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

Consolidated Financial Statements

31 December 2008

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 balance sheet as at 31 December 2008, and the consolidated statement of 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. The consolidated financial statements of the Group for the year ended 31 December 2007 were audited by another auditor, whose report dated 12 February 2008, expressed an unqualified audit opinion on those statements.

Director's Responsibility for the Financial Statements

Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and 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 2008, 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 2008.

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

ERNST & YOUNG Doha ارنست ويونغ الدوحة

20 January 2009
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 2008.

To the Shareholder of Al Safs 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 31 ديسمبر 2008

إلى مساهمي 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 التي يقوم بها الصفاء للخدمات المصرفية الإسلامية ، خلال الفترة التي قمنا فيها بالمراجعة اللازمة لنقوم بإبداء الرأي حول تطبيق البنك لأسس الشريعة الإسلامية في 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 في إبداء رأي مستقل بناء على مراجعة عمليات البنك وإقرار رأينا اليكم .

تتضمن مراجعتنا اختبار بعض المستندات والإجراءات التي اتبعها البنك بنظام العينة والتي تغطي جميع أنواع المعاملات التي يقوم بها البنك.

خلال إجتماع هيئة الرقابة الشرعية قمنا بتخطيط وتنفيذ عملية المراجعة بشكل أتاح لنا الإطلاع على جميع المعلومات والتوضيحات التي 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 2008 that were reviewed, were carried out in accordance with the rules and principles of Islamic Shari'ah, and appropriate steps have been taken to address any reservations in their regards.

B. The distribution of profits and losses 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 31 ديسمبر 2008 والتى تم مراجعتها ، قد تمت بإتباع أسس الشريعة الإسلامية ، وقد تم إتخاذ الإجراءات اللازمة لتفادى أي ملاحظات قمنا بالتنوية عنها او الإشارة اليها .

ب. توزيع الأرباح والخسائر عن حسابات التوفير والإستثمار قد تمت بناءً على الأسس 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 Balance Sheet

As at 31 December 2008

	Notes	Figures in thousand Qatar Riyals 2008	2007
ASSETS			
Cash and balances with central bank	6	3,015,283	2,248,858
Due from banks and financial institutions	7	14,315,648	9,019,483
Loans, advances and financing activities for customers	8	33,897,513	25,021,487
Financial investments	9	4,774,963	4,664,672
Investments in associates	10	3,641,486	3,329,900
Property and equipment	11	1,136,073	721,393
Other assets	12	520,785	391,486
Total assets		**61,301,751**	**45,397,279**
LIABILITIES			
Due to banks and financial institutions	13	10,922,869	4,907,743
Customer deposits	14	29,337,943	24,656,692
Borrowing under repurchase agreements		781,226	-
Other borrowed funds	15	6,096,091	7,623,105
Other liabilities	16	1,337,246	872,900
Total liabilities excluding unrestricted investment accounts		48,475,375	38,060,440
Unrestricted investment accounts	17	2,847,931	1,109,022
Total liabilities including unrestricted investment accounts		51,323,306	39,169,462
EQUITY			
Share capital	18	2,062,053	1,401,579
Legal reserve	18	5,923,731	2,915,602
General reserve	18	26,500	26,500
Cumulative changes in fair value	18	(442,857)	188,426
Risk reserve	18	638,300	346,300
Other reserves	18	325,933	171,903
Proposed dividend	18	1,443,437	560,632
Proposed bonus shares	18	-	420,474
Retained earnings		1,348	196,401
Total equity		9,978,445	6,227,817
Total liabilities and equity		**61,301,751**	**45,397,279**

The consolidated financial statements have been approved by the board of directors and signed on their behalf by the following on 20 January 2009.

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 34 form part of these consolidated financial statements.

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

Consolidated Statement of Income
Year ended 31 December 2008

	Notes	Figures in thousand Qatar Riyals 2008	2007
Interest income	19	2,692,416	2,244,106
Interest expense	20	(1,474,808)	(1,368,079)
Net interest income		**1,217,608**	876,027
Income from Islamic financing and investment activities	21	180,896	83,664
Less unrestricted investment account holders' share of profit		(106,413)	(30,625)
Net income from Islamic financing and investment activities		74,483	53,039
Fee and commission income	22	1,040,015	733,275
Fee and commission expense		(96,564)	(67,058)
Net fee and commission income		**943,451**	666,217
Dividend income		39,108	38,943
Net gains from dealing in foreign currencies	23	130,925	83,754
Profit from financial investments	24	276,030	205,772
Other operating income	25	87,024	18,860
		533,087	347,329
Net operating income		**2,768,629**	1,942,612
General and administrative expenses	26	(682,137)	(487,925)
Depreciation	11	(67,973)	(52,492)
Recoveries of impairment losses on loans to financial institutions, net		2,466	2,240
Impairment losses on loans and advances to customers, net	8	(61,278)	(50,274)
Impairment losses on financial investments		(464,850)	(85,904)
Impairment losses on other assets		-	(11,034)
Total operating expenses and impairment losses		**(1,273,772)**	(685,389)
Profit before share of associates' result		**1,494,857**	1,257,223
Share of result of associates	10	207,585	133,492
Net profit for the year		**1,702,442**	1,390,715
Basic/diluted earnings per share (QAR)	27	8.76	7.63

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

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

Consolidated Statement of Changes in Equity
31 December 2008

Figures in thousand Qatar Riyals

	Share Capital	Legal reserve	General Reserve	Cumulative changes in fair value	Risk Reserve	Other Reserves	Retained Earnings			Total
							Proposed dividend	Proposed bonus shares	Other	
Balance at 1 January 2007	1,401,579	2,915,499	26,500	1,624	176,200	84,549	981,106	-	44,349	5,631,406
Net movement in fair value reserve	-	-	-	128,792	-	-	-	-	-	128,792
Share of changes recognised directly in Associates' equity	-	-	-	57,956	-	-	-	-	-	57,956
Adjustment for exchange rate fluctuations	-	-	-	54	-	-	-	-	-	54
Total income and expense for the year directly recognised in equity	-	-	-	186,802	-	-	-	-	-	186,802
Net profit for the year	-	-	-	-	-	-	-	-	1,390,715	1,390,715
Total income and expense for the year	-	-	-	186,802	-	-	-	-	1,390,715	1,577,517
Dividend received from associates for 2006 transferred to retained earnings	-	-	-	-	-	(46,138)	-	-	46,138	-
Statutory reserve for Global Card Services	-	103	-	-	-	-	-	-	(103)	-
Share of result of associates	-	-	-	-	-	133,492	-	-	(133,492)	-
Risk reserve as per QCB regulation	-	-	-	-	170,100	-	-	-	(170,100)	-
Dividends for the year 2006	-	-	-	-	-	-	(981,106)	-	-	(981,106)
Proposed cash dividend	-	-	-	-	-	-	560,632	-	(560,632)	-
Proposed bonus shares	-	-	-	-	-	-	-	420,474	(420,474)	-
Balance at 31 December 2007	1,401,579	2,915,602	26,500	188,426	346,300	171,903	560,632	420,474	196,401	6,227,817
Net movement in fair value reserve	-	-	-	(531,877)	-	-	-		-	(531,877)
Contribution for social responsibilities	-	-	-	-	-	-	-		(8,000)	(8,000)
Share of changes recognised directly in Associates' equity	-	-	-	(99,366)	-	-	-	-	-	(99,366)
Adjustment for exchange rate fluctuations	-	-	-	(40)	-	-	-	-	-	(40)
Total income and expense for the year directly recognised in equity	-	-	-	(631,283)	-	-	-	-	(8,000)	(639,283)
Net profit for the year	-	-	-	-	-	-	-	-	1,702,442	1,702,442
Total income and expense for the year	-	-	-	(631,283)	-	-	-	-	1,694,442	1,063,159
Dividend received 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)	-
Dividend for the year 2007	-	-	-	-	-	-	(560,632)	-	-	(560,632)
Bonus share for the year 2007	420,474	-	-	-	-	-	-	(420,474)	-	-
Increase in share capital (note 18)	240,000	-	-	-	-	-	-	-	-	240,000
Increase in legal reserve (note 18)	-	3,008,101	-	-	-	-	-	-	-	3,008,101
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

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

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

Consolidated Statement of Cash Flows

Year ended 31 December 2008

	Notes	Figures in thousand Qatar Riyals 2008	2007
Cash flows from operating activities			
Net profit for the year		1,702,442	1,390,715
Adjustments for:			
Depreciation		67,973	52,492
Amortization of transaction cost	15	9,048	6,613
Impairment losses on loans and advances, net		58,812	48,034
Impairment losses on financial investments		464,850	85,904
Impairment losses on other assets		-	11,034
Profit from sale of assets		(9,792)	-
Share of results of associates	10	(207,585)	(133,492)
Profit from financial investments		(276,030)	(205,772)
Profit before changes in operating assets and liabilities		1,809,718	1,255,528
Net (increase) decrease in operating assets			
Due from banks and financial institutions		(417,604)	(672,605)
Loans, advances and financing activities for customers		(8,947,763)	(7,709,773)
Other assets		(133,749)	(69,266)
Net increase (decrease) in operating liabilities			
Due to banks and financial institutions		731,226	(314,000)
Customers' deposits		6,420,160	8,587,457
Other liabilities		457,709	154,836
Net cash (used in) from operating activities		(80,303)	1,232,177
Cash flows from investing activities			
Purchase of financial investments		(1,972,513)	(1,844,980)
Investment in associates		(284,920)	(1,899,882)
Dividends received from associate		82,646	46,138
Proceeds from sale of financial investments		1,141,472	1,738,862
Purchase of property and equipment	11	(482,893)	(216,073)
Proceeds from sale of assets		26,960	-
Net cash used in investing activities		(1,489,248)	(2,175,935)
Cash flows from Financing activities			
Proceeds from other borrowed funds	15	1,375,938	5,264,404
Repayment of other borrowed funds	15	(2,912,000)	(1,783,600)
Net proceeds from issue of shares	18	3,248,101	-
Dividends paid		(560,632)	(981,106)
Net cash from financing activities		1,151,407	2,499,698
Net (decrease) increase in cash and cash equivalents during the year		(418,144)	1,555,940
Effects of foreign exchange fluctuation		40	54
Cash and cash equivalents at 1 January	32	4,687,272	3,131,278
Cash and cash equivalents at 31 December	32	**4,269,168**	4,687,272

The attached notes 1 to 34 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 commercial banking, Islamic banking services and credit card business and operates 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 at fair value through profit or loss, 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.

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 on consolidation.

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 income statement from the date of acquisition or up to the date of disposal, as appropriate.

The consolidated financial statements of the Group include the financial statements of the Bank and its subsidiaries (listed below) fully owned by the Bank:

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

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.

IASB Standards and interpretations issued but not adopted

The following IASB standards and interpretations have been issued but are not yet mandatory, and have not been early adopted by the Group:

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

IFRS 8 Operating Segments effective 1 January 2009

IAS 23 Borrowing Costs (Revised) effective 1 January 2009

IFRIC 13 Customer Loyalty Programmes effective 1 July 2008

IAS 1 Presentation of Financial Statements (Revised) effective 1 January 2009

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

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 balance sheet 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 income statement 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 parent company. 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 each balance sheet date 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 income statement.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 income statement.

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 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 income statements 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 income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments – initial recognition and subsequent measurement

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss ("FVPL")
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. 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 income statement. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

(b) Loans and receivables ("LaR")
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(c) Held-to-maturity financial assets ("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.

(d) Available-for-sale financial assets ("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.

Regular purchases and sales of financial assets at fair value through profit or loss, held to maturity and available-for-sale are recognised at the trade date. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Islamic financing such as Murabaha, Ijara and Musawama are stated at their gross principal amount less any amount received, provision for impairment and unearned profit. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets 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 income statement. 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 income statement.

Derecognition of financial assets and financial liabilities

Financial assets are derecognised 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 derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, option pricing models and other valuation techniques commonly used by market participants.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Derivative financial instruments

Derivatives are initially recognised 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 and options pricing 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 derivatives trading instruments includes forward contracts, foreign exchange swaps 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 statement of income.

Repurchase agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognised from the balance sheet. The corresponding cash received, including accrued interest, is recognised on the balance sheet 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Interest income and expense
Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method.

Income from financing and investment contracts under Islamic banking principles are recognised within 'income from Islamic finance and investment activities' in the income statement 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 recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commission income
Fees and commissions are generally recognised 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 recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised 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 recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

Dividend income
Dividends are recognised in the income statement 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 recognised are not included in a collective assessment of impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognised in the income statement. 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.

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 provision 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 recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement 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 security 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 recognised in income statement is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. 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 recognised in income statement, the impairment loss is reversed through the income statement.

(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

(a) Intangible assets identified during acquisitions
Intangible assets identified upon acquisition of subsidiaries or associated companies are included at fair value and amortised over the useful life of the intangible assets.

(b) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognised 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 income statement.

Properties acquired against settlement of customers' debts

Properties acquired against settlement of customers' debts are stated in the Bank's balance sheet under the item "Other assets" at their acquisition value net of any required provision for impairment.

According to Qatar Central Bank instructions, the Bank 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.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances maturing within three months' from the date of acquisition, including cash and non-restricted balances with Qatar Central Bank.

Provisions

Provisions for legal claims are recognised 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 income statement for any potential claim or for any expected impairment of assets, taking into consideration the value of the potential claim or expected impairment 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 recognised as interest expense.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognised in the financial statements at fair value 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 income statement 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 income statement.

Employee benefits
The Group makes provision for end of service benefits payable to employees on the basis of the individual's period of service at the year-end in accordance with the employment policy of the Group and the provisions in Qatar Labour Law. This provision is included in other provisions as part of other liabilities in the balance sheet. The expected costs of these benefits are accrued over the period of employment.

Also the Group provides for its contribution to the retirement fund for Qatari employees in accordance with the retirement law, and includes the resulting charge within the personnel cost under the general administration expenses in the statement of income.

Borrowings
Borrowings are recognised initially at fair value, (being their issue proceeds net of transaction costs incurred). Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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 financial statements, as they are not assets of the Group.

Off-balance sheet
Off-balance sheet items include Group's obligations with respect to foreign exchange forwards, interest rates agreements 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 derivatives.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

3.1 Financial instruments

Definition and classification

Financial instruments comprise the Group's financial assets and liabilities. Financial assets include cash balances and balances with Central bank, due from banks and financial institutions, Loans and advances, financial investments and financial liabilities include customer deposits, borrowings under repurchase agreements and due to banks and other financial institutions and other borrowed funds. 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. Audit and Risk Committee is a Board committee 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 Commercialbank Risk Committee.
2. Policy and Strategy Committee is a Board committee which is responsible for all policies and strategies of the business.
3. Executive Committee is a Board committee 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 guidelines.
4. Credit Committee is the highest management level authority on all counterparty risk exposures product programmes, associated expenditure programmes thereunder and underwriting exposures on syndications and securities transactions.
5. Commercialbank Risk Committee is a management committee which is the highest management authority on all risk related issues at the Group and its subsidiaries and affiliates in which it has strategic investments.
6. 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.
7. Sharia 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 (Sharia). The Sharia Board discharge their responsibilities by conducting periodical audits. All new Islamic products require Sharia board pre-approval.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

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-balance sheet 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.

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-, B+, 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. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

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.

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.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

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 balance sheet 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.

	Figures in thousand Qatar Riyals	
	2008	2007
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from banks and financial institutions	14,315,648	9,019,483
Loans, advances and financing for customers:		
Retail loans	5,488,819	4,299,485
Commercial and Corporate loans	25,988,143	19,802,449
Islamic Finances	2,420,551	919,553
Financial investments	3,014,253	3,295,921
Other assets	418,300	319,735
On balance sheet total as at 31 December	**51,645,714**	37,656,626
Credit risk exposures relating to off-balance sheet items are as follows:		
Acceptances	2,388,401	3,113,752
Guarantees	14,488,472	13,109,009
Letters of Credit	5,335,915	3,975,836
Unutilised credit facilities granted to customers	5,653,694	2,890,846
Off balance sheet total as at 31 December	**27,866,482**	23,089,443
Total	**79,512,196**	60,746,069

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

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

	2008 Gross Maximum Exposure	2007 Gross Maximum Exposure
Funded		
Government	2,629,162	2,658,793
Government institutions & semi-government	3,246,072	2,707,411
Industry	1,245,591	547,900
Commercial	4,767,946	3,923,565
Financial and services	18,102,288	10,961,801
Contracting	3,404,813	2,396,691
Real estate	5,968,583	3,332,581
Consumption	7,092,719	6,259,683
Others sectors	5,188,540	4,868,201
Total funded	51,645,714	37,656,626
Un-funded		
Government institutions & semi-government	640,339	149,928
Financial	6,373,273	6,053,520
Industry and commercial	20,852,870	16,885,995
Total un-funded	27,866,482	23,089,443
Total	**79,512,196**	60,746,069

Total maximum exposure net of collateral is QAR 55 billion (2007: QAR 44 billion).
The main types of collateral obtained are cash, mortgages, equity and debt securities, Government guarantees and other eligible securities.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2.4 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 2008	Neither past due nor impaired	Past due but not impaired	Impaired	**Gross Total**
Risk Grading				
A: Low risk - excellent	12,324,666	-	-	12,324,666
B: Standard/satisfactory risk	21,020,111	201,562	-	21,221,673
C: Sub-standard - watch	-	147,705	-	147,705
D: Doubtful	-	200,602	-	200,602
E: Bad debts	-	-	289,592	289,592
Gross	33,344,777	549,869	289,592	34,184,238
Less : allowance for impairment	-	-	286,725	286,725
Net	33,344,777	549,869	2,867	**33,897,513**
31 December 2007				
Risk Grading				
A: Low risk - excellent	11,454,372	8,445	-	11,462,817
B: Standard/satisfactory risk	13,247,559	122,059	-	13,369,618
C: Sub-standard - watch	-	87,385	-	87,385
D: Doubtful	-	95,193	-	95,193
E: Bad debts	-	-	208,749	208,749
Gross	24,701,931	313,082	208,749	25,223,762
Less : allowance for impairment	-	-	202,275	202,275
Net	24,701,931	313,082	6,474	25,021,487

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 Dec 2008 (2007: QAR 3.7 million).

c) Financial investments

Figures in thousand Qatar Riyals

	2008	2007
Held to maturity	2,481,162	2,473,357
Available for sale	764,696	834,240
Less allowance for impairment	(231,605)	(11,676)
Total	**3,014,253**	3,295,921

Exposures to held to maturity are mainly Qatari Government bonds.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

(d) 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	
			2008	2007
	Conventional	Al Safa Islamic	**Total**	Total
Past due upto 30 days	125,756	10,605	136,361	109,441
Past due 31 - 60 days	171,101	67	171,168	59,596
Past due 61 - 90 days	40,471	184	40,655	45,559
Past due 91 -180 days	164,278	37,407	201,685	98,486
Total	501,606	48,263	**549,869**	313,082

(e) Impaired loans, advances and financing to customer

Impairment is identified by individual assessment of each loan as per local regulators regulations. The impaired loans and advances to customers before taking into consideration the cash flows from collateral held is QAR 290 million (2007: QAR 209 million) Breakdown of the gross amount of impaired loans by business segment are as follows:

	Figures in thousand Qatar Riyals	
	2008	2007
Individually impaired loans		
- Conventional	286,457	207,496
- Islamic	3,135	1,253
	289,592	208,749

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

(f) 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. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired totalled QAR 0.8 million (2007: QAR 1.6 million).

3.2.5 Repossessed collateral

During 2008 the value of repossessed collateral is insignificant (2007: nil).

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 Market risk measurement techniques

As part of the management of market risk, the Group undertakes various economic hedging strategies. The major measurement techniques used to measure and control market risk are outlined below.

(a) Value at Risk

The Group applies a 'value at risk' methodology "VaR" to its trading portfolios, to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted for the Group, which are monitored on a daily basis by the Group market risk division.

Objectives, limitations and assumptions of VaR Methodology

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Group might lose, but only at a certain level of confidence (99%). Therefore a specified statistical probability of 1% that actual loss could be greater than the VaR estimate. The VaR model assumes a certain 'holding period' until positions can be closed (1 day). The Group's assessment of past movements is based on data for the past five years. The Group applies these historical daily changes in rates, prices, indices, etc. directly to its current positions – a method known as historical simulation.

The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VaR constitutes an integral part of the Group's market risk control regime, VaR limits are established by the Board annually for all trading portfolio operations.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

(b) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Group Market Risk include: risk factor stress testing, where stress movements are applied to each risk category; and ad hoc stress testing, which includes applying possible stress events to specific positions or regions – for example, the stress outcome to a region following a currency peg break.

The results of the stress tests are reviewed by senior management in each business unit and by the Board of Directors. The stress testing is tailored to the business and typically uses scenario analysis.

3.3.2 VaR summary

Group trading portfolio VaR by risk type

Figures in thousand Qatar Riyals

	12 months to 31 December 2008			12 months to 31 December 2007		
	Average	High	Low	Average	High	Low
Foreign exchange risk	996	1,597	646	549	578	516
Interest rate risk	10,938	30,763	1,124	354	677	303
Equity risk	39,249	44,087	32,655	31,779	35,722	27,947
Total VaR	**51,183**	**76,447**	**34,425**	32,682	36,977	28,766

The increase in Interest Rate Risk VaR in 2008 as compared to 2007 mainly resulted from inclusion of Bonds in the Var calculation amounted to QAR 328 million. The increase of VaR in 2008, especially in the Equity risk and Interest rate risk also influenced by the recent instability in the Global financial markets. As Qatar Riyals is pegged to US dollars, balances in US dollars is not considered to represent a significant risk.

3.3.3 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	Sterling Pounds	Other Currencies	Total
As at 31 December 2008						
On -balance sheet						
Assets	33,435,521	23,425,104	557,526	85,852	3,797,748	**61,301,751**
Liabilities	(33,533,239)	(27,107,631)	(538,377)	(85,289)	(37,215)	**(61,301,751)**
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**
As at 31 December 2007						
On -balance sheet						
Assets	21,369,148	17,290,742	1,071,660	1,580,049	4,085,680	45,397,279
Liabilities	(21,737,724)	(20,692,657)	(1,072,673)	(1,584,293)	(309,932)	(45,397,279)
Net currency position	(368,576)	(3,401,915)	(1,013)	(4,244)	3,775,748	-
Off -balance sheet						
Credit commitments (Contingent liabilities)	9,440,902	11,281,037	1,755,465	55,959	556,080	23,089,443

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.3.4 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	1-5 Years	Non-interest/profit sensitive	Total
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	12,542,108	222,040	350,300	-	13,114,448
- Islamic	1,201,200	-	-	-	1,201,200
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	-	-	-	1,656,858	1,656,858
Total assets	35,408,150	15,627,621	2,066,609	8,199,371	61,301,751
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
Other borrowed funds	6,096,091	-	-	-	6,096,091
Other liabilities	-	-	-	1,337,246	1,337,246
Unrestricted investment accounts	-	-	-	2,847,931	2,847,931
Equity	-	-	-	9,978,445	9,978,445
Total liabilities and equity	32,033,836	10,601,249	81,388	18,585,278	61,301,751
Interest rate sensitivity gap	3,374,314	5,026,372	1,985,221	(10,385,907)	-
Cumulative interest rate sensitivity gap	3,374,314	8,400,686	10,385,907	-	
As at 31 December 2007					
Cash and balances with central bank	708,000	-	-	1,540,858	2,248,858
Due from banks and financial institutions :					-
- Conventional	7,644,928	331,695	398,580	-	8,375,203
- Islamic	644,280	-	-	-	644,280
Loans, advances and financing activities for customers :					
- Conventional	8,871,005	15,225,090	5,839	-	24,101,934
- Islamic	2,326	88,618	828,609	-	919,553
Financial investments	542,899	3,012,977	-	1,108,796	4,664,672
Investment in associates	-	-	-	3,329,900	3,329,900
Property and equipment and Other assets	-	-	-	1,112,879	1,112,879
Total assets	18,413,438	18,658,380	1,233,028	7,092,433	45,397,279
Due to banks and financial institutions	2,859,046	2,048,697	-	-	4,907,743
Customer deposits	16,025,447	5,024,101	113,890	3,493,254	24,656,692
Other borrowed funds	7,623,105	-	-	-	7,623,105
Other liabilities	-	-	-	872,900	872,900
Unrestricted investment accounts	-	-	-	1,109,022	1,109,022
Equity	-	-	-	6,227,817	6,227,817
Total liabilities and equity	26,507,598	7,072,798	113,890	11,702,993	45,397,279
Interest rate sensitivity gap	(8,094,160)	11,585,582	1,119,138	(4,610,560)	-
Cumulative interest rate sensitivity gap	(8,094,160)	3,491,422	4,610,560	-	

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

c) Interest Rate Sensitivity

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

The sensitivity of the income statement 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 Group's income statement and equity.

Figures in thousand Qatar Riyals

	Change in basis points	Sensitivity of net interest income		Sensitivity of equity	
	Increase (decrease)	**2008**	2007	**2008**	2007
Currency					
QAR	25bp	10,600	6,547	-	-
Non-QAR	25bp	3,090	5,492	1,637	2,121

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 positive.

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 maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

Notes to the Consolidated Financial Statements
31 December 2008 (continued)

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

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

	During 1 month	1-3 Months	3-12 Months	Sub total 1 Year	Above 1 Year	No maturity	Total
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	-	-	-	-	-	1,656,858	1,656,858
Total assets	20,397,343	1,599,051	2,663,987	24,660,381	28,144,842	8,496,528	61,301,751
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
Other borrowed funds	-	-	1,922,538	1,922,538	4,173,553	-	6,096,091
Other liabilities	-	-	-	-	-	1,337,246	1,337,246
Unrestricted investment accounts	1,151,075	1,114,475	303,189	2,568,739	57,524	221,668	2,847,931
Total liabilities	33,424,363	7,291,911	4,793,177	45,509,451	4,254,941	1,558,914	51,323,306
Maturity gap	(13,027,020)	(5,692,860)	(2,129,190)	(20,849,070)	23,889,901	6,937,614	9,978,445
As at 31 December 2007							
Cash and balances with Central Bank	1,020,237	-	-	1,020,237	-	1,228,621	2,248,858
Due from banks and financial institutions	7,881,672	373,758	331,695	8,587,125	398,580	33,778	9,019,483
Loans, advances and financing activities for customers	3,571,516	1,891,198	2,024,590	7,487,304	17,534,183	-	25,021,487
Financial investments	-	-	-	-	3,723,776	940,896	4,664,672
Investment in associates	-	-	-	-	-	3,329,900	3,329,900
Property, equipment and other assets	-	-	-	-	-	1,112,879	1,112,879
Total assets	12,473,425	2,264,956	2,356,285	17,094,666	21,656,539	6,646,074	45,397,279
Due to banks and financial institutions	3,405,046	1,452,697	50,000	4,907,743	-		4,907,743
Customer deposits	14,773,588	5,004,326	4,764,908	24,542,822	113,870	-	24,656,692
Other borrowed funds	-	-	2,912,000	2,912,000	4,711,105	-	7,623,105
Other liabilities	-	-	-	-	-	872,900	872,900
Unrestricted investment accounts	197,157	541,482	259,193	997,832	20	111,170	1,109,022
Total liabilities	18,375,791	6,998,505	7,986,101	33,360,397	4,824,995	984,070	39,169,462
Maturity gap	(5,902,366)	(4,733,549)	(5,629,816)	(16,265,731)	16,831,544	5,662,004	6,227,817

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (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	1-5 Years	Total
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
Other borrowed funds	-	-	1,978,753	4,400,784	6,379,537
Unrestricted invesment 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
As at 31 December 2007					
Due to banks and financial institutions	3,525,902	1,504,258	51,775	-	5,081,935
Customer deposits	15,284,487	5,177,385	4,929,688	117,808	25,509,368
Other borrowed funds	-	-	3,068,666	4,972,967	8,041,633
Unrestricted invesment accounts	324,527	541,482	285,406	80,220	1,231,635
Total Liabilities	19,134,916	7,223,125	8,335,535	5,170,995	39,864,571

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.

Maturity of forward foreign exchange contracts and interest rate swaps are given in note 29.

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 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
As at 31 December 2007			
Loan commitments	1,041,019	1,849,827	2,890,846
Guarantees, acceptances and other financial facilities	12,413,764	7,784,833	20,198,597
Capital commitments	153,552	-	153,552
Total	13,608,335	9,634,660	23,242,995

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

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, the fair value of the Group's assets and liabilities do not differ significantly from their book values at the date of the balance sheet. Following are the financial assets and liabilities:

Figures in thousand Qatar Riyals

Financial assets	Carrying value		Fair value	
	2008	2007	**2008**	2007
Balances with Central Bank excluding cash	2,610,269	1,932,532	2,610,269	1,932,532
Due from banks and financial institutions	14,315,648	9,019,483	14,315,648	9,019,483
Loans, advances and financing activities for customers	33,897,513	25,021,487	33,897,513	25,021,487
Financial investments	4,774,963	4,664,672	4,679,674	4,675,938
Financial liabilities				
Due to banks and financial institutions	10,922,869	4,907,743	10,923,143	4,907,743
Customer deposits	29,337,943	24,656,692	29,337,943	24,656,692
Borrowings under repurchase agreements	781,226	-	775,331	-
Other borrowed funds	6,096,091	7,623,105	5,899,868	7,637,819
Unrestricted invesment accounts	2,847,931	1,109,022	2,847,931	1,109,022

i) Due from banks and financial institutions

Due from banks includes inter-bank placements and lending to banks. 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.

(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 inter bank 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) Other borrowed funds

The estimated fair value of other borrowed funds represent 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. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4.7 Summary of financial assets and financial liabilities per International Accounting Standard 39 category

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

Financial investments include 51% of investments reported at fair value and 49% of investments reported at amortised cost.

All financial liabilities are reported at amortised cost.

3.5 Capital management

The Group's objectives in managing capital, which is a broader concept than the 'equity' on the face of balance sheets, 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 pro-rata consolidation method for its investments in associates.

Capital Adequacy

Figures in thousand Qatar Riyals

	2008	2007
Tier I Capital	9,640,737	5,132,459
Tier II Capital	313,428	431,092
Total Capital	**9,954,165**	5,563,551
Risk weighted assets	**63,581,945**	46,947,673
Tier I Capital ratio	15.16%	10.93%
Total Capital ratio	**15.66%**	11.85%

Tier I capital includes share capital, legal reserve, general reserve,other reserves 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).

The minimum ratio limit determined by Qatar Central Bank is 10% and the Basel Committee requirement is 8%.
The increase of Tier 1 capital in 2008 mainly resulted from net proceeds of rights issues and Global Depository Receipts (GDR) issues (see note 18).

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

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.

3.7 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 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. 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 recognised in income statement is removed from equity and recognised in the income statement.

(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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(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 asset'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 recognised in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, 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 balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

5. SEGMENT INFORMATION

The Group is divided into four main business segments which are as follows:

• Conventional Banking – provides funded and non-funded credit facilities, demand and time deposit services, investment advisory and brokerage services, currency exchange facilities, interest rate swap and other derivative trading services, loan syndication and structured financing services to Corporate, Commercial and Multinational Customers. It also 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.

• Islamic Banking– provides Islamic principles (Sharia) compliant banking services such as current, savings, time and investment account services, consumers 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.

• Investment in associates – includes the Group's strategic acquisitions in National Bank of Oman (NBO) and United Arab Bank (UAB) in UAE and Asteco LLC in the State of Qatar, which are an accounted for under the equity method.

Segment assets and liabilities comprise operating assets and liabilities directly handled by the business group and income or expenses attributed in line with the assets and liabilities ownership. The following table summaries performance of the business segments.

5. SEGMENT INFORMATION (continued)

(a) By business segment

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

	Conventional Banking	Islamic Banking	Subsidiary (Orient 1)	Investment in associates	Total
Interest/similar income	2,689,059	180,896	3,357	-	2,873,312
Interest/similar expense	(1,474,774)	(106,413)	(34)	-	(1,581,221)
Net interest/similar income	1,214,285	74,483	3,323	-	1,292,091
Fee, commission and other income	1,432,790	29,484	14,264	-	1,476,538
Net operating income	2,647,075	103,967	17,587	-	2,768,629
General and administrative expenses	(643,128)	(28,105)	(10,904)	-	(682,137)
Depreciation	(64,438)	(3,281)	(254)	-	(67,973)
Impairment losses on loans and advances,net	(57,109)	(1,936)	233	-	(58,812)
Impairment losses on financial investments	(464,850)	-	-	-	(464,850)
Profit before share of associates' results	1,417,550	70,645	6,662	-	1,494,857
Share of results of associates	-	-	-	207,585	207,585
Net profit for the year	1,417,550	70,645	6,662	207,585	1,702,442
Other Information					
Assets	53,517,107	4,065,535	77,623	3,641,486	61,301,751
Capital expenditure	458,617	24,256	20	-	482,893
Liabilities and unrestricted investment accounts	47,574,544	3,744,890	3,872	-	51,323,306
31 December 2007					
Interest/similar income	2,239,805	83,664	4,301	-	2,327,770
Interest/similar expense	(1,367,998)	(30,625)	(81)	-	(1,398,704)
Net interest/similar income	871,807	53,039	4,220	-	929,066
Fee, commission and other income	990,492	17,473	5,581	-	1,013,546
Net operating income	1,862,299	70,512	9,801	-	1,942,612
General and administrative expenses	(449,156)	(28,170)	(10,599)	-	(487,925)
Depreciation	(50,807)	(1,323)	(362)	-	(52,492)
Impairment losses on loans and advances, net	(47,279)	(1,253)	498	-	(48,034)
Impairment losses on financial investments	(85,904)	-	-	-	(85,904)
Impairment losses on other assets	(10,700)	-	(334)	-	(11,034)
Profit before share of associates' results	1,218,453	39,766	(996)	-	1,257,223
Share of results of associates	-	-	-	133,492	133,492
Net profit for the year	1,218,453	39,766	(996)	133,492	1,390,715
Other Information					
Assets	40,295,445	1,698,427	73,507	3,329,900	45,397,279
Capital expenditure	216,073	-	-	-	216,073
Liabilities and unrestricted investment accounts	37,754,413	1,408,661	6,388	-	39,169,462

Intra-group transactions are eliminated from this segmental information.

5. SEGMENT INFORMATION (continued)

(b) By geographical segment

Geographically, the Group operates in Qatar. Its subsidiaries and associates are in Qatar, Sultanate of Oman, United Arab Emirates and Egypt. Qatar operations contribute 67% in terms of profit (2007:66 %) and holds 72% of the Group's assets (2007: 63%).

Figures in thousand Qatar Riyals

Balance Sheet	Qatar	Other GCC countries	Europe	North America	Others	Total
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	1,645,915	-	-	-	10,943	1,656,858
Total assets	44,025,433	11,929,456	3,277,461	1,552,007	517,394	61,301,751
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	1,333,891	-	-	-	3,355	1,337,246
Unrestricted investment accounts	2,847,931	-	-	-	-	2,847,931
Equity	9,978,445	-	-	-	-	9,978,445
Total liabilities and equity	50,076,818	6,237,601	4,843,664	-	143,668	61,301,751
As at 31 December 2007						
Cash and balances with Central Bank	2,248,847	-	-	-	11	2,248,858
Due from banks and financial institutions	749,000	5,304,673	2,444,400	5,212	516,198	9,019,483
Loans, advances and financing activities for customers	21,522,598	2,181,668	564,200	91,000	662,021	25,021,487
Financial investments	2,942,888	154,330	527,048	946,640	93,766	4,664,672
Investment in associates	-	3,329,900	-	-	-	3,329,900
Property and equipment and other assets	1,090,595	-	-	-	22,284	1,112,879
Total assets	28,553,928	10,970,571	3,535,648	1,042,852	1,294,280	45,397,279
Due to banks and financial institutions	2,341,739	1,737,056	255,648	18,747	554,553	4,907,743
Customer deposits	23,507,740	1,119,513	-	-	29,439	24,656,692
Other borrowed funds	-	5,812,444	1,810,661	-	-	7,623,105
Other liabilities	867,067	-	-	-	5,833	872,900
Unrestricted investment accounts	1,109,022	-	-	-	-	1,109,022
Equity	6,227,817	-	-	-	-	6,227,817
Total liabilities and equity	34,053,385	8,669,013	2,066,309	18,747	589,825	45,397,279

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

Notes to the Consolidated Financial Statements
31 December 2008 (continued)

5. SEGMENT INFORMATION (continued)

(b) By geographical segment (continued)

Figures in thousand Qatar Riyals

Income Statement	Qatar	Other GCC countries	Europe	North America	Others	Total
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 and amortization	(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 associates' result	**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**
As at 31 December 2007						-
Interest/similar income	1,639,130	411,919	140,649	54,402	81,670	2,327,770
Interest/similar expense	(945,162)	(288,548)	(150,021)	(2,213)	(12,760)	(1,398,704)
Net interest/similar income	**693,968**	**123,371**	**(9,372)**	**52,189**	**68,910**	**929,066**
Fee, commission and other income	898,534	49,927	31,656	7,444	25,985	1,013,546
Net operating income	1,592,502	173,298	22,284	59,633	94,895	1,942,612
General and administrative expenses	(477,326)	-	-	-	(10,599)	(487,925)
Depreciation and amortization	(52,130)	-	-	-	(362)	(52,492)
Impairment losses on loans and advances,net	(50,772)	2,240	-	-	498	(48,034)
Impairment losses on financial investments	(85,904)	-	-	-	-	(85,904)
Impairment losses on other assets	(10,700)	-	-	-	(334)	(11,034)
Profit before share of associates' result	**915,670**	**175,538**	**22,284**	**59,633**	**84,098**	**1,257,223**
Share of results of associates	-	133,492	-	-	-	133,492
Net profit for the year	**915,670**	**309,030**	**22,284**	**59,633**	**84,098**	**1,390,715**

6. CASH AND BALANCES WITH CENTRAL BANK

	Figures in thousand Qatar Riyals	
	2008	2007
Cash	405,014	316,326
Cash reserve with Qatar Central Bank*	1,551,542	823,488
Other balances with Qatar Central Bank	1,058,727	1,109,044
Total	**3,015,283**	2,248,858

*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	
	2008	2007
Demand accounts	87,496	33,778
Placements:		
- Conventional	12,585,200	7,632,360
- Islamic	1,201,200	644,280
Loans to banks and financial institutions	441,752	712,768
Total due from banks and financial institutions	14,315,648	9,023,186
- Allowance for impairment	-	(3,703)
Net due from banks and financial institutions	**14,315,648**	9,019,483

	Figures in thousand Qatar Riyals	
Movement in allowance for impairment	**2008**	2007
Balance at 1 January	3,703	5,614
Allowance for impairment made during the year	38	328
Amounts recovered during the year	(3,741)	(2,239)
Net recoveries during the year	(3,703)	(1,911)
Balance at 31 December	**-**	**3,703**

8. LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS

Figures in thousand Qatar Riyals

i) By type

	Conventional	Islamic	2008 Total	2007 Total
Loans, advances and receivables	29,897,295	2,423,686	32,320,981	22,500,853
Overdrafts	1,761,632	-	1,761,632	1,989,081
Bills discounted	101,625	-	101,625	733,828
Sub total	31,760,552	2,423,686	34,184,238	25,223,762
Allowance for impairment	(283,590)	(3,135)	(286,725)	(202,275)
Net loans and advances	31,476,962	2,420,551	33,897,513	25,021,487

Interest in suspense of QAR 94 million (2007: QAR 66 million) is included in the above allowance for impairment amount for the purpose of the Qatar Central Bank regulations requirements. Net allowance for interest in suspense during the year amount to QAR 35 million (2007: QAR 22 million).

Islamic financing is carried at net of deferred profits of QAR 418 million (2007 : QAR 297 million).

The total non-performing loans and advances at 31 December 2008 amounted to QAR 290 million, representing 0.85% of the total loans and advances (QAR 209 million representing 0.84% of the total loans and advances at 31 December 2007).

Figures in thousand Qatar Riyals

ii) By industry before allowance for impairment

	Islamic	Loans	Overdrafts	Bills discounted	2008 Total	2007 Total
Government	-	530,333	3,618	-	533,951	575,407
Government and semi-government agencies	-	3,243,101	2,971	-	3,246,072	2,666,497
Industry	-	1,087,914	141,334	16,343	1,245,591	547,900
Commercial		4,372,774	368,441	29,061	4,770,276	3,924,237
Services	123,314	3,228,897	149,705	28,783	3,530,699	1,760,816
Contracting	179,090	3,065,549	137,791	22,383	3,404,813	2,396,691
Real estate	876,751	5,031,218	3,161	-	5,911,130	3,282,542
Consumption	622,950	5,808,525	934,788	5,055	7,371,318	6,455,799
Other	621,581	3,528,984	19,823	-	4,170,388	3,613,873
Total	**2,423,686**	**29,897,295**	**1,761,632**	**101,625**	**34,184,238**	25,223,762

iii) Movement in allowance for impairment

Figures in thousand Qatar Riyals

	Conventional	Islamic	2008 Total	2007 Total
Balance at 1 January	201,022	1,253	202,275	140,648
Allowance for impairment made during the year	116,009	2,075	118,084	88,803
Amounts recovered during the year	(21,282)	(139)	(21,421)	(16,572)
Net allowance for impairment during the year	94,727	1,936	96,663	72,231
Allowance for impairment used during the year for write off's	(12,159)	(54)	(12,213)	(10,604)
Balance at 31 December	283,590	3,135	286,725	202,275

9. FINANCIAL INVESTMENTS

Investments comprise the following:

	Figures in thousand Qatar Riyals	
	2008	2007
	Total	**Total**
Held for trading	76	-
Held to maturity	2,359,547	2,473,358
Available for sale	2,415,340	2,191,314
Total	**4,774,963**	4,664,672

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

	Figures in thousand Qatar Riyals			
	2008		2007	
At fair value	**Listed**	**Unlisted**	Listed	Unlisted
Equities	827,108	482,948	761,178	179,718
Qatar Government bonds in USD	14,196	-	21,930	-
Other debt securities - Fixed rate	90,563	108,387	114,698	143,742
Other debt securities - Floating rate	32,395	383,326	90,826	451,369
Islamic sukuk - Fixed rate	-	7,639	-	-
Islamic sukuk - Floating rate	-	18,200	-	-
Investment funds	-	450,578	6,618	419,818
Investment funds - Islamic	-	-	1,417	-
Total	**964,262**	**1,451,078**	996,667	1,194,647

Equities, other bonds and investment funds units are net of impairment losses of QAR 398 million (2007: QAR 143 million). Allowance for impairment during the year QAR 343 million (2007: QAR 86 million).

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

	Figures in thousand Qatar Riyals			
	2008		2007	
At amortised cost	**Listed**	**Unlisted**	Listed	Unlisted
Qatar Government bonds in USD	915,399	-	930,050	-
Qatar Government bonds in QAR	-	1,126,230	-	1,131,406
Other debt securities	-	206,313	-	331,386
Islamic bonds	37,856	73,749	76,876	3,640
Total *	**953,255**	**1,406,292**	1,006,926	1,466,432
By nature of income				
Fixed rate	953,255	1,280,935	930,050	125,032
Floating rate	-	125,357	-	1,337,760
Floating profit at maturity	-	-	76,876	3,640
Total	**953,255**	**1,406,292**	1,006,926	1,466,432

Other debt securities are net of impairment losses of QAR 122 million (2007: nil), the entire amount provided during the year.

* The fair value of held to maturity investments amounted to QAR 2,264 million at 31 December 2008 (2007: QAR 2,485 million).
The carrying value of financial investments pledged under Repo agreements amounted to QAR 990 million (2007: nil).

10. INVESTMENTS IN ASSOCIATES

The Group's interest in its associate as at 31 December 2008 are as follows:

Figures in thousand Qatar Riyals

Name	Country of incorporation	Our share of Assets	Our share of Liabilities	Our share of Operating income	Our share of Net Profit	% interest held	Carrying value 2008	Carrying value 2007
a) National Bank of Oman SAOG **-2008**	Oman	**6,535,286**	**5,632,999**	**290,289**	**135,063**	**34.85%**	**1,455,823**	-
-2007		4,870,000	4,100,000	214,400	132,567	34.85%	-	1,429,093
b) United Arab Bank PJSC **-2008**	UAE	**2,996,519**	**2,464,904**	**166,134**	**71,107**	**40.00%**	**2,182,748**	-
-2007		2,140,000	1,700,000	118,180	925	34.69%	-	1,900,807
c) Asteco LLC	Qatar	**4,519**	**1,604**	**4,964**	**1,415**	**30.00%**	**2,915**	-
Total							**3,641,486**	**3,329,900**

Further breakup of associates movements are as follows:

a) National Bank of Oman SAOG (NBO)

Figures in thousand Qatar Riyals

	2008	2007
Balance at beginning of the year	1,429,093	1,285,158
Less : dividend received	(53,039)	(46,138)
Add : share of profit before tax	170,110	165,865
Less : share of tax	(20,665)	(18,898)
Share of net profit after tax	149,445	146,967
Less : amortisation of intangible assets	(14,382)	(14,400)
Share of results of associate net of tax	135,063	132,567
Exchange difference	(357)	(450)
Add : share of post acquisition revaluation reserve	(54,937)	57,956
Balance at end of the year	**1,455,823**	**1,429,093**

Shares of National Bank of Oman SAOG (NBO) are listed on the Muscat Securities Market and the quoted price on the balance sheet date was OMR 0.365. The estimated fair value of the investment based on this price as at 31 December 2008 is QR 1,304 million (2007: QR 2,267 million). Investment in associates at National Bank of Oman (NBO) at 31 December 2008 includes goodwill of QR 574 million (2007: QR 574 million).

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

10. INVESTMENTS IN ASSOCIATES – (continued)

b) United Arab Bank (UAB)

The movement in investment in UAB is as follows:

	Figures in thousand Qatar Riyals	
	2008	2007
Balance at beginning of the year	1,900,807	1,899,882
Add acquired during the period	284,920	-
Less dividend received	(29,607)	-
Add : share of net profit	99,164	72,651
Less : share of pre-acquisition net profit	-	(71,258)
Share of post acquisition net profit	99,164	1,393
Less amortisation of intangible assets	(28,057)	(468)
Share of results of associate net of tax	71,107	925
Exchange difference	(50)	-
Add : share of post acquisition revaluation reserve	(44,429)	-
Balance at end of the year	**2,182,748**	1,900,807

Shares of United Arab Bank PJSC (UAB) are listed on the Abu Dhabi Securities Market and the quoted price on the balance sheet date was AED 7.94. The estimated fair value of the investment based on this price as at 31 December 2008 is QR 2,509 million (2007: QR 1,632 million). Investment in associates at UAB at 31 December 2008 includes goodwill of QR 1.4 billion (2007: provisional QR 1.2 billion).

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.

c) Asteco LLC

The movement in investment in Asteco is as follows:

	Figures in thousand Qatar Riyals	
	2008	2007
Balance at beginning of the year	1,500	-
Add : share of net profit	1,415	-
Balance at end of the year	**2,915**	-

Asteco is a locally incorporated entity primarily engaged in property management and sales. The bank owns 30% 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 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
Accumulated 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
At 31 December 2007						
Cost:						
Balance at 1 January	234,798	38,595	185,877	4,711	290,075	754,056
Additions	31,468	16,849	29,154	1,588	137,014	216,073
Disposals	-	-	-	(401)	-	(401)
	266,266	55,444	215,031	5,898	427,089	969,728
Accumulated Depreciation						
Balance at 1 January	52,415	19,387	121,630	2,411	-	195,843
Charge for the year	12,590	8,055	31,047	800	-	52,492
	65,005	27,442	152,677	3,211	-	248,335
Net carrying amount	201,261	28,002	62,354	2,687	427,089	721,393

Capital work in progress includes QAR 254 million for Umm-bab tower, QAR 15 million for branch renovations and QAR 20 million for various IT projects.

12. OTHER ASSETS

	Figures in thousand Qatar Riyals	
	2008	2007
Accrued income	284,273	208,022
Prepaid expenses	9,115	19,067
Amounts receivable	92,119	87,401
Net value of the properties acquired in settlement of debts *	1,700	1,700
Franchise Rights **	12,198	22,150
Derivatives with a positive fair value (Note 29)	21,043	13,601
Clearing cheques	20,865	10,711
Sundry assets	79,472	28,834
	520,785	391,486

* 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 2008 is QAR 8 million (2007: QAR 13 million).

** 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 disposed of its Franchise Rights for Bahrain, Syria and Yemen in 2008.

13. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	Figures in thousand Qatar Riyals	
	2008	2007
Current accounts	1,122,800	57,191
Placements	9,800,069	4,850,552
Total	**10,922,869**	4,907,743

14. CUSTOMER DEPOSITS

i) By type

	Figures in thousand Qatar Riyals	
	2008	2007
Demand and call deposits	6,075,323	5,636,914
Savings deposits	1,780,681	1,232,293
Time deposits	20,985,414	17,535,092
Islamic branches - demand deposits	496,525	252,393
Total	**29,337,943**	24,656,692

ii) By sector

Government	4,340,344	2,570,598
Government and semi-government agencies	8,124,163	4,388,298
Individuals -		
- Conventional	6,724,586	3,392,000
- Islamic branches	133,535	159,418
Corporate -		
- Conventional	9,652,325	14,053,403
- Islamic branches	362,990	92,975
Total	**29,337,943**	24,656,692

Accounts held as collateral included in customer deposits QAR 1.50 billion (2007: QAR 1.45 billion)

15. 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 May 2004, the Group obtained a syndicated loan for an amount of USD 150 million or QAR 546 million to reduce the balance sheet maturity mismatch gap. This is an unsecured bullet repayment loan facility with a floating rate of interest linked to USD LIBOR plus a margin of 42.5 basis points for the first 36 months and 47.5 basis points thereafter repayable in full after 60 months. The fair value of the loan as at 31 December 2008 is USD 150 million (2007: USD 150 million).
- In April 2007, the Group concluded another syndicated loan for an amount of USD 650 million or QAR 2,366 million for a five year period to refinance two short term loans totalling USD 490 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 2008 is USD 641 million (2007: USD 652 million).
- In November 2008, the Group raised USD 380 million or QAR 1,383 million in the form of a term loan facility for general funding purposes.This is an unsecured bullet repayment loan facility with a tenor of 1 year and has a floating rate of interest linked to a Reference Rate plus a margin of 90 basis points per annum. The fair value of the loan as at 31 December 2008 is USD 372 million.

EMTN programme : The Group has established access to international capital markets through a listing of a US$ 1.5 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 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 Euroclear or Clearstream in Luxembourg. The estimated fair value of the bonds as at 31 December 2008 was QAR 1.67 billion (2007: QAR 1.82 billion).

	Figures in thousand Qatar Riyals	
	2008	2007
Syndicated loans	4,282,209	5,812,444
EMTN (Bonds)	1,813,882	1,810,661
Total	**6,096,091**	7,623,105

Movements in other borrowed funds may be analysed as follows:

	Figures in thousand Qatar Riyals	
	2008	2007
Balance at beginning of the year	7,623,105	4,135,688
Additions of borrowings	1,375,938	5,264,404
Repayments of borrowings	(2,912,000)	(1,783,600)
Amortisation of transaction costs	9,048	6,613
Balances at end of the year	**6,096,091**	7,623,105

The Group has not had any defaults of principal, interest or any other breaches with respect to its financial liabilities during the reporting periods.

16. OTHER LIABILITIES

Figures in thousand Qatar Riyals

	2008	2007
Deferred income	104,845	72,579
Accrued expenses	603,010	335,944
Other provisions -see i) below	96,860	71,066
Derivatives with negative fair values (note 29)	17,008	10,259
Cash margins	126,204	78,149
Clearing cheque accounts	19,541	9,641
Accounts payable	196,398	119,840
Directors' remuneration	47,856	47,856
Social responsibility fund	12,481	10,784
Dividend payable	10,191	11,729
Outward cheques in collection	2,175	8,903
Managers' cheque and payment order	11,988	26,002
Unclaimed balances	23,361	16,038
Sundry liabilities	65,328	54,110
Total	**1,337,246**	872,900

i) OTHER PROVISIONS

Figures in thousand Qatar Riyals

	Other provision (a)	Provident fund (b)	Pension fund (b)	2008	2007
Balance at 1 January	2,000	68,583	483	71,066	62,387
Provisions made during the year- Bank contribution	-	22,090	3,245	25,335	12,992
Pension fund - staff contribution	-	6,995	1,623	8,618	6,219
Provisions transferred to retirement fund authority	-	-	(4,640)	(4,640)	(2,748)
Provisions utilised during the year	-	(3,519)	-	(3,519)	(7,784)
Balance at 31 December	2,000	94,149	711	**96,860**	71,066

a) Other provision relates to the Group’s investment in its subsidiary.

b) Provision for pension fund covers the Group's obligation for Qatari staff per Qatari pension fund law. The provision for provident fund includes the Group's obligations for end of service benefits for staff per Qatari labour law and the Bank's employment contracts.

17. UNRESTRICTED INVESTMENT ACCOUNTS

Figures in thousand Qatar Riyals

	2008	2007
i) By type		
Saving deposits	221,668	111,170
Call deposit	45,770	-
Investment deposits	2,580,493	997,852
Total	**2,847,931**	1,109,022
ii) By sector		
Individuals	607,645	535,183
Corporate	2,240,286	573,839
Total	**2,847,931**	1,109,022

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

	2008 (%)	2007 (%)
1 year term	6.00	6.00
6 months term	5.15	4.625
3 months term	5.00	4.125
1 month term	4.75	4.00
Savings account	3.10	3.00
Special deposits	4.68	5.33
Call account	2.50	-

18. EQUITY

Share capital

Issued and paid up capital
The issued, subscribed and paid up capital of the Bank is QAR 2,062,053,000 (2007: QAR 1,401,579,330) divided into 206,205,300 (2007:140,157,933) ordinary shares of QAR 10 each.

a) The Bank concluded a capital raising transaction, and the listing of its Global Depositary Receipts (GDRs) on the London Stock Exchange, on 3 July 2008. The capital raising was accomplished as a three part process via a Rights Offering, GDR Offering and a Private Placement of new ordinary shares. 4,664,705 shares were issued through the rights offering and 900,000 shares were issued through private placement. In addition a total of 92,176,475 GDRs were issued, and each GDR represents ownership of one fifth of one ordinary share. The issue of a total of 24 million ordinary shares from these offerings at a price of QAR 136.5 per share has raised QAR 3.2 billion net of transaction costs.

b) At an Extraordinary General Assembly of the Bank held on 26 November 2008, the Shareholders approved the Board of Directors' recommendations to increase the share capital of the Company from QAR 2,062,053,120 to a maximum of QAR 2,474,463,750 by private placement to the Qatar Investment Authority of up to 41,241,063 new ordinary shares at a subscription price of such amount (inclusive of premium) as equals the closing price on the Doha Securities Market of the ordinary shares of the Company on Sunday 12 October 2008. As at balance sheet date the issue of additional shares as described above, has not been finalised.

Legal reserve

The proceeds of a share issue received net of any directly attributable transaction costs are directly credited to share capital (nominal value) and legal reserve (share premium) when shares have been issued at a price higher than their nominal value as per Articles 154 and 192 of the Commercial Companies Law no. 5 of 2002.
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.

18. EQUITY(continued)

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

	2008	2007
Balance at 1st January	188,426	1,624
Revaluation results	(393,690)	181,404
Transferred to income statement, net	(138,187)	(52,612)
Share of revaluation reserves of associated companies	(99,366)	57,956
Adjustment for exchange rate fluctuations	(40)	54
Balance at 31 December *	**(442,857)**	188,426

*Balance at 31 December 2008 includes negative fair value of QAR 506 million (2007 : QAR 33 million).

Risk reserve

This represents a general reserve as per the regulation of Qatar Central Bank to cover a minimum 2% (increased from 1.5% to 2% in September 2008) 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.

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

	2008	2007
Balance at 1 January	171,903	84,549
Less : Dividend received from associates transferred to retained earnings (net of pre-acquisition dividend)	(53,555)	(46,138)
Add : Share of result of associates for the year	207,585	133,492
Balance at 31 December	**325,933**	171,903

Proposed dividend and issue of bonus shares

The Board of Directors have proposed a cash dividend of 70% (or QAR 7.0 per share) for the year 2008 (2007: QAR 4.0 per share). No bonus shares have been proposed as at 31st December 2008 (2007: 30% or 3 shares for every 10 shares held).

19. INTEREST INCOME

	Figures in thousand Qatar Riyals	
	2008	2007
Banks and financial institutions	273,262	275,138
Financial investments	162,355	193,018
Loans and advances to customers	2,256,799	1,775,950
Total	**2,692,416**	2,244,106

20. INTEREST EXPENSE

	Figures in thousand Qatar Riyals	
	2008	2007
Banks and financial institutions	183,647	195,998
Customers' deposits	1,009,955	899,507
Other borrowed funds	281,206	272,574
Total	**1,474,808**	1,368,079

21. INCOME FROM ISLAMIC FINANCING AND INVESTMENT ACTIVITIES

	Figures in thousand Qatar Riyals	
	2008	2007
Financing to customers	147,930	60,717
Banks and financial institutions	28,029	18,331
Financial investments	4,937	4,616
Total	**180,896**	83,664

22. FEE AND COMMISSION INCOME

	Figures in thousand Qatar Riyals	
	2008	2007
Loans and financing advisory service	616,109	390,977
Indirect credit facilities	158,043	135,329
Credit card	165,075	139,481
Banking and other operations	68,824	42,941
Investment activities for customers	31,964	24,547
Total	**1,040,015**	733,275

23. NET GAINS FROM DEALING IN FOREIGN CURRENCIES

	Figures in thousand Qatar Riyals	
	2008	2007
Profits from foreign currency transactions	128,836	84,768
Gains/(Losses) from revaluation of assets and liabilities	2,089	(1,014)
Total	**130,925**	83,754

24. PROFIT FROM FINANCIAL INVESTMENTS

Figures in thousand Qatar Riyals

	2008	2007
Available-for-sale	278,201	205,772
Held for trading	(2,171)	-
Total	**276,030**	205,772

25. OTHER OPERATING INCOME

Figures in thousand Qatar Riyals

	2008	2007
Management fees from associates	9,222	6,800
Rental income	23,011	4,700
Gain on sale of assets and other income	54,791	7,360
Total	**87,024**	18,860

26. GENERAL AND ADMINISTRATIVE EXPENSES

Figures in thousand Qatar Riyals

	2008	2007
Salaries and other benefits	383,750	269,063
Bank’s contribution to provident fund and Qatari pension fund	25,335	12,992
Training programmes costs	10,870	4,617
Marketing and promotional expenses	51,969	43,278
Legal and professional charges	35,716	20,175
Communication, utilities and insurance	28,586	21,521
Occupancy, IT Consumables and maintenance	54,682	42,156
Travel and entertainment expenses	5,203	4,181
Supplies	9,536	6,721
Directors' remuneration and meeting attendance fees	48,636	48,606
Others operating expenses	27,854	14,615
Total	**682,137**	487,925

27. EARNINGS PER SHARE

During the year 2008, the Bank issued bonus shares for the year 2007 and also the bank concluded a capital raising transaction. Accordingly, the previously reported earnings per share as at 31 December 2007 has been restated for the effects of the bonus shares issued during the year.

	2008	2007
Basic and diluted		
Profit attributable to equity holders of the Group (QAR'000)	1,702,442	1,390,715
Weighted average number of shares in issue during the year	194,253	182,205
The weighted average number of shares have been calculated as follows:		
Qualifying shares at the beginning of the year	140,158	140,158
Effect of bonus share issue	42,047	42,047
Effect of rights issue, GDR and Private Placement	12,048	-
	194,253	182,205
Basic and diluted earnings per share (QAR)	8.76	7.63

28. OFF-BALANCE SHEET ITEMS

Figures in thousand Qatar Riyals

	2008	2007
a) Loan commitments, guarantees and other financial facilities		
Acceptance	2,388,401	3,113,752
Guarantees	14,488,472	13,109,009
Letter of credit	5,335,915	3,975,836
Un-utilised credit facilities granted to customers	5,653,694	2,890,846
	27,866,482	23,089,443
b) Other undertakings and commitments		
Foreign exchange contracts and derivatives for customers (Note 29)	6,089,289	3,323,312
Guaranteed investment funds	1,310	2,373
Portfolios and investments managed for others :		
Conventional Banking - Portfolio management (Note i)	-	58,240
Islamic Branches - restricted investment accounts (Note ii)	-	38,000
Capital commitments	6,492	153,552

i) The Group managed an investment portfolio of USD 16 million (2007: USD 16 million) on behalf of customers for a period of five years that matured and closed in 2008.

ii) These are restricted investments accounts managed by the Group's Islamic branches on behalf of customers in line with the terms and conditions agreed upon with the customer.

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.

				Principal value at maturity 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 2008							
Derivatives for customers							
Interest rate swaps, options and forward foreign exchange contracts	21,043	17,008	6,089,289	1,764,224	953,830	374,074	2,997,161
As at 31 December 2007							
Derivatives for customers							
Interest rate swaps, options and forward foreign exchange contracts	13,601	10,259	3,323,312	1,040,496	574,457	144,523	1,563,836

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 231 million (2007: QAR 331 million) worth of international investment securities on behalf of its customer's. Out of this amount, investment securities with a value of QAR 151 million equivalent to USD 41 million (2007: QAR 176 million equivalent to USD 48 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	
Board Members	**2008**	2007
- Loans and advances (a)	968,334	509,502
- Deposits	383,760	316,306
- Contingent liabilities, guarantees and other commitments	30,906	47,126
- Interest income earned from facilities granted to board members	49,165	26,006
- Other fees income earned from transactions with board members	5,956	1,433
- Interest paid to deposits accounts of board members	46,008	22,589
- Fixed and variable remuneration and meeting attendance fees paid	49,800	49,770
Parent/Subsidiaries companies		
- Balance with bank/ customers' deposits (b)	53,959	29,439
Associate company		
- NBO's deposit with the Group	1,344	607
- Bank's deposit with NBO	567	195
- NBO's contingent liabilities to the Group:		
- Letter of guarantee : Performance bond	2,540	623
Tender bond	-	1,047
- Interest rate swap (notional amount)	56,727	56,727
- Interest rate swap (fair value)	3,393	458
Senior Management compensation		
- Fixed remuneration	30,216	18,179
- Discretionary remuneration	15,729	9,500
- Fringe benefits	7,460	4,173

Number of staff in the Senior Management team as at 31 December 2008 was 31 (2007: 23).

Additional information

a) A significant portion of the loans and advances balances at the year end with the members of the Board and the companies in which they have significant interest are secured against tangible collateral or personal guarantees. Moreover the loans and advances are performing satisfactorily with all obligations honoured as arranged. The pricing of any such transactions are primarily based on the banker customer relationship and the prevailing market rate.

b) Balance with Bank and Customers' deposits between parent and subsidiaries companies including any income/expenses on those balances have been eliminated on consolidation.

32. CASH AND CASH EQUIVALENTS FOR CASH FLOW STATEMENT

	Figures in thousand Qatar Riyals	
	2008	2007
Cash and balances with Central Bank*	1,463,741	1,425,370
Due from banks and financial institutions less than 90 days	2,805,427	3,261,902
Total	**4,269,168**	4,687,272

* Does not include the mandatory cash reserve with Qatar Central Bank.

33. FINANCIAL STATEMENTS FOR THE PARENT BANK

Parent Bank Balance Sheet
As at 31 December 2008

	Figures in thousand Qatar Riyals	
	2008	2007
ASSETS		
Cash and balances with Central Bank	3,015,278	2,248,847
Due from banks and financial institutions	14,305,060	9,015,551
Loans, advances and financing activities for customers	33,895,854	25,004,115
Financial investments	4,847,763	4,737,472
Investments in associate	3,641,486	3,329,900
Property and equipment	1,135,898	720,743
Other assets	510,017	369,852
Total assets	**61,351,356**	45,426,480
LIABILITIES		
Due to banks and financial institutions	10,922,352	4,907,188
Customers' deposits	29,391,902	24,686,131
Borrowing under repurchase agreement	781,226	-
Other borrowed funds	6,096,091	7,623,105
Other liabilities	1,333,891	867,067
Total liabilities excluding unrestricted investment accounts	**48,525,462**	38,083,491
Unrestricted investment accounts	2,847,931	1,109,022
Total liabilities including unrestricted investment accounts	**51,373,393**	39,192,513
EQUITY		
Share capital	2,062,053	1,401,579
Legal reserve	5,923,600	2,915,499
General reserve	26,500	26,500
Cumulative changes in fair value	(442,916)	188,340
Risk reserves	638,300	346,300
Other reserves	325,933	171,903
Proposed dividend	1,443,437	560,632
Proposed bonus shares	-	420,474
Retained earnings	1,056	202,740
Total equity	**9,977,963**	6,233,967
Total liabilities and equity	**61,351,356**	45,426,480

33. FINANCIAL STATEMENTS FOR THE PARENT BANK (continued)

Parent Bank Statement of Income
31 December 2008

	Figures in thousand Qatar Riyals	
	2008	2007
Interest income	2,690,440	2,241,103
Interest expense	(1,476,155)	(1,369,296)
Net interest income	**1,214,285**	871,807
Income from Islamic financing and investment activities	180,896	83,664
Less unrestricted investment account holders' share of profit	(106,413)	(30,625)
Net income from Islamic financing and investment activities	**74,483**	53,039
Fees and commission income	1,034,842	727,034
Fees and commission expense	(94,837)	(65,149)
Net fees and commissions income	**940,005**	661,885
Dividend income	39,108	38,943
Net gains from dealing in foreign currencies	130,630	83,449
Profit from financial investments	276,030	205,772
Other operating income	76,501	17,916
	522,269	346,080
Operating income	**2,751,042**	1,932,811
General and administrative expenses	(671,233)	(477,326)
Depreciation	(67,719)	(52,130)
Recoveries of impairment losses on loans to financial institutions, net	2,466	2,240
Impairment losses on loans and advances to customers, net	(61,511)	(50,772)
Impairment losses on financial investments	(464,850)	(85,904)
Impairment losses on other assets	-	(10,700)
Total operating expenses and impairment losses	**(1,262,847)**	(674,592)
Profit before share of associates' results	**1,488,195**	1,258,219
Share of results of associates	207,585	133,492
Net profit for the year	**1,695,780**	1,391,711

33. FINANCIAL STATEMENTS FOR THE PARENT BANK (continued)

Parent Bank Statement of Cash Flows
31 December 2008

	Figures in thousand Qatar Riyals	
	2008	**2007**
Cash flows from operating activities		
Net profit for the year	1,695,780	1,391,711
Adjustments for:		
Depreciation	67,719	52,130
Amortization of transaction cost	9,048	6,613
Impairment losses on loans and advances, net	59,045	48,532
Impairment losses on fiancial investments	464,850	85,904
Impairment losses on other assets	-	10,700
Profit from sale of assets	(28)	-
Share of results of associate	(207,585)	(133,492)
Profit from financial investments	(276,030)	(205,772)
Profits before changes in operating assets and liabilities	1,812,799	1,256,326
Net (increase) decrease in operating assets		
Due from banks and financial institutions	(415,132)	(673,799)
Loans, advances and financing activities for customers	(8,950,784)	(7,711,295)
Other assets	(141,665)	(67,939)
Net increase (decrease) in operating liabilities		
Due to banks and financial institutions	731,226	(314,000)
Customers' deposits	6,444,680	8,588,335
Other liabilities	458,824	152,571
Net cash (used in) from operating activities	(60,052)	1,230,199
Cash flows from Investing activities		
Purchase of financial investments	(1,972,513)	(1,844,980)
Investment in associates	(284,920)	(1,899,882)
Dividend received from associate	82,646	46,138
Proceeds from sale of financial investments	1,141,472	1,738,862
Purchase of property and equipment	(482,873)	(216,034)
Proceeds from sale of assets	28	-
Net cash used in investing activities	(1,516,160)	(2,175,896)
Cash flows from financing activities		
Proceeds from other borrowed funds	1,375,938	5,264,404
Repayment of other borrowed funds	(2,912,000)	(1,783,600)
Net proceeds from issue of shares	3,248,101	-
Dividend paid	(560,632)	(981,106)
Net cash from financing activities	1,151,407	2,499,698
Net (decrease) increase in cash and cash equivalents during the year	(424,805)	1,554,001
Effects of foreign exchange fluctuation	13	10
Cash and cash equivalents at 1 January	4,683,884	3,129,873
Cash and cash equivalents at 31 December	**4,259,092**	**4,683,884**

34. FINANCIAL STATEMENTS FOR THE AL SAFA ISLAMIC BRANCHES

Al Safa Islamic Banking - Balance Sheet
As at 31 December 2008

	Figures in thousand Qatar Riyals	
	2008	2007
ASSETS		
Cash balances	18,213	7,167
Due from banks and financial institutions	1,393,160	644,280
Due from customers for financing activities	2,420,551	919,553
Financial investments	141,265	81,933
Due from parent bank	-	24,529
Property and equipment	31,180	10,051
Other assets	61,166	10,914
Total assets	**4,065,535**	1,698,427
LIABILITIES		
Due to banks and financial institutions	189,918	-
Customers' current accounts	496,525	252,393
Other liabilities	210,516	47,246
Total liabilities excluding unrestricted investment accounts	**896,959**	299,639
Unrestricted investment accounts	2,847,931	1,109,022
Total liabilities including unrestricted investment accounts	**3,744,890**	1,408,661
CAPITAL FUNDING		
Capital funding from parent	250,000	250,000
Current year's profit	70,645	39,766
Total capital funding	**320,645**	289,766
Total liabilities and capital funding	**4,065,535**	1,698,427

34. FINANCIAL STATEMENTS FOR THE AL SAFA ISLAMIC BRANCHES (continued)

Al Safa Islamic Banking - Statement of Income
31 December 2008

	Figures in thousand Qatar Riyals	
	2008	2007
Income from financing activities	147,930	60,717
Income from investment activities	32,966	22,947
Total income from financing and investment activities	**180,896**	83,664
Fee and commission income	24,425	14,082
Fee and commission expense	(91)	(61)
Net fee and commission income	**24,334**	14,021
Dividend income	574	-
Net gains from dealing foreign currencies	4,126	35
Net gains from financial investment	450	3,417
	5,150	3,452
Operating income	**210,380**	101,137
General and administrative expenses	(28,105)	(28,170)
Depreciation	(3,281)	(1,323)
Impairment losses on loans and advances to Customers (net)	(1,936)	(1,253)
Net profit	**177,058**	70,391
Less unrestricted investment account holder's share of profit	(106,413)	(30,625)
Net profit for the year attributable to owners	**70,645**	39,766