Doha Bank (Q.S.C.)

Financial Statements

31 DECEMBER 2006

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF DOHA BANK (Q.S.C.)

We have audited the accompanying financial statements of Doha Bank Q.S.C. (the "Bank"), which comprise the balance sheet as at 31 December 2006 and the statement of income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2006 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and Qatar Central Bank regulations.

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations which we considered necessary for the purpose of our audit. We further confirm that the financial information included in the Annual Report of the Board of Directors is in agreement with the books and records of the Bank and that we are not aware of any contravention by the Bank of its Articles of Association, the Qatar Commercial Companies Law No. 5 of 2002, Qatar Central Bank Law No. 15 of 1993 and the related amendments and the directives of Qatar Central Bank during the financial year that would materially affect its activities or its financial position.

A. Mekhael, F.C.C.A.
Ernst & Young
Auditor's Registration No. 59

Date : 11 February 2007
Doha

Doha Bank (Q.S.C.)
BALANCE SHEET
At 31 December 2006

	Notes	***2006 QR'000***	*2005 QR'000*
ASSETS			
Cash and balances with Central Banks	4	**647,621**	469,213
Due from banks and other financial institutions	5	**4,466,222**	3,702,958
Loans and advances and financing activities to customers	6	**13,630,059**	8,294,718
Financial investments	7	**2,597,620**	2,529,129
Property and equipment	8	**181,224**	116,662
Other assets	9	**173,514**	117,549
TOTAL ASSETS		**21,696,260**	15,230,229
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to banks and other financial institutions	10	**1,950,984**	1,383,996
Customer deposits	11	**14,602,291**	11,023,760
Subordinated debt	12	**1,231,910**	-
Other liabilities	13	**553,464**	396,552
		18,338,649	12,804,308
Absolute investment depositors' accounts	15	**589,617**	25,085
SHAREHOLDERS' EQUITY			
Share capital	16	**1,248,175**	693,430
Statutory reserve	16	**1,244,967**	439,466
Other reserves	16	**-**	159,652
Risk reserve	16	**146,532**	80,614
Fair value reserve	16	**65,912**	425,723
Proposed dividends	16	**62,408**	-
Proposed bonus shares		**-**	554,745
Retained earnings		**-**	47,206
TOTAL SHAREHOLDERS' EQUITY		**2,767,994**	2,400,836
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**21,696,260**	15,230,229

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Fahad Bin Mohammad Bin Jabor Al Thani
Chairman

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Abdul Rahman Bin Mohammad Bin Jabor Al Thani
Managing Director and Chief Executive Officer

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Raghavan Seetharaman
Deputy Chief Executive Officer

The attached notes 1 to 33 form an integral part of these financial statements.

Doha Bank (Q.S.C.)
STATEMENT OF INCOME
For the Year Ended 31 December 2006

	Notes	*2006* *QR'000*	*2005* *QR'000*
Interest income	17	**1,063,259**	676,042
Interest expense	18	**(539,803)**	(255,797)
Net interest income		**523,456**	420,245
Fees and commission income	19	**239,385**	180,735
Fees and commission expense		**(3,489)**	(4,302)
Net fees and commission income		**235,896**	176,433
Dividend income	20	**9,349**	10,084
Net gain on foreign exchange activities	21	**35,100**	16,702
Net gain on sale of financial investments		**217,535**	372,233
Net gain on derivatives	22	**3,324**	6,716
Income from Islamic financing and investment activities		**34,572**	4,898
Other operating income	23	**13,864**	6,313
TOTAL OPERATING INCOME		**1,073,096**	1,013,624
General and administration expenses	24	**(273,447)**	(209,663)
Depreciation	8	**(24,890)**	(18,970)
Impairment losses on financial investments		**(43,375)**	(1,733)
Recovery (provision) for impairment of loans and advances	6	**34,540**	(6,214)
Proceeds received from BCCI	25	**-**	14,196
Absolute investment depositors' share of profit and risk reserve		**(21,434)**	(508)
NET PROFIT BEFORE TAXES		**744,490**	790,732
Income tax expense		**(521)**	(865)
NET PROFIT FOR THE YEAR		**743,969**	789,867
BASIC EARNINGS PER SHARE (QR)	26	**5.96**	6.33
DILUTED EARNINGS PER SHARE (QR)	26	**5.96**	6.33

The attached notes 1 to 33 form an integral part of these financial statements.

Doha Bank (Q.S.C.)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Year Ended 31 December 2006

	Note	*Share capital QR'000*	*Statutory reserve QR'000*	*Other reserves QR'000*	*Risk reserve QR'000*	*Fair value reserve QR'000*	*Proposed dividends QR'000*	*Proposed bonus shares QR'000*	*Retained earnings QR'000*	*Total QR'000*
Balance at 1 January 2006		693,430	439,466	159,652	80,614	425,723	-	554,745	47,206	2,400,836
Bonus shares issued for 2005	16	554,745	-	-	-	-	-	(554,745)	-	-
Social contributions paid for 2005		-	-	-	-	-	-	-	(3,000)	(3,000)
Directors' remuneration paid for 2005		-	-	-	-	-	-	-	(14,000)	(14,000)
Net movement in risk reserve		-	-	-	65,918	-	-	-	(65,918)	-
Net movement in fair value reserve		-	-	-	-	(359,811)	-	-	-	(359,811)
Total changes in reserves recognised directly in equity		-	-	-	65,918	(359,811)	-	-	(82,918)	(376,811)
Net profit for the year		-	-	-	-	-	-	-	743,969	743,969
Total recognised income and expense for the year		-	-	-	65,918	(359,811)	-	-	661,051	367,158
Transfer to legal reserve	16	-	805,501	(159,652)	-	-	-	-	(645,849)	-
Proposed dividends	16	-	-	-	-	-	62,408	-	(62,408)	-
Balance at 31 December 2006		**1,248,175**	**1,244,967**	**-**	**146,532**	**65,912**	**62,408**	**-**	**-**	**2,767,994**

The attached notes 1 to 33 form an integral part of these financial statements.

Doha Bank (Q.S.C.)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Year Ended 31 December 2006

	Share capital QR'000	*Statutory reserve QR'000*	*Other reserves QR'000*	*Risk reserve QR'000*	*Fair value reserve QR'000*	*Proposed bonus shares QR'000*	*Retained earnings QR'000*	*Total QR'000*
Balance at 1 January 2005	407,900	281,493	159,652	48,501	404,068	285,530	6,970	1,594,114
Bonus shares issued for 2004	285,530	-	-	-	-	(285,530)	-	-
Directors' remuneration paid for 2004	-	-	-	-	-	-	(2,800)	(2,800)
Social contributions paid for 2004	-	-	-	-	-	-	(2,000)	(2,000)
Net movement in risk reserve	-	-	-	32,113	-	-	(32,113)	-
Net movement in fair value reserve	-	-	-	-	21,655	-	-	21,655
Total changes in reserves recognised directly in equity	-	-	-	32,113	21,655	-	(36,913)	16,855
Net profit for the year	-	-	-	-	-	-	789,867	789,867
Total recognised income and expense for the year	-	-	-	32,113	21,655	-	752,954	806,722
Transfer to legal reserve	-	157,973	-	-	-	-	(157,973)	-
Proposed bonus shares	-	-	-	-	-	554,745	(554,745)	-
Balance at 31 December 2005	**693,430**	**439,466**	**159,652**	**80,614**	**425,723**	**554,745**	**47,206**	**2,400,836**

Retained earnings as at 31 December 2006 include proposed directors' remuneration amounting to QR Nil (2005: QR 14 million).

The attached notes 1 to 33 form an integral part of these financial statements.

Doha Bank (Q.S.C.)
STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2006

	Note	**2006 QR'000**	2005 QR'000
CASH FLOW FROM OPERATING ACTIVITIES			
Net profit before taxes		**744,490**	790,732
Adjustments for:			
Depreciation		**24,890**	18,970
Amortisation of financing costs		**52**	-
Provision for impairment of loans and advances		**(34,540)**	6,214
Profit on sale of furniture and equipment		**(98)**	(39)
Profit on sale of financial investments		**(217,535)**	(373,548)
Provision for impairment of investments		**43,375**	3,048
Net gain on derivatives		**(3,312)**	(7,059)
Tax paid		**(521)**	(865)
Directors' remuneration paid		**(14,000)**	(2,800)
Social contributions paid		**(3,000)**	(2,000)
Operating profit before changes in assets and liabilities used in operating activities		**539,801**	432,653
Net increase in assets			
Due from banks and other financial institutions		**(103,440)**	(113,963)
Loans and advances and financing activities to customers		**(5,300,801)**	(2,864,111)
Other assets		**(58,506)**	(43,713)
Net increase in liabilities			
Due to banks and other financial institutions		**566,988**	268,076
Customer deposits		**4,143,063**	2,980,711
Other liabilities		**157,288**	182,062
Net cash (used in) from operating activities		**(55,607)**	841,715
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of financial investments		**(1,781,203)**	(916,207)
Proceeds from sale of financial investments		**1,527,065**	1,406,446
Purchase of property and equipment		**(89,452)**	(39,795)
Proceeds from sale of property and equipment		**98**	218
Proceeds from disposal of derivatives		**5,477**	-
Net cash (used in) from investing activities		**(338,015)**	450,662
CASH FLOW FROM FINANCING ACTIVITIES			
Net proceeds from subordinated debt issued		**1,231,858**	-
Net cash from financing activities		**1,231,858**	-
Net increase in cash and cash equivalents during the year		**838,236**	1,292,377
Cash and cash equivalents at 1 January		**3,282,625**	1,990,248
Cash and cash equivalents at 31 December	30	**4,120,861**	3,282,625
Operational cash flows from interest and dividend			
Interest paid		**504,974**	217,312
Interest received		**1,021,608**	672,044
Dividend received		**9,349**	10,084

The attached notes 1 to 33 form an integral part of these financial statements.

1 CORPORATE INFORMATION

Doha Bank (Q.S.C.) ("the Bank") was incorporated on 15 March 1979, in the State of Qatar, as a Joint Stock Company under Emiri Decree No. 51 of 1978, with its registered office at Doha.

The Bank is engaged in commercial and Islamic banking activities and operates through its head office in Doha and 26 local branches including three Islamic branches, one overseas branch in the United States of America and representative offices in United Arab Emirates, Singapore, Turkey and Japan.

The Bank is listed on Doha Securities Market.

The financial statements for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the Board of Directors on 11 February 2007.

2 ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

2.1 New standards and interpretations issued but not yet effective

(a) IFRS 7 Financial Instruments: Disclosures

IFRS 7 *Financial Instruments: Disclosures* was issued by the IASB in August 2005, becoming effective for periods beginning on or after 1 January 2007. The new standard will require additional disclosure of the significance of financial instruments for the bank's financial position and performance and information about exposure to risks arising from financial instruments.

(b) IFRS 8 Operating Segments

IFRS 8 *Operating Segments* was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new standard may require changes in the way the bank discloses information about its operating segments.

(c) IFRIC Interpretations

During 2006 IFRIC issued the following interpretations:

- IFRIC Interpretation 8 *Scope of IFRS 2*
- IFRIC Interpretation 9 *Reassessment of Embedded Derivatives*
- IFRIC Interpretation 11 *IFRS 2 – Group and Treasury Share Transactions*

Management is still evaluating the effect of these standards and interpretations and do not expect these standards and interpretations to have a significant impact on the bank's financial statements when implemented in 2007.

2.2 Basis of preparation

The financial statements are prepared on a historical cost basis, except for available-for-sale investments and derivative financial instruments that have been measured at fair value. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and related interpretations and Qatar Central Bank regulations.

The financial statements have been presented in Qatari Riyals (QR) and all values are rounded to the nearest QR thousand except when otherwise indicated.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Islamic banking

The Bank opened its first Islamic branch on 15 June 2005. Islamic branches carry out Islamic banking services through various Islamic modes of financing. The activities of the branch are conducted in accordance with Islamic Shari'a, as determined by the Shari'a Control Board. Islamic branches' accounts are prepared in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and as per the Qatar Central Bank regulations.

(b) Foreign currency transactions

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

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

Monetary assets and liabilities denominated in foreign currencies are retranslated into Qatari Riyals at the rates of exchange ruling at the balance sheet date. Any resultant exchange gains or losses are taken to the statement of income under 'Net gain on foreign exchange activities'.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

(c) Financial instruments

(i) Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the settlement date. Deposits, amounts due to banks and customers and loans are recognised when the cash is received by the Bank or advanced to the customers.

(ii) Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(iii) Derivatives

Derivatives include interest rate swaps and forward foreign exchange contracts. Derivatives are recorded at fair value and included in other assets when the fair value is positive and included in other liabilities when their fair value is negative. Derivative financial instruments are subsequently re-measured at fair value. The resultant gains or losses arising from the changes in fair value of derivatives held for trading purposes are included in the statement of income.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Loans and advances and financing activities to customers

Loans and advances and financing activities to customers are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as "Other financial assets held for trading, designated as Financial investment – available-for-sale or Financial assets designated at fair value through profit or loss. This accounting policy relates to the balance sheet captions 'Due from Banks and financial institutions' and 'Loans and advances and financing activities to customers.' After initial measurement, the loans and advances and financing activities are subsequently measured at amortised cost less any provision for the impairment and interest in suspense. The losses arising from impairment of such loans and advances and financing activities to customers are recognised in the statement of income in 'Provision for impairment of loans and advances'.

(v) Available-for-sale financial investments

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and advances. They may be sold in response to liquidity needs or changes in market conditions. They include equity instruments and other debt instruments.

After initial measurement, available-for sale financial investments are subsequently measured at fair value on an individual basis. Unrealised gains and losses are recognised directly in equity in the 'Fair value reserve'. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliabily measured are measured at cost. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of income in 'Net gain on sale of financial investments'. Interest earned whilst holding available-for-sale financial investments are reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as 'Dividend income' when the right to receive dividend has been established.

In cases where objective evidence exists that a specific investment is impaired, the recoverable amount of that investment is determined and any impairment loss is recognised in the statement of income as "Impairment losses on financial investments'.

(vi) Subordinated debt

After initial measurement, subordinated debt issued is subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(d) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset is derecognised where:

- the right to receive cash flows from the asset have expired or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and
- either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the statement of income.

(e) Determination of fair value

The fair value for financial instruments traded in organised financial markets is determined by reference to quoted market prices (bid price for long positions and ask price for short positions) on a regulated exchange at the close of business on the balance sheet date.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist or internal pricing and valuation models.

(f) Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(f) Impairment of financial assets (continued)

(i) Loans and advances and financing activities to customers

Specific provisions for the impairment of loans are calculated based on the difference between the book value of the loans and advances and their recoverable amount, being the net present value of the expected future cash flows, discounted at the original interest rates. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less the costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Loans and advances are written off and charged against specific provisions only in circumstances where all reasonable restructuring and collection activities have been exhausted.

Islamic financing activities such as Murabaha which is a sale of goods with an agreed upon profit mark up and Ijara which is the transfer of ownership of a service or leased assets for an agreed upon consideration, are stated at their gross principal amounts less any amount received, provision for impairment, profit in suspense and unearned profit. 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, and recoveries from previously written off financing activities are written back to the specific provision.

(ii) Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In case of equity investments classified as available-for-sale, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised in the statement of income is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(g) Revenue recognition

Revenues are recognised on an accrual basis. Interest income and expense are recognised using the effective yield method. Interest on non-performing loans is suspended when realisation of such interest or the principal amount becomes doubtful.

Revenues on Islamic financing transactions are recognised on accrual basis using the reducing instalment method. Income on non-performing financing accounts is suspended when it is not certain that the Bank will receive it.

Management fees and commission income on syndicated loans are amortised over the period of the transaction using the effective yield method, if applicable. Fees and commission income on other services are accounted on the date of the transaction giving rise to that income. Income from dividends and investment funds are recognised when the right to receive the amounts have been established.

(h) Property acquired against settlement of customer debts

Property acquired by the Bank against settlement of debts is stated in the balance sheet under "other assets" at their net acquired values. Unrealised losses due to the diminution in the fair value of these assets appear in the statement of income. Future unrealised gains on such property is taken to the statement of income to the extent of unrealised losses previously recognised.

In accordance with the Qatar Central Bank instructions, all the properties acquired against settlement of debts must be sold within three years. Any extension or transfer to fixed assets must be with Qatar Central Bank approval.

(i) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Freehold land is not depreciated. The cost of property and equipment is depreciated using the straight-line method over the following estimated useful lives of the assets:

Buildings	20 years
Leasehold improvements, furniture and equipment	3-7 years
Vehicles	5 years

An item of property and equipment is derecognised upon disposal and when no future economic benefits are expected from its use or disposal. Any gain or loss resulting on derecognition of the asset is recognised in other operating income in the statement of income in the year that asset is derecognised.

(j) Employees' end of service benefits and pension fund

The Bank provides for end of service benefits in accordance with the employment policies of the Bank. The provision is calculated on the basis of individual's final salary and the period of service at the balance sheet date. This provision is included in other provisions within other liabilities.

With respect to Qatari employees, the Bank makes contribution to the Qatari Pension Fund calculated on a percentage of the employees' salaries, in accordance with the Retirement and Pension Law No. 24 of 2002. The Bank's obligations are limited to these contributions. The cost is included in general and administration expenses as detailed in Note 24.

(k) Other provisions

The Bank recognises provisions in the statement of income for any expected financial liability where the Bank has an obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and can be reliably measured.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(l) Contingent liabilities and other commitments

At the balance sheet date, contingent liabilities and other commitments do not represent actual assets and liabilities.

(m) Absolute investment depositors' share of profit

Islamic branch's profit for the year is distributed among absolute investment depositors and shareholders in accordance with Qatar Central Bank's instructions, which are summarised as follows:

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

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

Where the Islamic branch results at the end of a financial year is a net loss, it would be left to what Qatar Central Bank decides on being the, authority for evaluating the Bank's management responsibility for the loss according to the rules of Islamic Sharia'.

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

(n) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise of cash and balances with Central Banks other than mandatory cash reserve and balances with banks and other financial institutions with an original maturity of three months or less as disclosed in Note 30.

(o) Taxes

Taxes are calculated based on applicable tax laws or regulations in Qatar or in the other countries in which the Bank operates. The provision for taxation is made based on the evaluation of the expected tax liability.

(p) Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Bank in the Balance Sheet.

3 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS

3.1 Financial instruments

(a) Definition and classification

Financial instruments represent all the financial assets and liabilities of the Bank. Financial assets include cash balances, on demand balances and placements with banks and other financial institutions, investments and loans and advances to customers and banks. Financial liabilities include customer deposits and due to banks. Financial instruments also include contingent liabilities and commitments included in off-balance sheet items.

The significant accounting policies adopted by the Bank in respect of recognition and measurement of the key financial instruments and their related income and expenses are disclosed in Note 2 “Accounting policies”.

(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 financial statements, the book values of financial assets and liabilities are not significantly different from their fair values.

3.2 Risk management

(a) Derivatives used in risk management

In the ordinary course of business, the Bank uses interest rate swaps to hedge against the interest rate risk arising from specifically identified fixed interest rate exposures. Swaps are commitments to exchange one set of cash flows for another. In the case of interest rate swaps, counterparties generally exchange fixed and floating interest payments in a single currency without exchanging principal.

Derivatives held for trading purposes

Most of the Bank’s derivative trading activities in forward exchange contracts relate to sales. Sales activities involve offering products to customers in order to enable them to transfer, modify or reduce current and future risks.

Note 32 discloses the derivative financial instruments used by the Bank.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation in full. The Bank manages its credit risk exposure through diversification of its investments, money markets and lending activities to avoid undue concentration of risks with individuals or groups or customers in specific locations or businesses. It also obtains security where appropriate.

The Bank controls the credit risk arising from derivatives and foreign exchange contracts through its credit approval process and the use of risk control limits and monitoring procedures. The Bank uses the same credit risk procedures when entering into foreign exchange transactions as it does for traditional lending products.

Note 6 to the financial statements discloses the distribution of the loans and advances and financing activities by economic sectors. Note 28 to the financial statements discloses the geographical distribution of the Bank’s assets and liabilities.

3 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)

3.2 Risk management (continued)

(b) Credit risk (continued)

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	2006 ***QR'000***	*2005* *QR'000*
ASSETS		
Cash and balances with Central Banks (excluding cash on hand)	**397,435**	307,750
Due from banks and other financial institutions	**4,466,222**	3,702,958
Loans and advances and financing activities to customers	**13,630,059**	8,294,718
Financial investments	**2,597,620**	2,529,129
Other assets	**173,514**	117,549
	21,264,850	14,952,104
Contingent liabilities	**7,673,794**	4,919,237
Commitments	**843,632**	1,096,028
	8,517,426	6,015,265
Total credit risk exposure	**29,782,276**	20,967,369

The fair values of derivatives shown on the balance sheet included in other assets represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of the change in fair values.

(c) Market risk arising from investments

The Bank is exposed to market risks from equity products due to general and specific market movements.

The Bank applies an internal system to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Bank has a set of limits on the value of risk that may be accepted, which is monitored on a daily basis. Note 7 discloses the fair value of financial investments.

(d) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Bank measures and manages interest rate risk by establishing levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods and matching the re-pricing of assets and liabilities through risk management strategies including the use of various off- balance sheet instruments, primarily interest rate swaps.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of the contractual re-pricing or the maturity dates.

3 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)

(d) Interest rate risk (continued)

The Bank's interest sensitivity position of assets, liabilities and off balance sheet items is as follows:

	In 3 months QR'000	*3 months to 1 year QR'000*	*1 to 5 years QR'000*	*Over 5 years QR'000*	*Non interest sensitive QR'000*	*Total QR'000*	*Effective interest rate %*
As at 31 December 2006							
Cash and balances with Central Banks	-	-	-	-	647,621	647,621	-
Due from banks and other financial institutions	3,618,313	847,909	-	-	-	4,466,222	5.0
Loans and advances and financing activities to customers	3,206,876	2,618,478	2,697,914	3,936,977	1,169,814	13,630,059	8.3
Financial investments	70,334	204,264	1,012,532	394,502	915,988	2,597,620	5.2
Property and equipment	-	-	-	-	181,224	181,224	-
Other assets	-	-	-	-	173,514	173,514	-
Total assets	6,895,523	3,670,651	3,710,446	4,331,479	3,088,161	21,696,260	
Due to banks and other financial institutions	1,367,889	583,095	-	-	-	1,950,984	4.5
Customer deposits	11,323,982	816,887	219,702	-	2,241,720	14,602,291	4.7
Subordinated debt	1,231,910	-	-	-	-	1,231,910	6.2
Other liabilities	-	-	-	-	553,464	553,464	-
Absolute investment depositors' account	-	-	-	-	589,617	589,617	-
Shareholder's equity	-	-	-	-	2,767,994	2,767,994	-
Total liabilities and shareholders' equity	13,923,781	1,399,982	219,702	-	6,152,795	21,696,260	
On Balance sheet gap	(7,028,258)	2,270,669	3,490,744	4,331,479	(3,064,634)	-	
Off-Balance sheet gap	-	-	-	-	-	-	
Total interest rate sensitivity gap	(7,028,258)	2,270,669	3,490,744	4,331,479	(3,064,634)	-	
Cumulative interest rate sensitivity gap	(7,028,258)	(4,757,589)	(1,266,845)	3,064,634	-	-	

3 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)

(d) Interest rate risk (continued)

	In 3 months QR'000	*3 months to 1 year QR'000*	*1 to 5 years QR'000*	*Over 5 years QR'000*	*Non interest sensitive QR'000*	*Total QR'000*	*Effective interest rate %*
As at 31 December 2005							
Cash and balances with Central Banks	-	-	-	-	469,213	469,213	
Due from banks and other financial institutions	3,082,652	620,306	-	-	-	3,702,958	3.3
Loans and advances and financing activities to customers	2,819,651	2,841,396	2,461,238	-	172,433	8,294,718	6.9
Financial investments	119,333	158,246	918,868	472,871	859,811	2,529,129	5.5
Property and equipment	-	-	-	-	116,662	116,662	
Other assets	-	-	-	-	117,549	117,549	
Total assets	6,021,636	3,619,948	3,380,106	472,871	1,735,668	15,230,229	
Due to banks and other financial institutions	837,771	546,225	-	-	-	1,383,996	3.2
Customer deposits	8,656,353	737,170	73,836	-	1,556,401	11,023,760	3.0
Other liabilities	-	-	-	-	396,552	396,552	
Absolute investment depositors' account	-	-	-	-	25,085	25,085	
Shareholder's equity	-	-	-	-	2,400,836	2,400,836	
Total liabilities and shareholders' equity	9,494,124	1,283,395	73,836	-	4,378,874	15,230,229	
On Balance sheet gap	(3,472,488)	2,336,553	3,306,270	472,871	(2,643,206)	-	
Off-Balance sheet gap	140,707	193,000	(333,707)	-	-	-	
Total interest rate sensitivity gap	(3,331,781)	2,529,553	2,972,563	472,871	(2,643,206)	-	
Cumulative interest rate sensitivity gap	(3,331,781)	(802,228)	2,170,335	2,643,206	-	-	

3 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)

(e) Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to cease immediately. To mitigate this risk, the Bank has diversified funding sources and assets are managed with liquidity in mind in order to maintain a healthy balance of cash, cash equivalents and readily marketable securities.

The table below summarises the maturity profile of the Bank's major assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. The Bank routinely monitors assets and liabilities maturity profiles to ensure adequate liquidity is maintained.

3 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)

(e) Liquidity risk (continued)

	In 1 month QR'000	*1 to 3 months QR'000*	*3 months to 1 year QR'000*	*1 to 5 years QR'000*	*Over 5 years QR'000*	*Total QR'000*
As at 31 December 2006						
Cash and balances with Central Banks	250,373	-	-	-	397,248	647,621
Due from banks and other financial institutions	30,399	3,840,089	595,734	-	-	4,466,222
Loans and advances and financing activities to customers	2,663,338	635,684	2,670,630	3,374,478	4,285,929	13,630,059
Financial investments	832,547	-	-	1,168,660	596,413	2,597,620
Property and equipment	-	-	-	-	181,224	181,224
Other assets	173,514	-	-	-	-	173,514
Total assets	3,950,171	4,475,773	3,266,364	4,543,138	5,460,814	21,696,260
Due to banks and other financial institutions	1,114,011	253,878	36,870	546,225	-	1,950,984
Customer deposits	10,050,075	3,522,782	809,709	219,725	-	14,602,291
Subordinated debt	-	-	-	-	1,231,910	1,231,910
Other liabilities	368,500	1,860	10,724	30,748	141,632	553,464
Absolute investment depositors' account	131,691	203,451	254,475	-	-	589,617
Shareholders' equity	-	-	-	-	2,767,994	2,767,994
Total liabilities and shareholders' equity	11,664,277	3,981,971	1,111,778	796,698	4,141,536	21,696,260
Net liquidity gap	(7,714,106)	493,802	2,154,586	3,746,440	1,319,278	-

3 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)

(e) Liquidity risk (continued)

	In 1 month QR'000	*1 to 3 months QR'000*	*3 months to 1 year QR'000*	*1 to 5 years QR'000*	*Over 5 years QR'000*	*Total QR'000*
As at 31 December 2005						
Cash and balances with Central Banks	199,973	-	-	-	269,240	469,213
Due from banks and other financial institutions	428,694	2,653,958	310,778	309,528	-	3,702,958
Loans and advances and financing activities to customers	1,636,921	142,517	1,589,007	3,821,560	1,104,713	8,294,718
Financial investments	707,176	-	-	1,105,642	716,311	2,529,129
Property and equipment	-	-	-	-	116,662	116,662
Other assets	117,549	-	-	-	-	117,549
Total assets	3,090,313	2,796,475	1,899,785	5,236,730	2,206,926	15,230,229
Due to banks and other financial institutions	768,106	69,665	-	546,225	-	1,383,996
Customer deposits	7,846,086	2,350,469	753,369	73,836	-	11,023,760
Other liabilities	396,552	-	-	-	-	396,552
Absolute investment depositors' account	25,085	-	-	-	-	25,085
Shareholders' equity	-	-	-	-	2,400,836	2,400,836
Total liabilities and shareholders' equity	9,035,829	2,420,134	753,369	620,061	2,400,836	15,230,229
Net liquidity gap	(5,945,516)	376,341	1,146,416	4,616,669	(193,910)	-

3 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)

(f) Currency risk

The Bank is exposed to fluctuations in foreign currency exchange rates. The Board of Directors sets limits on the level of exposure by currency, and in total for both overnight and intra-day positions, which are monitored daily. The Bank had the following significant net exposures:

	(In QR'000)					
	Qatar Riyals	*US Dollar*	*Euro*	*Pound Sterling*	*Other currencies*	*Total*
As at 31 December 2006						
Assets	12,922,406	7,244,347	197,932	47,300	1,284,275	21,696,260
Liabilities and shareholders' equity	(13,261,332)	(7,961,045)	(198,817)	(69,700)	(205,366)	(21,696,260)
Net currency position	(338,926)	(716,698)	(885)	(22,400)	1,078,909	-
As at 31 December 2005						
Assets	7,978,609	7,026,529	55,060	76,541	93,490	15,230,229
Liabilities and shareholders' equity	(10,136,966)	(4,893,180)	(58,247)	(69,098)	(72,738)	(15,230,229)
Net currency position	(2,158,357)	2,133,349	(3,187)	7,443	20,752	-

(g) Capital adequacy

The Bank maintains an actively managed capital base to cover the risks inherent in the business. The adequacy of the Bank's capital is monitored using among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Qatar Central Bank.

During the past year, the Bank had complied in full with all the external imposed capital requirements.

The primary objective of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustment to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue capital securities.

Regulatory capital

	2006 QR'000	*2005 QR'000*
Tier 1 capital	**2,479,142**	1,877,499
Tier 2 capital	**1,408,102**	272,189
Total capital	**3,887,244**	2,149,688
Risk weighted assets	**21,127,669**	9,455,287
Tier 1 Capital ratio	**11.73%**	19.86%
Total Capital ratio	**18.40%**	22.74%

3 RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (continued)

(g) Capital adequacy (continued)

Effective 1 January 2006, the Bank started calculating the capital adequacy ratio under Basel II requirements, while in 2005, the ratio was calculated under Basel I requirements.

Regulatory capital consists of Tier 1 capital which comprises share capital, statutory reserve, other reserves and retained earnings including current year profit less proposed directors' remuneration. The other component of regulatory capital is Tier 2 capital which includes subordinated debt, risk reserve and 45% of the fair value reserve.

The minimum accepted capital adequacy ratio is 10% under the Qatar Central Bank requirements and 8% under Basel Committee on Banking Supervision requirements.

(h) Customers' investment management risks

The Bank undertakes management of customers' investments either directly through their instructions or in the form of managed investment portfolios. The management by the Bank of these investments in whatever form entails certain legal, ethical and operating risks. The Bank controls these risks through a comprehensive risk management system.

(i) 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 risks having an operational risk impact. The Bank seeks to minimise actual or potential losses from operational risk failures through the operations risk management department by having a framework of policies and procedures to control and manage risks. In addition an independent internal audit function identifies, assesses and submits reports on these risks.

Other risks to which the Bank 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 advisers. Reputational risk is controlled through the regular examination of issues that are considered to have reputational repercussions for the Bank, with guidelines and policies being issued as appropriate.

4 CASH AND BALANCES WITH CENTRAL BANKS

	2006 ***QR'000***	*2005* *QR'000*
Cash	**250,186**	161,463
Cash reserve with Qatar Central Bank	**392,487**	266,185
Other balances with Qatar Central Bank	**187**	38,510
Balances with other Central Banks	**4,761**	3,055
	647,621	469,213

The cash reserve with Qatar Central Bank amounting to QR 392.5 million (2005 : QR 266.2 million) and balances with other central banks representing the cash reserve with the Federal Reserve Bank of New York amounting to QR 4.8 million (2005 : QR 3 million) are mandatory reserves and are not available for use in the Bank's day-to-day operations.

5 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2006 QR'000	*2005 QR'000*
Current accounts	**29,396**	33,726
Deposits	**3,529,177**	2,910,850
Loans to banks	**907,649**	758,382
	4,466,222	3,702,958

6 LOANS AND ADVANCES AND FINANCING ACTIVITIES TO CUSTOMERS

		2006 QR'000	*2005 QR'000*
(a) By Type			
(i) Conventional banking loans and advances			
Loans		**11,121,136**	7,349,836
Overdrafts		**2,016,134**	1,543,129
Discounted notes		**24,379**	15,694
Gross loans and advances		**13,161,649**	8,908,659
Specific provision for impairment of loans		**(345,701)**	(516,777)
Interest in suspense		**(241,927)**	(253,334)
Net conventional loans and advances	(i)	**12,574,021**	8,138,548
(ii) Financing activities to customers			
Murabaha and Musawama		**829,424**	156,942
Istisna		**50,298**	113
Ijara		**299,567**	14,800
Others		**1,154**	2,306
Gross financing activities to customers		**1,180,443**	174,161
Less: Deferred income		**(124,405)**	(17,991)
Net financing activities to customers	(ii)	**1,056,038**	156,170
Net loans and advances and financing activities to customers	(i) + (ii)	**13,630,059**	8,294,718

The aggregate amount of non-performing loans and advances as at 31 December 2006 amounted to QR 609.5 million representing 4.25% (2005 : QR 809.85 million, 8.92%) of the total gross loans and advances and financing activities to customers.

6 LOANS AND ADVANCES AND FINANCING ACTIVITIES TO CUSTOMERS (Continued)

(b) By Sector

	2006				*2005*			
	Loans QR'000	***Overdrafts QR'000***	***Discounted notes QR'000***	***Total QR'000***	*Loans QR'000*	*Overdrafts QR'000*	*Discounted notes QR'000*	*Total QR'000*
Government	**13,005**	**914,528**	**-**	**927,533**	39,016	471,664	-	510,680
Government agencies	**695,197**	**1,361**	**-**	**696,558**	480,206	7	-	480,213
Industry	**328,937**	**80,414**	**-**	**409,351**	347,800	104,920	-	452,720
Commercial	**1,324,341**	**327,555**	**15,499**	**1,667,395**	932,353	234,140	7,356	1,173,849
Services	**477,458**	**50,706**	**547**	**528,711**	276,096	53,740	464	330,300
Contracting	**832,336**	**220,493**	**-**	**1,052,829**	374,222	124,136	3,713	502,071
Real estate	**1,521,207**	**39,497**	**5,039**	**1,565,743**	945,984	34,164	2,881	983,029
Personal	**6,675,192**	**360,120**	**3,294**	**7,038,606**	4,014,815	504,695	1,280	4,520,790
Others	**432,752**	**22,614**	**-**	**455,366**	113,505	15,663	-	129,168
	12,300,425	**2,017,288**	**24,379**	**14,342,092**	7,523,997	1,543,129	15,694	9,082,820

Total loans and advances includes both conventional banking and Islamic banking gross figures before subtracting specific provision for impairment of loans and interest in suspense.

(c) Movement in provisions for impairment of loans

	2006			*2005*		
	Specific QR'000	***Interest in suspense QR'000***	***Total QR'000***	*Specific QR'000*	*Interest in suspense QR'000*	*Total QR'000*
At 1 January	**516,777**	**253,334**	**770,111**	558,217	253,043	811,260
Net provisions during the year	**(34,540)**	**31,604**	**(2,936)**	6,214	28,363	34,577
Provisions made during the year	**63,913**	**57,357**	**121,270**	75,380	70,210	145,590
Recoveries during the year	**(98,453)**	**(25,753)**	**(124,206)**	(69,166)	(41,847)	(111,013)
Written off during the year	**(136,536)**	**(43,011)**	**(179,547)**	(47,654)	(28,072)	(75,726)
At 31 December	**345,701**	**241,927**	**587,628**	516,777	253,334	770,111

7 FINANCIAL INVESTMENTS

	2006 ***QR '000***	*2005* *QR'000*
Available-for-sale investments	**2,597,620**	2,529,129

	2006			*2005*		
	Quoted ***QR'000***	***Unquoted*** ***QR'000***	***Total*** ***QR'000***	*Quoted* *QR'000*	*Unquoted* *QR'000*	*Total* *QR'000*
Equities	**409,439**	**15,205**	**424,644**	617,878	29,935	647,813
State of Qatar debt securities	**642,938**	**782,944**	**1,425,882**	651,650	782,944	1,434,594
Other debt securities	**255,751**	**-**	**255,751**	234,724	-	234,724
Mutual funds	**469,937**	**21,406**	**491,343**	209,072	2,926	211,998
	1,778,065	**819,555**	**2,597,620**	1,713,324	815,805	2,529,129

Fixed rate debt securities and floating rate debt securities amounted to QR 1,431.8 million and QR 249.8 million respectively as at 31 December 2006 (31 December 2005 : QR 1,391.8 million and QR 277.5 million respectively).

Included in equities are equities with a market value QR 25.5 million (2005: QR 97.8 million) restricted due to the Bank holding directorships in investee companies and equities with a market value of QR 24.4 million (2005 : QR 20.3 million) restricted due to contractual agreement with the investee company.

8 PROPERTY AND EQUIPMENT

	Land and buildings *QR'000*	*Leasehold improvements* *QR'000*	*Furniture and equipment* *QR'000*	*Vehicles* *QR'000*	*Total* *QR'000*
At 31 December 2006:					
Cost:					
Balance at 1 January	91,829	46,533	107,612	3,911	249,885
Additions	46,397	22,014	17,765	3,276	89,452
Disposals	-	-	(479)	(303)	(782)
	138,226	68,547	124,898	6,884	338,555
Accumulated depreciation:					
Balance at 1 January	30,591	23,562	76,766	2,304	133,223
Depreciation for the year	2,695	6,582	14,771	842	24,890
Relating to disposals	-	-	(479)	(303)	(782)
	33,286	30,144	91,058	2,843	157,331
Net Book value	**104,940**	**38,403**	**33,840**	**4,041**	**181,224**

8 PROPERTY AND EQUIPMENT (continued)

	Land and buildings QR'000	*Leasehold improvement and renovation QR'000*	*Furniture and equipment QR'000*	*Vehicles QR'000*	*Total QR'000*
At 31 December 2005:					
Cost:					
Balance at 1 January	79,126	38,749	89,194	3,624	210,693
Additions	12,703	8,061	18,600	431	39,795
Disposals	-	(277)	(182)	(144)	(603)
	91,829	46,533	107,612	3,911	249,885
Accumulated depreciation:					
Balance at 1 January	28,178	19,300	65,302	1,897	114,677
Depreciation for the year	2,413	4,457	11,604	496	18,970
Relating to disposals	-	(195)	(140)	(89)	(424)
	30,591	23,562	76,766	2,304	133,223
Net Book value	61,238	22,971	30,846	1,607	116,662

Land and buildings include work in progress at 31 December 2006 amounting to QR 58.1 million (2005: QR 17.2 million).

9 OTHER ASSETS

	2006 QR'000	*2005 QR'000*
Interest receivable	**66,680**	25,029
Advance payments	**24,809**	34,109
Accounts receivable	**1,586**	6,924
Positive fair value of derivatives (Note 32)	**185**	4,304
Others	**80,254**	47,183
	173,514	117,549

10 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2006 QR'000	*2005 QR'000*
Due to Qatar Central Bank	**89,719**	748
Demand and call deposits	**442,918**	203,325
Term deposits	**190,721**	69,685
Borrowings from banks	**1,227,626**	1,110,238
	1,950,984	1,383,996

11 CUSTOMER DEPOSITS

	2006 QR'000	2005 QR'000
(a) By type		
(i) Conventional banking customer deposits		
Current and call accounts	**3,729,929**	2,813,905
Savings accounts	**429,792**	365,271
Time deposits	**10,181,485**	7,817,846
	14,341,206	10,997,022
(ii) Islamic banking current accounts	**261,085**	26,738
	14,602,291	11,023,760

Customer deposits include QR 346.1 million held as margin for direct and indirect facilities (2005 : QR 616.6 million).

	2006 QR'000	2005 QR'000
(b) By sector		
Government	**1,003,708**	687,403
Government agencies	**4,593,558**	3,831,499
Corporate	**4,394,756**	2,914,650
Individuals	**4,610,269**	3,590,208
	14,602,291	11,023,760

12 SUBORDINATED DEBT

	2006 QR'000	2005 QR'000
Subordinated notes		
Nominal value	**1,238,110**	-
Less: Unamortised portion of financing costs	**(6,200)**	-
Amortised cost at 31 December	**1,231,910**	-

On 12 December 2006, the Bank issued US$ 340 million subordinated floating rate step up notes at a nominal value of US$ 100,000 per note. The notes mature 10 years from the issue date at the nominal value and carries interest three months US$ LIBOR plus 0.82 percent per annum payable quarterly for the first 5 years and three months US$ LIBOR plus 1.32 percent per annum payable quarterly for the remaining period until maturity. The notes are callable at the option of the Bank after 5 years from the issue date at the nominal value.

13 OTHER LIABILITIES

	2006 *QR'000*	*2005* *QR'000*
Payment orders issued	**74,258**	70,922
Interest payable	**91,946**	57,117
Cash margins	**49,801**	43,171
Accounts payable	**38,835**	22,312
Provision for end of service benefits (Note 14)	**38,212**	33,147
Staff provident fund	**21,214**	18,130
Accrued expenses	**23,928**	17,623
Other payables	**65,181**	41,651
Deferred insurance commission	**149,916**	90,054
Negative fair value of derivatives (Note 32)	**173**	2,425
	553,464	396,552

The staff provident fund provision includes Qatari staff pension fund contributions amounting to QR 2.1 million (2005: QR 1.4 million).

14 PROVISION FOR END OF SERVICE BENEFITS

	2006 *QR'000*	*2005* *QR'000*
Balance at 1 January	**33,147**	28,562
Provision for the year	**8,162**	6,692
Provision used during the year	**(3,097)**	(2,107)
Balance at 31 December	**38,212**	33,147

15 ABSOLUTE INVESTMENT DEPOSITORS' ACCOUNTS

	2006 *QR'000*	*2005* *QR'000*
Call accounts	**43,389**	5,829
Saving accounts	**69,111**	2,751
Time deposits	**466,408**	16,199
	578,908	24,779
Absolute investment depositors' share of risk reserve	**10,709**	306
	589,617	25,085

16 SHAREHOLDERS' EQUITY

a) Share capital

	2006 *thousand*	*2005* *thousand*
Authorised		
Shares of QR 10 each	124,818	69,343

	Number of shares thousand	*QR'000*
Issued and fully paid		
At 1 January 2005	**40,790**	**407,900**
Bonus issue on 22 March 2005	**28,553**	**285,530**
At 1 January 2006	**69,343**	**693,430**
Bonus issue on 29 March 2006	**55,475**	**554,745**
At 31 December 2006	**124,818**	**1,248,175**

b) Statutory reserve

In accordance with Qatar Central Bank's Regulations, 20% of the net profit for the year is required to be transferred to the statutory reserve until the statutory reserve equals 100% of the paid up capital. This reserve is not available for distribution except in circumstances specified in the Qatar Commercial Companies' Law No. 5 of 2002 and is subject to the approval of Qatar Central Bank.

c) Other reserves

Other reserves represent a general reserve made in accordance with the Bank's Articles of Association and may be deployed according to a resolution of the General Assembly upon a recommendation from the Board of Directors, subject to the approval of Qatar Central Bank. In the current year, the Board of Directors has proposed to transfer the balance of other reserves as at 31 December 2006 to statutory reserve, subject to the approval of Qatar Central Bank.

d) Risk reserve

In accordance with Qatar Central Bank regulations, a risk reserve is made to cover contingencies on the private sector loans and advances, with a minimum requirement of 1.25% (2005 : 1%) of the total private sector exposure.

The share of risk reserve attributable to the absolute investment depositors is included under absolute investment depositors' accounts (Note 15).

16 SHAREHOLDERS' EQUITY (continued)

e) Fair value reserve

	2006 ***QR'000***	*2005* *QR'000*
Available for sale investments:		
Balance at 1 January	**425,723**	404,068
Realised during the year	**(213,433)**	(334,949)
Net movement in fair values during the year	**(146,378)**	356,604
Balance at 31 December	**65,912**	425,723

The balance of fair value reserve as at 31 December 2006 includes negative fair value of investments amounting to QR 20.60 million (31 December 2005 : QR 17.56 million). The negative fair value of these investments has to be deducted from the profits available for distribution, as per Qatar Central Bank instructions.

f) Proposed dividends

The Board of Directors has proposed the distribution of cash dividends of 5% of the share capital as at 31 December 2006.

17 INTEREST INCOME

	2006 ***QR'000***	*2005* *QR'000*
Balances with Central Bank	**7,956**	3,725
Due from banks and other financial institutions	**159,213**	76,651
Bonds	**93,318**	90,570
Loans and advances to customers	**802,772**	505,096
	1,063,259	676,042

18 INTEREST EXPENSE

	2006 ***QR'000***	*2005* *QR'000*
Due to banks and other financial institutions	**4,536**	4,036
Customer deposits	**479,223**	217,826
Borrowings from banks	**56,044**	33,935
	539,803	255,797

19 FEES AND COMMISSION INCOME

	2006	*2005*
	QR'000	*QR'000*
Loans and advances	**105,075**	90,051
Indirect credit facilities	**73,004**	44,503
Bank services fee	**50,678**	25,388
Investment activities to customers	**3,089**	14,370
Others	**7,539**	6,423
	239,385	180,735

20 DIVIDEND INCOME

	2006	*2005*
	QR'000	*QR'000*
Available-for-sale financial investments	**9,349**	10,084

21 NET GAIN ON FOREIGN EXCHANGE ACTIVITIES

	2006	*2005*
	QR'000	*QR'000*
Gains on foreign exchange dealings	**6,923**	3,069
Revaluation of assets and liabilities	**28,177**	13,633
	35,100	16,702

22 NET GAIN ON DERIVATIVES

	2006	*2005*
	QR'000	*QR'000*
Gain on revaluation of interest rate swaps	**-**	7,059
Gain (loss) on revaluation of foreign currency forward contracts	**12**	(343)
Gain on disposal of interest rate swaps	**3,312**	-
	3,324	6,716

23 OTHER OPERATING INCOME

	2006	*2005*
	QR'000	*QR'000*
Profit on disposal of property and equipment	**98**	39
Others	**13,766**	6,274
	13,864	6,313

24 GENERAL AND ADMINISTRATION EXPENSES

	2006	*2005*
	QR'000	*QR'000*
Salaries, allowances and other staff costs	**131,188**	102,329
End of service benefits	**8,162**	6,692
Staff provident fund	**2,527**	2,012
Advertising and marketing	**26,152**	24,791
Legal and professional fees	**2,930**	3,510
Communication, utilities and insurance	**26,557**	17,166
Rent and maintenance	**37,312**	19,654
Others	**38,619**	33,509
	273,447	209,663

25 PROCEEDS RECEIVED FROM BCCI

This represents the proceeds received from the liquidator of Bank of Credit and Commercial International (BCCI).

26 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. There were no potentially dilutive shares outstanding at any time during the year and, therefore, the dilutive earnings per share is equal to the basic earnings per share.

During the year 2006, the Bank issued bonus shares for the year 2005. Accordingly, the previously reported earnings per share as at 31 December 2005 have been restated for the effects of the bonus share issue made during the year.

	2006	*2005*
Net profit for the year (QR'000)	**743,969**	789,867
Weighted average number of shares	**124,817,515**	124,817,515
Basic and diluted earnings per share (QR)	**5.96**	6.33

The weighted average number of shares have been calculated as follows:

	2006	*2005*
Qualifying shares at the beginning of the year	**69,343,064**	69,343,064
Effect of bonus share issue	**55,474,451**	55,474,451
	124,817,515	124,817,515

If the effect of the bonus shares issued during the year was not considered on the earnings per share for the previous year, then basic earnings per share for the year ended 31 December 2005 would be QR 11.39 per share.

27 CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of customers, the Bank issues various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Bank. In many instances, the amount recognised on the Balance sheet for incurred obligation does not represent the loss potential of the arrangement in full.

The total outstanding commitments and contingent liabilities are as follows:

	2006 ***QR'000***	*2005* *QR'000*
(a) Contingent liabilities		
Acceptances	**371,920**	130,920
Guarantees	**4,277,998**	2,609,405
Letters of credit	**2,579,731**	1,850,246
Others	**444,145**	328,666
	7,673,794	4,919,237
(b) Other commitments		
Unused facilities	**843,632**	1,096,028
Forward foreign exchange contracts	**61,922**	277,753
Capital commitments	**316,900**	357,729
Interest rate swaps	**-**	333,707
	1,222,454	2,065,217
	8,896,248	6,984,454

Acceptances, guarantees and letters of credit

Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. Guarantees and standby letters of credit carry the same risk as loans. Credit guarantees can be in the form of irrevocable letters of credit, advance payment guarantees and endorsement liabilities from bills rediscounted.

Unused facilities

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Capital commitments

The capital commitments represent commitments relating to the completion of the new Head Office building for Doha Bank.

27 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Operating lease commitments

The Bank has entered into commercial leases on certain buildings. These leases have an average life of between three and five years. There are no restrictions placed upon the Bank by entering into these leases.

Future minimum lease payments under non-cancellable leases as at 31 December 2006 are as follows:

	2006 ***QR'000***	*2005* *QR'000*
Within one year	**26,465**	16,205
After one year but not more than five years	**66,706**	53,818
More than five years	**2,097**	1,382
	95,268	71,405

28 GEOGRAPHICAL DISTRIBUTION

	Qatar QR'000	*Other GCC Countries QR'000*	*Europe QR'000*	*North America QR'000*	*Other Countries QR'000*	*Total QR'000*
As at 31 December 2006						
Cash and balances with Central Banks	642,467	-	-	5,154	-	647,621
Due from banks and other financial institutions	462,644	1,935,945	1,383,138	231,338	453,157	4,466,222
Loans and advances and financing activities to customers	13,219,952	380,556	29,132	419	-	13,630,059
Financial investments	1,769,653	282,852	440,613	-	104,502	2,597,620
Property and equipment	181,126	-	-	98	-	181,224
Other assets	170,333	-	-	3,181	-	173,514
Total assets	16,446,175	2,599,353	1,852,883	240,190	557,659	21,696,260
Due to banks and other financial institutions	834,971	548,237	36,529	188,094	343,153	1,950,984
Customer deposits	14,255,616	341,544	-	1,906	3,225	14,602,291
Subordinated debt	-	-	1,231,910			1,231,910
Other liabilities	549,366	-	-	4,098	-	553,464
Absolute investment depositors' accounts	589,617	-	-	-	-	589,617
Shareholders' equity	2,767,994	-	-	-	-	2,767,994
Total liabilities and shareholders' equity	18,997,564	889,781	1,268,439	194,098	346,378	21,696,260

28 GEOGRAPHICAL DISTRIBUTION (Continued)

	Qatar QR'000	*Other GCC Countries QR'000*	*Europe QR'000*	*North America QR'000*	*Other Countries QR'000*	*Total QR'000*
As at 31 December 2005						
Cash and balances with Central Banks	465,407	-	-	3,806	-	469,213
Due from banks and other financial institutions	309,527	309,791	970,833	921,945	1,190,862	3,702,958
Loans and advances and financing activities to customers	8,069,675	225,043	-	-	-	8,294,718
Financial investments	2,036,437	125,899	202,699	88,786	75,308	2,529,129
Property and equipment	116,567	-	-	95	-	116,662
Other assets	115,460	-	-	2,089	-	117,549
Total assets	11,113,073	660,733	1,173,532	1,016,721	1,266,170	15,230,229
Due to banks and other financial institutions	526,163	608,655	6,882	876	241,420	1,383,996
Customer deposits	10,851,126	157,119	10,166	423	4,926	11,023,760
Other liabilities	390,838	-	-	5,714	-	396,552
Absolute investment depositors' accounts	25,085	-	-	-	-	25,085
Shareholders' equity	2,400,836	-	-	-	-	2,400,836
Total liabilities and shareholders' equity	14,194,048	765,774	17,048	7,013	246,346	15,230,229

29 RELATED PARTY TRANSACTIONS

The Bank enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year.

	2006			*2005*		
	Board of Directors QR'000	***Others QR'000***	***Total QR'000***	*Board of Directors QR'000*	*Others QR'000*	*Total QR'000*
Balance sheet items (as at 31 December)						
Loans and advances	**226,341**	**-**	**226,341**	176,101	-	176,101
Customer deposits	**170,200**	**1,986**	**172,816**	150,534	6,280	156,814
Contingent liabilities and other commitments	**129,405**		**129,405**	154,861	-	154,861
Statement of income items (for the year ended 31 December)						
Interest and commission income	**15,806**	**-**	**15,806**	9,431	-	9,431
Interest and commission expense	**9,742**	**171**	**9,913**	1,358	148	1,506

All the transactions with the related parties are substantially on the same terms, including interest and collateral, as those prevailing in comparable transactions with unrelated parties.

Compensation of key management personnel of the Bank

	2006			*2005*		
	Board of Directors QR'000	***Others QR'000***	***Total QR'000***	*Board of Directors QR'000*	*Others QR'000*	*Total QR'000*
Salaries and other benefits	**6,235**	**8,424**	**14,659**	4,943	5,573	10,516
End of service indemnity benefits and provident fund	**609**	**4,227**	**4,836**	527	3,358	3,885
	6,844	**12,651**	**19,495**	5,470	8,931	14,401

30 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of cash flow statement, comprise the following:

	2006	*2005*
	QR'000	*QR'000*
Cash and balances with Central Banks	**250,373**	199,973
Due from banks and other financial institutions maturing within 3 months	**3,870,488**	3,082,652
	4,120,861	3,282,625

Cash and balances with Central Banks do not include statutory cash reserves.

31 SEGMENT INFORMATION

The Bank is organized into two main business segments, which comprise conventional commercial banking and Islamic banking activities. Details of each segment are stated below:

	2006			*2005*		
	Conventional banking QR'000	***Islamic banking QR'000***	***Total QR'000***	*Conventional banking QR'000*	*Islamic banking QR'000*	*Total QR'000*
Net interest income	**523,456**	**-**	**523,456**	420,245	-	420,245
Net fees and commission income	**233,972**	**1,924**	**235,896**	176,432	1	176,433
Net income from Islamic financing and investment activities	**-**	**13,138**	**13,138**	-	4,390	4,390
Total other operating income	**279,057**	**115**	**279,172**	412,047	1	412,048
Recovery (provision) for impairment of loans and advances	**34,540**	**-**	**34,540**	(6,214)	-	(6,214)
Net operating income	**1,071,025**	**15,177**	**1,086,202**	1,002,510	4,392	1,006,902
Proceeds received from BCCI	**-**	**-**	**-**	14,196	-	14,196
General and administration expenses	**(267,939)**	**(5,508)**	**(273,447)**	(208,073)	(1,590)	(209,663)
Depreciation	**(24,715)**	**(175)**	**(24,890)**	(18,958)	(12)	(18,970)
Impairment losses on financial investments	**(43,375)**	**-**	**(43,375)**	(1,733)	-	(1,733)
Segment results/net profit before taxes	**734,996**	**9,494**	**744,490**	787,942	2,790	790,732
Income tax expense			**(521)**			(865)
Net profit for the year			**743,969**			789,867
Assets and liabilities						
Total assets	**20,580,342**	**1,115,918**	**21,696,260**	15,057,322	172,907	15,230,229
Total liabilities	**17,949,633**	**978,633**	**18,928,266**	12,775,715	53,678	12,829,393
Other segment information						
Capital expenditure	**84,611**	**4,841**	**89,452**	39,220	575	39,795

Geographically, the Bank operates in Qatar and United States of America. Qatar operations contributed more than 98.19% (2005: 98.45%) of the Bank's profit and more than 98.12% (2005 : 97.54%) of its assets.

32 DERIVATIVES

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analyzed by the term to maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, or market risk.

				Notional amount by term to maturity			
	Positive Fair Value QR'000	*Negative Fair Value QR'000*	*Notional Amount QR'000*	*Within 3 Months QR'000*	*3 - 12 Months QR'000*	*1-5 Years QR'000*	*More than 5 Years QR'000*
As at 31 December 2006:							
Derivatives held for trading							
Forward foreign exchange contracts	**185**	**173**	**61,922**	**61,922**	**-**	**-**	**-**
As at 31 December 2005:							
Derivatives held for trading							
Forward foreign exchange contracts	1,763	2,049	277,753	265,317	12,436	-	-
Interest rate swaps	2,541	376	333,707	-	-	333,707	-
	4,304	**2,425**	**611,460**	**265,317**	**12,436**	**333,707**	**-**

33 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant judgements and estimates used are as follows:

Fair values of financial instruments

The fair value of financial assets traded in organised financial markets is determined by reference to quoted market bid prices on a regulated exchange at the close of business on the balance sheet date. Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows from the asset, or internal pricing models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

Impairment losses on loans and advances

The Bank reviews its problem loans and advances at each reporting dates to assess whether an allowance for impairment should be recorded in the income statement. In particular considerable judgement by the management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are necessarily based on the assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to the allowance.

33 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Impairment of equity investments

The Bank treats available for sale equity investments as impaired when there has been a significant or prolonged decline in fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires considerable judgement. The Bank treats “significant” generally as 20% or more and ‘prolonged’ greater than 6 months. In addition, the Bank evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Islamic Banking

The Balance sheet and statement of income of the Bank's Islamic Branch are presented below:

(i) Balance Sheet as at 31 December 2006

	2006	*2005*
	QR'000	*QR'000*
ASSETS		
Cash	**2,821**	797
Due from financing activities to customers	**1,056,038**	156,170
Financial investments	**14,566**	14,566
Fixed assets	**5,229**	563
Other assets	**37,264**	811
TOTAL ASSETS	**1,115,918**	172,907
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Customer current accounts	**261,085**	26,738
Other liabilities	**127,931**	1,855
TOTAL LIABILITIES	**389,016**	28,593
ABSOLUTE INVESTMENT DEPOSITORS' ACCOUNTS	**589,617**	25,085
SHAREHOLDERS' EQUITY		
Funds provided by the Head Office	**125,000**	116,439
Risk reserve	**2,312**	1,436
Retained earnings	**9,973**	1,354
TOTAL SHAREHOLDERS' EQUITY	**137,285**	119,229
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,115,918**	172,907

(ii) Statement of income for the year ended 31 December 2006

	Notes	***2006 QR'000***	***2005 QR'000***
Income from financing activities		**34,074**	4,576
Income from investing activities		**498**	322
Total income from financing and investing activities		**34,572**	4,898
Fees and commission income		**1,924**	1
Other operating income		**115**	1
TOTAL OPERATING INCOME		**36,611**	4,900
General and administration expenses		**(5,508)**	(1,590)
Depreciation		**(175)**	(12)
NET PROFIT FOR THE YEAR		**30,928**	3,298
Less:			
Absolute investment depositor's share of profit		**(11,031)**	(202)
Absolute investment depositor's share of risk reserve		**(10,403)**	(306)
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS		**9,494**	2,790