HSBC BANK MIDDLE EAST LIMITED
QATAR BRANCH

FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED
31 DECEMBER 2008

HSBC Bank Middle East Limited - Qatar Branch

FINANCIAL STATEMENTS
As at and for the year ended 31 December 2008

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INDEPENDENT AUDITORS' REPORT

To:
The Management
HSBC Bank Middle East Limited - Qatar Branch

Report on the financial statements

We have audited the accompanying financial statements of HSBC Bank Middle East Limited - Qatar Branch (the "Bank"), which comprise the balance sheet as at 31 December 2008, the income statement, statements of recognised income and expense and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider internal control relevant to the Bank'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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 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

In addition, in our opinion, the Bank has maintained proper accounting records and the financial statements are in agreement therewith. We are not aware of any violations of the provisions of Qatar Central Bank Law No. 33 of 2006 and the amendments thereto or the terms of the Bank's license, having occurred during the year which might have had a material effect on the business of the Bank or its financial position as at 31 December 2008. Satisfactory explanations and information have been provided to us by the management in response to our requests.

26 February 2009	Ahmed Hussain
Doha	KPMG
State of Qatar	Qatar Auditors' Registry No. 197

As at 31 December 2008 In thousands of Qatar Riyals

	Note	2008	2007
ASSETS			
Cash and balances with Qatar Central Bank	5	787,613	2,419,510
Due from banks and other financial institutions	6	2,977,363	1,716,505
Loans and advances to customers	7	7,136,679	5,325,180
Available for sale financial assets	8	3,280,758	581,310
Plant and equipment	9	9,767	12,648
Other assets	10	241,033	228,831
Total assets		**14,433,213**	10,283,984
LIABILITIES AND EQUITY			
LIABILITIES			
Customer deposits	11	10,278,787	7,508,009
Due to banks and other financial institutions	12	2,547,967	1,447,419
Other liabilities	13	525,853	529,326
Total liabilities		13,352,607	9,484,754
EQUITY			
Capital	14(a)	10,000	10,000
Legal reserve	14(b)	10,000	10,000
Other reserve	14(c)	121,183	121,183
Fair value reserve	14(d)	4,318	103
Actuarial valuation reserve	14 (e)	(2,560)	(774)
Retained earnings		937,665	658,718
Total equity		1,080,606	799,230
Total liabilities and equity		**14,433,213**	10,283,984

The financial statements were approved and signed on behalf of the Management of HSBC Bank Middle East Limited - Qatar Branch by the following on 26 February 2009.

Abdul Hakeem Mustafawi
Chief Executive Officer

Aravind Krishnaswamy
Financial Controller

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

HSBC Bank Middle East Limited - Qatar Branch
Income Statement

For the year ended 31 December 2008 In thousands of Qatar Riyals

	Note	2008	2007
Interest income	15	631,894	559,795
Interest expense	15	(219,273)	(197,983)
Net interest income		412,621	361,812
Fee and commission income		248,443	163,789
Fee and commission expense		(14,565)	(12,342)
Net fee and commission income	16	233,878	151,447
Profit from foreign currency transactions	17	135,581	74,751
Other operating (loss)/income	18	(243)	27,110
Income from Islamic finance and investment activities	19	29,557	9,028
Net operating income		811,394	624,148
Net impairment loss on loans and advances		(72,218)	(8,175)
Depreciation	9	(6,796)	(7,046)
Impairment loss on leased building	10	-	(21,278)
General and administrative expenses	20	(310,521)	(220,427)
Profit before income tax		421,859	367,222
Income tax expense	21	(143,199)	(116,100)
Profit for the year		**278,660**	251,122

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

HSBC Bank Middle East Limited - Qatar Branch
Statement of recognised income and expense

For the year ended 31 December 2008	In thousands of Qatar Riyals	
	2008	2007
Net change in fair value of available for sale financial assts	3,752	(785)
Actuarial (loss) / gain on end of service benefits	(1,786)	694
Income and expense recognised directly in equity	1,966	(91)
Profit for the year	278,660	251,122
Total recognised income and expense for the period	**280,626**	251,031

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

Statement of cash flows

For the year ended 31 December 2008 In thousands of Qatar Riyals

	Note	2008	2007
Cash flows from operating activities			
Profit before income tax		421,859	367,222
Adjustments for:			
Depreciation	9	6,796	7,046
Fair value changes on hedged portion of available for sale financial assets		345	1,852
Provision for impairment of loans and advances, net		72,218	6,839
Impairment of leasehold premises	10	-	21,278
Provision for employees end of service benefits	13	9,186	5,407
Changes in fair value of derivatives	17	6,480	2,758
Loss on sale of plant and equipment		40	1,426
		516,924	413,828
Increase in balances with Qatar Central Bank		(267,966)	(120,382)
Increase in loans and advances to customers		(1,883,717)	(2,221,015)
Increase in other assets		(11,452)	(97,035)
Increase in customer deposits		2,770,778	978,786
Increase in due to banks and other financial institutions		1,100,548	116,837
(Decrease)/ increase in other liabilities		(44,066)	1,991,545
		2,181,049	1,062,564
Employees end of service benefits paid	13	(3,723)	(2,521)
Income tax paid		(116,335)	(81,221)
Net cash from operating activities		2,060,991	978,822
Cash flows from investing activities			
Proceeds from redemption of available for sale financial assets	8	(6,902,131)	-
Disposals of available for sale financial assets	8	4,206,090	10,925
Purchase of plant and equipment	9	(3,964)	(6,150)
Proceeds from sale of plant and equipment		9	-
Net cash(used in) / from investing activities		(2,699,996)	4,775
Cash flows from financing activities			
Profits remitted to Head Office		-	(72,830)
Net cash used in financing activities		-	(72,830)
Net (decrease) / increase in cash and cash equivalents		(639,005)	910,767
Cash and cash equivalents at 1 January		3,895,453	2,984,686
Cash and cash equivalents at 31 December	28	**3,256,448**	3,895,453

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

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

HSBC Bank Middle East Limited is a Company incorporated in Jersey and its ultimate holding Company is HSBC Holdings Plc (the "Group"), which is registered in England. These financial statements represent the assets, liabilities and results of HSBC Bank Middle East Limited, Qatar Branch (the "Bank"). The principal office address of the bank in Qatar is P.O. Box 57, Doha.

The principal activities of the Bank in Qatar are commercial and Islamic banking services which are carried out from six branches.

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and the relevant laws and banking regulations prescribed by the Qatar Central Bank ("QCB").

b) Basis of measurement

These financial statements are prepared under the historical cost convention, except for available for sale financial assets and derivative financial instruments which are measured at fair value.

c) Functional and presentation currency

The financial statements are presented in Qatar riyals which is the Bank's functional currency and all values are rounded to the nearest thousand (QR '000) except when otherwise indicated.

d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the note 31.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements:

a) Financial Instruments

Financial instruments represent the Bank's financial assets and liabilities. Financial assets include cash and bank balances with Qatar Central bank, current accounts and placements with banks and other financial institutions, loans and advances to customers, available for sale investments and certain other assets. Financial liabilities include customer deposits and due to banks and other financial institutions. Financial instruments also include contingent liabilities and commitments not recognised and certain other liabilities adequately disclosed in the respective notes to the financial statements.

i) Recognition

The Bank initially recognises loans and advances to customers and customer deposits on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the bank becomes a party to the contractual provisions of the instrument.
A financial asset or a financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit and loss) transaction costs that is directly attributable to its acquisition or issue.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Financial Instruments (continued)

ii) De-recognition

The Bank derecognises a financial asset when the contractual rights to receive cash flows from that asset expire or it transfers the right to receive the contractual cash flows of that asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred.
The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

iii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by an accounting standard, or for gains and losses arising from a group of similar transactions.

iv) Measurement

Non-derivative financial instruments

Cash and cash equivalents

Cash and cash equivalents comprise notes and coins on hand, balances with banks and other financial institutions and balances with Qatar Central Bank all having an original maturity of less than 90 days. This excludes the cash reserve with Qatar Central Bank which is not available for use by the Bank.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

Loans and advances to customers and placements with banks and other financial institutions

Placements with banks and other financial institutions and loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortised cost using the effective interest method, less any impairment losses. Loans and advances to customers are shown at amortised cost after deducting any provisions for impairment losses. Specific provision for impairment is calculated after considering the difference between the carrying amount and the recoverable amount, which is the present value of the expected cash flows discounted at the original effective interest rate. Loans and advances to customers are written off only in circumstances where all reasonable restructuring and collection efforts have been exhausted.

Islamic financing to customers such as Murabaha and Tawarooq are stated at their gross principal amount less any amount received, provision for impairment, profit in suspense and unearned profit.

Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates or equity prices. Available for sale financial assets are measured at fair value on an individual basis.

Available for sale financial assets of the Bank represent investments in quoted and unquoted Government bonds and certificates of deposit.

Available for sale financial assets, which are quoted and not hedged, are subsequently remeasured at fair value. Any gain or loss arising from a change in their fair value is recognised directly in fair value reserve, until the investment is sold or impaired, at which time the cumulative gain or loss previously recognised in equity under fair value reserve will be included in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Financial Instruments (continued)

iv) Measurement (continued)

Available for sale financial assets, both quoted and unquoted and hedged, are subsequently remeasured at fair value and any gain or loss arising from a change in their fair value of the hedged portion is recognised directly in the income statement.

Unrealised gains or losses arising from a change in the fair value are recognised directly in equity under fair value reserve until the investment is sold, at which time the cumulative gain or loss previously recognised in equity is included in the income statement.

Customer deposits and due to banks and other financial institutions

Customer deposits and due to banks and other financial institutions are measured at amortised cost. The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation.

Other assets and liabilities

All other assets and liabilities which are financial instruments are stated at amortised cost.

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 option pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative financial instruments include interest rate swaps and cross currency swaps.

The resultant gains and losses from derivatives held for trading purposes are included in the income statement.

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

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the income statement.

v) Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties on an arm’s length basis. Differences can therefore arise between the book values under the historical cost method and fair value estimates.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The fair value of the marketable financial assets represents the quoted shares at the balance sheet date and in case of non availability of quoted prices for some financial assets, its fair value will be arrived at using a suitable price model.

The fair values of loans and advances were principally estimated at their book values less attributable specific provision for loan losses as the financing is mostly on a floating rate basis and the applicable margins approximate the current spreads that would apply for similar lending. The fair values of the Bank’s other financial assets and financial liabilities are not materially different from their carrying values.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Impairment of assets

The carrying amount of the Bank's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss.

Impairment loss is recognised in the income statement, whenever the carrying amount of the asset exceeds its recoverable amount.

i) Financial assets

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by considering together financial assets with similar characteristics.

ii) Non-financial assets

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.

c) Plant and Equipment

Items of plant and equipment are carried at historical cost less accumulated depreciation less any impairment losses. Subsequent costs included in the asset's carrying amount 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 Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is computed on a straight line basis over the estimated useful lives of each asset category as follows:

Leasehold improvements	Over the period of lease
Machinery and office equipment	3 to 6 years
Office furniture	6 years
Motor vehicles	5 years

The depreciation method and the useful lives as well as residual values are reassessed annually. Gains and losses on disposals are included in the income statement.

Leasehold premises are disclosed under other assets as required by Qatar Central Bank Regulations and are depreciated over the period of the estimated useful life or over the period of the lease, whichever is less.

d) Employee benefits

i) Defined contribution plan

With respect to the Qatari employees, the Bank is required to make contributions to Government Pension Authority as a percentage of the employees' salaries from 1 April 2003, in accordance with the requirements of law No 24 of 2002 pertaining to Retirement and Pensions. The Bank makes contributions on a monthly basis to the Qatari Pension Authority. The Qatari Pension Authority is then liable to pay the Qatari Staff for their pension entitlement. The Bank's liability is discharged once the share of contribution is made. The Banks' contributions to this scheme are charged to the income statement in the year to which they relate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Employee benefits (continued)

ii) Defined benefit plan

For the expatriate employees the Bank provides end of service benefits determined in accordance with Bank's regulations and the Labour Law of Qatar, based on employees' salaries and the number of years of service at the balance sheet date. Provisions for this unfunded commitment which represents a defined benefit plan under International Accounting Standard (IAS) 19 – 'Employee Benefits', have been made by calculating the notional liability at the balance sheet date. The actuarial valuation has been undertaken by HSBC Actuaries and Consultants Limited. The actuary has used the "Projected Unit Credit Method" in determining the liability. Any short fall or excess in the actuarial valuation is taken to equity.

iii) Short term benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

iv) Share based payments

The Bank has no specific share-based payment arrangements of its own and participates in The HSBC Holdings plans.

Restricted share awards made under the HSBC Holdings Restricted Share Plan 2000 ('Achievement Shares')

Achievement shares are utilised to promote widespread interest in HSBC Holdings' shares among employees and to help foster employee engagement. They are awarded to eligible employees after taking into account the employee's performance in the prior year. Shares are awarded without corporate performance conditions and are released to employees after three years provided the employees have remained continuously employed by the Group for this period. Following the adoption of IFRIC 11 - *"IFRS 2 – Group and treasury share transactions"* during the year, the Bank accounts for such plans as equity settled. For equity-settled share-based payment transactions other than transactions with employees and others providing similar services, the Bank measures the goods or services received directly at the fair value of goods and services.

Savings-related share option plans

The savings-related share option plans invite eligible employees to enter into savings contracts to save up to £250 per month, with the option to use the savings to acquire shares. The aim of the plan is to align the interests of all employees to the creation of shareholder value. The options are exercisable within six months following either the third or the fifth anniversary of the commencement of the savings contract depending on conditions set at grant. The exercise price is set at a 20 per cent (2007: 20 per cent) discount to the market value at the date of grant.

The shares are accounted for in the books of the Bank till they vest, at which time the ownership is transferred to the employee. A liability is created through the income statement over the vesting period for the cost of the share award. At the end of the vesting period the ownership of the shares is transferred at that point of time the asset and the liability in the books are reversed.

e) Provisions

The Bank recognizes provisions in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision is created by charging the income statement for any obligations or contingent liabilities as per the calculated value for these obligations and the expectation of their realisation at the balance sheet date.

f) Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instruments but not future credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Interest income and expense (continued)

The calculation of effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to acquisition or issue of a financial asset or liability.

g) Fee and commission

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commissions including commission and fees arising from negotiating or participating in the negotiation of, a transaction for a third party on completion of the underlying transaction are recognised as and when the service has been provided.

Other service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis.

h) Taxation

Income tax on the profit for the year comprises current year tax and adjustments relating to previous year's income tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date.

i) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Bank at the spot exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available for sale equity instruments or a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flow hedge, which are recognised directly in equity.

j) Leases

The leases entered into by the Bank are primarily operating leases. Leases of buildings wherein the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. The total payments made under operating leases are charged to the income statement on a payment basis over the period of the lease.

k) Off-balance sheet items

These are items that the Bank is a party to, including obligations for foreign exchange forwards, letters of credit and acceptances, guarantees and others and do not constitute actual assets or liabilities at the balance sheet date and are therefore shown as memorandum items.

l) Standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements:

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Standards and interpretations not yet adopted (continued)

- Revised IAS 1 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Bank's 2009 financial statements, is expected to have a significant impact on the presentation of the financial statements.

- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on *Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Bank's 2009 financial statements, with retrospective application required, are not expected to have any impact on the financial statements. Liquidation requires putt-able instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Bank's 2009 financial statements, with retrospective application required, are not expected to have any impact on the financial statements.

- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Bank's 2009 financial statements, with retrospective application. The Bank has not yet determined the potential effect of the amendment.

- Amendments to IAS 39 Financial instruments: Recognition and Measurement – Eligible Hedged Items clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Bank's 2010 consolidated financial statements, with retrospective application required. The Bank is currently in the process of evaluating the potential effect of this amendment.

- The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Bank's 2009 financial statements. The Bank does not expect these amendments to have any significant impact on the financial statements.

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

a) Risk management

The Bank, in the normal course of its business derives its revenue mainly 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 shareholders' return. The Bank's lines of business exposed to the following risks:

- credit risk;
- liquidity risk;
- market risk; and
- operational risk.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

The management committee has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Bank established Asset and Liability (ALCO), Credit and Operational Risk Committees, which are responsible for developing and monitoring the Bank's risk management policies. These committees are responsible for developing and monitoring Bank risk management policies in their specified areas

The Bank'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 risk management process. The Bank has entered into certain derivatives to reduce the risk attached to interest rate movements.

b) Credit risk

Credit risk is the risk that a customer or counterparty of the Bank will be unable or unwilling to meet a financial commitment that it entered into with the Bank. It arises from lending, trade finance, treasury and other activities undertaken by the Bank. The Bank has in place standards, policies and procedures adopted by the entire group for the control and monitoring of all such risks.

Group Head Office is responsible for the formulation of high-level credit policies, the independent review of large credit exposures, control of exposures to banks and other financial institutions and management of risk concentrations. Cross border risk is controlled through the imposition of country limits, with sub-limits by maturity and type of business. Transactions with higher risk countries are considered on a case by case basis. The Group Head Office is also responsible for the credit approval process, a key element of which is the Bank's facility grading system.

However the local management together with the Middle East Management office is responsible for the quality of credit portfolio. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties, and continually assessing the credit worthiness of the counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or banks or businesses. It also obtains security where appropriate.

The Asset and Liability committee (ALCO) chaired by the Chief Executive Officer includes heads of the various departments of the Bank. The ALCO receives reports on large credit exposures, asset concentrations, industry exposures, levels of bad debts provisioning and unutilised limits. Special attention is paid to the management of problem loans to provide intensive management and control to maximise recoveries of doubtful debts.

For the year ended 31 December 2008 In thousands of Qatar Riyals

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

Exposure to credit risk		**Gross Maximum Exposure**	
	Note	**2008**	2007
Balances with Qatar Central Bank (excluding cash)	5	716,428	2,383,370
Due from banks and other financial institutions	6	2,977,363	1,716,505
Loans and advances to customers	7	7,136,679	5,325,180
Available for sale financial assets	8	3,280,758	581,310
Other financial assets	10	93,468	57,534
Total on balance sheet exposure		**14,204,696**	10,063,899
Loan commitments and other credit related liabilities	22	21,623,462	17,011,353
Total off balance sheet exposure		**21,623,462**	17,011,353
Total credit risk exposure		**35,828,158**	27,075,252

None of the balances with Qatar Central Bank, banks and other financial institutions, available for sale financial assets and certain other assets, that are subject to credit risk, are past due or impaired. Further the balances with Qatar Central Bank and certain other assets are not graded due to minimum exposure to credit risk.

Exposure to credit risk has been further analysed based on credit grading, as impaired, past due but not impaired and neither past due nor impaired.

	Loans and advances to customers		**Due from banks and other financial institutions**		**Available for sale debt securities**	
	2008	2007	**2008**	2007	**2008**	2007
Grade 1 : Neither past due nor impaired	96,283	379,504	2,977,363	1,716,505	3,280,758	581,310
Grade 2 : Past due but not impaired	7,083,476	4,975,186	-	-	-	-
Grade 3 : Collectively impaired	9,659	3,300	-	-	-	-
Grade 4 : Individually impaired	113,125	65,842	-	-	-	-
Grade 5 : Bad	82,777	55,619	-	-	-	-
Gross amount	7,385,320	5,479,451	2,977,363	1,716,505	3,280,758	581,310
Individual Impairment Provision						
Personal	130,208	85,711	-	-	-	-
Corporate	662	562	-	-	-	-
Total	(130,870)	(86,273)	-	-	-	-
Collective impairment provision						
Personal	18,475	6,565	-	-	-	-
Corporate	23,269	9,952	-	-	-	-
Total	(41,744)	(16,517)	-	-	-	-
Interest in suspense	(76,027)	(51,481)	-	-	-	-
Total carrying amount, net	**7,136,679**	5,325,180	**2,977,263**	1,716,505	**3,280,758**	581,310

For the year ended 31 December 2008 In thousands of Qatar Riyals

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

Impaired loans and securities

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 4 and 5 in the Bank's internal credit risk grading system in accordance with Qatar Central Bank regulations.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Past due but not impaired

Loans and advances where contractual interest or principle payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owned to the Bank.

Write-off policy

The Bank writes off a loan (and any related allowances for impairment losses) when the Bank's credit committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Total impairment allowance to gross lending

	2008	2007
Individually assessed impairment allowances	2.80%	2.51%
Collectively assessed impairment allowances	0.57%	0.30%
Total	**3.37%**	2.81%

Available for sale debt securities

The table below represents an analysis of government bonds and call deposits by rating agency designation at 31 December 2008, based on Standard & Poor's ratings or their equivalent:

	2008	2007
AAA	-	-
AA- to AA+	149,135	143,547
A- to A+	-	-
Lower than A-	-	-
Unrated	3,131,623	437,763
Total	**3,280,758**	581,310

The unrated securities constitute of certificates of deposits issued from the Qatar Central Bank and State of Qatar Qatari Riyal bonds.

For the year ended 31 December 2008 In thousands of Qatar Riyals

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

b) Credit risk (Continued)

Concentration of assets

The Bank monitors concentration of credit risk by industry and geographic location. An analysis of concentrations of credit risk from net loans and advances and available for sale debt securities at the balance sheet date is shown below:

By Industry	Loans	Overdrafts	Bills Discounted	Available for sale debt securities	Total 2008	Total 2007
Government and semi-government agencies	34,245	82		3,280,758	3,315,085	695,120
Industry	102,629	3,942			106,571	114,270
Commercial	1,299,786	347,194	14,654		1,661,634	1,962,347
Services	1,350,379	27,567			1,377,946	139,257
Contracting	713,584	312,421	23,100		1,049,105	771,047
Consumers	1,901,372	422,671			2,324,043	2,092,050
Other	531,220	51,833			583,053	132,399
	5,933,215	**1,165,710**	**37,754**	**3,280,758**	**10,417,437**	5,906,490

Collateral

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. A breakdown of loans and advances to granted to customers and banks against different types of collaterals is shown below:

	2008	2007
Against customer deposits	213,352	128,553
Against bank guarantees	633,572	510,744
Against real estate mortgages	985,507	1,820,543
Personal guarantees	6,018	6,506
Unsecured	5,546,871	3,013,105
	7,385,320	5,479,451

c) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend. Minimum ratios of liquid assets to customer deposits are established and monitored regularly.

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to current liabilities. For this purpose liquid assets are considered as including cash and cash equivalents and placements with banks and other financial institutions and current liabilities include loans to banks and customer deposits.

	2008	2007
At 31 December	**114%**	126%

For the year ended 31 December 2008 In thousands of Qatar Riyals

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (Continued)

Maturity of financial assets and liabilities

The following table sets out the maturity profile of the Bank's financial assets and liabilities. The contractual maturities of financial 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 Bank's deposit retention history and the availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained. The expected maturities of the Bank's assets and liabilities do not differ substantially from their contractual maturities.

	As at 31 December 2008 (gross undiscounted cash flows)					
	Less than 1 month	**1 – 3 Months**	**3 – 12 months**	**1 - 5 years**	**5 years and above**	**Total**
Assets						
Cash and balances with Qatar Central Bank	787,613	-	-	-	-	787,613
Due from banks and other financial institutions	2,899,534	41,414	36,415	-	-	2,977,363
Loans and advances to customers	1,776,505	527,328	415,699	4,574,741	91,047	7,385,320
Available for sale financial assets	502,648	2,018,811	350,466	408,833		3,280,758
Other financial assets	83,701	-	-	-	9,767	93,468
Total assets	**6,050,001**	**2,587,553**	**802,580**	**4,983,574**	**100,814**	**14,524,522**
Liabilities						
Customer deposits	7,252,825	593,305	583,360	1,849,297	-	10,278,787
Due to banks and other financial institutions	719,471	1,796,310	32,186	-	-	2,547,967
Other financial liabilities	127,390	-	-	-	-	127,390
Total liabilities	**8,099,686**	**2,389,615**	**615,546**	**1,849,297**	**-**	**12,954,144**
Maturity Gap	**(2,049,685)**	**197,918**	**187,034**	**3,134,277**	**100,814**	**1,570,378**

	As at 31 December 2007 (gross undiscounted cash flows)					
	Less than 1 month	1 - 3 months	3 – 12 months	1 – 5 Years	5 years and above	Total
Assets						
Cash and balances with Qatar Central Bank	2,419,510	-	-	-	-	2,419,510
Due from banks and other financial institutions	1,548,727	36,415	131,363	-	-	1,716,505
Loans and advances to customers	1,374,607	820,772	315,235	2,528,235	440,602	5,479,451
Available for sale investments	10,926	-	10,926	559,458	-	581,310
Other financial assets	44,886	-	-	-	12,648	57,534
Total assets	5,398,656	857,187	457,524	3,087,693	453,250	10,266,958
Liabilities						
Customer deposits	5,771,506	902,799	519,814	313,890	-	7,508,009
Due to banks and financial institutions	354,969	1,092,450	-	-	-	1,447,419
Other financial liabilities	59,528	-	-	-	-	59,528
Total liabilities	6,186,003	1,995,249	519,814	313,890	-	9,014,956
Maturity Gap	(787,347)	(1,138,062)	(62,290)	2,773,803	453,250	1,252,002

For the year ended 31 December 2008 In thousands of Qatar Riyals

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (CONTINUED)

d) Risk of Management of others' investments

The Bank is engaged in selling of investments, which are managed by other HSBC entities or third parties and does not manage investments on behalf of customers. The Bank does not hold any assets or liabilities in favour or on behalf of other parties as at 31 December 2008.

e) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Interest rate risk

The Bank is exposed to interest rate risk as a result of holding financial assets and liabilities with different maturity dates or repricing dates. These interest rate mismatch positions are regularly monitored by the local Asset and Liability Committee ("ALCO") and managed within the risk limits approved and assigned by the Group's Executive Committee. The primary objective of such interest rate risk management is to limit potential adverse effects of interest rate movements on net interest income and to seek enhanced net interest income within the approved limits.

A summary of the Bank's interest rate sensitivity position based on the earlier of contractual re-pricing and maturity dates is as follows. It is expected that non-interest bearing assets and liabilities should be replaced on their respective maturity dates by assets and liabilities of a similar nature.

As at 31 December 2008

Assets (Carrying Amount)	**Effective Interest Rate (%)**	**Less than 1 month**	**1 – 3 months**	**3 – 12 months**	**More than 1 Year**	**Non-interest Bearing**	**Total**
Cash and balances with Qatar Central Bank	2.01	110,000	-	-	-	677,613	787,613
Due from banks and other financial Institutions	1.36	2,757,652	41,414	36,415	-	141,882	2,977,363
Loans and advances to customers	8.21	1,527,864	527,328	415,699	4,665,788	-	7,136,679
Available for sale financial assets	1.92	502,641	2,018,474	657,508	102,135	-	3,280,758
Other financial assets		93,468	-	-	-	-	93,468
Total assets		**4,991,625**	**2,587,216**	**1,109,622**	**4,767,923**	**819,495**	**14,276,061**
Liabilities							
Customer deposits	1.43	4,273,374	593,305	583,360	1,849,297	2,979,451	10,278,787
Due to banks and other financial Institutions	2.38	283,791	1,796,310	32,186	-	435,680	2,547,967
Other financial liabilities		-	-	-	-	127,390	127,390
Total liabilities		**4,557,165**	**2,389,615**	**615,546**	**1,849,297**	**3,542,521**	**12,954,144**

For the year ended 31 December 2008 In thousands of Qatar Riyals

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

e) Market risk (continued)

Interest rate risk (continued)

	As at 31 December 2007						
	Effective Interest Rate (%)	Less than 1 month	1 – 3 months	3 – 12 months	More than 1 Year	Non-interest Bearing	Total
Assets							
Cash and balances with Qatar Central Bank	4.09	208,000	-	-	-	2,211,510	2,419,510
Due from banks and other financial Institutions	4.29	1,629,566	-	-	-	86,939	1,716,505
Loans and advances to customers	8.77	1,220,336	820,772	315,235	2,968,837	-	5,325,180
Available for sale financial assets	5.63	10,926	-	10,926	559,458	-	581,310
Other financial assets	-	-	-	-	-	57,534	57,534
Total assets		3,068,828	820,772	326,161	3,528,295	2,355,983	10,100,039
Liabilities							
Customer deposits	2.54	3,475,501	902,799	519,814	313,890	2,296,005	7,508,009
Due to banks and other financial Institutions	4.28	265,021	1,092,450	-	-	89,948	1,447,419
Other financial liabilities	-	-	-	-	-	59,528	59,528
Total Liabilities		3,740,522	1,995,249	519,814	313,890	2,445,481	9,014,956
Interest rate sensitivity gap		(671,694)	(1,174,477)	(193,653)	3,214,405	(89,498)	1,085,083
Cumulative interest rate Sensitivity gap		(671,694)	(1,846,171)	(1,368,130)	3,020,752	3,124,907	

The sensitivity gap is represented by the net notional amounts of financial instruments, which are used to manage interest rate risk. Effective interest rates have been calculated excluding non-performing loans and advances and non-interest bearing accounts due to customers.

Interest rate sensitivity

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

Scenario	**Impact during a year**	**2008**	**2007**
10 basis points up	(Decrease) / increase in NII by	(1,022)	(774)
10 basis points down	Increase / (decrease) in NII by	1,022	774

For the year ended 31 December 2008 In thousands of Qatar Riyals

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

e) Market rate risk (continued)

Interest rate sensitivity (Continued)

Overall non-trading interest rate risk positions are managed by Treasury, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities.

One of the principal tools used by HSBC to monitor and limit market risk exposure is VaR. VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence (for HSBC, 99 per cent). HSBC calculates VaR daily. The VaR model used by HSBC is predominantly based on historical simulation. The historical simulation model derives plausible future scenarios from historical market rates time series, taking account of inter-relationships between different markets and rates, for example between interest rates and foreign exchange rates. Potential movements in market prices are calculated with reference to market data from the last two years.

HSBC has changed the assumed holding period from a 10-day period to a 1-day period as this reflects the way the risk positions are managed. Comparative VaR numbers have been re-stated to reflect this change.

The Group uses VaR limits for total market risk and specific foreign exchange, interest rate, and equity and other price risks. The overall structure of VaR limits is subject to review and approval by ALCO. VaR limits are allocated to trading portfolios. VaR is measured on a daily basis. Daily reports of utilization of VaR limits are submitted to Group Risk and regular summaries are submitted to ALCO.

HSBC recognizes these limitations by augmenting its VaR limits with other position and sensitivity limit structures. Additionally, HSBC applies a wide range of stress testing, both on individual portfolios and on the Group's consolidated positions. HSBC's stress-testing regime provides senior management with an assessment of the financial impact of identified extreme events on the market risk exposures of HSBC.

Foreign currency risk

As at the balance sheet date, the Bank had the following significant net open foreign currency exposure:

	Qatar Riyals	**US Dollars**	**Euro**	**Sterling Pounds**	**Other Currencies**	**Total**
As at 31 December 2008						
Assets	10,134,901	3,603,957	253,057	58,344	392,954	14,443,213
Liabilities and equity	(10,891,462)	(2,937,794)	(232,926)	(62,680)	(318,351)	(14,443,213)
Net currency position	**(756,561)**	**666,163**	**20,131**	**(4,336)**	**74,603**	**-**
As at 31 December 2007						
Assets	7,091,798	2,871,558	74,218	189,843	56,567	10,283,984
Liabilities and equity	(7,057,661)	(2,794,770)	(148,039)	(192,263)	(91,453)	(10,283,984)
Net currency position	34,137	76,788	(73,821)	(2,420)	(34,886)	-

For the year ended 31 December 2008 In thousands of Qatar Riyals

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

e) Market rate risk (continued)

Foreign currency sensitivity analysis

The table below indicates the effect of a possible movement of a currency rate against the QAR on the income statement with all other variables held constant:

Currency	Change in currency rate in %	Effect on income statement	
		2008	2007
Euro	+10%	(2,013)	(7,382)
Euro	-10%	2,013	7,382
Sterling	+10%	(434)	(242)
Sterling	-10%	434	242
Other currencies	+10%	(7,460)	(3,489)
Other currencies	-10%	7,460	3,489

Equity risk

Equity price risk is subject to regular monitoring by Bank's Market Risk (Global Markets), but is not currently significant in relation to the overall results and financial position of the Bank.

f) Accounting classifications and fair values (net carrying amount)

The table below sets out the carrying amounts and fair values of the Bank's financial assets and financial liabilities:-

	2008				
Financial assets	**Loans and receivables**	**Available for sale**	**Other amortised cost**	**Total carrying amount**	**Fair value**
Cash and balances with Qatar Central Bank	787,613	-	-	787,613	787,613
Due from banks and other financial institutions	2,977,363	-	-	2,977,363	2,977,363
Loans and advances to customers	7,136,679	-	-	7,136,679	7,136,679
Available for sale financial assets	-	3,280,758	-	3,280,758	3,280,758
Other financial assets	-	-	93,468	93,468	93,468
	10,901,655	**3,280,758**	**93,468**	**14,275,881**	**14,275,881**
Financial liabilities					
Customer deposits	-	-	10,278,787	10,278,787	10,278,787
Due to banks and other financial institutions	-	-	2,547,967	2,547,967	2,547,967
Other financial liabilities	-	-	127,390	127,390	127,390
	-	**-**	**12,954,144**	**12,826,754**	**12,954,144**

For the year ended 31 December 2008 In thousands of Qatar Riyals

4. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

f) Accounting classifications and fair values (net carrying amount) (continued)

	2007				
Financial assets	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
Cash and balances with Qatar Central Bank	2,419,510	-	-	2,419,510	2,419,510
Due from banks and other financial institutions	1,716,505	-	-	1,716,505	1,716,505
Loans and advances to customers	5,325,180	-	-	5,325,180	5,325,180
Available for sale investments	-	581,310	-	581,310	581,310
Other financial assets	-	-	57,534	57,534	57,534
	9,461,195	581,310	57,534	10,100,039	10,100,039
Financial liabilities					
Customer deposits	7,508,009	-	-	7,508,009	7,508,009
Due to banks and other financial institutions	1,447,419	-	-	1,447,419	1,447,419
Other financial liabilities		-	59,528	59,528	59,528
	8,955,428	-	59,528	9,014,956	9,014,956

g) 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 Bank endeavours to minimise operational losses by ensuring that effective infrastructure, controls, systems and individuals are in place throughout the organisation. Regulatory, legal and reputation risks are controlled through a set of internal policies and procedures. External legal advice has been obtained from lawyers to confirm legal and regulatory requirements, where required.

h) Capital management

The Bank's regulator (The Qatar Central Bank – "QCB") sets and monitors capital requirements and the banking operations are supervised by QCB. If additional capital is required, the Head Office will infuse the required capital to maintain the capital ratios required by QCB.

In implementing current capital requirements, the QCB requires the Bank to maintain a prescribed ratio of capital and reserves to net assets at 3% as a minimum.

The Bank has complied with externally imposed capital requirements throughout the financial year. There have been no material changes in the Bank's management of capital during the financial year.

Capital adequacy as per Basel Capital Adequacy

As per the Qatar Central Bank regulations, foreign banks are exempt from maintaining the Capital adequacy ratio where they rely on the Group capital adequacy ratio and are an integral part of their Group's Capital Adequacy returns. However, the Bank is required to submit its Head office capital adequacy returns to the Qatar Central Bank on a quarterly basis in accordance with the instructions to the Banks issued by the Qatar Central Bank.

For the year ended 31 December 2008 In thousands of Qatar Riyals

5. CASH AND BALANCES WITH QATAR CENTRAL BANK

	2008	2007
Cash	71,185	36,140
Cash reserve with Qatar Central Bank	508,528	240,562
Other balances with Qatar Central Bank	207,900	2,142,808
	787,613	2,419,510

The cash reserve with the Qatar Central Bank is a mandatory reserve and is not available to fund the Bank's day-to-day operations.

6. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2008	2007
Demand accounts	214,712	123,354
Placements with banks	2,762,651	1,593,151
	2,977,363	1,716,505

Included in placements with banks is QR. 2.18 million (2007: QR 1.4 million) with Group entities which are placed at market rates of interest. The average rate for 2008 was 2.35 % (2007 : 5.77%).

7. LOANS AND ADVANCES TO CUSTOMERS

a) By type	**2008**	2007
Loans	4,632,295	4,281,072
Amanah loans	1,549,561	258,017
Overdrafts	1,165,710	885,025
Bills discounted	37,754	55,337
Gross loans and advances	**7,385,320**	5,479,451
Specific provision on personal customers	(130,208)	(85,711)
Specific provision on corporate customers	(662)	(562)
Collective impairment provision – corporate	(23,269)	(9,952)
Collective impairment provision – personal	(18,475)	(6,565)
	(172,614**)**	(102,790)
Interest in suspense	(76,027)	(51,481)
Net loans and advances	**7,136,679**	5,325,180

Non-performing loans and advances as at 31 December 2008 amount to QR. 205.56. million representing 2.78% of the gross loans and advances (QR 124.76 million representing 2.27% of total loans as at 31 December 2007).

b) By industry

Gross loans and advances	Overdrafts	Bills discounted	Murabaha loans	Loans	**Total 2008**	Total 2007
General trade	347,194	14,654	7,776	1,292,010	1,661,634	1,962,347
Industry	3,942	-	-	102,629	106,571	114,270
Housing and construction	312,421	23,100	296,637	416,947	1,049,105	770,970
Personal	422,671	-	235,395	1,914,618	2,572,684	2,246,321
Services	27,567	-	1,007,977	342,402	1,377,946	139,334
Others	51,915	-	1,876	563,589	617,380	246,209
Total	**1,165,710**	**37,754**	**1,549,661**	**4,632,195**	**7,385,320**	5,479,451

The average interest rate at the balance sheet date, excluding non-performing loans was 8.58% (*2007: 8.58%*).

For the year ended 31 December 2008 In thousands of Qatar Riyals

7. LOANS AND ADVANCES TO CUSTOMERS

c) Movement in impaired allowances for loans & advances:-

	Provisions	Interest in suspense	**Total 2008**	Total 2007
Balance as at 1 January	102,790	51,481	154,271	122,458
Provisions made during the year	74,183	28,140	102,323	93,969
Recoveries during the year	(1,965)	(3,594)	(5,559)	(60,820)
Provision written off	(2,394)	-	(2,394)	(1,336)
Balance as at 31 December	**172,614**	**76,027**	**248,641**	154,271

8. AVAILABLE FOR SALE FINANCIAL ASSETS

	2008			2007		
	Total	**Quoted**	**Unquoted**	Total	Quoted	Unquoted
State of Qatar QAR Bonds	408,833	-	408,833	404,950	-	404,950
State of Qatar USD Bonds	127,129	127,129		132,662	132,662	-
Qatar Global Sukuk Bonds (*Islamic banking*)	22,006	22,006		32,812	32,812	-
Kingdom of Bahrain (USD Bonds)	-	-	-	10,886	-	10,886
Certificates of deposit	2,722,790	-	2,722,790	-	-	-
Total	**3,280,758**	**149,135**	**3,131,623**	581,310	165,474	415,836

The fixed rate securities are QR 296.9 million and the floating rate securities are QR 284.4 million at 31 December 2008 of which the State of Qatar QAR bond amounting to QR. 251.6 million has a collar and cap at 5.5% and 7% respectively. Interest rate swaps are used to hedge the fair value risk on the State of Qatar USD Bonds and the Kingdom of Bahrain USD Bonds.

9. PLANT AND EQUIPMENT

	Leasehold improvements	**Machinery & office equipment**	**Furniture**	**Motor vehicles**	**Total**
Cost					
Balance at 1 January 2007	16,522	17,556	8,389	553	43,020
Additions during the year	1,498	2,453	2,124	75	6,150
Disposals during the year	(1,748)	(4,506)	(236)	-	(6,490)
Balance at 31 December 2007	16,272	15,503	10,277	628	42,680
Additions during the year	907	2,477	580	-	3,964
Disposals during the year	(589)	(215)	(91)	-	(895)
Balance at 31 December 2008	**16,590**	**17,765**	**10,766**	**628**	**45,749**
Accumulated depreciation					
Balance at 1 January 2007	6,730	14,324	6,571	425	28,050
Charge for the year	3,512	2,304	1,157	73	7,046
Disposals during the year	(339)	(4,490)	(235)	-	(5,064)
Balance at 31 December 2007	9,903	12,138	7,493	498	30,032
Charge for the year	3,669	2,323	736	68	6,796
Disposals during the year	(584)	(197)	(65)	-	(846)
Balance at 31 December 2008	**12,988**	**14,264**	**8,164**	**566**	**35,982**
Net book value					
As at 31 December 2008	**3,602**	**3,501**	**2,602**	**62**	**9,767**
As at 31 December 2007	6,369	3,365	2,784	130	12,648

For the year ended 31 December 2008 In thousands of Qatar Riyals

10. OTHER ASSETS

	2008	2007
Accrued interest income	86,945	57,332
Leasehold premises	-	-
Items in the course of collection	104,076	147,762
Prepaid expenses and accrued income	22,058	5,506
Positive fair value of interest rate swaps (Note 25)	6,523	202
Others	21,431	18,029
	241,033	228,831

The leasehold premises represent the previous Head Office building of the Bank's Qatar branch which had an original lease term of 25 years. The construction of the above leasehold premises was funded by the Bank in the form of an interest free loan to the landlord, as per the terms of the construction and financing agreement entered into by the Bank with the landlord in 1998 (plus a lease rental liability for the building). The Bank was legally required to vacate the premises in 2007 and return the building to the landlord. At this time, the leasehold premises asset of QR. 21.28 million became impaired and the equal and opposite lease rental liability of QR. 21.28 million for the building was extinguished. Both of these transactions were reflected in the income statement.

The balance of the loans due from the landlord amounting to QR. 21.28 million remains outstanding and is part of an ongoing legal case between the Bank and the landlord for the recovery of the loan amount and compensation for business disruptions caused by the Bank having to vacate their head office. In the opinion of the management of the Bank, the entire amount of loan outstanding is recoverable from the landlord hence no provision for impairment is required.

11. CUSTOMER DEPOSITS

(a) By type

	2008	2007
Demand and call deposits	4,838,990	3,782,355
Amanah current account	95,867	31,078
Savings deposits	658,300	671,357
Time deposits	4,685,630	3,023,219
	10,278,787	7,508,009

Certain customer deposits amounting to QR 213.35 million have been secured against credit facilities (2007: QR. 128.6 million). Current accounts include QR. 95.87 million (2007: QR. 31.7 million) on Islamic banking.

(b) By sector

	2008	2007
Government	116,786	475,540
Individuals	4,903,561	3,325,232
Corporate	5,258,440	3,707,237
	10,278,787	7,508,009

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2008	2007
Current accounts	565,303	349,307
Placements	1,828,496	1,092,450
Short term borrowings	154,168	5,662
	2,547,967	1,447,419

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13. OTHER LIABILITIES

	2008	2007
Provision for employees' end of service benefits	27,440	20,191
Income tax payable	143,199	116,335
Interest payable	59,785	27,640
Unearned income	12,409	31,237
Cash margins	66,151	30,275
Negative fair value of interest rate swaps (note 25)	1,454	1,613
Accrued expenses and others	215,385	302,035
	525,853	529,326

The movements in the present value of defined benefit obligation during the year are as follows:

	2008	2007
Defined benefit obligations as at 1 January	20,191	17,999
Provisions made during the year	9,186	5,407
Payments for the year	(3,723)	(2,521)
(Gain) / loss on actuarial valuation	1,786	(694)
Defined benefit obligation as at 31 December	**27,440**	20,191

The Bank's contribution to the retirement fund relates to the provision for the Qatari employees set up in accordance with instructions received from Qatar Retirement Pension Authority and in accordance with the Retirement and Pension Law.

14. EQUITY

Reconciliation of movement in capital and reserves

	Capital	**Legal reserve**	**Other reserve**	**Fair value reserve**	**Actuarial valuation reserve**	**Retained earnings**	**Total**
Balance at 1 January 2007	10,000	10,000	121,183	888	(1,468)	480,426	621,029
Total recognised income and expenses	-	-	-	(785)	694	251,122	251,031
Remitted to Head Office	-	-	-	-	-	(72,830)	(72,830)
Balance at 31 December 2007	10,000	10,000	121,183	103	(774)	658,718	799,230
Adjustment for the share based payment	-	-	-	-	-	287	287
Fair value of share based payment	-	-	-	463	-	-	463
Total recognised income and expense	-	-	-	3,752	(1,786)	278,660	280,626
Balance at 31 December 2008	**10,000**	**10,000**	**121,183**	**4,318**	**(2,560)**	**937,665**	**1,080,606**

(a) Capital

Represent funds provided to the Bank by the Head Office, which are interest free and represent the minimum capital prescribed by Qatar Central Bank regulations.

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14. EQUITY (CONTINUED)

(b) Legal reserve

In accordance with Qatar Central Bank regulations, 10% of the net profit for the year before taxation is transferred to the legal reserve until the reserve totals 100% of capital. As the reserve has reached 100% of the Capital, no amount is transferred to the reserve account during the year.

This reserve is not available for distribution except in circumstances specified in the Central Bank regulations and after Qatar Central Bank approval.

(c) Other reserve

The opening balance of QR 121.12 million represents 1% of the loan balance transferred out of retained earnings to "Other reserve". Subsequently, further to the exemption of such transfer issued by QCB, the transfer is no longer required. However, the amount transferred has been retained as a reserve. During the year, no amounts (2007: NIL) have been introduced as additional funds to maintain the capital and reserves to total assets ratios as per Qatar Central Bank requirements.

(d) Fair value reserve

The fair value reserve includes the impact from the net changes in the fair value of available for sale financial assets (including the impact to the income statement of available for sale financial assets sold during the year) and the share option reserve amounting to QR 463 for the equity settled share option plan.

(e) Actuarial valuation reserve

During the year the Bank has valued the expatriate staff end of service benefits liability using the Projected Unit Credit Method in accordance with IAS 19 "Employee Benefits" (using an emerging cash flow model). The resultant gain or loss has been transferred to the reserve.

15. NET INTEREST INCOME

Interest income	**2008**	2007
Due from banks and other financial institutions	84,421	159,868
Investment securities – Bonds and certificates of deposit	45,363	30,384
Loans and advances to customers	502,110	369,543
Total interest income	**631,894**	559,795
Interest expense		
Due to banks and other financial institutions	63,696	16,389
Customer deposits	155,577	181,594
Total interest expense	**219,273**	197,983
Net interest income	**412,621**	361,812

16. NET FEE AND COMMISSION INCOME

	2008	2007
Commission on loans and advances	72,464	58,047
Commission on indirect credit facilities	65,958	49,186
Commission on investment activities for others	26,468	16,410
Others	68,988	27,804
	233,878	151,447

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17. PROFIT FROM FOREIGN CURRENCY TRANSACTIONS

	2008	2007
Profit from foreign currency transactions	142,061	77,509
Loss from revaluation of derivatives	(6,480)	(2,758)
	135,581	74,751

Profit from foreign currency transactions includes QR.15,000 (2007: QR.2,000) relating to Islamic banking.

18. OTHER OPERATING (LOSS) / INCOME

	2008	2007
Rent received from third parties	3	3,160
Termination of lease liability for the leasehold building (refer note 10)	-	21,278
Gain / (loss) on fair value of hedged portion of available for sale financial assts	(345)	2,672
Others	99	-
	(243)	27,110

19. INCOME FROM ISLAMIC FINANCE AND INVESTMENT ACTIVITIES

	2008	2007
Financial investments	1,158	2,383
Financing to customers	28,399	6,645
	29,557	9,028

20. GENERAL AND ADMINISTRATIVE EXPENSES

	2008	2007
Staff salaries and benefits	162,091	121,746
End of service benefits	9,186	5,407
Marketing and promotion	16,187	12,630
Legal and professional charges	4,425	2,541
Communication, utilities and insurance	8,851	8,599
Occupancy and maintenance	26,175	23,593
Head office charges	7,140	6,385
Middle East Management office charges	43,257	15,630
Information Technology expenses	13,580	10,480
Travelling and entertainment	4,792	2,945
Training expenses	2,395	1,111
Licence and permit expenses	425	328
Operating losses	1,477	352
Loss on sale of property, plant and equipment	40	1,426
Staff recruitment costs	1,202	1,585
Miscellaneous expenses	9,298	5,669
	310,521	220,427

General and administrative expenses include QR. 5,625 (2007: QR. 2,046) for Islamic banking, of which QR. 5,040 (2007: QR. 1,747) relates to staff salaries and benefits, and QR 585 (QR. 299) to other expenses.

For the year ended 31 December 2008 In thousands of Qatar Riyals

21. INCOME TAX EXPENSE

Income tax expense for the year has been computed in accordance with the provisions and requirements of the Qatar Income Tax Law No. 11 of 1993.

(a) Recognised in the income statement

	2008	2007
Current tax expense	143,199	116,100
Total income tax expense in income statement	**143,199**	116,100

(b) Reconciliation between profit before tax to income tax expense

	Effective tax rate	**2008**	Effective tax rate	2007
Profit before tax		421,859		367,222
Tax exempt revenues		(45,363)		(32,330)
Disallowable provision written-off		27,347		-
Total income tax expense in the income statement	**33.9%**	**143,199**	31.6%	116,100

Under the provisions of Qatar Tax Laws, deductibility of provisions for loan losses is restricted to 10% of the net income of the Bank before provisions and taxation. The value of provisions disallowed is available for set off in future years in case the actual provisions are lower than the 10% limit. This results in deductible temporary differences and could lead to creation of a deferred tax asset. The management is of the opinion that it is not probable that the projected future provisions will be lower than the 10% limit stipulated by Qatar Tax Laws. Accordingly, no deferred tax asset has been considered in these financial statements**.**

22. COMMITMENTS AND CONTINGENT LIABILITIES

	2008	2007
a) Deferred or Contingent Commitments		
Irrevocable loan commitments	1,981,539	1,341,146
Guarantees	9,010,055	7,432,000
Acceptances	431,165	414,127
Letters of credit	411,733	384,790
Others	3,212,077	2,135,174
	15,046,569	11,707,237
b) Other Undertakings and Commitments		
Foreign exchange contracts	4,389,504	3,772,825
Interest rate swaps	2,187,389	1,531,291
	6,576,893	5,304,116
Total Contingencies and commitments	**21,623,462**	17,011,353

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and overdraft facilities. Outstanding loan commitments have a commitment period that does not extend beyond the normal underwriting and settlement period of one to three months.

The Bank guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties. For these instruments, the contractual amount of the financial instrument represents the maximum potential credit risk. If the counterparty does not perform according to the terms of the contract. A large majority of these expire without being drawn upon, and as a result, the contractual notional principal amounts are not representative of the actual future credit exposure or liquidity requirements of the Bank. In the absence of any process for accurate determination of credit risk of these credit related contingent liabilities, the contractual or notional principal amount has been considered as the credit exposure.

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23. OPERATING LEASE COMMITMENTS

Non cancellable operating lease rentals are payable as follows:

	2008	2007
Less than one year	21,173	21,554
Between one and five years	4,639	8,659
Over five years	-	52
	25,812	30,265

The amount paid towards lease rentals during the year is QR. 21.94 million (2007: QR 18.96 million). In addition to the lease rental liability for the building, the Bank had a lease commitment for the ground rent payable to the landlord for an original term of 25 years. The ground lease rent payable was QR. 3 million annually. Pursuant to handover of the building to the landlord, the future lease rental commitments were extinguished.

24. INVESTMENT IN SPECIAL PURPOSE ENTITY

During 2003, HSBC Bank Middle East Limited Qatar acquired one golden share (face value of QR 10 each) representing one third holding in Qatar Global Sukuk Company SAQ, a special purpose entity, incorporated to issue Sukuk Bonds. The Bank acts as an agent for the other Sukuk Bond holders and does not have any other liability. The Bank also holds Sukuk Bonds amounting to QR 22 million, included in available for sale financial assets.

25. DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Bank utilizes interest rate swaps for trading and hedging purposes.

Interest rate swaps are commitments to exchange one set of cash flows for another.

The table below shows the positive and negative fair values of derivative financial instruments together with the notional amounts by the term of 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.

	Principle Value at Maturity					
	Positive fair value	**Negative fair value**	**Notional Amount**	**Within three Months**	**3-12 Months**	**1–5 Years**
As at 31 December 2008						
a) Held for trading - (Interest rate swaps)	6,523	-	634,265	-	364,150	270,115
b) Held for fair value hedges - (Interest rate swaps)	-	1,454	123,814	-	123,814	-
Total	**6,523**	**1,454**	**758,079**	**-**	**487,964**	**270,115**
As at 31 December 2007						
a) Held for trading - (Interest rate swaps)	92	77	30,264	-	-	30,264
b) Held for fair value hedges - (Interest rate swaps)	110	1,536	134,739	10,925	-	123,814
Total	202	1,613	165,003	10,925	-	154,078

The interest rate swaps are held to hedge the interest rate risk on investments and converts the interest receivable from fixed rate to floating rate. Please refer to note 8 for details of the investments hedged.

The gain on the revaluation of derivatives in 2008 has been taken to income statement (please refer to note 17 for details).

For the year ended 31 December 2008 In thousands of Qatar Riyals

26. GEOGRAPHICAL INFORMATION

The Bank is organised into one main business segment, which comprises commercial banking activities including credit cards. Geographically, the Bank operates in Qatar and majority of the profits are generated in Qatar. Substantially all the assets are held in Qatar and other GCC countries.

	Qatar	Other GCC countries	Europe	North America	Others	Total
As at 31 December 2008						
Assets						
Cash and balances with QCB	787,613	-	-	-	-	787,613
Due from banks and other financial institutions	655,470	1,982,328	243,606	75,626	20,333	2,977,363
Loans and advances to customers	7,136,679	-	-	-	-	7,136,679
Available for sale financial assets	3,280,758	-	-	-	-	3,280,758
Plant and equipment	9,767	-	-	-	-	9,767
Other assets	241,033	-	-	-	-	241,033
Total assets	**12,111,320**	**1,982,328**	**243,606**	**75,626**	**20,333**	**14,433,213**
Liabilities and equity						
Customer deposits	10,278,787	-	-	-	-	10,278,787
Due to banks and other financial institutions	149,762	470,596	1,862,193	15,000	50416	2,547,967
Other liabilities	525,853	-	-	-	-	525,853
Equity	1,080,606	-	-	-	-	1,080,606
Total liabilities and equity	**12,035,008**	**470,596**	**1,862,193**	**15,000**	**50,416**	**14,433,213**
As at 31 December 2007						
Assets						
Cash and balances with QCB	2,419,510	-	-	-	-	2,419,510
Due from banks and other financial institutions	206,417	1,431,823	13,767	28,826	35,672	1,716,505
Loans and advances to customers	5,325,180	-	-	-	-	5,325,180
Available for sale financial assets	570,384	10,926	-	-	-	581,310
Plant and equipment	12,648	-	-	-	-	12,648
Other assets	227,696	1,135	-	-	-	228,831
Total assets	8,761,835	1,443,884	13,767	28,826	35,672	10,283,984
Liabilities and equity						
Customer deposits	7,508,009	-	-	-	-	7,508,009
Due to banks and other financial institutions	259,430	53,724	1,107,203	25,258	1,804	1,447,419
Other liabilities	529,326	-	-	-	-	529,326
Equity	799,230					799,230
Total liabilities and equity	9,095,995	53,724	1,107,203	25,258	1,804	10,283,984

For the year ended 31 December 2008 In thousands of Qatar Riyals

27. TRANSACTIONS WITH RELATED PARTIES

Related parties represent Head Office and key management personnel of the Bank and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Bank's management.

The Bank carries out various transactions with other group entities or other parties having important influence in the Bank's financial or operations decisions. The balances at the year-end with these accounts were as follows:-

	2008	2007
On Balance Sheet Items		
Assets:		
Current accounts	**325,663**	165,230
Other assets	**2,184,158**	1,428,039
Liabilities:		
Current accounts	**150,630**	48,070
Other liabilities	**3,058,112**	1,902,959
Off Balance Sheet Items		
Guarantees	**808,518**	877,734
Foreign exchange contracts and derivatives	**3,556,441**	1,296,049
Items of income statement		
Income of interest and commission	**67,989**	75,860
Expenses of interest and commission	**60,881**	11,785
Other expense	**60,571**	29,551
Transactions with key management personnel		
Salaries and benefits to key management personnel	**2,273**	2,125

Balances receivable from and payables to Group entities are not secured and carry interest rates as per the terms agreed.

28. CASH AND CASH EQUIVALENTS

For the purpose of preparing the statement of cash flow, cash and cash equivalents include the following :

	2008	2007
Cash and balances with Qatar Central Bank (excluding cash reserve)	279,085	2,178,948
Due from banks and other financial institutions	2,977,363	1,716,505
	3,256,448	3,895,453

29. SHARE-BASED PAYMENTS

Achievement shares are utilised to promote widespread interest in HSBC Holdings shares among employees and to help foster employee engagement.

They are awarded to eligible employees after taking into account the employee's performance in the prior year. Shares are awarded without corporate performance conditions and are released to employees after three years provided that the employees have remained continuously employed by the Bank for this period.

The shares are accounted in the books of the Bank till they vest, at which time the ownership is transferred to the employee.

30. CUSTODIAN AND CLEARANCE SERVICES

The Bank offers custodial services to local and foreign financial institutions, global custodians corporate and high net worth individuals. The services include safe custody of assets, reconciliations, corporate actions processing, cash management and reporting. The value of assets under custody as at 31 December 2008 was QR 9.86 billion. (2007: QR 11.4 billion).

31. USE OF ESTIMATES AND JUDGEMENTS

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

The Bank reviews its problem loans and advances on a monthly basis to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions. As at 31 December 2008, the carrying values of loans and advances to customers totalled QR 7,385 million (31 December 2007: QR 5,479 million) and provision for impairment on loans and advances amounted to QR 248 million (31 December 2007: QR 154 million).

32. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation in the current year's financial statements. Such reclassification did not have any impact on the declared profit or the equity for the year 2008.

SUPPLEMENTARY INFORMATION TO THE FINANCIAL STATEMENTS

Islamic Banking

The balance sheet and income statement of the Bank's Islamic banking activities is presented below;

Balance Sheet
As at 31 December 2008 In thousands of Qatar Riyals

	2008	2007
ASSETS		
Due from financing activities to customers	1,549,561	258,017
Financial investments	22,006	32,812
Other assets	3,065	2,529
Total assets	**1,574,632**	293,358
LIABILITIES AND EQUITY		
Customer current accounts	95,867	31,078
Other liabilities	536	-
Total liabilities	96,403	31,078
Equity		
Capital	300,000	239,105
Due to head office	1,133,440	-
Retained earnings	44,789	23,175
Total equity	1,478,229	262,280
Total liabilities and equity	**1,574,632**	293,358
Contingencies and commitments	-	-

Income Statement
For the year ended 31 December 2008 In thousands of Qatar Riyal

	2008	2007
Income from financing activities	28,419	6,645
Income from investing activities	1,158	2,383
Total income from financing and investing activities	29,577	9,028
Fee and commission income	1,595	3,621
Profit from foreign currency transactions	15	2
Total operating income	1,610	12,651
General administrative expenses	(5,625)	(2,046)
Net impairment loss on loans and advances	(3,948)	-
Total expenses	(9,573)	(2,046)
Profit for the year	**21,614**	10,605