

2007 Annual Report



المصرف

إلتزام بالريادة
Committed to leadership

QIB
Grand Hamad Street
P.O. Box 559, Doha, Qatar
www.qib.com.qa



Contents

Vision, Mission, Values, Strategy	5	Real Estate Department	39
Board of Directors	7	Partner in Society	41
Shari'a Advisory Board and Shari'a Executive Committee	8	Rating & Awards	43
Senior Management	9	QIB Share Value at DSM	45
Chairman's Message	11	Financial Highlights	47
Statement of the Shari'a Control Board	13	Key Performance Indicators	48
CEO's Message	15	Independent Auditors' Report	50
Retail Banking	21	Consolidated Balance Sheet	51
Corporate Financing & Private Banking	23	Consolidated Statement of Income	52
Domestic Investments	25	Consolidated Statement of Changes in Shareholders' Equity	53
Global Investments	27	Consolidated Statement of Cash Flows	54
Finance Group	29	Notes to the Consolidated Financial Statements	55
Investment Banking & Development	31	Head Office & Branches	84
Risk Group	35		
Projects Group	37		





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



His Highness
Sheikh Tamim Bin Hamad Al-Thani
Heir Apparent



“ Established in 1982, QIB, an Islamic bank of global stature, has been leading the Islamic banking industry for over 25 years. ”



Vision, Mission, Values, Strategy

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

Strategy

- To enhance our impeccable reputation in the Islamic financing services industry and maintain a pioneering presence in the local, regional and international markets.
- To satisfy the aspirations of our clients by offering innovative Islamic banking solutions.
- To continue to develop our operations in a manner that yields maximum returns for our partners, investors and shareholders.
- To encourage the professional development of our employees, and develop a very efficient and productive workforce.
- To utilize the latest technical know-how to upgrade the scope and efficiency of our operations and services.
- To enhance the geographical reach of our products and services by ensuring that our product base satisfies the needs and aspirations of all demographic and economic customer profiles.
- To achieve new strategic alliances and accomplish both horizontal and vertical expansion of our activities.



Board of Directors



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



**Mr. Mohammad Bin
Abdullatif Al Mana**
Vice-Chairman



**Mr. Abdullatif Bin Abdulla
Al Mahmmod**
Managing Director



**Mr. Issa R. Al Rabia
Al Kuwari**
Director



**Mr. Mohamed Bin Issa
Al Mohanadi**
Director



**Mr. Abdul Rahman
Abdulla Abdul Ghani**
Director



Mr. Mansour Al Muslah
Director



Mr. Abdulla Bin Saeed Al Eidah
Director



Mr. Nasser Rashid S. Al-Kaabi
Director

Shari'a Advisory Board and Shari'a Executive Committee

Shari'a Advisory 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
Member

His Eminence Sheikh Nizam Mohd. Yacoubi
Member

Senior Management



Salah Jaidah
Chief Executive Officer (CEO)



Ahmed Karrar
General Manager
Operations & IT



Murtada Khidir
General Manager
Financial Group



Jean-Marc Riegel
General Manager
Investment Banking
& Development Group



Syed Maqbul Qader
Group Chief Risk Officer



Choudhry Mohammed Wasi
General Manager, Projects



Salah Al-Hail
General Manager, Real Estate



Chairman's Message

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

On behalf of the Board of Directors of QIB, I have immense pleasure to present to you our annual report for the year 2007, which highlights our key operational and financial achievements and outlines our plans for the coming year.

During the last year, the Bank achieved many notable landmarks. Prominent among them is the strong regional and international presence that we have accomplished by establishing many financial institutions and banks in various markets. The Bank, through its cooperation and collaboration with leading international financial institutions specialized in financing and investment activities, has successfully multiplied its investments in both regional and international markets. QIB continues to offer a wide range of real estate investment funds in various markets around the world. During the year we joined hands with national corporations and investment banks and acquired an 80% stake in 'Shard of Glass' tower, a strategic project in one of London's elite commercial districts.

The Bank has also successfully accomplished its re-structuring process and has welcomed many experienced banking professionals to its team. Pronounced emphasis is being placed on the development of a world-class IT structure that would offer absolute convenience and flawless security. Plans are presently underway to introduce Internet banking for the convenience of our customers. Today we have an extensive branch network of 23 branches spread all over Qatar.

During 2007 we jointly financed many major real estate and industrial projects in the State of Qatar in collaboration with leading banks and financing institutions. We also extended our financing services to a wide range of individuals and small-scale projects.

International rating agencies continue to raise our financial ratings to higher levels, which is a true reflection of our commitment to a solid banking structure that adheres to the highest international standards. During the year Fitch raised our rating to A-.

The year 2008 will be the first year of our new five-year strategic plan that spans till year 2012. The major strategic directives of this plan are to maintain our pioneering presence in the local, regional and international markets and constantly develop our operations in a manner that results in maximum returns for partners, investors and shareholders.

Moreover, it is highly essential to achieve new strategic alliances and accomplish both horizontal and vertical expansion of our activities.

On the other hand, encouraging the professional development of our employees and developing a very efficient and productive workforce is among our top priorities.

Finally, we aim to enhance the geographical reach of our products and services by ensuring that our product base satisfies the needs and aspirations of all demographic and economic customer profiles.

The exemplary financial results that we posted during year 2007 stands testimony to the fact that our plans and strategies are proceeding in the right direction. During the year our assets recorded a phenomenal growth of 43.3% and increased to QR 21.3 billion and our net profit increased by a whopping 25% to reach QR 1.25 billion.

In the light of these outstanding results and keeping in line with our commitment to reward our shareholders with the best possible returns, the Board of Directors are placing a recommendation before the General Assembly to distribute a 20% cash dividend and 50% bonus shares (one free share for every two shares) to the shareholders. We are also planning to increase our capital by 20% through public subscription during 2008 (10%) and 2009 (10%).

In conclusion, I would like, on behalf of the board of directors, to extend our deepest gratitude to H.H. Sheikh Hamad Bin Khalifa Al Thani, Emir of the State of Qatar and H.H. Sheikh Tamim Bin Hamad Al Thani, 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 for all their support and guidance. We would like to thank all our customers, investors and shareholders for their continued trust and loyalty.

We would also like to extend our gratitude to the Shari'a Control Board, the Senior Management and to all the employees for their contribution and commitment to the ongoing success of the Bank.

May Allah, the supreme, the omnipotent lead us to deeds that deserve His satisfaction.

Jassim Bin Hamad Bin Jassim Bin Jabr Al Thani
Chairman

Statement of the Shari'a Control Board

for the Bank's operations during 2007

Praise be to Allah, Lord of the Lords, Prayers and Peace be Upon Our Master Muhammad, the Messenger of the Divine Mercy and Upon His Companions and Followers.

The Shari'a Control Board (S.C.B.) of Qatar Islamic Bank has revised the contracts referred to it, replied to the inquiries submitted to it by The Management and, participated in finding solutions to the practical difficulties that might have arisen upon implementation.

It has also, through its Executive Committee and Shari'a Audit Dept., ensured direct supervision over the bank's activities and got satisfied as to the proper execution of its resolutions.

Accordingly, the Shari'a Control Board believes that the transactions referred to it were conform to the Shari'a Board' standards in general. Errors that eventually might have happened during implementation were adjusted. SCB has further reviewed the bank's financial statements and Profit & Loss Account. It believes these are compatible with Islamic Shari'a principles.

The Shari'a Control Board confirms however, that answerability for applying the Shari'a norms and controls lies mainly on the bank's Management; as S.C.B's liability is limited to the Giving Fatwas and reviewing

the transactions referred to it, whether directly or through Shari'a Audit Dept. within latter's competences.

The Shari'a Control Board would like on this occasion to extend it's thanks to the Bank's executives and prays Allah, the Almighty, to give them His support to serve Islamic Economy, bless Shareholders and customers' wealth, and inspire us all sincerity in words and deeds.

"Praise be to Allah"

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

Sheikh Walid Ben Hadi
Head of SCB's Executive Committee

Prof. Dr. Abdul Sattar Abou Ghoddah
Member SCB's Executive Committee

Sheikh Nizam Ya'coubi
Member SCB's Executive Committee

Sheikh Abdul Qader Al Ammari
Member

Dr. Ali Al Mohammadi
Member



CEO's Report

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

Global Economy

During 2007, the global economy was mainly influenced by a remarkable increase in the prices of oil and precious metals, the mortgage crisis in the USA and the extended recess in Dollar rates. The enhanced protective measures in Europe and USA and the tendency of the international trade balance to favour developed countries also had an impact on the global economy. The IMF report indicates that during 2007 the global economy witnessed a growth rate of 5.2%; thanks mainly to China (11.5%), India (9%) and Russia (7.5%). On the other hand, Japan, the Euro region and the USA (2.25%) witnessed slower growth rates.

National Economy

In spite of the turmoils in the global economy, the national economy posted remarkable gains during 2007; mainly due to the increase in oil prices and a sound economic and financial reform policy that has enhanced the country's investment environment and has generated an economic boom. This is quite evident in the 12.5% GDP growth the economy experienced. At the end of 2007 the GDP had reached QR 232.4 billion compared to QR 206.6 billion in 2006.

The Qatari economy is expected to maintain its strong performance in the coming three years, with an annual growth rate in excess of 15%. The official plans to triple the State's LNG production to 77 million MT by 2011 will be a significant contributor in this regard. Qatar also posted a per capital income of QR 58,400 p.a. and the individual share in the country's GNP is expected to reach QR 75,000 in 2008, four times its level in 1998.

The future looks even more promising. Qatar is presently concentrating on diversifying its income resources and globalizing its financial activities by investing in international sovereign funds and large

financial organisations. Qatar has already announced its intention to invest around US\$ 15 billion in European banks in the coming two years. National companies like Qatargas, RasGas, Qatari Diar, Barwa, Qatar Airways, and QIB have today extended their presence to international markets. This has contributed positively to the national exchequer. The Government's development plans also cover the financial sector (through Qatar Financial Centre (QFC)), healthcare, education, energy/science & technology cities (currently under construction) and international conferences, among a host of others. This reflects its efforts to transform Qatar into a full-fledged international destination.

The Qatari banking sector maintained an impressive growth trend for the third consecutive year. At the end of 2007, the Total Assets of the banking sector had exceeded QR 244.4 billion (QIB share: 9%), Deposits had reached QR 161 billion and Financing touched QR 143.2 billion. The national banks are presently adopting an expansion trend, under the umbrella of Qatar Central Bank (QCB), with the aim of fostering a better banking environment.

Islamic Banking

Islamic Banking continues to maintain an impressive growth rate in both local and international markets, and has now expanded its reach to over 75 countries. Besides the 250 investment funds, around 300 Islamic banks and financial establishments today collectively manage approx. US\$ 300 billion worth of investments. Demand for Islamic banking products is expected to reach approx. US\$ 4 trillion within the next 5 years. Sukuk (Islamic bonds), the latest innovation in mega-project financing, has lately peaked to a turnover of around US\$ 82 billion, and is expected to exceed US\$ 150 billion in the next three years.

During 2007 Islamic banking made significant strides in Qatar, with the launch of new banks and the introduction of 'Islamic Banking Windows' by conventional banks. Islamic banks today have a 17% (QR 41.5 billion) market share in the total assets of the Qatari banking sector. QIB is the clear front-runner among the Islamic banks in Qatar with a 51.4% market share. It also holds a 9% market share in the Qatari banking sector.

QIB has always assumed a leading role in supporting the national economy, mainly by financing public and private sector projects. During 2007 the Bank witnessed a whopping 63% growth in its financing portfolio. QIB is also considered to be the first property and infrastructure project financier. The Bank continues to play a very active role in developing the banking sector by expanding its activities through a well-spread branch network that covers the entire country.

New Corporate Identity

In mid-2007, QIB launched its new corporate identity that clearly states the vision, mission and values that will guide all its future operations.

Our vision is to be 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.

On the other hand, our mission is to provide innovative Shari'a-compliant financial solutions and quality services to our customers, to maximize returns for our shareholders and partners and to nurture an internal environment of qualified professionals and cutting-edge technology.

Our values are: Integrity, Transparency, Justice, Cooperation and Teamwork, Loyalty and Commitment and Excellence

Financial Highlights

QIB continued to maintain its momentum of growth of the past two years and realised exceptional growth on all items in its balance sheet. The following financial highlights are a true reflection of this phenomenal growth.

- Net profit increased to QR 1.255 billion compared to QR 1.003 billion in 2006 (25% growth).
- Assets reached QR 21.3 billion compared to QR 14.9 billion at the end of 2006 (43% growth).
- Deposits increased from QR 8.787 billion in 2006 to QR 12.201 billion in 2007 (39% growth).
- Financing recorded a 63% growth - from QR 7.156 billion in 2006 to QR 11.679 billion in 2007.
- Investments increased to QR 4.203 billion compared to QR 2.944 billion in 2006 (43% growth).
- Net Operating Income reached QR 1.694 billion against QR 1.532 billion recorded in 2006.
- Total Equity increased from QR 4.246 billion in 2006 to QR 4.629 billion, with a 31.2% return on shareholders' equity.
- Return on Assets (ROA) realised an impressive 6.9%.
- Earnings per share reached QR 10.52 compared to QR 8.95 in 2006.
- The Bank realised a Capital Adequacy Ratio of 20%, whereas the regulatory limit is only 10%.

Four-Year Term Highlights

The financial growth of the Bank over the past four years not only reflects unprecedented record growth rates compared to its last 25 years of operation, but also rates it as one of the best results realised by any national, regional or international bank as indicated in the following table:

Description	Average Growth over the Period 2004-2007	2007 compared to 2004
Equity	82%	209%
Net Profit	74%	327%
Capital	69%	206%
Assets	40%	176%
Financing & Investments	39%	197%
Deposits	26%	110%
Earnings per Share	43%	130%

Stock Performance

- With an outstanding performance (over 50%) during the period January to December 2007, the Bank's stocks proved to be one of the best performers in the local banking sector, and consolidated its position at both local and international levels.
- In terms of ranking, QIB was the second best performer among all listed negotiable stocks in December 2007, with a total transaction value of QR 1.2 billion.
- The aggregate value of its negotiated stocks in Doha Securities Market (DSM) during 2007 amounted to QR 6,947,923,801.20 for 57,679,614 stocks (6.4% of DSM's total negotiated share value).
- The earnings per share increased by 18% to reach QR 10.52 compared to QR 8.95 in 2006.

Financing & Investment

In 2007, the Financing & Investment sector of QIB maintained a solid growth rate. The Bank's domestic financing portfolio recorded an impressive growth of

63%. The Bank continues to develop innovative financing tools in order to meet the increasing demand for Islamic financing products in this ever-growing domestic economy.

Featured below are some of our major financing projects in 2007:

- **Al Wa'ab City Project** – QIB was the Lead Arranger and Custodian Agent. The approx. US\$ 3.5 billion financing of this project was the first of its kind in Qatar, as it was performed utilising Islamic banking exclusively.
- **Airbus A340-600** – For the first time Qatar Airways employed the Islamic mode of financing to acquire an aircraft using Ijara tool.
- **Qanat Quartier Project** – QIB participated in the establishment of a US\$ 600 million closed investment fund that was created for developing the water channel, which would be used only according to Shari'a norms. QIB is the Financier and Investment Agent.
- **Salam Bounian Sukuk** – QIB was the Arranger and Investment Agent along with primary partners, for issuing US\$ 150 million Sukuk to Salam Bounian Co. for financing the Gate project in West Bay, Doha.
- **Qatar Electricity & Water Co.** – We participated in arranging project financing facilities for Qatar Electricity & Water Co. (QEWC).
- **Real Estate** – We provided financing facilities worth approx. QR 3.5 billion for the construction of a number of towers and compounds.

Domestic Investments

Al Jazeera Islamic Co. – Further to the restructuring process, QIB acquired 30% shares and increased the number of shareholders to 10 and realised QR 330 million profit in this operation.

International Investments

During 2007 QIB recorded a significant increase in its international investments as illustrated below:

- The inauguration of Asian Finance Bank in Malaysia with a capital of US\$ 100 million. AFB marks the beginning of QIB's investment activities in this region, which is expected to cover Indonesia, Brunei and Singapore in the near future.
- The inauguration of QINVEST with a paid-up capital of US\$ 500 million (Declared: US\$ 1 billion). This new Islamic investment bank will operate from Qatar Financial Centre (QFC).
- QIB has received the license to operate European Finance House (EFH) in the UK. EFH, with a capital of £ 25 million, will act as a gateway to the European market.
- The acquisition of 20% stake in the 'Shard of Glass' tower in London. QIB led a group of Qatari investors (incl. QINVEST, QNB and Barwa Property Investment Co.) to acquire the remaining 80% of this £ 2 billion worth project.
- Moreover, feasibility studies are being conducted for opening finance houses in Europe, Middle East and GCC.

Funds & Portfolios

During 2007 the Bank's International Investment Division achieved outstanding success, mainly due to the prudent investment policies adopted by its Funds & Portfolios Department, and the precise selection of international partners.

Major Achievements of the International Investment Division

- Profit exceeded the targeted goals, reflecting the successful investment strategy of the Division.

- Completed the first stage of a prospectus for an income-generating sukuk investment in the European real estate sector. The Islamic structure of this investment and the investment privileges it offers to partners makes it a first-of-its-kind investment opportunity.
- The Bank's property investment funds/portfolios maintained a stable growth of 8% p.a. These funds/portfolios collectively manage properties worth around € 2 billion.
- We have listed the Sanabel Investment Funds (A&B) – a fund dedicated to companies engaged in Shari'a-compatible activities – on Doha Securities Market.

Banking Services

During 2007, QIB adopted a comprehensive plan aimed at developing its present products and services and introducing innovative services in order to satisfy the increasing demand for Islamic financial services. In this regard, the Bank undertook the following steps:

- Introduced new retail banking and financing products.
- Expanded its ATM network to 92 units.
- Achieved a 15% increase in Shari'a-compatible credit cards.
- Successfully accomplished the Smart Cards project.
- Enhanced the role of the Bank's Call Centre.

Expansion of Branch Network

During 2007, the Bank undertook significant steps aimed at developing and expanding its branch network. The electronic links of the network were enhanced and two new branches (Al Yarmouk and City Center-Doha) were opened bringing the total number of branches to 20, thereby inching closer to its five-year target of 35 branches. The Bank has also opened an exclusive branch for corporate and private banking services.

Human Resources

During 2007 the Human Resources Department undertook many important initiatives. One of the major achievements of the Department was the successful implementation of the new employee by-law, which resulted in radical changes in various groups and divisions in the Bank, revised the remuneration structure of employees in order to relieve them from the consequences of the rising inflation rates and improved the working conditions.

The Bank organised 25 training courses in its premises for 411 employees and 50 employees were sent abroad to attend specialised courses. Various training programmes were arranged in co-ordination with specialised local and foreign institutions in order to ensure that the Bank's employees are kept abreast of the latest international banking trends. In 2008 we expect to achieve a 25% increase in employees attending training programmes. Currently, Qataris represent 25% (600+) of our total workforce.

International Banking

Today, we have an extensive correspondent banking network that spans around 69 countries and fulfils our customers' needs for remittance services and international trade transactions.

We also offer banking transactions in Qatari Riyals and other currencies to more than 312 banks worldwide.

Ratings/Awards

The phenomenal achievements we realised in our banking, financing and investment operations, in combination with the expansion programmes we introduced to our local network and affiliated finance

houses, fetched us the following ratings and awards from international agencies:

- 'A-' rating from Fitch and Capital Intelligence.
- 'Best Real Estate Finance House' award by Euromoney.
- Selected as the 'Most Improved Islamic Institution' by Euromoney.
- 'Best Re-branding of an Islamic Bank' and 'Best Advertising Campaign in Islamic Business & Finance' awards.
- Selected by Arabian Business magazine as one among the top 50 companies in the GCC region.

Establishment of New Groups

Further to the restructuring programme that we undertook at the Bank, new groups were established and existing ones were upgraded. The main aim of the restructuring process was to ensure that the Bank is competent enough to cope with the requirements of its expansion programmes and to ensure the prevalence of a highly professional administration capable of managing the Bank's banking, financing and investment operations.

The main aim of the newly established Banking, Investment & Development Group will be to transform the Bank into a leading Islamic banking organisation at the local, regional and international levels. This can be achieved by focusing on mega-project financing, by further consolidating the Bank's presence in international markets through its network of finance houses viz. QINVEST (under QFC), Arab Finance House (Lebanon), Asian Finance Bank (Malaysia) and European Finance House (London), and by establishing new finance houses in other countries.

Salah Jaidah

Chief Executive Officer



“ A highly skilled, flexible and committed work force, a flexible and innovative management, the ability to retain developed talent, and a strong partnership between management and employees are the key drivers of our success story. ”



Retail Banking

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

Our retail banking division specialises in providing an array of comprehensive, distinctive, and competitive services that meet the highest industry standards and offer the greatest customer satisfaction.

Our scope of retail banking services include:

- An integrated service covering all banking accounts.
- Retail financing facilities that facilitate the purchase of cars, furniture, homes, air tickets, and other individual needs.
- State-of-the-art electronic banking service including credit cards, ATMs, e-banking, SMS banking and 24x7 Call Centre.
- Country-wide banking coverage through a well-spread branch network of 20 branches that is expected to be expanded to 35 branches within a few years.
- Worldwide remittance services through a selected group of correspondent banks.
- Innovative and extensive product range that satisfies the ever-evolving customer needs.
- Adherence to the highest quality standards in order to achieve 'total customer satisfaction'.
- Constant upgrading of our employees' skills in order to keep pace with the latest developments in banking and finance.



“Financial establishments figure prominently in Qatar’s efforts to develop an infrastructure that keeps pace with the anticipated sizeable growth in the country’s economy.”



Corporate Financing & Private Banking

The boom presently experienced by the Qatari economy has resulted in a large number of companies commencing their operations in Qatar. This has placed an increased demand on corporate banking, financing, and investment services.

Our vision is to be identified as the 'Premier Provider' of best-in-class Islamic financial solutions in the local market.

On the other hand, our mission is to exceed customer expectations by providing an efficient value proposition that encompasses a comprehensive Shari'a compliant product suite combined with the delivery of high quality service.

To maintain its leading position among local Islamic banks and exercise authoritative leadership in its areas of competitive advantage, such as trade finance and project finance.

To establish and maintain an organisation that upholds the Islamic Shari'a principles.

To ensure sustainable growth and return on investment in order to maximize shareholder value.

QIB extends competent corporate banking services through its specialised departments. Each department specialises in handling 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 the 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 that includes governmental and semi-governmental projects, private construction projects and commercial property projects; and the Industrial Services Companies that deal with transportation & communications, health services, sports, water & electricity and trade financing.

Finally, we have the Private Banking department that was established as the first of its kind in Qatar in 1995, as QIB has always endeavoured to offer high quality banking services to its high net worth customers.

The Department ensures that our elite customers enjoy the highest level of privacy and confidentiality. A qualified team of professionals are entrusted with the responsibility of managing their accounts and identifying the most appropriate low-risk investments for their deposits. We also offer an integrated range of banking solutions for all their requirements.

The Private Banking Department offers a free Mobile Banking Service to our corporate customers, in order to relieve their representatives from the hassles of money transfers and the risks involved in handling large amounts of cash or documents of high value/confidentiality.



“ The Qatari economy achieved remarkable gains in 2007, thanks to the economic and financial reform policy that enhanced the country’s investment environment and generated an economic boom. ”



Domestic Investments

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.



Established in 1989, Al Jazeera Islamic Co. is jointly owned by QIB (30%) and other institutions such as Qatar Insurance Company (QIC) and QNB.

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.

Sanabel Funds: QIB established the Sanabel A and B series of funds with a capital of QR 2 billion in order to invest in Shari'a-compliant shares. The fund is expected to realise outstanding returns.



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.



Licensed in May 2007 with a declared capital of US\$ 1 billion and a paid-up capital of US\$ 500 million, QINVEST is the largest financial establishment to commence operations in Qatar Financial Centre (QFC). QIB played a key role in establishing QINVEST and holds a 25% stake in the Company. Gulf Finance House has a 15% stake and a group of strategic partners (both corporates and individuals) hold the remaining 65% shares.

Dhow Gulf Opportunities Fund (DGOFF): QIB, QINVEST and Silver Leaf Capital (SLC) jointly established the Shari'a-compliant DGOFF with a capital of US\$ 1 billion. It is the first fund in Qatar to be operated in line with international private equity standards. The fund will be managed by the Doha-based Dhow Investors Advisor company (DIA). It aims to attract foreign investments to the region, in general and Qatar, in particular.



“ We take a concentrated effort in achieving new strategic alliances to accomplish international expansions, horizontally and vertically. ”



Global Investments

QIB has a long-term strategic vision for investments. The Bank considers its regional and international surroundings as one consolidated unit, as it strongly believes that in this era of globalization Banks have to expand their operations beyond their existing geographical boundaries if they have to surpass the challenges of globalization. The Bank has thus adopted an international expansion strategy and has identified certain regional and international markets for its international investments. This will also ensure a visible international presence for the Bank.

QIB has, so far, established the following finance houses in various markets around the world:



Arab Finance House was established in 2004 by a group of strategic partners from Qatar and other GCC countries with a capital of US\$ 100 million. AFH is the first full fledged Islamic bank (commercial and investment) in Lebanon. It offers a wide range of corporate and retail banking services based on the Islamic Shari'a principles. It also serves the banking requirements of Qataris and other GCC nationals who travel to Lebanon for investment, economic, tourism, educational or healthcare purposes.



Asian Finance Bank was established in Malaysia during the end of March 2007 by QIB (70%), Rasd Bank (20%) and Global (10%). AFB is considered to be QIB's gateway to the lucrative Asian market. It specialises in mega investments and corporate financing in Malaysia and in the neighbouring countries which have investment links with the GCC countries and aims to expand its operations to Indonesia and Brunei in the near future.



European Finance House was provided with the license to operate in the UK by the British Financial Services Authority (FSA) in the beginning of 2008. It signifies QIB's entry into the European market, in general, and into the French and German markets, in particular. EFH will manage a wide range of investments in key sectors such as real estate and appropriation of assets, and will extend banking and investment services to the Muslim community in Europe, from whom there is an increasing demand for Islamic banking services.

International Investment Funds

Badr and Rayan Funds: QIB is considered to be a pioneer in establishing and managing real estate investment funds in various markets around the world, especially since the success of the 'Badr' series of funds that was first launched in the UK in 2000, and then in France, the USA and Germany; and the Rayan series of funds that were launched in France and Germany. High returns (average of 8% pa) have been a significant feature of these funds, which have been invested in real estate properties in the UK, France, Germany, the USA and Belgium. This has attracted the participation of a distinctive category of customers and investors.



“ Vision without action is merely a dream. Action without vision just passes the time. Vision with action can change an organisation. ”



Finance Group

Prudent financial management, proactive liquidity monitoring and persistent compliance with regulatory controls continued to drive QIB's growth in profitability. The successful implementation of the latest sophisticated financial models and systems, adoption of international accounting practices and proactive asset and liability management ensured the sustainability of revenues during 2007 and provided the high level of support and direction demanded by the business to deliver on target.

Our team of finance professionals continue to exhibit an unwavering commitment towards establishing the best financial management systems, policies, procedures and practices. The Group continues to place special emphasis on automating the processing environment within the framework of 'straight through processing', thereby minimising manual intervention.

The Group led and co-ordinated the Bank's efforts with international rating agencies and succeeded in obtaining an A- upgrade from Fitch and Capital Intelligence during 2007.

Plans are presently underway to further improve the financial reporting and risk management environment, while providing high level of proactive business support to meet and exceed the targets for 2008 and beyond.

The Finance Group continues to extend its role in establishing and managing 'complete finance systems' as the Bank expands overseas and into diverse business lines. We continue to partner with various organisations in our endeavour to build a world-class entity. The demand on the finance function is promptly met by our team of professionals, who are backed by state-of-the-art technology and best international practices. We are determined to establish the most desired model for a successful business.

The Finance Group has been restructured within the framework of the Bank's restructuring process in order to meet its local, domestic and international expansion plans.



“QIB’s extensive client relationship, global scale, broad platform and extraordinary talent are among the many features that differentiate us from other investment banking peers.”



Investment Banking & Development

Established in the last quarter of 2006, the Investment Banking & Development Division is the latest new-born of the bank's restructuring process. It works under a strategic vision to maintain the bank's leadership to financing activities and Islamic banking globally. In due course, the division proved to be highly efficient through leading a number of macro-project financing and utilizing foreign and local investments in vital sectors.

The Investment Banking & Development Division comprises the following important departments:

Corporate Investments

The department's role is to expand QIB's network and operations in existing and new territories through new licenses or potential acquisitions of strategic financial institutions. Full due diligence about the markets, businesses and institutions is required before any investment decision.

The department's scope of work includes as well monitoring QIB's portfolio of equities and following up the performance of each equity investment. This involves equity valuation, spin-off, and equity exit mechanism via Private & Public Placements.

Moreover, the department is involved in cross-selling among the network and the creation of value among entities in which QIB holds strategic stakes. This involves international origination of deals, synergies and joint business approach vis-à-vis international clients.

Structuring and Product Development

This department is responsible for originating, structuring, financing, and syndicating Sharia'a compliant financing, backed by assets and securities (real estate, aircraft, shipping, raw materials...), as well as complex and structured Sharia'a compliant facilities for large private and public sector companies and clients. The department also provides financial advisory to the bank's clients. Part of the financing operations would be structured through 'Sukuk' (Islamic bonds), and would involve investment agency roles, security agency roles, and specific account mechanisms. The financing would be ensured through the capital markets or through syndicated facilities. The department has arranged key financing transaction with prime Qatari companies, such as Qatar Airways and Qatar Electricity & Water Co.

Treasury

QIB treasury dealing room, a subdivision of the Investment Banking and development group, is a profit centre which makes money on FX margins (spreads); arbitrage on FX – spot, forwards and swap business; using the tools of 'Wa'ad' (unilateral promise FX forwards) and Muwa'ama (structured forwards) contracts. A full-profit centre status will be achieved once transfer pricing model and software is introduced. A corporate, Profit (Market) Rate Swap (PRS), and a proprietary desk are being established to supplement these activities and elevate treasury to a new level of strategic importance.

The department also manages the Local Share Portfolio and runs a matched book on inter-bank money market operations, trade finance, syndications, and other structured products, through Islamic contracts such as Murabaha, Wakala, Mudaraba, Ijara, and Musawama. It also employs asset diversification and Sharia compliant derivative products in hedging the foreign exchange exposures of monetary assets in accordance with ALCO directives. Through these challenges, treasury has gained more risk management responsibilities as the risk treasury managers are poised to have a greater impact on the bank's balance sheet.

One of the key functions of the department is to manage the working capital in accordance with the regulated ratios and launching the tools that enable the bank to take advantage of its capital's cost-efficiency by shifting some of its working capital burden to the inter-bank market. The department is also involved in the finance chain of local and international parties through the acquisition of commodities in the international market for on-sell to corporate customers. It is also engaged in mutual treasury dealings with the treasury departments of its sister bank concerns in Bahrain, Lebanon, London, Qatar, Syria and Malaysia and, plays a major role in the expansion of inter-bank relationships. A new dealing with state-of-art infrastructure is being developed to enlarge the scope of Dealing Room activities.

Capital Markets

Due to the exceptional growth and opportunities in the Islamic capital markets in the past two years, especially in Islamic bonds (Sukuk), Qatar Islamic Bank (QIB) has established the 'Capital Markets' department to cater to the needs and demands of medium to long term individual and corporate investors. The 'Capital Markets' plays a vital role in ensuring QIB's clients are provided with a strong in-depth knowledge and understanding of this young and expanding market offering access to major local & international investments.

On the other hand, QIB's 'Capital Markets' department is active in managing medium to long-term liquidity positions for the bank and providing asset management services to both individual and corporate investors.

QIB's success in the global Sukuk market was strengthened further with the successful listing and placement of Salam Bounian Sukuk in February 2008, acting as Joint Lead Manager and Investment Agent.

In 2007, mandated positions were achieved with major roles as Joint Lead Manager in the issuance of URC Sukuk, and a Senior Co-Lead Managers in Qatar Alaqaria Sukuk.

QIB's objective to become a leader and market maker in both primary issuances of Sukuk and secondary market trading activities has enabled us to invest into great opportunities with high returns to both our clients and shareholders alike.

International Banking & Financial Institutions

The main task of this department is to enhance and expand business relations by sourcing out opportunities in international markets. Cash management is secured through the bank's accounts with correspondent banks inland and around the globe. In addition, the department ensures the management of trade finance and international trade activities which includes selling correspondent banking services to banks and financial institutions, ensuring the flow of the bank's business through agency arrangements and finally, managing political risks.

Marketing and Corporate Communications

This department will devise, upgrade and execute the Bank's marketing and communications strategy and comprises four units: marketing, public relations, media and corporate communications.

Marketing

This unit is entrusted with various responsibilities, starting with marketing campaigns and supplying the needs of retail banking in addition to organising sponsored conferences & meetings and finally managing the production of print materials, gift items & advertising campaigns.

Public Relations

Public Relations takes main interest in sponsoring major events in Qatar (Islamic-economical-sports-social-education-environment) in addition to charity donations. Recently, it launched a new co-operation system with the embassies of the countries where QIB has branches.

Media

This unit handles various media aspects starting with media coverage campaigns, press releases, press conferences, media monitoring for local and international markets, interviews etc.

Corporate Communications

Corporate Communication is entrusted with executing the Bank's communication strategy and is responsible for creating a solid impression of the Bank in local and international communities, by employing sound publicity tools and sponsoring social activities.

The investment banking and development sector employs qualified and experienced professionals who have been previously associated with regional and international establishments having strong financial ratings.



“ At QIB, we maintain a systematic approach to identify, evaluate and reduce or eliminate the possibility of an unfavourable deviation from the expected outcome on profits. ”



Risk Group

The success of a bank in today's rapidly changing world depends greatly on its ability to manage its risks. Qatar Islamic Bank has over the years developed an effective risk management system to meet this challenge. The bank evaluates all risks carefully to assess their impact on its balance sheet and income, in case of deterioration on account of any change in the credit-worthiness of the clients, business conditions or market factors.

The overall authority for risk management in the Bank is vested in the Board of Directors, who is responsible for approving the risk policies and procedures, based on the recommendation of the Management. Approval authorities are delegated to different levels in the Management depending on the amount, type of risk, and other related factors. The Bank has various committees approving specific limits within delegated authorities.

The bank is in the process of further strengthening the Risk Group by adding on a few more highly experienced risk experts to work in this Group.

Credit Risk

Credit risk represents the potential financial loss, as a result of a customer's inability or unwillingness to honour his obligations. The bank has well laid out policies and procedures in this respect to evaluate each customer's credit-worthiness and to structure the limit and the terms and conditions accordingly. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. To further improve the monitoring system, a new internal credit rating system has been introduced in 2008.

Qatar Islamic Bank follows stringent criteria in setting credit limits for countries and international financial institutions. In addition, all investments inside and outside Qatar are reviewed carefully by the Risk Group before an approval is obtained.

The bank has systems and procedures in place to alert the concerned staff members in the bank in case of past dues in an account. A stringent classification is followed for all accounts, and with provisions are made as and when necessary.

Market Risk

Market Risk is defined as the risk to the value of the trading portfolio arising from changes in the market e.g. fluctuations in the foreign exchange markets, rates, deterioration in equity markets etc. Qatar Islamic Bank's trading activities are governed by conservative policies and the actual exposure is closely monitored on a regular basis.

Operational Risk

Operational Risk is the risk of monetary loss on account of frauds, systems errors or human errors. The bank has well defined policies and procedures in this respect, which are regularly updated.



“ The greater the loyalty of employees towards the organisation, the greater is the motivation among the employees to achieve the goals of the organisation, and the greater the probability that the organisation will achieve its goals. ”



Projects Group

The Projects Group was established during 2006 with the prime objective of managing special projects where extensive planning, co-ordination of efforts, and interrelated synergies are required. The Projects Group handles the responsibility of: (a) Project Management, (b) Quality Assurance, and (c) Corporate Governance & Policies and Procedures.

The Vision of the Projects Group is to contribute to the combined efforts of the Board of Directors & the Management to effectively enhance operational efficiency, maintain economies of scale, and achieve the overall corporate vision of QIB.

The Mission of the Projects Group is a part of the broader perspective of QIB's Mission, which aims to contribute to the creation of greater value for shareholder funds, and maximize the satisfaction of customers through project management, quality assurance, and corporate governance.

Activities of the Projects Group

Since its establishment during 2006, the Projects Group has set out its short and long term targets. The first major task performed during 2007 was the successful partial sale of QIB's stake in its subsidiary to some strategic partners, which earned QIB a substantial profit during 2007, together with the transformation of the subsidiary into a regulated finance company. In

addition, the Projects Group also successfully managed a number of IPO projects during 2006 & 2007 where QIB acted as Co-receiving Bank. The Projects Group as a part of its routine activity facilitates in coordinating efforts to develop, update, and effectively implement the corporate governance and policies and procedures. The Projects Group also assists the management in bringing harmony and synergy through restructuring of the Organization of the Groups & Departments. During the year the restructuring has caused the establishment of a full fledged E Banking & Customer Services Department with a mission to deliver the state of the art technology to QIB customers including highly proficient internet banking services and E Channel services.

The restructuring also paved the way for formation of Credit Support Department with a mission to streamline the credit appraisal and approval process. Currently, the Group is engaged in facilitating the overall IT Assessment in QIB, the Business Continuity Process, Development and formation of highly viable Gulf Shopping Malls & Commercial Centres Development Joint Venture, the Establishment of Islamic Brokerage Services, Establishment of Financial Services and Credit Bureau, and launching of First Ever Stored Value Cards in the Gulf Region.



“ The State of Qatar has witnessed a great economical revolution in all major industries during the last few years, which has led to the creation of the recent boom in the real estate market. ”



Real Estate Department

QIB continues to play a commendable role in Qatar's urban development. Its Real Estate Department has facilitated the implementation of many remarkable projects through a diverse range of Islamic financing tools, including Istisnaa, Ijarah and Musharaka.

The Department provides technical and engineering advisory services to projects owned by the Bank and for which the Bank has offered financing and management contracts. It undertakes the control, performance appraisal, and supervision of these projects.

The Real Estate Department's services are fully comprehensive, covering all stages of a project from initial planning, design, tendering, and contracting to performance, completion, maintenance, and delivery. It has effectively made QIB the leader of turnkey projects in Qatar.

It is thus a mainstay department of the Bank for the distinctive services it offers to customers engaged in construction and property investment projects. QIB's Real Estate Department manages projects worth billions of Qatari Riyals in Qatar and in the Asian, African, European, and North American markets.

Property projects that have been executed under Istisnaa contracts and other financing tools, such as Ijarah and Musharaka, amount to approximately QR 3.8 billion. Prominent among such projects in Qatar are the Silhouette Tower, Sheikh Abdullah's Tower and Al Faisal Tower. Other projects executed previously by the Real Estate Department include Qatar's Ministry of Endowment Offices, Qatar's Olympic Committee Headquarters, the Qatari Courts, and the Mall complex, among a host of others.



“Fostering teamwork is creating a work culture that values collaboration, where people understand and believe that thinking, planning, decisions and actions are better when done cooperatively.”



Partner of the Society

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.

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.

During the last 5 years, the Zakat Committee of QIB has donated QR 16 million to various social causes. During 2007 the Zakat Committee extended QR 5 million worth of assistance to a wide range of sectors including education, conferences, exhibitions and sports.

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.



“ We thoroughly believe that creativity is the most important human resource of all. Simply because without creativity there would be no progress and we would be forever repeating the same patterns. ”



Ratings & Awards

Over the last 25 years QIB has succeeded in establishing a recognisable 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.

Capital Intelligence

In August 2007 QIB's foreign currency rating was raised, to A- from BBB+ (long term) and to A2 (short term) by the international rating agency Capital Intelligence (CI). The financial strength rating was also raised to A- from BBB+.

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.

Awards

- QIB won two awards from Euromoney - 'Best Real Estate Finance House' and 'Most Improved Islamic Finance House'.
- 'Best Re-branding of an Islamic Bank' award, and 'Best Advertising & Marketing Campaign in Islamic Business & Finance' award.
- Best Performing Bank Award for 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 as a result of the remarkable performance and growth realised 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.

The Banker

QIB, with a rate of returns of 6.8%, was ranked 14th among 1000 banks worldwide by the international magazine, The Banker, in terms of Profit-to-Assets ratio.



“Curiosity is one of the most permanent and certain characteristics of a creative mind. That’s why we encourage our employees to be curious about anything and everything.”



QIB Share Value at DSM

QIB's stock price continued to rise at a rate in excess of 50% during January to December 2007 and was rated as one of the best-performing stocks on Doha Securities Market (DSM). The increase in stock price reflects the Bank's excellent performance in the Qatari banking industry and its enhanced international presence.

In December 2007, QIB was ranked second among all the listed companies on DSM, based on the total value

of the volume of shares traded, which amounted to QR 1.2 billion. The total volume of QIB shares traded during 2007 was 57,679,614 amounting to a total value of QR 6,947,923,801.20 and representing 6.4% of the total volume of stocks traded on DSM during the year.

In 2007 QIB recorded an earnings per share of QR 10.52 compared to QR 8.95 posted in 2006.



Financial Statements



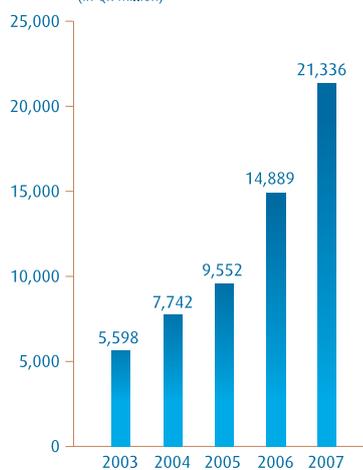
Financial Highlights

(Amount in QR million)

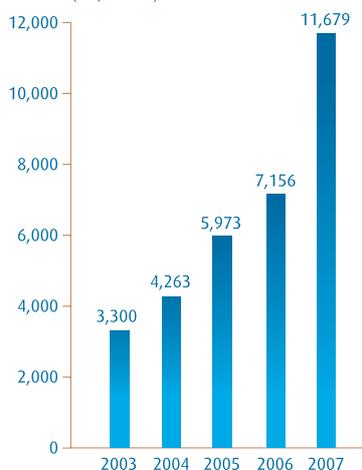
	2007	2006	2005	2004	2003
Total assets	21,336	14,889	9,552	7,742	5,598
Deposits	12,201	8,786	6,866	5,817	4,763
Financing & Investments	15,882	10,100	7,586	5,341	4,201
Operating income	1,694	1,533	859	553	355
Net profit	1,255	1,003	512	294	145
Earnings per share	10.52	8.95	4.74	4.58	4.26
Total shareholders' equity	4,629	4,246	2,097	1,497	542
Share capital	1,193	1,193	663	390	250
Time deposits	3,576	3,046	2,218	2,185	1,829
Saving & investment deposits	4,241	3,376	2,436	2,309	1,949
Customers' current accounts	4,384	2,364	2,212	1,323	985

Key Performance Indicators

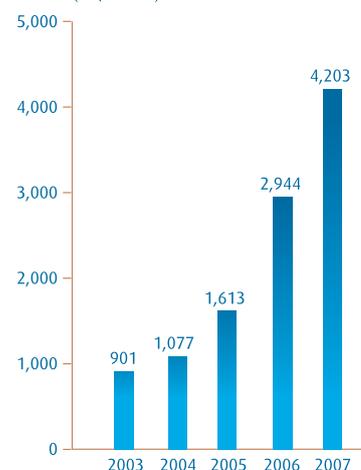
ASSETS
(in QR Million)



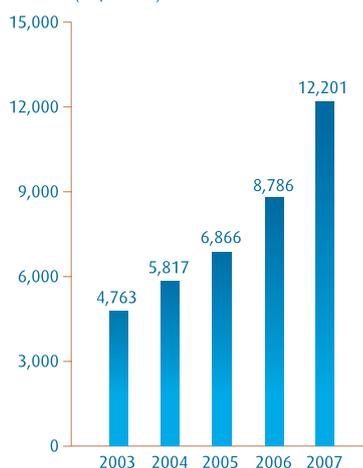
FINANCING
(in QR Million)



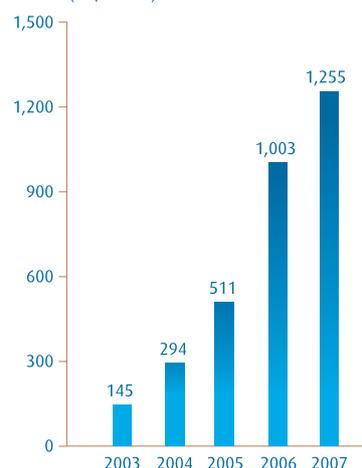
INVESTMENTS
(in QR Million)



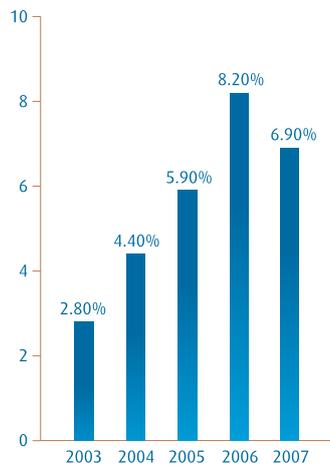
DEPOSITS
(in QR Million)



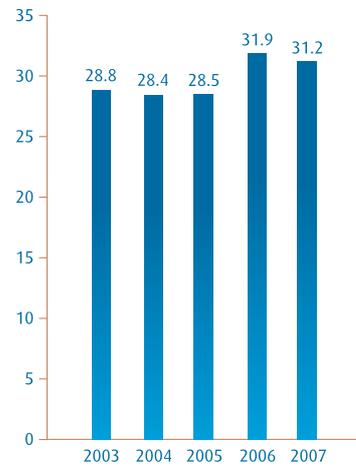
NET INCOME
(in QR Million)



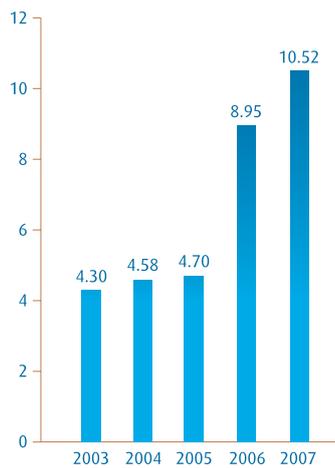
RETURN ON ASSETS



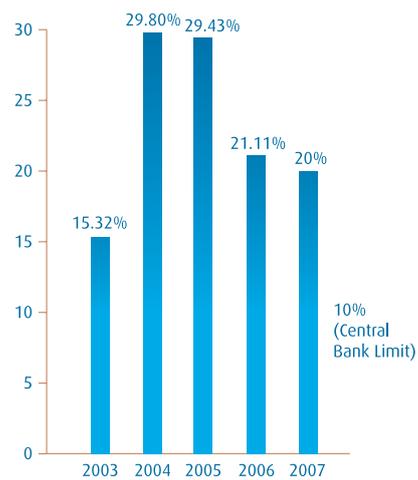
RETURN ON EQUITY



EARNING PER SHARE



CAPITAL ADEQUACY RATIO
(in QR Million)



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 2007 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 34. 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.

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 2007, 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. 33 of 2006 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 2007.

Ian R. Clay, FCA
of PricewaterhouseCoopers
Auditor's Registration No.150
14 February 2008

Consolidated Balance Sheet

as at 31 December 2007

Amounts expressed in thousands of Qatari Riyals

	Notes	2007	2006
Assets			
Cash and balances with central bank	5	1,256,826	400,449
Due from and investments with banks and financial institutions	6	3,364,522	3,843,401
Due from financing activities	7	11,679,082	7,156,007
Financial investments	8	2,116,803	1,506,326
Investments in associates	8	862,887	420,972
Other investments	9	1,222,315	1,016,424
Fixed assets	10	101,757	107,880
Other assets	11	731,576	437,057
Total assets		21,335,768	14,888,516
Liabilities, unrestricted investment accounts, minority interest and shareholders' equity			
Liabilities			
Due to banks and financial institutions	12	3,604,378	1,147,242
Customers' accounts	13	4,384,352	2,363,719
Other liabilities	14	783,428	630,366
Total liabilities		8,772,158	4,141,327
Unrestricted investment accounts	16	7,816,480	6,422,049
Minority interest	17	118,168	79,602
Shareholders' equity			
Share capital	18	1,193,400	1,193,400
Legal reserve	18	1,858,850	1,870,707
General reserve	18	109,964	90,215
Risk reserve	18	92,246	51,073
Fair value reserve	18	15,573	52,173
Proposed bonus shares	18	596,700	-
Proposed cash dividend	18	238,680	835,380
Retained earnings		523,549	152,590
Total shareholders' equity		4,628,962	4,245,538
Total liabilities, unrestricted investment accounts, minority interest and shareholders' equity		21,335,768	14,888,516

These financial statements were approved by the Board of Directors on 16 January 2008 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 2007

Amounts expressed in thousands of Qatari Riyals

	Notes	2007	2006
Income			
Income from financing activities	19	839,109	626,225
Net income from financing and investing activities	20	741,093	461,663
Total income from financing and investing activities		1,580,202	1,087,888
Commission and fees Income		100,832	433,468
Commission and fees expenses		(13,062)	(10,428)
Net income from commission and fees	21	87,770	423,040
Gain from foreign exchange operations, net	22	5,030	2,205
Other operating income		21,480	19,535
Net operating revenues		1,694,482	1,532,668
Expenses and provisions			
General and administrative expenses	23	(306,424)	(192,815)
Depreciation		(11,341)	(11,707)
Provision for impairment of due from financing activities	7	(1,416)	(68,390)
Provision for impairment of financial investments	8	(4,000)	-
Provision for impairment of other investment	9	(12,138)	-
		1,359,163	1,259,756
Income from dilution of interest in a subsidiary	24	306,354	-
Net profit for the year		1,665,517	1,259,756
Less:			
Unrestricted investment account holders' share of profit	25	(342,801)	(230,135)
Minority interest	17	(67,312)	(26,582)
Net profit for the year attributable to shareholders		1,255,404	1,003,039
Basic and diluted earnings per share (in Qatari Riyals per share)	26	10.52	8.95

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

Consolidated Statement of Changes in Shareholders' Equity

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

	Share capital	Legal reserve	General reserve	Risk reserve	Fair value reserve	Proposed bonus shares	Proposed dividend	Retained earnings	Total
2007									
Balance at 1 January 2007	1,193,400	1,870,707	90,215	51,073	52,173	-	835,380	152,590	4,245,538
Cash dividends for 2006	-	-	-	-	-	-	(835,380)	-	(835,380)
Net profit for the year	-	-	-	-	-	-	-	1,255,404	1,255,404
Share of profit from associate (note 8b)	-	-	28,029	-	-	-	-	(28,029)	-
Net movement in risk reserve for 2007	-	-	-	41,173	-	-	-	(41,173)	-
Fair value reserve, net	-	-	-	-	(36,600)	-	-	-	(36,600)
Sale of Al Jazeera Islamic Co.	-	(11,857)	(8,280)	-	-	-	-	20,137	-
Proposed cash dividends	-	-	-	-	-	-	238,680	(238,680)	-
Proposed bonus shares	-	-	-	-	-	596,700	-	(596,700)	-
Balance at 31 December 2007	1,193,400	1,858,850	109,964	92,246	15,573	596,700	238,680	523,549	4,628,962
2006									
Balance at 1 January 2006	663,000	677,307	90,215	33,356	126,809	331,500	165,750	2,449	2,090,386
Bonus shares issued	331,500	-	-	-	-	(331,500)	-	-	-
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	-	-	-	-	-	-	-	1,003,039	1,003,039
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)	-
Balance at 31 December 2006	1,193,400	1,870,707	90,215	51,073	52,173	-	835,380	152,590	4,245,538

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

	2007	2006
Cash flow from operating activities		
Net profit for the year before share of profit for unrestricted investment account holders and minority interest	1,665,517	1,259,756
Adjustments for:		
Depreciation on fixed assets	11,342	11,707
Profit on sale of fixed assets	(14)	(120)
Provision for financial investments	(1,151)	97,586
Provision for impairment of other investments	12,138	-
Share of profit from associate	(30,098)	(781)
Profit from investment revaluation	(6,984)	-
Profit on foreign exchange	(66,651)	-
Profit on sale of financial investments	(141,189)	(85,329)
Profit on dilution of interest in subsidiary	(306,354)	-
Profit on sale of other investments	(170,208)	(201,616)
Net operating profit before changes in operating assets and liabilities	966,348	1,081,203
Net decrease/(increase) in assets:		
Balances with banks and financial institutions	(73,506)	(90,148)
Reserve with Qatar Central Bank	(134,524)	(55,559)
Due from financing activities	(4,523,075)	(1,183,105)
Other assets	(269,272)	(151,995)
Net increase/(decrease) in liabilities:		
Due to banks and financial institutions	2,457,136	1,121,218
Customers accounts	2,020,633	151,297
Other liabilities	106,996	165,192
	550,736	1,038,103
Payment to unrestricted investment account holders	(297,870)	(229,012)
Net cash from operating activities	252,866	809,091
Cash flow from investing activities		
Purchase of financial investments	(1,437,490)	(1,368,133)
Additional investment in Associate company	(364,000)	-
Proceeds from sale of financial investments	845,315	421,952
Proceeds from dilution of interest in subsidiary	390,000	-
Purchase of other investments	(925,848)	(973,899)
Proceeds from sale of other investments	852,177	642,515
Dividend received from associate company	2,000	-
Purchase of fixed assets	(28,164)	(58,209)
Proceeds from sale of fixed assets	23,561	232
Net cash used in investing activities	(642,449)	(1,335,542)
Cash flow from financing activities		
Increase in share capital	-	1,392,499
Increase in unrestricted investment accounts	1,394,431	1,716,396
Dividend distributed	(835,380)	(165,750)
Net cash from financing activities	559,051	2,943,145
Net increase/(decrease) in cash and cash equivalents	169,468	2,416,694
Cash and cash equivalents - Beginning of the year	3,883,622	1,466,928
Cash and cash equivalents - End of the year (Note 32)	4,053,090	3,883,622

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

1. Legal status and principal activities

Qatar Islamic Bank (S.A.Q) ("QIB" or "the Bank") was incorporated on 8 July 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 Shari'a.

In addition to its main office, the Bank operates through its 13 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 and others. 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 Shari'a principles, as determined by the Shari'a 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

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting right. The existing and effect of potential voting right that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination and measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated and are considered an impairment indicator of the assets transferred. 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 Aqar Real Estate Company	
Country of Incorporation	Qatar
Principal business activity	Properties investment activities
Share Capital	100,000
Percentage of equity	49%

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

2. Significant accounting policies (continued)

(i) Subsidiaries (continued)

QIB has the power to cast the majority of votes in the Board of Directors meetings of Al Aqar Real Estate Company (5 out of 8 members in the Board).

On 30 December 2007, QIB reduced the controlling interest in another subsidiary, Al Jazeera Islamic Company ("AJIC"), from 80% to 30% (2006: 80%). Consequently, as at 31 December 2007, this investment is considered as an investment in associate.

(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 using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss (note 8).

The Group's share of its associates post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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 of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

b) Foreign currencies

The consolidated financial statements are presented in Qatari Riyals, which is the functional currency of the Bank. 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.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in the income statement, and other changes in carrying amount are recognised in equity.

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, shares and other investments is recognised when the right to receive profit/dividend is established.

Fees and commissions are recognised as income when earned. 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

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

2. Significant accounting policies (continued)

d) Valuation of financial investments available for sale (continued)

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 for unlisted equity investments, 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. Impairment losses recognised in consolidated statement of income on equity instruments are not reversed through the income statement.

e) Fair value

The fair value of financial investments traded on active markets 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 or recent arms length market transactions between knowledgeable willing parties, if available, reference to the current fair value or another instrument that is substantially the same, discounted cash flow analysis or brokers quotes where available.

f) Date of recognition of financial transactions

All financial assets and liabilities are recognised using settlement date which is the date that an asset is delivered to or by the Group.

g) Investments in property and other assets

Investments in property and assets acquired for leasing are carried at cost, less provision for impairment. 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 of 20 years.

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

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 are written back to the specific provision.

Renegotiated facilities

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

i) Properties acquired against settlement of receivables

Properties, if any, acquired against settlement of receivable amounts are included under other assets at their acquisition value net of any required provision for impairment. 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

2. Significant accounting policies (continued)

j) Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included under intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gain and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

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

k) 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.

l) 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.

m) Employees end of service benefits and pension fund

The Group makes a provision for all end of service benefits payable to employees in accordance with the Group's policies, 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 Qatari Pension law. The expense is considered as part of staff cost within general and administrative expenses and is disclosed in Note 23.

n) Other provisions

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

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

o) Financial guarantee contracts

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

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

Any increase in the liability relating to guarantees is taken to the income statement under other operating expense.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

2. Significant accounting policies (continued)

p) Off balance sheet items

Included in commitments, are funds managed by the Group on behalf of its customers, which 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 who acts 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 Group's stated share of profit or commission (Note 29).

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 30).

q) 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, and 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 utilisation of funds towards financing and investment activities.

r) 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 32).

3. Risk management of 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 2007

3. Risk management of financial instruments (continued)

Risk Management

Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

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

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Board has established a Risk Management Committee, comprising members from the Board and management, set-up to monitor the Group's credit, operational and market risks, to take credit decisions above management's discretionary powers and to set market risk limits under which the Group's management operates. Further, Remedial Committee has been set-up to identify, monitor and take corrective action on delinquent credits.

The Risk Management Committee has further set up from within management an Assets and Liabilities Committee (ALCO), a Group Credit Committee, and Investment Committee, which are responsible for developing and monitoring Group's risk management policies in their specified areas.

A separate Risk Management Group, reporting to the CEO and the Risk Management Committee, assists in carrying out the oversight responsibility of the Board.

The Group's Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly, on an ongoing basis, to reflect changes in market conditions, products and services offered.

The Group Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures and for reviewing the adequacy of the risk management framework. The Group audit committee is assisted in these functions by the Internal Audit and Compliance Departments.

a) Credit Risk

Credit Risk is the risk that a customer or counterparty to a financial asset fail to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's due from financing activities, due from banks and investments.

For risk management purpose, credit risk on financing investments is managed independently, and reported as a component of market risk exposure.

Management of credit risk

The Group's credit risk management framework includes:

- Establishment of authorisation structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with authorisation structure and limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process;
- Diversification of lending and investment activities;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

The Credit Risk Committee is responsible for sanctioning high value credits and the Credit Policy Committee is responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives.

In addition, the Group manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

3. Risk management of financial instruments (continued)

Risk Management (continued)

a) Credit Risk (continued)

Regular audits of business units and Group credit processes are undertaken by Internal Audit and Compliances Division. The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure	
	2007	2006
Cash and balances with central banks (excluding cash on hand)	1,094,506	237,320
Due from banks and financial institutions	3,364,522	3,843,401
Due from financing activities	11,679,082	7,156,007
Financial investments	2,979,690	1,927,298
Other investments and other assets	1,953,891	1,453,481
Total on balance sheet items	21,071,691	14,617,507
Contingent liabilities	3,860,620	3,384,295
Total off balance sheet items	3,860,620	3,384,295
Total credit risk exposure	24,932,311	18,001,802

Exposure to Credit risk

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, income suspended and impairment losses, if any.

	Due from financing activities		Others		Total	
	2007	2006	2007	2006	2007	2006
A. Individually impaired						
Substandard	48,728	79,063	-	-	48,728	79,063
Doubtful	21,051	28,602	-	-	21,051	28,602
Loss	215,327	230,705	21,386	10,400	236,713	241,105
Gross amount	285,106	338,370	21,386	10,400	306,492	348,770
Profit suspended	(12,556)	(20,075)	-	-	(12,556)	(20,075)
Specific allowance for impairment	(269,966)	(275,845)	(21,386)	(10,400)	291,352	286,245
Carrying amount	2,584	42,450	-	-	2,584	42,450
B. Past due but not impaired	29,955	39,750	-	-	29,955	39,750
C. Neither past due nor impaired						
Gross amount	12,978,873	8,071,677	9,392,609	7,461,500	22,371,482	15,533,177
Deferred Income	(1,332,330)	(997,870)	-	-	(1,332,330)	(997,870)
Carrying amount	11,646,543	7,073,807	9,392,609	7,461,500	21,039,152	14,535,307
Total	11,679,082	7,156,007	9,392,609	7,461,500	21,071,691	14,617,507

Aging analysis of past due but not impaired

2007	Less than 30 days	31 to 60 days	61 to 90 days	Total 2007
	Due from financing	22,310	4,730	2,915
2006	Less than 30 days	31 to 60 days	61 to 90 days	Total 2006
Due from financing	29,605	6,277	3,868	39,750

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

3. Risk management of financial instruments (continued)

Risk Management (continued)

a) Credit Risk (continued)

The Group's policy is to classify due from financing activities past due for more than 90 days as substandard, doubtful and loss assets which comply with the Qatar Central Bank requirements.

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of assets and liabilities is presented in note 28.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its due from financing portfolio. The main component of this allowance is a specific loss component that relates to individually significant exposures.

Write-off

The Group writes off a due from financing (and any related allowances for impairment) when the management determines that the due from financing is uncollectible. This is determined after all possible efforts of collecting the amounts have been exhausted.

Collateral

The Group holds collateral against due from financing activities in the form of mortgage interests over property, other securities over assets and guarantees. The Group accepts guarantees mainly from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals. Collateral generally is not held against investments and due from banks, and no such collateral was held at 31 December 2007 and 2006

Management estimates the fair value of collateral and other security enhancements held against individually impaired financing to reasonably approximate QAR 12,924 million as at the reporting date, according to independent valuation reports.

b) Liquidity risk

Liquidity or funding risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk can be due to market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately.

Management of liquidity risk

The Group's approach to managing liquidity risk is to ensure that management has diversified funding sources and closely monitors liquidity to ensure adequate funding. The Group maintains a portfolio of short-term liquid assets, largely made up of short-term liquid trading investments, and inter-bank placements. All liquidity policies and procedures are subject to review and approval by ALCO.

Exposure to liquidity risk

The key measure used by the Group for measuring liquidity risk is the ratio of net liquid assets, i.e., totals assets by maturity against total liabilities by maturity.

Details of the Group's net liquid assets is summarised in the table below by the maturity profile of the Group's assets and liabilities based on the contractual repayment arrangements and does not take account of the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

3. Risk management of financial instruments (continued)

Risk management (continued)

b) Liquidity risk

As at 31 December 2007

	Up to 1 month	1-3 months	3-12 months	1 to 5 years	Above 5 years	Total
Assets						
Cash and balances with central bank	884,982	-	-	-	371,844	1,256,826
Due from and investments with banks and financial institutions	2,664,537	503,572	196,413	-	-	3,364,522
Due from financing activities	497,645	2,773,746	3,904,596	4,503,095	-	11,679,082
Financial investments	-	-	-	1,715,549	1,264,141	2,979,690
Other investments	-	-	-	1,222,315	-	1,222,315
Other assets	731,576	-	-	-	-	731,576
Total assets	4,778,740	3,277,318	4,101,009	7,440,959	1,635,985	21,234,011
Liabilities and unrestricted investment accounts						
Due to banks and financial institutions	1,967,830	95,237	1,541,311	-	-	3,604,378
Customers' accounts	3,922,213	-	462,139	-	-	4,384,352
Other liabilities	783,428	-	-	-	-	783,428
	6,673,471	95,237	2,003,450	-	-	8,772,158
Unrestricted investments	5,048,778	673,918	1,948,856	63,269	81,659	7,816,480
Total liabilities and unrestricted investment accounts	11,722,249	769,155	3,952,306	63,269	81,659	16,588,638
Contingent Liabilities	-	-	3,860,620	-	-	3,860,620
Difference	(6,943,509)	2,508,163	(3,711,917)	7,377,690	1,554,326	784,753

The Group's expected cash flows may vary from this analysis. For example, current accounts deposits from customers are expected to maintain a stable or increasing balance.

As at 31 December 2006

	Up to 1 month	1-3 months	3-12 months	1 to 5 years	Above 5 years	Total
Assets						
Cash and balances with central bank	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
Other assets	437,057	-	-	-	-	437,057
Total assets	3,774,233	1,627,562	2,154,408	6,698,454	525,979	14,780,636
Liabilities and unrestricted investment accounts						
Due to banks and financial institutions	1,147,242	-	-	-	-	1,147,242
Customers' accounts	2,363,719	-	-	-	-	2,363,719
Other liabilities	630,366	-	-	-	-	630,366
Total liabilities	4,141,327	-	-	-	-	4,141,327
Unrestricted investment accounts	4,005,906	718,114	748,396	907,988	41,645	6,422,049
Total liabilities and unrestricted investment accounts	8,147,233	718,114	748,396	907,988	41,645	10,563,376
Contingent Liabilities	-	-	3,384,295	-	-	3,384,295
Difference	(4,373,000)	909,448	(1,978,283)	5,790,466	484,334	832,965

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

3. Risk management of financial instruments (continued)

Risk management (continued)

c) Market risk

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.

The board of directors has set risk limits based on country limits which are closely monitored by the Risk Management Group, reported weekly to senior management and discussed fortnightly by the Assets and Liabilities Committee.

The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The Group's management believes that the impact of market risk is minimal given the fact that the Assets & liabilities are re-priced within one year. In addition, the Group is also compliant with Basel 2 requirements as per Qatar Central Bank regulations (note 3 f).

Equity price risk is the risk that the fair value of equities decrease as a result of changes in the levels of equity and the value of individual stocks. The effect on equity due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Change in equity price % 2007	Effect on equity 2007	Change in equity price % 2006	Effect on equity 2006
Market Indices				
Doha securities market	+ - 10%	10,817	+ - 10%	15,667
Kuwait stock exchange	+ - 10%	3,677	+ - 10%	14,285

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.

d) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instrument denominated in a foreign currency. The Group's functional currency is Qatari Riyal. The Board of Directors has set limits on positions by currency. Position are closely monitored and hedging strategy are used to ensure positions are maintained within established limits. At 31 December, the Group had the following significant net exposures denominated in foreign currencies.

As at 31 December 2007

	QAR	USD	EUR	GBP	Others	Total
Assets	13,635,489	4,962,769	1,374,619	625,548	737,343	21,335,768
Liabilities, minority interest and shareholders' equity	17,552,599	3,509,929	66,488	110,681	96,071	21,335,768
Net balance sheet position	(3,917,110)	1,452,840	1,308,131	514,867	641,272	-

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
Net balance sheet position	(5,462,791)	4,426,117	990,214	1,743	44,717	-

The exchange rate of QAR against US Dollar is pegged and the Group's exposure to currency risk is limited to that extent. The group uses Shari'a compliant forward contracts and foreign exchange swaps to mitigate the other currency risks, specifically for EURO.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

3. Risk management of financial instruments (continued)

Risk management (continued)

e) Currency risk – effect of change in fair value of currency

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

Currency	Change in currency rate in %	Effect on income statement	Effect on income statement
	2007	2007	2006
USD	+2	29,057	88,522
EUR	+3	39,243	29,706
GBP	+2	10,297	35
Others	+3	19,238	1,342
USD	-2	(29,057)	(88,522)
EUR	-3	(39,243)	(29,706)
GBP	-2	(10,297)	(35)
Others	-3	(19,238)	(1,342)

During 2007, the currency risk was pertaining to currencies other than US Dollars and the impact of fluctuation in rates was linked to the EURO position; the net impact of which is not significant in 2007.

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 Elements	Total Risk		Risk Weighted	
	2007	2006	2007	2006
Credit risk	15,230,490	9,847,807	15,230,490	9,847,807
Market risk	718,623	385,993	7,186,233	4,824,908
Operational risk	94,392	52,987	943,919	662,343
Total capital charge/risk weighted assets	16,043,505	10,286,787	23,360,642	15,335,058
Tier 1 capital	4,282,463	3,306,912	18.34%	21.57%
Tier 1+Tier 2 capital	4,620,396	3,381,463	19.78%	22.05%

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

g) Risk of managing customers' investment

The Group provides custody and corporate administration services to third parties in relation to mutual funds managed by it. Management of client's investment portfolios are guided by the terms and conditions recorded in written agreements signed by the respective clients. These services give rise to legal and operational risk. Such risks are mitigated through review procedures to ensure compliance. Note 29 list the investment portfolios managed by the Group.

The dates of maturity of the Group's commitments in relation to the investment portfolios are included in note 27.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

3. Risk management of financial instruments (continued)

Risk management (continued)

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.

i) Fair value of financial assets and liabilities

All financial assets and liabilities are measured at amortised cost except for financial investments which are measured at fair value by reference to published price quotations in an active market or from prices quoted by counterparties. For investment properties, market value was determined by chartered surveyors and impairment provision is created when there is a decline in value.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between book value and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

The following table provides a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of the non-financial assets and non-financial liabilities.

	Carrying amount 2007	Fair value 2007	Carrying amount 2006	Fair value 2006
Financial assets				
Cash and balance with central bank	1,256,826	1,256,826	400,499	400,499
Due from banks and financial institutions	3,364,522	3,364,522	3,843,401	3,843,401
Due from financing activities	11,679,082	11,679,082	7,156,007	7,156,007
Financial investments	2,116,803	2,116,803	1,506,326	1,506,326
Financial liabilities				
Due to banks and financial institutions	3,604,378	3,604,378	1,147,242	1,147,242
Customers' accounts	4,384,352	4,384,352	2,363,719	2,363,719
Unrestricted investment accounts	7,816,480	7,816,480	6,422,049	6,422,049

The fair value of due from banks, due to banks, due from financing activities and customers' deposits, which are predominantly re-priced, are short term in tenure and issued at market rates, are considered to reasonably approximate their book value.

The Group has used valuation technique for the determination of impairment in goodwill (Note 8).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

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. The impairment booked based on historical cash flows is in line with the Qatar Central Bank regulations. The actual loss is not materially different from the estimated impairment. Also refer Note 7.

(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.

5. Cash and balances with central bank

	2007	2006
Cash in vaults	162,320	163,129
Cash reserve with central bank	371,844	237,320
Current account with Qatar Central Bank	417,662	–
Others	305,000	–
Total	1,256,826	400,449

Cash reserve with Qatar Central Bank represents a mandatory reserve deposit, which is not available for the Group's day-to-day operations.

6. Due from and investments with banks and financial institutions

	2007	2006
Current accounts	40,835	48,558
Unrestricted investment deposits	331,179	510,344
Commodity Murabaha transactions	2,998,532	3,307,348
	3,370,546	3,866,250
Unearned profit	(6,024)	(22,849)
	3,364,522	3,843,401

Commodity Murabaha transactions represent contracts agreed with banks that represent commitment to pay upon maturity the value of commodities and its related fixed profits.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

7. Due from financing activities		
a) By type:	2007	2006
Musharaka	22,006	14,613
Murabaha and Musawama	7,250,613	5,689,388
Istisna contracts	2,179,905	1,156,874
Mudaraba	1,227,144	284,965
Ijara financing	2,415,017	1,284,697
Other	199,249	19,260
	13,293,934	8,449,797
Unearned profit	(1,332,330)	(997,870)
Specific provision	(269,966)	(275,845)
Suspended profit	(12,556)	(20,075)
Due from financing activities, net	11,679,082	7,156,007

Total of non performing due from financing activities amounted to QR 285 million at the end of year 2007, (2006: QR 338 million) which is 2.15% (2006: 4.0%) of the total due from financing activities.

b) By industry:

	Murabaha & Musawama	Istisna Contracts	Mudaraba & Musharaka	Ijara	Others	2007 Total	2006 Total
Government	380,526	334,283	-	-	-	714,809	674,955
Semi-government	-	-	-	551,295	-	551,295	5,563
Industry	90,101	3,477	-	-	-	93,578	60,773
Trading	1,915,551	503,396	978,347	110,717	-	3,508,011	1,352,778
Contracts	366,473	14,899	177,828	212	-	559,412	444,325
Consumer financing	2,316,665	815,947	65,700	-	-	3,198,312	2,178,000
Housing	2,033,001	456,951	27,275	1,752,793	-	4,270,020	3,625,275
Others	148,296	50,952	-	-	199,249	398,497	108,128
	7,250,613	2,179,905	1,249,150	2,415,017	199,249	13,293,934	8,449,797
Unearned profit						(1,332,330)	(997,870)
Specific provisions						(269,966)	(275,845)
Suspended profit						(12,556)	(20,075)
Due from financing activities, net						11,679,082	7,156,007

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

7. Due from financing activities (continued)						
c) By Customer:						
	Murabaha & Musawama	Istisna Contracts	Mudaraba & Musharaka	Ijara	Others	Total
2007						
Retail	2,316,665	815,947	65,700	–	–	3,198,312
Corporate	2,123,102	460,428	27,275	–	135,000	2,745,805
Small & medium enterprises	2,282,024	518,295	1,156,175	–	–	3,956,494
Finance with real estate mortgage	–	–	–	1,863,722	–	1,863,722
Government & Other	528,822	385,235	–	551,295	64,249	1,529,601
Total	7,250,613	2,179,905	1,249,150	2,415,017	199,249	13,293,934
Unearned Profit						(1,332,330)
Specific Provision						(269,966)
Suspended Profit						(12,556)
Due from financing activities, net						11,679,082

	Murabaha & Musawama	Istisna Contracts	Mudaraba	Ijara	Total
2006					
Retail	2,097,687	–	80,313	–	2,178,000
Corporate	1,559,177	841,410	764	–	2,401,351
Small & medium enterprises	1,583,592	–	213,511	–	1,797,103
Finance with real estate mortgage	–	–	–	1,284,697	1,284,697
Government & Other	468,192	315,464	4,990	–	788,646
Total	5,708,648	1,156,874	299,578	1,284,697	8,449,797
Unearned Profit					(997,870)
Specific Provision					(275,845)
Suspended Profit					(20,075)
Due from financing activities, net					7,156,007

d) Movement in provisions for impairment of financing activities:

	Specific Provision	Profit in Suspense	Total 2007	Total 2006
Balance at 1 January	275,845	20,075	295,920	238,828
Net provision during the year	1,416	(7,519)	(6,103)	69,681
Provision made during the year	122,326	19,878	142,204	124,773
Recoveries of amounts previously provided	(120,910)	(27,397)	(148,307)	(55,092)
Provisions written off	(7,295)	–	(7,295)	(12,589)
Balance at 31 December	269,966	12,556	282,522	295,920

During the year the Bank renegotiated financing facilities amount to QAR 9.1 million (2006: QAR 10.6 million).

e) Provisions by Customer:

	2007	2006
Retail	70,854	69,344
Corporate	199,112	206,501
Total	269,966	275,845

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

8. Financial investments		2007	2006
a) Financial assets available for sale:			
Quoted		855,964	1,267,878
Unquoted		1,260,839	238,448
		2,116,803	1,506,326
b) Investments in associates		862,887	420,972
Total		2,979,690	1,927,298

a) Financial investments available for sale

	2007 Quoted	2007 Unquoted	2006 Quoted	2006 Unquoted
Shares	229,652	276,613	512,502	108,762
Sukouk government of Qatar	207,548	–	299,584	–
Sukouk others	418,764	552,324	528,330	–
Other Islamic portfolio and funds	–	441,150	25,500	140,086
Total financial investments	855,964	1,270,087	1,365,916	248,848
Provision for losses	–	(9,248)	(98,038)	(10,400)
	855,964	1,260,839	1,267,878	238,448

b) Investments in associates

	2007	2006
Beginning of the year	420,972	65,745
Investments during the year	364,054	354,446
Dilution of interest in subsidiary to associates	49,832	–
Share of profit	28,029	781
At end of the year	862,887	420,972

Principal associates

Country of Incorporation	2007		2006		
	Ownership		Ownership		
	Amount	Percentage	Amount	Percentage	
Arab Finance House	Lebanon	69,857	30.68%	71,532	30.68%
Asian Finance Bank	Malaysia	80,932	21.00%	76,440	21.00%
Q Invest	Qatar	662,212	25.00%	273,000	15.00%
Al Jazeera Islamic Co.	Qatar	49,832	30.17%	–	–
Durat Al Doha	Cayman Islands	54	29.70%	–	–
		862,887		420,972	

On 2 August 2007, the bank acquired an additional 10% equity in one of its associates, Q-Invest LLC (“Q-Invest”) for an aggregated cash price of USD 100 million equivalent to QAR 364 million (50 million equity shares of par value USD 1 each equivalent to QAR 3.64 each).

Details of net assets acquired and goodwill are as follows:

Purchase consideration:

Cash paid	364,000
Total purchase consideration	364,000
Share of fair value of net assets acquired	(182,380)
Goodwill	181,620

In compliance with the applicable accounting standards, the Bank has carried out one time “purchase price allocation (PPA)” exercise of the value paid for the acquisition of 10% shares of its associate – Q-Invest LLC. PPA identifies the value paid for the tangible assets, intangible assets and the premium/goodwill arising on the acquisition. The intangibles identified on acquisition of 10% shares in Q-Invest LLC are not material.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

8. Financial investments (continued)

b) Investments in associates (continued)

The goodwill included in the value of the associate is attributable to Q-Invest strong position talented workforce of the acquired business and the significant synergies expected to arise after the group's acquisition of Q-Invest.

As at 31 December 2007

	Assets	Liabilities	Revenue	Profit/(Loss)	Percentage
Arab Finance House	223,385	153,528	8,554	(1,674)	30.68%
Asian Finance Bank	292,248	211,317	703	4,491	21.00%
Q Invest	788,740	300,862	37,909	25,212	25.00%
Al Jazeera Islamic Co	382,656	318,923	39,130	-	30.17%
Durat Al Doha	46,012	45,982	-	-	29.70%
	1,733,041	1,030,612	86,296	28,029	

As at 31 December 2006

	Assets	Liabilities	Revenue	Profit/(Loss)	Percentage
Arab Finance House	138,848	71,113	4,941	781	30.68%

9. Other investments

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

	Land	Building	2007 Total	Land	Building	2006 Total
Cost						
At 1 January	204,843	12,039	216,882	2,728	12,039	14,767
Additions during the year	-	-	-	202,115	-	202,115
At 31 December	204,843	12,039	216,882	204,843	12,039	216,882
Accumulated depreciation						
At 1 January	-	7,814	7,814	-	7,212	7,212
Charge for the year	-	602	602	-	602	602
At 31 December	-	8,416	8,416	-	7,814	7,814
Net book value - 31 December	204,843	3,623	208,466	204,843	4,225	209,068

The aggregate market value of the properties and investments held for leasing and capital appreciation at 31 December 2007 is QAR 324 million (2006: QAR 255 million).

b) Investment in property and other assets held for trading

	Land	Building	2007 Total	Land	Building	2006 Total
Cost						
At 1 January	93,259	714,097	807,356	255,343	221,128	476,471
Additions during the year	554,947	370,900	925,847	93,335	678,449	771,784
Disposal during the year	(303,607)	(403,609)	(707,216)	(255,419)	(185,480)	(440,899)
Provision for impairment	-	(12,138)	(12,138)	-	-	-
Net Book value - 31 December	344,599	669,250	1,013,849	93,259	714,097	807,356
Total Net Book Value - 31 December	549,442	672,873	1,222,315	298,102	718,322	1,016,424

The aggregate market value of the properties and other assets held for trading at 31 December 2007 is QAR 1,035 million (2006: QAR 859 million).

The above aggregate market values were 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 based on independent valuations.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

10. Fixed assets					
	Land and buildings	Computer and peripherals	Office equipment, furniture & fixtures and leasehold improvements	Motor vehicles	Total
Cost					
At 1 January 2007	117,853	59,470	33,451	2,363	213,137
Additions	1,877	6,322	19,826	139	28,164
Disposals	(23,071)	(2,531)	(9,556)	(92)	(35,250)
At 31 December 2007	96,659	63,261	43,721	2,410	206,051
Depreciation					
At 1 January 2007	27,849	52,843	23,364	1,201	105,257
Charge for the year	2,540	4,331	3,539	330	10,740
Disposals	(554)	(2,517)	(8,526)	(106)	(11,703)
At 31 December 2007	29,835	54,657	18,377	1,425	104,294
Net book value					
At 31 December 2007	66,824	8,604	25,344	985	101,757
Cost					
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)
At 31 December 2006	117,853	59,396	33,525	2,363	213,137
Depreciation					
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
Net book value					
At 31 December 2006	90,004	6,504	10,210	1,162	107,880

11. Other assets		
	2007	2006
Accrued income	333,043	154,241
Prepayment and advances	63,339	13,175
Capital work in progress *	220,211	241,270
Others	114,983	28,371
Due from Bank of Credit and Commerce International (BCCI) (Under liquidation)	43,789	52,629
	775,365	489,686
Provisions for due from BCCI	(43,789)	(52,629)
Net	731,576	437,057

*Included in capital work-in-progress at the end of the year 2007 are advance payments made to acquire land and real estate amounting to QR 175 million, project for building villas under progress amounting to QR 45 million (2006: QR 212 million) and other projects under progress amounting to QR Nil (2006: QR 29 million).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

12. Due to banks and financial institutions		
	2007	2006
Current accounts and deposits from banks and financial institutions	3,604,378	1,147,242
13. Customers' accounts		
	2007	2006
a) Current Accounts		
Government	118,632	51,204
Corporate	1,557,294	246,624
Individual	1,725,485	2,065,891
Total Current Accounts	3,401,411	2,363,719
b) Other due to customers	982,941	-
Total	4,384,352	2,363,719
14. Other liabilities		
	2007	2006
Staff indemnity (Note 15)	42,893	29,026
Pension fund	391	333
Margin deposits	53,437	65,358
Manager cheques	78,858	50,295
Accrued expenses	77,170	38,335
Settlement deposits	117,905	110,006
Customer's participation in funds	453	403
Unclaimed dividend	4,426	1,269
Cheques in clearing	8,425	(440)
Naps and visa settlements	19,152	32,235
Provision for potential claims	17,333	6,075
Advances and trade payable	-	9,268
Others	362,985	288,203
Total	783,428	630,366
15. Movement in staff indemnity		
	2007	2006
Balance at 1 January	29,026	18,772
Charge for the year	19,714	11,738
Amount paid during the year	(5,847)	(1,484)
Balance at 31 December (Note 14)	42,893	29,026

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

16. Unrestricted investment accounts		
	2007	2006
a) By type:		
Repayable on demand	1,454,301	1,245,542
Saving accounts	2,786,694	2,130,649
Term	3,393,802	2,910,617
	7,634,797	6,286,808
Share of unrestricted investment accounts in profit	97,899	52,968
Unrestricted investment account share of fair value reserve	11,562	40,628
Unrestricted investment account share of risk reserve	72,222	41,645
Total	7,816,480	6,422,049
b) By sector:		
Government	810,121	603,821
Government organization and department	20,011	197,258
Individuals	4,948,015	5,235,715
Corporations	1,838,450	231,814
Banks	18,200	18,200
	7,634,797	6,286,808
Share of unrestricted investment accounts in profit	97,899	52,968
Unrestricted investment accounts share of fair value reserve	11,562	40,628
Unrestricted investment account share of risk reserve	72,222	41,645
Total	7,816,480	6,422,049

Unrestricted invested accounts include QR 91.80 million held as collateral against direct and indirect financing credit facilities (2006: QR 61.5 million).

17. Minority interest		
	2007	2006
Balance at 1 January	79,602	56,957
Share of minority in the profit of subsidiary companies	67,312	26,582
Distribution of profit by subsidiary companies	(5,500)	(8,780)
Sale of Al Jazeera	(31,712)	-
Net movement in fair value reserve of subsidiary companies	1,458	(3,157)
Capital increase	7,008	8,000
At 31 December	118,168	79,602

18. Shareholders' equity		
	2007	2006
a) Share capital		
Authorised, issued and paid-up share capital 119.34 million ordinary shares of QR 10 each (2006: 119.34 million shares of QR 10 each)	1,193,400	1,193,400

b) Legal reserve

In accordance with QCB law No. 33 of 2006 as amended, at least 10% 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. 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.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

18. Shareholders' equity (continued)

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 risk reserve at the end of each year should not be less than 1.50% of the total direct credit extended by the bank and its branches and subsidiaries as per the consolidated balance sheet after excluding the specific provision, suspended profit, deferred income and financing to Ministry of Finance of the State of Qatar, guaranteed by Ministry of Finance and financing against cash collaterals. Risk reserve is allocated between the holders of unrestricted investment deposit accounts and the shareholders.

e) Fair value reserve – financial investments

	2007	2006
Balance at January 1	52,173	126,809
Revaluation for the year	36,082	(85,773)
Charged to income statement	(101,749)	(62,323)
Net change during the year	(65,667)	(148,096)
Share of holders of unrestricted investment accounts in the movement in the fair value reserve	29,067	73,460
Balance at December 31	15,573	52,173

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 20% of paid up share capital amounting to QR 238.7 million i.e - QR 2.0 per share (2006 - 70% of paid up share capital amounting to QR 835.38 million i.e - QR 7 per share) which is subject to approval at the Annual General Meeting of the shareholders.

The Board of Directors has also proposed one bonus share for every two shares held being 50% of share capital amounting to QR 596.7 million (2006 - Nil) which is subject to approval at the Annual General Meeting of the shareholders.

In addition the Board of Directors has proposed to issue new shares through a right issue of 20% of share capital 10% during 2008 and 10% in 2009 which is subject to approval at the Annual General Meeting of the shareholders.

19. Income from financing activities

	2007	2006
Murabaha and Musawama	499,114	412,192
Istisna	123,180	90,790
Mudaraba	84,603	44,964
Ijara financing	132,212	55,534
Musharakah	-	22,745
Total	839,109	626,225

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

20. Profit from investing activities		
	2007	2006
a) Income from due from and investments with banks and financial institutions		
Deposit with banks	34,065	31,742
Commodity Murabaha transactions*	38,115	118,026
	72,180	149,768
b) Income from investments		
Financial investments available for sale	188,436	56,216
Investment in property and assets held for leasing	61,903	45,315
Other Financial investments	1,228	21,509
	251,567	123,040
c) Income from sale of investments		
Financial investments available for sale	133,200	85,329
Investment in property and assets held for leasing	-	81,443
Investment in property and assets held for trading	276,675	120,173
	409,875	286,945
d) Investments revaluation differences		
Unrealised gain/(loss) arising due to fair value estimates	7,471	(98,090)
	7,471	(98,090)
Total	741,093	461,663

*Income from commodity murabaha transactions is net of expenses paid to banks and financial institutions amounting to QAR 117.68 million (2006: QAR 27.83 million).

21. Net Commission and fees income		
	2007	2006
Commission and Fees Income:		
Letters of credit and guarantee	14,854	14,559
Banking operations	17,645	13,202
Bank's share of income from unrestricted investments	158	156
Income from investment activities for others	74	826
Management fee	38,963	23,441
Others	29,138	381,284
	100,832	433,468
Commission and fees expenses	(13,062)	(10,428)
	87,770	423,040

22. Gain from foreign exchange operations		
	2007	2006
Gain on sale of foreign exchange	4,706	11,315
Revaluation gain/(losses) of foreign exchange	324	(9,110)
Total	5,030	2,205

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

23. General and administrative expenses		
	2007	2006
Staff salaries and allowances	159,815	100,690
Board of Directors' remuneration	25,000	16,770
Contributions to pension fund	260	1,446
Staff indemnity	22,291	11,974
Training costs	2,197	856
Advertisements and market promotions	24,876	6,355
Legal and professional fee	4,104	1,886
Communication, insurance and utilities	8,713	7,570
Rent and maintenance	19,580	14,953
Others	30,240	30,315
Other provision	9,348	-
Total	306,424	192,815

Proposed Board of Directors' remuneration for the prior year has been reclassified in order to comply with the current year accounting policy as per the regulatory requirements.

The number of staff employed by the Bank as at 31 December 2007 was 631 (2006: 540).

24. Income from dilution of interest in subsidiary		
	2007	2006
Income from dilution of interest in subsidiary	306,354	-

Represents the net proceeds of the sale of Al Jazeera Co. (refer note 2 and 8).

On 30 December 2007, QIB reduced the controlling interest in Al Jazeera Islamic Company ("AJIC"), from 80% to 30%. Consequently, the results of the subsidiary were consolidated with the Group until 30 December 2007 and subsequently this investment is equity accounted as this is considered as an investment in associate.

25. Unrestricted investment account holder's share of profit		
	2007	2006
Investment account holders' share in profit before Mudaraba share of the Bank	697,805	521,667
Bank's share of profit as Mudarib	(396,132)	(311,295)
Unrestricted investment account holders' net share after Mudarib's share of the profit	301,673	210,372
Shareholders' cession	41,128	19,763
Unrestricted investment account holders' share after cession	342,801	230,135

Following are the profit distribution rates for the unrestricted investment account holders:

	2007 (%)	2006 (%)
5 year term	7.00	6.65
3 year term	6.20	6.15
1 year term	5.50	5.55
6 months term	5.00	4.50
3 months term	4.00	4.00
1 month term	3.52	3.50
Savings account	3.50	3.50
Savings Tarakat	3.50	3.93
Call account	3.50	3.50

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

26. Earnings per share

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:

	2007	2006
Net profit for the year attributable to the shareholders	1,255,404	1,003,039
Weighted average number of shares for the year (expressed in thousands)	119,340	111,991
Basic and diluted earnings per share (QR per share)	10.52	8.95

27. Contingent liabilities and commitments

As at 31 December 2007

	No later than 1 year	1-5 years	Over 5 years	Total
a) Contingent liabilities				
Istisna commitment	1,839,139	-	-	1,839,139
Unused facilities	591,287	-	-	591,287
Acceptances	31,470	-	-	31,470
Guarantees	1,059,999	-	-	1,059,999
Letters of credit	338,725	-	-	338,725
Total	3,860,620	-	-	3,860,620
b) Commitments				
Investment portfolios (Note 29)	-	4,441	-	4,441
Restricted investment balances (Note 30)	6,892	215,560	-	222,452
Operations cover against foreign currencies	1,431,404	-	-	1,431,404
Total	1,438,296	220,001	-	1,658,297

As at 31 December 2006

	No later than 1 year	1-5 years	Over 5 years	Total
a) Contingent liabilities				
Istisna commitment	2,013,744	-	-	2,013,744
Unused facilities	182,237	-	-	182,237
Acceptances	48,922	-	-	48,922
Guarantees	824,336	-	-	824,336
Letters of credit	315,056	-	-	315,056
Total	3,384,295	-	-	3,384,295
b) Commitments				
Investment portfolios (Note 29)	-	66,703	-	66,703
Restricted investment balances (Note 30)	49,608	178,360	-	227,968
Operations cover against foreign currencies	993,963	-	-	993,963
Total	1,043,571	245,063	-	1,288,634

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

28. Geographical distribution of assets and liabilities

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

As at 31 December 2007

	Qatar	GCC	Europe	North America	Others	Total
Assets						
Cash and balances with central bank	1,256,826	-	-	-	-	1,256,826
Due from and investments with banks and financial institutions	1,040,023	1,561,225	649,026	1,613	112,635	3,364,522
Due from financing activities	9,481,960	1,157,386	863,974	-	175,762	11,679,082
Financial investments	479,066	592,730	840,741	-	204,266	2,116,803
Investments in associates	712,044	-	-	54	150,789	862,887
Other investments	553,065	-	669,250	-	-	1,222,315
Fixed assets	101,757	-	-	-	-	101,757
Other assets	731,576	-	-	-	-	731,576
Total assets	14,356,317	3,311,341	3,022,991	1,667	643,452	21,335,768
Liabilities						
Due to banks and financial institutions	1,825,054	543,329	1,200,572	-	35,423	3,604,378
Customers' accounts	4,384,352	-	-	-	-	4,384,352
Other liabilities	783,428	-	-	-	-	783,428
Total liabilities	6,992,834	543,329	1,200,572	-	35,423	8,772,158
Unrestricted investment accounts	7,816,480	-	-	-	-	7,816,480
Minority interest	118,168	-	-	-	-	118,168
Shareholders' equity						
Share capital	1,193,400	-	-	-	-	1,193,400
Legal reserve	1,858,850	-	-	-	-	1,858,850
General reserve	109,964	-	-	-	-	109,964
Risk reserve	92,246	-	-	-	-	92,246
Fair value reserve	15,573	-	-	-	-	15,573
Proposed bonus shares	596,700	-	-	-	-	596,700
Proposed cash dividends	238,680	-	-	-	-	238,680
Retained earnings	523,549	-	-	-	-	523,549
	4,628,962	-	-	-	-	4,628,962
Total liabilities, unrestricted investment accounts, minority interest and shareholders' equity	19,556,444	543,329	1,200,572	-	35,423	21,335,768

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

28. 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 2006

	Qatar	GCC	Europe	North America	Others	Total
Assets						
Cash and balances with central bank	400,449	-	-	-	-	400,449
Due from banks and Islamic 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	571,695	555,190	248,255	4,046	127,140	1,506,326
Investments in associates	273,000	-	-	-	147,972	420,972
Other investments	302,327	-	714,097	-	-	1,016,424
Fixed assets	107,880	-	-	-	-	107,880
Other assets	437,057	-	-	-	-	437,057
Total assets	8,830,443	4,611,336	1,011,057	24,814	410,866	14,888,516
Liabilities						
Due to banks and financial institutions	1,056,132	56,222	-	-	34,888	1,147,242
Customers' accounts	2,363,719	-	-	-	-	2,363,719
Other liabilities	630,366	-	-	-	-	630,366
Total liabilities	4,050,217	56,222	-	-	34,888	4,141,327
Unrestricted investment accounts	6,422,049	-	-	-	-	6,422,049
Minority interest	79,602	-	-	-	-	79,602
Shareholders' equity						
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	152,590	-	-	-	-	152,590
	4,245,538	-	-	-	-	4,245,538
Total liabilities, unrestricted investment accounts, minority interest and shareholders' equity	14,797,406	56,222	-	-	34,888	14,888,516

29. Investment portfolios

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

Solidarity Fund

	2007	2006
Solidarity Fund	4,441	66,703

The bank is marketing other investment portfolios where bank's responsibility is limited to marketing the portfolio without assuming exposures to any risks. The maximum bank risk exposure is limited to the fee and commission receivable in return for the management of the portfolio and the bank does not guarantee the portfolios liabilities other than operational risk represented by the non-compliance with investment conditions as well as reputation risk.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

30. Restricted investment balances						
Type of Investment	2007			2006		
	Balance	Average profit rate	Bank's share	Balance	Average profit rate	Bank's share
Investment in commodities	222,452	5.90%	158	227,968	4.06%	156

31. 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:

	2007		2006	
	Directors	Subsidiaries & Affiliates	Directors	Subsidiaries & Affiliates
Balances with related parties				
Financing	327,133	893,743	310,076	477,000
Mudaraba investment in property funds	-	123,760	-	-
Deposits	80,671	1,307,152	62,551	59,917
Contingent liabilities, guarantees and other commitments	15,715	178,360	83,901	301
Transactions with related parties				
Fee and commission	-	124,692	-	64,846
Profit paid on deposits	1,161	1,865	1,017	888
Sale of properties and investments	-	645,000	-	-
Mudaraba investment in property funds	-	123,760	-	-
Mudaraba investment by associates	-	37,200	-	-
			2007	2006
During the year key management remuneration which includes salaries and other benefits			19,917	8,311

Profit of QR 135.6 on sale of properties and investments to associates made during the period are included in the investment income.

All the transactions with related parties are substantially on terms comparable with those relating to transactions with other customers, except for profit free financing to an associate of the Bank amounting to QR 135 million.

32. 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:

	2007	2006
Cash and current account with central bank	884,982	163,129
Due from and investments with banks and financial institutions	3,168,108	3,720,493
Total	4,053,090	3,883,622

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

33. Parent company		
The balance sheet of the parent company is presented below:	2007	2006
Assets		
Cash and balances with central bank	1,256,826	399,520
Due from and investment with banks and financial institutions	3,362,300	3,843,401
Due from financing activities (net)	11,784,825	7,039,293
Financial investments	2,121,312	1,544,052
Investments in associates	862,887	420,972
Other investments	916,592	958,029
Fixed assets	101,262	83,332
Other assets	575,867	271,899
Total assets	20,981,871	14,560,498
Liabilities, unrestricted investment accounts and Shareholders' equity		
Due to banks and financial institutions	3,590,636	1,145,689
Customers' accounts	4,385,582	2,363,719
Other liabilities	587,460	391,933
Total liabilities	8,563,678	3,901,341
Unrestricted investment accounts	7,850,327	6,481,369
Shareholders' equity		
Share capital	1,193,400	1,193,400
Legal reserve	1,856,400	1,856,400
General reserve	107,514	79,485
Risk reserve	92,246	51,073
Fair value reserve	14,769	52,173
Proposed bonus shares	596,700	-
Proposed cash dividend	238,680	835,380
Retained earnings	468,157	109,877
Total shareholders' equity	4,567,866	4,177,788
Total liabilities, unrestricted investment accounts and Shareholders' equity	20,981,871	14,560,498
The statement of income of the parent company is presented below:		
Income		
Income from financing activities	797,065	580,461
Profit on investing activities	638,228	413,270
Total income from financing and investment activities	1,435,293	993,731
Commission and fees income	100,832	429,598
Commission and fees expenses	(13,062)	(10,428)
Net income from commission and fees	87,770	419,170
Gain/(Loss) from foreign exchange operations	5,030	2,205
Other operating income	14,076	19,225
Operating revenue	1,542,169	1,434,331
Expenses and provisions		
General and administrative expenses	(279,195)	(162,800)
Depreciation of fixed assets	(10,667)	(11,068)
Provision for impairment of receivables and financing activities	584	(69,990)
Other investment provision	(4,000)	-
Provision impairment other Investment	(12,138)	-
Net operating profit	1,236,753	1,190,473
Income from dilution of interest in subsidiary	307,390	-
Net profit for the year	1,544,143	1,190,473
Less: Unrestricted investment account holder's share of profit	(342,801)	(230,135)
Net profit for the year attributable to shareholders	1,201,342	960,338

Notes to the Consolidated Financial Statements

for the year ended 31 December 2007

Amounts expressed in thousands of Qatari Riyals

33. Parent company (continued)

The cash flow of the parent company is presented below:

	2007	2006
Cash flow from operating activities:		
Net profit for the year before share of profit for unrestricted investment account holders	1,544,143	1,190,473
Adjustments for:		
Depreciation on fixed assets	10,667	11,068
Provision for financial investments	(1,151)	83,576
Provision for impairment of other investments	12,138	-
Revaluation gain for other investments	(7,078)	-
Share of profit from associate	(30,098)	(781)
Foreign Exchange Fluctuations Gains	(66,651)	-
Profit on sale of fixed assets	(14)	(120)
Profit on sale of financial investments	(141,189)	(84,876)
Income from dilution of subsidiary	(307,390)	-
Profit on sale of other investments	(148,008)	(161,029)
Net operating profit before changes in operating assets and liabilities	865,369	1,038,311
Net decrease/(increase) in assets:		
Balances with banks and financial institutions	(72,725)	(90,148)
Reserve with Qatar Central Bank	(134,524)	(55,559)
Due from financing activities	(4,745,532)	(1,052,442)
Other assets	(303,968)	(13,441)
Net increase/(decrease) in liabilities:		
Due to banks and financial institutions	2,444,947	1,119,851
Customer accounts	2,021,863	151,016
Other liabilities	180,260	50,744
	255,690	1,148,332
Payments to unrestricted investment account holders	(297,870)	(229,012)
Net cash from operating activities	(42,180)	919,320
Cash flow from investing activities:		
Purchase of financial investments	(1,343,781)	(1,405,723)
Additional investment in associate company	(364,000)	-
Proceeds from sale of financial investments	846,615	416,582
Proceeds from dilution of interest in subsidiary	390,000	-
Purchase of other investments	(535,998)	(915,428)
Proceeds from sale of other investments	712,703	478,691
Purchase of fixed assets	(28,121)	(44,085)
Proceeds from sale of fixed assets	140	196
Net cash used in investing activities	(322,442)	(1,469,767)
Cash flow from financing activities:		
Increase in share capital	-	1,392,499
Increase in unrestricted investment accounts	1,368,958	1,740,655
Dividend distributed	(835,380)	(165,750)
Net cash from financing activities	533,578	2,967,404
Net increase/(decrease) in cash and cash equivalents	168,956	2,416,957
Cash and cash equivalents - beginning of the year	3,881,912	1,464,955
Cash and cash equivalents - end of the year	4,050,868	3,881,912

34. Comparative figures

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

Head Office & Branches

Head Office

(Grand Hamad Street)
Tel. 4409409, Fax 4412700

Corporate Finance & Private Banking Branch

Tel. 4409235, Fax 4350293

Al Fanar Branch

Tel. 4249222, Fax 4313622

Salwa Road Branch

Tel. 4681667, Fax 4680123

Al Gharafa Branch

Tel. 4866656, Fax 4866056

Al Sadd Branch

Tel. 4477377, Fax 4478947

Al Khor Branch

Tel. 4721666, Fax 4721888

Al Rayyan Branch

Tel. 4809925, Fax 4811612

Airport Branch

Tel. 4655611, Fax 4676532

Al Wakra Branch

Tel. 4640771, Fax 4644197

Yarmouk Branch

Tel. 4883168, Fax 4883170

Ladies Branch (Town Centre)

Tel. 4879933, Fax 4888655

New Doha Branch

Tel. 4839464, Fax 4837982

Mesaieed Branch

Tel. 4771810, Fax 4770872

Al Mansoura Branch

Tel. 4435752, Fax 4376281

Al Muntazah Branch

Tel. 4370847, Fax 4371284

Al Shahania Branch

Tel. 4718664, Fax 4719044

General Authority of Minors Branch

Tel. 4411795, Fax 4411827

Al Ghuwairiya Branch

Tel. 4728318, Fax 4728755

City Center Branch

Tel. 4930758, Fax 4834032

Mesaimeer Branch

Tel. 4603694, Fax 4604028

Call Center : Tel. 4448444

Website : www.qib.com.qa

E-mail : info@qib.com.qa