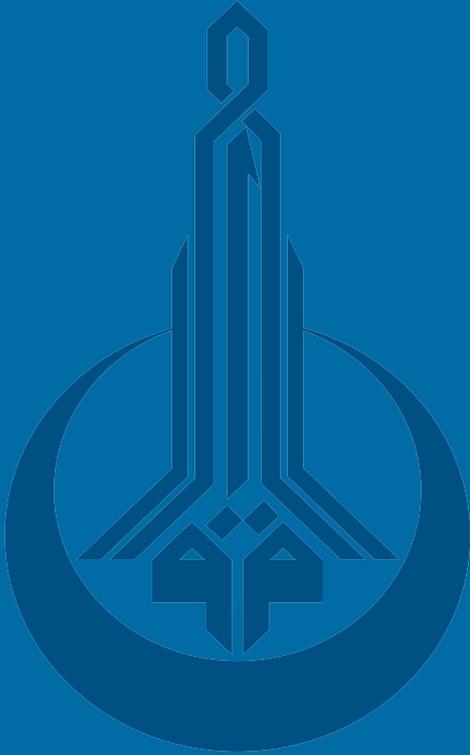


# 2006 Annual Report



مصرف قطر الإسلامي  
Qatar Islamic Bank

25  
YEARS

QIB  
Grand Hamad Street  
P.O. Box 559, Doha, Qatar  
[www.qib.com.qa](http://www.qib.com.qa)



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His Highness  
Sheikh Hamad Bin Khalifa Al-Thani  
Emir of the State of Qatar



His Highness  
Sheikh Tamim Bin Hamad Al-Thani  
Heir Apparent



Pioneer...  
Transparent...  
Innovative...  
Global...



البنك الإسلامي

## New Identity

The new identity of Qatar Islamic Bank (QIB) signifies the beginning of a new era of development and growth at the Bank, while still adhering to the fundamental principles, values and directions stipulated by the teachings of Islam, upon which the Bank was founded as a Qatari shareholding company 25 years ago.

The new identity reflects the Bank's present focus to sustain its position as a pioneering international Islamic banking organization. It also signifies the Bank's commitment to expand its presence in international markets such as Europe, Asia, Middle East

and North Africa and at the same time continue to effectively contribute to the development of the national economy.

The new logo symbolizes the Bank's aspirations for international expansion and its dedication to remain transparent and credible. This stems from its vision to become a pioneering international Islamic bank; its mission to provide innovative Islamic financial solutions and its values of integrity, transparency, justice, cooperation, teamwork, loyalty, commitment and excellence.

# Vision, Mission, Values

## Vision

A leading, innovative and global Islamic bank adhering to the highest Shari'a and ethical principles; meeting international banking standards; partnering the development of the global economy and participating in the advancement of the society.

## Mission

- To provide innovative Shari'a-compliant financial solutions and quality services to our customers.
- To maximize returns for our shareholders and partners.
- To nurture an internal environment of qualified professionals and cutting-edge technology.

## Values

- Integrity
- Transparency
- Justice
- Cooperation and Teamwork
- Loyalty and Commitment
- Excellence

## Our Strategy

- To build a global reputation as the leading Shari'a-compliant bank through planned expansion of the business, and by offering above-average returns to shareholders.
- To be the leading bank in the regional markets by increasing market share and become the leading supplier of innovative Islamic banking solutions in Qatar and the GCC countries.
- To make systematic improvements in all areas of operational performance through the development and implementation of quality systems and processes which offer value for the customer.
- To become an 'employer of choice' by developing the capabilities and professionalism of our employees in accordance with our strategic plan; developing the capability to change; and increasing the number of Qatari nationals in our workforce.





## Board of Directors

(seated – second from left)  
**Sheikh Jassim Bin Hamad Bin Jassim  
Bin Jabr Al Thani**  
Chairman

(seated – second from right)  
**Mr. Mohammad Bin Abdullatif Al Mana**  
Vice-Chairman

(standing – second from right)  
**Mr. Abdullatif Bin Abdulla Al Mahmmoud**  
Managing Director

(standing – third from right)  
**Mr. Mohamed Bin Issa Al Mohanadi**  
Director

(seated – first from left)  
**Mr. Abdul Rahman Abdulla Abdul Ghani**  
Director

(standing – first from left)  
**Mr. Mansour Al Muslah**  
Director

(seated – first from right)  
**Mr. Issa R. Al Rabia Al Kuwari**  
Director

(standing – first from right)  
**Mr. Saad Mohammed Fahad Buzwair**  
Director

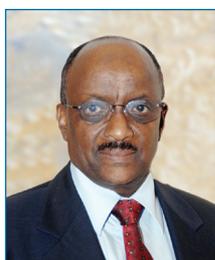
(standing – second from left)  
**Mr. Abdulla Bin Saeed Al Eidah**  
Director



# Senior Management



**Salah Jaidah**  
Chief Executive Officer (CEO)



**Ahmed Karrar**  
General Manager  
Operations Systems,  
Administration & Legal



**Abdul Rahman Mustafa**  
General Manager  
Risk Group



**Murtada Khidir**  
General Manager  
Financial Group



**Jean-Marc Riegel**  
General Manager  
Investment Banking  
& Development Group

## Shari'a Control Board

**His Eminence Dr. Yousof Al Qaradawi**  
Chairman, Shari'a Control Board

**His Eminence Sheikh Abdul  
Qader Al Ammari**  
Member

**His Eminence Dr. Ali Al Mohammadi**  
Member

**His Eminence Sheikh Walid Ben Hadi**  
Executive Member

## Shari'a Executive Committee

**His Eminence Sheikh Walid Ben Hadi**  
Executive Member

**Prof. Abdul Sattar Abou Ghodda**

**His Eminence Sheikh Nizam Mohd. Yacoubi**

## Chairman's Message



Sh. Jassim Bin Hamad Bin Jassim  
Bin Jabr Al Thani, Chairman

In the Name of Allah, the Merciful, the Compassionate  
Praise be to Allah, Peace and Prayers be Upon His Messenger

On behalf of the Board of Directors of QIB, I take immense pleasure in presenting our 2006 Annual Report.

The economic boom witnessed by the national economy over the past few years has resulted in an unprecedented increase in GDP, which was in the range of 25% in 2006. The increase in oil prices also had a significant impact on the economy of the GCC countries.

The strong performance of the national economy had a strong impact on the banking sector. QIB is proud to hold a large stake in the record results achieved by the economy and continues to play a positive role in structuring, developing, and stabilizing the economy.

In 2006 our assets grew by 56% to reach QR 14.9 million. This in turn led to a 31.9% increase in equity compared to 28.5% in 2005 and our earnings per share reached QR 9.04 per share.

During the year we undertook a major restructuring of our banking structure as well as our organization chart and expanded our banking, financing and investment services, with a special emphasis on improving quality.

The Bank also successfully expanded the scope of its products to regional and international markets and reiterated its leading position in establishing and maintaining investment and property portfolios/funds.

During the year we adopted a new five-year strategy. Our main objective during 2007 will be to adopt new plans aimed at increasing our growth rate and maximizing our profitability by injecting more capital into our investment and funding activities. We also plan to focus more on retail banking by expanding our branch network and diversifying our services.

Plans are already in place to expand our presence in the corporate sector by structuring innovative financing products, offering privileged real estate portfolios in national projects like 'The Pearl-Qatar' and 'Al Waab' and developing new Islamic tools such as the Islamic-bonds 'Sukuk'.

Parallely, we intend to expand our regional and international presence by launching investment and property portfolios and funds and by establishing finance and investment houses like the Asian Finance Bank, which began operations in January, the European Finance House, which is expected to commence operations during the fourth quarter of 2007 and QInvest, the first investment bank of its kind in Qatar, which is expected to commence operations from Qatar Financial Centre during the first quarter of 2007.

In the light of these exemplary results, the Board of Directors has recommended the distribution of a cash profit of 70%, equal to QR 7 per share.

In conclusion, I would like to extend our deepest gratitude to H.H. Sheikh Hamad Bin Khalifa Al-Thani, the Emir, and H.H. Sheikh Tamim Bin Hamad Al-Thani, the Heir Apparent, for their continued support to the national economy and the banking sector. We also express our sincere gratitude to H.E. Sheikh Abdulla Bin Saoud Al-Thani, Governor of Qatar Central Bank, the Deputy Governor and all QCB officials and executives as well as to our customers and investors.

Last but not the least, we express our sincere appreciation to our Shari'a Board, our administration, as well as our staff for their devotion towards the success of the Bank.

May Allah, the Supreme, the Omnipotent, lead us to deeds that deserve His satisfaction.

## CEO's Message



Salah Jaidah  
Chief Executive Officer

The national economy, supported by several factors, mainly the rise in oil prices, and the continuing economic and financial redressing policies, maintained its growth trend during 2006. This resulted in the GDP increasing from QR 154.5 billion in 2005 to QR 191.9 billion (current estimates), a growth rate of 24.2%.

The year 2006 also witnessed the incorporation of the Qatar Financial Markets Authority, which will regulate the money markets, revise the existing laws and bylaws that govern the activities of those markets in order to conform with international standards, and enact laws to organize the acquisition of properties in pre-determined areas in Qatar by foreigners.

Collectively, these factors had a positive impact on the investment environment in Qatar. Foreign direct investment in Qatar was the third largest among the GCC countries. According to the Global Investment Report issued by the UN Conference for Trade and Development (UNCTAD), Qatar attracted foreign investments of around US\$ 1.5 billion during 2006.

During 2006, Qatar also hosted the Asian Games, which had a significant impact on the national economy.

### Financial Highlights

The year 2006 was a highly distinctive year in the history of QIB, as all the items on our balance sheet realized commendable

growth for the third consecutive year. Our financial results for the year 2006 can be summarized as follows:

- Assets increased by 55% (from QR 9.552 billion in 2005 to QR 14.889 billion in 2006).
- Deposits increased by 27% (from QR 6.866 billion to QR 8.733 billion).
- Financing Portfolio increased by 20% (from QR 6 billion in 2005 to QR 7.2 billion in 2006).
- Investment Portfolio increased by 81% (from QR 1.6 billion in 2005 to QR 2.9 billion in 2006).
- Operating Income increased by 56% (from QR 553 million in 2005 to QR 863 million in 2006) and investment activities alone realized a growth rate of 85%.
- Net Profit increased by 98% (from QR 511 million in 2005 to QR 1.012 billion in 2006) and the Depositors Profit Quota increased by 84% to reach QR 258 million.
- Return on Assets increased to 8.3% compared to 5.9% in 2005.
- Total Equity increased from QR 2.096 billion at end of 2005 to QR 4.3 billion in 2006 and Return on Equity increased from 28.5% to 31.9 %.
- Earnings per Share increased to QR 9.04 per share compared to QR 4.74 per share in 2005.

### Financing and Local Investment

Our local investment portfolio grew at a rate of 20% during 2006. We combined the concepts of partnership and leasing and introduced a new 'Musharaka -Ijarah' Islamic financing tool, which is expected to be highly beneficial for both the Bank and the customer. Our financing schemes have been restructured to meet the increasing demand for Islamic financing products. The Bank continued to finance the macro projects of the State as well as the private sector, especially in the field of construction and infrastructure and extended a wide range of financing facilities to national companies.

### International Investment

The year 2006 saw the Bank expanding its foreign investments by establishing a number of banks and financial establishments in regional and international markets, such as:

- Asian Finance Bank in Malaysia, with a capital of US\$ 100 million (officially inaugurated in March 2007).
- European Finance House in UK (expected to be inaugurated in the fourth quarter of 2007).
- We have also developed a plan to relaunch Arab Finance House in Lebanon. AFH today has a network of 4 branches.

- QINVEST in Qatar Financial Centre, with a declared capital of US\$ 1 billion and a paid-up capital of US\$ 500 million. QINVEST is a specialized Islamic investment bank established in cooperation with Gulf Finance House.

During 2006 the Bank's investment funds and portfolios realized exemplary results. These included:

- The liquidation of the Bader-4 Property Portfolio in London, with a 12% capital profit.
- The liquidation of the Bader-5 Property Portfolio in France, with an 18% capital profit.
- The liquidation of the Bader-6 Property Portfolio in France, with a 20% capital profit.
- The acquisition of a residential property portfolio in Germany at Euro 400 million (to be launched in 2007 under the title Bader-8 Property Portfolio).
- Conjointly issuing Islamic bonds (Sukuk) for financing a European property portfolio for the purpose of acquiring lucrative properties at 1 billion euros (QR 5 billion), with an aggregate issuing of 200 million euros.

### Banking Services

During the year, pronounced emphasis was placed on developing the Bank's services and developing new products in order to meet the increasing demand for Islamic financial services.

- Launched the 'Alysr' credit card, the first Islamic credit card to offer the monthly installment option.
- Increased our ATM network from 66 in 2005 to 87, all offering round-the-clock service.
- Implemented our e-banking service (Masrafnet).
- Achieved a 35% increase in electronic cards issuance compared to 2005.
- Initiated the 'smart cards' project, which is expected to be completed by the third quarter of 2007.
- Launched a 24-hour call center to serve our customers.

### Information Technology

In order to keep pace with the latest trends in banking technology, the Bank's IT Department introduced two new projects:

- SMS banking, and
- EMV (acceptance of smart cards at ATMs)

The Department has been reinforced with seasoned IT experts in order to fulfill the upgrading requirements.

### Expansion of Branch Network

During the year we adopted an aggressive plan, which is aimed at increasing our branch network to 20 branches. We opened new branches in Mesaieed and Mansoura, new banking offices in Al Shahaniya and Al Muntazah and are planning to open new branches in Dukhan, Ras Laffan and City Center-Doha.

### New Organization Chart

One of our main achievements during 2006 was the implementation of our new organization chart. The key elements of our new organization chart are:

- Chairman, at the head of the Board of Directors.
- Managing Director, to whom the 3 committees (Risk, Audit and Policies) will report.
- Executive Committee
- Shari'a Control Board
- Chief Executive Officer, to whom the 5 groups (Business, Operations & IT, Risk, Financial Control and Investment Banking & Development), each headed by a General Manager, will report.

The restructuring process aimed at achieving the following goals:

- Make the Bank's systems more compatible with the latest developments in the finance industry.
- Optimize the utilization of employees' capabilities.
- Streamline the job responsibilities in order to achieve easier procedures and better customer service.

#### **Human Resources**

During 2006 we completely revamped our HR policies.

- A new staff rules and regulations scheme has been implemented.
- Substantial amendments were made to various groups and divisions.
- The remuneration package has been revised for the benefit of our employees.
- New employees were recruited to fill the vacancies that arose due to the expansion of activities and the opening of new branches.

- Job descriptions have been developed and are ready for implementation.
- Conducted 35 specialized training courses (30 in 2005), including 440 training opportunities (300 in 2005; 46% increase). These programs, which covered a wide range of banking subjects, were conducted in Qatar as well as abroad, in cooperation with a group of specialized regional and international institutes and training centers.

#### **Correspondent Banking**

During 2006 QIB further consolidated its international presence by expanding its large network of correspondent banks all over the world and by transferring money through regional and trans-continent centers. Our correspondent banks supervise our accounts in around 30 countries with regard to cheques, remittances and international trade. QIB also offers banking accounts in Qatari Riyals and other international currencies to more than 40 banks worldwide.

# Statement of the Shari'a Control Board

## for the Bank's operations during 2006

In the Name of Allah, the Merciful, the Compassionate  
Praise be to Allah, Peace and Prayers be Upon His Messenger

The Shari'a Control Board (S.C.B.), has revised the Bank's operations and activities so as to make sure that the Bank is running its businesses in pace with the precepts of the glorious Islamic Shari'a.

To this end it revised all contracts, agreements and relevant procedural formats referred to it and, formulated the same in accordance with the Shari'a compatible wordings and norms. It responded to the queries made by the Bank management and proposed solutions to the problems faced upon execution.

Through its Executive Member and the Bank's Shari'a Audit Department, the Shari'a Control Board undertook a direct supervision of the Bank's operations to verify the proper performance in parallel with its recommendations in that respect and to ensure that all relevant contracts and agreements are effective and serious contracting tools.

In our belief, the transactions audited by us were, in general, compliant with Islamic Shari'a Standards. Errors that eventually might have happened during implementation were timely adjusted.

Further, S.C.B. has revised the Bank's Balance Sheet and P/L Statement for the fiscal year 2006 and found no contradictions with Islamic Shari'a norms and principles.

However, QIB's Shari'a Control Board confirms that answerability for applying the Shari'a norms and controls is placed on the Bank's management; S.C.B.'s liability being limited to the task of giving 'Fatwas' and scrutinizing the transactions referred to it by subjecting the same to the formal Shari'a audit procedures in practice within the effective competencies entrusted to it.

The Shari'a Board extends its acknowledgement to the Bank executives for their sincere efforts at both management and performance levels.

May Allah, the Almighty guide them with the right deeds that reflect the resplendent aspects of the Islamic economy and allow Muslims to benefit from all its mechanisms. We also call Allah to bless the funds of the Bank's shareholders and customers, and inspire sincerity in our words and deeds.

**His Eminence Dr. Youssef Al Qaradawi**  
Chairman, Shari'a Control Board

**His Eminence Sheikh Abdul Qader Al Ammari**

**His Eminence Dr. Ali Al Mohammadi**

**His Eminence Sheikh Walid Ben Hadi**

**Prof. Abdul Sattar Abou Ghodda**

**His Eminence Sheikh Nizam Mohd. Yacoubi**

Qatar Islamic Bank (QIB) – an Islamic bank of global stature – was established in 1982 and has been leading the Islamic banking industry for over 25 years by spreading its presence in Qatar, the Gulf, the Middle East, Asia and Europe.

## Our Banking Environment

**QIB has always stood on solid pillars and has been positively adapting to the environment in which it operates.**

- The nature of the local community where Arab & Islamic traditions co-exist with modern lifestyles.
- A booming national economy which features high growth rates and sustainable growth factors (huge natural gas reserves and industrial capabilities).
- A distinctive & liberal investment environment that is transforming Qatar into one of the most lucrative countries in the region for foreign investment.
- A remarkable banking sector which is experiencing record growth rates.
- The exemplary growth realized by Islamic banking worldwide (15-20% p.a.). Islamic banking is maintaining excellent growth in Qatar and presently has about 15% share in the Qatari market.
- The establishment of Qatar Financial Centre (QFC) as an international monetary center. QFC has successfully attracted reputable international establishments to Qatar. Also, Doha Securities Market is emerging as a significant player in the region.
- The increasing presence of Qatari investment and industrial companies in various parts of the world (e.g. Qatargas, RasGas, Qatari Diar, Barwa) which was one of the key factors behind QIB's decision to establish a global presence through finance houses/banks that will facilitate the growth of the national economy as well as Qatari companies abroad.
- The improvement of the global economy, and positive growth expectations, especially in the GCC, Asia and Europe.

QIB has always exhibited an unwavering commitment to offer cutting-edge retail banking services that fulfill both the customers' and the society's needs.

## Retail Banking

**QIB mainly offers the following services to individual customers.**

- Complete range of banking accounts, including short, medium, and long-term deposits.
- Retail financing that covers a wide range of customer needs, including financing the purchase of cars, furniture and properties.
- e-banking - An extensive range of e-cards (Visa International, Alys, Visa Electron) and other e-banking services such as SMS banking and Masrafnet.
- 24/7 ATM service with a network of more than 85 machines.
- Bank remittances worldwide through a network of international correspondent banks.
- Several other banking services required by the customers.

The boom witnessed by the Qatari economy opened the gates of Qatar to a large number of companies that are presently operating in it and brought along a strong demand for corporate banking, financing, and investment services.

## Corporate Financing

QIB extends competent corporate services through specialized departments, each commissioned to handle a particular sector of the national economy. These include the Real Estate Department, the Contracting and Property Financing Department, the Corporate Financing Department, and the Operations Department which undertakes all financing transactions by issuing the relevant documented Letters of Credit and Letters of Guarantee in addition to other instruments.

The main sectors that fall under corporate financing are:

### **Property Financing Sector**

- Governmental and semi-governmental projects
- Private construction projects
- Commercial property projects

### **Industrial Services Companies**

- Transportation & communications (ships, airlines etc.)
- Health services
- Sports
- Water & electricity
- Trade financing

With an eye on the implications of the ongoing financial globalization, QIB has adopted a strategy to expand its activities beyond the local frontiers, and establish a tangible international presence. The Bank has selected specific regional and international centers for expanding its investments. These finance houses are governed by their respective board of directors, who operate under the supervision of QIB's board of directors.

## Our International & Local Investments



The inauguration of Asian Finance Bank (AFB) in Malaysia in March 2007 marked QIB's entry into the emerging Far East market. The Bank's decision to establish AFB was influenced by several factors, prominent among which was the fact that the Asian market was becoming a major international commercial market and a partner of Qatar and other GCC states.

The lucrative investment opportunities existing in Asia, particularly in Malaysia and its neighboring countries, justifies AFB's decision to expand its operations to countries like Indonesia, Singapore

and Brunei. Malaysia's historical record in Islamic-oriented banking as well as legal and professional expertise has made it a global center for international organizations who are inclined towards the Islamic type of banking.

AFB's main mission is to attract investments from the Asian region to the GCC, and vice versa. It plans to have 5 to 7 branches in its first 5 years of operation. Initially, it will focus mainly on macro investment projects and corporate financing in Asian countries having investment activities in the GCC.



In 2003, a QIB-led group of potential partners and investors, including GCC banks and financial establishments, established the first full fledged Islamic (commercial and investment) bank in Lebanon with a capital of US\$ 100 million.

In March 2004, AFH opened its doors to the public and started offering retail and corporate banking services based on Islamic banking principles. The Bank has now 4 branches and plans to open more branches in the country, depending on the emerging investment opportunities.



Licensed in early 2007 with a capital of US\$ 1 billion (Paid-up Capital: US\$ 500 million), QINVEST is the largest financial establishment to start operations in Qatar Financial Centre (QFC).

QINVEST is an international investment bank specialized in investment banking activities. The Bank will actively take part in mega investment projects in Qatar and the region, through modular and innovative Islamic solutions, which would in turn positively impact the investment record of Islamic banking at both regional and international levels.

QIB and Gulf Finance House (GFH) were the main players behind the incorporation of QINVEST along with other strategic partners (companies & individuals).

The Bank is currently exploring the possibility of establishing finance houses and banks in Indonesia, Pakistan and other markets in Asia and Europe in order to strengthen its universal presence.



Europe's present position as an important player in the international economy, and London's emergence as the international capital of finance and investment, and a promising center for Islamic banking, influenced QIB to establish European Finance House (EFH) in London. EFH will mainly concentrate on investment opportunities in various European markets.

EFH, which plans to be operational in 2007, will manage a wide range of investments in many sectors, including real estate and asset acquisition, and will offer investment services to the large finance community in Europe.

**QIB also plays an active role in other banks and finance houses, like:**

- Tadamon Islamic Bank (Yemen)
- Solidarity Family Islamic Insurance Co. (Bahrain)



Established in 1989, this limited liability company is jointly owned by QIB (80%) and the Ministry of Endowments & Islamic Affairs (20%).

As one of QIB's main arms in the local market, it spares no effort in satisfying the needs of its customers. Its transactions are controlled by the QIB Shari'a Supervisory Board, and it utilizes Islamic financial tools such as Mudaraba, Musharaka, Musawama, Murabaha, Istisnaa, Ijarah and others.

The Company deals with most of the local suppliers (like car dealers, furniture, home appliances, jewelry, electrical and electronic showrooms etc.) and covers a wide range of activities.

By purchasing goods on a cash basis, it actively participates in the capital of these suppliers.

Since its inception, Al Jazeera Islamic Co. has been a true and active player in the development of the national economy and has acquired a remarkable position in the market, thanks to its innovative and customer-oriented services.



Realizing the importance of the real estate sector as one of the main driving forces of the economy, QIB established Aqar Real Estate Development and Investment Company in year 2000 as a joint venture. QIB holds 49% shares in the Company while the Endowment Department and the General Authority of Minors hold 34% and 17% shares respectively.

The Company started operations in 2001 after putting together a team of industry-leading real estate experts.

Aqar aims to keep pace with the latest developments in the real estate sector and has adopted a system of policies & procedures to monitor its performance and to maximize results for its customers and shareholders.

QIB holds the unique record of establishing and managing successful portfolios and investment funds in various markets around the world. This is evident in the success of the first of its 'Bader' series of property funds which was launched in the UK in 2000, and other similar funds launched in France, USA and Germany as well as the 'Rayyan' real estate fund that was launched in France.

## Portfolios & Funds

'High returns' (average of 8.5% p.a.) has been a significant feature of QIB's international funds. This has attracted the participation of a distinctive category of customers and investors and has made it a prototype for successful Islamic investments.

With a view towards maximizing returns, QIB is planning to launch a new series of funds that will adopt investment norms that are capable of keeping pace with the emerging financial globalization.

The Bank recently launched the 'Sanabel' fund with a capital of QR 1 billion. The Fund will invest in Shari'a-compatible Qatari stocks listed on Doha Securities Market.

The Bank recently established a department for international banking in order to enhance its relationship with international banks, to offer capital market services and to manage the Bank's international accounts. It will also handle the arrangement of subordinated financing funds and international trade financing transactions and will ensure the optimal utilization of emerging opportunities with a view towards reaching higher returns for its shareholders, investors and customers.

As an integral part of the Country, QIB has always endeavored to be an ideal partner of its social activities. Keeping in line with the noble principles of Islam, QIB actively participates in social causes that are aimed at upgrading all sections of the society.

## Partner of the Society

QIB plays an active role in all social causes. The Bank extends its support not only to educational, cultural and health activities, but also to charity societies, sports clubs, community associations and school activities.

The Bank actively works towards achieving the solidarity goals preached by the Islamic Shari'a, through its 'Zakat Committee'.

Every year QIB spends millions of riyals on people requiring financial assistance. It also disburses alms, through regulated channels, from a fund accumulated in the Zakat Committee through donations from the shareholders and customers.

QIB takes part in these activities with a view towards achieving its ultimate goal of becoming an Islamic establishment that is truly aware of its responsibilities towards the society.

Over the past 25 years Qatar Islamic Bank has succeeded in establishing a recognizable global presence. Today it also enjoys commendable ratings from international rating agencies which has elevated its status to a higher plateau in comparison with its regional and international peers.

## Ratings & Awards

### **Fitch**

Upgraded QIB to an A- rating in December 2006, based on its outstanding financial position and the fact that it holds a 10% share in the local market.

### **Best Performing Bank Award**

This award, given by Islamic finance news, was won by QIB for the second consecutive year (2005 and 2006).

### **Best Finance House in Qatar**

QIB was rated by the London-based Islamic Conference Group (ICG), as the best finance house in Qatar in real estate financing. This was mainly due to the major role played by the Bank in financing real estate development (towers and residential and commercial complexes) and infrastructure projects in Qatar.

### **Among the Top 50 Companies in the GCC**

Arab Business magazine rated QIB as one of the top 50 best performing companies in the GCC due to the remarkable performance and growth realized by the Bank. QIB was the only Qatari bank to feature in the top 50 list. This rating reflects the Bank's ongoing success in offering cutting-edge banking and financing services in line with the remarkable progress witnessed by the Islamic banking industry.

### **14th in Top 1000 Banks Worldwide**

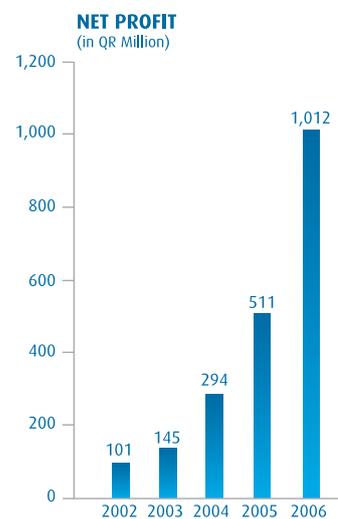
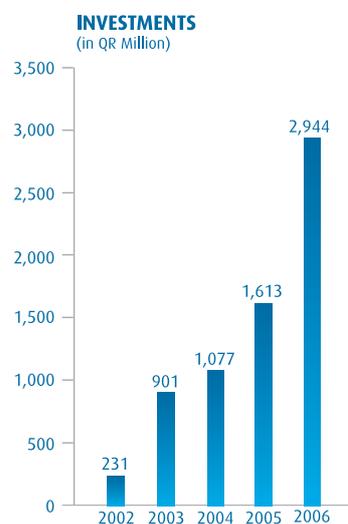
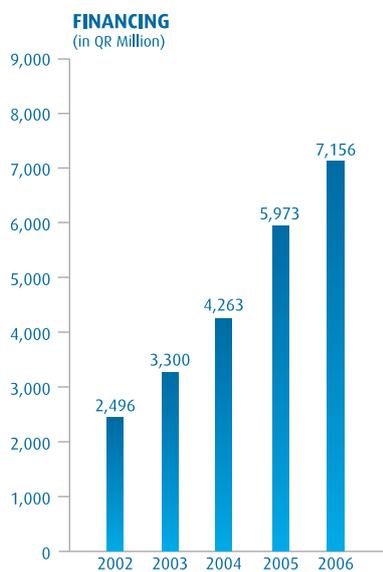
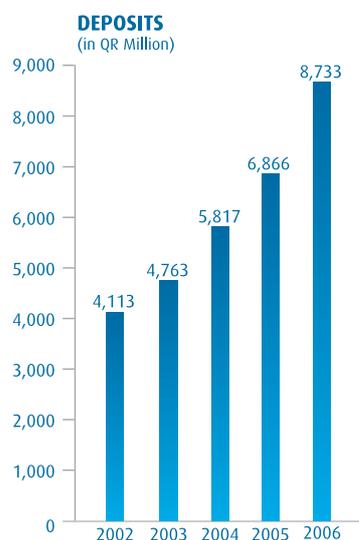
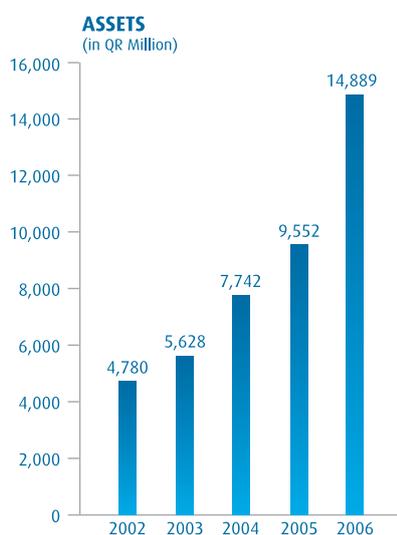
QIB was ranked 14th worldwide by the Banker on the best return on assets among 1000 top worldwide banks.

# Financial Statements



# Financial Highlights

	(Amount in QR million)				
	2006	2005	2004	2003	2002
Total assets	<b>14,889</b>	9,552	7,742	5,598	4,766
Deposits	<b>8,733</b>	6,866	5,817	4,763	4,113
Financing & Investments	<b>10,100</b>	7,586	5,341	4,201	2,727
Operating income	<b>1,559</b>	859	553	355	285
Net profit	<b>1,012</b>	512	294	145	101
Earnings per share	<b>9.04</b>	4.74	4.58	4.26	4.03
Total shareholders' equity	<b>4,255</b>	2,097	1,497	542	422
Share capital	<b>1,193</b>	663	390	250	250
Time deposits	<b>2,993</b>	2,218	2,185	1,829	2,073
Saving & investment deposits	<b>3,376</b>	2,436	2,309	1,949	1,422
Customers' current accounts	<b>2,364</b>	2,212	1,323	985	618



# Independent Auditors' Report

## to the Shareholders of Qatar Islamic Bank (S.A.Q.)

We have audited the accompanying consolidated financial statements of Qatar Islamic Bank (S.A.Q.) ("the Bank") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of 31 December 2006 and the related consolidated statements of income, and consolidated cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes 1 to 36. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a are the responsibility of the Group's directors and management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of the Bank for the year ended 31 December 2005 were audited by another firm of auditors whose report dated 14 February 2006 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the Auditing Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2006, and the results of its operations and its cash flows for the year then ended in accordance with the Shari'a rules and principles as determined by the Shari'a board of the Group and with Financial Accounting Standards of the AAOIFI and the instructions issued by the Qatar Central Bank for Islamic banks operating in Qatar.

Further, we confirm that the financial information included in the Directors' report is consistent with the books of account of the Group. We report that we have obtained all the information we considered necessary for the purpose of our audit; and that nothing has come to our attention which causes us to believe that the Group has breached any of the applicable provisions of the Qatar Commercial Companies Law No. 5 of 2002, Qatar Central Bank Law No. 15 of 1993 and its amendments, or the Articles of Association of the Bank and its subsidiaries which would materially affect its activities or its financial position as at 31 December 2006.

**Ian R. Clay, FCA**  
of PricewaterhouseCoopers  
Auditor's Registration No. 150  
**18 February 2007**

# Consolidated Balance Sheet

as at 31 December 2006

Amounts expressed in thousands of Qatari Riyals

	Notes	2006	2005
<b>Assets</b>			
Cash and balances with central banks	5	400,449	514,525
Due from and investments with banks and financial institutions	6	3,843,401	1,166,924
Due from financing activities	7	7,156,007	5,972,902
Financial investments	8	1,927,298	1,067,229
Other investments	9	1,016,424	484,026
Fixed assets	10	107,880	60,888
Other assets	11	437,057	285,062
<b>Total assets</b>		<b>14,888,516</b>	<b>9,551,556</b>
<b>Liabilities, unrestricted investment accounts, minority interest and shareholders' equity</b>			
<b>Liabilities</b>			
Current account with banks and financial institutions	12	1,147,242	26,024
Customers' current accounts	13	2,363,719	2,212,422
Payable to unrestricted investment accounts	14	52,968	51,845
Other liabilities	15	621,366	454,714
<b>Total liabilities</b>		<b>4,185,295</b>	<b>2,745,005</b>
<b>Unrestricted investment accounts</b>	17	<b>6,369,081</b>	<b>4,653,80</b>
<b>Minority interest</b>	18	<b>79,602</b>	<b>56,957</b>
<b>Shareholders' equity</b>			
Share capital	19	1,193,400	663,000
Legal reserve	19	1,870,707	677,307
General reserve	19	90,215	90,215
Risk reserve	19	51,073	33,356
Fair value reserve	19	52,173	126,809
Proposed bonus shares	19	-	331,500
Proposed cash dividend	19	835,380	165,750
Retained earnings		161,590	7,849
<b>Total shareholders' equity</b>		<b>4,254,538</b>	<b>2,095,786</b>
<b>Total liabilities, unrestricted investment accounts, minority interest and shareholders' equity</b>		<b>14,888,516</b>	<b>9,551,556</b>

These financial statements were approved by the Board of Directors on 23 January 2007 and were signed on their behalf by:

**Sheikh Jassim Bin Hamad Bin Jassim Bin Jabr Al Thani**  
Chairman

**Mr. Salah Mohammed Jaidah**  
Chief Executive Officer

# Consolidated Statement of Income

## for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

	Notes	2006	2005
<b>Income</b>			
Income from financing activities	20	626,225	502,550
Profits on investing activities	21	489,499	317,256
Total income from financing and investing activities		1,115,724	819,806
Commission and fees Income		433,468	50,981
Commission and fees expenses		(10,428)	(9,260)
Net income from commission and fees	22	423,040	41,721
Gain/(Loss) from foreign exchange operations	23	2,205	(2,683)
Other operating income		17,991	434
<b>Net operating income</b>		<b>1,558,960</b>	<b>859,278</b>
<b>Expenses and provisions</b>			
General and administrative expenses	24	(169,489)	(118,322)
Depreciation	10	(11,105)	(10,780)
Provision for impairment of receivables and financing activities	7	(68,390)	(47,132)
Other investment provision	25	(602)	(917)
Recovery from properties acquired against settlement of debt	11	-	11,479
Other provision	15	-	(6,075)
Other operating expenses		(14,326)	(4,533)
<b>Net operating profit</b>		<b>1,295,048</b>	<b>682,998</b>
Non operating income	26	1,544	1,679
<b>Net profit for the year</b>		<b>1,296,592</b>	<b>684,677</b>
<b>Less:</b>			
Unrestricted investment account holders' share of profit	27	(257,971)	(139,510)
Minority interest	18	(26,582)	(33,915)
<b>Net profit for the year attributable to shareholders</b>		<b>1,012,039</b>	<b>511,252</b>
Adjusted basic earnings per share (in Qatari Riyals per share)	28	9.04	4.74

# Consolidated Statement of Changes in Shareholders' Equity

for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

2006	Share capital	Legal reserve	General reserve	Risk reserve	Fair value reserve	Proposed bonus shares	Proposed dividend	Retained earnings	Total
<b>Balance at 1 January 2006</b>	663,000	677,307	90,215	33,356	126,809	331,500	165,750	7,849	2,095,786
Bonus shares issued	331,500	-	-	-	-	(331,500)	-	-	-
Directors' remuneration paid for 2005	-	-	-	-	-	-	-	(5,400)	(5,400)
Rights issue	198,900	1,193,400	-	-	-	-	-	-	1,392,300
Proceeds from sale of share fractions of right and bonus shares	-	-	-	-	-	-	-	199	199
Cash dividend	-	-	-	-	-	-	(165,750)	-	(165,750)
Net profit for the year	-	-	-	-	-	-	-	1,012,039	1,012,039
Net movement in risk reserve for 2006	-	-	-	17,717	-	-	-	(17,717)	-
Fair value reserve, net	-	-	-	-	(74,636)	-	-	-	(74,636)
Proposed cash dividends	-	-	-	-	-	-	835,380	(835,380)	-
<b>Balance at 31 December 2006</b>	<b>1,193,400</b>	<b>1,870,707</b>	<b>90,215</b>	<b>51,073</b>	<b>52,173</b>	<b>-</b>	<b>835,380</b>	<b>161,590</b>	<b>4,254,538</b>

Retained earnings as at 31 December 2006 includes proposed directors' remuneration for the year 2006: QR 9 million (2005: QR 5.4 million).

2005	Share capital	Legal reserve	General reserve	Risk reserve	Fair value reserve	Proposed bonus shares	Proposed dividend	Retained earnings	Total
<b>Balance at 1 January 2005</b>	390,000	667,414	89,757	23,757	40,792	273,000	-	11,822	1,496,542
Bonus shares issued	273,000	-	-	-	-	(273,000)	-	-	-
Directors' remuneration paid for 2004	-	-	-	-	-	-	-	(3,482)	(3,482)
Proceeds from sale of share fractions of right and bonus shares	-	-	458	-	-	-	-	-	458
Net profit for the year	-	-	-	-	-	-	-	511,252	511,252
Transfer to legal reserve	-	9,893	-	-	-	-	-	(9,893)	-
Net movement in risk reserve for 2005	-	-	-	9,599	-	-	-	(4,600)	4,999
Fair value reserve, net	-	-	-	-	86,017	-	-	-	86,017
Proposed bonus shares	-	-	-	-	-	331,500	-	(331,500)	-
Proposed cash dividends	-	-	-	-	-	-	165,750	(165,750)	-
<b>Balance at 31 December 2005</b>	<b>663,000</b>	<b>677,307</b>	<b>90,215</b>	<b>33,356</b>	<b>126,809</b>	<b>331,500</b>	<b>165,750</b>	<b>7,849</b>	<b>2,095,786</b>

The notes on pages 37 to 64 form an integral part of these financial statements.

# Consolidated Statement of Cash Flows

## for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

	2006	2005
<b>Cash flow from operating activities</b>		
Net profit for the year before share of profit for unrestricted investment account holders and minority interest	1,296,592	684,677
<b>Adjustments for:</b>		
Depreciation on fixed assets	11,105	10,780
Depreciation provision for other investments	602	917
Provision for impairment of receivables and financing activities	68,390	47,132
Provision for financial investments	97,586	2,728
Provision for other investments	-	(2,600)
Share of profit from associate	(781)	-
Provision for other assets	(17,681)	(11,479)
Provision for staff indemnity and pension fund	11,738	4,644
Profit on sale of fixed assets	(120)	(18)
Profit on sale of financial investments	(85,329)	(145,433)
Profit on sale of other investments	(201,616)	(80,973)
Other provision	-	6,075
<b>Net operating profit before changes in operating assets and liabilities</b>	<b>1,180,486</b>	<b>516,450</b>
<b>Net decrease/(increase) in assets</b>		
Balances with banks and financial institutions	(90,148)	(32,760)
Reserve with Qatar Central Bank	(55,559)	(28,028)
Due from financing activities	(1,251,495)	(1,756,707)
Other assets	(134,314)	(96,770)
<b>Net increase/(decrease) in liabilities</b>		
Current account with banks and financial institutions	1,121,218	5,508
Customer current accounts	151,297	889,388
Other liabilities	154,759	139,442
	<b>1,076,244</b>	<b>(363,477)</b>
Payment for staff indemnity	(1,484)	(2,556)
Payment for pension fund	(2,298)	(1,140)
Payment to unrestricted investment account holders	(256,848)	(98,488)
<b>Net cash from (used in) operating activities</b>	<b>815,614</b>	<b>(465,661)</b>
<b>Cash flow from investing activities</b>		
Purchase of financial investments	(1,368,133)	(657,733)
Proceeds from sale of financial investments	421,952	754,068
Purchase of other investments	(973,899)	(557,645)
Proceeds from sale of other investments	642,515	236,657
Purchase of fixed assets	(58,209)	(6,117)
Proceeds from sale of fixed assets	232	32
<b>Net cash used in investing activities</b>	<b>(1,335,542)</b>	<b>(230,738)</b>
<b>Cash flow from financing activities</b>		
Increase in share capital	1,392,499	-
Increase in unrestricted investment accounts	1,715,273	154,623
Dividend distributed	(165,750)	-
Directors remuneration paid	(5,400)	(3,482)
<b>Net cash from financing activities</b>	<b>2,936,622</b>	<b>151,141</b>
Net increase/(decrease) in cash and cash equivalents	2,416,694	(545,258)
Cash and cash equivalents – Beginning of the year	1,466,928	2,012,186
<b>Cash and cash equivalents – End of the year (Note 34)</b>	<b>3,883,622</b>	<b>1,466,928</b>

The notes on pages 37 to 64 form an integral part of these financial statements.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2006

### 1. Legal status and principal activities

Qatar Islamic Bank (S.A.Q) ("QIB" or "the Bank") was incorporated on July 8, 1982 as a Qatari shareholding company by the Emiri Decree Number 45 of 1982 to provide banking services in accordance with the provisions of the Islamic Sharia.

In addition to its main office, the Bank operates through its twelve branches in the State of Qatar. The Bank's shares are listed on the Doha Securities Market.

The Bank carries out all banking services, investment and financing activities through various Islamic modes of financing such as Murabaha, Mudaraba, Musharaka, Musawama, Istisna etc. It also carries out investment activities for its own account and on behalf of its customers. The activities of the Bank are conducted in accordance with the Islamic Sharia principles, as determined by the Sharia Committee of the Bank and in accordance with the provisions of its Memorandum and Articles of Association.

### 2. Significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are as follows:

#### a) Basis of preparation

The consolidated financial statements of the Bank and its subsidiaries (together "the Group") are prepared under the historical cost convention as modified for measurement at fair value of financial investments in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and regulations of Qatar Central Bank.

The preparation of financial statements in conformity with AAOIFI requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

#### (i) Subsidiaries

The consolidated financial statements of the Group include the financial statements of the Bank and its subsidiaries. All material balances and transactions between the subsidiaries are eliminated in the consolidated financial statements. Subsidiary companies are those in which the Group owns more than half of the equity capital or otherwise exercises control.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Bank's principal subsidiaries comprise of:

	Al Jazeera Islamic Company	Al Aqar Real Estate Company
Country of Incorporation	Qatar	Qatar
Principal business activity	Islamic Financing	Islamic Investment activities
Share Capital	80,000	50,000
Percentage of equity	80%	49%

#### (ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2006

### 2. Significant accounting policies (continued)

#### b) Foreign currencies

The consolidated financial statements are denominated in Qatari Riyals. Transactions in foreign currencies are translated into Qatari Riyals at the exchange rate prevailing at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into Qatari Riyals at the rates ruling at the balance sheet date. Resulting exchange gain and losses appear in the consolidated income statement.

#### c) Revenue recognition

Revenues on financing transactions are recognized on accrual basis using the reducing installment method. Income on non performing financing accounts is suspended when it is not certain the Group will receive it and in accordance with Qatar Central Bank's instructions.

Income from funds, sukouk and shares is recognised when profit/dividend declaration is made in this respect.

Income from other investments is recognized on accrual basis.

Fees and commissions are recognised as income when received. Fees for structuring and arrangement of Islamic financing transactions for and on behalf of other parties are recognised as income when the Group has fulfilled all its obligations in connection with the related transaction.

#### d) Valuation of financial investments available for sale

All investments in equity shares, sukouk and funds are classified as investments available for sale and are measured at fair value on individual basis unless a reliable fair value estimate is not available. Unrealised gains arising from a change in the fair value is recognised in the fair value reserve under shareholders' equity and equity of the unrestricted investment account holders, until it is sold, at which time the cumulative gain

previously recognised in shareholders' equity and equity of unrestricted investment accounts is included in the consolidated statement of income. Unrealised losses occurring on specific investments due to changes in fair value are recognised in the consolidated statement of income if they exceed the available fair value reserve for that investment. Future unrealised gains on that investment are recognised in the consolidated statement of income to the extent of unrealised losses previously recognised. Any excess is taken to the fair value reserve. In case where objective evidence exists that investment is impaired, the recoverable amount of that investment is determined and any resulting impairment loss is recognised in the consolidated statement of income as a provision for impairment of investments.

#### e) Fair value

The fair value of financial investments traded on organised financial exchanges is determined by reference to quoted market bid prices at close of business on the balance sheet date. For financial investments that do not have a quoted market price, the fair value is determined at cost.

#### f) Date of recognition of financial transactions

All financial assets and liabilities are recognised using settlement date.

#### g) Investments in property and other assets

Investments in property and assets acquired for leasing are carried at cost, less provision for impairment and are re-measured on an individual basis against the valuation of the property and assets. Gains or losses on sale of investments are recognised upon sale. Depreciation for investment in property is provided on a straight-line basis over the assets' estimated useful life using rate at 5%.

Investments in property and other assets held for trading are carried at cost, less provision for impairment. Impairment if any are included in the consolidated statement of income.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2006

### h) Due from financing activities

Financing activities such as Murabaha, Mudaraba, Musharaka, Musawama, and Istisna contracts are stated at their gross principal amounts less any amount received, provision for impairment, profit in suspense and unearned profit. The provision for impairment on financing is maintained at a level based on detailed review by the management in accordance with Qatar Central Bank's instructions.

Due from financing activities are written off and charged against specific provisions only in circumstances where all reasonable restructuring and collection activities have been exhausted, any recoveries from previously written off financing activities will be written back to the specific provision.

### i) Properties acquired against settlement of receivables

Properties, if any, acquired against settlement of receivable amounts are disclosed under other assets at their net acquired values. Unrealised losses due to reduction in fair value of such assets are included in the consolidated statement of income. Future unrealised gains on these properties are recognised in the consolidated statement of income to the extent of unrealised losses previously recognised.

### j) Fixed assets

Fixed assets, except for land, are depreciated on a straight-line basis over their estimated useful lives as follows:

	Years
Buildings	20
Computers and peripherals	3
Office equipment, furniture, fixture and leasehold improvement	5-7
Motor vehicles	5

Leasehold improvements are depreciated over the estimated useful life or the lease contract term whichever is lower.

### k) Impairment and uncollectability of other assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognised in the consolidated statement of income.

### l) Employees termination benefits and pension fund

The Group makes a provision for all termination indemnities payable to employees in accordance with the Group's regulations, calculated on the basis of individual employee's period of service at the balance sheet date. The provision for employees is included in other provisions within other liabilities.

The Group calculates its share in the pension fund in accordance with the Pension law. The expense is considered as part of staff cost within general and administrative expenses and is disclosed in Note 24.

### m) Other provisions

The Group takes provision for any expected legal or financial liabilities as a charge to the consolidated statement of income based on the likelihood and expected amount of such amount of such liabilities at balance sheet date and is disclosed in Note 15.

### n) Off balance sheet items

Included in commitments, the funds managed by the Group on behalf of its customers are classified as follows:

#### Investment portfolios

Investment portfolios represent funds belonging to the Group's customers for which it has assumed investment management responsibility in accordance with the terms or conditions of the fund. Such funds are invested on behalf of the customers by the Group acting as an agent or a trustee and accordingly such funds and the attributable investment income or loss are not included in these consolidated financial statements and are directly paid to the customers after deduction of the Groups stated share of profit or commission (Note 31).

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2006

### 2. Significant accounting policies (continued)

#### n) Off balance sheet items (continued)

##### Restricted investment balances

Restricted investment balances are those where the depositors instruct the Group to invest the funds in specific investments or at predetermined terms. These deposits are invested by the Group in its own name under the terms of a specific mudaraba contract entered into with the depositors. These special investment deposits, which are classified as off balance sheet, share the profits or losses of the related investments once realised and do not, otherwise, share in the profits or losses attributable to unrestricted investment accounts and the shareholders (Note 32).

#### o) Unrestricted investment accounts' share of profit

Net profit for the year is distributed among unrestricted account holders and shareholders in accordance with Qatar Central Bank's instructions, which are summarised as follows:

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

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

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

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

#### p) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include cash, balance with Qatar Central Bank, and due from banks and financial institutions which mature within 90 days. However, it does not include balance on reserve account of the Qatar Central Bank (Note 34).

### 3. Risk management of financial instruments

#### I. Financial instruments

##### a) Definition and classification

Financial instruments cover all financial assets and liabilities of the Group. Financial assets include cash balances, on demand balances and placements with banks and other financial institutions, financial investments and financing to customers and banks. Financial liabilities include customers' current accounts and due to banks. Financial instruments also include unrestricted investment accounts and contingent liabilities and commitments included in off balance sheet items.

Note 2 explains the accounting policies used to recognize and measure the major financial instruments and their related income and expense.

##### b) Fair value of financial instruments

Based on the methods used to determine the fair value of financial instruments explained in the notes accompanying the consolidated financial statements, the book value of financial assets and liabilities are not significantly different from their fair value except investment in property and other assets held for leasing which are disclosed at cost. The fair value of investment in property is disclosed in Note 9.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2006

### II. Risk management

By its nature the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers for various periods and seeks to earn profits by investing these funds in quality assets. The Group also seeks to increase its profit spread by making investments in diversified products and services and by consolidating short and long-term investment strategy while maintaining sufficient liquidity to meet all claims that might fall due.

#### a) Profit rate risk

The profit rate risk refers to the risk due to change of profit rates, which might affect the future earnings of the Group. Exposure to profit rate risk is managed by the Group through diversification of assets portfolio and by matching the maturities of assets and liabilities.

In line with the policy approved by the Board of Directors, the assets and liability committee performs regular review of the assets and liabilities in order to ensure that the maturity gap between assets and liabilities is maintained at minimum level and also to ensure that financing and investments are made for quality assets at higher rate of return.

#### b) Credit risk

The Group attempts to manage its credit risk exposure through diversification of its financing and investment activities to avoid undue concentration of risk with individuals or group of customers in specific locations or businesses. The Group pursues its policies to safeguard its interest and in a prudent manner obtains tangible or intangible security and collaterals for financing, investments, and contingent commitments.

The Group controls the credit risk arising from its financing and investment activities through its credit control and approval process and use of risk control limits and monitoring procedures. The exposure to any one customer including banks and financial institutions is controlled by determining limits for each major customer covering on and off balance sheet exposures. Actual exposure of the customers is regularly monitored against the limits approved for such customers.

Exposure to credit risk is also managed through regular analysis of the ability of the customer to meet its repayment obligations and by making appropriate changes to the credit limits where needed.

Note 7 discloses the economic sector distribution of financing to customers and Note 30 discloses the geographical distribution of assets and liabilities.

#### c) Liquidity risk

Liquidity risk is the risk that a bank will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding cease immediately. To mitigate this risk, the Group has diversified its sources of funding and maintained a diversified portfolio of high quality liquid assets and readily marketable securities. The maturity profile of assets, liabilities, and unrestricted investment accounts of the Group is disclosed below. The contractual maturities of assets and liabilities have been determined on the basis of remaining period at the balance sheet date to the contractual maturity date. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

## 3. Risk management of financial instruments (continued)

### II. Risk management (continued)

#### c) Liquidity risk (continued)

As at 31 December 2006

Assets	Up to 1 month	1-3 months	3-12 months	1 to 5 years	Above 5 years	Total
Cash and balances with central banks	163,129	-	-	-	237,320	400,449
Due from and investments with banks and financial institutions	2,804,063	916,430	122,908	-	-	3,843,401
Due from financing activities	369,984	711,132	1,994,681	4,080,210	-	7,156,007
Financial investments	-	-	36,819	1,601,820	288,659	1,927,298
Other investments	-	-	-	1,016,424	-	1,016,424
Fixed assets and other assets	437,057	-	-	-	107,880	544,937
<b>Total assets</b>	<b>3,774,233</b>	<b>1,627,562</b>	<b>2,154,408</b>	<b>6,698,454</b>	<b>633,859</b>	<b>14,888,516</b>
<b>Liabilities, unrestricted investment accounts and minority interest</b>						
Current account with banks and financial institutions	1,147,242	-	-	-	-	1,147,242
Customers' current accounts	2,363,719	-	-	-	-	2,363,719
Payable to unrestricted investment accounts	52,968	-	-	-	-	52,968
Other liabilities	621,366	-	-	-	-	621,366
	<b>4,185,295</b>	-	-	-	-	<b>4,185,295</b>
Unrestricted investments accounts	3,952,938	718,114	748,396	907,988	41,645	6,369,081
Minority interest	-	-	-	-	79,602	79,602
<b>Total liabilities, unrestricted investment accounts and minority interest</b>	<b>8,138,233</b>	<b>718,114</b>	<b>748,396</b>	<b>907,988</b>	<b>121,247</b>	<b>10,633,978</b>
<b>Difference</b>	<b>(4,364,000)</b>	<b>909,448</b>	<b>1,406,012</b>	<b>5,790,466</b>	<b>512,612</b>	<b>4,254,538</b>

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

## 3. Risk management of financial instruments (continued)

### II. Risk management (continued)

#### c) Liquidity risk (continued)

As at 31 December 2005

Assets	Up to 1 month	1-3 months	3-12 months	1 to 5 years	Above 5 years	Total
Cash and balances with central banks	332,764	-	-	-	181,761	514,525
Due from and investments with banks and financial institutions	851,363	278,244	37,317	-	-	1,166,924
Due from financing activities	308,814	593,560	1,664,899	3,405,629	-	5,972,902
Financial investments	-	-	20,388	886,998	159,843	1,067,229
Other investments	-	-	-	484,026	-	484,026
Fixed assets and other assets	285,062	-	-	-	60,888	345,950
<b>Total assets</b>	<b>1,778,003</b>	<b>871,804</b>	<b>1,722,604</b>	<b>4,776,653</b>	<b>402,492</b>	<b>9,551,556</b>
<b>Liabilities, unrestricted investment accounts and minority interest</b>						
Current account with banks and financial institutions	26,024	-	-	-	-	26,024
Customers' current accounts	2,212,422	-	-	-	-	2,212,422
Payable to unrestricted investment accounts	51,845	-	-	-	-	51,845
Other liabilities	454,714	-	-	-	-	454,714
<b>Total liabilities</b>	<b>2,745,005</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,745,005</b>
Unrestricted investment accounts	2,901,482	520,817	1,151,090	50,409	30,010	4,653,808
Minority interest	-	-	-	-	56,957	56,957
<b>Total liabilities, unrestricted investment accounts and minority interest</b>	<b>5,646,487</b>	<b>520,817</b>	<b>1,151,090</b>	<b>50,409</b>	<b>86,967</b>	<b>7,455,770</b>
<b>Difference</b>	<b>(3,868,484)</b>	<b>350,987</b>	<b>571,514</b>	<b>4,726,244</b>	<b>315,525</b>	<b>2,095,786</b>

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

### 3. Risk management of financial instruments (continued)

#### II. Risk management (continued)

##### d) Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position. The Group has a set of limits on the level of exposure by currency and in total, which are monitored on daily basis. The Group has the following significant net exposures denominated in foreign currencies.

As At 31 December 2006	QAR	USD	EUR	GBP	Others	Total
Assets	7,935,960	5,882,713	1,021,482	2,346	46,015	14,888,516
Liabilities, minority interest and shareholders' equity	13,398,751	1,456,596	31,268	603	1,298	14,888,516
<b>Net balance sheet position</b>	<b>(5,462,791)</b>	<b>4,426,117</b>	<b>990,214</b>	<b>1,743</b>	<b>44,717</b>	<b>-</b>
As at 31 December 2005						
Assets	6,639,203	2,609,617	291,858	2,812	8,066	9,551,556
Liabilities, minority interest and shareholders' equity	8,504,692	745,694	296,473	2,826	1,871	9,551,556
<b>Net balance sheet position</b>	<b>(1,865,489)</b>	<b>1,863,923</b>	<b>(4,615)</b>	<b>(14)</b>	<b>6,195</b>	<b>-</b>

##### e) Market risk for financial investments

The Group assumes in its normal course of business exposure to market risk from its investments in equity shares, real estate and other investments arising due to general and specific market movements. The Group takes into account a number of assumptions for changes in the market conditions and applies a methodology to estimate its market risk position and expected losses to maximum extent. The limits set for such risk are monitored on a regular basis.

##### f) Capital adequacy

The Capital adequacy ratio of the Group is calculated in accordance with the Basel Committee guidelines and Qatar Central Bank instructions. The following table shows the risk weighted values and capital charge for capital adequacy ratio purposes.

Risk Element	Capital charge		Risk weighted	
	2006	2005	2006	2005
Credit risk	9,847,807	6,879,104	9,847,807	6,879,104
Market risk	385,993	249,133	4,824,908	3,114,163
Operational risk	52,987	41,999	662,343	517,488
<b>Total capital charge/risk weighted assets</b>	<b>10,286,787</b>	<b>7,170,236</b>	<b>15,335,058</b>	<b>10,510,755</b>
Tier 1 capital	3,131,921	1,941,538	20.42%	18.47%
Tier 1+Tier 2 capital	3,237,047	2,024,201	21.11%	19.25%

The minimum ratio limit determined by Qatar Central Bank is 10% and by the Basel Committee is 8%.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2006

### g) Risk of managing customers' investment

The Group provides custody and corporate administration services to third parties in relation to mutual funds marketed by it. These services give rise to legal and operational risk. Such risks are mitigated through detailed daily procedures to ensure compliance. Note 31, lists the funds marketed by the Group.

### h) Operational and other risks

Operational risk is the risk of direct or indirect loss due to an event or action causing failure of technology, process infrastructure, personnel, and other risk having an impact on the operations. The Group seeks to minimize actual or potential losses from operational risks failure through a frame work of policies and procedures that identify, assess, control, manage, and report that risks.

Other risks to which the Group is exposed are regulatory risk, legal risk, and reputational risk. Regulatory risk is controlled through a framework of compliance policies and procedures. Legal risk is managed through the effective use of internal and external legal advisors. Reputational risk is controlled through regular examinations of issues that are considered to have reputational repercussions for the Group, with guidelines and policies being issued as appropriate.

#### 4. Critical accounting estimates and judgements in applying accounting policies

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 due from financing activities

The Group reviews its financing 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 Islamic financing before the decrease can be identified with an individual financing 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 financial investments

The Group determines that available-for-sale investments are impaired when there has been a decline in the fair value below its cost. The determination of fair value for unlisted shares/sukuks requires judgment. In making this judgment, the Group evaluates amongst other factors, the normal volatility in share prices of similar instruments. 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. In case where objective evidence exists that investment is impaired, the recoverable amount of that investment is determined and any resulting impairment loss is recognised in the consolidated statement of income as a provision for impairment of investments.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

<b>5. Cash and balances with central banks</b>		
	<b>2006</b>	<b>2005</b>
Cash in vaults	163,129	92,703
Cash reserve with central banks	237,320	181,761
Current account with Qatar Central Bank	-	240,061
<b>Total</b>	<b>400,449</b>	<b>514,525</b>
Cash reserve with Qatar Central Bank represents a mandatory reserve deposit, which is not available for the Group's day-to-day operations.		
<b>6. Due from and investments with banks and financial institutions</b>		
	<b>2006</b>	<b>2005</b>
Current accounts	48,558	27,022
Unrestricted investment deposits	510,344	251,160
Commodity Murabaha transactions	3,307,348	893,269
	3,866,250	1,171,451
Unearned profit	(22,849)	(4,527)
	<b>3,843,401</b>	<b>1,166,924</b>
Commodity Murabaha transactions represent contracts agreed with banks that represent commitment to pay upon maturity the value of commodities and its related profits.		
<b>7. Due from financing activities</b>		
	<b>2006</b>	<b>2005</b>
<b>a) By type:</b>		
Musharaka	14,613	-
Murabaha and Musawama	5,689,388	5,227,347
Istisna contracts	1,156,874	886,281
Mudaraba	284,965	215,679
Leased financing	1,284,697	577,616
Other	19,260	-
	<b>8,449,797</b>	<b>6,906,923</b>
Unearned profit	(997,870)	(695,193)
Specific provision	(275,845)	(219,320)
Suspended profit	(20,075)	(19,508)
<b>Net receivables and due from financing activities</b>	<b>7,156,007</b>	<b>5,972,902</b>

Total of non performing due from financing activities amounted to QR 299.36 million at the end of year 2006, (2005: 445.27 million) which is 3.55% (2005: 6.4 %) of the total due from financing activities.

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

<b>7. Due from financing activities (continued)</b>						
<b>b) By industry:</b>						
	<b>Murabaha and Musawama</b>	<b>Istisna Contracts</b>	<b>Mudaraba</b>	<b>Ijara</b>	<b>2006 Total</b>	<b>2005 Total</b>
Government	359,491	315,464	-	-	674,955	570,391
Semi-government	5,563	-	-	-	5,563	-
Industry	60,773	-	-	-	60,773	42,935
Trading	1,340,230	-	12,548	-	1,352,778	1,340,853
Contracts	243,362	-	200,963	-	444,325	337,914
Consumer financing	2,097,687	-	80,313	-	2,178,000	1,805,427
Housing	1,498,404	841,410	764	1,284,697	3,625,275	2,746,061
Others	103,138	-	4,990	-	108,128	63,342
	<b>5,708,648</b>	<b>1,156,874</b>	<b>299,578</b>	<b>1,284,697</b>	<b>8,449,797</b>	<b>6,906,923</b>
Unearned profit					(997,870)	(695,193)
Specific provisions					(275,845)	(219,320)
Suspended profit doubtful financing					(20,075)	(19,508)
<b>Net receivables and due from financing activities</b>					<b>7,156,007</b>	<b>5,972,902</b>

**c) Movement in provisions for impairment of financing activities:**

	<b>Specific Provision</b>	<b>Profit in Suspense</b>	<b>Total 2006</b>	<b>Total 2005</b>
Balance at 1 January	219,320	19,508	238,828	177,220
Net provision during the year	68,390	1,291	69,681	61,616
Provision made during the year	92,630	32,143	124,773	106,082
Recoveries of amounts previously provided	(24,240)	(30,852)	(55,092)	(44,466)
Provisions written off	(11,865)	(724)	(12,589)	(8)
<b>Balance at 31 December</b>	<b>275,845</b>	<b>20,075</b>	<b>295,920</b>	<b>238,828</b>

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

8. Financial investments		2006	2005
a) Financial assets available for sale			
Quoted		1,267,878	872,388
Unquoted		238,448	129,096
b) Investments in associates		420,972	65,745
<b>End of the year</b>		<b>1,927,298</b>	<b>1,067,229</b>

## a) Financial investments available for sale

	2006 Quoted	2006 Unquoted	2005 Quoted	2005 Unquoted
Shares	512,502	108,762	491,083	28,914
Sukouk government of Qatar	299,584	-	344,905	-
Sukouk others	528,330	-	36,400	19,656
Other Islamic portfolio and funds	25,500	140,086	-	91,378
Total financial investments	1,365,916	248,848	872,388	139,948
Provision for losses	(98,038)	(10,400)	-	(10,852)
	<b>1,267,878</b>	<b>238,448</b>	<b>872,388</b>	<b>129,096</b>

## b) Investments in associates

	2006	2005
Beginning of the year	65,745	35,716
Investments during the year	354,446	30,029
Share of profit	781	-
<b>End of the year</b>	<b>420,972</b>	<b>65,745</b>

## Principal associates

	2006		2005		
	Country of Incorporation	Ownership Amount	Ownership Amount	Percentage	
Arab Finance House	Lebanon	71,532	32.04%	65,745	28.9%
Asian Finance Bank	Malaysia	76,440	21.00%	-	-
Q Invest	Qatar	273,000	15.00%	-	-
		420,972		65,745	

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

### 9. Other investments

#### a) Investments in property and other assets held for leasing and capital appreciation

	Land	Building	2006 Total	2005 Total
<b>Cost</b>				
At 1 January	2,728	12,039	14,767	42,341
Additions during the year	202,115	-	202,115	-
Disposal during the year	-	-	-	(27,574)
<b>At 31 December</b>	<b>204,843</b>	<b>12,039</b>	<b>216,882</b>	<b>14,767</b>
<b>Accumulated depreciation</b>				
At 1 January	-	7,212	7,212	24,394
Charge for the year	-	602	602	917
Disposal during the year	-	-	-	(18,099)
<b>At 31 December</b>	<b>-</b>	<b>7,814</b>	<b>7,814</b>	<b>7,212</b>
<b>Net book value – 31 December</b>	<b>204,843</b>	<b>4,225</b>	<b>209,068</b>	<b>7,555</b>

#### b) Investment in property and other assets held for trading

	Land	Building	2006 Total	2005 Total
<b>Cost</b>				
At 1 January	255,343	221,128	476,471	65,035
Additions during the year	93,335	678,449	771,784	557,645
Disposal during the year	(255,419)	(185,480)	(440,899)	(146,209)
<b>Net Book value – 31 December</b>	<b>93,259</b>	<b>714,097</b>	<b>807,356</b>	<b>476,471</b>
<b>Total Net Book Value – 31 December</b>	<b>298,102</b>	<b>718,322</b>	<b>1,016,424</b>	<b>484,026</b>

The aggregate market value of the investment properties disclosed above (a and b) was determined at QR 1,114 million (2005: QR 665 million). Market value was determined having regard to recent market transactions for similar properties in similar locations and has been determined for each property included in the investment portfolio.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

<b>10. Fixed asset</b>					
	<b>Land and buildings</b>	<b>Computer &amp; peripherals</b>	<b>Office equipment furniture &amp; fixtures, &amp; leasehold improvements</b>	<b>Motor vehicles</b>	<b>Total</b>
<b>Cost</b>					
At 1 January 2006	68,409	54,962	30,427	2,030	155,828
Additions	49,444	4,434	3,380	951	58,209
Disposals	-	-	(282)	(618)	(900)
<b>At 31 December 2006</b>	<b>117,853</b>	<b>59,396</b>	<b>33,525</b>	<b>2,363</b>	<b>213,137</b>
<b>Depreciation</b>					
At 1 January 2006	25,487	47,399	20,605	1,449	94,940
Charge for the year	2,362	5,493	2,975	275	11,105
Disposals	-	-	(265)	(523)	(788)
At 31 December 2006	27,849	52,892	23,315	1,201	105,257
<b>Net book value</b>					
<b>At 31 December 2006</b>	<b>90,004</b>	<b>6,504</b>	<b>10,210</b>	<b>1,162</b>	<b>107,880</b>
<b>At 31 December 2005</b>	<b>42,922</b>	<b>7,563</b>	<b>9,822</b>	<b>581</b>	<b>60,888</b>

<b>11. Other assets</b>		
	<b>2006</b>	<b>2005</b>
Accrued income	154,241	86,344
Prepayment and advances	13,175	11,428
Capital work in progress *	241,270	114,893
Cheques in clearing	-	2,885
Others	28,371	69,512
Due from Bank of Credit and Commerce International (BCCI) (Under liquidation), and other financial institutions	52,629	70,310
	489,686	355,372
Provisions for due from BCCI and other financial institutions	(52,629)	(70,310)
<b>Net</b>	<b>437,057</b>	<b>285,062</b>
*Included in capital work-in-progress at the end of the year 2006 are advance payments made to acquire land and real estate amounting to QR 212 million, project for building villas under progress amounting to QR 2.9 million (2005: 109.4 million) and other projects under progress amounting to QR Nil (2005: 5.4 million).		
<b>12. Current account with banks and financial institutions</b>		
	<b>2006</b>	<b>2005</b>
Banks and financial institutions on current accounts	<b>1,147,242</b>	<b>26,024</b>

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

<b>13. Customers' current accounts</b>		
	<b>2006</b>	<b>2005</b>
Government	51,204	64,031
Corporate	246,624	186,566
Individual	2,065,891	1,961,825
<b>Total</b>	<b>2,363,719</b>	<b>2,212,422</b>
<b>14. Payable to unrestricted investment accounts</b>		
	<b>2006</b>	<b>2005</b>
Share of unrestricted investment accounts in profit	<b>52,968</b>	<b>51,845</b>
<b>15. Other liabilities</b>		
	<b>2006</b>	<b>2005</b>
Staff indemnity (Note 16)	29,026	18,772
Pension fund	333	838
Margin deposits	65,358	27,290
Manager cheques	50,295	58,718
Accrued expenses	29,335	24,381
Settlement deposits	110,006	79,563
Customer's participation in funds	403	417
Unclaimed dividend	1,269	1,345
Cheques in clearing	(440)	-
Naps and visa settlements	32,235	11,917
Provision for potential claims	6,075	6,075
Notes payable	-	87,164
Advances and trade payable	9,268	50,498
Others	288,203	87,736
<b>Total</b>	<b>621,366</b>	<b>454,714</b>
<b>16. Movement in staff indemnity</b>		
	<b>2006</b>	<b>2005</b>
Balance at 1 January	18,772	17,873
Charge for the year	11,738	3,455
Amount paid during the year	(1,484)	(2,556)
<b>Balance at 31 December (Note 15)</b>	<b>29,026</b>	<b>18,772</b>

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

17. Unrestricted investment accounts		
	2006	2005
<b>a) By type:</b>		
Repayable on demand	1,245,542	902,636
Saving accounts	2,130,649	1,533,555
Term	2,910,617	2,073,519
	6,286,808	4,509,710
Unrestricted investment account share of fair value reserve	40,628	114,088
Unrestricted investment account share of risk reserve	41,645	30,010
<b>Total</b>	<b>6,369,081</b>	<b>4,653,808</b>
<b>b) By sector:</b>		
Government	603,821	414,710
Government organization and department	197,258	117,660
Individuals	5,235,715	3,538,066
Corporations	231,814	261,186
Banks	18,200	178,088
	6,286,808	4,509,710
Unrestricted investment accounts share of fair value reserve	40,628	114,088
Unrestricted investment account share of risk reserve	41,645	30,010
<b>Total</b>	<b>6,369,081</b>	<b>4,653,808</b>
Unrestricted invested accounts include QR 61.5 million held as collateral against direct and indirect financing credit facilities (2005: QR 153.2 million).		
18. Minority interest		
	2006	2005
Balance at 1 January	56,957	28,421
Share of minority in the profit of subsidiary companies	26,582	33,915
Distribution of profit by subsidiary companies	(8,780)	(7,800)
Net movement in fair value reserve of subsidiary companies	(3,157)	2,421
Capital increase	8,000	-
<b>At 31 December</b>	<b>79,602</b>	<b>56,957</b>

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

### 19. Shareholders' equity

#### a) Share capital

Authorised, issued and paid-up share capital  
119.34 million ordinary shares of QR 10 each  
(2006: 66.3 million shares of QR 10 each)

	2006	2005
	1,193,400	663,000

#### b) Legal reserve

In accordance with QCB law No. 15 of 1993 as amended, at least 20% of the net profit for the year is required to be transferred to legal reserve until this reserve equals 100% of the paid up capital. Premium received on rights share issued during the year QR 1.19 million also has been taken to the legal reserve. This reserve is not available for distribution except in circumstances specified in Qatar Commercial Companies Law No. 5 of 2002 and after Qatar Central Bank approval. The management has decided not to transfer any amount to legal reserve this year as the minimum requirement has already been fulfilled.

#### c) General reserve

In accordance with the Articles of Association of the Bank, the General Assembly may allocate a portion of the net profit to the general reserve. There is no restriction on the distribution of this reserve, however prior approval of Qatar Central Bank is required.

#### d) Risk reserve

In accordance with Qatar Central Bank regulations, the bank has build a risk reserve to cover contingencies on the private sector financing activities, with a minimum requirement of 1.25% of the private sector exposure which should be allocated between the holders of unrestricted investment deposit accounts and the shareholders.

#### e) Fair value reserve – financial investments

##### Balance at January 1

Revaluation for the year  
Charged to income statement  
Net change during the year  
Share of holders of unrestricted investment accounts  
in the movement in the fair value reserve

	2006	2005
Balance at January 1	126,809	40,792
Revaluation for the year	(85,773)	194,661
Charged to income statement	(62,323)	(47,559)
Net change during the year	(148,096)	147,102
Share of holders of unrestricted investment accounts in the movement in the fair value reserve	73,460	(61,085)
<b>Balance at December 31</b>	<b>52,173</b>	<b>126,809</b>

Fair value reserve represents unrealised gain, which cannot be distributed unless realised and charged to the statement of income.

#### f) Proposed cash dividend and bonus shares

The Board of Directors has proposed a cash dividend of 70% of paid up share capital amounting to QR 835.4 million i.e. QR 7.0 per share (2005 - 25% of paid up share capital amounting to QR 165.75 million i.e. QR 2.5 per share) which is subject to approval at the annual general meeting of the shareholders.

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

<b>20. Income from financing activities</b>		
	<b>2006</b>	<b>2005</b>
Murabaha and Musawama	412,192	356,385
Istisna	90,790	66,707
Mudaraba	44,964	41,080
Leased transaction	55,534	38,378
Musharakah	22,745	-
<b>Total</b>	<b>626,225</b>	<b>502,550</b>
<b>21. Profit of investing activities</b>		
	<b>2006</b>	<b>2005</b>
<b>a) Income from due from and investments with banks and financial institutions</b>		
Deposit with banks	31,742	11,609
Commodity Murabaha transactions	145,862	35,785
	<b>177,604</b>	<b>47,394</b>
<b>b) Income from investments</b>		
Financial investments available for sale	56,216	42,915
Investment in property and assets held for leasing	45,315	6,084
Other Financial investments	21,509	-
	<b>123,040</b>	<b>48,999</b>
<b>c) Income from sale of investments</b>		
Financial investments available for sale	85,329	145,433
Investment in property and assets held for leasing	81,443	47,596
Investment in property and assets held for trading	120,173	50,473
	<b>286,945</b>	<b>243,502</b>
<b>d) Investments revaluation differences</b>		
Reversal of provision for other investments	-	2,600
Unrealised loss arising due to fair value estimates	(98,090)	(25,239)
	<b>(98,090)</b>	<b>(22,639)</b>
<b>Total</b>	<b>489,499</b>	<b>317,256</b>
<b>22. Net Commission and fees income</b>		
	<b>2006</b>	<b>2005</b>
<b>Commission and Fees Income:</b>		
Letters of credit and guarantee	38,000	15,758
Banking operations	13,202	9,937
Bank's share of income from unrestricted investments	156	167
Income from investment activities for others	826	7,122
Underwriting and other commission	361,164	-
Others	20,120	17,997
	<b>433,468</b>	<b>50,981</b>
<b>Commission and fees expenses</b>	<b>(10,428)</b>	<b>(9,260)</b>
	<b>423,040</b>	<b>41,721</b>

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

<b>23. Gain (Loss) from foreign exchange operations</b>		
	<b>2006</b>	<b>2005</b>
Exchange gain on sale of currency	11,315	7,517
Revaluation losses	(9,110)	(10,200)
<b>Total</b>	<b>2,205</b>	<b>(2,683)</b>
<b>24. General and administrative expenses</b>		
	<b>2006</b>	<b>2005</b>
Staff salaries and allowances	100,690	73,370
Contributions to pension fund	1,446	845
Staff indemnity	11,974	3,799
Training costs	856	643
Advertisements and market promotions	6,355	2,546
Legal and professional fee	1,886	1,182
Communication, insurance and utilities	7,570	5,747
Rent and maintenance	14,953	10,808
Others	23,759	19,382
<b>Total</b>	<b>169,489</b>	<b>118,322</b>
The number of staff employed by the Bank as at 31 December 2006 was 540 (2005: 462).		
<b>25. Other investment provision</b>		
	<b>2006</b>	<b>2005</b>
Depreciation provision for investment in property and assets acquired for leasing	602	917
<b>Total</b>	<b>602</b>	<b>917</b>
<b>26. Non operating income</b>		
	<b>2006</b>	<b>2005</b>
Other income	1,544	1,679
<b>Non-Operating Income</b>	<b>1,544</b>	<b>1,679</b>

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

<b>27. Unrestricted investment account holder's share of profit</b>		
	<b>2006</b>	<b>2005</b>
Investment account holders' share in profit before Mudaraba share of the Bank	549,503	309,717
Bank's share of profit as Mudarib	(311,295)	(184,768)
Unrestricted investment account holders' net share after Mudarib's share of the profit	238,208	124,949
Shareholders' cession	19,763	14,561
<b>Unrestricted investment account holders' share after cession</b>	<b>257,971</b>	<b>139,510</b>
Included in share of profit of unrestricted investment account holders is the amount of QR 27 million on account of deposits made by Isamic banks with QIB.		
Following are the profit distribution rates for the unrestricted investment account holders:		
	<b>2006</b>	<b>2005</b>
	(%)	(%)
5 year term	6.65	6.00
3 year term	6.15	5.50
1 year term	5.55	4.50
6 months term	4.50	3.75
3 months term	4.00	3.50
1 month term	3.50	3.25
Savings account	3.50	3.00
Savings Tarakat	3.93	3.50
Call account	3.50	3.00
<b>28. Earnings per share</b>		
Earnings per share is calculated by dividing the net profit for the year attributable to the shareholders by the weighted average number of ordinary shares in issue during the year as follows:		
	<b>2006</b>	<b>2005</b>
Net profit for the year attributable to the shareholders	1,012,039	511,252
Weighted average number of shares for the year (expressed in thousands)	111,991	107,903
Adjusted basic earnings per share (QR per share)	9.04	4.74
<b>29. Contingent liabilities and commitments</b>		
<b>a) Contingent liabilities</b>	<b>2006</b>	<b>2005</b>
Istisna commitment	2,013,744	700,682
Unused facilities	182,237	197,707
Acceptances	48,922	34,928
Guarantees	824,336	817,969
Letters of credit	315,056	371,260
<b>Total</b>	<b>3,384,295</b>	<b>2,122,546</b>
<b>b) Commitments</b>		
Investment portfolios (Note 31)	680,340	735,928
Restricted investment balances (Note 32)	49,608	30,877
Operations cover against foreign currencies	993,963	283,740
<b>Total</b>	<b>1,723,911</b>	<b>1,050,545</b>

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

## 30. Geographical distribution of assets and liabilities

The Group's assets and liabilities can be summarised by geographical area as follows:  
As at 31 December 2006

	Qatar	GCC	Europe	North America	Others	Total
<b>Assets</b>						
Cash and balances with central banks	400,449	-	-	-	-	400,449
Due from and investments with banks and financial institutions	2,460	3,745,274	22,469	20,768	52,430	3,843,401
Due from financing activities	6,735,575	310,872	26,236	-	83,324	7,156,007
Financial investments	844,695	626,722	248,255	4,046	203,580	1,927,298
Other investments	302,327	-	714,097	-	-	1,016,424
Fixed assets	107,880	-	-	-	-	107,880
Other assets	437,057	-	-	-	-	437,057
<b>Total assets</b>	<b>8,830,443</b>	<b>4,682,868</b>	<b>1,011,057</b>	<b>24,814</b>	<b>339,334</b>	<b>14,888,516</b>
<b>Liabilities</b>						
Current account with banks and financial institutions	1,056,132	56,222	-	-	34,888	1,147,242
Customers' current accounts	2,363,719	-	-	-	-	2,363,719
Payable to unrestricted investment accounts	52,968	-	-	-	-	52,968
Other liabilities	621,366	-	-	-	-	621,366
<b>Total liabilities</b>	<b>4,094,185</b>	<b>56,222</b>	<b>-</b>	<b>-</b>	<b>34,888</b>	<b>4,185,295</b>
<b>Unrestricted investment accounts</b>	<b>6,369,081</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,369,081</b>
<b>Minority interest</b>	<b>79,602</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>79,602</b>
<b>Shareholders' equity</b>						
Share capital	1,193,400	-	-	-	-	1,193,400
Legal reserve	1,870,707	-	-	-	-	1,870,707
General reserve	90,215	-	-	-	-	90,215
Risk reserve	51,073	-	-	-	-	51,073
Fair value reserve	52,173	-	-	-	-	52,173
Proposed cash dividends	835,380	-	-	-	-	835,380
Retained earnings	161,590	-	-	-	-	161,590
<b>Total shareholders' equity</b>	<b>4,254,538</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,254,538</b>
<b>Total liabilities, unrestricted investment accounts, minority interest and shareholders' equity</b>	<b>14,797,406</b>	<b>56,222</b>	<b>-</b>	<b>-</b>	<b>34,888</b>	<b>14,888,516</b>

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

## 30. Geographical distribution of assets and liabilities (continued)

The Group's assets and liabilities can be summarised by geographical area as follows:

As at 31 December 2005

	Qatar	GCC	Europe	North America	Others	Total
<b>Assets</b>						
Cash and balances with central banks	514,525	-	-	-	-	514,525
Due from banks and Islamic financial institutions	8,376	988,118	163,826	5,418	1,186	1,166,924
Due from financing activities	5,866,500	39,971	19,152	-	47,279	5,972,902
Financial investments	597,042	317,550	61,770	4,046	86,821	1,067,229
Other investments	262,898	-	221,128	-	-	484,026
Fixed assets	60,888	-	-	-	-	60,888
Other assets	285,062	-	-	-	-	285,062
<b>Total assets</b>	<b>7,595,291</b>	<b>1,345,639</b>	<b>465,876</b>	<b>9,464</b>	<b>135,286</b>	<b>9,551,556</b>
<b>Liabilities</b>						
Current account with banks and financial institutions	186	25,838	-	-	-	26,024
Customers' current accounts	2,212,422	-	-	-	-	2,212,422
Payable to unrestricted investment accounts	51,845	-	-	-	-	51,845
Other liabilities	454,714	-	-	-	-	454,714
<b>Total liabilities</b>	<b>2,719,167</b>	<b>25,838</b>	-	-	-	<b>2,745,005</b>
<b>Unrestricted investment accounts</b>	<b>4,653,808</b>	-	-	-	-	<b>4,653,808</b>
<b>Minority interest</b>	<b>56,957</b>	-	-	-	-	<b>56,957</b>
<b>Shareholders' equity</b>						
Share capital	663,000	-	-	-	-	663,000
Legal reserve	677,307	-	-	-	-	677,307
General reserve	90,215	-	-	-	-	90,215
Risk reserve	33,356	-	-	-	-	33,356
Fair value reserve	126,809	-	-	-	-	126,809
Proposed bonus shares	331,500	-	-	-	-	331,500
Proposed cash dividends	165,750	-	-	-	-	165,750
Retained earnings	7,849	-	-	-	-	7,849
<b>Total shareholders' equity</b>	<b>2,095,786</b>	-	-	-	-	<b>2,095,786</b>
<b>Total liabilities, unrestricted investment accounts, minority interest and shareholders' equity</b>	<b>9,525,718</b>	<b>25,838</b>	-	-	-	<b>9,551,556</b>

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

### 31. Investment portfolios

As disclosed in note 2 (n) the Group manages the following investment portfolios, which are invested on behalf of customers:

	2006	2005
Bader Fund 2	4,743	20,815
Bader Fund 3	14,163	14,163
Bader Fund 4	-	32,170
Bader Fund 5	57,326	51,726
Bader Fund 6	-	125,004
Al Rayyan Fund 2	460,971	415,239
Solidarity Fund	66,703	60,224
Al-Basha'er GCC Equity Fund	-	16,587
Deutsche Telecom	76,434	-
<b>Total</b>	<b>680,340</b>	<b>735,928</b>

### 32. Restricted investment balances

	2006		
	Balance	Average profit rate	Bank's share
<b>Type of Investment</b> Investment in commodities	49,608	4.06%	156
	2005		
	Balance	Average profit rate	Bank's share
<b>Type of Investment</b> Investment in commodities	30,877	4.48%	167

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

### 33. Related party transactions

The Group has transactions in the ordinary course of business with directors, officers of the Group and entities of which they are principal owners. At the balance sheet date, such significant balances included:

#### Balance sheet items

Financing

Deposits

Contingent liabilities, guarantees and other commitments

#### Statement of income items

Fee and commission

Profit paid on deposits

	2006		2005	
	Directors	Subsidiaries & Affiliates	Directors	Subsidiaries & Affiliates
Financing	310,076	477,000	146,486	258,000
Deposits	62,551	59,917	54,525	41,653
Contingent liabilities, guarantees and other commitments	83,901	301	64,459	-
Fee and commission	-	64,846	-	66,634
Profit paid on deposits	1,017	888	559	1,520

All the transactions with related parties are substantially on terms comparable with those relating to transaction with other customers.

During the year key management remuneration which includes salaries and other benefits

	2006	2005
	8,311	3,655

### 34. Cash and cash equivalents

Cash and cash equivalents do not include balance on reserve account with Qatar Central Bank and comprise the following balances with less than 90 days maturity:

Cash and current account with central banks

Due from and investments with banks and financial institutions

**Total**

	2006	2005
Cash and current account with central banks	163,129	332,764
Due from and investments with banks and financial institutions	3,720,493	1,134,164
<b>Total</b>	<b>3,883,622</b>	<b>1,466,928</b>

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

<b>35. Parent company</b>		
The balance sheet of the parent company is presented below:		
	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Cash and balances with central banks	399,520	513,719
Due from and investment with banks and financial institutions	3,843,401	1,165,757
Due from financing activities	7,039,293	5,986,851
Financial investments	1,965,024	1,068,570
Other investments	958,029	360,865
Fixed assets	83,332	49,789
Other assets	271,899	240,777
<b>Total assets</b>	<b>14,560,498</b>	<b>9,386,328</b>
<b>Liabilities, unrestricted investment accounts and Shareholders' equity</b>		
Current accounts with banks and financial institutions	1,145,689	25,838
Customers' current accounts	2,363,719	2,212,703
Payable to unrestricted investment accounts	52,967	51,845
Other liabilities	382,933	316,985
<b>Total liabilities</b>	<b>3,945,308</b>	<b>2,607,371</b>
<b>Unrestricted investment accounts</b>	<b>6,428,402</b>	<b>4,688,869</b>
<b>Shareholders' equity</b>		
Share capital	1,193,400	663,000
Legal reserve	1,856,400	663,000
General reserve	79,485	105,853
Risk reserve	51,073	33,356
Fair value reserve	52,173	119,794
Proposed bonus shares	-	331,500
Proposed cash dividend	835,380	165,750
Retained earnings	118,877	7,835
<b>Total shareholders' equity</b>	<b>4,186,788</b>	<b>2,090,088</b>
<b>Total liabilities, unrestricted investment accounts and Shareholders' equity</b>	<b>14,560,498</b>	<b>9,386,328</b>

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

The statement of income of the parent company is presented below:

	2006	2005
<b>Income</b>		
Income from financing activities	580,461	480,577
Profit on investing activities	441,106	296,153
Total income from financing and investment activities	1,021,567	776,730
Commission and fees income	429,598	45,845
Commission and fees expenses	(10,428)	(9,261)
Net income from commission and fees	419,170	36,584
Gain/(Loss) from foreign exchange operations	2,205	(2,683)
Other operating income	17,681	434
<b>Operating income</b>	<b>1,460,623</b>	<b>811,065</b>
<b>Expenses and provisions</b>		
General and administrative expenses	(151,951)	(102,367)
Depreciation of fixed assets	(10,466)	(10,328)
Provision for impairment of receivables and financing activities	(69,990)	(46,633)
Other investment provision	(602)	(917)
Recovery from properties acquired against settlement of debts	-	11,479
Other provisions	-	(6,075)
Other operating expenses	(1,849)	(3,943)
<b>Net operating profit</b>	<b>1,225,765</b>	<b>652,281</b>
Non operating income	1,544	1,320
<b>Net profit for the year</b>	<b>1,227,309</b>	<b>653,601</b>
Less:		
Unrestricted investment account holder's share of profit	(257,971)	(141,030)
<b>Net profit for the year attributable to shareholders</b>	<b>969,338</b>	<b>512,571</b>

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

### 35. Parent company (continued)

The cash flow of the parent company is presented below:

	2006	2005
<b>Cash flow from operating activities</b>		
Net profit for the year before share of profit for unrestricted investment account holders	1,227,309	657,740
<b>Adjustments for:</b>		
Depreciation on fixed assets	10,466	10,328
Depreciation provision for other investments	602	917
Provision for impairment of receivable and financing activities	69,990	46,633
Provision for financial investments	83,576	2,728
Provision for other investments	-	(2,600)
Share of profit from associate	(781)	-
Provision for other assets	(17,681)	(11,479)
Provision for staff indemnity and pension fund	11,058	4,335
Profit on sale of fixed assets	(120)	(1,337)
Profit on sale of financial investments	(84,876)	(139,697)
Profit on sale of other investments	(161,029)	(80,973)
Other provision	-	6,075
<b>Net operating profit before changes in operating assets and liabilities</b>	<b>1,138,514</b>	<b>492,670</b>
<b>Net decrease/(increase) in assets:</b>		
Balances with banks and financial institutions	(90,148)	(32,760)
Reserve with Qatar Central Bank	(55,559)	(28,028)
Due from financing activities	(1,122,432)	(1,673,453)
Other assets	(13,441)	(108,123)
<b>Net increase/(decrease) in liabilities:</b>		
Current account with banks and financial institutions	1,119,851	5,322
Customer current accounts	151,016	848,031
Other liabilities	58,661	(10,322)
	<b>1,186,462</b>	<b>(506,663)</b>
Payment for staff indemnity	(1,474)	(2,506)
Payment for pension fund	(2,298)	(1,140)
Payments to unrestricted investment account holders	(256,848)	(98,488)
<b>Net cash from (used in) operating activities</b>	<b>925,842</b>	<b>(608,797)</b>

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

Amounts expressed in thousands of Qatari Riyals

	2006	2005
<b>Cash flow from investing activities</b>		
Purchase of financial investments	(1,405,723)	(706,879)
Proceeds from sale of financial investments	416,582	834,347
Purchase of other investments	(915,428)	(499,519)
Proceeds from sale of other investments	478,691	236,657
Purchase of fixed assets	(44,085)	(4,227)
Proceeds from sale of fixed assets	196	9,838
<b>Net cash used in investing activities</b>	<b>(1,469,767)</b>	<b>(129,783)</b>
<b>Cash flow from financing activities</b>		
Increase in share capital	1,392,499	-
Increase in unrestricted investment accounts	1,739,533	195,199
Dividend distributed	(165,750)	-
Directors remuneration paid	(5,400)	(3,482)
<b>Net cash from financing activities</b>	<b>2,960,882</b>	<b>191,717</b>
Net increase/(decrease) in cash and cash equivalents	2,416,957	(546,863)
Cash and cash equivalents - Beginning of the year	1,464,955	2,011,818
<b>Cash and cash equivalents - end of the year</b>	<b>3,881,912</b>	<b>1,464,955</b>

## 36. Comparative figures

Certain corresponding figures have been reclassified to conform to the current year presentation.