The Commercial Bank of Qatar (Q.S.C.)

Consolidated Financial Statements

31 December 2009

ERNST & YOUNG

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Independent Auditors' Report to the Shareholders of The Commercial Bank of Qatar (Q.S.C.)

Report on the Consolidated Financial Statements

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

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the applicable provisions of Qatar Central Bank regulations. 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the 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 Group and that we are not aware of any contravention by the Bank of its Articles of Association, the applicable provisions of Qatar Central Bank Law No.33 of 2006 and amendments thereto and of the Qatar Commercial Companies Law No. 5 of 2002 during the financial year that would materially affect its activities or its financial position as at 31 December 2009.

Firas Qoussous
Ernst & Young
Qatar Auditors' Registry No. 236

ERNST & YOUNG
Doha
ارنست ويونغ

18 January 2010
Doha

بسم الله الرحمن الرحيم

Shari'ah Supervisory Board Report

Al Safa Islamic Banking

The Commercial Bank of Qatar (Q.S.C)

For the period ending 31 December 2009.

To the Shareholder of Al Safa Islamic Banking – (CBQ)

As per the approved Shari'ah mandate agreed with the management of Al Safa Islamic Banking, we are required to report the following:

We have reviewed the principles followed and contracts related to transactions and activities undertaken by Al Safa Islamic Banking- CBQ (the Bank), during the period on which we carried out the necessary review in order to express an opinion as to whether the Bank has undertaken its activities in accordance with Islamic Shari'ah principle and specific Fatwas, resolutions and guidelines issued by us.

It is the responsibility of the Bank's management to ensure that the bank operates in accordance with the rules and principles of Islamic Shari'ah. Our responsibility is restricted to express an independent opinion based on our review of the bank's operations and to report our opinion to you.

Our review included examination of the documentation and procedures adopted by the bank on a sample basis that covered all types of the bank's transactions.

Through the Executive Committee of the Shari'ah Supervisory Board, we have planned and executed our review in a manner that allowed us to obtain all information and explanations that we deemed necessary to provide us with sufficient evidential matter giving reasonable assurance that the Bank did not violate any of the rules or principles of Islamic Shari'ah.

تقرير هيئة الرقابة الشرعية

الصفاء للخدمات المصرفية الإسلامية

البنك التجاري القطري (ش.م.ق.)

عن الفترة المنتهية ٣١ ديسمبر ٢٠٠٩

إلى مساهمى الصفاء للخدمات المصرفة الإسلامية (البنك التجاري).

بناء على إتفاقية هيئة الرقابة الشرعية الموقعة مع إدارة الصفاء خدمات مصرفية إسلامية، نبين ما يلي:

لقد قمنا بمراجعة الأسس المتبعة والعقود المتعلقة بالعمليات والنشاطات التى يقوم بها الصفاء للخدمات المصرفية الإسلامية ، خلال الفترة التى قمنا فيها بالمراجعة اللازمة لنقوم بإبداء الرأى حول تطبيق البنك لأسس الشريعة الإسلامية فى تعاملاته مع العملاء وإستخدام البنك للعقود والفتاوى المعتمدة من قبلنا .

تقع مسئولية التأكد من أن البنك يتبع أسس وقواعد الشريعة الإسلامية على الإدارة ، وتنحصر مسئولية هيئة الرقابة الشرعية فى إبداء رأى مستقل بناء على مراجعة عمليات البنك وإقرار رأينا اليكم .

تتضمن مراجعتنا اختبار بعض المستندات والإجراءات التى اتبعها البنك بنظام العينة والتى تغطى جميع أنواع المعاملات التى يقوم بها البنك.

خلال إجتماع هيئة الرقابة الشرعية قمنا بتخطيط وتنفيذ عملية المراجعة بشكل أتاح لنا الإطلاع على جميع المعلومات والتوضيحات التى رأينا أنها لازمة وكافية لإبداء رأينا والتأكد من إتباع البنك لأسس وإجراءات الشريعة الإسلامية .

In our opinion:

A. The contracts, operations executed by the Bank during the period ended 31st December 2009 that were reviewed, were carried out in accordance with the rules and principles of Islamic Shari'ah, and the SSB highlights the management cooperation in complying with recommendations and remarks made by the SSB upon topics that were under discussion, to the extent that achieve harmony with the shariah decisions.

B. The Profit and Loss statement and final distribution of profits and rates on the saving and investments accounts complies with the basis approved by us in accordance with the Islamic Shari'ah principles.

C. Since the management of the bank is not authorized to pay Zakat directly, the responsibility paying Zakat is that of the Shareholders.

We ask all Mighty Allah, Most Gracious, to grant us guidance and righteousness.

وبرأينا فإن :

أ. العقود والعمليات المنفذة من قبل البنك خلال الفترة المنتهية في ٣١ ديسمبر ٢٠٠٩ والتى تمت مراجعتها ، جاءت موافقة للمباديء والأحكام المقرة في الشريعة الإسلامية ، كما تنوه الهيئة بتعاون الإدارة معها في الإلتزام بتنفيذ التوصيات والملاحظات التي أبدتها الهيئة على الموضوعات التي كانت محلاً للملاحظة والإستدراك، بما حقق للأعمال الإنسجام مع للقرارات الشرعية.

ب. إن بيان الأرباح والخسائر الإجمالي والتوزيع النهائي لأرباح حسابات التوفير والإستثمار ونسب التوزيع قد تمت بناءً على القواعد والأسس المعتمدة من قبلنا والمتوافقة مع شروط الشريعة الإسلامية.

ج. بما أن إدارة البنك غير مخولة لدفع الزكاة مباشرة ، فإن مسئولية دفع الزكاة تقع على عاتق المساهمين.

نسأل الله العلى العظيم أن يوفقنا لما فيه صالح أمرنا.

الشيخ / عبد العزيز الخليفي
رئيس الهيئة الشرعية
Abdul Aziz Al Khulaifi
SSB Chairman

الشيخ / د. محمد علي القري
عضو الهيئة الشرعية
Dr. Mohamed Ali Elgari
SSB Member

The Commercial Bank of Qatar (Q.S.C.)
Consolidated Statement of Financial Position ("Balance Sheet") as at 31 December 2009

		Figures in thousand Qatar Riyals	
		2009	2008
ASSETS	**Notes**		
Cash and balances with Central Bank	**6**	4,374,423	3,015,283
Due from banks and financial institutions	**7**	5,643,561	14,315,648
Loans, advances and financing activities for customers	**8**	31,929,268	33,897,513
Financial investments	**9**	9,747,368	4,774,963
Investments in associates	**10**	3,759,865	3,641,486
Property and equipment	**11**	1,029,632	1,136,073
Other assets	**12**	833,242	703,705
Total assets		**57,317,359**	61,484,671
LIABILITIES			
Due to banks and financial institutions	**13**	7,391,335	10,922,869
Customer deposits	**14**	24,021,375	29,337,943
Borrowing under repurchase agreements		367,936	781,226
Debt issued and other borrowed funds	**15**	9,924,358	6,096,091
Other liabilities	**16**	1,351,999	1,520,166
Total liabilities excluding unrestricted investment accounts		**43,057,003**	48,658,295
Unrestricted investment accounts	**17**	2,250,173	2,847,931
Total liabilities including unrestricted investment accounts		**45,307,176**	51,506,226
EQUITY			
Share capital	**18**	2,165,156	2,062,053
Legal reserve	**18**	6,627,925	5,923,731
Shareholder's advance	**18**	807,294	-
General reserve	**18**	26,500	26,500
Cumulative changes in fair value	**18**	(105,864)	(442,857)
Risk reserve	**18**	638,300	638,300
Other reserves	**18**	416,565	325,933
Proposed dividend	**18**	1,299,093	1,443,437
Retained earnings	**18**	135,214	1,348
Total equity		**12,010,183**	9,978,445
Total liabilities and equity		**57,317,359**	61,484,671

The consolidated financial statements have been approved by the board of directors and signed on their behalf by the following on 18 January 2010.

HE Abdullah bin Khalifa Al Attiyah
Chairman

Mr. Hussain Ibrahim Alfardan
Managing Director

Mr. A C Stevens
Group Chief Executive Officer

The attached notes 1 to 32 form part of these consolidated financial statements.

The Commercial Bank of Qatar (Q.S.C.)
Consolidated Statement of Income for the year ended 31 December 2009

	Notes	Figures in thousand Qatar Riyals 2009	2008
Interest income	19	2,908,031	2,692,416
Interest expense	20	(1,323,895)	(1,474,808)
Net interest income		**1,584,136**	1,217,608
Income from Islamic financing and investment activities	21	208,961	180,896
Less: unrestricted investment account holders' share of profit		(132,306)	(106,413)
Net income from Islamic financing and investment activities		**76,655**	74,483
Fee and commission income	22	778,014	1,040,015
Fee and commission expense		(99,212)	(96,564)
Net fee and commission income		**678,802**	943,451
Dividend income		62,710	39,108
Net gains from dealing in foreign currencies	23	119,620	130,925
Profit from financial investments	24	36,644	276,030
Other operating income	25	219,055	87,024
		438,029	533,087
Net operating income		**2,777,622**	2,768,629
General and administrative expenses	26	(666,711)	(682,137)
Depreciation	11	(92,742)	(67,973)
Recoveries of impairment losses on loans to financial institutions, net		-	2,466
Impairment losses on loans and advances to customers, net	8	(461,050)	(61,278)
Impairment losses on financial investments		(181,943)	(464,850)
Impairment losses on other assets		(4,521)	-
Total operating expenses and impairment losses		**(1,406,967)**	(1,273,772)
Profit before share of results of associates		**1,370,655**	1,494,857
Share of results of associates	10	152,939	207,585
Net profit for the year		**1,523,594**	1,702,442
- Basic/diluted earnings per share (QAR)	27	**7.08**	8.76

The attached notes 1 to 32 form part of these consolidated financial statements.

The Commercial Bank of Qatar (Q.S.C.)
Consolidated Statement of Comprehensive Income for the year ended 31 December 2009

	Figures in thousand Qatar Riyals	
	2009	2008
Net profit for the year	**1,523,594**	1,702,442
Other comprehensive income		
Share of other comprehensive income of associates	25,964	(99,366)
Net movement in fair value of available for sale investments	311,029	(531,917)
Other comprehensive income (loss) for the year	**336,993**	(631,283)
Total comprehensive income for the year	**1,860,587**	1,071,159

The attached notes 1 to 32 form part of these consolidated financial statements.

The Commercial Bank of Qatar (Q.S.C.)
Consolidated Statement of Changes in Equity for the year ended 31 December 2009

Figures in thousand Qatar Riyals

	Share Capital	Legal Reserve	Share holder's Advance	General Reserve	Cumulative Changes in Fair Value	Risk Reserve	Other Reserves	Retained Earnings			Total
								Proposed Dividend	Proposed Bonus Shares	Other	
Balance at 1 January 2008	1,401,579	2,915,602	-	26,500	188,426	346,300	171,903	560,632	420,474	196,401	6,227,817
Total comprehensive income for the year	-	-	-	-	(631,283)	-	-	-	-	1,702,442	1,071,159
Contribution for social responsibilities	-	-	-	-	-	-	-	-	-	(8,000)	(8,000)
Dividend from associates for 2007 transferred to retained earnings	-	-	-	-	-	-	(53,555)	-	-	53,555	-
Statutory reserve for Global Card Services	-	28	-	-	-	-	-	-	-	(28)	-
Share of result of associates	-	-	-	-	-	-	207,585	-	-	(207,585)	-
Risk reserve as per QCB regulation	-	-	-	-	-	292,000	-	-	-	(292,000)	-
Dividends for the year 2007	-	-	-	-	-	-	-	(560,632)	-	-	(560,632)
Increase in share capital	240,000	-	-	-	-	-	-	-	-	-	240,000
Increase in legal reserve	-	3,008,101	-	-	-	-	-	-	-	-	3,008,101
Distribution of bonus shares for the year 2007	420,474	-	-	-	-	-	-	-	(420,474)	-	-
Proposed cash dividend	-	-	-	-	-	-	-	1,443,437	-	(1,443,437)	-
Balance at 31 December 2008	2,062,053	5,923,731	-	26,500	(442,857)	638,300	325,933	1,443,437	-	1,348	9,978,445
Balance at 1 January 2009	2,062,053	5,923,731	-	26,500	(442,857)	638,300	325,933	1,443,437	-	1,348	9,978,445
Total comprehensive income for the year	-	-	-	-	336,993	-	-	-	-	1,523,594	1,860,587
Dividend from associates for 2008 transferred to retained earnings	-	-	-	-	-	-	(62,307)	-	-	62,307	-
Statutory reserve for Global Card Services	-	3	-	-	-	-	-	-	-	(3)	-
Share of results of associates	-	-	-	-	-	-	152,939	-	-	(152,939)	-
Risk reserve as per QCB regulation	-	-	-	-	-		-	-	-	-	-
Dividends for the year 2008	-	-	-	-	-	-	-	(1,443,437)	-	-	(1,443,437)
Increase in share capital (note 18)	103,103	-	-	-	-	-	-	-	-	-	103,103
Increase in legal reserve (note 18)	-	704,191	-	-	-	-	-	-	-	-	704,191
Shareholder's advance (note 18)	-	-	807,294	-	-	-	-	-	-	-	807,294
Proposed cash dividend (note 18)	-	-	-	-	-	-	-	1,299,093	-	(1,299,093)	-
Balance at 31 December 2009	2,165,156	6,627,925	807,294	26,500	(105,864)	638,300	416,565	1,299,093	-	135,214	12,010,183

The attached notes 1 to 32 form part of these consolidated financial statements.

The Commercial Bank of Qatar (Q.S.C.)
Consolidated Statement of Cash Flows for the year ended 31 December 2009

	Notes	2009	2008
		Figures in thousand Qatar Riyals	
Cash flows from operating activities			
Net profit for the year		1,523,594	1,702,442
Adjustments for:			
Depreciation	**11**	92,742	67,973
Amortisation of transaction cost	**15**	10,013	9,048
Impairment losses on loans and advances, net		461,050	58,812
Impairment losses on financial investments		181,943	464,850
Impairment losses on other assets		4,521	
Profit from sale of property and equipment		(170,060)	(9,792)
Share of results of associates	**10**	(152,939)	(207,585)
Profit from financial investments		(36,644)	(276,030)
Profit before changes in operating assets and liabilities		**1,914,220**	1,809,718
Net (increase) decrease in operating assets			
Due from banks and financial institutions		617,080	(417,604)
Loans, advances and financing activities for customers		(1,266,548)	(8,947,763)
Other assets		(129,537)	(316,669)
Net increase (decrease) in operating liabilities			
Due to banks and financial institutions		(413,290)	731,226
Customer deposits		(5,914,326)	6,420,160
Other liabilities		(168,167)	640,629
Net cash used in operating activities		**(5,360,568)**	(80,303)
Cash flows from Investing activities			
Purchase of financial investments		(3,115,523)	(1,972,513)
Investment in associates		(1,300)	(284,920)
Dividend received from associates		62,307	82,646
Proceeds from sale of financial investments		1,082,990	1,141,472
Purchase of property and equipment	**11**	(271,539)	(482,893)
Proceeds from sale of property and equipment		451,300	26,960
Net cash used in investing activities		**(1,791,765)**	(1,489,248)
Cash flows from Financing activities			
Proceeds from debt issued other borrowed funds	**15**	5,747,454	1,375,938
Repayment of debt issued other borrowed funds	**15**	(1,929,200)	(2,912,000)
Net proceeds from issue of shares and shareholder's advances	**18**	1,614,588	3,248,101
Dividends paid		(1,443,437)	(560,632)
Net cash from financing activities		**3,989,405**	1,151,407
Net decrease in cash and cash equivalents during the year		(3,162,928)	(418,144)
Effects of foreign exchange fluctuation		-	40
Cash and cash equivalents at 1 January	**32**	4,269,168	4,687,272
Cash and cash equivalents at 31 December	**32**	**1,106,240**	4,269,168
Operational cash flows from interest and dividends:			
Interest/profit paid		2,722,320	1,505,551
Interest/profit received		5,583,333	2,806,490
Dividends received		62,710	39,108

The attached notes 1 to 32 form part of these consolidated financial statements.

1. CORPORATE INFORMATION

The Commercial Bank of Qatar (Q.S.C.) ("the Bank") was incorporated in the State of Qatar in 1975 as a public shareholding company under Emiri Decree No.73 of 1974. The Bank and its subsidiaries (together the "Group") are engaged in conventional banking, Islamic banking services and credit card business and operate through its head office and branches established in the State of Qatar. The Bank also acts as a holding company for its subsidiaries engaged in credit card business in the Sultanate of Oman and Egypt.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on historical cost basis, except for available-for-sale investments, derivative financial instruments and financial assets held for trading, that have been measured at fair value. The consolidated financial statements are presented in Qatar Riyals (QAR), and all values are rounded to the nearest QAR thousand except when otherwise indicated.

Statement of compliance

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

The Group presents its statement of financial position broadly in the order of liquidity. An analysis regarding recovery or settlement within 12 months after the balance sheet date ("current") and more than 12 months of the balance sheet date ("non-current") is presented in Note 3.4.3.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

The Group sponsors the formation of special purpose entities (SPE's), primarily for the purpose of debt issuance and to accomplish certain specific and well defined objectives. The Group consolidates those SPEs if the substance of its relationship with them indicates that it has control over them. The consolidated financial statements of the Group include the financial statements of the Bank and its subsidiaries (listed below) fully owned by the Group:

Name of subsidiaries	Country of Incorporation	Share Capital
Orient 1 Limited	Bermuda	US$ 20,000,000
Diners Club Services Egypt SAE	Egypt	LE 3,700,000
Global Card Services LLC	Sultanate of Oman	OMR 500,000
CBQ Finance Limited	Bermuda	US$ 1,000

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following standards, amendments and interpretations. The adoption of these standards, amendments and interpretations did not have any effect on the financial performance or position of the Group. They did, however, give rise to additional disclosures.

IAS 1 Presentation of financial statements

This standard requires an entity to present all owner changes in equity and all non-owner changes to be presented either in one statement of comprehensive income or in two separate statements of income and comprehensive income. The Group has elected to present comprehensive income in two separate statements of income and comprehensive income.

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

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

IFRS 8 Operating segments

The new standard which replaced IAS 14 'Segment Reporting' requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the Chief Operating decision maker.

IFRIC 13 Customer Loyalty Programmes

The IFRIC issued IFRIC 13 in June 2007. This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. The Group takes part in these programmes by purchasing loyalty points from a third party supplier, who bears the cost of providing benefits to the customer. Historically, and under the requirements of IFRIC 13, the Group records the expense of the customer loyalty programme as a transaction cost within operating expenses. The fair values of the points earned by the customer are recognised by the Group as revenue when it fulfils its obligations in respect of the awards. As the existing accounting treatment adopted by the Group for customer loyalty programmes is consistent with IFRIC 13, the adoption of the Interpretation has had no significant impact on the current or comparative results of the Group.

The following amendments and interpretations became effective in 2009, but were not relevant for the Group's operations

IFRIC 16	Hedges of a net investment in a foreign operation
IFRIC 9 and IAS 39	Embedded derivatives
IAS 32 and IAS 1(Amendment)	Puttable financial instruments and obligations arising on liquidation
IAS 23	Borrowing costs
IFRS 2	Share based payments – Vesting conditions and cancellations

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

Standards, amendments and interpretations issued but not adopted

The following standards, amendments and interpretations have been issued but are mandatory for the Group's accounting periods beginning on or after 1 July 2009 or later periods and are expected to be relevant to the Group:

Standard /interpretation	Content	Effective date
IFRS 1 and IAS 27	Cost of an investment in a subsidiary, jointly controlled entity or associate	1 July 2009
IFRS 3	Business combinations	1 July 2009
IAS 27	Consolidated and separate financial statements	1 July 2009
IAS 39	Financial instruments: Recognition and measurement – eligible hedged items	1 July 2009
IFRIC 17	Distribution of non-cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from customers	1 July 2009
IFRS 9	Financial instruments part 1: Classification and measurement	1 January 2013

The Group is considering the implications of the above standards, the impact on the Group and the timing of its adoption by the Group. The Group did not early adopt new or amended standards in 2009.

2.3 Summary of significant accounting policies

Investment in Associates

The Group's investment in its associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence but not control.

Under the equity method, the investment in the associates is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment.

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associates are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on the Group's investment in its associates. The Group determines at the end of the reporting period whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Interest in a joint venture
A joint venture exists where the Group has a contractual arrangement with one or more parties to undertake activities typically, however not necessarily, through entities that are subject to joint control. As investments in associates, the Group recognises interests in a jointly controlled entity using the equity method. The explanations given above therefore apply for joint ventures.

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors of the Bank as its chief operating decision maker.

All transactions between operating segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining operating segment performance.

Foreign currency translation

(a) Functional and presentation currency

The consolidated financial statements are presented in Qatar Riyals, which is Group's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(b) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates 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. The gain and losses on revaluation of foreign currency non-monetary available-for-sale investments are recognised in the consolidated statement of changes in equity.

(c) Group companies

As at the reporting date, the assets and liabilities of subsidiaries are translated into the Group's presentation currency at the rate of exchange ruling at the balance sheet date, and their statement of incomes are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

Financial Instruments – initial recognition and subsequent measurement

The Group classifies its financial instruments in the following categories. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Management determines the classification of its financial instruments at initial recognition.

(a) Financial investments held for trading ("HFT")

A financial asset is classified as held for trading ("HFT") if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These investments are subsequently re-measured at fair value, and all related unrealized gains and losses are included in the consolidated statement of income. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Financial investments held for trading are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of income.

(b) Due from banks and financial institutions and Loans and advances to customers ("LaR")

Due from banks and Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Islamic financing such as Murabaha, Ijara and Musawama are stated at their gross principal amount less any amount received, allowance for impairment and unearned profit. Subsequent to initial measurement, due from banks and financial institutions and loans and advances are carried at amortised cost using the effective interest rate method (EIR) less allowance for impairment.

(c) Held-to-maturity financial investments ("HTM")

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

Held-to-maturity financial investments are carried at amortised cost. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the consolidated statement of income. The losses arising from impairment are recognised in the consolidated statement of income.

(d) Available-for-sale investments ("AFS")

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available for sale investments include equity and debt securities.

The Group uses trade date accounting for regular way contracts when recording financial assets and liabilities. Financial assets are initially recognised at fair value plus transaction costs.

Available-for-sale financial investments are carried at fair value subsequent to initial recognition.

Gains and losses arising from changes in the fair value of available-for-sale financial investments are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in consolidated statement of income. However, interest or profit calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available- for-sale are recognised in the consolidated statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(e) Debt issued and other borrowed funds

Financial instruments or their components issued by the Group, which are not designated at fair value through profit or loss, are classified as liabilities under ‘Debt issued and other borrowed funds’, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the EIR.

Derecognition of financial assets and financial liabilities

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Fair values

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Group’s best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group’s derivative trading instruments includes forward foreign exchange contracts and interest rate swaps. The Group sells these derivatives to customers in order to enable them to transfer, modify or reduce current and future risks. These derivative instruments are fair valued as at the balance sheet date and the corresponding fair value changes is taken to the consolidated statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Repurchase agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized on the statement of financial position as 'Borrowings under repurchase agreements', reflecting its economic substance as a loan to the Group. The differences between the sale and repurchase prices are treated as interest expense and are accrued over the life of the agreement using the effective interest rate method.

Unrestricted investment accounts

Profit distribution among unrestricted investment account holders and shareholders of Islamic Branch is guided by Qatar Central Bank regulations. All income and expenses of Islamic branch for the financial year are taken into consideration for profit distribution. The unrestricted investment account holders' share of profit is calculated on the basis of their daily deposit balances over the year, after deducting the pre-agreed and declared Mudaraba fee.

Expenses or losses which arise out of misconduct on the part of the Bank due to non compliance of regulatory instructions or sound banking norms, are not borne by the unrestricted investment account holders. In case of Islamic branch results at 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 who holds judgment authority on all such matters.

Leasing

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Revenue recognition

a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading, are recognized within 'interest income' and 'interest expense' in the consolidated statement of income using the effective interest method.

Income from financing and investment contracts under Islamic banking principles are recognized within 'income from Islamic finance and investment activities' in the consolidated statement of income using a method that is analogous to the effective 'yield' rate.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Fees and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognized as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recognized ratably over the period in which the service is provided. Performance linked fees or fee components are recognized when the performance criteria are fulfilled.

c) Dividend income

Dividends are recognized in the consolidated statement of income when the entity's right to receive payment is established.

Impairment of financial assets

a) Financial assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are significant, and individually or collectively for financial assets that are not significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of loan loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The resulting provision is not materially different from that resulting from the application of the Qatar Central Bank guidelines. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statement of income in impairment charge for loans and advances.

b) Financial assets classified as available-for-sale

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in consolidated statement of income is removed from equity and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

c) Renegotiated loans

Renegotiated loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

Intangible Assets

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. The recognition and measurement criteria for intangible assets are as follows:

1. Intangible assets identified during acquisitions

Intangible assets identified upon acquisition of subsidiaries or associates are included at fair value and amortised over the useful life of the intangible assets.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible Assets (continued)

2. Franchise rights

Franchise rights have a finite useful life and are carried at cost less accumulated amortisation and impairment if any. Amortisation is calculated using the straight-line method to allocate the cost of franchise over the franchise period. The Group annually carries out impairment tests on the carrying value of the franchise rights.

Property and equipment

Land and buildings comprise mainly branches and offices. All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings 20 years,
- Furniture and equipment 3 - 8 years,
- Motor vehicles 5 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income/expenses in the consolidated statement of income.

Properties acquired against settlement of customers' debts

Properties acquired against settlement of customers' debts are stated in the consolidated statement of financial position under the item "Other assets" at their acquisition value net of allowance for impairment.

According to Qatar Central Bank instructions, the Group should dispose of any land and properties acquired against settlement of debts within a period not exceeding three years from the date of acquisition although this period can be extended after obtaining approval from Qatar Central Bank.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances maturing within three months' from the date of placement, including cash and non-restricted balances with Qatar Central Bank and Due from/Due to Banks.

Provisions

Provisions for legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

The Group creates provisions charging the consolidated statement of income for any potential claim, taking into consideration the value of the potential claim and its likelihood.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the consolidated statement of income the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

Any increase in the liability relating to guarantees is taken to the consolidated statement of income.

Employee benefits

Defined benefit plan
The Group makes provision for end of service benefits payable to its expatriate employees on the basis of the employees's length of service in accordance with the employment policy of the Group and the applicable provisions of Labour Law. This provision is included in other provisions as part of other liabilities in the consolidated statement of financial position. The expected costs of these benefits are accrued over the period of employment.

Defined contribution plans
Also the Group provides for its contribution to the State administered retirement fund for Qatari employees in accordance with the retirement law, and the resulting charge is included within the personnel cost under the general administration expenses in the consolidated statement of income. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized when they are due.

Fiduciary activities

The Group acts as fund manager and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, corporates and other institutions. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

Off-balance sheet

Off-balance sheet items include Group's obligations with respect to forward foreign exchange contracts, interest rate swaps and others. These do not constitute actual assets or liabilities at the balance sheet date except for assets and obligations relating to fair value gain or loss on these derivative financial instruments.

3.1 Financial instruments

Definition and classification

Financial instruments comprise the Group's financial assets and liabilities. Financial assets include cash and balances with Central bank, due from banks and financial institutions, loans and advances, financial investments, derivative financial assets and certain other assets and financial liabilities include customer deposits, borrowings under repurchase agreements and due to banks and other financial institutions, debt issued and other borrowed funds, derivative financial liabilities and certain other liabilities. Financial instruments also include rights and commitments included in off- balance sheet items.

Note 2 describes the accounting policies followed by the Group in respect of recognition and measurement of the key financial instruments and their related income and expense.

Risk management

The Group derives its revenue from assuming and managing customer risk for profit. Through a robust governance structure, risk and return are evaluated to produce sustainable revenue, to reduce earnings volatility and increase shareholder value. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk.

Credit risk reflects the possible inability of a customer to meet his/her repayment or delivery obligations. Market risk, which also includes foreign currency, interest rate risks and other price risks, is the risk of fluctuation in asset and commodity values caused by changes in market prices and yields. Liquidity risk results in the inability to accommodate liability maturities and withdrawals, fund asset growth or otherwise meet contractual obligations at reasonable market rates. Operational risk is the potential for loss resulting from events involving people, processes, technology, legal issues, external events or execution or regulatory issues.

The Group's Market Risk and Structural Risk Management policies envisage the use of interest rate derivative contracts and foreign exchange derivative contracts as part of its asset and liability management process.

Risk committees

The governance structure of the Group is headed by the Board of Directors. The Board of Directors evaluates risk utilising the Group Chief Executive Officer and the following Board and Management committees:

1. Board Risk Committee is responsible for all aspects of Enterprise Risk Management including but not restricted to credit risk, market risk, and operational risk. This committee sets the policy on all risk issues and maintains oversight of all Group risks through the Management Risk Committee**.**
2. Board Audit Committee is responsible for setting the policy on all Audit issues and maintains oversight of all Bank audit issues through the Management Audit Committee. In addition, it is also be responsible for Compliance & Anti-Money Laundering.
3. Policy and Strategy Committee is a Board committee which is responsible for all policies and strategies of the business.
4. Board Executive Committee is responsible for evaluating and granting credit facilities and to approve the Group's investment activities within authorized limits as per Qatar Central Bank and Board of Directors' guidelines.
5. Management Credit Committee is the highest management level authority on all counterparty risk exposures product programmes, associated expenditure programmes there under and underwriting exposures on syndications and securities transactions.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

Risk committees (continued)

6. Management Risk Committee is the highest management authority on all risk related issues at the Group and its subsidiaries and affiliates in which it has strategic investments. This committee provides recommendations on all risk policy and portfolio issues to the Board Risk Committee.
7. Asset Liability Committee (ALCO) is a management committee which is a decision making body for developing policies relating to all asset and liability management (ALM) matters.
8. Shari'ah Supervisory Board is an independent committee comprising three renowned external Islamic Scholars and Specialists in Islamic banking, to ensure that the activities, products and transactions of the Islamic branches are in compliance with Islamic principles (Shari'ah). The Shari'ah Board discharge their responsibilities by conducting periodical audits. All new Islamic products require Shari'ah board pre-approval.

3.2 Credit risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is the most important risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit risk is attributed to both on-statement of financial position financial instruments such as loans, overdrafts, debt securities and other bills, Islamic finances, investments, and acceptances and credit equivalent amounts related to off-balance sheet financial instruments. The Group's approach to credit risk management preserves the independence and integrity of risk assessment, while being integrated into the business management processes. Policies and procedures, which are communicated throughout the organisation, guide the day-to-day management of credit exposure and remain an integral part of the business culture. The goal of credit risk management is to evaluate and manage credit risk in order to further enhance this strong credit culture.

3.2.1 Credit risk management

(a) Loans and Advances

The Group has significantly enhanced its loan mix. This improvement is being achieved through a strategy of reducing exposure to non-core client relationships while increasing the size of the consumer portfolio comprising of consumer loans, vehicle loans, credit cards and residential mortgages, which have historically recorded very low loss rates. In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Group reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derive the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

(i) The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. Clients of the Group are segmented based on a 10 point scale into five rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2.1 Credit risk management (continued)

Group's internal ratings scale and mapping of external ratings

Group's rating	Description of the grade	External rating: Standard & Poor's equivalent
Grade A	Low risk – excellent	AAA, AA+, AA-, A+, A-
Grade B	Standard/Satisfactory risk	BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-
Grade C	Sub-standard – watch	CCC to C
Grade D	Doubtful	D
Grade E	Bad debts	E

The ratings of the major rating agency shown in the table above are mapped to Group's rating grades based on the long-term average default rates for each external grade. The Group uses the external ratings where available to benchmark internal credit risk assessment. Observed defaults per rating category vary year on year, especially over an economic cycle.

(ii) Exposure at default is based on the amounts the Group expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Group includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

(iii) Loss given default or loss severity represents the Group's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

(b) Debt securities and other bills

For debt securities and other bills, external rating such as Standard & Poor's rating or their equivalents are used by Group Treasury for managing of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

3.2.2 Risk limit control and mitigation policies

(a) Portfolio Diversification

Portfolio diversification is an overriding principle, therefore, the credit policies are structured to ensure that the Group is not over exposed to a given client, industry sector or geographic area. To avoid excessive losses if any single counter-party is unable to fulfil its payment obligations, large exposure limits have been established per credit policy. Limits are also in place to manage exposures to a particular country or sector. These risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

(b) Collateral

In order to proactively respond to credit deterioration the Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

• Mortgages over residential properties;

• Charges over business assets such as premises, inventory and accounts receivable;

• Charges over financial instruments such as debt securities and equities.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2.2 Risk limit control and mitigation policies (continued)

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.
Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Islamic banking division manages its credit risk exposure by ensuring that its customer's meet the minimum credit standards as defined by the Credit Risk Management (CRM) process of the Group.

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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

3.2.3 Maximum exposure to credit risk before collateral held or other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position including derivatives. The maximum exposure is shown gross, before the effect of any mitigation through the use of any collateral held or other credit enhancements. Where financial instruments are recorded at fair value, the amounts shown 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.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2.3 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

	Figures in thousand Qatar Riyals	
	2009	2008
Credit risk exposures relating to the on-balance sheet assets are as follows:		
Due from banks and financial institutions	5,643,561	14,315,648
Loans, advances and financing for customers:		
Retail loans	4,593,100	5,488,819
Corporate loans	25,036,954	25,988,143
Islamic finance	2,299,214	2,420,551
Financial investments	8,856,215	3,014,253
Other assets	739,159	601,220
On balance sheet total as at 31 December	**47,168,203**	51,828,634
Credit risk exposures relating to the off-balance sheet are as follows:		
Acceptances	135,619	2,388,401
Guarantees	11,220,436	14,488,472
Letter of credit	4,964,947	5,335,915
Unutilised credit facilities	4,717,558	5,653,694
Off balance sheet total as at 31 December	**21,038,560**	27,866,482
Total	**68,206,763**	79,695,116

Balances with Central bank are not included in the credit risk exposures as these attract a sovereign risk weight of zero.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2.4 Risk concentration for maximum exposure to credit risk by Sector

An industry sector analysis of the group's financial assets, before taking into account collateral held or other credit enhancements, is as follows

	Figures in thousand Qatar Riyals	
	2009	2008
	Gross maximum exposure	Gross maximum exposure
Funded		
Government	8,963,007	2,629,162
Government institutions & semi-government	1,952,609	3,246,072
Industry	1,515,348	1,245,591
Commercial	4,216,655	4,767,946
Financial services	10,134,891	18,102,288
Contracting	3,730,024	3,404,813
Real estate	6,449,380	5,968,583
Consumers	5,742,045	7,092,719
Other sectors	4,464,244	5,371,460
Total funded	47,168,203	51,828,634
Un-funded		
Government institutions & semi-government	340,677	640,339
Financial services	4,977,544	6,373,273
Commercial and others	15,720,339	20,852,870
Total un-funded	21,038,560	27,866,482
Total	**68,206,763**	79,695,116

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

* For commercial lending, charges over real estate properties, inventory and trade receivables
* For retail lending, mortgages over residential properties.

The Group also obtains guarantees from parent companies for loans to their subsidiaries. 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 allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Total maximum exposure net of collateral is QAR 47 billion (2008: QAR 55 billion). The main types of collateral obtained are cash 3% (2008: 6%), mortgages 53% (2008: 47%), equity and debt securities 2% (2008: 3%), Government guarantees 13% (2008: 16%) and other eligible securities 28% (2008: 28%) of the total collateral.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2.5 Credit quality of financial assets with credit risk exposure

(a) The following table sets out the credit qualities of its loans and advances portfolio as per the Group's internal ratings.

Figures in thousand Qatar Riyals

31 December 2009	Neither past due nor impaired	Past due but not impaired	Impaired	**Gross Total**
Risk Grading				
A: Low risk – excellent	11,638,995	71,137	-	11,710,132
B: Standard/satisfactory risk	18,155,051	2,061,685	-	20,216,736
C: Sub-standard – watch	-	-	-	-
D: Doubtful	-	-	-	-
E: Bad debts	-	-	724,842	724,842
Gross	29,794,046	2,132,822	724,842	32,651,710
Less: allowance for impairment	-	(4,335)	(718,107)	(722,442)
Net	29,794,046	2,128,487	6,735	31,929,268
31 December 2008				
Risk Grading				
A: Low risk – excellent	12,290,845	33,821	-	12,324,666
B: Standard/satisfactory risk	20,471,866	1,098,114	-	21,569,980
C: Sub-standard – watch	-	-	-	-
D: Doubtful	-	-	-	-
E: Bad debts	-	-	289,592	289,592
Gross	32,762,711	1,131,935	289,592	34,184,238
Less: allowance for impairment	-	-	(286,725)	(286,725)
Net	32,762,711	1,131,935	2,867	33,897,513

Note: The past due loans and advances as of 31 December 2008 have been restated to recognise the full outstanding balance of the borrower within each past due category. Previously, the table showed only the amount overdue at 31 December 2008.

(b) Due from banks and financial institutions

Exposures to due from banks and financial institutions are either of Low Risk (grade A) or Standard risk (grade B). There are no past due or impaired balances in the portfolio as at 31 December 2009 (2008: -nil-)

(c) Financial investments (debt securities)

Figures in thousand Qatar Riyals

	2009	2008
Held to maturity	7,383,251	2,481,162
Available for sale	1,744,742	764,696
Less allowance for impairment	(271,778)	(231,605)
Total	8,856,215	3,014,253

Exposures to financial investment include QAR 8.0 billion to Qatari Government bonds which are "AA-" rated.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2.5 Credit quality of financial assets with credit risk exposure (continued)

(d) Other assets

There are no past due or impaired balances as at 31 December 2009 (2008: nil)

(e) Loans, advances and financing to customers which are past due but not impaired

Loans and advances to customer less than 180 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

Figures in thousand Qatar Riyals

	Conventional		AlSafa		
	Corporate	Retail	Islamic	**2009**	2008
Past due upto 30 days	407,629	218,234	88,854	714,717	580,210
Past due 31 – 60 days	460,526	114,914	94,414	669,854	282,830
Past due 61 – 90 days	248,962	54,830	7,005	310,797	87,240
Past due 91 – 180 days	317,514	97,817	22,123	437,454	181,655
	1,434,631	**485,795**	**212,396**	**2,132,822**	1,131,935

The Past due loans for 31 December 2008 have been restated to recognise the full outstanding balance of the borrower within each past due category. Previously the table showed only the amount overdue at the respective balance sheet date.

The Group has collateral in the form of blocked deposit, pledge of shares or legal mortgage against the past dues loans.

The aggregate collateral is QAR 122 million (2008: QAR 404 million) for past due upto 30 days, QAR 393 million (2008: QAR 64 million) for past due from 30 to 60 days, QAR 82 million (2008: QAR 51 million) for past due from 60 to 90 days and QAR 64 million (2008: QAR 69 million) for past due from 90 to 180 days.

(f) Impaired loans, advances and financing to customer

Impairment is identified by individual assessment of each loan as per local regulators regulations and IFRS. The impaired loans and advances to customers before taking into consideration the cash flows from collateral held is QAR 725 million (2008: QAR 290 million) Breakdown of the gross amount of impaired loans by operating segment are as follows:

Figures in thousand Qatar Riyals

	2009	2008
Individually impaired loans		
– Corporate	187,686	18,359
– Retail	517,040	268,100
– Islamic	20,116	3,133
	724,842	289,592

(g) Loans and advances to customers renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. Total value of renegotiated loans and advances during the year was QAR 33 million (2008: QAR 0.8 million).

3.2.6 Repossessed collateral

During 2009, the value of repossessed collateral is insignificant.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.3 Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposures to market risk into trading portfolios.

The Group's proprietary investments are managed according to the Group's internal investment policy, which has been approved by the Board of Directors and drafted in accordance with the Qatar Central Bank guidelines. The Group's trading activities are conducted by Treasury and Investments Division. These activities are subject to business lines guidelines and policies. The Group employs several techniques to measure and control activities including sensitivity analysis and position limits. The maximum limit of the Group's total proprietary investments (i.e. total of fair value through profit and loss, held to maturity and available for sale investment) portfolios is restricted to 70% of the Group's capital and reserves (Tier 1 capital). However the individual limit for the held for trading investment portfolio is 10% of capital and reserves (Tier 1 capital) with a maximum permissible loss to carry for a single script and for whole trading portfolio at any given time. Investment policy is reviewed by the Board of Directors annually and day to day limits are independently monitored by the Risk Management department.

Investment decisions are driven by the investment strategy, which is developed by business line under ALCO oversight and approved by the Board.

3.3.1 Foreign exchange risk

Foreign currency risk is the risk of loss that results from changes in foreign exchange rates. The Group's exposure to foreign currency risk is limited and is strictly controlled by the market risk and structural risk management policies established by the Group which govern the maximum trading and exposure limits that are permitted.

Figures in thousand Qatar Riyals

	Qatar Riyal	US Dollars	Euro	GBP	Other Currencies	Total
As at 31 December 2009						
On – balance sheet						
Assets	38,290,591	14,732,054	170,087	162,071	3,962,556	57,317,359
Liabilities	(38,948,236)	(17,840,849)	(152,924)	(149,007)	(226,343)	(57,317,359)
Net currency position	(657,645)	(3,108,795)	17,163	13,064	3,736,213	-
Off – balance sheet						
Credit commitments (Contingent liabilities)	12,732,111	6,507,218	1,495,901	27,288	276,042	21,038,560
As at 31 December 2008						
On - balance sheet						
Assets	33,445,778	23,597,767	557,526	85,852	3,797,748	61,484,671
Liabilities	(33,543,496)	(27,280,294)	(538,377)	(85,289)	(37,215)	(61,484,671)
Net currency position	(97,718)	(3,682,527)	19,149	563	3,760,533	-
Off – balance sheet						
Credit commitments (Contingent liabilities)	14,973,212	9,988,713	1,952,685	38,946	912,926	27,866,482

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued).

3.3.1 Foreign exchange risk (continued)

The table below indicates the effect of a reasonably possible movement of the currency rate against the QAR, with all other variables held constant, on the consolidated statement of income. An equivalent decrease in each of the below currencies against the QAR would have resulted in an equivalent but opposite impact.

	Change in currency rate in %	Effect on statement of income	
		2009	2008
GBP	15%	1,960	84
EUR	10%	1,716	1,915
Others	5%	186,468	188,027

3.3.2 Interest/Profit rate risk

a) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by Group Treasury.

The Asset Liability Management ("ALM") process, managed through ALCO, is used to manage interest rate risk associated with non-trading financial instruments. Interest rate risk represents the most significant market risk exposure to the Group's non-trading financial instruments.

The Group's goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect net interest income. Interest rate risk is measured as the potential volatility to the net interest rate income caused by changes in market interest rates. The Group typically manages the interest rate risk of its non-trading financial instruments by segmenting these assets and liabilities into two broad portfolios: non–discretionary and discretionary. The non-discretionary portfolio consists of the Group's customer driven loans and deposit positions and securities required to support regulatory requirements. To manage the resulting interest rate sensitivity of the Group's non-discretionary portfolio, the Group uses a discretionary portfolio of securities, long dated deposits, inter-bank takings and placements, and when warranted, derivatives. Strategically positioning the discretionary portfolio, the Group largely manages the interest rate sensitivity in the non-discretionary portfolio.

b) Profit rate risk

Profit rate risk (under Islamic banking) is the prospective risk of losing available higher earning opportunities due to locking of assets for long term at a fixed profit rate. Exposures to the profit rate risk of Islamic Assets are managed as follows:

1. For financing at fixed rate profit, a security margin to cover the expected future appreciation of profit rate is added to the deal profit rate.
2. Longer tenor and high value transactions and deals are subject to periodical profit rate revisions.
3. Financing in short term assets or include a profit rate revisionary clause in financing deal agreement.

The following table summarises the interest / profit rate sensitivity position at 31 December, by reference to the re-pricing period of the Group's assets, liabilities and off- balance sheet exposures:

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued).

Figures in thousand Qatar Riyals

	Upto 3 months	3-12 Months	Above 1 Year	Non-interest/profit sensitive	Total
As at 31 December 2009					
Cash and balances with Central Bank	2,755,000	-	-	1,619,423	4,374,423
Due from banks and financial institutions :					
- Conventional	4,512,755	18,200	172,900	-	4,703,855
- Islamic	867,866	-	71,840	-	939,706
Loans, advances and financing activities for customers:					
- Conventional	18,782,751	10,447,752	399,551	-	29,630,054
- Islamic	93,040	791,537	1,414,637	-	2,299,214
Financial investments	1,556,864	1,033,297	6,266,054	891,153	9,747,368
Investment in associates	-	-	-	3,759,865	3,759,865
Property and equipment and other assets	571,824	52,953	-	1,238,097	1,862,874
Total assets	**29,140,100**	**12,343,739**	**8,324,982**	**7,508,538**	**57,317,359**
Due to banks and financial institutions	7,391,335	-	-	-	7,391,335
Customer deposits	17,055,921	2,348,215	42,147	4,575,092	24,021,375
Borrowing under repurchase agreement	367,936	-	-	-	367,936
Debt issued and other borrowed funds	1,815,223	2,361,681	5,747,454	-	9,924,358
Other liabilities	501,664	36,882	18,441	795,012	1,351,999
Unrestricted investment accounts	-	-	-	2,250,173	2,250,173
Equity	-	-	-	12,010,183	12,010,183
Total liabilities and equity	**27,132,079**	**4,746,778**	**5,808,042**	**19,630,460**	**57,317,359**
Interest rate sensitivity gap	2,008,021	7,596,961	2,516,940	(12,121,922)	-
Cumulative interest rate sensitivity gap	**2,008,021**	**9,604,982**	**12,121,922**	**-**	**-**
As at 31 December 2008					
Cash and balances with Central bank	1,000,000		-	2,015,283	3,015,283
Due from banks and financial institutions :					
- Conventional	12,350,148	222,040	350,300	-	12,922,488
- Islamic	1,393,160	-	-	-	1,393,160
Loans, advances and financing activities for customers :					
- Conventional	19,802,752	11,671,210	3,000	-	31,476,962
- Islamic	326,471	380,771	1,713,309		2,420,551
Financial investments	535,619	3,353,600	-	885,744	4,774,963
Investment in associates	-	-	-	3,641,486	3,641,486
Property and equipment and other assets	203,963	-	-	1,635,815	1,839,778
Total assets	**35,612,113**	**15,627,621**	**2,066,609**	**8,178,328**	**61,484,671**
Due to banks and financial institutions	3,192,259	7,730,610	-	-	10,922,869
Customer deposits	22,745,486	2,089,413	81,388	4,421,656	29,337,943
Borrowing under repurchase agreement	-	781,226	-	-	781,226
Debt issued and other borrowed funds	6,096,091	-	-	-	6,096,091
Other liabilities	199,928	-	-	1,320,238	1,520,166
Unrestricted investment accounts	-	-	-	2,847,931	2,847,931
Equity	-	-	-	9,978,445	9,978,445
Total liabilities and equity	**32,233,764**	**10,601,249**	**81,388**	**18,568,270**	**61,484,671**
Interest rate sensitivity gap	3,378,349	5,026,372	1,985,221	(10,389,942)	-
Cumulative interest rate sensitivity gap	**3,378,349**	**8,404,721**	**10,389,942**	**-**	**-**

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued).

c) Interest Rate Sensitivity

The following table demonstrates the sensitivity to reasonable possible changes in interest rates, with all other variables held constant, of the Group's statement of income.

The sensitivity of the statement of income is the effect of the assumed changes in interest rate on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities. The effect of decreases in interest rates is expected to be equal and opposite to the effect of the increases as shown below on the consolidated statement of income and equity.

Figures in thousand Qatar Riyals

	Change in basis points	Sensitivity of net interest income		Sensitivity of equity	
	Increase (decrease)	**2009**	2008	**2009**	2008
Currency					
QAR	25bp	(35,239)	10,600	1,300	-
USD/Others	25bp	(20,820)	3,090	2,729	1,637

3.3.3 Equity Price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as available-for-sale. A 10 per cent and 15 per cent increase in the Qatar Exchange and Abu Dhabi stock exchange market index, respectively, at 31 December 2009 would have increased equity by QAR 6 million (2008: QAR 121 million). An equivalent decrease would have resulted in an equivalent but opposite impact.

Figures in thousand Qatar Riyals

Market indices	**Change in equity indices**	**Effect on equity**	
		2009	**2008**
Qatar Exchange *	10%	-	102,326
Abu Dhabi Stock Exchange	15%	6,138	19,389

* As at 31 December 2009 bank does not have any outstanding equities (refer to note 9(i))

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued).

3.4 Liquidity Risk

Liquidity is the ongoing ability to accommodate liability maturities, fund asset growth and meet other contractual obligations in a timely and cost effective fashion. Liquidity management involves the maintenance of an ample and diverse funding capacity, liquid assets and other source of cash to cushion fluctuations in asset and liability levels arising from unanticipated events or market turbulence.

3.4.1 Liquidity risk management process

The management of liquidity risk is governed by the Group's liquidity policy. The primary objective of liquidity risk management; over which ALCO has oversight, is to provide a planning mechanism for unanticipated changes in the demand or needs for liquidity created by customer behaviour or abnormal market conditions. ALCO emphasises the maximisation and preservation of customer deposits and other funding sources. ALCO also monitors deposit rates, levels, trends and significant changes. Deposit marketing plans are regularly reviewed for consistency with the liquidity policy requirements. ALCO has in place a contingency plan, which is periodically reviewed. The Group's ability to raise wholesale and/or long term funding at competitive costs is directly impacted by our credit ratings, which are as follows:

Moody's: Long Term A1, Short Term P-1 and Financial strength C-, outlook stable.

Fitch : Long Term A, Short Term F1 and Financial strength C, outlook stable.

Standard & Poor's: Long Term A-, Short Term A-2 outlook stable.

3.4.2 Funding approach

Sources of liquidity are regularly reviewed by ALCO of the Group to maintain a wide diversification by currency, geography, provider, product and term.

3.4.3 Non-derivative cash flows

The following table sets out the maturity profile of the Group's major assets and liabilities. The contractual/expected maturities of assets and liabilities have been determined on the basis of the remaining period at 31 December to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

The Bank is subject to certain prudential requirements as per Qatar Central Bank regulations. At 31 December 2009 the liquidity ratio was 112.26% (2008: 107.91%). The minimum ratio limit determined by Qatar Central Bank is 100%.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued).

3.4.3 Non-derivative cash flows (continued)

On balance sheet items — **Figures in thousand Qatar Riyals**

	During 1 month	1-3 Months	3-12 Months	**Subtotal 1 Year**	Above 1 Year	No maturity	Total
As at 31 December 2009							
Cash and balances with Central Bank	2,755,000	-	-	2,755,000	-	1,619,423	4,374,423
Due from banks and financial institutions	5,117,081	200,200	18,200	5,335,481	244,740	63,340	5,643,561
Loans, advances and financing activities for customers	6,218,769	688,848	1,944,208	8,851,825	23,077,443	-	31,929,268
Financial investments	1,538,664	18,200	1,033,297	2,590,161	6,266,054	891,153	9,747,368
Investment in associates	-	-	-	-	-	3,759,865	3,759,865
Property, equipment and other assets	430,619	141,205	52,953	624,777	-	1,238,097	1,862,874
Total assets	16,060,133	1,048,453	3,048,658	20,157,244	29,588,237	7,571,878	57,317,359
Due to banks and financial institutions	7,081,935	309,400	-	7,391,335	-	-	7,391,335
Customer deposits	16,569,060	4,241,485	3,168,683	23,979,228	42,147	-	24,021,375
Borrowing under repurchase agreement	-	367,936	-	367,936	-	-	367,936
Debt issued and other borrowed funds	-	-	-	-	9,924,358	-	9,924,358
Other liabilities	417,616	84,048	36,882	538,546	18,441	795,012	1,351,999
Unrestricted investment accounts	1,151,704	752,580	285,983	2,190,267	59,906	-	2,250,173
Total liabilities	25,220,315	5,755,449	3,491,548	34,467,312	10,044,852	795,012	45,307,176
Maturity gap	(9,160,182)	(4,706,996)	(442,890)	(14,310,068)	19,543,385	6,776,866	12,010,183
As at 31 December 2008							
Cash and balances with Central Bank	1,058,727	-	-	1,058,727	-	1,956,556	3,015,283
Due from banks and financial institutions	13,637,584	17,776	222,040	13,877,400	350,300	87,948	14,315,648
Loans, advances and financing activities for customers	5,701,032	1,581,275	2,441,947	9,724,254	24,173,259	-	33,897,513
Financial investments	-	-	-	-	3,621,283	1,153,680	4,774,963
Investment in associates	-	-	-	-	-	3,641,486	3,641,486
Property, equipment and other assets	203,963	-	-	203,963	-	1,635,815	1,839,778
Total assets	20,601,306	1,599,051	2,663,987	24,864,344	28,144,842	8,475,485	61,484,671
Due to banks and financial institutions	10,922,869	-	-	10,922,869	-		10,922,869
Customer deposits	21,350,419	6,177,436	1,786,224	29,314,079	23,864	-	29,337,943
Borrowing under repurchase agreement	-	-	781,226	781,226	-	-	781,226
Debt issued and other borrowed funds	-	-	1,922,538	1,922,538	4,173,553	-	6,096,091
Other liabilities	199,928	-	-	199,928	-	1,320,238	1,520,166
Unrestricted investment accounts	1,372,743	1,114,475	303,189	2,790,407	57,524	-	2,847,931
Total liabilities	33,845,959	7,291,911	4,793,177	45,931,047	4,254,941	1,320,238	51,506,226
Maturity gap	(13,244,653)	(5,692,860)	(2,129,190)	(21,066,703)	23,889,901	7,155,247	9,978,445

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued).

3.4.3 Non-derivative cash flows (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations.

Figures in thousand Qatar Riyals

	During 1 month	Up to 3 months	3-12 Months	Above 1 Year	Total
As at 31 December 2009					
Due to banks and financial institutions	7,157,525	312,702	-	-	7,470,227
Customer deposits	17,099,335	4,377,229	3,270,093	43,496	24,790,153
Borrowing under repurchase agreement	-	370,766	-	-	370,766
Debt issued and other borrowed funds	-	-	-	10,306,194	10,306,194
Unrestricted investment accounts	1,179,753	752,580	350,342	81,359	2,364,034
Total Liabilities	25,436,613	5,813,277	3,620,435	10,431,049	45,301,374
As at 31 December 2008					
Due to banks and financial institutions	11,051,676	-	-	-	11,051,676
Customer deposits	22,299,681	6,452,091	1,865,518	24,923	30,642,213
Borrowing under repurchase agreement	-	-	805,053	-	805,053
Debt issued and other borrowed funds	-	-	1,978,753	4,400,784	6,379,537
Unrestricted investment accounts	1,452,943	1,114,475	364,809	120,165	3,052,392
Total Liabilities	34,804,300	7,566,566	5,014,133	4,545,872	51,930,871

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued).

3.4.4 Derivative financial instruments

Generally, forward foreign exchange contracts are settled on a gross basis and interest rate swaps are settled on a net basis.

	Figures in thousand Qatar Riyals			
	Up to 1 Year	1 - 3 Years	Over 3 Years	Total
As at 31 December 2009				
Forward foreign exchange contracts				
- Outflow	(1,867,181)	-	-	(1,867,181)
- Inflow	1,871,959	-	-	1,871,959
Interest rate swaps				
- Outflow	(11,947)	(42,392)	(278,213)	(332,552)
- Inflow	25,599	46,920	267,412	339,931
Total outflow	(1,879,128)	(42,392)	(278,213)	(2,199,733)
Total inflow	1,897,558	46,920	267,412	2,211,890
As at 31 December 2008				
Forward foreign exchange contracts				
- Outflow	(1,304,797)	-	-	(1,304,797)
- Inflow	1,305,113	-	-	1,305,113
Interest rate swaps				
- Outflow	(7,322)	(45,335)	(296,682)	(349,339)
- Inflow	18,117	50,562	289,367	358,046
Total outflow	(1,312,119)	(45,335)	(296,682)	(1,654,136)
Total inflow	1,323,230	50,562	289,367	1,663,159

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued).

3.4.5 Off-balance sheet items

The table below summarises the maturity profile of the Group's off balance sheet financial instruments based on the earliest contractual maturity date.

	Figures in thousand Qatar Riyals		
	Below 1 Year	Above 1 Year	Total
As at 31 December 2009			
Loan commitments	870,842	3,846,716	4,717,558
Guarantees, acceptances and other financial facilities	11,907,148	4,413,854	16,321,002
Capital commitments	36,100	-	36,100
Total	12,814,090	8,260,570	21,074,660
As at 31 December 2008			
Loan commitments	1,304,913	4,348,781	5,653,694
Guarantees, acceptances and other financial facilities	13,591,312	8,621,476	22,212,788
Capital commitments	6,492	-	6,492
Total	14,902,717	12,970,257	27,872,974

3.4.6 Fair value of financial assets and liabilities

Based on the methods used to determine the fair value of financial instruments explained in note 2, following are the financial assets and liabilities:

	Figures in thousand Qatar Riyals			
Financial assets	**Carrying value**		**Fair value**	
	2009	2008	**2009**	2008
Balances with Central Bank excluding cash	4,012,329	2,610,269	4,012,329	2,610,269
Due from banks and financial institutions	5,643,561	14,315,648	5,643,561	14,315,648
Loans, advances and financing activities for customers	31,929,268	33,897,513	31,929,268	33,897,513
Financial investments	9,747,368	4,774,963	10,307,409	4,679,674
Financial liabilities				
Due to banks and financial institutions	7,391,335	10,922,869	7,391,335	10,923,143
Customer deposits	24,021,375	29,337,943	24,021,375	29,337,943
Borrowings under repurchase agreements	367,936	781,226	367,936	775,331
Debt issued and other borrowed funds	9,924,358	6,096,091	9,807,547	5,899,868
Unrestricted investment accounts	2,250,173	2,847,931	2,250,173	2,847,931

i) Due from banks and financial institutions

Due from banks includes inter-bank placements and lending to banks and financial institutions. The fair values of these financial instruments are not different from its carrying value as the total portfolio has a very short duration and are re-priced frequently.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued).

3.4.6 Fair value of financial assets and liabilities (continued)

ii) Loans, advances and financing activities for customers

Loans and advances are net of allowance for impairment. The estimated fair value of loans and advances is not significantly different from its carrying value, as a significant portion of the portfolio is subject to frequent re-pricing in line with market rates.

iii) Financial investments

Financial investments includes held to maturity, available for sale and held for trading investments. Investments classified as available for sale and held for trading are measured at fair value. Fair value for held-to-maturity investment is primarily based on market prices, where ever market price is not available, the Group establishes the fair value using valuation techniques that includes discounted cash flow analysis, recent arms length transactions and other valuation techniques commonly used by market participants. The fair values of held to maturity investments are stated in note 9.

iv) Due to banks and financial institutions

Due to banks includes interbank takings, short term borrowing, overnight and term deposits. The fair values of these financial instruments are not different from its carrying value as the total portfolio has a very short term duration and are re-priced frequently.

v) Debt issued and other borrowed funds

The estimated fair value of other borrowed funds represents the discounted value of estimated future cash flow expected to be paid using current market rates for similar loan facilities. The fair value of borrowed funds is disclosed in note 15.

vi) Customer deposits

The estimated fair value of non-interest bearing deposits approximate carrying value. The estimated fair value of interest bearing deposits is also not different from the carrying values on the balance sheet date, as almost the total portfolio maturity is of very short duration and is re-priced at market rates.

3.4.7 Classes of financial instrument

The table below shows the financial instruments held by the Group by IAS 39 category

Figures in thousand Qatar Riyals

Financial assets	HFT	LaR	HTM	AFS	Total
31 December 2009					
Balances with Central Bank excluding cash	-	4,012,329	-	-	4,012,329
Due from banks and financial institutions	-	5,643,561	-	-	5,643,561
Loans and advances to customers	-	31,929,268	-	-	31,929,268
Financial investments	-	-	7,244,664	2,502,704	9,747,368
Positive fair value of derivatives	271,764	-	-	-	271,764
31 December 2008					
Balances with Central Bank excluding cash	-	2,610,269	-	-	2,610,269
Due from banks and financial institutions	-	14,315,648	-	-	14,315,648
Loans and advances to customers	-	33,897,513	-	-	33,897,513
Financial investments	76	-	2,359,547	2,415,340	4,774,963
Positive fair value of derivatives	203,963	-	-	-	203,963

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued).

3.4.7 Classes of financial instrument (continued)

Figures in thousand Qatar Riyals

Financial liabilities	At amortised cost	HFT	Total
31 December 2009			
Due to banks and financial institutions	7,391,335	-	7,391,335
Customer deposits	24,021,375	-	24,021,375
Borrowings under repurchase agreements	367,936	-	367,936
Debt issued and other borrowed funds	9,924,358	-	9,924,358
Unrestricted investment accounts	2,250,173	-	2,250,173
Negative fair value of derivatives	-	265,754	265,754
31 December 2008			
Due to banks and financial institutions	10,922,869	-	10,922,869
Customer deposits	29,337,943	-	29,337,943
Borrowings under repurchase agreements	781,226	-	781,226
Debt issued and other borrowed funds	6,096,091	-	6,096,091
Unrestricted investment accounts	2,847,931	-	2,847,931
Negative fair value of derivatives	-	199,928	199,928

3.4.8 Fair value disclosures

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

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

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

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued).

3.4.8 Fair value disclosures (continued)

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

Figures in thousand Qatar Riyals

	31-Dec-09	Level 1	Level 2	Level 3
Financial assets				
Financial investments available-for-sale				
Quoted investments :				
Qatar Government debt securities	432,352	-	432,352	-
Other debt securities	125,927	-	125,927	-
Equities	68,937	68,937	-	-
Unquoted investments :	-	-	-	-
Qatar Government debt securities	520,060	-	520,060	-
Other debt securities	504,571	-	504,571	-
Islamic debt securities	28,641	-	28,641	-
Equities	420,849	-	1,506	419,343
Investment funds	401,367	-	243,102	158,265
	2,502,704	**68,937**	**1,856,159**	**577,608**
Derivative instruments				
Interest rate swaps	256,077	-	256,077	-
Forward foreign exchange contracts	15,687	-	15,687	-
	271,764	**-**	**271,764**	**-**
Financial liabilities				
Derivative instruments				
Interest rate swaps	253,434	-	253,434	-
Forward foreign exchange contracts	12,320	-	12,320	-
	265,754	**-**	**265,754**	**-**

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

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value.

Figures in thousand Qatar Riyals

	Unquoted		
	Equities	**Investment funds**	**Total**
Balance at 1 January 2009	424,936	239,749	664,685
Losses recorded in P&L	(1,059)	(36,834)	(37,893)
Losses recorded in equity	(7,854)	(7,983)	(15,837)
Purchases/(Sales)	3,320	(36,667)	(33,347)
Balance at 31 December 2009	419,343	158,265	577,608

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued).

3.5 Capital management

The Group's objectives in managing capital, which is a broader concept than the 'equity' on the face of balance sheet, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities of the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The capital adequacy ratio of the Group is calculated in accordance with the Basel Committee guidelines as adopted by Qatar Central Bank, using the deduction method (2008: pro-rata consolidation method) for its investments in associates.

Capital Adequacy

	Figures in thousand Qatar Riyals	
	2009	2008
Tier I Capital	8,298,722	9,640,737
Tier II Capital	801,200	313,428
Total Capital	**9,099,922**	9,954,165
Risk weighted assets	**48,239,705**	63,581,945
Tier I Capital ratio	17.20%	15.16%
Total Capital ratio	**18.86%**	15.66%

Tier I capital includes share capital, legal reserve, general reserve, other reserves, shareholder's advance and retained earnings including current year profit and excluding proposed dividend.

Tier II capital includes risk reserve (up to 1.25% of the risk weighted assets) and fair value reserve (45% if positive and 100% if negative) and subordinated debt.

The minimum ratio limit determined by Qatar Central Bank is 10% and the Basel Committee requirement is 8%. The increase of Tier II capital in 2009 mainly resulted from net proceeds of Subordinated debt issue (see note 15).

3.6 Risk management in relation to others' investments

The Group is managing customers' investments either directly or in the form of investment portfolios. The management of these investments by the Group could lead to some legal and operational risks. Accordingly, the Group takes necessary measures to control these risks.

Management of client's investment portfolios are guided by the terms and conditions recorded in written agreements signed by the respective clients. These portfolios are primarily invested in fixed income, capital guaranteed or coupon paying structures. Proper books of records for such portfolios are maintained as per Qatar Central Bank guidelines.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued).

3.7 Operational risk

Operational risk is the risk of direct or indirect loss that may result from inadequate or failed technology, human performance, process or external events. The Group endeavours to minimise operational losses by ensuring that effective infrastructure, controls, system and individuals are in place throughout the organisation.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

(a) Impairment losses on loans and advances

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Impairment of available-for-sale investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates amongst other factors, the normal volatility in share price. The Group reviews its debt securities classified as available-for-sale debt instruments at each balance sheet date. This requires similar judgement as applied to the individual assessment of loans and advances. In addition, impairment may be relevant when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows. If any such evidence of impairment for available-for-sale financial assets exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in statement of income is removed from equity and recognized in the statement of income.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued).

(c) Held-to-maturity investments

The Group follows the guidance contained in International Accounting Standard 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

(d) Impairment of held to maturity investments

For held-to-maturity investments, the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of income.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the 'Impairment losses on financial investments'.

(e) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models 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 such as correlation and volatility for longer dated derivatives.

(h) Useful lives of property and equipment

The Group's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset, physical wear and tear, technical or commercial obsolescence.

(i) Going concern

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued).

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the investment in Associates, management believes that no reasonably possible change in any one of the key assumptions would cause the carrying value of the investment to materially exceed its recoverable amount.

The estimated recoverable amount is equal to its carrying value, and consequently any adverse change in a key assumption would result in further impairment loss.

5. SEGMENT INFORMATION

For management purposes, the Group is divided into four operating segments which are based on business lines, and associated companies as follows:

Conventional Banking:

- Corporate Banking provides an extensive range of conventional (non-Islamic) funded and non-funded credit facilities, demand and time deposit services, investment advisory and brokerage services, currency exchange facilities, interest rate swaps and other derivative trading services, loan syndication and structured financing services to Corporate, Commercial and Multinational Customers. Money Market funds and proprietary investment portfolio are also managed by this business segment.

- Retail Banking provides personal current, savings, time and investment accounts services, credit card and debit card services, consumer loans and residential mortgage services, custodial services to retail and individual customers.

- AlSafa Islamic Banking – provides Islamic principle (Shari'ah) compliant banking services such as current, savings, time and investment account services, consumer and finance leasing, trade finances to retail, corporate and commercial customers.

- Orient 1 – a subsidiary of the Bank provides credit card services in the Sultanate of Oman and Egypt.

Unallocated assets, liabilities and revenues are related to some central functions and non core business operations, like Group head quarters, staff apartments, Common property & equipments, Cash Functions, Development projects related payables etc.

Associated Companies – includes the Group's strategic acquisitions in National Bank of Oman in Oman and United Arab Bank UAE, Asteco LLC and Gekko LLC in the State of Qatar, all of which are accounted for under the equity method.

5. SEGMENT INFORMATION (continued).

Management monitors the operating results of the operating segments separately to make decisions about resource allocation and performance assessment. Transfer prices between operating segments are on an arm's length basis. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2009 or 2008.

Segment assets and liabilities comprise operating assets and liabilities which are directly handled by the operating segment and income or expenses are attributed in line with the assets and liabilities ownership. The following table summarizes performance of the operating segments:

(a) By operating segment

31 December 2009 — **Figures in thousand Qatar Riyals**

	Conventional			AlSafa			
	Corporate Banking	Retail Banking	Total	Islamic Banking	Orient 1	Unallocated	**Total**
Net interest/similar income	1,253,809	329,642	1,583,451	76,655	3,519	(2,834)	**1,660,791**
Other income	701,829	166,499	868,328	32,167	6,784	209,552	**1,116,831**
Segmental revenue	1,955,638	496,141	2,451,779	108,822	10,303	206,718	**2,777,622**
Impairment losses on loans and advances, net of recovery	(266,019)	(182,042)	(448,061)	(13,057)	68	-	**(461,050)**
Impairment losses on financial investments	(154,498)	-	(154,498)	(27,445)	-	-	**(181,943)**
Impairment losses on other assets	-	(99)	(99)	-	(4,422)	-	**(4,521)**
Segmental profit			**1,235,602**	**34,747**	**1,531**	**98,775**	**1,370,655**
Share of results of associates						152,939	**152,939**
Net profit for the year							**1,523,594**
Other information							
Assets	43,487,361	5,194,909	48,682,270	3,532,414	77,906	1,264,904	**53,557,494**
Investments in associates						3,759,865	**3,759,865**
Liabilities	34,285,435	7,495,200	41,780,635	3,199,666	2,619	324,256	**45,307,176**
Contingent items	20,011,770	1,026,790	21,038,560	-	-	-	**21,038,560**

- Intra-group transactions are eliminated from this segmental information (Assets: QAR 141 million, Liabilities: QAR 68 million)

5. SEGMENT INFORMATION (continued).

(a) By operating segment (continued).

31 December 2008 **Figures in thousand Qatar Riyals**

	Conventional			AlSafa Islamic Banking	Orient 1	Unallocated	**Total**
	Corporate Banking	Retail Banking	Total				
Net interest/similar income	845,814	399,925	1,245,739	74,483	3,323	(31,454)	1,292,091
Other income	1,110,817	282,669	1,393,486	29,484	14,264	39,304	1,476,538
Segmental revenue	1,956,631	682,594	2,639,225	103,967	17,587	7,850	2,768,629
Impairment losses on loans and advances, net of recovery	4,163	(61,272)	(57,109)	(1,936)	233	-	(58,812)
Impairment losses on financial investments	(464,850)	-	(464,850)	-	-	-	(464,850)
Segmental profit (loss)			1,475,972	70,645	6,662	(58,422)	1,494,857
Share of results of associates						207,585	207,585
Net profit for the year							1,702,442
Other information							
Assets	46,143,090	6,003,174	52,146,264	4,065,535	77,623	1,553,763	57,843,185
Investments in associates						3,641,486	3,641,486
Liabilities	40,344,074	6,968,548	47,312,622	3,744,890	3,872	444,842	51,506,226
Contingent items	26,312,814	1,553,668	27,866,482	-	-	-	27,866,482

* Intra-group transactions are eliminated from this segmental information (Assets: QAR 127 million, Liabilities: QAR 54 million)

5. SEGMENT INFORMATION (continued).

(b) By geography

Geographically, the Group operates in Qatar. Its subsidiaries and associates are in Qatar, Sultanate of Oman, United Arab Emirates and Egypt.

Figures in thousand Qatar Riyals

Statement of financial position	Qatar	Other GCC countries	Europe	North America	Others	Total
As at 31 December 2009						
Cash and balances with central bank	4,374,418	-	-	-	5	4,374,423
Due from banks and financial institutions	4,216,617	436,517	804,664	106,839	78,924	5,643,561
Loans, advances and financing activities for customers	28,794,489	2,490,146	273,000	91,000	280,633	31,929,268
Financial investments	8,253,253	251,731	354,436	752,696	135,252	9,747,368
Investment in associates	4,215	3,755,650	-	-	-	3,759,865
Property and equipment and other assets	1,855,517	-	-	-	7,357	1,862,874
Total assets	47,498,509	6,934,044	1,432,100	950,535	502,171	57,317,359
Due to banks and financial institutions	5,203,480	1,604,633	445,065	6,615	131,542	7,391,335
Customer deposits	19,697,768	1,081,723	2,659,929	-	581,955	24,021,375
Borrowing under repurchase agreements	-	-	367,936	-	-	367,936
Debt issued and other borrowed funds	5,747,454	2,361,681	1,815,223	-	-	9,924,358
Other liabilities	1,349,556	-	-	-	2,443	1,351,999
Unrestricted investment accounts	2,250,173	-	-	-	-	2,250,173
Equity	12,010,183	-	-	-	-	12,010,183
Total liabilities and equity	46,258,614	5,048,037	5,288,153	6,615	715,940	57,317,359
As at 31 December 2008						
Cash and balances with central bank	3,015,278	-	-	-	5	3,015,283
Due from banks and financial institutions	6,635,763	4,663,829	2,432,374	477,357	106,325	14,315,648
Loans, advances and financing activities for customers	29,865,141	3,276,465	418,628	91,000	246,279	33,897,513
Financial investments	2,860,421	350,591	426,459	983,650	153,842	4,774,963
Investment in associates	2,915	3,638,571	-	-	-	3,641,486
Property and equipment and other assets	1,828,835	-	-	-	10,943	1,839,778
Total assets	44,208,353	11,929,456	3,277,461	1,552,007	517,394	61,484,671
Due to banks and financial institutions	9,096,352	1,644,512	77,900	-	104,105	10,922,869
Customer deposits	26,820,199	310,880	2,170,656	-	36,208	29,337,943
Borrowing under repurchase agreements	-	-	781,226	-	-	781,226
Other borrowed funds	-	4,282,209	1,813,882	-	-	6,096,091
Other liabilities	1,516,811	-	-	-	3,355	1,520,166
Unrestricted investment accounts	2,847,931	-	-	-	-	2,847,931
Equity	9,978,445	-	-	-	-	9,978,445
Total liabilities and equity	50,259,738	6,237,601	4,843,664	-	143,668	61,484,671

5. SEGMENT INFORMATION (continued).

(a) By geography (continued).

Figures in thousand Qatar Riyals

Statement of Income	Qatar	Other GCC countries	Europe	North America	Others	Total
Year ended 31 December 2009						
Interest/similar income	2,900,373	144,676	42,575	14,659	14,709	3,116,992
Interest/similar expense	(1,145,994)	(164,188)	(138,568)	(6,532)	(919)	(1,456,201)
Net interest/similar income	1,754,379	(19,512)	(95,993)	8,127	13,790	1,660,791
Fee, commission and other income	1,104,542	1,678	813	2,810	6,988	1,116,831
Net operating income	2,858,921	(17,834)	(95,180)	10,937	20,778	2,777,622
General and administrative expenses	(662,412)	-	-	-	(4,299)	(666,711)
Depreciation	(92,623)	-	-	-	(119)	(92,742)
Impairment losses on loans and advances to customers, net	(461,118)	-	-	-	68	(461,050)
Impairment losses on financial investments	(22,754)	(54,565)	(12,628)	(84,472)	(7,524)	(181,943)
Impairment losses on other assets	(99)	-	-	-	(4,422)	(4,521)
Profit before share of results of associates	1,619,915	(72,399)	(107,808)	(73,535)	4,482	1,370,655
Share of results of associates	(1,885)	154,824				152,939
Net profit for the year	**1,618,030**	**82,425**	**(107,808)**	**(73,535)**	**4,482**	**1,523,594**
Year ended 31 December 2008						
Interest/similar income	2,454,529	210,178	140,506	25,342	42,757	2,873,312
Interest/similar expense	(1,082,785)	(276,632)	(167,598)	(13,847)	(40,359)	(1,581,221)
Net interest/similar income	1,371,744	(66,454)	(27,092)	11,495	2,398	1,292,091
Fee, commission and other income	1,377,388	35,910	29,984	(1,747)	35,003	1,476,538
Net operating income	2,749,132	(30,544)	2,892	9,748	37,401	2,768,629
General and administrative expenses	(671,233)	-	-	-	(10,904)	(682,137)
Depreciation	(67,719)	-	-	-	(254)	(67,973)
Impairment losses on loans and advances, net	(61,511)	2,466	-	-	233	(58,812)
Impairment losses on financial investments	(464,850)	-	-	-	-	(464,850)
Profit before share of results of associates	1,483,819	(28,078)	2,892	9,748	26,476	1,494,857
Share of results of associates	1,415	206,170	-	-	-	207,585
Net profit for the year	1,485,234	178,092	2,892	9,748	26,476	1,702,442

6. CASH AND BALANCES WITH CENTRAL BANK

	Figures in thousand Qatar Riyals	
	2009	2008
Cash	362,094	405,014
Cash reserve with Qatar Central Bank*	1,257,329	1,551,542
Other balances with Qatar Central Bank	2,755,000	1,058,727
Total	**4,374,423**	3,015,283

*The cash reserve with Qatar Central Bank is not available for use in the Group's day to day operations.

7. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	Figures in thousand Qatar Riyals	
	2009	2008
Demand accounts	63,859	87,496
Placements:		
- Conventional	4,534,365	12,585,200
- Islamic	782,000	1,201,200
Loans to banks and financial institutions	263,337	441,752
Total due from banks and financial institutions	5,643,561	14,315,648

8. LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS

Figures in thousand Qatar Riyals

i) By industry

	Islamic	**Loans**	**Overdrafts**	**Bills discounted**	**2009 Total**	2008 Total
Government	-	-	962,499	-	962,499	533,951
Government and semi-government agencies	-	1,897,852	-	-	1,897,852	3,246,072
Industry	-	1,466,152	30,121	2,824	1,499,097	1,245,591
Commercial	-	4,136,908	235,914	31,047	4,403,869	4,770,276
Services	96,068	4,035,752	131,602	34,628	4,298,050	3,530,699
Contracting	74,981	3,514,318	115,198	25,527	3,730,024	3,404,813
Real estate	660,083	5,655,414	749	-	6,316,246	5,911,130
Consumption	1,062,780	4,332,947	881,075	-	6,276,802	7,371,318
Other	421,494	2,389,759	456,018	-	3,267,271	4,170,388
Sub Total	2,315,406	27,429,102	2,813,176	94,026	32,651,710	34,184,238
Allowance for impairment					(722,442)	(286,725)
Net loans and advances					31,929,268	33,897,513

As part of Government of Qatar's programme of initiatives to support the banking sector, Commercial bank has sold loans and advances to customers and other exposures to the Government amounting to QAR 3,043 million. The Government paid QAR 188 million in cash and provided QAR 2,855 million in Government bonds in consideration for the sold assets.

The total non-performing loans, advances and financing activities at 31 December 2009 amounted to QAR 725 million, representing 2.2% of the total loans, advances and financing activities (2008: QAR 290 million representing 0.85% of the total loans, advances and financing activities).

Interest in suspense of QAR 173 million (2008: QAR 94 million) is, for the purpose of the Qatar Central Bank regulatory requirements, effectively included in the impairment allowance amount.

Islamic financing is carried at net of deferred profit QAR 433 million (2008: QAR 418 million)

Figures in thousand Qatar Riyals

ii) Movement in allowance for impairment

	Conventional	**Islamic**	**2009 Total**	2008 Total
Balance at 1 January	283,590	3,135	286,725	202,275
Allowance for individually impairment made during the year	547,711	13,091	560,802	118,084
Allowance for collective impairment made during the year	3,992	343	4,335	-
Amounts recovered during the year	(19,673)	(377)	(20,050)	(21,421)
Net allowance for impairment during the year *	532,030	13,057	545,087	96,663
Allowance for impairment used during the year for write off's	(109,370)	-	(109,370)	(12,213)
Balance at 31 December	**706,250**	**16,192**	**722,442**	286,725

* This includes net interest suspended during the year QAR 84 million (2008: QAR 35 million)

9. FINANCIAL INVESTMENTS

	Figures in thousand Qatar Riyals	
	2009	**2008**
Investments comprise of the following		
a) Available-for-sale investments	2,502,704	2,415,340
b) Investments held-to-maturity	7,244,664	2,359,547
c) Investments held-for-trading	-	76
Balance at end of the year	**9,747,368**	4,774,963

i) Available-for-sale investments ("AFS")

By type

	Figures in thousand Qatar Riyals			
	2009		2008	
At fair value	**Listed**	**Unlisted**	Listed	Unlisted
Equities	68,937	420,849	827,108	482,948
Qatar Government bonds in USD	432,352	-	14,196	-
Qatar Government bonds in QAR	-	520,060	-	-
Other debt securities - Fixed rate	125,927	123,394	90,563	108,387
Other debt securities - Floating rate	-	381,177	32,395	383,326
Islamic sukuk - Fixed rate	-	10,441	-	7,639
Islamic sukuk - Floating rate	-	18,200	-	18,200
Investment funds		401,367	-	450,578
Total	**627,216**	**1,875,488**	964,262	1,451,078

Equities, other debt securities and investment funds are net of impairment losses of QAR 301 million (2008: QAR 398 million). Allowance for impairment during the year QAR 137 million (2008: QAR 343 million).

During March 2009, the Bank took up the Government's offer to buy the Qatar DSM equity investment portfolios of local banks, and has sold its entire portfolio of Qatar equities which had a net book value of QAR 937.9 million. The Government paid QAR 417.8 million in cash and provided a five-year bond amounting to QAR 520.1 million that is included in the available-for-sale investment portfolio.

ii) Held-to-maturity investments ("HTM")

By type

	Figures in thousand Qatar Riyals			
	2009		2008	
At amortised cost	**Listed**	**Unlisted**	Listed	Unlisted
Qatar Government bonds in USD	760,062	-	915,399	-
Qatar Government bonds in QAR	-	4,783,926	-	1,126,230
Securities issued by Central Bank	-	1,504,108	-	-
Other debt securities	-	107,235	-	206,313
Islamic bonds	-	89,333	37,856	73,749
Total *	760,062	6,484,602	953,255	1,406,292
By nature of income				
Fixed rate	760,062	6,291,551	953,255	1,280,935
Floating rate	-	193,051	-	125,357
Total *	760,062	6,484,602	953,255	1,406,292

* The fair value of held to maturity investments amounted to QAR 7,805 million at 31 December 2009 (2008: QAR 2,264 million).

9. FINANCIAL INVESTMENTS (continued).

Other debt securities are net of impairment losses of QAR 139 million (2008: QAR 122 million), provided during the year QAR 44 million.

Investments held-to-maturity includes the bonds provided by the Government in settlement of sold loans and advances to customers and other exposures as stated in note 8.

The carrying value of financial investments pledged under Repo agreements is QAR 420 million (2008: QAR 990 million).

10. INVESTMENTS IN ASSOCIATES

The Group's investments in associates are as follows:

Figures in thousand Qatar Riyals

Name	Country of incorporation	Our share of				% interest held	Carrying value	
		Assets	**Liabilities**	**Operating income**	**Net Profit**		**2009**	**2008**
a) National Bank of Oman SAOG	Oman							
– **2009**		5,949,653	5,017,509	269,674	71,591	**34.85%**	1,474,714	-
– 2008		6,535,286	5,632,999	290,289	135,063	34.85%	-	1,455,823
b) United Arab Bank PJSC	UAE							
– **2009**		2,772,146	2,112,492	186,481	83,233	**40.00%**	2,282,821	-
– 2008		2,996,519	2,464,904	166,134	71,107	40.00%	-	2,182,748
c) Asteco LLC	Qatar							
– **2009**		2,678	289	416	(585)	**30.00%**	2,330	-
– 2008		4,519	1,604	4,964	1,415	30.00%	-	2,915
d) GEKKO LLC	Qatar							
– **2009**		1,151	2,120	-	(1,300)	**50.00%**	-	-
– 2008		-	-	-	-	-	-	-
Total							3,759,865	3,641,486

10. INVESTMENTS IN ASSOCIATES (continued).

Further breakup of associates movements are as follows:

a) National Bank of Oman SAOG (NBO)

	Figures in thousand Qatar Riyals	
	2009	2008
Balance at 1 January	1,455,823	1,429,093
Less : dividend received	(62,307)	(53,039)
Share of net profit after tax	85,991	149,445
Less : amortisation of intangible assets	(14,400)	(14,382)
Share of results of associate net of tax	71,591	135,063
Exchange difference	364	(357)
Add : share of post acquisition revaluation reserve	9,243	(54,937)
Balance at 31 December	**1,474,714**	**1,455,823**

Shares of National Bank of Oman SAOG (NBO) are listed on the Muscat Securities Market and the quoted price as at 31 December 2009 was OMR 0.321. The estimated fair value of the investment based on this price is QAR 1,147 million (2008: QAR 1,304 million). Investment in associates for NBO at 31 December 2009 includes goodwill of QAR 574 million (2008: QAR 574 million). At 31 December 2009, the Group conducted a value in use analysis to determine impairment, if any, and no impairment was noted. The value in use model considered all reasonable possible changes to the inputs, and no impairment was noted.

Under a separate management agreement with NBO, the Group is responsible for the day to day management of NBO affairs subject to the overall supervision of NBO Board. The Group does not however control NBO as only 4 out of 11 members of the board of NBO are represented by the Group.

In compliance with the International Financial Reporting Standards 3, Bank has carried out one time ‘purchase price allocation (PPA)’ exercise of the value paid for the acquisition of 34.85% shares of NBO. PPA identifies the value paid for the tangible assets, intangible assets and the premium/goodwill arising on the acquisition. Derived values of intangible assets are QR 104 million amortized over the useful life of the intangible assets.

b) United Arab Bank PJSC (UAB)

The movement in investment in UAB is as follows:

	Figures in thousand Qatar Riyals	
	2009	2008
Balance at 1 January	2,182,748	1,900,807
Add : acquired during the year	-	284,920
Less : dividend received	-	(29,607)
Share of net profit	111,290	99,164
Less : amortisation of intangible assets	(28,057)	(28,057)
Share of results of associate	83,233	71,107
Exchange difference	119	(50)
Add : share of post acquisition revaluation reserve	16,721	(44,429)
Balance at 31 December	**2,282,821**	**2,182,748**

10. INVESTMENTS IN ASSOCIATES (continued).

b) United Arab Bank (UAB) (continued)

Shares of United Arab Bank PJSC (UAB) are listed on the Abu Dhabi Securities Market and the quoted price as at 31 December 2009 was AED 6.40. The estimated fair value of the investment based on this price as at 31 December 2009 is QAR 2,527 million (2008: QAR 2,509 million). Investment in associates for UAB at 31 December 2009 includes goodwill of QAR 1.4 billion (2008: QR 1.4 billion). At 31 December 2009, the Group conducted a value in use analysis to determine impairment, if any, and no impairment was noted. The value in use model considered all reasonable possible changes to the inputs, and no impairment was noted.

Under a separate management service agreement signed with UAB, the Bank would be responsible for the day to day management of UAB affairs subject to overall supervision of the UAB board. However the Group does not control UAB as only 4 out of 9 members of the board of UAB are represented by the Group.

In compliance with the International Financial Reporting Standards 3, Bank has carried out one time 'purchase price allocation (PPA)' exercise of the value paid for the acquisition of 40.00% shares of UAB. PPA identifies the value paid for the tangible assets, intangible assets and the premium/goodwill arising on the acquisition. Derived values of intangible assets are QR 280 million amortized over the useful life of the intangible assets.

c) Asteco LLC

The movement in investment in Asteco is as follows:

	Figures in thousand Qatar Riyals	
	2009	2008
Balance at 1 January	2,915	1,500
Add : share of net loss	(585)	1,415
Balance at 31 December	2,330	2,915

Asteco is a locally incorporated entity primarily engaged in property management and sales. The Group owns 30% of the ordinary share capital.

d) GEKKO LLC

The movement in investment in GEKKO is as follows:

	Figures in thousand Qatar Riyals	
	2009	2008
Balance at 1 January	-	-
Add : acquired during the year	1,300	
Add : share of net loss	(1,300)	-
Balance at 31 December	-	-

GEKKO is a locally incorporated entity primarily engaged in the establishment of an electronic payment infrastructure in Qatar. The Group owns 50% of the ordinary share capital.

11. PROPERTY AND EQUIPMENT

Figures in thousand Qatar Riyals

	Land and buildings	Leasehold improvements	Furniture and equipment	Motor vehicles	Capital work-in-progress	Total
At 31 December 2009						
Cost:						
Balance at 1 January	705,339	62,145	387,227	7,130	289,208	1,451,049
Additions	63,545	6,227	12,507	539	188,721	271,539
Disposals	(285,600)	-	(256)	(102)	-	(285,958)
Transfers	287,767	3,846	62,771	-	(354,384)	-
Exchange differences	-	-	23	-	-	23
	771,051	72,218	462,272	7,567	123,545	1,436,653
Depreciation						
Balance at 1 January	86,667	35,360	188,784	4,165	-	314,976
Charge for the year	25,552	9,073	57,109	1,008	-	92,742
Disposals	(360)	-	(256)	(102)	-	(718)
Exchange differences	-	-	21	-	-	21
	111,859	44,433	245,658	5,071	-	407,021
Net carrying amount	659,192	27,785	216,614	2,496	123,545	1,029,632
At 31 December 2008						
Cost:						
Balance at 1 January	266,266	55,444	215,031	5,898	427,089	969,728
Additions	188,493	38	15,093	1,387	277,882	482,893
Disposals	-	(528)	(902)	(155)	-	(1,585)
Transfers	250,580	7,191	157,992	-	(415,763)	-
Exchange differences	-	-	13	-	-	13
	705,339	62,145	387,227	7,130	289,208	1,451,049
Depreciation						
Balance at 1 January	65,005	27,442	152,677	3,211	-	248,335
Charge for the year	21,662	8,446	36,756	1,109	-	67,973
Disposals	-	(528)	(660)	(155)	-	(1,343)
Exchange differences	-	-	11	-	-	11
	86,667	35,360	188,784	4,165	-	314,976
Net carrying amount	618,672	26,785	198,443	2,965	289,208	1,136,073

Capital work in progress includes QAR 17 million for Commercialbank Plaza, QAR 7 million for UmmLokha branch, QAR 40 million for branch renovations and QAR 60 million for various IT projects.

12. OTHER ASSETS

	Figures in thousand Qatar Riyals	
	2009	2008
Accrued income	353,013	284,273
Prepaid expenses	7,358	9,115
Accounts receivable	77,066	92,119
Net value of the properties acquired in settlement of debts (i)	1,700	1,700
Franchise rights (ii)	4,991	12,198
Derivatives with a positive fair value (Note 29)	271,764	203,963
Clearing cheques	37,316	20,865
Sundry assets	80,034	79,472
Balance at 31 December	**833,242**	703,705

(i) This represents the value of the properties acquired in settlement of debts which are stated at their acquisition value net of any provision required for impairment. The estimated market value of these properties as at 31 December 2009 is QAR 2.9 million (2008: QAR 8 million).

(ii) This represents the cost of acquiring the Diners Club franchises in Qatar, Egypt and Oman. The franchise costs are being amortised over the duration of the franchise agreement (20 years). The Group has written off the carrying value of the franchise rights for Qatar and Oman during the year.

13. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	Figures in thousand Qatar Riyals	
	2009	2008
Due to Central Bank	23,172	736,800
Current accounts	84,860	386,000
Placements	7,283,303	9,800,069
Balance at 31 December	**7,391,335**	10,922,869

14. CUSTOMER DEPOSITS

i) By Type

	Figures in thousand Qatar Riyals	
	2009	2008
Demand and call deposits	6,758,278	6,075,323
Savings deposits	2,256,777	1,780,681
Time deposits	14,600,939	20,985,414
Islamic branches – demand deposits	405,381	496,525
Balance at 31 December	**24,021,375**	29,337,943

14. CUSTOMER DEPOSITS (continued)

ii) By sector

	Figures in thousand Qatar Riyals	
	2009	2008
Government	1,687,363	4,340,344
Government and semi-government agencies	3,500,900	8,124,163
Individuals -		
– Conventional	7,196,214	6,724,586
– Islamic branches	147,816	133,535
Corporate -		
– Conventional	11,231,517	9,652,325
– Islamic branches	257,565	362,990
Balance at 31 December	**24,021,375**	29,337,943

Accounts held as collateral included in customer deposits QAR 668 million (2008: QAR 1.50 billion)

15. DEBT ISSUED AND OTHER BORROWED FUNDS

Syndicated Loans: This represents term borrowings raised through syndicated loan facilities from consortiums of international and regional banks, to support the general funding needs of the Group as follows:

- In April 2007, the Group obtained a syndicated loan for an amount of US$ 650 million or QAR 2,366 million for a five year period to refinance two short term loans totalling US$ 490 million or QAR 1,784 million that were fully repaid in January 2007. This is an unsecured bullet repayment loan facility with a floating rate of interest linked to US$ LIBOR plus a margin of 27.5 basis points per annum. The fair value of the loan as at 31 December 2009 is QAR 2.41 billion (2008: QAR 2.33 billion).

EMTN programme: The Group has established access to international capital markets through a listing of a US$ 1.5 billion or QAR 5,460 billion Euro Medium Term Note (EMTN) programme on the London Stock Exchange. The EMTN programme structure allows flexibility for the Group to issue both senior and subordinated instruments, across a wide range of tenors and currencies.

- The Group completed on 12 October 2006 its debut international bond issue under the EMTN programme, the first by a Qatari financial institution. The US$ 500 million or QAR 1,820 million senior Floating Rate Notes (FRN) pay a floating rate of interest coupon of 40 basis points over 3 month US$ LIBOR, and are payable in full on final maturity of 5 years. The FRNs are listed and traded on the London Stock Exchange, with settlement through Euro clear or Clearstream in Luxembourg. The estimated fair value of the bonds as at 31 December 2009 was QAR 1.76 billion (2008: QAR 1.67 billion).

Senior and Subordinated Notes: On 18 November 2009, the Commercial Bank of Qatar through CBQ Finance Limited, a wholly-owned subsidiary completed the issuance of the following notes:

- **Senior Notes:** US$ 1,000 million or QAR 3,640 million five-year Senior Notes paying a fixed coupon of 5.00% per annum. Interest is payable semi-annually in arrears and the principal is payable in full at maturity of five years. The estimated fair value of the Senior Notes as at 31 December 2009 was QAR 3.52 billion.
- **Subordinated Notes:** US$ 600 million or QAR 2,184 million ten-year Subordinated Notes paying a fixed coupon of 7.50% per annum. Interest is payable semi-annually in arrears and the principal is payable in full at maturity of ten years. The estimated fair value of the Subordinated Notes as at 31 December 2009 was QAR 2.12 billion.

  These notes have been irrevocably guaranteed by the Commercial Bank of Qatar and are listed and traded on the London Stock Exchange.

15. DEBT ISSUED AND OTHER BORROWED FUNDS (continued)

	Figures in thousand Qatar Riyals	
	2009	2008
Syndicated loans	2,361,681	4,282,209
EMTN (Bonds)	1,815,223	1,813,882
Senior Notes	3,599,858	-
Subordinated Notes	2,147,596	-
Balance at 31 December	9,924,358	6,096,091

Movements in debt issued and other borrowed funds are analysed as follows:

	Figures in thousand Qatar Riyals	
	2009	2008
Balance at beginning of the year	6,096,091	7,623,105
Additions to borrowings	5,747,454	1,375,938
Repayments of borrowings	(1,929,200)	(2,912,000)
Amortisation of discount and transaction cost	10,013	9,048
Balance at 31 December	9,924,358	6,096,091

The table below shows the maturity profile of debt issued and other borrowed funds:

	Figures in thousand Qatar Riyals	
	2009	2008
Up to 1 year	-	1,922,538
Between 1 and 3 years	4,176,904	1,813,883
Over 3 years	5,747,454	2,359,670
Balance at 31 December	9,924,358	6,096,091

16. OTHER LIABILITIES

	Figures in thousand Qatar Riyals	
	2009	2008
Deferred income	88,123	104,845
Accrued expenses	291,234	603,010
Other provisions –(note (i) below)	119,831	96,860
Derivatives with negative fair values (note 29)	265,754	199,928
Cash margins	156,850	126,204
Clearing cheque accounts	2,148	19,541
Accounts payable	255,062	196,398
Directors' remuneration	23,625	47,856
Social responsibility fund	10,637	12,481
Dividend payable	8,194	10,191
Outward cheques in collection	753	2,175
Managers' cheque and payment order	8,298	11,988
Unclaimed balances	8,007	23,361
Sundry liabilities	113,483	65,328
Total	**1,351,999**	1,520,166

i) OTHER PROVISIONS

	Figures in thousand Qatar Riyals				
	Other provision	Provident fund (a)	Pension fund (b)	Total	
				2009	2008
Balance at 1 January	2,000	94,149	711	96,860	71,066
Provisions made during the year- Bank contribution	-	19,212	3,950	23,162	23,900
Earnings of the fund	-	1,830	-	1,830	1,435
Provident fund - staff contribution	-	7,971	1,973	9,944	8,618
Transferred to State retirement fund authority	-	-	(5,910)	(5,910)	(4,640)
Payments during the year	(2,000)	(4,055)	-	(6,055)	(3,519)
Balance at 31 December	-	119,107	724	119,831	96,860

(a) The provident fund includes the Group's obligations for end of service benefits to expatriate staff per Qatar labour law and the employment contracts.

(b) Pension fund contributions in respect of the national staff are paid to the State administered retirement fund at the end of each month. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized when they are due.

17. UNRESTRICTED INVESTMENT ACCOUNTS

i) By Type	Figures in thousand Qatar Riyals	
	2009	2008
Savings deposits	167,042	221,668
Call deposits	24,828	45,770
Investment deposits	2,058,303	2,580,493
Balance at 31 December	**2,250,173**	2,847,931

ii) By Sector	Figures in thousand Qatar Riyals	
	2009	2008
Individual	645,879	607,645
Corporate	1,604,294	2,240,286
Balance at 31 December	**2,250,173**	**2,847,931**

Following are the profit distribution rates for the investment account holders.

	2009	2008
	(%)	(%)
1 year term	3.50	6.00
6 months term	3.00	5.15
3 months term	2.75	5.00
1 month term	2.50	4.75
Savings account	2.25	3.10
Special deposits	5.39	4.68
Call account	1.50	2.50

18. EQUITY

Share capital

Issued, paid up capital and shareholder's advance

The issued, subscribed and paid up capital of the Bank is QAR 2,165,155,770 (2008: QAR 2,062,053,000) divided into 216,515,577 (2008:206,205,300) ordinary shares of QAR 10 each.

At an Extraordinary General Assembly of the Bank, held on 26 November 2008, the shareholders approved and authorized the Board of Directors to increase the share capital of the Bank by a private placement of 41,241,063 ordinary shares to Qatar Investment Authority (QIA). On 17 February 2009, the Bank issued 10,310,265 new ordinary shares to the QIA out of those authorized on 26 November 2008, at a price of QAR 78.30 per share including a premium of QAR 68.30 per share.

On 30 December 2009 the Bank received in advance the second tranche of the private placement share proceeds from QIA, QAR 807.29 million being the value of 10,310,265 ordinary shares, at a price of QAR 78.30 per share including a premium of QAR 68.30 per share. These have been shown as shareholder's advance pending legal formality relating to the issue of share.

18. EQUITY (continued)

Legal reserve

The proceeds of the additional 10,310,265 new ordinary shares issued during the year was credited to share capital (nominal value) at QAR 10 per ordinary share and to legal reserve (share premium) at QAR 68.30 per ordinary share, as per Article 154 of Commercial Companies Law no. 5 of 2002. There was no directly attributable cost for this transaction.

In accordance with the Central Bank Law, 10% of the net profit for the year is required to be transferred to the Legal Reserve until the reserve equals 100% of the paid up capital. This reserve is not available for distribution except in circumstances specified in the Commercial Companies Law No. 5 of 2002 and after approval of Qatar Central Bank. Legal reserve also includes the share premium arising on rights issues from the date of incorporation.

General reserve

As per the Bank's Articles of Association, the general reserve may only be used in accordance with a resolution from the General Assembly upon the Board of Directors recommendation and after obtaining Qatar Central Bank approval.

Cumulative changes in fair value

The fair value reserve arises from the revaluation of the available-for-sale investments, change of post acquisition fair value reserve of its associates and exchange gain or loss on consolidation of subsidiaries and associates financial statements. The movement in fair value reserve during the year is as follows:

	Figures in thousand Qatar riyals	
	2009	2008
Balance at 1 January	(442,857)	188,426
Gain (loss) on revaluation	315,146	(393,690)
Transferred to statement of income, net	(4,179)	(138,187)
Share of other comprehensive income of associates	25,964	(99,366)
Adjustment for exchange rate fluctuations	62	(40)
Balance at 31 December	**(105,864)**	(442,857)

Balance at 31 December 2009 includes negative fair value of QAR 163 million (2008: QAR 506 million), including QAR 28 million (2008: QAR 44 million) being the bank's share of negative fair value of its associate.

Risk reserve

This represents a general reserve as per the regulation of Qatar Central Bank to cover a minimum 2% of the loan portfolio excluding specific provision, interest in suspense, deferred profits of Islamic branch, lending to Ministry of Finance of the State of Qatar, guaranteed by Ministry of Finance and lending against cash collaterals. This amount is not available for distribution without the prior approval of Qatar Central Bank.

18. EQUITY (continued)

Other reserves

This represents Group's share of profit from investment in associates net of cash dividend received. The movement in other reserves during the year is as follows:

	Figures in thousand Qatar Riyals	
	2009	2008
Balance at 1 January	325,933	171,903
Less : Dividend received from associates transferred to retained earnings (net of pre-acquisition dividend)	(62,307)	(53,555)
Add : Share of result of associates for the year	152,939	207,585
Balance at 31 December	**416,565**	325,933

Proposed dividend

The Board of Directors has proposed a cash dividend of 60% (or QAR 6.0 per share) for the year 2009 (2008: QAR 7.0 per share). This is subject to approval at the Annual General Assembly.

19. INTEREST INCOME

	Figures in thousand Qatar Riyals	
	2009	2008
Banks and financial institutions	118,131	273,262
Financial investments	297,173	162,355
Loans and advances to customers	2,492,727	2,256,799
Total	**2,908,031**	2,692,416

20. INTEREST EXPENSE

	Figures in thousand Qatar Riyals	
	2009	2008
Due to banks and financial institutions	124,674	183,647
Customer deposits	1,057,276	1,009,955
Debt issued and other borrowed funds	141,945	281,206
Total	**1,323,895**	1,474,808

21. INCOME FROM ISLAMIC FINANCING AND INVESTMENT ACTIVITIES

	Figures in thousand Qatar Riyals	
	2009	2008
Financing to customers	184,923	147,930
Banks and financial institutions	17,655	28,029
Financial investments	6,383	4,937
Total	**208,961**	180,896

22. FEE AND COMMISSION INCOME

	Figures in thousand Qatar Riyals	
	2009	2008
Loans and financing advisory service	374,677	616,109
Indirect credit facilities	180,214	158,043
Credit card	139,297	165,075
Banking and other operations	65,171	68,824
Investment activities for customers	18,655	31,964
Total	**778,014**	1,040,015

23. NET GAINS FROM DEALING IN FOREIGN CURRENCIES

	Figures in thousand Qatar Riyals	
	2009	2008
Profits from foreign currency transactions	122,310	128,836
(Losses)/Gains from revaluation of assets and liabilities	(2,690)	2,089
Total	**119,620**	130,925

24. PROFIT FROM FINANCIAL INVESTMENTS

	Figures in thousand Qatar Riyals	
	2009	2008
Available-for-sale	36,669	278,201
Held for trading	(25)	(2,171)
Total	**36,644**	276,030

25. OTHER OPERATING INCOME

	Figures in thousand Qatar Riyals	
	2009	2008
Management fees from associates	3,956	9,222
Rental income	34,559	23,011
Gain on sale of property and equipment and other income	180,540	54,791
Total	**219,055**	87,024

26. GENERAL AND ADMINISTRATIVE EXPENSES

	Figures in thousand Qatar Riyals	
	2009	2008
Salaries and other benefits	412,697	385,185
Bank’s contribution to provident fund and Qatari pension fund (note 16(i))	23,162	23,900
Training programmes costs	5,422	10,870
Marketing and promotional expenses	43,215	51,969
Legal and professional charges	31,322	35,716
Communication, utilities and insurance	21,206	28,586
Occupancy, IT Consumables and maintenance	65,625	54,682
Travel and entertainment expenses	2,129	5,203
Supplies	8,978	9,536
Directors' remuneration and meeting attendance fees	24,605	48,636
Others operating expenses	28,350	27,854
Total	**666,711**	682,137

27. EARNINGS PER SHARE

	2009	2008
Basic and diluted		
Net profit for the period in thousand QAR	1,523,594	1,702,442
Weighted average number of shares in thousands	215,187	194,253

The weighted average numbers of shares in thousands have been calculated as follows:

	2009	2008
Qualifying shares at the beginning of the year	206,205	140,158
Effect of bonus share	-	42,047
Effect of Right issue	-	2,485
Effect of GDR and private placement	8,982	9,563
Total	**215,187**	194,253
Basic and diluted earnings per share (QAR)	**7.08**	8.76

28. OFF-BALANCE SHEET ITEMS

	Figures in thousand Qatar Riyals	
	2009	2008
a) Contingent liabilities		
Acceptance	135,619	2,388,401
Guarantees	11,220,436	14,488,472
Letter of credit	4,964,947	5,335,915
Un-utilized credit facilities granted to customers	4,717,558	5,653,694
	21,038,560	27,866,482
b) Other undertakings and commitments		
Foreign exchange contracts and derivatives at notional value	7,105,215	6,089,289
Guaranteed investment funds	1,165	1,310
Capital commitments	36,100	6,492

29. DERIVATIVE INSTRUMENTS

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

Figures in thousand Qatar Riyals

	Positive fair value	Negative fair value	Notional Amount	Within three months	3-12 months	1 – 5 years	More than 5 years
As at 31 December 2009							
Derivatives for customers							
Interest rate swaps and forward foreign exchange contracts	271,764	265,754	7,105,215	1,363,280	2,451,158	319,347	2,971,430
As at 31 December 2008							
Derivatives for customers							
Interest rate swaps and forward foreign exchange contracts	203,963	199,928	6,089,289	1,764,224	953,830	374,074	2,997,161

The bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the bank (i.e. assets) which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the bank requires margin deposits from counter-parties.

30. INVESTMENT CUSTODIAN

On the balance sheet date the Group holds QAR 158 million (2008: QAR 231 million) worth of international investment securities on behalf of its customer's. Out of this amount, investment securities with a value of QAR 105 million equivalent to USD 29 million (2008: QAR 151 million equivalent to USD 41 million) are held with an international custody and settlement house. The remaining investment securities are held with the financial institutions through whom the securities were purchased. These financial institutions are industry leaders in their respective fields. The Group has established maximum limits for such holding with each financial institution according to its risk management policy.

31. TRANSACTIONS WITH RELATED PARTIES

The Group carries out various transactions with subsidiaries and associate companies and with members of the Board of Directors, the executive management or companies in which they have significant interest or any other parties of important influence in the Group's financial or operations decisions. The balances at the year-end with these accounts were as follows:-

	Figures in thousand Qatar Riyals	
	2009	2008
Board members		
- Loans, advances and financing activities (a)	1,633,654	968,334
- Deposits	281,523	383,760
- Contingent liabilities, guarantees and other commitments	22,462	30,906
- Interest income earned from facilities granted to board members	77,165	49,165
- Other fee income earned from transactions with board members	2,126	5,956
- Interest paid on deposits accounts of board members	75,507	46,008
- Fixed remuneration and meeting attendance fees paid to board members	26,333	49,800
Associated companies		
- NBO's deposit with the Group	255,184	1,344
- Bank's deposit with NBO	672	567
- NBO's contingent liabilities to the Group:		
- Letter of Guarantee	8,143	2,540
- Interest rate swap (notional amount)	42,545	56,727
- Interest rate swap (fair value)	2,769	3,393
- UAB's deposit with the Group	249,149	145,891
- Bank's deposit with UAB	182,000	145,600
- UAB's contingent liabilities to the Group:		
- Letter of Guarantee	16,724	7,554
- Asteco's deposit with the Group	6,698	12,200
- GEKKO's deposit with the Group	2,202	-
Senior management compensation		
- Fixed remuneration	34,593	30,216
- Discretionary remuneration	17,624	15,729
- Fringe benefits	9,322	7,460

31. TRANSACTIONS WITH RELATED PARTIES (continued)

Additional Information

a) A significant portion of the loans, advances and financing activities' balance at 31 December with the members of the Board and the companies in which they have significant influence are secured against tangible collateral or personal guarantees. Moreover, the loans, advances and financing activities' are performing satisfactorily with all obligations honored as arranged. The pricing of any such transactions are primarily based on the banker customer relationship at the prevailing market rates.

32. CASH AND CASH EQUIVALENTS FOR STATEMENT OF CASH FLOWS

	Figures in thousand Qatar Riyals	
	2009	2008
Cash and balances with Central Bank *	3,117,094	1,463,741
Due from banks and financial institutions up to 90 days	5,380,481	13,728,296
Due to banks and financial institutions up to 90 days	(7,391,335)	(10,922,869)
Balance at end of the year	1,106,240	4,269,168

*Cash and balances with Central Bank do not include the mandatory cash reserve.

The Commercial Bank of Qatar (Q.S.C.)
Supplementary information
At 31 December 2009

(A) FINANCIAL STATEMENTS FOR THE PARENT BANK

Parent Bank Balance Sheet
As at 31 December 2009

	Figures in thousand Qatar Riyals	
	2009	2008
ASSETS		
Cash and balances with Central Bank	4,374,418	3,015,278
Due from banks and financial institutions	5,643,042	14,305,060
Loans, advances and financing activities for customers	31,927,596	33,895,854
Financial investments	9,820,172	4,847,763
Investments in associate	3,391,015	3,389,715
Property and equipment	1,029,555	1,135,898
Other assets	825,962	692,937
Total assets	**57,011,760**	61,282,505
LIABILITIES		
Due to banks and financial institutions	7,391,159	10,922,352
Customers' deposits	24,089,263	29,391,902
Borrowing under repurchase agreement	367,936	781,226
Debt issued and other borrowed funds	9,924,358	6,096,091
Other liabilities	1,349,556	1,516,811
Total liabilities excluding unrestricted investment accounts	**43,122,272**	48,708,382
Unrestricted investment accounts	2,250,173	2,847,931
Total liabilities including unrestricted investment accounts	**45,372,445**	51,556,313
EQUITY		
Share capital	2,165,156	2,062,053
Legal reserve	6,627,791	5,923,600
Shareholder’s advance	807,294	-
General reserve	26,500	26,500
Cumulative changes in fair value	(87,639)	(398,665)
Risk reserves	638,300	638,300
Proposed dividend	1,299,093	1,443,437
Retained earnings	162,820	30,967
Total equity	**11,639,315**	9,726,192
Total liabilities and equity	**57,011,760**	61,282,505

(A) FINANCIAL STATEMENTS FOR THE PARENT BANK (continued)

Parent Bank Statement of Income
31 December 2009

	Figures in thousand Qatar Riyals	
	2009	2008
Interest income	2,907,634	2,690,440
Interest expense	(1,327,017)	(1,476,155)
Net interest income	**1,580,617**	1,214,285
Income from Islamic financing and investment activities	208,961	180,896
Less unrestricted investment account holders' share of profit	(132,306)	(106,413)
Net income from Islamic financing and investment activities	**76,655**	74,483
Fees and commission income	775,196	1,034,842
Fees and commission expense	(98,077)	(94,837)
Net fees and commissions income	**677,119**	940,005
Dividend income	62,710	39,108
Net gains from dealing in foreign currencies	119,311	130,630
Profit from financial investments	36,644	276,030
Other operating income	214,263	76,501
	432,928	522,269
Net operating income	**2,767,319**	2,751,042
General and administrative expenses	(662,412)	(671,233)
Depreciation	(92,623)	(67,719)
Recoveries of impairment losses on loans to financial institutions, net	-	2,466
Impairment losses on loans and advances to customers, net	(461,118)	(61,511)
Impairment losses on financial investments	(181,943)	(464,850)
Impairment losses on other assets	(99)	-
Total operating expenses and impairment losses	**(1,398,195)**	(1,262,847)
Net profit for the year	**1,369,124**	1,488,195

The Commercial Bank of Qatar (Q.S.C.)
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At 31 December 2009

(A) FINANCIAL STATEMENTS FOR THE ALSAFA ISLAMIC BRANCHES

AlSafa Islamic Banking - Balance Sheet
As at 31 December 2009

Figures in thousand Qatar Riyals

	2009	2008
ASSETS		
Cash and balances with Central Bank	137,860	18,213
Due from banks and financial institutions	853,840	1,393,160
Due from customers for financing activities	2,299,214	2,420,551
Financial investments	117,974	141,265
Due from parent bank	85,866	-
Property and equipment	30,572	31,180
Other assets	7,088	61,166
Total assets	3,532,414	4,065,535
LIABILITIES		
Due to banks and financial institutions	500,000	189,918
Customers' current accounts	405,381	496,525
Other liabilities	44,113	210,516
Total liabilities excluding unrestricted investment accounts	949,494	896,959
Unrestricted investment accounts	2,250,173	2,847,931
Total liabilities including unrestricted investment accounts	3,199,667	3,744,890
CAPITAL FUNDING		
Capital funding from parent and other reserves	298,000	250,000
Current year's profit	34,747	70,645
Total capital funding	332,747	320,645
Total liabilities and capital funding	3,532,414	4,065,535

(B) FINANCIAL STATEMENTS FOR THE ALSAFA ISLAMIC BRANCHES (continued)

AlSafa Islamic Banking - Statement of Income
31 December 2009

	Figures in thousand Qatar Riyals	
	2009	2008
Income from financing activities	184,922	147,930
Income from investment activities	24,039	32,966
Total income from financing and investment activities	**208,961**	180,896
Fee and commission income	29,996	24,425
Fee and commission expense	(165)	(91)
Net fee and commission income	**29,831**	24,334
Dividend income	-	574
Net gains from dealing foreign currencies	2,316	4,126
Net gains from financial investment	20	450
	2,336	5,150
Operating income	**241,128**	210,380
General and administrative expenses	(29,033)	(28,105)
Depreciation	(4,540)	(3,281)
Impairment losses on loans and advances to Customers (net)	(13,057)	(1,936)
Impairment losses on financial investments	(27,445)	
	-	
Net profit	**167,053**	177,058
Less unrestricted investment account holder's share of profit	(132,306)	(106,413)
Net profit for the year attributable to owners	**34,747**	70,645