



Report of the Board of Directors for the year 2008

In the Name of Allah, the Most Gracious, the Most Merciful

Respected Shareholders,

It is my pleasure to present on behalf of the Board of Directors, our annual report for the year ending December 31st 2008. The report will briefly review the financial results achieved during 2008, achievements in different areas and what we intend to achieve with, the God's blessings and your support, in 2009.

Last year 2008 has witnessed net profit of QR 425.8 million with an increase of 40.7% compared to 2007. The bank assets have increased from QR 15.6 billion to QR 17.8 billion with an increase of 14%. The return on average equity has increased from 24.6% to 26% and the earning per share has increased from QR 5.18 to QR 7.29. These satisfying figures come as a result of the effort and hard work put in to upgrade and develop the work methodology and as a result of the new products and services offered to our clients.

At the internal level, new measures were adopted to modernize systems and procedures. Last year saw the introduction of advanced banking services like online banking, SMS banking, along with the installation of Centralized Automated Back up System for Data Protection, the credit card analysis system and drafting of strategic plans for business continuity and disaster recovery in accordance with the international standards and the instructions of Qatar Central Bank. The bank is continuously reviewing the credit and investment policy and amending it wherever necessary eg: Real estate loans policy, for individual. At the same time it maintained its branch network expansion by opening eight new branches, two of which are Islamic, bringing the total number of branches to 19 by the end of 2008. There was also an increase in the ATM network, which grew from 28 to 38 by the end of 2008.

The recent endeavors were directed towards increasing the efficiency of the bank, in order to offer better products and services to customers.

A review of clause No (71) of the Article of Association decreased the percentage of the statutory reserve from 20 to 10% to comply with Qatar Companies and Qatar Central Bank's laws. This amendment would have direct impact on the distribution of profit. Your General Assembly approved this amendment during its meeting held on 24th December 2008, and Qatar Central Bank approval was obtained.

It is my pleasure also to announce that the accomplishments of the bank have been positively evaluated by the external auditors who were satisfied with the bank's financial performance during 2008. Their report showed the bank's performance to be free from short comings. At the international level, both Capital Intelligence and Fitch have upgraded ABQ's rating to rate (A-) in September 2008.

We now look to the future with confidence and optimism and aim to achieve positive results at all levels in 2009. We plan to increase our network by opening three new branches and to activate and enhance the already existing ones. Furthermore we intend to offer even better products and services while taking into consideration the international financial crisis. We plan on continuing to provide superior service to our customers while minimizing cost & expenditure.

The last fiscal year also witnessed two major events.

Firstly: The financial crisis, which affected many financial institutions and had a negative effect on several economies hasn't, fortunately affected Qatar mainly due to our strong national economy and the financial policies pursued by our country. We

would also like to reassure our shareholders and clients that the performance of the bank during the crisis was quite satisfying as a result of our commitment to policies that focused on increasing profits and avoiding risks. In addition to focusing most of the attention on funding projects inside Qatar, we would also like to mention here that the management of the bank, supported by the Board of Directors, adopted procedures and policies that enabled the bank to overcome the negative effects of the financial crisis with the end of 2008. Complete review of the shares portfolio and the country and Banks' Limits, with whom we are dealing, have been done to avoid any possible losses.

Secondly: The decision of the government that Qatar Investment Authority participate in the equity capital of the Qatari banks by buying 20% of its Shares in two phases in order to reinforce the Qatari banks role in supporting the unprecedented economic development witnessed by the country. This would also protect the banking sector from any negative repercussions resulting from the financial crisis which took its toll during the second half of last year. This decision was welcomed and blessed by you all in the extraordinary assembly meeting held last year in December.

I take great pleasure to announce that the Qatar Investment Organization has already started implementing this plan and banks including ABQ, started to receive the first portion of the decided percentage. We have received QR 160,595,840 in the form of 2,919,922 shares from the Qatar Investment Authority.

Based on the satisfying results achieved by the bank, I would like to recommend to your esteemed assembly for approval, the following profit distribution:

- 50% in cash (at the rate of QR 5 per share).
- QR 5 million as remuneration for the members of the Board of Directors.

Finally, I'm pleased to extend on your behalf and on behalf of all of our clients and employees our thanks and gratitude to H.H. Sheikh Hamad Bin Khalifa Al Thani, Emir of the State of Qatar and H.H. Sheikh Tamim Bin Hamad Bin Khalifa Al Thani, the Heir Apparent for their guidance and policies, which ensured our country growth in all aspects, and for their generous and continuous support for the banking institutions and for allowing them to play positive roles in the economic and social progress of our beloved country.

I would like to extend my gratitude to H.E. the Prime Minister, H.E. the Minister of Business and Trade and H.E. Sheikh Abdullah Bin Saud Al Thani, Governor of Qatar Central Bank, and his deputy H.E. Sheikh Fahad Bin Faisal Al Thani and all officials of the Central Bank for their cooperation and support. Also I extend my gratitude to AUB, our strategic partner, and thanks to our esteemed clients for their confidence in the bank. We thank also the executive management and all banks' employees for their continued efforts.

Special thanks are due to Mr. Bassel Gamal for his leadership as CEO during the last three years, during which the bank achieved positive results and maintained continuous growth. At the same time I would like to take this opportunity to welcome his successor Mr. Salah Murad and wish him the every success.

I pray to Almighty God for success and blessing to our endeavors to offer the best services and products to our esteemed clients.

God Bless the leadership and the people of Qatar.

Ahmed Bin Abdulrahman Al Mana
Chairman



Independent Auditors' Report

to the Shareholders of Ahlibank Q.S.C.

Report on the Financial Statements

We have audited the accompanying financial statements of Ahlibank Q.S.C. ("the Bank") which comprises the balance sheet as at 31 December 2008, and the statements of income, cash flows and 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 for 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 the 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 2008 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 2008 that would materially affect its activities or financial position.

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

19 January 2009
Doha, Qatar



Balance Sheet

as at 31 December 2008

	Notes	2008 QR '000	2007 QR '000
ASSETS			
Cash and balances with Qatar Central Bank	4	667,670	470,566
Due from banks and other financial institutions	5	4,500,276	3,285,049
Loans, advances and financing activities to customers	6	11,547,061	10,105,785
Financial investments	7	672,534	1,358,115
Property, furniture and equipment	8	139,000	124,206
Other assets	9	272,735	232,660
Total Assets		17,799,276	15,576,381
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks, Qatar Central Bank and other financial institutions	10	3,489,993	1,955,160
Customer deposits	11	10,260,628	10,503,900
Subordinated debt	12	182,000	182,000
Other liabilities	13	375,616	421,135
		14,308,237	13,062,195
Unrestricted investment accounts	14	1,850,656	990,339
Total Liabilities		16,158,893	14,052,534
SHAREHOLDERS' EQUITY			
Share capital	15	583,984	507,812
Statutory reserve	15	513,135	470,557
Risk reserve	15	218,684	147,104
Fair value reserve	15	2,102	209,785
Proposed issue of bonus shares	15	–	76,172
Proposed dividend	15	291,992	101,562
Retained earnings		30,486	10,855
Total Shareholders' Equity		1,640,383	1,523,847
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		17,799,276	15,576,381

Ahmed Bin Abdulrahman Al Mana
Chairman

Hamad Al Marzouq
Deputy Chairman

Bassel Gamal Aly
Chief Executive Officer

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



Income Statement

for the year ended 31 December 2008

	Notes	2008 QR '000	2007 QR '000
Interest income	16	873,926	793,282
Interest expense	17	(575,260)	(529,600)
NET INTEREST INCOME		298,666	263,682
Fee and commission income	18	130,886	107,558
Fee and commission expense		(1,413)	(2,974)
NET FEE AND COMMISSION INCOME		129,473	104,584
Dividend income	19	11,939	12,770
Net gain from dealing in foreign currencies	20	6,638	15,402
Net gain on financial investments and derivatives	21	52,927	11,151
Income from Islamic financing and investing activities (net)	22	117,750	35,993
Other operating income	23	23,807	15,080
		213,061	90,396
NET OPERATING INCOME		641,200	458,662
General and administrative expenses	24	(130,715)	(125,931)
Depreciation	8	(16,629)	(11,856)
Impairment loss on available for sale investments		(3,259)	(150)
(Provisions) recoveries for credit losses on loans and advances		(5,785)	1,300
Provisions relating to legal claims	13	–	(9,000)
Unrestricted investment account holders' share in the profit		(59,031)	(10,373)
PROFIT FOR THE YEAR		425,781	302,652
EARNINGS PER SHARE			
Basic and diluted – (QR)	25	7.29	5.18

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



Statement of Changes in Equity

for the year ended 31 December 2008

	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
Bonus shares issued (Note 15e)	76,172	-	-	-	(76,172)	-	-	-
	583,984	470,557	147,104	209,785	-	101,562	10,855	1,523,847
Transfer to risk reserve during the year (Note 15c)	-	-	71,580	-	-	-	(71,580)	-
Net movements in cumulative changes in fair value during the year (Note 15d)	-	-	-	(207,683)	-	-	-	(207,683)
Total changes recognised directly in equity	-	-	71,580	(207,683)	-	-	(71,580)	(207,683)
Profit for the year	-	-	-	-	-	-	425,781	425,781
Total recognised income and expense for the year	-	-	71,580	(207,683)	-	-	354,201	218,098
Dividend paid (Note 15e)	-	-	-	-	-	(101,562)	-	(101,562)
Transfer to statutory reserve (Note 15b)	-	42,578	-	-	-	-	(42,578)	-
Proposed dividend (Note 15e)	-	-	-	-	-	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.

Statement of Changes in Equity

for the year ended 31 December 2008

	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 2007	406,250	410,027	76,994	110,122	101,562	60,938	16,577	1,182,470
Bonus shares issued (Note 15e)	101,562	-	-	-	(101,562)	-	-	-
	507,812	410,027	76,994	110,122	-	60,938	16,577	1,182,470
Transfer to risk reserve during the year (Note 15c)	-	-	70,110	-	-	-	(70,110)	-
Net movements in cumulative changes in fair value during the year (Note 15d)	-	-	-	99,663	-	-	-	99,663
Total changes recognised directly in equity	-	-	70,110	99,663	-	-	(70,110)	99,663
Profit for the year	-	-	-	-	-	-	302,652	302,652
Total recognised income and expense for the year	-	-	70,110	99,663	-	-	232,542	402,315
Dividend paid (Note 15e)	-	-	-	-	-	(60,938)	-	(60,938)
Transfer to statutory reserve (Note 15b)	-	60,530	-	-	-	-	(60,530)	-
Proposed dividend (Note 15e)	-	-	-	-	-	101,562	(101,562)	-
Bonus shares proposed (Note 15e)	-	-	-	-	76,172	-	(76,172)	-
Balance at 31 December 2007	507,812	470,557	147,104	209,785	76,172	101,562	10,855	1,523,847

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



Cash Flow Statement

for the year ended 31 December 2008

	Notes	2008 QR '000	2007 QR '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		425,781	302,652
Adjustments for:			
Depreciation	8	16,629	11,856
Provision for credit losses of loans and advances and financing activities to customers		33,615	48,835
Impairment losses on available-for-sale investments		3,259	150
Recoveries of provisions for credit losses		(27,830)	(50,135)
Profit on disposal of property, furniture and equipment		(7,914)	(7,997)
Provision for legal claims	13a	–	9,000
Provision for staff indemnity	13a	3,159	3,531
Net gain on financial investments and derivatives	21	(52,927)	(11,151)
Cash flows from operating activities before changes in operating assets and liabilities		393,772	306,741
Net increase in assets			
Due from banks and other financial institutions		(229,820)	(165,555)
Loans, advances and financing activities to customers		(1,143,575)	(3,810,113)
Other assets		(40,075)	(151,411)
Net increase (decrease) in liabilities			
Due to banks, Qatar Central Bank and other financial institutions		1,534,833	607,820
Customers' deposits and unrestricted investment accounts		617,045	4,666,892
Other liabilities		(45,519)	223,577
Cash inflow from operating activities		1,086,661	1,677,951
Payments made on legal claims	13a	–	(12,817)
Payment of staff indemnity	13a	(134)	(1,359)
Net cash inflow from operating activities		1,086,527	1,663,775
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of financial investments		(255,346)	(120,571)
Proceeds from sale/redemption of financial investments and derivatives		476,401	49,745
Purchase of property, furniture and equipment	8	(32,980)	(21,308)
Proceeds from disposal of property, furniture and equipment		9,471	9,583
Net cash inflow (outflow) from investing activities		197,546	(82,551)
CASH FLOWS FROM FINANCING ACTIVITIES			
Subordinated debt	12	–	182,000
Dividends paid	15	(101,562)	(60,938)
Net cash (outflow) inflow from financing activities		(101,562)	121,062
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January		3,390,058	1,687,772
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	33	4,572,569	3,390,058
Operational cash flow from interest and dividend			
Interest paid		552,208	511,889
Interest received		837,168	730,471
Dividend received		11,939	12,770

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



Notes to the Financial Statements

for the year ended 31 December 2008

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 nineteen branches established in the State of Qatar.

The Bank has 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 2008 were authorized for issue in accordance with a resolution of the Board of Directors on 19 January 2009.

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 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.

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:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet 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 is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs.

Allowance for impairment on loans, advances and financing activities to customers

The Bank reviews its balances of problem loans, advances and financing activities to customers at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by the management is required in estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance for impairment.

Impairment of equity investments

The Bank treats available-for-sale equity 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. The Bank treats 'significant' generally as 20% or more and 'prolonged' as greater than 9 months.



Notes to the Financial Statements

for the year ended 31 December 2008

2. ACCOUNTING POLICIES (continued)

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 and IFRIC interpretations during the year:

- Amendments to IAS 39 and IFRS 7: Reclassification of Financial Assets
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

Amendments to IAS 39 and IFRS 7: Reclassification of Financial Assets

In October 2008, the International Accounting Standards Board issued amendments to IAS 39, Financial Instruments: Recognition and Measurement and IFRS 7, Financial Instruments: Disclosures, titled "Reclassification of Financial Assets". The amendments to IAS 39 permit (1) certain reclassifications of non-derivative financial assets (other than those designated under the fair value option) out of the fair value through profit or loss category and (2) also allow the reclassification of financial assets from the available-for-sale category to the loans and receivables category in particular circumstances. The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendments to IAS 39. The amendments are effective retrospectively from 1 July 2008.

The Bank has adopted the amendments to reclassify certain qualifying financial assets. The effect of such reclassification is given in Note 6.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

The Bank has adopted IFRIC Interpretation 11 insofar as it applies to the financial statements. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The Bank amended its accounting policy accordingly. The Bank has not issued instruments covered by this interpretation.

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:

IFRS 8 - Operating segments effective 1 January 2009

IAS 1 - Presentation of financial statements (Revised) effective 1 January 2009

IAS 23 - Borrowing Costs (Revised) effective 1 January 2009

IFRS 2 - Share-based Payment (Revised) effective 1 January 2009

IFRIC 13 - Customer Loyalty Programmes effective 1 July 2008

The application of the above standards and interpretations is not expected to have a material impact on the financial statements of the Bank.

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.



Notes to the Financial Statements

for the year ended 31 December 2008

2. ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

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 translated into Qatari Riyals at the rates ruling at the balance sheet date. Exchange gains and losses resulting therefrom appear in 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 equity as part of the fair value adjustment of the respective assets, unless 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 in shareholders' equity. The gains or losses on cash flow hedges initially recognized in shareholders' equity 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 shareholders' equity are included in the initial measurement of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising 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 in shareholders' equity 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 in shareholders' equity is transferred to the income statement.



Notes to the Financial Statements

for the year ended 31 December 2008

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. 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.

Fee earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and amortised over the period of the transaction using the effective yield method.

Fee income from providing transaction services

Fee arising from negotiation 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 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

After initial measurement, available-for-sale investments are measured at fair value. Unrealised gains or losses arising from a change in the fair value are recognized directly in the fair value reserve under shareholders' equity until the investment is sold, at which time the cumulative gain and loss previously recognised in shareholders' equity is included in the income statement.

After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest rate method, less provision 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.

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.



Notes to the Financial Statements

for the year ended 31 December 2008

2. ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

e) Financial investments (continued)

Amortized cost is computed using the effective interest rate method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transactions 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 equity instruments classified as available-for-sale investments are treated as an increase in fair value through statement of changes in equity. 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 balance sheet date. For financial assets where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same or 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.

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 estimated life or lease period whichever is less. 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 to 20 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

for the year ended 31 December 2008

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 balance sheet 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 resulting provision is not materially different from that resulting from the application of Qatar Central Bank guidelines.

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

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.



Notes to the Financial Statements

for the year ended 31 December 2008

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 balance sheet date. Other provisions are disclosed in Note 13.

n) Contingent liabilities and other commitments

At the balance sheet 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 of 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, balances due from banks and other financial institutions with an original maturity of three months or less, as disclosed in Note 32.



Notes to the Financial Statements

for the year ended 31 December 2008

2. ACCOUNTING POLICIES (continued)

2.5 Significant accounting policies (continued)

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 amortised premium 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 balance sheet.

s) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet 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 balance sheet.

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 and financial investments. Financial liabilities include due to banks, Qatar Central Bank and other financial institutions, customer deposits and unrestricted investment accounts. 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 accompanying 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.



Notes to the Financial Statements

for the year ended 31 December 2008

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.1 Introduction (continued)

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 Function

The Risk Management Function 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.

Treasury

Treasury Department 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.



Notes to the Financial Statements

for the year ended 31 December 2008

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.1 Introduction (continued)

Risk measurement and reporting systems (continued)

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 utilisation 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).

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.

Notes to the Financial Statements

for the year ended 31 December 2008

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

3.2.2 Credit risk (continued)

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.

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 balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2008 QR '000	Gross maximum exposure 2007 QR '000
Cash and balances with Qatar Central Bank (excluding cash on hand)	598,544	427,726
Due from banks and other financial institutions	4,500,276	3,285,049
Loans, advances and financing activities to customers	11,547,061	10,105,785
Financial investments	576,203	923,003
Other assets	238,281	205,964
Total	17,460,365	14,947,527
Contingent liabilities	2,686,985	2,211,830
Commitments	2,595,959	2,416,784
Total	5,282,944	4,628,614
Total credit risk exposure	22,743,309	19,576,141

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.

Notes to the Financial Statements

for the year ended 31 December 2008

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

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

	Neither past due nor impaired		Watch list or	Total
	High grade	Standard grade	impaired grade	
	QR '000	QR '000	QR '000	QR '000
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
At 31 December 2007				
Cash and balances with Qatar Central Bank	427,726	–	–	427,726
Due from banks and other financial institutions	3,285,049	–	–	3,285,049
Loans, advances and financing activities to customers				
Retail	–	3,393,443	6,293	3,399,736
Real estate*	–	1,232,843	–	1,232,843
Corporate	1,740,727	3,724,760	7,719	5,473,206
	1,740,727	8,351,046	14,012	10,105,785
Financial investments				
Available-for-sale	427,667	–	–	427,667
Held-to-maturity	495,336	–	–	495,336
	923,003	–	–	923,003
Total	6,376,505	8,351,046	14,012	14,741,563

*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.

Notes to the Financial Statements

for the year ended 31 December 2008

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk management (continued)

3.2.2 Credit risk (continued)

c) Age analysis of past due but not impaired loans, advances and financing activities to customers

Past due loans, advances and financing activities to customers include those that are only 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 instalments, by age, is provided below:

	2008			2007		
	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	264	280	544	122	171	293
Corporate	133	–	133	288	–	288
	397	280	677	410	171	581

3.2.3 Concentration analysis

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

	2008			2007		
	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	15,444,925	16,409,235	2,465,558	12,003,357	14,206,010	1,783,567
GCC countries	1,167,541	1,218,012	93,057	2,099,394	690,535	297,333
Others	1,186,810	172,029	128,370	1,473,630	679,836	130,930
Total	17,799,276	17,799,276	2,686,985	15,576,381	15,576,381	2,211,830
By industry sector:						
Government	1,226,746	1,290,132	363,579	817,680	1,309,522	364,360
Government agencies	635,972	2,226,669	–	746,915	2,513,679	–
Industry/Manufacturing	483,279	–	55,694	453,654	–	32,002
Commercial	3,360,425	4,086,629	742,924	3,397,473	4,196,056	325,112
Services	4,436,551	5,118,083	435,198	4,392,924	3,839,517	712,155
Contracting	964,895	–	934,071	953,436	–	696,215
Real estate	1,690,714	–	40,344	1,313,569	363	3,581
Personal	4,792,517	3,437,380	115,175	3,333,452	2,193,397	78,405
Other	208,177	1,640,383	–	167,278	1,523,847	–
Total	17,799,276	17,799,276	2,686,985	15,576,381	15,576,381	2,211,830

Notes to the Financial Statements

for the year ended 31 December 2008

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:

	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
As at 31 December 2008							
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
Customers' 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
Shareholders' equity	-	-	-	-	-	1,640,383	1,640,383
Total liabilities and shareholders 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	-	-

Notes to the Financial Statements

for the year ended 31 December 2008

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk management (continued)

3.2.4 Interest rate risk (continued)

	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
As at 31 December 2007							
Cash and balances with Qatar Central Bank	-	-	-	-	-	470,566	470,566
Due from banks and other financial institutions	3,091,545	7,300	-	-	-	166,204	3,285,049
Loans, advances and financing activities to customers	1,605,820	2,474,543	642,255	2,575,270	1,942,463	865,434	10,105,785
Financial investments	18,047	18,015	10,829	569,438	257,410	484,376	1,358,115
Property, furniture and equipment	-	-	-	-	-	124,206	124,206
Other assets	-	-	-	-	-	232,660	232,660
Total assets	4,715,412	2,519,858	653,084	3,144,708	2,199,873	2,343,446	15,576,381
Due to banks, Qatar Central Bank and other financial institutions	1,652,034	58,240	158,340	-	-	86,546	1,955,160
Customers' deposits	5,939,029	2,628,888	583,572	22,194	72,800	1,257,417	10,503,900
Subordinated debt	-	182,000	-	-	-	-	182,000
Other liabilities	-	-	-	-	-	421,135	421,135
Unrestricted investment accounts	-	-	-	-	-	990,339	990,339
Shareholders' equity	-	-	-	-	-	1,523,847	1,523,847
Total liabilities and shareholders equity	7,591,063	2,869,128	741,912	22,194	72,800	4,279,284	15,576,381
On balance sheet gap	(2,875,651)	(349,270)	(88,828)	3,122,514	2,127,073	(1,935,838)	-
Off balance sheet gap	-	398,960	-	(398,960)	-	-	-
Interest rate sensitivity gap	(2,875,651)	49,690	(88,828)	2,723,554	2,127,073	(1,935,838)	-
Cumulative interest rate sensitivity gap	(2,875,651)	(2,825,961)	(2,914,789)	(191,235)	1,935,838	-	-

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

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 2008, 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 2008 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.

Notes to the Financial Statements

for the year ended 31 December 2008

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk management (continued)

3.2.4 Interest rate risk (continued)

	Increase in basis points	Sensitivity of net interest income		Sensitivity of equity	
		2008	2007	2008	2007
		QR '000	QR '000	QR '000	QR '000
Currency					
Qatari Riyal	+25	2,039	(584)	–	–
US Dollar	+25	2,685	(455)	2,941	1,186
		4,724	(1,039)	2,941	1,186

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:

	2008 QR'000	2007 QR'000
US Dollar	(134,612)	330,425
Euro	544	1,407
Sterling Pounds	370	763
Others	68,868	64,810
	(64,830)	397,405

The others above include an exposure to Egyptian Pounds (EGY) amounting to QR 61,275 thousand (2007: QR 61,092 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.

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 2008 QR '000	Effect on equity 2007 QR '000
Market indices			
Doha Securities Market	10%	1,417	37,452

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

Notes to the Financial Statements

for the year ended 31 December 2008

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk management (continued)

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 2008 is as follows:

	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
At 31 December 2008						
ASSETS						
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
LIABILITIES						
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
Shareholders equity	–	–	–	–	1,640,383	1,640,383
Total liabilities and shareholders' 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	–

Notes to the Financial Statements

for the year ended 31 December 2008

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 2007 is as follows:

	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
At 31 December 2007						
ASSETS						
Cash and balances with Qatar Central Bank	361,787	86,462	19,193	730	2,394	470,566
Due from banks and other financial institutions	3,257,749	9,100	–	18,200	–	3,285,049
Loans, advances and financing activities to customers	1,606,820	2,004,455	1,390,907	938,399	4,165,204	10,105,785
Financial investments	453,159	–	10,829	569,438	324,689	1,358,115
Property, furniture and equipment	–	–	–	–	124,206	124,206
Other assets	87,644	37,742	6,047	26,845	74,382	232,660
Total assets	5,767,159	2,137,759	1,426,976	1,553,612	4,690,875	15,576,381
LIABILITIES						
Due to banks, Qatar Central Bank and other financial institutions	1,738,580	58,240	158,340	–	–	1,955,160
Customers' deposits	7,196,446	2,628,888	583,572	22,194	72,800	10,503,900
Subordinated debt	–	–	–	–	182,000	182,000
Other liabilities	148,584	54,125	102,546	24,189	91,691	421,135
Unrestricted investment accounts	362,599	2,000	610,970	9,480	5,290	990,339
Shareholders equity	–	–	–	–	1,523,847	1,523,847
Total liabilities and shareholders' equity	9,446,209	2,743,253	1,455,428	55,863	1,875,628	15,576,381
Net liquidity gap	(3,679,050)	(605,494)	(28,452)	1,497,749	2,815,247	–

The above maturity profile reflects contractual maturities of assets and liabilities that have been determined on the basis of the remaining period at the balance sheet 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

for the year ended 31 December 2008

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:

	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
At 31 December 2008						
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
	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
At 31 December 2007						
Financial liabilities						
Due to banks, Qatar Central Bank and other financial institutions	1,744,781	58,863	165,117	–	–	1,968,761
Customers' deposits	7,226,851	2,662,209	613,159	27,820	98,637	10,628,676
Subordinated debt	–	2,816	8,449	45,063	238,329	294,657
Derivative financial instruments						
Contractual amounts payable	133,198	125,936	245,527	49,501	1,242	555,404
Contractual amounts receivable	(132,179)	(127,268)	(241,973)	(44,520)	(746)	(546,686)
Unrestricted investment accounts	364,164	2,026	642,618	11,935	7,208	1,027,951
Total	9,336,815	2,724,582	1,432,897	89,799	344,670	13,928,763
Contingent liabilities and commitments						
Unused credit facilities	776,329	968,444	672,011	–	–	2,416,784
Acceptances	27,978	7,160	4,794	–	–	39,932
Guarantees	199,793	1,010,153	156,693	–	–	1,366,639
Letters of credit	243,151	509,665	52,443	–	–	805,259
Total	1,247,251	2,495,422	885,941	–	–	4,628,614

Notes to the Financial Statements

for the year ended 31 December 2008

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.

Assets and liabilities interest rate gaps are reviewed on a regular basis and hedging strategies used to reduce the interest rate gaps to within the limits established by the Board. The Bank manages its exposure to currency exchange rate fluctuations to within the levels defined by the Board of Directors, which sets limits on currency position exposures. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits. The Bank introduced VaR methodology to monitor and control market risks in February 2007. VaR limits are set to define the Bank's risk appetite and the VaR risk metric is calculated daily to ensure compliance with these limits.

	Foreign exchange QR '000	Interest rate QR '000	Equity QR '000	Effects of correlation QR '000	Total QR '000
At 31 December 2008	(75)	(760)	–	–	(835)
At 31 December 2007	(834)	(1,046)	–	–	(1,880)
Average daily					
2008	(404)	(529)	–	–	(933)
2007	(1,135)	(391)	(249)	–	(1,775)
Minimum					
2008	(2)	(174)	–	–	(176)
2007	(239)	(479)	–	–	(718)
Maximum					
2008	(794)	(1,851)	–	–	(2,645)
2007	(3,100)	(475)	–	–	(3,575)

Prior to implementation of VaR methodology, the Bank was reporting forex positions limits, equity holdings, interest rate products, options positions and volatility of liabilities against the prescribed limits.



Notes to the Financial Statements

for the year ended 31 December 2008

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

3.2 Risk management (continued)

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 is alert and aware of operational risks and has put in place a management structure, capable of executing the Bank's operational risk management framework, defined guidelines for staff's responsibilities and delegated authorities, recruited qualified staff, provided staff training, established policies and procedures in addition to making the necessary investments in information technology in order to minimize operational risks. 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 the implementation of Basel II regulations. The Operational Risk Committee (ORC) approves the ORSA annually and reviews operational risks faced by various functions in the Bank on a periodical basis, introducing appropriate controls wherever necessary. Furthermore, the internal audit and the compliance functions conduct independent periodic reviews to assess the adequacy of checks 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 minimize the severity and impact of a disaster while continuing to serve both the business and customers with the minimum impairment in service. The Bank has put in place a recovery process to minimize potential loss of revenue should an interruption arising from an unplanned and unexpected disaster impairs the business continuity. This includes critical computer systems, local area network, database servers, internet, intranet and e-mails etc. The Bank conducted BCP and DR tests successfully, covering essential functions, to establish adequacy of preparedness to face a contingency scenario, thereby complying with regulatory as well as auditing requirements. External Consultant was appointed to review the current BCP and DR processes and systems and their report was submitted to the Board and QCB revealing substantial compliance with central bank requirements. The DR and BCP are also planned to be tested periodically.

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

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 26% of investments reported at fair value and 74% of investments reported at amortized cost.

All financial liabilities are reported at amortized cost.

4. CASH AND BALANCES WITH QATAR CENTRAL BANK

	2008 QR '000	2007 QR '000
Cash	69,126	42,840
Cash reserve with Qatar Central Bank	577,177	347,357
Other balances with Qatar Central Bank	21,367	80,369
Total	667,670	470,566

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

Notes to the Financial Statements

for the year ended 31 December 2008

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2008 QR '000	2007 QR '000
Current accounts	677,504	166,204
Placements	3,804,572	3,100,645
Loans	18,200	18,200
Total	4,500,276	3,285,049

Placements as at 31 December 2008 include QR 537,818 thousand representing balances of the Islamic Branch held with Islamic banks and other financial institutions (2007: QR 213,467 thousand).

6. LOANS, ADVANCES AND FINANCING ACTIVITIES TO CUSTOMERS

a) By type	31 December 2008 QR '000			31 December 2007 QR '000		
	Conventional	Islamic	Total	Conventional	Islamic	Total
Loans	8,818,953	1,542,619	10,361,572	8,399,082	865,434	9,264,516
Overdrafts	892,578	–	892,578	860,266	–	860,266
Bills discounted	24,968	–	24,968	12,896	–	12,896
Debt securities (iii)	254,812	42,889	297,701	–	–	–
Other advances	117,182	–	117,182	108,649	–	108,649
	10,108,493	1,585,508	11,694,001	9,380,893	865,434	10,246,327
Allowance for impairment	(146,940)	–	(146,940)	(140,542)	–	(140,542)
Net loans, advance and financing activities to customers	9,961,553	1,585,508	11,547,061	9,240,351	865,434	10,105,785

Notes:

- (i) Interest in suspense of QR 33,738 thousand (2007: QR 33,125 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 120,459 thousand (2007: QR 111,790 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 2008: QR 297,701 thousand) with the fair value at 31 December 2008 of QR 252,431 thousand. Unrealized fair value gains on reclassified financial assets available-for-sale that were not impaired were recorded directly in shareholders' equity. As of July 2008, such unrealized fair value gains recorded directly in shareholders' 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 2008. Also, as at 31 December 2008, the shareholders' equity (position Net gains (losses) not recognized in the income statement) would have included 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 237,839 thousand and QR 59,862 thousand respectively (2007: Nil).

Notes to the Financial Statements

for the year ended 31 December 2008

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

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

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%

At 31 December 2007

	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	106,346	82,716	–	–	–	189,062	1.8%
Government agencies	355,500	–	–	–	–	355,500	3.5%
Industry/Manufacturing	275,329	7,767	–	–	67	283,163	2.8%
Commercial	3,003,076	366,385	12,896	–	2,762	3,385,119	33.0%
Services	442,248	71,229	–	–	41	513,518	5.0%
Contracting	811,677	132,839	–	–	8,920	953,436	9.3%
Real estate	1,222,481	10,362	–	–	–	1,232,843	12.1%
Personal	3,047,643	188,950	–	–	96,859	3,333,45	32.5%
Other	216	18	–	–	–	234	–
Total	9,264,516	860,266	12,896	–	108,649	10,246,327	100%
By geographic region							
Qatar	8,574,542	860,266	12,896	–	108,649	9,556,353	93.3%
Other GCC Countries	653,529	–	–	–	–	653,529	6.4%
Others	36,445	–	–	–	–	36,445	0.3%
Total	9,264,516	860,266	12,896	–	108,649	10,246,327	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.



Notes to the Financial Statements

for the year ended 31 December 2008

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:

	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
	2007			
Gross non-performing loans, advances and financing activities to customers	54,523	43,050	56,981	154,554
(Less): Allowance for impairment	(43,502)	(40,124)	(56,916)	(140,542)
Net non-performing loans, advances and financing activities to customers	11,021	2,926	65	14,012

The aggregate amount of gross non-performing loans, advances and financing activities to customers at 31 December 2008 represented 1.36% of total gross loans, advances and financing activities to customers (2007: 1.51%).

d) The movement in provisions by the major sectors is as follows:

	2008			
	Retail QR '000	Corporate QR '000	Real estate QR '000	Total QR '000
At 1 January	66,284	74,258	–	140,542
Add/(Less): Amounts written off during the year	–	–	–	–
Charge for the year	51,699	503	–	52,202
Recoveries during year	(4,522)	(41,282)	–	(45,804)
At 31 December	113,461	33,479	–	146,940
Individually impaired loans and advances				
Gross impaired loans, advances and financing activities to customers	125,214	33,849	–	159,063
Allowance for impairment	(113,461)	(33,479)	–	(146,940)
Net impaired loans, advances and financing activities to customers	11,753	370	–	12,123
	2007			
At 1 January	56,298	89,552	122	145,972
Add/(Less): Amounts written off during the year	(31)	(2,393)	–	(2,424)
Charge for the year	46,445	12,459	–	58,904
Recoveries during year	(36,428)	(25,360)	(122)	(61,910)
At 31 December	66,284	74,258	–	140,542
Individually impaired loans and advances				
Gross impaired loans, advances and financing activities to customers	72,577	81,977	–	154,554
Allowance for impairment	(66,284)	(74,258)	–	(140,542)
Net impaired loans, advances and financing activities to customers	6,293	7,719	–	14,012

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for the year ended 31 December 2008

7. FINANCIAL INVESTMENTS

	2008 QR '000	2007 QR '000
(a) Available-for-sale investments	177,789	862,779
(b) Held to maturity investments	494,745	495,336
Total	672,534	1,358,115

a) Available-for-sale investments

	2008			2007		
	Quoted QR '000	Unquoted QR '000	Total QR '000	Quoted QR '000	Unquoted QR '000	Total QR '000
Qatari Government debt securities	–	40,049	40,049	125,944	40,097	166,041
Other Government debt securities	–	–	–	44,056	–	44,056
Other corporate debt securities	–	–	–	168,306	–	168,306
Managed funds	–	35,059	35,059	–	40,466	40,466
Mutual funds	–	6,350	6,350	–	8,798	8,798
Equity securities	75,331	21,000	96,331	435,112	–	435,112
Total	75,331	102,458	177,789	773,418	89,361	862,779

Included in the available-for-sale investments are equity securities with a fair value of QR 1,025 thousand at 31 December 2008 (2007: QR 1,630 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 40,049 thousand and QR Nil respectively (2007: QR 360,388 thousand and QR 18,015 thousand respectively).

b) Held to maturity investments

	2008			2007		
	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	–	462,576	462,576
Other corporate debt securities	32,760	–	32,760	32,760	–	32,760
Total	32,760	461,985	494,745	32,760	462,576	495,336

All held to maturity investments are fixed rate securities. The fair value of the held to maturity investments at 31 December 2008 is QR 482,084 thousand (2007: QR 495,113 thousand).

Notes to the Financial Statements

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8. PROPERTY, FURNITURE AND EQUIPMENT

	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
At 31 December 2008						
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 charged 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
At 31 December 2007						
Cost:						
At 1 January 2007	19,393	14,028	51,931	743	84,050	170,145
Additions during the year	2,175	12,833	5,950	350	–	21,308
Transfers	65,003	11,761	2,874	–	(79,638)	–
Disposals during the year	(1,557)	–	(192)	(38)	–	(1,787)
At 31 December 2007	85,014	38,622	60,563	1,055	4,412	189,666
Accumulated depreciation:						
At 1 January 2007	7,754	6,052	39,376	623	–	53,805
Depreciation charged during the year	959	4,596	6,181	120	–	11,856
Relating to disposals	–	–	(163)	(38)	–	(201)
At 31 December 2007	8,713	10,648	45,394	705	–	65,460
Net book value:						
At 31 December 2007	76,301	27,974	15,169	350	4,412	124,206

9. OTHER ASSETS

	2008 QR '000	2007 QR '000
Interest receivable	144,876	108,118
Prepaid expenses	5,439	5,337
Accounts receivable	2,135	16,272
Positive fair value of derivatives (Note 28)	23	1,017
Advances and deposits	29,015	18,615
DSM clients receivable	43,871	61,942
Others	47,376	21,359
Total	272,735	232,660

Notes to the Financial Statements

for the year ended 31 December 2008

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

	2008 QR '000	2007 QR '000
Balances due to Qatar Central Bank	–	49,712
Current accounts	33,437	36,834
Deposits	2,556,318	1,330,872
Loans	–	91,000
Certificates of deposit	900,238	446,742
Total	3,489,993	1,955,160

11. CUSTOMER DEPOSITS

a) By type

	2008			2007		
	Conventional QR'000	Islamic QR'000	Total QR'000	Conventional QR'000	Islamic QR'000	Total QR'000
Current and call accounts	1,794,732	241,370	2,036,102	1,809,373	48,033	1,857,406
Saving accounts	357,991	–	357,991	198,882	–	198,882
Term deposits	7,866,535	–	7,866,535	8,446,612	–	8,446,612
Reverse Murabaha	–	–	–	–	1,000	1,000
	10,019,258	241,370	10,260,628	10,454,867	49,033	10,503,900

The total amount of customer deposits pledged against loans and advances was QR 337,859 thousand at 31 December 2008 (2007: QR 127,727 thousand).

b) By sector:

	2008 QR '000	2007 QR '000
Government	1,277,614	1,309,522
Government agencies	2,194,919	2,463,967
Retail	2,703,310	1,937,861
Corporate	4,084,785	4,792,550
Total	10,260,628	10,503,900

12. SUBORDINATED DEBT

	2008 QR '000	2007 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	1 month LIBOR + 210 bps
Interest reset date	January 29, 2009 and thereafter at monthly intervals

During the year the lender has invoked the trigger clause under the terms and conditions for the issue to revise the interest rate due to prevailing market conditions.



Notes to the Financial Statements

for the year ended 31 December 2008

13. OTHER LIABILITIES

	2008 QR '000	2007 QR '000
Interest payable	92,860	69,808
Deferred income	65,691	79,899
Accrued expenses	23,772	52,181
Other provisions (a)	22,241	18,925
Staff provident fund	11,198	9,432
Staff pension fund	1,931	1,406
Dividends payable	8,037	2,942
Bills payable	5,109	37,147
DSM clients payable	20,310	31,440
Negative fair value of derivatives (Note 28)	38,599	12,194
Others	85,868	105,761
Total	375,616	421,135

(a) Other provisions:

	2008			Total QR '000
	Staff indemnity QR '000	Legal claims QR '000	Others QR '000	
At 1 January	11,868	4,756	2,301	18,925
Provision made during the year	3,159	-	291	3,450
	15,027	4,756	2,592	22,375
Payments made during the year	(134)	-	-	(134)
At 31 December	14,893	4,756	2,592	22,241
	2007			
At 1 January	9,696	8,573	3,330	21,599
Provision made during the year	3,531	9,000	-	12,531
	13,227	17,57	3,330	34,130
Payments made during the year	(1,359)	(12,817)	(1,029)	(15,205)
At 31 December	11,868	4,756	2,301	18,925

14. UNRESTRICTED INVESTMENT ACCOUNTS

	2008 QR '000	2007 QR '000
Saving accounts	78,453	374,566
Term deposits	1,772,203	615,773
Total	1,850,656	990,339



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for the year ended 31 December 2008

15. SHAREHOLDERS' EQUITY

a) Share capital

	2008 QR '000	2007 QR '000
Authorised		
Shares of QR 10 each	583,984	507,812
	Number of shares thousand	QR '000
Issued and fully paid		
At 1 January 2007	40,625	406,250
Bonus issue on 18 March 2007	10,156	101,562
At 1 January 2008	50,781	507,812
Bonus issue on 24 March 2008	7,617	76,172
At 31 December 2008	58,398	583,984

The Ahli United Bank B.S.C, Bahrain holds 40% of the ordinary shares of the Bank with the remaining 60% held by members of the public.

The shareholders in their Extra-ordinary General Meeting held on 23 December 2008 approved the issue of equity shares up to 20% of authorized capital by way of private placement to Qatar Investment Authority at the closing price of the Bank's shares listed in the Doha Securities Market on 12 October 2008. As of the balance sheet date, the legal proceedings have not been finalized by Qatar Investment Authority.

On 5 January 2009, the Board of Directors approved a buy back of up to 10% of the Bank's shares, subject to the approvals of Qatar Central Bank and Qatar Financial Markets Authority.

b) Statutory reserve

In accordance with the Bank's Articles of Association, 10% (2007: 20%) of the net profit for the year is required to be transferred to the statutory reserve until the reserve equals 100% of the paid up capital. This reserve is not available for distribution except in circumstances specified in the Qatar Commercial Companies Law No. 5 of 2002 and with the approval of Qatar Central Bank. The shareholders in the Extra-ordinary General Assembly held on 23 December 2008 approved the amendment in the Bank's Articles of Association to transfer 10% of net profits to statutory reserve instead of 20%.

c) 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% (2007: 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.

Notes to the Financial Statements

for the year ended 31 December 2008

15. SHAREHOLDERS' EQUITY (continued)

d) Fair value reserve

	2008			2007		
	Available- for-sale investments	Cash flow hedges	Total	Available- for-sale investments	Cash flow hedges	Total
	QR '000	QR '000	QR '000	QR '000	QR '000	QR '000
At 1 January	213,635	(3,850)	209,785	99,990	10,132	110,122
Realised during the year	(65,361)	–	(65,361)	(3,445)	(9,317)	(12,762)
Net movement in unrealised fair values during the year	(119,317)	(21,162)	(140,479)	117,090	(4,665)	112,425
Amortised during the year on reclassification to loans and receivables	(1,843)	–	(1,843)	–	–	–
At 31 December	27,114*	(25,012)	2,102	213,635	(3,850)	209,785

* Includes QR 14,226 thousand relating to unamortised portion of 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 29,913 thousand (2007: QR 4,834 thousand). The appropriation of profits will be restricted by the extent of the above negative fair value.

e) Proposed bonus shares and dividend

A cash dividend of QR 5 per share amounting to QR 291,992 thousand has been proposed by the Board of Directors for the year ended 31 December 2008 (2007: QR 2 per share totaling to QR 101,562 thousand).

No issue of bonus shares has been proposed by the Board of Directors for the current year (2007: 3 shares for every 20 shares held amounting to QR 76,172 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 2 per share totaling to QR 101,562 thousand (2007: QR 1.5 per share totaling to QR 60,938 thousand) as cash dividends for the year 2007.

16. INTEREST INCOME

	2008 QR '000	2007 QR '000
Balances with Qatar Central Bank	10,102	5,964
Due from banks and other financial institutions	44,523	84,557
Debt securities	34,797	43,472
Loans and advances to customers	784,504	659,289
Total	873,926	793,282



Notes to the Financial Statements

for the year ended 31 December 2008

17. INTEREST EXPENSE

	2008 QR '000	2007 QR '000
Balances with Qatar Central Bank	22	657
Due to banks and other financial institutions	92,708	72,390
Customers' deposits	482,530	456,553
Total	575,260	529,600

18. FEE AND COMMISSION INCOME

	2008 QR '000	2007 QR '000
Loans and advances and financing activities to customers	80,296	83,476
Indirect credit facilities	26,132	16,106
Banking services	3,209	1,940
Commission on investment activities for customers	14,545	4,802
Others	6,704	1,234
Total	130,886	107,558

Included in the fee and commission income is QR 384 thousand (2007: QR 743 thousand) on account of fee income relating to trust and other fiduciary activities.

19. DIVIDEND INCOME

	2008 QR '000	2007 QR '000
Available-for-sale investments	11,939	12,770

20. NET GAIN FROM DEALING IN FOREIGN CURRENCIES

	2008 QR '000	2007 QR '000
Gain from dealing in foreign currencies	(996)	9,360
Gain from revaluation of assets and liabilities	7,634	6,042
Total	6,638	15,402

21. NET GAIN ON FINANCIAL INVESTMENTS AND DERIVATIVES

	2008 QR '000	2007 QR '000
Net gain on sale of available-for-sale investments	65,361	3,445
Net (loss) gain on interest rate swap held for trading	(12,434)	7,706
Total	52,927	11,151

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

	2008 QR '000	2007 QR '000
Murabaha	49,103	25,652
Ijarah	53,041	5,838
Other	15,606	4,503
Total	117,750	35,993



Notes to the Financial Statements

for the year ended 31 December 2008

23. OTHER OPERATING INCOME

	2008 QR '000	2007 QR '000
Recoveries of loans previously written off	10,499	4,868
Rental income	2,700	2,215
Gain on disposal of property, furniture & equipment	7,914	7,997
Others	2,694	–
Total	23,807	15,080

24. GENERAL AND ADMINISTRATIVE EXPENSES

	2008 QR '000	2007 QR '000
Staff costs	74,998	67,827
Marketing and advertising expenses	9,408	9,725
Communication, utilities and insurance	4,782	4,692
Director's remuneration	5,000	4,000
Rent and maintenance	4,316	3,716
Staff indemnity costs	3,159	3,531
Legal and professional fees	1,609	6,507
Training costs	550	4,770
Staff provident fund	503	431
Others	26,390	20,732
Total	130,715	125,931

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.

During the year 2008, the Bank issued bonus shares for the year 2007. Accordingly, the previously reported earnings per share at 31 December 2007 has been restated for the effects of the bonus share issue made during the year.

	2008	2007
Profit for the year – QR '000	425,781	302,652
Weighted average number of shares	58,398,438	58,398,438
Basic and diluted earnings per share (in QR)	7.29	5.18

The weighted average number of shares has been calculated as follows:

	2008	2007
Qualifying shares at the beginning of the year	50,781,250	50,781,250
Effect of bonus share issue	7,617,188	7,617,188
Total	58,398,438	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

for the year ended 31 December 2008

26. CONTINGENT LIABILITIES, GUARANTEES AND OTHER COMMITMENTS

a) Contingent liabilities

	2008 QR '000	2007 QR '000
Acceptances	53,444	39,932
Guarantees	1,776,992	1,366,639
Letters of credit (import and export)	856,549	805,259
	2,686,985	2,211,830

b) Commitments and other contingencies

	2008 QR '000	2007 QR '000
Unused credit facilities	2,595,959	2,416,784
Interest rate swaps	535,492	398,960
Forward foreign exchange contracts	216,308	486,013
Legal claims	99,435	108,437
Other commitments	23,217	33,535
	3,470,411	3,443,729
Total	6,157,396	5,655,559

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 2008, the Bank has made provisions of QR 4,756 thousand (2007: 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 commitments

This represents the contractual commitment on the purchase of a plot of land. As at the balance sheet date, the land is still under development. The Bank had paid upfront 15% of the value in 2006 with the remaining 85% payable in 3 instalments of 20% each and a last instalment of 25% upon transfer of title. At the balance sheet date, the Bank has a commitment to pay one instalment of 20% and the last instalment of 25% upon transfer of title, in 2010.



Notes to the Financial Statements

for the year ended 31 December 2008

27. GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

	Qatar QR '000	GCC Countries QR '000	Europe QR '000	Others QR '000	Total QR '000
At 31 December 2008					
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
Shareholders' equity	1,640,383	–	–	–	1,640,383
Total liabilities and shareholders' equity	16,409,235	1,218,012	42,838	129,191	17,799,276
At 31 December 2007					
Cash and balances with Qatar Central Bank	470,566	–	–	–	470,566
Due from banks and other financial institutions	649,934	1,377,955	1,052,845	204,315	3,285,049
Loans, advances and financing activities to customers	9,415,811	653,529	–	36,445	10,105,785
Financial investments	1,110,180	67,910	7,227	172,798	1,358,115
Property, furniture and equipment	124,206	–	–	–	124,206
Other assets	232,660	–	–	–	232,660
Total assets	12,003,357	2,099,394	1,060,072	413,558	15,576,381
Due to banks, Qatar Central Bank and other financial institutions	953,110	475,059	191,968	335,023	1,955,160
Customer deposits	10,317,579	33,476	–	152,845	10,503,900
Subordinated debt	–	182,000	–	–	182,000
Other liabilities	421,135	–	–	–	421,135
Unrestricted investment accounts	990,339	–	–	–	990,339
Shareholders' equity	1,523,847	–	–	–	1,523,847
Total liabilities and shareholders' equity	14,206,010	690,535	191,968	487,868	15,576,381

Notes to the Financial Statements

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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.

	2008			2007		
	Positive fair value QR '000	Negative fair value QR '000	Notional amount QR '000	Positive fair value QR '000	Negative fair value QR '000	Notional amount QR '000
Derivatives held for trading:						
- Interest rate swaps*	-	(13,582)	109,200	-	(6,164)	218,400
- Forward foreign exchange Contracts	23	(5)	216,308	34	(1,197)	486,013
	23	(13,587)	325,508	3	(7,361)	704,413
Derivatives held as cash flow hedges:						
- Interest rate swaps	-	(25,102)	426,292	983	(4,833)	180,560
Total	23	(38,599)	751,800	1,017	(12,194)	884,973

* 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.



Notes to the Financial Statements

for the year ended 31 December 2008

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	More than 5 years QR '000	Total QR '000
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)
At 31 December 2007					
Cash inflows from assets	8,850	41,785	96,866	284	147,785
Income statement	75	3,749	10,887	225	14,936

The discontinuation of hedge accounting resulted in a transfer of the associated cumulative gains of QR Nil thousand (2007: 428 thousand) from equity to the income statement. No hedge ineffectiveness on cash flow hedges was recognised in 2008 (2007: 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 balance sheet 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.



Notes to the Financial Statements

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29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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
Customers' deposits
Subordinated debt
Unrestricted investment accounts

The fair value of held to maturity investments at 31 December 2008 is QR 482,084 thousand (2007: QR 495,113 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 1,051,973 thousand at 31 December 2008 (2007: QR 1,057,138 thousand).

Notes to the Financial Statements

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31. RELATED PARTY TRANSACTIONS

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 provision for possible credit losses.

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

	2008 Board of Directors QR '000	2008 Shareholders QR '000	2007 Board of Directors QR '000	2007 Shareholders QR '000
Assets				
Loans, advances and financing activities to customers	222,642	–	224,789	–
Due from banks and other financial institutions	–	6,559	–	797
Financial investments	–	16,364	–	18,015
Liabilities				
Customers' deposits	267,595	–	29,239	–
Due to banks, Qatar Central Bank and other financial institutions	–	581,169	–	408,967
Off balance sheet items				
Letters of guarantee, letters of credit, commitments and indirect credit facilities	8,505	–	6,828	5,455
Interest rate swaps	–	535,492	–	398,960
Income statement				
Interest and fee and commission income	10,626	809	10,955	5,736
Interest and fee and commission expense	5,156	9,046	1,080	1,172

Management fees due to Ahli United Bank B.S.C, Bahrain for the year amounted to QR 12,750 thousand (2007: QR 9,322 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 5,000 thousand (2007: QR 4,000 thousand).

Compensation of key management personnel is as follows:

	2008 QR '000	2007 QR '000
Salaries and other short term benefits	14,948	12,128
Staff indemnity	2,320	640
Total	17,268	12,768

32. CASH AND CASH EQUIVALENTS

	2008 QR '000	2007 QR '000
Cash and balances with Qatar Central Bank (a)	90,493	123,209
Balances with banks and other financial institutions maturing in 3 months or less	4,482,076	3,266,849
Total	4,572,569	3,390,058

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



Notes to the Financial Statements

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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:

	Capital Adequacy	
	2008 QR '000	2007 QR '000
Tier 1 capital	1,127,605	1,065,396
Tier 2 capital	316,848	423,507
Tier 1 + Tier 2 capital	1,444,453	1,488,903
Credit risk	11,050,201	9,816,338
Market risk	276,588	1,358,799
Operational risk	701,535	370,918
Total risk weighted assets	12,028,324	11,546,055
Basel II-Tier 1	9.37%	9.23%
Basel II-Tier 1 + Tier 2	12.01%	12.90%

Tier 1 capital includes issued 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 accepted capital adequacy ratio is 10% under Qatar Central Bank requirements and 8% under Basel Committee on Banking Supervision requirements.

34. SEGMENT INFORMATION

PRIMARY SEGMENT INFORMATION

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

Retail and private banking and wealth management

Principally 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 clients through a range of investment products, funds, credit facilities, trusts and alternative investments.

Corporate banking, treasury and investments

Principally 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 banking

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

Notes to the Financial Statements

for the year ended 31 December 2008

34. SEGMENT INFORMATION (continued)

These segments are the basis on which the Bank reports its primary segment information. 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.

Primary segmental information for the year ended 31 December 2008 and 2007 are as follows:

	Retail and private banking and wealth management	Corporate banking, treasury and investments	Islamic banking	Total
31 December 2008	QR '000	QR '000	QR '000	QR '000
Revenue				
Net interest income	164,932	133,734	–	298,666
Income from Islamic financing and investing activities	–	–	117,750	117,750
Other income	49,596	172,344	2,844	224,784
Total income	214,528	306,078	120,594	641,200
Operating expense	(92,862)	(43,170)	(70,343)	(206,375)
Recoveries/(Provisions)	(51,348)	42,304	–	(9,044)
Net Result	70,318	305,212	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

	Retail and private banking and wealth management	Corporate banking, treasury and investments	Islamic banking	Total
31 December 2007	QR '000	QR '000	QR '000	QR '000
Revenue				
Net interest income	114,756	148,926	–	263,682
Income from Islamic financing and investing activities	–	–	35,993	35,993
Other income	68,490	88,928	1,569	158,987
Total income	183,246	237,854	37,562	458,662
Operating expenses	(79,176)	(52,578)	(16,406)	(148,160)
Recoveries/(Provisions)	(12,189)	4,339	–	(7,850)
Net Result	91,881	189,615	21,156	302,652
Total Assets	3,500,666	10,909,258	1,166,457	15,576,381
Total Liabilities	1,932,863	10,996,446	1,123,225	14,052,534



Notes to the Financial Statements

for the year ended 31 December 2008

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS

Islamic Banking

The balance sheet and income statement of the Bank's Islamic Branch are presented below:

(i) Balance sheet at 31 December 2008

	2008 QR '000	2007 QR '000
Assets		
Cash in hand	1,835	1,345
Balances and investments with banks and other financial institutions	537,818	213,467
Receivable balances from financing activities	1,542,619	865,434
Financial investments	65,297	70,788
Property, furniture and equipment	3,341	2,203
Other assets	42,162	13,220
Total assets	2,193,072	1,166,457
Liabilities		
Current accounts with banks and other financial institutions	101	20,797
Customer deposits	241,370	48,033
Reverse Murabaha	–	1,000
Other liabilities	16,609	63,056
	258,080	132,886
Unrestricted investment accounts	1,850,656	990,339
Total liabilities	2,108,736	1,123,225
Shareholders' equity		
Capital	18,200	18,200
Fair value reserve	(5,536)	3,610
Retained earnings	21,421	266
Unappropriated profit	50,251	21,156
Total shareholders' equity	84,336	43,232
Total liabilities and shareholders' equity	2,193,072	1,166,457

(ii) Income statement for the year ended 31 December 2008

	2008 QR '000	2007 QR '000
Net income from financing activities	102,144	31,490
Net income from investing activities	15,606	4,503
Total income from financing and investing activities	117,750	35,993
Net gain from dealing in foreign currencies	2,632	1,054
Fee and other operating income	212	515
Net operating income	120,594	37,562
General and administrative expenses	(10,808)	(5,587)
Depreciation	(504)	(446)
Net profit for the year before the share of profit of unrestricted investment account holders	109,282	31,529
Less: Share of profit of unrestricted investment account holders	(59,031)	(10,373)
Net profit for the year due to shareholders	50,251	21,156