Banking Team was further reinforced with qualified and experienced personnel in order to serve the ever-evolving needs of our clientele.

Ahli Bank has today grown to be recognised as a leading provider of personalised and professional Private Banking & Wealth Management Services. Key to this ongoing success has been its multi-faceted team who have been cross-selling a wide range of sophisticated products and have also been offering an extensive array of high value investment opportunities, in both the local and international markets, in collaboration with various investment specialists. This unique array of resources places us in a favourable position to offer all the necessary insight, advice and solutions that our clients require to achieve their financial objectives.

The 'total relationship' approach that we have adopted has ensured that we stay close to our customer base at all times and has helped us to increase our market share in these challenging times.

The vision of Private Banking is to be recognised as the most trusted, value-focused and innovative consultants in Private Banking and Wealth Management. It strives for excellence in every aspect of its business and in the process, it aspires to be rewarded with the patronage and trust of its esteemed clientele.

TREASURY

2009 continued to reel under the adverse impacts of the global economic meltdown. Market conditions became more demanding, liquidity became more and more scarce, customers mostly stalled their new business or expansion plans, local funding rates maintained high levels, foreign currency rates were at or close to an all time low and banks adopted conservative approaches. All these factors collectively contributed towards an extremely challenging year.

Treasury, however, concentrated on cross-selling more value-added products to its clientele at minimal risk. It also successfully introduced new products such as Interest Rate Swaps and Dual Currency Deposits to the market. The year saw Treasury significantly expand its share in the foreign exchange market and enhance its reputation as one of the best treasuries in Qatar.

In spite of the challenging market conditions, Treasury continued to reinforce its key resources in order to ensure that it is ready to take advantage of the changing market conditions. A more sophisticated infrastructure was established, documentation, processes and procedures were further fine-tuned and the strength and proficiency of the team was enhanced with the arrival of new members.

2010 is envisaged to be yet another challenging year as the market will be concentrating on correcting its recessionary trend by primarily reducing costs. This will place significant pressure on all new business and expansion plans. However, Treasury is confident of surpassing all the mounting challenging by adopting innovative approaches.

INFORMATION TECHNOLOGY

During 2009 the Information Technology (IT) Department mainly concentrated on driving down costs and improving economies-of-scale through process re-engineering, automation and outsourcing.

The year saw the Bank making significant strides in its IT infrastructure. This, in turn, contributed many folds to the overall operational efficiency of the Bank. During 2009, the Bank successfully launched a wide range of innovative products and services. The IT department played a major role in ensuring the seamless implementation of these products and services by establishing state-of-the-art touch points between the Bank and its clientele.

The IT department's market-leading expertise was quite evident in the implementation of products such as ALM, SMS Banking, e-statements and automation of bulk payments for corporate customers. It also developed the necessary systems for generating detailed and segmented MIS reports of the retail business, corporate customer profitability reports and business unit wise profit and loss reports.

In 2009, the IT Department installed a state-of-the-art Intranet Portal and Office Live Communication Server. The desktop video conferencing, message boards and related facilities of the server have broadly enhanced the inter/intra office communication. The Department has also established a new Card Issuance Tracking System in order to ensure the timely delivery of cards and PINs to the Bank's customers.

Straight through processing initiatives such as automation of outward cheque clearing, online processing of inward SWIFT messages and auto generation of SWIFT messages for certain types of standing orders have eliminated/minimized human intervention and the associated processing time, cost and manual errors.

A wide range of core system enhancements was also undertaken during the year with a view towards maximizing revenues. The Department actively supported the branch and ATM network expansion plans of the Bank by establishing the necessary IT infrastructure for the new branches and ATMs that were launched during the year.

The server and user desktop environment has now been standardized to a common platform for enhanced security, easier maintenance and cost control. Customers have also been provided with the convenience of changing their credit card PINs at Ahli Bank ATMs. During the year we successfully disabled the magnetic stripe cards and crossed over to the more secure smart chip cards. The Department had a major role to play in ensuring the seamless transition of the card systems. Besides, it has also established a new fraud alert system to detect suspicious transactions.

With a view towards primarily addressing various money-laundering issues, the SWIFT system has been upgraded to be in compliance with the 2009 message formats. We have also established a Braille printing facility for producing statements in Braille format for our blind customers and have implemented SIBNET, a payment network introduced by QCB for inter-bank local payments.

Signing of SLAs with Qtel and server hardware vendors, outsourcing of the scanning and archiving of branch vouchers to a specialist service provider and the implementation of the Basel II capital adequacy computation and reporting system also formed part of the key initiatives successfully undertaken by the IT Department during the year.

HUMAN RESOURCES

Ahli Bank firmly believes that one of the key drivers of any organisation's service quality, customer satisfaction and overall success is the competence of its human capital. Hence the Bank continues to place pronounced emphasis on the recruitment, training as well as the succession plan and career path requirements of all the departments across the Bank.

The Bank gives paramount importance to the fact that it needs to develop and empower a pool of individuals who can adorn the mantle of the leadership of the Bank, whenever required. A well-structured road map that focuses on the training and development needs of both existing employees and new recruits is already in place. Employees are offered the opportunity to enhance their knowledge, skills, competency and efficiency by enrolling in specialised courses as well as advanced banking and management programmes. This, in turn, has consistently enhanced the overall competency level of the Bank.

Ahli Bank has actively engaged itself in the Qatarization drive of the State of Qatar by formulating and implementing a comprehensive programme that is aimed at attracting and retaining qualified Qatari nationals. The programme involves structured courses conducted by professionals as well as on-the-job training courses.

In line with Ahli Bank's policy to play an active role in various social and humanitarian causes in the State of Qatar, the Bank continues to work closely with Qatar Foundation, Virginia Commonwealth University and many governmental organisations.

HEALTH AND ENVIRONMENT

Ahli Bank Q.S.C always showed its keenness in involving itself towards the commitments in the health and environment arenas. The bank has largely participated in the blood donation campaign organized in the bank under the auspices of Hamad Medical Corporation (HMC). The bank is actively involved in various environmental activities aimed at improving the awareness in the community in which operates.

SOCIAL

Ahli Bank Q.S.C extended its financial aid to some local organization aimed at improving the social condition of children and expatriates.

risk management

In line with our primary strategic focus, the Bank's risk policies and procedures were reviewed and changed to make provision for new measures that will minimise the Bank's exposure to unnecessary risks during the current global financial crisis.

GENERAL

The adoption of sound risk management practices has contributed to the Bank's attainment of an upgrade for investment grade by Fitch rating to A-.

In line with our primary strategic focus, the Bank's risk policies and procedures were reviewed and changed to make provision for new measures that will minimise the Bank's exposure to unnecessary risks during the current global financial crisis.

The measures make provision for the close monitoring of the Bank's exposures on a daily, weekly, monthly, and quarterly basis especially the exposures that are secured by shares and real estate. The Bank's liquidity is also monitored on a daily basis.

MAJOR RISK AREAS

The highlights of the developments in the major risk areas with respect to the business – namely credit, market, liquidity and operational risks – are as follows:

Credit Risk

Risk management implemented initiatives to instill a comprehensive credit risk management culture within the Bank's various business units. This programme has contributed significantly to the quality of business recorded as well as in the turnaround times provided to customers.

The enhanced relationship between risk management and various business unit teams has led to the adoption of prescribed risk management methodologies in both booking as well as maintenance and development of business. Basel II workshops helped raise awareness amongst the business development team and this will, no doubt, be reflected in the proposals generated and in the service provided to existing customers.

The Department took further steps to ensure the scientific quantification of risk ratings that are applied to credit exposures, instead of relying solely on qualitative or subjective evaluations. This has served to enhance the risk management quantification of risk-return parameters, a significant contributor to profit generation capacities during the year.

The efforts devoted to the overall evaluation of the Bank's credit portfolio throughout the year contributed in no mean measure to the asset quality. The Portfolio was comprehensively analysed in terms of country, industry, product and single obligor group to detect concentration trends and enhance diversification. The Bank's exposure was also closely monitored with a view to detect warning signals of delinquency which would enable the management and the maintenance of a sound credit portfolio.

Market Risk

Market risk is the risk of a potential financial loss that may arise from adverse changes in the value of a financial instrument or a portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity and commodity prices and derivatives. This risk arises from asset-liability mismatch, changes that occur in the yield curve, and changes in volatilities/implied volatilities in the market value of derivatives.

Given the Bank's conservative strategy in terms of investments and trading, aggregate market risk levels are considered low. The Bank utilises quantitative risk management techniques to assist in estimating potential losses that may arise from adverse market movements. These are considered adequate from a need perspective and the existing scope of activities.

The periodic monitoring of liquidity as well as interest rate mismatches and adherence to foreign exchange limits with respect to laid down guidelines help manage possible scenarios in a proactive manner. The continued application of OPICS has significantly enhanced the capabilities of the treasury front and the back office functions.

The PANORAMA system has facilitated advanced reporting and monitoring mechanisms. This has supplemented existing capabilities and has contributed towards adopting quantitative analysis techniques that are in line with the global best practices, the local market and the regulatory requirements.

A stringent limit structure based on conservative grounds but reflecting business needs as well as market dictates has been prescribed. The robust control and monitoring processes and the effective follow-up mechanisms that have been adopted help to effectively manage market risk.

Liquidity Risk

Ahli Bank's liquidity risk is pro actively managed by a process which makes provision for the regular estimation of the Bank's potential liquidity and funding requirements under different stress scenarios. It is measured by estimating the Bank's liquidity and potential funding requirements, and by ensuring continuously available liquidity to cover estimated needs and to capitalise on business expansion opportunities.

The Bank's liquidity policy comprises a prudent mix of liquidity control measures based on expected economic and bank-specific events. The updated policy includes mechanisms that ensure access to liquidity without the need to increase cost, and provides for the maintenance of a stock of liquid and marketable assets and an adequately diversified deposit base in terms of maturity and number of counter parties.

The Bank's Assets & Liabilities Committee (ALCO), which convened on a regular basis during the year, was vested with the responsibility of ensuring adherence to the duly approved liquidity policy. The information required to make key decisions was provided in the required formats to provide an objective assessment of the data. The presence of the risk management team members along with the senior management ensured that proper risk perspectives were brought into consideration in decision making.

shareholding pattern

Operational Risk

Operational risk refers to losses resulting from the inadequacy or failure of internal processes and systems or the materialisation of adverse external events. The Bank maintains an efficient operational risk management framework to quantify and mitigate operational risk.

The Bank utilises an 'Operational Risk Self Assessment' (ORSA) process to assess, document and report the operational risks encountered in the course of business. This is in line with implementation of Basel II regulations. The Operational Risk Committee (ORC) approves the ORSA annually and reviews the operational risks faced by various functions in the Bank on a periodic basis, introducing appropriate controls wherever necessary. Furthermore, the internal audit and compliance functions conduct independent periodic reviews to assess the adequacy of checks and controls.

The Bank's Business Continuity Plan (BCP) was comprehensively and periodically tested after establishing the requisite infrastructure and the successful completion of system-specific trial runs. The developed BCP comprises extensive plans that are designed to minimise and mitigate operational risks arising from a potential failure of the communications networks and IT systems breakdown. This plan covers bank-wide operations and envisages scenarios of varying levels of contingency and measures to contend with the same. Additional investments in information technology to serve this purpose were implemented through the procurement of upgraded hardware. Departmental plans were also put in place during the year, providing detailed procedures for individual bank functions to be operative in case of need.

The Bank has also put in place a Disaster Recovery Plan (DRP) prescribing the recovery process and restoration of critical computer systems, including the local area network, database servers, internet, intranet and e-mail in the event of an interruption arising from an unplanned and unexpected disaster with a view to minimise potential loss of revenue.

The Disaster Recovery Plan (DRP)/Business Continuity Plan (BCP) was audited by an independent external auditor (KPMG) in 2009 and was found to be substantially compliant with Qatar Central Bank's requirements. Four BCP/DR tests were conducted in 2009 and plans are in place to ensure that the tests are conducted on a quarterly basis, going forward.

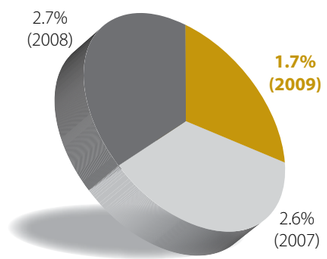
Basic fire fighting training was provided to selected staff with the assistance of Civil Defense Authority and an evacuation drill was conducted as part of the safety and security procedures.

The Bank conducted BCP and DRP Tests successfully, covering essential functions, to establish adequate levels of preparation to face a contingency scenario, thereby complying with the regulatory as well as auditing requirements.

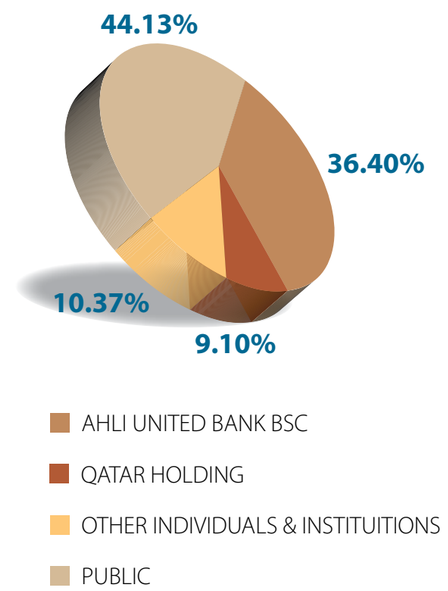
Moreover, year 2009 witnessed the continued application of a comprehensive Succession Plan – developed by the Bank's HR Department and approved by the Board of Directors – to ensure proper management of adversities that could arise from staffing exigencies. The Plan provides guidelines for staff responsibilities, delegated authorities, and training and recruitment guidelines.

The comprehensive range of initiatives has ensured minimal incidence of material losses as a result of the identified operational risks during the year.

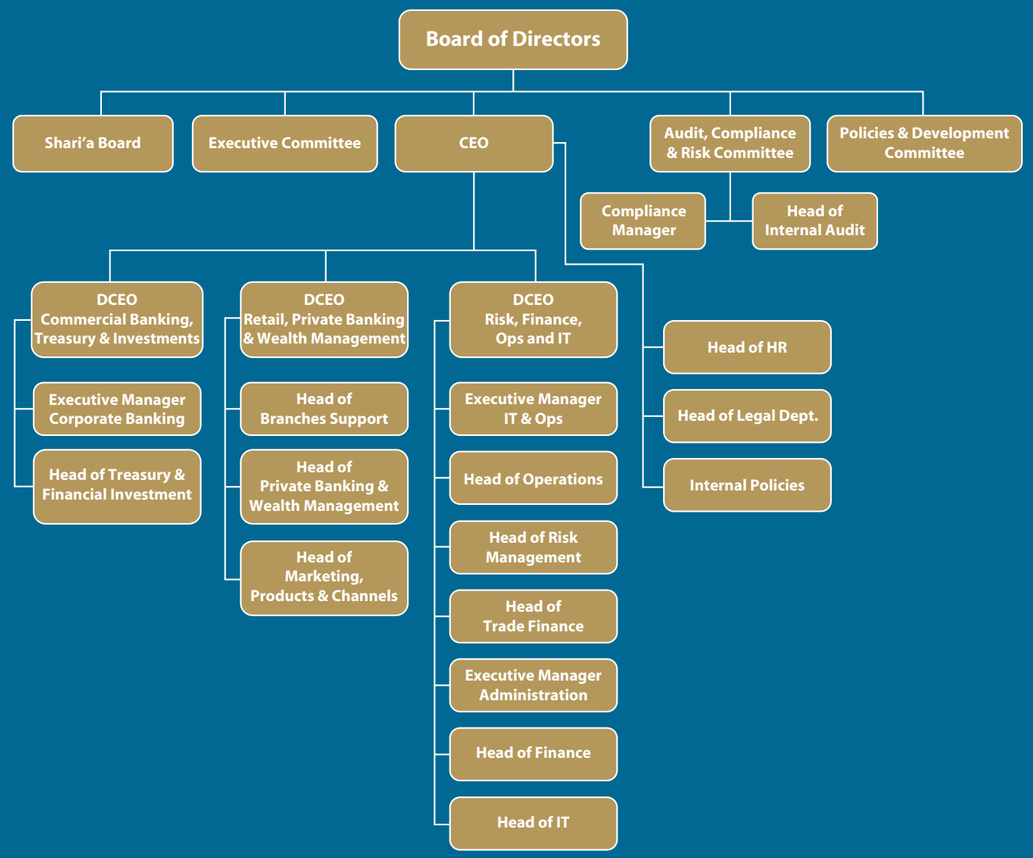
In the light of the present financial environment it remains a key objective to maximise shareholders' return through prudent risk management policies, continuously monitoring exposures, minimising exceptions and maintaining a healthy portfolio with enforceable documentation.



RETURN ON AVERAGE ASSETS



organisational structure



senior management

Salah Jassim Murad
Chief Executive Officer

Mahmoud Yahya Malkawi
Deputy CEO
Corporate Banking & Treasury

Yehia Gamaleldin El Batrawi
Deputy CEO
Retail, Private Banking & Wealth Management

Karthikayan Subramaniam
Deputy CEO
Finance, Risk, IT, Administration,
Trade Finance & Operations

Abdulla Mohd. Salman Almahmied
Executive Manager - Administration

Amr Abbas
Head of HR

D S Mohan
Head of IT

Maha Ragab
Head of Private Banking and Wealth Management

Mahalingam Shankar
Head of Finance

Mahmoud Eid
Head of Risk Management

Mohamed El-Shamy
Head of Audit

Mohamed Khalil Ahmed
Head of Branches - Support

Mohamed Ouf
Head of Legal Department

Sanjeev Gupta
Head of Marketing, Products and Channels

Simon Jaquiss
Head of Treasury

Viswalingam Nagarajan
Head of Central Operations

Zakaria Abedraboh
Head of Compliance

independent auditors' report

TO THE SHAREHOLDERS OF AHLI BANK Q.S.C.

Report on the Financial Statements

We have audited the accompanying financial statements of Ahli Bank Q.S.C. ("the Bank"), which comprise the statement of financial position as at 31 December 2009, and the income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and applicable provisions of Qatar Central Bank regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 from 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and applicable provisions of Qatar Central Bank regulations.

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations, which we considered necessary for the purpose of our audit. We further confirm that the financial information included in the Annual Report of the Board of Directors is in agreement with the books and records of the Bank and that we are not aware of any contravention by the Bank of its Articles of Association, the Qatar Commercial Companies' Law No. 5 of 2002, Qatar Central Bank Law No. 33 of 2006 and the related amendments and the directives of Qatar Central Bank during the financial year ended 31 December 2009 that would materially affect its activities or financial position.

Firas Qoussous
of **Ernst & Young**
Auditor's Registration No. 236

17 January 2010
Doha, Qatar

statement of financial position

At 31 December 2009

	Notes	2009 QR '000	2008 QR '000
ASSETS			
Cash and balances with Qatar Central Bank	4	745,645	667,670
Due from banks and other financial institutions	5	4,348,284	4,500,276
Loans, advances and financing activities to customers	6	12,407,056	11,547,061
Financial investments	7	512,352	672,534
Property, furniture and equipment	8	128,484	139,000
Other assets	9	307,740	272,735
Total Assets		**18,449,561**	**17,799,276**
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks, Qatar Central Bank and other financial institutions	10	3,727,166	3,489,993
Customer deposits	11	10,982,977	10,260,628
Subordinated debt	12	182,000	182,000
Other liabilities	13	316,156	375,616
		15,208,299	14,308,237
Unrestricted investment accounts	14	1,288,687	1,850,656
Total Liabilities		**16,496,986**	**16,158,893**
EQUITY			
Share capital	15	613,184	583,984
Advance against share capital	15	160,596	–
Statutory reserve	15	644,532	513,135
Risk reserve	15	218,684	218,684
Fair value reserve	15	(15,422)	2,102
Proposed dividend	15	306,592	291,992
Retained earnings		24,409	30,486
Total Equity		**1,952,575**	**1,640,383**
TOTAL LIABILITIES AND EQUITY		**18,449,561**	**17,799,276**

Ahmed Bin Abdulrahman Al Mana
Chairman

Hamad Al Marzouq
Deputy Chairman

Salah Murad
Chief Executive Officer

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

income statement

Year ended 31 December 2009

	Notes	2009 QR '000	2008 QR '000
Interest income	16	882,872	873,926
Interest expense	17	(589,989)	(575,260)
NET INTEREST INCOME		**292,883**	**298,666**
Fee and commission income	18	128,921	130,886
Fee and commission expense		(735)	(1,413)
NET FEE AND COMMISSION INCOME		**128,186**	**129,473**
Dividend income	19	3,347	11,939
Net gain from dealing in foreign currencies	20	20,601	6,638
Net gain on financial investments and derivatives	21	24,540	52,927
Income from Islamic financing and investing activities (net)	22	132,801	117,750
Other operating income	23	5,006	23,807
		186,295	**213,061**
TOTAL OPERATING INCOME		**607,364**	**641,200**
Impairment loss on available-for-sale investments		(2,015)	(3,259)
Provisions for credit losses on loans and advances		(47,193)	(5,785)
Unrestricted investment account holders' share in the profit		(97,319)	(59,031)
NET OPERATING INCOME		**460,837**	**573,125**
General and administrative expenses	24	(139,932)	(130,715)
Depreciation	8	(20,390)	(16,629)
OPERATING EXPENSES		**(160,322)**	**(147,344)**
PROFIT FOR THE YEAR		**300,515**	**425,781**
EARNINGS PER SHARE			
Basic and diluted – (QR)	25	4.94	7.29

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

statement of comprehensive income

Year ended 31 December 2009

	Notes	2009 QR '000	2008 QR '000
Profit for the year		300,515	425,781
Other comprehensive income			
Available- for-sale investments			
Fair value gains (losses) during the year		917	(119,317)
Reclassification adjustments for gains included in the income statement for the year on derecognition		(23,325)	(65,361)
Amortised during the year on reclassification to loans and receivables		(1,761)	(1,843)
		(24,169)	**(186,521)**
Cash flow hedges			
Fair value gains (losses) during the year		6,645	(21,162)
Other comprehensive loss for the year		**(17,524)**	**(207,683)**
Total comprehensive income for the year		**282,991**	**218,098**

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

statement of cash flows

Year ended 31 December 2009

	Notes	2009 QR '000	2008 QR '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		300,515	425,781
Adjustments for:			
Depreciation	8	20,390	16,629
Provision for credit losses of loans and advances and financing activities to customers		60,994	33,615
Impairment losses on available-for-sale investments		2,015	3,259
Recoveries of provisions for credit losses		(13,801)	(27,830)
Profit on disposal of property, furniture and equipment		–	(7,914)
Provision for staff indemnity	13a	3,368	3,159
Net gain on financial investments and derivatives	21	(24,540)	(52,927)
Cash flows from operating activities before changes in operating assets and liabilities		**348,941**	**393,772**
Net increase in assets			
Due from banks and other financial institutions		(42,220)	(229,820)
Loans, advances and financing activities to customers		(907,188)	(1,143,575)
Other assets		(34,710)	(40,075)
Net increase (decrease) in liabilities			
Due to banks, Qatar Central Bank and other financial institutions		237,173	1,534,833
Customers' deposits and unrestricted investment accounts		160,380	617,045
Other liabilities		(59,143)	(45,519)
Cash (outflow) inflow from operating activities		**(296,767)**	**1,086,661**
Payment of staff indemnity	13a	(2,160)	(134)
Net cash (outflow) inflow from operating activities		**(298,927)**	**1,086,527**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial investments		(384,515)	(255,346)
Proceeds from sale/redemption of financial investments and derivatives		547,878	476,401
Purchase of property, furniture and equipment	8	(9,874)	(32,980)
Proceeds from disposal of property, furniture and equipment		–	9,471
Net cash inflow from investing activities		**153,489**	**197,546**
CASH FLOWS FROM FINANCING ACTIVITIES			
New shares issued	15	160,597	–
Advance against share capital	15	160,596	–
Dividend paid	15	(291,992)	(101,562)
Net cash inflow (outflow) from financing activities		**29,201**	**(101,562)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(116,237)**	**1,182,511**
Cash and cash equivalents at 1 January		4,572,569	3,390,058
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	32	**4,456,332**	**4,572,569**
Operational cash flows from interest and dividend			
Interest received		837,641	837,168
Interest paid		563,685	552,208
Dividend received		3,347	11,939

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

statement of changes in equity

Year ended 31 December 2009

	Share capital QR '000	Advance against share capital QR '000	Statutory reserve QR '000	Risk reserve QR '000	Fair value reserve QR '000	Proposed dividend QR '000	Retained earnings QR '000	Total QR '000
Balance at 1 January 2009	583,984	–	513,135	218,684	2,102	291,992	30,486	1,640,383
Total comprehensive income for the year	–	–	–	–	(17,524)	–	300,515	282,991
Dividend paid (Note 15f)	–	–	–	–	–	(291,992)	–	(291,992)
Proposed dividend (Note 15f)	–	–	–	–	–	306,592	(306,592)	–
New shares issued (Note 15a)	29,200	–	131,397	–	–	–	–	160,597
Advance against share capital (Note 15b)	–	160,596	–	–	–	–	–	160,596
Balance at 31 December 2009	**613,184**	**160,596**	**644,532**	**218,684**	**(15,422)**	**306,592**	**24,409**	**1,952,575**

	Share capital QR '000	Statutory reserve QR '000	Risk reserve QR '000	Fair value reserve QR '000	Proposed issue of bonus shares QR '000	Proposed dividend QR '000	Retained earnings QR '000	Total QR '000
Balance at 1 January 2008	507,812	470,557	147,104	209,785	76,172	101,562	10,855	1,523,847
Total comprehensive income for the year	–	–	–	(207,683)	–	–	425,781	218,098
Bonus shares issued	76,172	–	–	–	(76,172)	–	–	–
Transfer to risk reserve during the year (Note 15d)	–	–	71,580	–	–	–	(71,580)	–
Dividend paid (Note 15f)	–	–	–	–	–	(101,562)	–	(101,562)
Transfer to statutory reserve (Note 15c)	–	42,578	–	–	–	–	(42,578)	–
Proposed dividend (Note 15f)	–	–	–	–	–	291,992	(291,992)	–
Balance at 31 December 2008	**583,984**	**513,135**	**218,684**	**2,102**	**–**	**291,992**	**30,486**	**1,640,383**

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

notes to the financial statements

31 December 2009

1. CORPORATE INFORMATION

Ahli Bank Q.S.C. ("the Bank") was incorporated in the State of Qatar in 1983 as a public shareholding company under Emiri Decree No. 40 of 1983. The Bank is engaged in Commercial, Islamic and Retail banking services and operates through its registered Head Office located at Suhim Bin Hamad Street, Al-Sadd Area in Doha (postal address P.O. Box 2309, Doha, Qatar) and twenty one branches established in the State of Qatar as of date.

The Bank signed a management contract with Ahli United Bank B.S.C, Bahrain in 2004 for a period of ten years on a renewable basis.

The financial statements for the year ended 31 December 2009 were authorized for issue in accordance with a resolution of the Board of Directors on 17 January 2010.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention, except for measurement at fair value of derivatives and available for sale financial investments. The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. The financial statements are presented in Qatari Riyals (QR), which is the presentation and functional currency of the Bank, and all values are rounded to the nearest QR thousand except otherwise indicated.

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and in conformity with the Qatar Commercial Companies' Law and the applicable provisions of Qatar Central Bank rules and regulations.

The Bank presents its statement of financial position broadly in the order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date ("current") and more than 12 months of the statement of financial position date ("non-current") is presented in Note 3.2.7.

2.2 Significant accounting judgements and estimates

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Going concern

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models are taken from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs, such as volatility, discount rates etc.

Impairment losses on loans, advances and financing activities to customers

The Bank reviews its individually significant loans, advances and financing activities to customers at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

2. ACCOUNTING POLICIES (continued)

2.2 Significant accounting judgements and estimates (continued)

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

Impairment of available-for-sale investments

The Bank treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost. The Bank treats 'significant' generally as 30% or more and 'prolonged' as greater than 9 months.

2.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except as follows:

The Bank has adopted the following new and amended IFRS during the year:

- IAS 1 Presentation of Financial Statements (Revised)
- Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments
- IFRS 8 Operating Segments
- Improvements to International Financial Reporting Standards (issued in 2008)
- IFRIC 13 Customer Loyalty Programmes
- IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments)
- IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement (Amendments)

IAS 1 Presentation of Financial Statements (Revised)

This standard requires an entity to present all owner changes in equity and all non-owner changes to be presented in either in one statement of comprehensive income or in two separate statements of income and comprehensive income. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Bank has elected to present comprehensive income in two separate statements of income and comprehensive income. Information about the individual components of comprehensive income have been disclosed in the notes to the financial statements. The Bank has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement or retrospectively reclassified items in the financial statements.

Amendments to IFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments

The amendments to IFRS 7 were issued in March 2009 to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management.

Certain of the comparative information have been restated although this is not strictly required by the transition provisions of the amendment.

notes to the
financial statements
31 December 2009

2. ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies (continued)

IFRS 8 - Operating Segments

The new standard, which replaced IAS 14 Segment Reporting, requires a 'management approach' under which segment information is presented on the same basis that is used for internal reporting purposes provided to the chief operating decision-maker of the Bank. The Bank concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. Disclosures required under IFRS 8 are shown in Note 34 to the financial statements.

Improvements to International Financial Reporting Standards (issued in 2008)

In May 2008, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Bank.

IFRIC 13 Customer Loyalty Programmes

The IFRIC issued IFRIC 13 in June 2007. This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. The Bank takes part in a credit card air miles loyalty programme. The Bank purchases loyalty points from the supplier, who bears the cost of providing benefits to the customers. As the existing accounting treatment adopted by the Bank for customer loyalty programmes is consistent with IFRIC 13, the adoption of the Interpretation has had no significant impact on the current or comparative results of the Bank.

IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments)

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or the performance of the Bank.

IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement (Amendments)

This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of these amendments did not have any impact on the financial position or the performance of the Bank.

2.4 IASB standards and interpretations issued but not adopted

The following IASB Standards and Interpretations have been issued but are not yet mandatory, and have not yet been adopted by the Bank:

- IFRIC 17- Distributions of Non-Cash Assets to Owners effective for financial periods beginning on or after 1 July 2009
- Improvements to International Financial Reporting Standards (issued in 2009) effective for financial periods beginning on or after 1 January 2010
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendments) effective for financial periods beginning on or after 1 July 2009
- IFRS 9 Financial Instruments effective for financial periods beginning on or after 2013
- IAS 24 Related Party Disclosures (Revised) effective for financial periods beginning on or after 2011
- IAS 32 Classification of Rights Issues (Amendments) effective for financial periods beginning on or after 1 February 2010
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments effective for financial periods beginning on or after 1 July 2010

The Bank is considering the implications of the above standards and interpretations, the impact on the Bank and the timing of adoption by the Bank. The Bank did not opt for early adoption any new or amended standards or interpretations in 2009.

2. ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements are set out below:

a) Islamic banking

The Islamic branch carries out Islamic banking services through various Islamic modes of financing. The activities of the Islamic branch are conducted in accordance with the Islamic Shari'a, as determined by the Shari'a Control Board. The Islamic branch accounts are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Qatar Central Bank regulations.

b) Foreign currency transactions

Transactions in foreign currencies are translated into Qatari Riyals at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are retranslated into Qatari Riyals at the rates ruling at the statement of financial position date. The resulting exchange gains and losses are taken to the income statement under "net gain from dealing in foreign currencies".

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined and the differences are included in the statement of changes in equity as part of the fair value adjustment of the respective assets, unless they are part of an effective hedging strategy.

c) Derivatives

Derivatives are measured at fair value. Fair value represents quoted market price or internal pricing models as appropriate. Derivatives with positive fair value are included in the other assets and derivatives with negative fair value are included in the other liabilities. The resulting gains or losses from derivatives held for trading purposes are included in the income statement.

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

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

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 recognized initially as cash flow hedge reserve in other comprehensive income. The gains or losses on cash flow hedges initially recognized in the statement of comprehensive income are transferred to the income statement in the period in which the hedged transaction impacts the income statement. Where the hedged transaction results in the recognition of an asset or a liability, the associated gains or losses that had initially been recognized in the statement of comprehensive income, 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 in the fair value of the hedging instrument are taken directly to the income statement for the period.

Hedge accounting is discontinued when the hedging instrument expires, is terminated or exercised, or no longer qualifies for hedge accounting. For effective fair value hedges of financial instruments with fixed maturities, any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges, any cumulative gain or loss on the hedging instrument recognized as cash flow hedge reserve in other comprehensive income is held therein until the forecasted transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized as cash flow hedge reserve in other comprehensive income is transferred to the income statement.

notes to the
financial statements
31 December 2009

2. ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

i) Interest and similar income

Interest income is recognised using the effective interest method, taking account of the principal outstanding and the rate applicable. Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

Interest that is 90 days or more overdue is excluded from income. Notional interest is recognised on impaired loans and advances and other financial assets based on the rate used to discount future cash flows to their net present values.

ii) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

Fee income from providing transaction services

Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, and brokerage fees. Loan syndication fees are recognised in the income statement when the syndication has been completed and the Bank retains no part of the loans for itself or retains part at the same effective rate as for the other participants.

iii) Dividend income

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

iv) Islamic financing

Revenues on Islamic financing transactions are recognised on an accrual basis using the reducing installment method. Income on non performing financing accounts is suspended when it is not certain that the Bank will receive it.

e) Financial investments

Subsequent to the initial measurement, available-for-sale financial investments are measured at fair value. Unrealised gains or losses arising from a change in the fair value is recognised as fair value reserve in other comprehensive income, until the investment is sold, at which time the cumulative gain and loss previously recognised as fair value reserve in other comprehensive income is included in the income statement.

Subsequent to the initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest rate method, less any allowance for impairment.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate method, less any allowance for impairment.

2. ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

e) **Financial investments (continued)**

Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Amortized cost is calculated using the effective interest rate method by taking into account any premium or discount on acquisition and includes costs and fees that are an integral part of the effective interest rate.

In cases where objective evidence exist that a specific financial investment is impaired, the recoverable amount of that financial investment is determined and any impairment loss is recognised in the income statement as impairment loss on financial investments.

Reversal of impairment losses on equity instruments classified as available-for-sale investments are treated as an increase in fair value through other comprehensive income in the statement of comprehensive income. Reversal of impairment losses on debt instruments are reversed through the income statement to the extent such increases can be objectively related to an event occurring after the impairment loss was recognised.

f) **Fair value**

The fair value of financial assets traded in organized financial markets is determined by reference to quoted market bid prices on regulated exchange at the close of business on the statement of financial position date. For financial assets not traded in an active market, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same or discounted cash flow analysis. The fair value of liabilities with a demand feature is the amount payable on demand. Fair values of derivatives represent quoted market prices or internal pricing models as appropriate.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 29.

g) **Date of recognition of financial instruments**

All financial assets are recognised using the settlement date.

h) **Due from banks, loans, advances and financing activities to customers**

After initial measurement, due from banks, loans, advances and financing activities to customers are stated at amortised cost less any allowance for impairment.

Islamic financing activities such as Murabaha, which is a sale of goods with an agreed upon profit mark up, and Ijara, which is the transfer of ownership of services or leased assets for an agreed upon consideration, are stated at their gross principal amounts less any amount received, provision for credit losses, profit in suspense and unearned profit.

Due from banks, loans, advances and financing activities are written off and charged against specific provisions only in circumstances where all reasonable restructuring and collection activities have been exhausted. Recoveries from previously written off financing activities are written back to the specific provision.

i) **Property, furniture and equipment**

Property, furniture and equipment is stated at cost less accumulated depreciation and accumulated impairment in value. Freehold land is not depreciated. Leasehold improvements are depreciated over the lesser of their estimated useful life or lease term. Depreciation on all other property, furniture and equipment is calculated on a straight-line basis over their estimated useful lives as follows:

Buildings	20 years
Leasehold improvements	5 years
Furniture and equipment	3 to 6 years
Vehicles	5 years

An item of property, furniture and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the property, furniture and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement in the year the asset is derecognised.

notes to the
financial statements
31 December 2009

2. ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

j) **Derecognition of financial assets and financial liabilities**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

k) **Impairment of financial assets**

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset, computed based on the present value of future cash flows, is determined and any impairment loss, is recognized in the income statement. The treatment of impairment of financial investments is disclosed in Note 2.5e.

Specific provisions for credit losses 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. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The Bank also makes 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 or deterioration in cash flows.

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

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

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

2. ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

l) Employee's termination benefits and pension funds

End of service gratuity plans

The Bank provides for end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. The provision of employees' end of service benefits is included in the other provisions within other liabilities. The cost is included in general and administrative expenses as disclosed in Note 24.

Pension plan

Under Law No. 24 of 2002 on Retirement and Pension, the Bank is required to make contributions to a Government fund scheme for Qatari employees calculated as a percentage of the Qatari employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due. The cost is included in general and administrative expenses as disclosed in Note 24.

m) Other provisions

The Bank makes a provision for any expected obligations (legal or constructive) or financial liabilities as a charge to the income statement based on the likelihood and expected amount of such liabilities at the statement of financial position date. Other provisions are disclosed in Note 13.

n) Contingent liabilities and other commitments

At the statement of financial position date, contingent liabilities and other commitments do not represent actual assets or liabilities.

o) Unrestricted investment accounts' share of profit

The Islamic branch profit for the year is distributed among unrestricted investment account holders and shareholders in accordance with Qatar Central Bank's instructions, which are summarized as follows:

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

In case of any expenses or losses, which arise out of misconduct on the part of the Bank due to non compliance with Qatar Central Bank's regulations and instructions, then such expenses or losses are not to be borne by the unrestricted investment account holders. Such matters are subject to Qatar Central Bank's decision.

Where the Islamic branch results at the end of a financial year is a net loss, the unrestricted investment account holders are not charged with any share of such loss, except as approved by Qatar Central Bank in its capacity as the regulator having responsibility of assessing the Bank's management for such losses, and compliance with Islamic Shari'a rules and principles.

The unrestricted investment accounts carry preferential rights over others in respect of utilisation of funds towards financing and investment activities.

p) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash and balances with Qatar Central Bank other than the mandatory cash reserve, and balances due from banks and other financial institutions with an original maturity of three months or less, as disclosed in Note 32.

q) 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. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the income statement and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement in "provision for credit losses". The premium received is recognised in the income statement in fee and commission income on a straight line basis over the life of the guarantee.

r) Fiduciary assets

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

notes to the
financial statements
31 December 2009

2. ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

s) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting arrangements, and the related assets and liabilities are presented gross in the statement of financial position.

t) Segment reporting

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

Income and expenses directly associated with each segment are included in determining operating segment performance.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

3.1 Financial Instruments

a) Definition and classification

Financial instruments cover all financial assets and liabilities of the Bank. Financial assets include cash and balances with Qatar Central Bank, due from banks and other financial institutions, loans, advances and financing activities to customers, financial investments and certain other assets. Financial liabilities include due to banks, Qatar Central Bank and other financial institutions, customer deposits, unrestricted investment accounts and certain other liabilities. Financial instruments also include certain contingent liabilities and commitments.
The significant accounting policies adopted by the Bank in respect of recognition and measurement of key financial instruments and their related income and expenses are disclosed in Note 2 "Significant accounting policies".

b) Fair value of financial instruments

Based on the methods used to determine the fair value of financial instruments explained in the notes to the financial statements, the carrying values of financial assets and liabilities, excluding held to maturity investments, are not significantly different from their fair values.

3.2 Risk Management

3.2.1 Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit, liquidity, market, including trading and non-trading, and operational risks.

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

Risk Management Structure

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

Executive Committee

The Executive Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and managing and monitoring relevant risk decisions.

Risk Management Department

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It is also responsible for monitoring compliance with risk principles, policies and limits, across the Bank. Each business group has a decentralised department which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This function also ensures the complete capture of the risks in risk measurement and reporting systems.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.1 Introduction (continued)

Treasury

Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure, as laid down by the Asset Liability Committee (ALCO) from time to time.

Internal Audit

Risk management processes throughout the Bank are audited annually by the Internal Audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

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

The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for impairment on a quarterly basis.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business departments have access to necessary and up-to-date information.

Frequent briefing is given to the senior management and all other relevant members of the Bank on the utilization of market limits, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Bank. The effectiveness of hedges is assessed by the Treasury (based on economic considerations rather than the IFRS hedge accounting regulations). The effectiveness of all the hedge relationships is monitored by the Treasury quarterly at each reporting period. In situations of ineffectiveness, the Bank will enter into a new hedge relationship to mitigate risk on a continuous basis.

The Bank actively uses collaterals to reduce its credit risks (see 3.2.2 credit risk below for more detail).

notes to the
financial statements
31 December 2009

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)
3.2 Risk Management (continued)
3.2.1 Introduction (continued)

Excessive risk concentration

Concentrations 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. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio, with limits set on geographic and industry sector exposures. Identified concentrations of credit risks are controlled and managed accordingly.

3.2.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge a financial obligation and cause the other party to incur a financial loss. In the case of derivatives this is limited to positive fair values. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of 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. Concentrations 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 group of customers in specific locations or businesses. It also obtains collaterals, when appropriate. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities,
- For commercial lending, mortgages over real estate properties, inventory, trade receivables, cash and securities.
- For retail lending, mortgages over residential properties and securities.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

The Bank also obtains corporate guarantees from parent companies for loans, advances and financing activities to their subsidiaries.

Details of the composition of the loans, advances and financing activities to customers are set out in Note 6.

Details of the industry sector analysis and the geographical distribution of assets, liabilities and commitments on behalf of customers are set out in Note 3.2.3.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.2 Credit risk (continued)

a) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

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

	Gross maximum exposure 2009 QR '000	Gross maximum exposure 2008 QR '000
Cash and balances with Qatar Central Bank (excluding cash on hand)	666,110	598,544
Due from banks and other financial institutions	4,348,284	4,500,276
Loans, advances and financing activities to customers	12,407,056	11,547,061
Financial investments	428,950	576,203
Other assets	269,606	238,281
Total	**18,120,006**	**17,460,365**
Contingent liabilities	1,899,574	2,686,985
Unused credit facilities	3,255,574	2,595,959
Total	**5,155,148**	**5,282,944**
Total credit risk exposure	**23,275,154**	**22,743,309**

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

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

b) Credit quality per class of financial assets

The Bank's internal rating scale and mapping to the table below are as follows:

Bank's rating	Description of the grade	Mapping
Grade A	Low risk – excellent	High grade
Grade B	Standard/satisfactory risk	Standard grade
Grade C	Sub-standard – watch	Watch list/impaired
Grade D	Doubtful	Watch list/impaired
Grade E	Bad debts	Watch list/impaired

notes to the
financial statements
31 December 2009

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.2 Credit risk (continued)

b) Credit quality per class of financial assets (coninued)

The table below shows the credit quality by class of financial assets, based on the Bank's credit rating system:

	High grade QR '000	Standard grade QR '000	Watch list or impaired grade QR '000	Total QR '000
At 31 December 2009				
Cash and balances with Qatar Central Bank	666,110	–	–	666,110
Due from banks and other financial institutions	4,348,284	–	–	4,348,284
Loans, advances and financing activities to customers				
Retail	150,071	2,924,369	4,209	3,078,649
Real estate*	–	1,970,293	–	1,970,293
Corporate	2,254,886	5,081,999	21,229	7,358,114
	2,404,957	**9,976,661**	**25,438**	**12,407,056**
Financial investments				
Available-for-sale	333,093	63,097	–	396,190
Held-to-maturity	–	32,760	–	32,760
	333,093	**95,857**	**–**	**428,950**
Total	**7,752,444**	**10,072,518**	**25,438**	**17,850,400**
At 31 December 2008				
Cash and balances with Qatar Central Bank	598,544	–	–	598,544
Due from banks and other financial institutions	4,500,276	–	–	4,500,276
Loans, advances and financing activities to customers				
Retail	69,263	3,313,021	11,753	3,394,037
Real estate*	9,800	1,649,179	–	1,658,979
Corporate	1,669,118	4,824,557	370	6,494,045
	1,748,181	**9,786,757**	**12,123**	**11,547,061**
Financial investments				
Available-for-sale	40,049	41,409	–	81,458
Held-to-maturity	461,985	32,760	–	494,745
	502,034	**74,169**	**–**	**576,203**
Total	**7,349,035**	**9,860,926**	**12,123**	**17,222,084**

*The real estate exposures shown above are corporate exposures towards various commercial properties.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.2 Credit risk (continued)

c) Age analysis by class of financial assets

The table below shows the age analysis by class of financial assets at the statement of financial position date:

	Neither past due nor impaired QR '000	Past due but not impaired QR '000	Impaired QR '000	Total QR '000
At 31 December 2009				
Cash and balances with Qatar Central Bank	666,110	–	–	666,110
Due from banks and other financial institutions	4,348,284	–	–	4,348,284
Loans, advances and financing activities to customers				
Retail	2,970,732	103,708	4,209	3,078,649
Real estate	1,970,293	–	–	1,970,293
Corporate	7,195,910	140,975	21,229	7,358,114
	12,136,935	**244,683**	**25,438**	**12,407,056**
Financial investments				
Available-for-sale	396,190	–	–	396,190
Held-to-maturity	32,760	–	–	32,760
	428,950	**–**	**–**	**428,950**
Other assets	**269,606**	**–**	**–**	**269,606**
Total	**17,849,885**	**244,683**	**25,438**	**18,120,006**
At 31 December 2008				
Cash and balances with Qatar Central Bank	598,544	–	–	598,544
Due from banks and other financial institutions	4,500,276	–	–	4,500,276
Loans, advances and financing activities to customers				
Retail	3,305,899	76,385	11,753	3,394,037
Real estate	1,658,979	–	–	1,658,979
Corporate	6,447,071	46,604	370	6,494,045
	11,411,949	**122,989**	**12,123**	**11,547,061**
Financial investments				
Available-for-sale	81,458	–	–	81,458
Held-to-maturity	494,745	–	–	494,745
	576,203	**–**	**–**	**576,203**
Other assets	**238,281**	**–**	**–**	**238,281**
Total	**17,325,253**	**122,989**	**12,123**	**17,460,365**

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.2 Credit risk (continued)

c) Age analysis by class of financial assets (continued)

Past due, but not impaired loans, advances and financing activities to customers include those that are past due by a few days. The majority of the past due loans, advances and financing activities to customers are not considered to be impaired. An analysis of past due, but not impaired loans and advances by age, is provided below:

	2009			2008		
	Less than 60 days QR '000	61 to 90 days QR '000	Total QR '000	Less than 60 days QR '000	61 to 90 days QR '000	Total QR '000
Loans, advances and financing activities to customers						
Retail	87,108	16,600	103,708	61,460	14,925	76,385
Corporate	140,975	–	140,975	46,604	–	46,604
	228,083	**16,600**	**244,683**	**108,064**	**14,925**	**122,989**

Note: The past due, but not impaired loans and advances as of 31 December 2008 have been restated to recognise the full outstanding balance of the borrower within each past due category. Previously, the table showed only the amount overdue at 31 December 2008.

3.2.3 Concentration analysis

The distribution of assets, liabilities and contingent liabilities by geographic region and industry sector is as follows:

	2009			2008		
	Assets QR '000	Liabilities and equity QR '000	Contingent liabilities QR '000	Assets QR '000	Liabilities and equity QR '000	Contingent liabilities QR '000
By geographic region:						
Qatar	17,510,453	16,283,690	1,810,109	15,444,925	16,409,235	2,465,558
GCC countries	674,436	1,900,629	82,714	1,167,541	1,218,012	93,057
Others	264,672	265,242	6,751	1,186,810	172,029	128,370
Total	**18,449,561**	**18,449,561**	**1,899,574**	**17,799,276**	**17,799,276**	**2,686,985**
By industry sector:						
Government	1,803,103	541,279	17,882	1,226,746	1,290,132	363,579
Government agencies	656,749	939,061	–	635,972	2,226,669	–
Industry/Manufacturing	440,906	–	25,177	483,279	–	55,694
Commercial	4,520,192	5,608,090	488,044	3,360,425	4,086,629	742,924
Services	4,130,919	4,754,771	402,797	4,436,551	5,118,083	435,198
Contracting	1,064,152	–	965,674	964,895	–	934,071
Real estate	1,970,293	–	–	1,690,714	–	40,344
Personal	3,655,228	4,652,884	–	4,792,517	3,437,380	115,175
Other	208,019	1,953,476	–	208,177	1,640,383	–
Total	**18,449,561**	**18,449,561**	**1,899,574**	**17,799,276**	**17,799,276**	**2,686,985**

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.4 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates might affect the value of financial instruments or the future profitability of the Bank. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Board of Directors measure and manage interest rate risk by establishing levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Asset and liability interest rate gaps are reviewed on a weekly basis and hedging strategies are used to reduce the interest rate gaps to bring them within limits established by the Board of Directors.

The following table summarizes the repricing profile of the Bank's assets, liabilities and off balance sheet instruments:

As at 31 December 2009	Up to 1 month QR '000	1-3 months QR '000	3-12 months QR '000	1-5 years QR '000	More than 5 years QR '000	Non-interest sensitive QR '000	Total QR '000
Cash and balances with Qatar Central Bank	–	–	–	–	–	745,645	745,645
Due from banks and other financial institutions	4,306,048	–	18,200	–	–	24,036	4,348,284
Loans, advances and financing activities to customers	1,000,107	2,500,826	1,852,437	1,637,593	3,591,081	1,825,012	12,407,056
Financial investments	–	12,558	–	50,062	315,791	133,941	512,352
Property, furniture and equipment	–	–	–	–	–	128,484	128,484
Other assets	–	–	–	–	–	307,740	307,740
Total assets	**5,306,155**	**2,513,384**	**1,870,637**	**1,687,655**	**3,906,872**	**3,164,858**	**18,449,561**
Due to banks, Qatar Central Bank and other financial institutions	3,017,852	549,305	–	–	–	160,009	3,727,166
Customer deposits	4,907,044	2,036,467	2,731,213	495,663	–	812,590	10,982,977
Subordinated debt	–	182,000	–	–	–	–	182,000
Other liabilities	–	–	–	–	–	316,156	316,156
Unrestricted investment accounts	–	–	–	–	–	1,288,687	1,288,687
Equity	–	–	–	–	–	1,952,575	1,952,575
Total liabilities and equity	**7,924,896**	**2,767,772**	**2,731,213**	**495,663**	**–**	**4,530,017**	**18,449,561**
On balance sheet gap	(2,618,741)	(254,388)	(860,576)	1,191,992	3,906,872	(1,365,159)	–
Off balance sheet gap	–	601,245	–	(601,245)	–	–	–
Interest rate sensitivity gap	**(2,618,741)**	**346,857**	**(860,576)**	**590,747**	**3,906,872**	**(1,365,159)**	**–**
Cumulative interest rate sensitivity gap	**(2,618,741)**	**(2,271,884)**	**(3,132,460)**	**(2,541,713)**	**1,365,159**	**–**	

notes to the
financial statements
31 December 2009

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.4 Interest rate risk (continued)

As at 31 December 2008	Up to 1 month QR '000	1-3 months QR '000	3-12 months QR '000	1-5 years QR '000	More than 5 years QR '000	Non-interest sensitive QR '000	Total QR '000
Cash and balances with Qatar Central Bank	–	–	–	–	–	667,670	667,670
Due from banks and other financial institutions	3,722,772	100,000	–	–	–	677,504	4,500,276
Loans, advances and financing activities to customers	1,314,389	1,527,331	1,437,467	1,462,919	4,262,336	1,542,619	11,547,061
Financial investments	–	–	502,034	–	32,760	137,740	672,534
Property, furniture and equipment	–	–	–	–	–	139,000	139,000
Other assets	–	–	–	–	–	272,735	272,735
Total assets	**5,037,161**	**1,627,331**	**1,939,501**	**1,462,919**	**4,295,096**	**3,437,268**	**17,799,276**
Due to banks, Qatar Central Bank and other financial institutions	3,397,691	58,865	–	–	–	33,437	3,489,993
Customer deposits	4,749,202	1,962,945	2,076,308	484,814	–	987,359	10,260,628
Subordinated debt	182,000	–	–	–	–	–	182,000
Other liabilities	–	–	–	–	–	375,616	375,616
Unrestricted investment accounts	–	–	–	–	–	1,850,656	1,850,656
Equity	–	–	–	–	–	1,640,383	1,640,383
Total liabilities and equity	**8,328,893**	**2,021,810**	**2,076,308**	**484,814**	**–**	**4,887,451**	**17,799,276**
On balance sheet gap	(3,291,732)	(394,479)	(136,807)	978,105	4,295,096	(1,450,183)	–
Off balance sheet gap	–	535,492	–	(535,492)	–	–	–
Interest rate sensitivity gap	**(3,291,732)**	**141,013**	**(136,807)**	**442,613**	**4,295,096**	**(1,450,183)**	**–**
Cumulative interest rate sensitivity gap	**(3,291,732)**	**(3,150,719)**	**(3,287,526)**	**(2,844,913)**	**1,450,183**	**–**	

Off balance sheet gap represents the net notional amounts of interest rate swaps, which are used to manage interest rate risk.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.4 Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement and equity.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2009, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of swaps designated as cash flow hedges at 31 December 2009 for the effects of the assumed changes in interest rates and based on the assumption that there are parallel shifts in the yield curve. The effect of decreases in interest rates is expected to have an equal and opposite effect of the increases shown.

		Sensitivity of net interest income		Sensitivity of equity	
	Increase in basis points	2009 QR '000	2008 QR '000	2009 QR '000	2008 QR '000
Currency					
Qatari Riyal	+25	2,271	2,039	–	-
US Dollar	+25	2,026	2,685	41	2,941
		4,297	**4,724**	**41**	**2,941**

3.2.5 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank takes an exposure to the effect of fluctuation in prevailing foreign currency exchange rates on its financial position. The Board of Directors have set limits on the level of currency exposure, which are monitored daily.

The Bank had the following net open positions at the year end:

	2009 QR '000	2008 QR '000
US Dollar	549,629	(134,612)
Euro	(148)	544
Sterling Pounds	(1,112)	370
Others	59,725	68,868
	608,094	**(64,830)**

The others above include an exposure to Egyptian Pounds (EGY) amounting to QR 61,476 thousand (2008: QR 61,275 thousand). This exposure arises from the Bank's strategic investment made in 2006.

The Bank manages its currency exposures within limits laid down by the Board of Directors. Intra-day and overnight limits are laid down for each currency individually and in total. The Qatar Riyal is pegged to the US Dollar. Although the Bank is not exposed to any currency risk due to the peg, limits are set for US Dollar exposures. All other currency exposures are limited and the Bank is not significantly exposed to the other currencies.

notes to the
financial statements
31 December 2009

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.6 Equity price risk

Equity price risk arises from fluctuations in equity indices and prices. The Board has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Bank's Credit and Investment Committee.

The non-trading equity price risk exposure arises from the Bank's investment portfolio.

The effect on equity, as a result of a change in the fair value of equity instruments held as available-for-sale investments at the year end, due to change in equity indices, with all other variables held constant, is as follows:

	Change in equity price %	Effect on equity 2009 QR '000	Effect on equity 2008 QR '000
Market index			
Doha Securities Market	10%	93	1,417

The effect of decreases in equity indices is expected to have an equal and opposite effect of the increases shown above.

3.2.7 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities.

In addition, the Bank maintains 4.75% of average customer deposits as a mandatory deposit with Qatar Central Bank.

The Bank's Asset and Liability Committee (ALCO) monitors the maturity profile on an overall basis with ongoing liquidity monitoring by the Treasury.

The maturity profile of the assets and liabilities at 31 December 2009 is as follows:

At 31 December 2009	Up to 1 month QR '000	1-3 months QR '000	3-12 months QR '000	1-5 years QR '000	Over 5 years QR '000	Total QR '000
Cash and balances with Qatar Central Bank	448,813	114,849	154,030	27,953	–	745,645
Due from banks and other financial institutions	4,330,084	–	18,200	–	–	4,348,284
Loans, advances and financing activities to customers	694,677	1,133,577	2,170,857	3,703,072	4,704,873	12,407,056
Financial investments	–	–	–	50,062	462,290	512,352
Property, furniture and equipment	–	–	–	–	128,484	128,484
Other assets	26,217	242,876	2,121	35,643	883	307,740
Total assets	**5,499,791**	**1,491,302**	**2,345,208**	**3,816,730**	**5,296,530**	**18,449,561**
Due to banks, Qatar Central Bank and other financial institutions	3,177,861	549,305	–	–	–	3,727,166
Customer deposits	5,719,634	2,036,467	2,731,213	495,663	–	10,982,977
Subordinated debt	–	–	–	–	182,000	182,000
Other liabilities	20,141	187,783	10,867	32,368	64,997	316,156
Unrestricted investment accounts	377,343	714,516	137,427	59,401	–	1,288,687
Equity	–	–	–	–	1,952,575	1,952,575
Total liabilities and equity	**9,294,979**	**3,488,071**	**2,879,507**	**587,432**	**2,199,572**	**18,449,561**
Net liquidity gap	**(3,795,188)**	**(1,996,769)**	**(534,299)**	**3,229,298**	**3,096,958**	**–**

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.7 Liquidity risk (continued)

The maturity profile of the assets and liabilities at 31 December 2008 is as follows:

At 31 December 2008	Up to 1 month QR'000	1-3 months QR'000	3-12 months QR'000	1-5 years QR'000	Over 5 years QR'000	Total QR'000
Cash and balances with Qatar Central Bank	385,413	124,304	130,681	27,272	–	667,670
Due from banks and other financial institutions	4,382,076	100,000	–	18,200	–	4,500,276
Loans, advances and financing activities to customers	1,407,150	1,213,113	1,111,853	2,860,828	4,954,117	11,547,061
Financial investments	99,322	–	540,452	–	32,760	672,534
Property, furniture and equipment	–	–	–	–	139,000	139,000
Other assets	47,518	220,922	3,275	1,020	–	272,735
Total assets	**6,321,479**	**1,658,339**	**1,786,261**	**2,907,320**	**5,125,877**	**17,799,276**
Due to banks, Qatar Central Bank and other financial institutions	3,431,128	58,865	–	–	–	3,489,993
Customer deposits	5,242,881	2,209,785	2,323,148	484,814	–	10,260,628
Subordinated debt	–	–	–	–	182,000	182,000
Other liabilities	32,392	218,750	50,368	28,100	46,006	375,616
Unrestricted investment accounts	648,383	901,782	300,241	250	–	1,850,656
Equity	–	–	–	–	1,640,383	1,640,383
Total liabilities and equity	**9,354,784**	**3,389,182**	**2,673,757**	**513,164**	**1,868,389**	**17,799,276**
Net liquidity gap	**(3,033,305)**	**(1,730,843)**	**(887,496)**	**2,394,156**	**3,257,488**	**–**

The above maturity profile reflects contractual maturities of assets and liabilities that have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and does not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of lines of credit.

notes to the
financial statements
31 December 2009

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.7 Liquidity risk (continued)

Analysis of financial and contingent liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations:

At 31 December 2009	Up to 1 month QR'000	1-3 months QR'000	3-12 months QR'000	1-5 years QR'000	Over 5 years QR'000	Total QR'000
Financial liabilities						
Due to banks, Qatar Central Bank and other financial institutions	3,179,101	553,529	–	–	–	3,732,630
Customer deposits	5,794,782	2,086,084	2,833,983	521,031	–	11,235,880
Subordinated debt	288	576	2,590	13,813	192,360	209,627
Derivative financial instruments						
Contractual amounts payable	1,284,895	360,696	15,648	40,232	–	1,701,471
Contractual amounts receivable	(1,278,041)	(356,810)	(3,571)	(25,732)	–	(1,664,154)
Unrestricted investment accounts	378,455	720,926	140,809	62,806	–	1,302,996
Total	**9,359,480**	**3,365,001**	**2,989,459**	**612,150**	**192,360**	**16,518,450**
Contingent liabilities and commitments						
Unused credit facilities	325,557	325,557	2,604,460	–	–	3,255,574
Acceptances	16,920	23,804	3,953	–	–	44,677
Guarantees	324,747	257,439	398,178	490,273	–	1,470,637
Letters of credit	126,158	245,648	9,399	2,973	82	384,260
Total	**793,382**	**852,448**	**3,015,990**	**493,246**	**82**	**5,155,148**

At 31 December 2008	Up to 1 month QR'000	1-3 months QR'000	3-12 months QR'000	1-5 years QR'000	Over 5 years QR'000	Total QR'000
Financial liabilities						
Due to banks, Qatar Central Bank and other financial institutions	3,432,167	60,999	–	–	–	3,493,166
Customer deposits	5,243,664	2,220,609	2,411,037	508,071	–	10,383,381
Subordinated debt	–	1,170	3,510	18,719	200,719	224,118
Derivative financial instruments						
Contractual amounts payable	358,320	5,057	18,652	50,688	–	432,717
Contractual amounts receivable	(370,178)	(8,059)	(6,528)	(23,464)	–	(408,229)
Unrestricted investment accounts	649,598	913,769	346,022	298	–	1,909,687
Total	**9,313,571**	**3,193,545**	**2,772,693**	**554,312**	**200,719**	**16,034,840**
Contingent liabilities and commitments						
Unused credit facilities	259,595	259,595	2,076,769	–	–	2,595,959
Acceptances	53,444	–	–	–	–	53,444
Guarantees	347,986	476,056	427,214	525,729	7	1,776,992
Letters of credit	281,218	547,752	20,952	6,185	442	856,549
Total	**942,243**	**1,283,403**	**2,524,935**	**531,914**	**449**	**5,282,944**

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.8 Market risk

Market risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level of volatility of market rates or prices such as interest rates including credit spreads, foreign exchange rates and equity prices. The Bank manages its market risks within the framework of limits defined by the Qatar Central Bank. Setting the internal framework for the management of market risks and ensuring compliance with this framework is the responsibility of the Asset and Liability Committee (ALCO). The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period.

Both interest rate gaps and foreign exchange rate fluctuations are managed within the framework of board limits prescribed. All risk exposures are monitored and reported on a daily basis to senior management and any breaches are escalated immediately. In addition all trading activity is continuously being monitored at ALCO level. The Bank introduced the widely used Value-at-Risk (VaR) methodology to capture and control market risks back in February 2007. The VaR metric is very popular globally since it encapsulates all known market risks such as volatility changes, correlation effects into a single unit of measurement. The Bank generates the VaR metric on a daily basis for both trading purposes (1Day VaR) and regulatory purposes (10 Day VaR), which are monitored against set limits. The table below highlights year-on year changes.

	Foreign exchange QR '000	Interest rate QR '000	Equity QR '000	Effects of correlation QR '000	Total QR '000
At 31 December 2009	**6,082**	**37**	**–**	**(440)**	**5,679**
At 31 December 2008	**(75)**	**(760)**	**–**	**–**	**(835)**
Average daily					
2009	**3,116**	**6**	**–**	**(224)**	**2,898**
2008	(404)	(529)	–	–	(933)
Minimum					
2009	**(4,406)**	**(9)**	**–**	**(43)**	**(4,458)**
2008	(2)	(174)	–	–	(176)
Maximum					
2009	**10,215**	**46**	**–**	**(515)**	**9,746**
2008	(794)	(1,851)	–	–	(2,645)

3.2.9 Operational risk

Operational risk refers to the loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank manages operational risk through its board approved Operational Risk Framework (ORF) consisting of the Operational Risk Policy (ORP) and the Operational Risk Committee (ORC), which has representation across all departments. The Bank utilises a Basel II compliant approach known as 'Operational Risk Self Assessment' (ORSA) process to assess, document and report the operational risks encountered in the course of normal business activity.

The ORC approves the ORSA annually and reviews operational risks faced by various functions in the Bank on a regular basis throughout the year to track the status of open risks and introducing appropriate controls wherever necessary. Furthermore both compliance and internal audit perform independent periodic reviews to assess adequacy of check and controls.

The Bank has documented Business Continuity Plan (BCP) and Disaster Recovery (DR) Plans. These documents outline the process to be followed in a disaster scenario. The BCP aims to establish the impact upon the Banks business activity of having to operate from a different site in the event of an emergency or natural disaster. This includes access to critical computer systems, connectivity to local area network, database servers, internet, intranet and e-mails etc. This is a well established process and takes place regularly throughout the year and its completion is signed off by all concerned departments to confirm tests were successfully carried out by them. In addition, from December 2008 the BCP and DR processes were independently audited by an external consultant in compliance with QCB requirements for banks.

Basic fire fighting training is provided to selected staff periodically with the assistance of Civil Defense Authority. An evacuation drill was also conducted as part of safety and security procedures.

notes to the
financial statements
31 December 2009

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.3 Summary of financial assets and financial liabilities per International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement

Financial assets such as balances with Qatar Central Bank (excluding cash), due from banks and other financial institutions, loans, advances and financing activities to customers, and certain other assets are reported at amortized cost.

Financial investments include 94% (2008: 26%) of investments reported at fair value and 6% (2008: 74%) of investments reported at amortized cost.

Financial assets and liabilities resulting from derivative financial instruments are reported at fair value.

All other financial liabilities are reported at amortized cost.

4. CASH AND BALANCES WITH QATAR CENTRAL BANK

	2009 QR '000	2008 QR '000
Cash	79,535	69,126
Cash reserve with Qatar Central Bank	619,397	577,177
Other balances with Qatar Central Bank	46,713	21,367
Total	**745,645**	**667,670**

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

	2009 QR '000	2008 QR '000
Current accounts	24,036	677,504
Placements	4,306,048	3,804,572
Loans	18,200	18,200
Total	**4,348,284**	**4,500,276**

Placements as at 31 December 2009 include QR Nil representing balances of the Islamic Branch held with Islamic banks and other financial institutions (2008: QR 537,818 thousand).

6. LOANS, ADVANCES AND FINANCING ACTIVITIES TO CUSTOMERS

a) By type

	31 December 2009 QR '000			31 December 2008 QR '000		
	Conventional	Islamic	Total	Conventional	Islamic	Total
Loans	8,819,911	1,827,320	10,647,231	8,818,953	1,542,619	10,361,572
Overdrafts	1,711,352	–	1,711,352	892,578	–	892,578
Bills discounted	44,836	–	44,836	24,968	–	24,968
Debt securities (iii)	65,163	38,087	103,250	254,812	42,889	297,701
Other advances	109,643	–	109,643	117,182	–	117,182
	10,750,905	**1,865,407**	**12,616,312**	**10,108,493**	**1,585,508**	**11,694,001**
Allowance for impairment	(206,948)	(2,308)	(209,256)	(146,940)	–	(146,940)
Net loans, advance and financing activities to customers	**10,543,957**	**1,863,099**	**12,407,056**	**9,961,553**	**1,585,508**	**11,547,061**

Notes:

(i) Interest in suspense of QR 48,861 thousand (2008: QR 33,738 thousand) is for the purposes of Qatar Central Bank regulation and is included in allowance for impairment.

(ii) Islamic financing activities to customers is carried at net of deferred profits of QR 96,459 thousand (2008: QR 120,459 thousand).

(iii) Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Bank reclassified certain financial assets from available-for-sale to loans and advances category. The Bank identified assets eligible under the amendments, for which at 1 July 2008, it had clear change of intent to hold for the foreseeable future rather than to exit in the short term. Under IAS 39 as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date.

The carrying value of the financial assets reclassified to loans and advances at 1 July 2008 was QR 304,555 thousand (31 December 2009: QR 103,250 thousand and 31 December 2008: QR 297,701 thousand) with the fair value at 31 December 2009 of QR 107,794 thousand (31 December 2008: QR 252,431 thousand). Unrealized fair value gains on reclassified financial assets available-for-sale that were not impaired, were recorded directly in equity. As of July 2008, such unrealized fair value gains recorded directly in equity amounted to QR 14,579 thousand.

As of the reclassification date, the effective interest rates on reclassified financial assets available-for-sale ranged from 4.12% to 6.46% with expected recoverable cash flows of QR 483,080 thousand.

If the reclassification had not been made, there would not have been any effect on the Bank's income statement for the year ended 31 December 2009 (2008: Nil). Also, as at 31 December 2009, the equity would have included QR 1,724 thousand (31 December 2008: QR 31,044 thousand) of unrealized fair value losses on the reclassified financial assets available-for-sale, which were not impaired.

Included in the above debt securities are fixed rate securities and floating rate securities amounting to QR 86,128 thousand and QR 17,122 thousand respectively (31 December 2008: QR 237,839 thousand and QR 59,862 thousand respectively).

6. LOANS, ADVANCES AND FINANCING ACTIVITIES TO CUSTOMERS (continued)

b) By industry sector and geographic region before allowance for impairment:

At 31 December 2009

	Loans QR '000	Overdrafts QR '000	Bills discounted QR '000	Debt securities QR '000	Other advances QR '000	Total QR '000	%
By industry sector							
Government	145,043	837,485	–	27,618	–	1,010,146	8.01%
Government agencies	469,380	19	–	–	–	469,399	3.72%
Industry/Manufacturing	385,994	15,915	1,691	20,423	240	424,263	3.36%
Commercial	3,578,642	180,866	–	–	104,976	3,864,484	30.63%
Services	858,439	242,579	3,370	17,122	70	1,121,580	8.89%
Contracting	969,988	76,179	16,419	–	1,566	1,064,152	8.43%
Real estate	1,921,007	11,199	–	38,087	–	1,970,293	15.62%
Personal	2,318,738	347,110	23,356	–	2,791	2,691,995	21.34%
Total	**10,647,231**	**1,711,352**	**44,836**	**103,250**	**109,643**	**12,616,312**	**100%**
By geographic region							
Qatar	9,999,701	1,709,070	44,836	58,510	109,643	11,921,760	94.49%
Other GCC Countries	564,905	2,282	–	17,122	–	584,309	4.63%
Others	82,625	–	–	27,618	–	110,243	0.88%
Total	**10,647,231**	**1,711,352**	**44,836**	**103,250**	**109,643**	**12,616,312**	**100%**

At 31 December 2008

	Loans QR '000	Overdrafts QR '000	Bills discounted QR '000	Debt securities QR '000	Other advances QR '000	Total QR '000	%
By industry sector							
Government	109,432	–	–	153,320	–	262,752	2.26%
Government agencies	500,789	–	–	–	–	500,789	4.28%
Industry/Manufacturing	360,542	13,673	–	84,518	–	458,733	3.92%
Commercial	2,940,951	282,884	19,099	–	3,732	3,246,666	27.76%
Services	843,851	227,338	5,504	16,974	22	1,093,689	9.35%
Contracting	840,399	118,639	–	–	5,857	964,895	8.25%
Real estate	1,605,139	10,951	–	42,889	–	1,658,979	14.19%
Personal	3,160,469	239,093	365	–	107,571	3,507,498	29.99%
Total	**10,361,572**	**892,578**	**24,968**	**297,701**	**117,182**	**11,694,001**	**100%**
By geographic region							
Qatar	9,619,964	892,578	24,968	186,541	117,182	10,841,233	92.70%
Other GCC Countries	607,256	–	–	16,974	–	624,230	5.4%
Others	134,352	–	–	94,186	–	228,538	1.9%
Total	**10,361,572**	**892,578**	**24,968**	**297,701**	**117,182**	**11,694,001**	**100%**

GCC countries comprise the members of the Gulf Co-operation Council being Kingdom of Bahrain, State of Kuwait, Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates.

6. LOANS, ADVANCES AND FINANCING ACTIVITIES TO CUSTOMERS (continued)

c) Age analysis of non-performing loans, advances and financing activities to customers:

Loans, advances and financing activities to customers which are past due over three months are considered to be non-performing. The age analysis of non-performing loans, advances and financing activities to customers is as follows:

	2009			
	3 months to 1 year QR '000	1 - 3 years QR '000	Over 3 years QR '000	Total QR '000
Gross non-performing loans, advances and financing activities to customers	67,010	114,089	53,595	234,694
Less: Allowance for impairment	(50,571)	(106,016)	(52,669)	(209,256)
Net non-performing loans, advances and financing activities to customers	**16,439**	**8,073**	**926**	**25,438**

	2008			
	3 months to 1 year QR '000	1 - 3 years QR '000	Over 3 years QR '000	Total QR '000
Gross non-performing loans, advances and financing activities to customers	41,933	62,500	54,630	159,063
Less: Allowance for impairment	(31,587)	(62,135)	(53,218)	(146,940)
Net non-performing loans, advances and financing activities to customers	**10,346**	**365**	**1,412**	**12,123**

The aggregate amount of gross non-performing loans, advances and financing activities to customers at 31 December 2009 represented 1.86% of total gross loans, advances and financing activities to customers (2008: 1.36%).

The fair value of collaterals held against the above impaired loans, advances and financing activities to customers was QR 16,812 thousand at 31 December 2009 (2008: QR 1,500 thousand).

d) The movement in allowance for impairment by major sectors is as follows:

	2009				2008			
Retail	Corporate QR '000	Real Estate QR '000	Total QR '000	Retail QR '000	Corporate QR '000	Real Estate QR '000	Total QR '000	QR '000
At 1 January	113,461	33,479	–	146,940	66,284	74,258	–	140,542
Add/(Less):								
Charge for the year	78,147	5,753	–	83,900	51,699	503	–	52,202
Recoveries during year	(14,515)	(7,069)	–	(21,584)	(4,522)	(41,282)	–	(45,804)
At 31 December	**177,093**	**32,163**	**–**	**209,256**	**113,461**	**33,479**	**–**	**146,940**
Individually impaired loans and advances								
Gross impaired loans, advances and financing activities to customers	181,302	53,392	–	234,694	125,214	33,849	–	159,063
Allowance for impairment	(177,093)	(32,163)	–	(209,256)	(113,461)	(33,479)	–	(146,940)
Net impaired loans, advances and financing activities to customers	**4,209**	**21,229**	**–**	**25,438**	**11,753**	**370**	**–**	**12,123**

7. FINANCIAL INVESTMENTS

	2009 QR '000	2008 QR '000
Available-for-sale investments (a)	479,592	177,789
Held to maturity investments (b)	32,760	494,745
Total	**512,352**	**672,534**

a) Available-for-sale investments

	2009			2008		
	Quoted QR '000	Unquoted QR '000	Total QR '000	Quoted QR '000	Unquoted QR '000	Total QR '000
Qatari Government debt securities	30,684	290,710	321,394	–	40,049	40,049
GCC Government debt securities	11,699	–	11,699	–	–	–
Other corporate debt securities	12,558	–	12,558	–	–	–
Managed funds	–	50,539	50,539	–	35,059	35,059
Mutual funds	–	–	–	–	6,350	6,350
Equity securities	62,402	21,000	83,402	75,331	21,000	96,331
Total	**117,343**	**362,249**	**479,592**	**75,331**	**102,458**	**177,789**

Included in the available-for-sale investments are equity securities with a fair value of QR 805 thousand at 31 December 2009 (2008: QR 1,025 thousand) restricted due to the Bank holding directorship in the investee company.

Included in the debt securities are fixed rate securities and floating rate securities amounting to QR 333,093 thousand and QR 12,558 respectively (2008: QR 40,049 thousand and Nil respectively).

b) Held to maturity investments

	2009			2008		
	Quoted QR '000	Unquoted QR '000	Total QR '000	Quoted QR '000	Unquoted QR '000	Total QR '000
Qatari Govt. debt securities	–	–	–	–	461,985	461,985
Other corporate debt securities	32,760	–	32,760	32,760	–	32,760
Total	**32,760**	**–**	**32,760**	**32,760**	**461,985**	**494,745**

All held to maturity investments are fixed rate securities. The fair value of the held to maturity investments at 31 December 2009 is QR 32,514 thousand (2008: QR 482,084 thousand).

8. PROPERTY, FURNITURE AND EQUIPMENT

At 31 December 2009

	Land and building QR'000	Lease hold improvements QR'000	Furniture and equipment QR'000	Vehicles QR'000	Work in progress QR'000	Total QR'000
Cost:						
At 1 January 2009	96,569	49,749	73,570	1,055	127	221,070
Additions during the year	–	3,492	6,382	–	–	9,874
Transfers	–	127	–	–	(127)	–
At 31 December 2009	**96,569**	**53,368**	**79,952**	**1,055**	**–**	**230,944**
Accumulated depreciation:						
At 1 January 2009	10,790	17,818	52,635	827	–	82,070
Depreciation charge during the year	2,605	9,057	8,698	30	–	20,390
At 31 December 2009	**13,395**	**26,875**	**61,333**	**857**	**–**	**102,460**
Net book value:						
At 31 December 2009	**83,174**	**26,493**	**18,619**	**198**	**–**	**128,484**

At 31 December 2008

	Land and building QR'000	Lease hold improvements QR'000	Furniture and equipment QR'000	Vehicles QR'000	Work in progress QR'000	Total QR'000
Cost:						
At 1 January 2008	85,014	38,622	60,563	1,055	4,412	189,666
Additions during the year	13,112	6,880	12,988	–	–	32,980
Transfers	–	4,247	38	–	(4,285)	–
Disposals during the year	(1,557)	–	(19)	–	–	(1,576)
At 31 December 2008	**96,569**	**49,749**	**73,570**	**1,055**	**127**	**221,070**
Accumulated depreciation:						
At 1 January 2008	8,713	10,648	45,394	705	–	65,460
Depreciation charge during the year	2,077	7,170	7,260	122	–	16,629
Relating to disposals	–	–	(19)	–	–	(19)
At 31 December 2008	**10,790**	**17,818**	**52,635**	**827**	**–**	**82,070**
Net book value:						
At 31 December 2008	**85,779**	**31,931**	**20,935**	**228**	**127**	**139,000**

notes to the
financial statements
31 December 2009

9. OTHER ASSETS

	2009 QR '000	2008 QR '000
Interest receivable	190,107	144,876
Profit receivable (Islamic)	51,508	41,696
Advances and deposits	35,587	29,015
Accounts receivable	8,998	2,135
Prepaid expenses	2,547	5,439
DSM clients receivable	2,212	43,871
Positive fair value of derivatives (Note 28)	318	23
Others	16,463	5,680
Total	**307,740**	**272,735**

10. DUE TO BANKS, QATAR CENTRAL BANK AND OTHER FINANCIAL INSTITUTIONS

	2009 QR '000	2008 QR '000
Balances due to Qatar Central Bank	55	–
Current accounts	160,009	33,437
Deposits	2,328,898	2,556,318
Certificates of deposit	1,238,204	900,238
Total	**3,727,166**	**3,489,993**

11. CUSTOMER DEPOSITS

a) By type

	2009			2008		
	Conventional QR '000	Islamic QR '000	Total QR '000	Conventional QR '000	Islamic QR '000	Total QR '000
Current and call accounts	1,829,684	28,602	1,858,286	1,794,732	241,370	2,036,102
Saving accounts	237,010	–	237,010	189,871	–	189,871
Term deposits	8,887,681	–	8,887,681	8,034,655	–	8,034,655
	10,954,375	**28,602**	**10,982,977**	**10,019,258**	**241,370**	**10,260,628**

The total amount of customer deposits pledged against loans and advances was QR 668,215 thousand at 31 December 2009 (2008: QR 337,859 thousand).

b) By sector

	2009 QR '000	2008 QR '000
Government	541,279	1,277,614
Government agencies	939,006	2,194,919
Retail	3,652,884	2,703,310
Corporate	5,849,808	4,084,785
Total	**10,982,977**	**10,260,628**

12. SUBORDINATED DEBT

	2009 QR '000	2008 QR '000
USD 50 million Subordinated Medium Term Notes	**182,000**	**182,000**

This represents the first tranche of the QR 800 million debt approved by the shareholders in their extraordinary general meeting (EGM) held on 18 March 2007. This debt, denominated in USD, will qualify as tier 2 capital and the Bank has obtained all the necessary approvals from the regulator. The terms of the issue are summarised below:

Date of maturity	December 27, 2017
Call date	December 27, 2012
Interest rate	3 month LIBOR + 168 bps
Interest reset date	January 29, 2010 and thereafter at quarterly intervals

13. OTHER LIABILITIES

	2009 QR '000	2008 QR '000
Interest payable	119,164	92,860
Deferred income	53,387	65,691
Accrued expenses	10,737	23,772
Other provisions (a)	23,591	22,241
Staff provident fund	11,260	11,198
Staff pension fund	1,171	1,931
Dividends payable	4,646	8,037
Bills payable	9,008	5,109
DSM clients payable	9,461	20,310
Negative fair value of derivatives (Note 28)	37,074	38,599
Others	36,657	85,868
Total	**316,156**	**375,616**

a) Other provisions

	2009				2008			
	Staff indemnity QR '000	Legal claims QR '000	Others QR '000	Total QR '000	Staff indemnity QR '000	Legal claims QR '000	Others QR '000	Total QR '000
At 1 January	14,893	4,756	2,592	22,241	11,868	4,756	2,301	18,925
Provision made during the year	3,368	–	142	3,510	3,159	–	291	3,450
	18,261	**4,756**	**2,734**	**25,751**	**15,027**	**4,756**	**2,592**	**22,375**
Payments made during the year	(2,160)	–	–	(2,160)	(134)	–	–	(134)
At 31 December	**16,101**	**4,756**	**2,734**	**23,591**	**14,893**	**4,756**	**2,592**	**22,241**

notes to the
financial statements
31 December 2009

14. UNRESTRICTED INVESTMENT ACCOUNTS

	2009 QR '000	2008 QR '000
Saving accounts	28,248	78,453
Term deposits	1,260,439	1,772,203
Total	**1,288,687**	**1,850,656**

15. EQUITY

a) Share capital

	2009 QR '000	2008 QR '000
Authorised		
Shares of QR 10 each	**613,184**	**583,984**

	Number of shares thousand	QR '000
Issued and fully paid		
At 1 January 2008	50,781	507,812
Bonus issue on 24 March 2008	7,617	76,172
At 1 January 2009	**58,398**	**583,984**
Issue of new shares on 2 March 2009	2,920	29,200
At 31 December 2009	**61,318**	**613,184**

On 2 March 2009, the Bank issued 2,919,922 ordinary shares by way of a private placement to Qatar Investment Authority, in accordance with a resolution of the shareholders in their Extra-ordinary General Meeting held on 23 December 2008. The resolution approved the issue of equity shares up to 20% of the authorized capital of the Bank to Qatar Investment Authority at QR 55 per share, representing the closing price of the Bank's shares in the Doha Securities Market on 12 October 2008.

In accordance with the Qatar Commercial Companies' Law No. 5 of 2002 and applicable provisions of Qatar Central Bank regulations, the share premium amounting to QR 131,397 thousand, representing the difference between the proceeds received and the nominal value of new shares issued were credited to the statutory reserve.

Ahli United Bank B.S.C., Bahrain holds 38.1% of the ordinary shares of the Bank with the remaining shares held by Qatar Investment Authority (4.8%) and members of the public (57.1%).

b) Advance against share capital

On 30 December 2009, the Bank received QR 160,596 thousand as advance against share capital for 2,919,922 ordinary shares to be issued by way of a private placement to Qatar Investment Authority, in accordance with the resolution of the shareholders in their Extra-ordinary General Meeting held on 23 December 2008. The allotment to share capital will be executed after obtaining approvals from the Ministry of Commerce.

c) Statutory reserve

In accordance with the Bank's Articles of Association, 10% (2008: 10%) 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 with the approval of Qatar Central Bank. As the statutory reserve is already in excess of the minimum required amount, no transfers have been made from the current year's profits.

15. EQUITY (continued)

d) Risk reserve

In accordance with Qatar Central Bank rules and regulations, a risk reserve is made to cover contingencies on the loans, advances and financing activities to customers with a minimum requirement of 1.5% (2008: 1.5%) of the total direct credit facilities granted by the Bank and its branches inside and outside Qatar, after deduction of any allowance for impairment and deferred profits, with the exception of credit facilities granted to Qatar government and government establishments, collateralized credit and credit facilities granted against cash deposits. As the risk reserve is already in excess of the minimum required amount, no transfers have been made from the retained earnings in 2009.

e) Fair value reserve

	2009			2008		
	Available-for-sale investments QR '000	Cash flow hedges QR '000	Total QR '000	Available-for-sale investments QR '000	Cash flow hedges QR '000	Total QR '000
At 1 January	27,114	(25,012)	2,102	213,635	(3,850)	209,785
Realised during the year	(23,325)	–	(23,325)	(65,361)	–	(65,361)
Net movement in unrealised fair values during the year	917	6,645	7,562	(119,317)	(21,162)	(140,479)
Amortised during the year on reclassification to loans and receivables	(1,761)	–	(1,761)	(1,843)	–	(1,843)
At 31 December	**2,945***	**(18,367)**	**(15,422)**	**27,114***	**(25,012)**	**2,102**

* Includes QR 1,765 thousand (2008: QR 14,226 thousand – positive fair value reserve) relating to unamortised portion of negative fair value reserve on financial investments available-for-sale transferred to loans and receivables.

The fair value reserve includes a negative fair value of QR 22,122 thousand (2008: QR 29,913 thousand). The appropriation of profits will be restricted to the extent of the above negative fair value.

f) Proposed dividend

A cash dividend of QR 5 per share amounting to QR 306,592 thousand has been proposed by the Board of Directors for the year ended 31 December 2009 (2008: QR 5 per share totaling to QR 291,992 thousand).

The above proposed cash dividend is subject to the approval of the shareholders in their Annual General Meeting.

During the year, the Bank has paid an amount of QR 5 per share totaling to QR 291,992 thousand (2008: QR 2 per share totaling to QR 101,562 thousand as cash dividend for the year 2007) as cash dividend for the year 2008.

16. INTEREST INCOME

	2009 QR '000	2008 QR '000
Balances with Qatar Central Bank	52,418	10,102
Due from banks and other financial institutions	9,686	44,523
Debt securities	35,876	34,797
Loans and advances to customers	784,892	784,504
Total	**882,872**	**873,926**

notes to the
financial statements
31 December 2009

17. INTEREST EXPENSE

	2009 QR '000	2008 QR '000
Balances with Qatar Central Bank	9,381	22
Due to banks and other financial institutions	54,017	92,708
Customer deposits	526,591	482,530
Total	**589,989**	**575,260**

18. FEE AND COMMISSION INCOME

	2009 QR '000	2008 QR '000
Loans and advances and financing activities to customers	79,414	80,296
Indirect credit facilities	28,941	26,132
Banking services	7,932	3,209
Commission on investment activities for customers	4,160	14,545
Others	8,474	6,704
Total	**128,921**	**130,886**

Included in the fee and commission income is QR 7 thousand (2008: QR 384 thousand) on account of fee income relating to trust and other fiduciary activities.

19. DIVIDEND INCOME

	2009 QR '000	2008 QR '000
Available-for-sale investments	**3,347**	**11,939**

20. NET GAIN FROM DEALING IN FOREIGN CURRENCIES

	2009 QR '000	2008 QR '000
Gain (loss) from dealing in foreign currencies	19,992	(996)
Gain from revaluation of assets and liabilities	609	7,634
Total	**20,601**	**6,638**

21. NET GAIN ON FINANCIAL INVESTMENTS AND DERIVATIVES

	2009 QR '000	2008 QR '000
Net gain on sale of available-for-sale investments	23,325	65,361
Net gain (loss) on interest rate swaps held for trading	1,215	(12,434)
Total	**24,540**	**52,927**

22. INCOME FROM ISLAMIC FINANCING AND INVESTING ACTIVITIES (NET)

	2009 QR '000	2008 QR '000
Murabaha	54,541	49,103
Ijarah	75,242	53,041
Other	3,018	15,606
Total	**132,801**	**117,750**

23. OTHER OPERATING INCOME

	2009 QR '000	2008 QR '000
Recoveries of loans previously written off	1,917	10,499
Rental income	2,700	2,700
Gain on disposal of property, furniture & equipment	–	7,914
Others	389	2,694
Total	**5,006**	**23,807**

24. GENERAL AND ADMINISTRATIVE EXPENSES

	2009 QR '000	2008 QR '000
Staff costs	81,683	76,232
Marketing and advertising expenses	4,587	8,855
Communication, utilities and insurance	10,374	5,153
Director's remuneration	4,000	5,000
Rent and maintenance	9,593	7,497
Staff indemnity costs	3,368	3,159
Legal and professional fees	2,831	1,609
Printing and stationery	2,361	1,710
IT maintenance	3,708	2,673
Others	17,427	18,827
Total	**139,932**	**130,715**

25. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of shares in issue during the year.

	2009	2008
Profit for the year – QR '000	**300,515**	**425,781**
Weighted average number of shares	**60,838,373**	**58,398,438**
Basic and diluted earnings per share (in QR)	**4.94**	**7.29**
The weighted average number of shares has been calculated as follows:		
Qualifying shares at the beginning of the year	58,398,438	58,398,438
Effect of new share issue on 2 March 2009	2,439,935	–
Total	**60,838,373**	**58,398,438**

There were no potentially dilutive shares outstanding at any time during the year, therefore, the diluted earnings per share is equal to the basic earnings per share.

notes to the
financial statements
31 December 2009

26. CONTINGENT LIABILITIES, GUARANTEES AND OTHER COMMITMENTS

a) Contingent liabilities

	2009 QR '000	2008 QR '000
Acceptances	44,677	53,444
Guarantees	1,470,637	1,776,992
Letters of credit (import and export)	384,260	856,549
	1,899,574	**2,686,985**

b) Commitments and other contingencies

	2009 QR '000	2008 QR '000
Unused credit facilities	3,255,574	2,595,959
Interest rate swaps	601,245	535,492
Forward foreign exchange contracts	1,706,395	216,308
Legal claims	23,793	99,435
Other commitment	17,412	23,217
	5,604,419	**3,470,411**
Total	**7,503,993**	**6,157,396**

Unused credit facilities

Commitments to extend credit represent contractual commitments to fund loans and revolving credits. Commitments generally have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. The commitments generally have expiry dates of less than one year.

Legal claims

At the end of the financial year 2009, the Bank has allocated provisions of QR 4,756 thousand to meet probable legal claims against the Bank (2008: QR 4,756 thousand). In the opinion of the Board of Directors, the provisions taken are considered sufficient.

Acceptances, guarantees and letters of credit

Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract. Guarantees and standby letters of credit carry the same risk as loans. Credit guarantees can be in the form of irrevocable letters of credits, advance payment guarantees and endorsements liabilities from bills rediscounted.

Other commitment

This represents the contractual commitment on the purchase of a plot of land. As at the statement of financial position date, the land is still under development and the Bank has approximately 33.75 % of the commited value payable in 9 quarterly instalments.

27. GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

At 31 December 2009	Qatar QR '000	GCC Countries QR '000	Europe QR '000	Others QR '000	Total QR '000
Cash and balances with Qatar Central Bank	745,645	–	–	–	745,645
Due from banks and other financial institutions	4,240,000	20,230	9,980	78,074	4,348,284
Loans, advances and financing activities to customers	11,712,504	584,309	46,214	64,029	12,407,056
Financial investments	376,080	69,897	4,899	61,476	512,352
Property, furniture and equipment	128,484	–	–	–	128,484
Other assets	307,740	–	–	–	307,740
Total assets	**17,510,453**	**674,436**	**61,093**	**203,579**	**18,449,561**
Due to banks, Qatar Central Bank and other financial institutions	2,461,627	1,003,987	36,803	224,749	3,727,166
Customer deposits	10,264,645	714,642	–	3,690	10,982,977
Subordinated debt	–	182,000	–	–	182,000
Other liabilities	316,156	–	–	–	316,156
Unrestricted investment accounts	1,288,687	–	–	–	1,288,687
Equity	1,952,575	–	–	–	1,952,575
Total liabilities and equity	**16,283,690**	**1,900,629**	**36,803**	**228,439**	**18,449,561**

At 31 December 2008	Qatar QR '000	GCC Countries QR '000	Europe QR '000	Others QR '000	Total QR '000
Cash and balances with Qatar Central Bank	667,670	–	–	–	667,670
Due from banks and other financial institutions	3,095,183	517,437	143,049	744,607	4,500,276
Loans, advances and financing activities to customers	10,694,293	624,230	–	228,538	11,547,061
Financial investments	576,044	25,874	6,473	64,143	672,534
Property, furniture and equipment	139,000	–	–	–	139,000
Other assets	272,735	–	–	–	272,735
Total assets	**15,444,925**	**1,167,541**	**149,522**	**1,037,288**	**17,799,276**
Due to banks, Qatar Central Bank and other financial institutions	2,336,820	983,614	42,838	126,721	3,489,993
Customer deposits	10,205,760	52,398	–	2,470	10,260,628
Subordinated debt	–	182,000	–	–	182,000
Other liabilities	375,616	–	–	–	375,616
Unrestricted investment accounts	1,850,656	–	–	–	1,850,656
Equity	1,640,383	–	–	–	1,640,383
Total liabilities and equity	**16,409,235**	**1,218,012**	**42,838**	**129,191**	**17,799,276**

notes to the
financial statements
31 December 2009

28. DERIVATIVES

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

These include financial options, futures and forwards, interest rate swaps and currency swaps, which create rights and obligation that have the effect of transferring between the parties of the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, a derivative financial instrument gives one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instruments, as prices in financial markets change, those terms may become either favourable or unfavourable.

The table below shows the fair values of derivative financial instruments together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at period-end and are neither indicative of the market risk nor credit risk.

	2009			Principal value at maturity		
	Positive fair value QR '000	Negative fair value QR '000	Notional amount QR '000	Within 3 months QR '000	3-12 Months QR '000	1-5 Years QR '000
Derivatives held for trading:						
– Interest rate swaps*	–	(10,562)	109,200	–	–	109,200
– Forward foreign exchange contracts	318	(7,001)	1,706,395	1,703,669	1,558	1,168
	318	**(17,563)**	**1,815,595**	**1,703,669**	**1,558**	**110,368**
Derivatives held as cash flow hedges:						
– Interest rate swaps	–	(18,367)	349,299	–	5,579	343,720
Derivatives held as fair value hedges:						
– Interest rate swaps	–	(1,144)	142,746	–	–	142,746
Total	**318**	**(37,074)**	**2,307,640**	**1,703,669**	**7,137**	**596,834**

	2008			Principal value at maturity		
	Positive fair value QR '000	Negative fair value QR '000	Notional amount QR '000	Within 3 months QR '000	3-12 Months QR '000	1-5 Years QR '000
Derivatives held for trading:						
– Interest rate swaps*	–	(13,582)	109,200	–	–	109,200
– Forward foreign exchange contracts	23	(5)	216,308	–	216,308	–
	23	**(13,587)**	**325,508**	**–**	**216,308**	**109,200**
Derivatives held as cash flow hedges:						
– Interest rate swaps	–	(25,012)	426,292	–	–	426,292
Total	**23**	**(38,599)**	**751,800**	**–**	**216,308**	**535,492**

* These interest rate swap deals were originally intended to be hedge instruments qualifying under IAS 39. However, due to ineffective hedging relationship between the hedge instruments and the hedged items, these have been treated as derivatives held for trading.

28. DERIVATIVES (continued)

Cash flow hedges

A schedule of forecast principal balances on which the expected interest cash flows arise and the expected impact on the income statement are as follows:

	3 months or less QR '000	More than 3 months but less than 1 year QR '000	More than 1 year but less than 5 years QR '000	Total QR '000
At 31 December 2009				
Cash inflows from assets	375	970	13,761	15,106
Income statement	(4,006)	(6,205)	(8,156)	(18,367)
At 31 December 2008				
Cash inflows from assets	1,205	3,480	18,089	22,774
Income statement	(2,318)	(6,217)	(16,477)	(25,012)

No hedge ineffectiveness on cash flow hedges was recognised in 2009 (2008: Nil).

Derivative product types

Forwards exchange contracts are contractual agreements to either buy or sell a specified currency at a specific price and date in the future. Forwards exchange contracts are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Derivatives held for trading purposes

Most of the Bank's derivative trading activities relate to customer driven transactions as well as positioning and arbitrage. Positioning involves managing positions with the expectation of profiting from favorable 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.

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate movements. This is achieved by hedging specific financial instruments and forecasted transactions, as well as strategic hedging against overall statement of financial position exposures.

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

Hedging of interest rate risk is also carried out by monitoring the duration of assets and liabilities and entering into interest rate swaps to hedge net interest rate exposures. Since hedging of net positions does not qualify for special hedge accounting, related derivatives are accounted for the same way as trading instruments.

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

31 December 2009	Level 1 QR '000	Level 2 QR '000	Level 3 QR '000	Total QR '000
Financial assets				
Derivatives - Forward contracts	–	318	–	318
Financial investments	106,406	352,186	–	458,592
Total	**106,406**	**352,504**	**–**	**458,910**
Financial liabilities				
Derivatives - Forward contracts	–	7,001	–	7,001
Interest rate swaps	–	30,073	–	30,073
Total	**–**	**37,074**	**–**	**37,074**

During the year ending 31 December 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Financial investments in Level 2 above include Qatar Government Bonds amounting to QR 290,710 thousand, which were issued in lieu of sale of real estate loans and DSM equity investments to the Government of Qatar.

The fair value of the following financial instruments approximate their carrying values:

Financial assets

- Cash and balances with Qatar Central Bank
- Due from banks and other financial institutions
- Loans, advances and financing activities to customers
- Financial investments

Financial liabilities

- Due to banks, Qatar Central Bank and other financial institutions
- Customer deposits
- Subordinated debt
- Unrestricted investment accounts

The fair value of held to maturity investments at 31 December 2009 is QR 32,514 thousand (2008: QR 482,084 thousand).

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to call accounts, demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

30. FIDUCIARY ACTIVITIES

The Bank provides investment brokerage and custody services to customers. Those assets that are held in a fiduciary capacity are excluded from these financial statements and amount to QR 749,774 thousand at 31 December 2009 (2008: QR 1,051,973 thousand).

31. RELATED PARTY DISCLOSURES

The Bank enters into transactions with major shareholders, directors and key management personnel of the Bank, and entities controlled, jointly controlled, or significantly influenced by such parties. All the loans, advances and financing activities to related parties are given at market rates and these are performing and free of any allowance for possible credit losses.

The balances of related parties included in the financial statements are as follows:

	2009		2008	
	Directors QR '000	Shareholders QR '000	Directors QR '000	Shareholders QR '000
Assets				
Loans, advances and financing activities to customers	208,212	–	222,642	–
Due from banks and other financial institutions	–	–	–	6,559
Financial investments	–	66,264	–	16,364
Liabilities				
Customer deposits	455,518	–	267,595	–
Due to banks, Qatar Central Bank and other financial institutions	–	463,382	–	581,169
Off balance sheet items				
Letters of guarantee, letters of credit, commitments and indirect credit facilities	8,503	–	8,505	–
Interest rate swaps	–	601,245	–	535,492
Income statement				
Interest and fee and commission income	5,162	363	10,626	809
Interest and fee and commission expense	2,415	13,195	5,156	9,046

Management fees due to Ahli United Bank B.S.C, Bahrain for the year amounted to QR 9,294 thousand (2008: QR 12,750 thousand). These fees are included in general and administrative expenses.

Board of Directors remuneration charged to the income statement for the year amounted to QR 4,000 thousand (2008: QR 5,000 thousand).

Compensation of key management personnel is as follow:

	2009 QR '000	2008 QR '000
Salaries and other short term benefits	11,023	14,948
Staff indemnity	2,967	2,320
Total	**13,990**	**17,268**

notes to the
financial statements
31 December 2009

32. CASH AND CASH EQUIVALENTS

	2009 QR '000	2008 QR '000
Cash and balances with Qatar Central Bank (a)	126,248	90,493
Balances with banks and other financial institutions maturing in 3 months or less	4,330,084	4,482,076
Total	**4,456,332**	**4,572,569**

(a) Cash and balances with Qatar Central Bank does not include mandatory reserve deposit.

33. CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by Qatar Central Bank. The following table summarises the capital adequacy of the Bank under Basel-II requirements:

	2009 QR '000	2008 QR '000
Tier 1 capital	1,442,721	1,127,605
Tier 2 capital	311,031	316,848
Tier 1 + Tier 2 capital	**1,753,752**	**1,444,453**
Credit risk	10,265,192	11,050,201
Market risk	414,092	276,588
Operational risk	876,918	701,535
Total risk weighted assets	**11,556,202**	**12,028,324**
Basel II-Tier 1 Ratio	12.5%	9.4%
Basel II-Tier 1 + Tier 2 Ratio	15.2%	12.0%

Tier 1 capital includes issued capital, advance against share capital, statutory reserve, other reserves and retained earnings.

Tier 2 capital includes risk reserve, subordinated debt and 45% of the fair value reserves.

The minimum required capital adequacy ratio is 10% under Qatar Central Bank requirements and 8% under Basel Committee on Banking Supervision requirements.

34. SEGMENT INFORMATION

For management purposes, the Bank is organised into three major operating segments:

Retail and private banking and wealth managementPrincipally handling individual customers' deposit and current accounts, providing consumer loans, residential mortgages, overdrafts, credit cards and fund transfer facilities. Private banking and wealth management represents servicing high net worth individuals through a range of investment products, funds, credit facilities, trusts and alternative investments.

Corporate banking, treasury and investmentsPrincipally handling loans and other credit facilities, and deposit and current accounts for corporate and institutional customers and providing money market, trading and treasury services, as well as management of the Bank's funding.

Islamic bankingPrincipally handling individual and corporate and institutional customers' deposits, current accounts, financing and investing activities etc., under Islamic Shari'a rules and regulations.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

Transactions between the segments, except Islamic banking, are conducted at approximate market rates on an arm's length basis and the interest is charged/credited based on a pool rate which approximates the cost of funds. Transactions between Islamic banking and the other business segments are restricted and carried out under Islamic Shari'a rules and regulations and subject to Shari'a Board approval.

Segment information for the year ended 31 December 2009 and 2008 are as follows:

31 December 2009	Retail & private banking and wealth management QR '000	Corporate banking, treasury and investments QR '000	Islamic banking QR '000	Total QR '000
Net interest income	154,567	138,316	–	292,883
Net profit income from Islamic activities	–	–	132,801	132,801
Other income	38,493	134,920	8,267	181,680
Total operating income	**193,060**	**273,236**	**141,068**	**607,364**
Provisions	(44,945)	(2,238)	(2,025)	(49,208)
Unrestricted investment account holders' share in the profit	–	–	(97,319)	(97,319)
Net operating income	**148,115**	**270,998**	**41,724**	**460,837**
General and administrative expenses	(74,817)	(56,744)	(8,371)	(139,932)
Depreciation	(9,398)	(10,157)	(835)	(20,390)
Profit for the year	**63,900**	**204,097**	**32,518**	**300,515**
Total assets	**3,479,861**	**13,000,927**	**1,968,773**	**18,449,561**
Total liabilities	**5,013,621**	**9,636,873**	**1,846,492**	**16,496,986**

34. SEGMENT INFORMATION (continued)

31 December 2008	Retail & private banking and wealth management QR '000	Corporate banking, treasury and investments QR '000	Islamic banking QR '000	Total QR '000
Net interest income	164,932	133,734	–	298,666
Net profit income from Islamic activities	–	–	117,750	117,750
Other income	50,867	171,073	2,844	224,784
Total operating income	**215,799**	**304,807**	**120,594**	**641,200**
(Provisions)/Recoveries	(29,963)	21,081	(162)	(9,044)
Unrestricted investment account holders' share in the profit	–	–	(59,031)	(59,031)
Net operating income	**185,836**	**325,888**	**61,401**	**573,125**
General and administrative expenses	(89,181)	(30,888)	(10,646)	(130,715)
Depreciation	(7,934)	(8,191)	(504)	(16,629)
Profit for the year	**88,721**	**286,809**	**50,251**	**425,781**
Total assets	**3,679,861**	**11,926,343**	**2,193,072**	**17,799,276**
Total liabilities	**3,777,747**	**10,272,410**	**2,108,736**	**16,158,893**

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2009 or 2008.

Intra-group transactions are eliminated from this segmental information.

notes to the financial statements

31 December 2009

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS

Islamic Banking

The statement of financial position and income statement of the Bank's Islamic Branch are presented below:

(i) Statement of financial position at 31 December 2009

	2009 QR '000	2008 QR '000
Assets		
Cash in hand	3,382	1,835
Balances and investments with banks and other financial institutions	–	537,818
Receivable balances from financing activities	1,827,320	1,542,619
Financial investments	68,680	65,297
Property, furniture and equipment	2,118	3,341
Other assets	67,273	42,162
Total assets	**1,968,773**	**2,193,072**
Liabilities		
Current accounts with banks and other financial institutions	511,218	101
Customer deposits	28,602	241,370
Other liabilities	17,985	16,609
	557,805	**258,080**
Unrestricted investment accounts	1,288,687	1,850,656
Total liabilities	**1,846,492**	**2,108,736**
Equity		
Capital	18,200	18,200
Fair value reserve	(116)	(5,536)
Retained earnings	71,679	21,421
Unappropriated profit	32,518	50,251
Total equity	**122,281**	**84,336**
Total liabilities and equity	**1,968,773**	**2,193,072**

(ii) Income statement for the year ended 31 December 2009

	2009 QR '000	2008 QR '000
Net income from financing activities	129,783	102,144
Net income from investing activities	3,018	15,606
Total income from financing and investing activities	**132,801**	**117,750**
Fee and other operating income	7,509	2,632
Net gain from dealing in foreign currencies	758	212
Provision for credit losses on receivables	(2,025)	(162)
Net operating income	**139,043**	**120,432**
General and administrative expenses	(8,371)	(10,646)
Depreciation	(835)	(504)
Net profit for the year before the share of profit of unrestricted investment account holders	**129,837**	**109,282**
Less: Share of profit of unrestricted investment account holders	(97,319)	(59,031)
Net profit for the year due to shareholders	**32,518**	**50,251**

inside back cover

البنك الأهلي ش.م.ق

ahlibank QSC

Suhaim Bin Hamad Street, Al Sadd Area
P. O. Box 2309, Doha, Qatar
Tel : (+974) 423 2222, Fax : (+974) 444 4652
www.ahlibank.com.qa