The Commercial Bank of Qatar (Q.S.C.)
Annual Report 2007

قطر مصدر إلهامنا

البنك التجاري
Commercial bank

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

His Highness
Sheikh Tamim bin Hamad Al Thani
Heir Apparent

Inspired by Qatar

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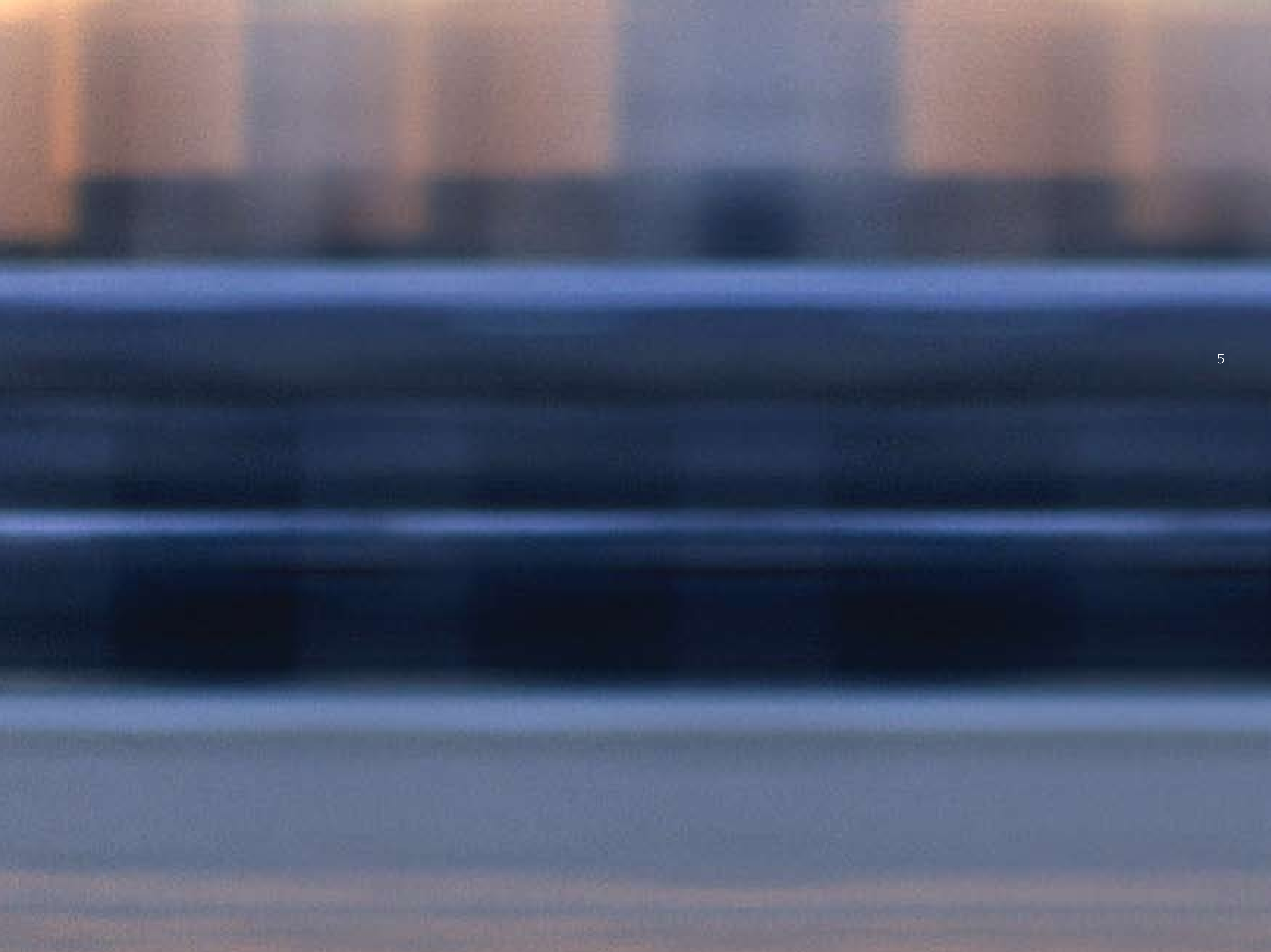

Commercialbank has played a part in the growth and prosperity of Qatar for several decades, financing the very infrastructure of the country and providing leading banking services of established value. Our shareholders, from many walks of life, join us to create a dynamic organisation that will always conduct business with the highest standard of ethics and integrity - reaching out to every aspect of Qatari life in celebration of the place that we call home. We are proud to be inspired by Qatar and by its people.
We are proud to be your Bank.

Chairman's Report

On behalf of the Board of Directors, it gives me great pleasure to present the annual report of Commercialbank for the year ended 31st December 2007.

Under the visionary leadership of His Highness the Emir, Sheikh Hamad bin Khalifa Al Thani, Qatar has enjoyed very favourable economic conditions during 2007. Growth in Gross Domestic Product (GDP) is estimated to be around 18% in 2007. In the next five years, petrochemical, LNG and infrastructure projects are likely to exceed US$130billion, with the banking sector strategically important and integral to the funding of these projects.

As a reflection of Qatar's economic performance, Commercialbank has yet again delivered an outstanding set of financial results in 2007. A record net profit of QR1.4 billion was achieved, an increase of 61.2% on the previous year and return on average shareholders' equity improved from 15.2% to 23.4%.

Competition in the Qatar banking sector has made it imperative that Commercialbank continues to maintain its excellent performance in Qatar, together with a focus on regional expansion within the Gulf Cooperation Council (GCC) region. During 2007, Commercialbank has continued to strengthen its alliance with National Bank of Oman, in which it has a 34.9% shareholding, and in December it acquired a 35% interest in United Arab Bank, a bank headquartered in Sharjah. United Arab Bank has a total of nine branches located throughout the United Arab Emirates and focuses on retail and corporate banking. Both National Bank of Oman and United Arab Bank delivered strong performances during the year and Commercialbank aims to work in close partnership with both banks in the development of synergies and industry best practice across an increasingly unified structure. In addition, Commercialbank will continue to seek potential alliance partners so as to generate benefits from a shared common business platform.

Commercialbank has created significant value for its shareholders, with total shareholder value, reflecting share price performance and dividends, up 93% in 2007. The Board has recommended a distribution comprising a cash dividend of 40% and a bonus share issue of 30%, reward for an outstanding year of performance.

To assist with the execution of Commercialbank's local and regional expansion plans, a rights issue is proposed. This issue will take place in two phases, with a 10% issue being made in June 2008 and a further 10% issue being made in 2009. With the issue of bonus shares and the first 10% rights issue in June 2008, the paid-up capital will be increased from QR 1,402 billion to QR 2,004 billion in 2008.

In addition, Commercialbank will continue to focus on its future capital requirements, seeking to further strengthen the capital base to meet growth requirements when necessary.

Our aims in 2008 will be to build on the successes of 2007. Our strategic direction will be driven by the key themes of business diversification, regional expansion and development of innovative products and services, tailored to meet the requirements of the State of Qatar and its rapidly expanding, multinational and multicultural population.

Commercialbank continues to maintain a sharp focus on its key performance indicators to ensure that they demonstrate positive and sustainable trends for the benefit of all of our stakeholders. We aim to provide enhanced value to our shareholders, whose loyalty I would like to personally acknowledge. We also aim to provide quality products and services to our customers and I would also like to express my gratitude to them for their continued loyalty over the past year.

Commercialbank's performance principally is the result of the hard work, energy and determination of our staff and it is their continued and committed endeavours that enable Commercialbank to achieve success. I would like to thank them for their efforts during 2007.

The strong growth in 2007 of both the economy of Qatar and the performance of Commercialbank is testament to the vision, drive and leadership of His Highness the Emir. On behalf of the Board, Commercialbank also expresses its appreciation to His Highness the Heir Apparent, His Highness the Prime Minister, His Excellency the Minister of Finance and His Excellency the Governor of Qatar Central Bank for their advice and guidance during the year.

The banking sector remains strategically important and integral to the economic development of Qatar and Commercialbank is committed to remaining at the heart of the development and diversification of Qatar's economy. I believe that it can look forward with confidence to generating further strong growth in the years ahead.

Abdullah bin Khalifa Al Attiya
Chairman

Board of Directors

Seated from left:

Sh. Abdullah Bin Ali Bin Jabor Al Thani - Vice Chairman
Mr. Hussain Ibrahim Alfardan - Managing Director
H.E. Abdullah Bin Khalifa Al Attiyah - Chairman
Sh. Nasser Bin Faleh Al Thani - Director
Mr. Jassim Mohammad Jabor Al Mosallam - Director

Standing from left:

Mr. Omar Hussain Alfardan – Director
Mr. Khalifa Abdullah Al Subaey - Director
Mr. Andrew Stevens - Group Chief Executive Officer
Sh. Jabor Bin Ali Bin Jabor Al Thani - Director
Mr. Abdullah Mohd Ibrahim Al Mannai - Director

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When Commercialbank was first conceived and founded in 1975, we set out to create the best financial organisation in the region, based on traditional Qatari ideals of warmth, trust and respect, combined with a vision for innovation and financial success. Today, the bank continues to live up to these ideals, consistently providing outstanding returns to its shareholders, while still contributing to the local culture and country. This continued success must be attributed to the visionary leadership and management of the bank, that has kept the organisation constantly progressing to meet the ever changing market environment and requirements of customers.

I also believe the bank's success is related to the inspirational leadership of the country by H.H. The Emir, Sheikh Hamad bin Khalifa Al Thani. Qatar is currently experiencing a period of unprecedented development and prosperity under his leadership, and I thank him for his continued guidance. Together, the bank and the country will grow stronger.

Jassem Bin Mohamed Al Mosalam
Board Member
Commercialbank

Over 30 years ago, myself and a group of like minded business leaders in Qatar came together with the desire to help support the growth and modernisation of our country. To do this we formed Commercialbank.

Today, I believe the bank continues to live up to that goal, providing essential financing for the very infrastructure and development of Qatar every day. Commercialbank has played an important role in our country's growth and prosperity, and I am proud to be a part of such a dynamic and leading organisation.

I believe Commercialbank's success is due to its unwavering commitment to the development of Qatar, its people and its culture. The bank continues to live up to the highest standard of ethics and integrity to deliver a better future for our country and for us all.

Sheikh Nasser Bin Faleh Al Thani
Board Member
Commercialbank

I am one of the founders of Commercialbank. I started my career life as a banker with the first established bank in Qatar where I concentrated on banking and commercial activities. Concurrently, I had a great desire for establishing a private bank and was able to create that opportunity alongside a group of businessmen headed by the late Sheikh Ali Bin Jabor Al Thani and other esteemed persons.

We first established a founding committee to form the bank under a private shareholding policy, which later became a public shareholding. The bank was successfully established by a group of 'commercial' people and in order to reflect its founding aim, we called it Commercial Bank of Qatar.

The success has continued to the present day with our bank holding a primary position and playing a key role in enhancing the national economy of Qatar.

Hussain Ibrahim Alfardan
Managing Director
Commercialbank

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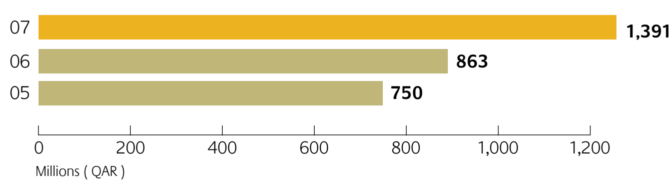
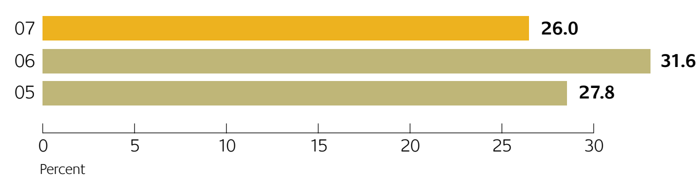
Financial Highlights

Net profit increased by 61.2% over 2006	QAR **1.39 billion**
Net interest income - up 29.7%	QAR **876.03 million**
Non Interest Income - up 62%	QAR **1.10 billion**
Total assets growth of 49.5%	QAR **45.40 billion**
Loans to customers - up 44.1%	QAR **25.02 billion**
Customers' Deposits - up 49.9%	QAR **25.80 billion**
Shareholders' Equity	QAR **6.23 billion**
Earnings per share - up from QAR 6.16	QAR **9.92**

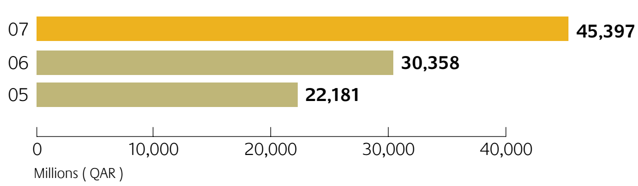
Net Profit



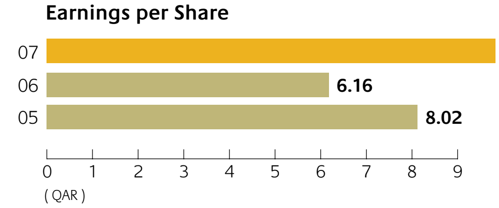
Cost : Income



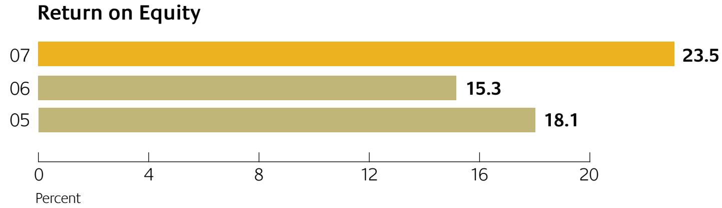
Total Assets



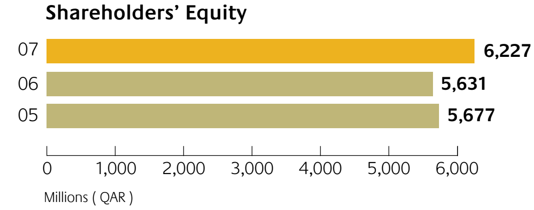
Earnings per Share



Return on Equity



Shareholders' Equity



Credit Ratings	Moody's	S&P	Fitch
Long-term Deposit	A1	A-	A
Short-term Deposit	P-1	A-2	F1
Bank Financial Strength	C-		C
Outlook	Stable	Stable	Stable

Managing Director's Report

Against a background of continued economic growth, Commercialbank maintained strength and momentum in 2007 with robust earnings growth and improved shareholder returns.

Net profit for 2007 was a record QR1.39 billion, up QR528 million (61%) on 2006. This represents a return of 99.2% on paid-up capital. These record results reflect a strong performance across all areas and it is encouraging that the rate of growth in income exceeded that of costs, with the cost:income ratio improving from 33.5% in 2006 to 27.8% in 2007.

Operating income increased by 45.7 % to QR1.97 billion, reflecting a 29.7% growth in net interest income, a 72.6% growth in fees and commission and a 42.7% growth in other income.

This impressive performance resulted in an improvement in key shareholder value indicators, with return on average shareholders' equity increasing from 15.2% to 23.4% in 2007, and earnings per share up from QR6.16 to QR9.92.

Total assets grew by QR15.04 billion (49.5%) to QR45.4 billion, with lending volumes up by 44.1% to QR25.02 billion and deposits growing by 49.9% to QR25.80 billion.

The stock markets in Qatar and the GCC recovered during 2007, showing little of the volatility that characterised much of 2006. Commercialbank's share price at the end of 2007 was QR185, compared with QR98 at the previous year end and this growth, coupled with the dividends proposed for 2007, resulted in a 92.7% total shareholder return for the year, an excellent performance by any standard. Total shareholder returns have grown by 71.9% on a compound annual basis since 2001.

National Bank of Oman, in which Commercialbank has a 35% shareholding, continues to perform well. As the second largest bank in Oman, it delivered a strong set of results in 2007. Net profit rose by 47% to RO44.6 million which is evidence of its successful growth strategy. Loans and advances grew by 29% to RO907 million, with net interest income and non-interest income growing by 11% and 49% respectively. Asset quality continues to improve, with non-performing loans being reduced to 7.7% of loans, 92% of which are covered by provisions. Capitalisation is strong, reflected in a capital adequacy ratio of 15.66%, and efficiency is improving, resulting in an improved cost:income ratio.

This excellent performance is due to the hard work and commitment of the management and staff of National Bank of Oman, and I would like to take this opportunity to thank them for their efforts over the past year. Commercialbank looks forward to cementing even closer links with National Bank of Oman over the coming years.

United Arab Bank, in which Commercialbank bought a 35% interest in December 2007, also performed well during the year. Net profit for 2007 was AED211.3 million, up 34% on the previous year. Loans and advances increased by 18% to AED3.9 billion, with total assets reaching AED6.2 billion, up 29%. It remains extremely well capitalised with a capital adequacy ratio of 19.3%. I would also like to acknowledge the dedication of the management and staff at United Arab Bank and offer my thanks for their valuable contribution during 2007. Commercialbank will be working hard during 2008 to build what I believe will be an extremely close and beneficial relationship.

To manage the new risks that a regional expansion programme presents, a Group organisation function has been established to manage the regional presence, maximise synergies and shared resources, align strategies and manage risks.

Our capital adequacy ratio at the end of 2007 was 11.85 %, compared to the 10% required by Qatar Central Bank and fully reflects the requirements of the Basel II requirements. The proposed rights issue forms an integral part of Commercialbank's capital management strategy, which is in place to ensure that an optimal balance is maintained between regulatory requirements, maximising shareholder returns, growth plans, acquisition aspirations and the maintenance of an appropriate credit rating.

During 2007, Commercialbank continued to focus on providing quality products and services to both its retail and corporate customers. With a strategy to expand the branch network significantly in the next five years and an aggressive product launch schedule already in place, retail customers can look forward to a continuing high standard in product and service offerings. Growth and development of the Al Safa Islamic product and service range forms an integral part of this retail strategy. On the corporate side, Commercialbank's strategic objectives continue to include the diversification of the loan portfolio, the growth in fee business through syndications and lead management, and the enhancement of investment services. 2007 saw good progress in meeting these objectives.

In meeting our strategic objectives, it must be stressed that sound control of risk and high standards of corporate governance are in place at all times and I am committed to maintaining Commercialbank's strong reputation in this area.

2008 will see the completion and occupation of Commercialbank Plaza, in which a flagship branch will open for business, where major companies and organisations will maintain offices in the West Bay area, and where Commercialbank Group's senior management will be located.

Commercialbank's performance is the result of the hard work, energy and dedication of its 1,007 employees. In 2007 Commercialbank continued to deliver on its commitment to provide a rewarding and stimulating working environment for their personal and professional development.

The outlook both for Qatar, under the visionary leadership and guidance of His Highness the Emir, Sheikh Hamad bin Khalifa Al Thani, and the GCC economies continues to be very positive and Commercialbank's proven business model delivered record results in 2007. I look forward to 2008 with the confidence that Commercialbank will continue to build on this strong growth momentum.

Hussain Ibrahim Alfardan
Managing Director

Commercialbank delivered exceptional performance in 2007, with both core business in Qatar and our regional partners performing strongly during the year and exceeding the financial and strategic targets set for them at the beginning of the year. Record profits were delivered in Qatar, National Bank of Oman achieved excellent results and our new investment in United Arab Bank is excellently placed to make a meaningful contribution to future performance.

As the second largest commercial bank, and largest private bank in Qatar, Commercialbank has a proven track record of delivering both a strong financial performance and sustainable added shareholder value. Our external credit ratings reflect the optimal balance we maintain between earnings growth and sound risk management and our asset quality and risk profile continues to remain sound.

Commercialbank has an experienced management team who give support to a prominent, influential and stable Board of Directors. We also have a strong and loyal shareholder base who support us in the raising of capital to meet our organic and regional growth aspirations.

Commercialbank's principal challenges in today's highly competitive environment are business growth and improving profitability. These challenges are being met through a strategy of organic growth, acquisitions and improved operational efficiency. Our investments in National Bank of Oman (NBO) and United Arab Bank (UAB) are core to this strategy and we continue to work towards an operating model that maximises efficiency and removes duplication. This will allow us to increase our focus on customer facing and customer experience activities as we look to drive efficiencies from the back office support functions. The ultimate goal will be to demonstrate a scalable operating platform, a track record for integrating our partnership businesses and hence to encourage future investment.

National Bank of Oman

Since our acquisition of a 34.9% shareholding in NBO in 2006, profitability has considerably improved. Following outstanding results in 2006, when profits rose by 49%, NBO posted another set of excellent results in 2007, announcing a 47% rise in net profit to RO44.6 million.

During 2007, NBO launched a number of initiatives which further diversified its revenue streams. On the retail side the Al Manzel housing loan product was introduced for both Omanis as well as expatriates, and on the corporate side NBO continued its involvement in prime infrastructure and project financing transactions through both bilateral deals and syndications. The close partnership with

Business growth and improving profitability are being met through a strategy of organic growth, acquisitions and improved operational efficiency

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I chose to join Commercialbank fifteen years ago, not just because of its excellent reputation in the marketplace, but because it offered a level of freedom and opportunity that you don't find in many other organisations. The bank has a visionary board and management team that really understands the value of its people, and gives them the inspiration and trust to work to the best of their ability.

There is a real synergy working within Commercialbank. Everyone feels they are making a meaningful contribution to the success of the organisation, and by extension the whole country, and I feel very proud to work here.

Abduljalil M Borhani
Senior AGM & Deputy Chief Corporate Banking Officer, Commercialbank

I joined Commercialbank as the Qatarization programme Unit Head eight months ago, after working to help local recruitment for the Doha Asian Games. It was clear to me then, as it is now, that the bank is completely committed to hiring and training Qatari staff, retaining local values and contributing to the well-being of the Qatari culture and country, in a way that many local organisations are not.

What I find unique about the Commercialbank approach, is the total dedication at management level to bringing Qataris in at all employment stages, from junior right up to senior management, and then providing the necessary training to inspire, develop and retain these staff. But no matter what nationality, everyone working within the bank feels like part of a larger family. There is a huge level of knowledge and experience here that everyone is happy to share, making Commercialbank a unique and great place to work.

Nayef Al Beshri
Unit Head Qatarizaton programme, Commercialbank

I first joined Commercialbank eight years ago and still believe it is the best financial organisation to work for in Qatar. The real difference here is the warm, family atmosphere and open working culture. Commercialbank is not just a bank or an employer to me, it feels like 'my' bank, and I think that same feeling inspires the way we treat our customers. We really try to get to know and understand them, to provide the best service we possibly can, and we are fortunate to be given an excellent, trusting environment in which to do it.

I am also particularly proud to work for an organisation that is actively involved in investing back into the local culture and community of Qatar.

Najla Moosa
Branch Manager, HMC Branch, Commercialbank

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Commercialbank produced synergies in terms of the sharing of risk, the drawing upon structuring expertise and distribution ability and the capability to originate larger, more complex transactions.

A number of new initiatives were taken to provide corporate clients with a full range of commercial and transactional banking products. To enhance the quality and efficacy of customer service, the Corporate Contact Centre was set up to serve as an interface for all transactional needs of corporate clients and Corporate Internet Banking was launched in November to facilitate banking from the customer's desk.

In its community support role, NBO played a prominent role during the Gonu Cyclone which caused considerable damage and distress. The Bank organized the distribution of donations directly to the victims and many bank employees took part in rescue operations. In recognition of its significant role in the support of local communities, NBO was awarded the "Corporate Social Responsibility Award 2007" by World Finance Magazine.

United Arab Bank

Commercialbank's acquisition of a 40% interest in United Arab Bank took place in December 2007. Since the acquisition, UAB announced a strong set of results with profit for 2007 reaching AED211.3 million, up 34% on the previous year. Initiatives are already in the pipeline, particularly in the areas of the development of new products and services, which draw on Commercialbank's knowledge and expertise and both banks look forward to 2008 with optimism.

Retail Banking Group

A cornerstone of Commercialbank's strategy in Qatar is simply to be the best retail bank in the country. The Retail Banking Group does this by putting customers at the heart of our business, improving our operations and levels of service, and developing new products and services that meet our customers' needs in a rapidly changing world. During 2007, the Retail Banking Group achieved continued growth in all areas, and has maintained Commercialbank's long standing reputation for the highest customer service quality standards in Qatar, innovation and superior retail banking products.

The Retail Banking Group provides a wide range of products and services to personal customers, including Cards, Loans, Account, Property and Wealth Management Services. Commercialbank continues to grow its share of the retail market, with the customer base growing by 27% over the last year.

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Although I am no longer a board member of Commercialbank, I know and admire the current leadership of the organisation, and trust them fully to continue to steer the bank to even greater heights. I also continue to have an excellent working relationship with the bank, with almost daily contact with my Relationship Manager. Commercialbank has always been the most active financial organisation in the country, with the best knowledge, the best reputation and the best people. They listen carefully and understand my needs, and provide me with the right solutions.

Qatar today is a remarkable place. We are attracting more and more foreigners into our community because we offer a friendly, safe environment with excellent opportunities and world-class education facilities. Commercialbank has managed well the balancing act of modernising to meet the new challenges, while retaining the tradition and warmth of Qatar's culture and heritage.

Omar Al Mana
Chairman
Al Mana Group

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In 2007, the Bank's retail mortgage customer base grew impressively by 61%, with the asset base growing by 103%.

Commercialbank is committed to developing its countrywide branch network which currently comprises 24 branches, including 5 Al Safa Islamic division units. In addition, Commercialbank operates 7 Pavilions and Sales Offices, 130 ATM's, including 26 Cash Deposit Machines and a leading edge multi-purpose deposit/withdrawal machine backed by leading edge Internet, Telephone and SMS Banking Services.

The Retail Banking Group delivered a strong performance in 2007, with loans growing by 41%, deposits by 52% and fee revenues by 81%.

Helped by the continued improvement in the speed of processing and the streamlining of internal processes, procedures and systems, Commercialbank's commitment to service quality, product and technological innovation remains undiminished. Commercialbank continued to expand its innovative product range with the launch of the eSavings account, the first of its kind in Qatar, and an equity release mortgage product. Commercialbank's savings book grew strongly in 2007, helped by the launch of the eSavings account, with the customer deposit base growing by 39% and the Sadara wealth management customer base increasing significantly.

Commercialbank continued to invest in quality during 2007, with the launch of new customer service standards, mystery shopping service evaluation initiatives, the establishment of a dedicated Customer Resolution unit, a branch revitalisation programme and the completion of over 2,000 days of training by Retail staff, including the rollout of professional customer service training.

In 2007, online channels continued their strong growth particularly through SMS banking and bankDirect, which enables retail customers to make real time account enquiries and transactions, 24 hours a day, seven days a week. The Call Centre experienced another year of growth with 83,000 clients migrating to EMV compliant chip cards. A dedicated Interactive Voice Response (IVR) platform was introduced for our high net worth customers providing focused support, 24 hours a day, seven days a week.

Commercialbank dominates the highly competitive cards segment in Qatar, with our card transactions accounting for 40% of total cards transactions in Qatar. In 2007, our credit card asset base increased by 40%, cardholders' spend by 35% and operating income by 50%. 2007 saw the launch of numerous successful initiatives such as '0% interest for 6 months', 'Buy Now Pay Later' and an 'Up to 100% cash back offer' to reward customer loyalty and promote higher usage.

The vehicle finance sector had another extremely successful year, with record growth in lending based on a strategy of forming campaign partnerships with the top car dealerships in Qatar, ranging from the high volume dealers, such as Toyota and Nissan, to low volume luxury car dealers such as BMW, Ferrari and Rolls Royce.

Building on its position as a leader in Qatar's personal property finance market, Commercialbank saw significant progress in the residential project sector in Qatar. In 2007, Commercialbank's retail mortgage customer base grew impressively by 61%, with the asset base growing by 103%. As large scale residential developments gain further momentum, especially the internationally-acclaimed Pearl-Qatar project, demand for quality residential real estate will continue its strong growth trend. Commercialbank is committed to being at the forefront of these new developments, and will continue to maintain close relationships with all the leading developers to cement its prime position within the Residential Mortgage sector.

Commercialbank's more affluent customers are provided with discreet personal banking services and wealth management solutions, developed to meet their special needs, through the Sadara Wealth Management brand. In 2007 several prestigious events were organized in collaboration with leading local brands such as Alfardan Jewellery and Alfardan Automobiles, The Pearl-Qatar and Emporium. The Sadara annual event for Qatar's prominent businesswomen and wealthy female residents was repeated in 2007 and continues to be very successful in promoting the Sadara brand.

Non-resident business, particularly with Indian and Egyptian customers, continues to be a key area of focus and Commercialbank continues its sponsorship of a number of community oriented events to promote the awareness of the Commercialbank brand and its full range of products and services within these large expatriate communities.

The Pearl Qatar

The Qatar economy continues to grow at a phenomenal rate and nowhere is this more apparent than in the property sector. The leading development within this sector is the innovative Pearl-Qatar Island project, which is setting the benchmark for real estate development.

A key element of the Retail Strategy is to leverage our leadership position in the personal property finance market and stay at the forefront of significant property developments, such as The Pearl-Qatar, through our close partnerships with leading developers to ensure continued growth in the residential mortgage sector.

On the 25th of March, Commercialbank opened its 19th Retail Banking Branch at Bin Omran to meet the needs of its customers in the vicinity. This new addition to the network strengthens the Bank's position in the Qatar financial market as a leading retail bank in Qatar.

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I would like to thank Commercialbank Board members and all staff for the hospitality by which we are received whenever we meet them. We started our rewarding dealing with Commercialbank nine years ago when it financed the building of Landmark Complex and its followed expansions.

Also, Commercialbank financed the construction of Villagio Mall and is financing the building the new Al-Khaleej Mall, based on gulf architectural design and whose seven entrances will each have a name of one of the gulf capitals. Commercialbank has also financed our fun-fair, cinemas and other specialised companies. Our strong relationship is confirmed by having a branch of the bank in every one of our commercial malls.

‘Abd-il-‘Aziz Al-Rabban
Chairman, CEO; Business Trading Company

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During 2008, Commercialbank will again take a leadership position within this market from a Retail perspective with the establishment of the first Retail Bank branches, ATM’s and electronic banking presence on the island, specifically tailored to be in tune with the affluent residents and quality of The Pearl-Qatar.

Orient 1

During 2007, Commercialbank continued to develop its exclusive Diners Club franchise business through the Orient 1 Group. Orient 1 is currently working on major initiatives to both rationalise its existing business and substantially diversify and grow its revenue streams. 2008 promises to be an exciting year with major initiatives planned for Oman and Qatar, which will further reinforce Commercialbank’s reputation as a developer of innovative card products.

Al Safa Islamic Banking

Commercialbank’s Al Safa Islamic Banking service completed its second full year of operations in 2007. The year saw the strengthening of the management team, the establishment of a new Head Office and the opening of a new branch at a dedicated site in the heart of the commercial district of Doha.

Income from Islamic finance and investments improved by 106% to QR101 million during the year, while net profit showed a three-fold increase, delivering QR52 million. Total finance grew by 200%, reaching QR 1.2 billion, with deposits growing by 140% to QR1.4 billion. The customer base doubled to over 3,000 customers.

The year was one of continued development of the retail side of Al Safa’s business. To further improve its service to retail customers Al Safa materially added to its ATM network with Al Safa customers also benefiting from the use of Commercialbank’s wider ATM network.

A range of new products was introduced during the year, of particular note being “Al Safa Credit Card”, a fee based and free of profit charge card, the first of its kind to be offered in Qatar. An Islamic Return Account was launched, being a Murabaha based deposit solution for high net worth and corporate customers. A Forward Ijara (forward lease/Ijara Mawsoufa Bil Thima) product was introduced, designed to fulfil the financing of construction projects in large leasehold and freehold projects. Customers enjoy a grace period during the construction period and begin lease payments on entry. In addition a corporate short-term Murabaha finance product is now available, with a revolving option, which greatly facilitates the meeting of corporate short-term needs.

Al Safa expanded its corporate banking services to large corporate based clients in various industrial segments during the year, and was involved in a number of noteworthy Islamic-based finance arrangements. Al Safa was one of the lead

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After attending an informative and friendly presentation in 2000 with Commercialbank about the unique services they offer, we opened accounts for all our doctors at Doha Clinic. Since then, I have been very happy with their level of professionalism and service, and particularly appreciate the number of different ways they allow me to access and manage my finances, including the useful nrEgypt Direct facility.

With Commercialbank I feel I have a real financial partner that helps and supports me, rather than just seeing me as a number, and that kind of organisation is hard to find.

Dr. Ashraf Kararah
Director, Doha Clinic Hospital

I have trusted Commercialbank with my financial affairs for over 30 years now, and they have never let me down. I have dealt with many banks in the region, but have always found Commercialbank to be the best.

The big difference for me with Commercialbank, is their friendly, open-door approach, demonstrated from the highest levels of management down to their branch staff. If I want to meet a senior manager of the bank for example, it is easy to arrange – everyone in the organisation goes out of their way to listen and understand my needs, and I always look forward to seeing them. They are not just my business partners, they are my friends.

Ali Sultan Al-Ali
Chairman; A. Sultan Alali Almaadeed

As a businessman in Qatar with interests across the region, it was important to me to find a bank that understood and supported my business vision with excellent services and facilities, but could also deliver the customised banking services I require. I believe I found this with Commercialbank.

The bank provides me with first-class service. They have not just met, but actively exceeded my expectations at times, beyond what I would normally expect from a bank, and I attribute that to the personal attention they give to their customers, and the excellent board and management team the bank has, many of whom I have come to know personally as friends.

Ahmad Chaikha
Chairman, CICO Company for Engineering Constructions

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Key areas of focus during 2007 were loan portfolio growth, increased trade fees and treasury profits, reduced funding costs and growth in investment funds

arrangers of the US$ 150 million Sukuk issue to Salam Bunyan, one of the largest Qatar real estate companies, and signed a QR182 million Murabaha facility for Barwa, the largest property developer in Qatar. In addition Al Safa provided letter of credit and Murabaha financing of €138 million to Gulf Cement Company.

On the operational side, Al Safa upgraded its Call Centre and Interactive Voice Banking service as well as the centralisation of back office operations during the year, which is delivering greater efficiencies and operational risk benefits that will help enhance customer service.

Al Safa further heightened its profile during 2007 through the sponsorship of the 2nd World Islamic Infrastructure Finance Conference, held in Doha under the patronage of His Excellency The Minister of Finance. The conference attracted attendees from both the global and regional Islamic finance community and was a resounding success.

Al Safa's Shari'a Supervisory Board comprises the highly respected scholars, Sheikh Abdul Aziz Al Khulaifi from Qatar, Dr. Mohammed Elgari from Saudi Arabia, and Dr. Abdul Sattar Abu Ghudah from Syria, who ensure customers of the integrity of Al Safa's Islamic banking services.

Al Safa is building a strong platform upon which to expand in the coming years and will look to develop fully the enormous potential of the Islamic finance sector.

Corporate Banking & Capital Markets Group

The Corporate Banking and Capital Markets Group (CBCM) offers a comprehensive range of corporate banking, treasury, investment banking, transaction banking and corporate finance services. These services are delivered to domestic and international companies investing, trading or executing projects in Qatar and include IPO management, project and construction finance and business advisory services.

In 2007, CBCM accelerated its growth momentum to contribute 75.1% of total assets, and 68.1% of the total operating income of Commercialbank. With strong growth in new business, total CBCM loan assets rose to QR21.7 billion, a year on year growth of 50%. Non interest income, including trade finance and treasury fees & commissions, rose 81.7% over 2006, reflecting Commercialbank's leading market position in trade finance, contractor finance and treasury services.

Key areas of focus during 2007 were loan portfolio growth, increased trade fees and treasury profits, an improved mix of interest and non-interest income, reduced funding costs and growth in investment funds. In order to meet these challenges, ambitious targets were set to grow the domestic client list, expand into international markets, particularly in the GCC and MENA, secure new equity/debt capital market mandates in Qatar, diversify and expand fee based services in trade finance, cash management, treasury and fund management, and effectively manage liquidity demands.

During the year, Commercialbank successfully raised funding for its balance sheet growth, with a low-cost five year syndicated term loan facility initially launched in April 2007 at US$500 million that was scaled up to US$650 million, as a result of the excellent market response. This was followed by US$800 million term loan facility with a club of international banks in November 2007, again significantly oversubscribed from an initial launch amount of US$ 600 million. Together with the success of its EMTN programme, Commercialbank has been able to readily diversify its funding sources and access longer term funds to fund its continued expansion

Domestic Banking Division

The key theme of the Domestic Banking Division in 2007 was to leverage Commercialbank's corporate banking strengths and reputation by growing market share, sustaining profitability and increasing fee generation capability through the active management of accounts based on value of earnings. Business continued to expand on the back of a huge increase in Government spending on developmental and infrastructure projects.

Public Sector Corporates Division

During the year, Commercialbank successfully implemented its strategy to strengthen relationships with public sector corporates, with the goal of increasing market share and of growing the number of operating accounts. Having established itself as a major local banking partner for the Government of Qatar in the many large oil & gas, industrial and infrastructure projects, Commercialbank continued to selectively finance high profile project finance deals in 2007, and its roles in some of Qatar's large project financings are recognition of the Bank's capabilities in large structured financings. Public sector institutions continue to be a highly important source of customer deposits.

In the Project Finance sector, the Bank became more visible with new Mandated Lead Manager (MLA) level commitments of US$179 million in two landmark Qatar project & structured financings.

Aggregate financing commitments at senior MLA/Arranger level to the State of Qatar, various Qatar Petroleum sponsored projects, LNG shipping and the project finance sector have grossed US$1.2 billion.

Commercialbank continued to finance high profile project finance deals, and our roles in some of Qatar's large structured financings are recognition of our capabilities

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As the Finance Manager of a multi-national oil and gas company, I deal with Commercialbank on an almost daily basis, and have come to rely on them for their services and support. I need to be able to access and manage our accounts and financial requirements quickly and easily, and the bank's excellent infrastructure and presence both on and offline make it simple for me to do so.

They also seem to have a unique work culture, with everyone at the bank willing to listen and help, whatever our requirements. They have a product range that is second to none, and a leadership that is innovative and ambitious, and I am always impressed with their service standards.

Dhanish Kohli
Finance Manager,
Oil & Gas Multinational Company

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International Banking Division

During the year, key themes for International Banking were selective asset growth, the attraction of cross border deposits and enhanced profitability. Increased visibility of Commercialbank as a major GCC Bank with an established track record in origination, syndication and trade services and a strong capital base, enabled it to significantly grow its customer base in the GCC region and India. In syndicated transactions, Commercialbank assumed senior MLA/Arranger roles in several regional and international financings with an aggregate commitment of over US$675 million during 2007. The Bank also successfully executed its first advisory mandate for a large domestic private sector project refinancing.

Commercialbank built on its reputation in multinational contractor financing by issuing large value guarantees for several ongoing infrastructure projects. It also raised sizeable structured deposits from international corporates to assist in diversifying its sources of funding.

Investment Banking Division

The Division commenced 2007 with the objective to launch new proprietary funds and win new ECM and DCM mandates, as well as growing its existing presence in other capital market services. The market environment in 2007 was generally favorable with income from sale of investments totaling QR205.8 million, higher fee income generated from marketing of international funds and increased brokerage and asset management fees. The Bank's proprietary portfolio continued to generate a return of 10.9% on invested assets, which was achieved through geographic and asset class diversification, and a portfolio of fixed income structures.

Commercialbank won its second IPO management mandate during the year, being the QR600 million IPO for Al Khaliji Commercial Bank. Commercialbank was appointed the Manager for the USD600 million Shari'a compliant The Pearl of Qatar Real Estate Development Fund LP, the first of such funds in Qatar comprising USD300 million in Equity and USD300 million in Financing.

Assets under management from major regional institutions have grown significantly during the year and Commercialbank's maiden GCC equities mutual fund, Al Waseela Fund has been a success as reflected in assets under management from local and international investors and its sterling performance of ~40%.

During the year, the Division also achieved important milestones by winning its first mandate for jointly lead managing a Sukuk Issue for a large private sector Qatari Company.

Treasury Division

In 2007, Commercialbank sought to develop new foreign exchange products to increase both market share and revenues, and Treasury Division continues to efficiently manage bank funding and liquidity requirements, whilst also catering for the growing demand in Qatar for exchange rate and interest rate hedging solutions.

During the year, Treasury foreign exchange income from customer dealings grew by 42%, reflecting Commercialbank's growing capabilities and competitiveness in this business. New products added during the year include principal protected deposits focusing on currencies.

A new state-of-the-art front and back office system to fully automate and manage all aspects of Treasury products is ready for implementation with the ultimate aim to achieve a fully integrated straight-through-processing and risk management environment

Liquidity management continues to be a key area of emphasis and Commercialbank has been successful during 2007 in diversifying its depositor base and in raising longer term funding.

Transaction Banking Division

The Transaction Banking Division continued to record significant growth during the year under review. The Division's key achievement for the year was the setting up of an SME Unit, a key growth area identified for the Bank. Total trade commissions grew from QR 72.8 million to QR 135.3 million during 2007 and the number of trade transactions handled increased by 21%. Total trade volumes routed through the Bank's counters increased from QR 11.9 billion to QR 15.7 billion, an increase of 31.7%.

Risk Management

Identification, measurement and management of risk are a strategic priority for Commercialbank. The provision of financial services carries a number of diverse risks which may have a material impact on financial performance. Consequently, Commercialbank operates within a comprehensive framework, covering accountability, oversight, measurement and reporting to maintain high standards of risk management.

The volume of transactions managed by the bank's centralised processing teams increased by 21% to approximately 4.3 million transactions

“

When I first needed a bank to help facilitate my business ventures, I chose Commercialbank because of its reputation. What I got was not just the support I needed, but a long-term financial partner that has invested in me and my businesses for over 20 years.

Today, I couldn’t be happier with my relationship with Commercialbank. I have a dedicated Relationship Manager who gives me personal advice and helps with my financial matters, whenever I need it, in a friendly manner. Everyone at the bank is extremely professional and approachable. They look after their customers, and I recommend the organisation to all my friends.

Ahmed M. A. Al Khori
Chairman, Shannon Trading and Contracting

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The principal risks faced by Commercialbank are:

- Credit risk – the risk of potential loss from a customer’s failure to meet obligations as they fall due. The effective management of credit risk is a critical component of a comprehensive approach to risk management. The Commercialbank Risk Committee meets monthly to review all risk related issues and provide decisions and recommendations that ensure the consistent alignment of the risk profile to match with the highest industry standards.
- Market risk – defined as the potential loss in value or earnings arising from changes in external market factors such as interest rates, foreign exchange rates, commodities and equities. The Asset and Liability Committee (ALCO) meets monthly, and more regularly where appropriate, to review the Bank’s overall bank balance sheet and recommend appropriate actions.
- Liquidity or funding risk – the risk that Commercialbank does not have sufficient financial resources to meet its obligations when they are due, or will have to do so at excessive cost. The ALCO continuously reviews liquidity risk to ensure that these are soundly managed within approved guidelines.
- Operational risk – arising from internal processes, people and systems or from external events. The Commercialbank Risk Committee meets monthly to review all operational risk related issues and provides recommendations to ensure risk concerns are mitigated and remedial action items are effectively monitored via ageing analysis and dashboard indicators.
- Strategic risk – the risk of a potential negative impact on shareholder value as a result of business decisions taken as part of the strategic planning process for both organic growth and the identification of possible acquisitions.

Risk management within Commercialbank is based on the risk appetite and strategy set by the Board of Directors through both the Audit and Risk Committee and the Policy and Strategy Committee. These committees are further supported in the risk management and review process by the Group Risk Committee, the Credit Committee and the Asset and Liability Committee.

Commercialbank has an established specialist risk function, reporting to the Chief Risk Officer, in support of the various risk committees. Its accountabilities are:

- To recommend policies, standards and limits;
- To monitor compliance with those standards and limits;
- To provide leadership in the development and implementation of risk management techniques; and
- To aggregate risks arising across the Commercialbank consolidated group and monitor the overall position

As part of the evolution of the credit risk management framework at Commercialbank, compliance with Basel II and best practice in all aspects of risk management are key areas of focus. Commercialbank will move to an upgraded internal rating system in the first quarter of 2008. This is an internationally recognized model based on best practice in rating Corporate and SME customers by Moody's KMV, one of the world's leading providers of quantitative credit analysis solutions. This initiative will further strengthen and upgrade the risk architecture in Commercialbank and support the Bank's plans and preparations for adopting the Internal Rating Based approach under Basel II, which will greatly assist the Bank in its balance sheet and capital management and planning.

Operations and Information Technology

Banking Operations and Information Technology is the key engine room of Commercialbank, and enables it to operate around the clock. It provides an optimal supply of transaction processing, telecommunications, applied technology and security performance together with a stable and scalable platform for future growth.

It is a testament to Commercialbank's strength that, in Qatar's high growth and increasingly competitive and transparent market, the Operations and Information Technology team has performed strongly, supplemented by a proven network of carefully chosen external advisors, and business partners contributing specialist support as required. Commercialbank's high growth aspirations will be underpinned by the development and expansion of the operational and technology platform over the next few years.

During 2007, Commercialbank's support teams continued to work in partnership with the customer facing business areas to understand and anticipate customer needs and to provide effective and simplified processes. The volume of transactions managed by Commercialbank's centralised processing teams increased by 21% to approximately 4.3 million transactions. Realising opportunities to further automate transaction processing remains a top priority.

Major Information Technology projects delivered during the year included:

- Enhanced network security through the deployment of sophisticated intrusion protection systems;
- The streamlining of technology servers to drive down costs;
- The introduction of the industry wide best practice COBIT framework to further improve IT processing standards;
- Implementation of the new eSavings technology module;
- Enhancements to the retail internet banking service;
- Enhancements to treasury support systems

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I first joined Commercialbank back in 1976 when they employed me as the first ever female teller in Qatar. I was always given the same training and opportunities as my male colleagues, and went on to become the first female branch manager in the country too. I believe it is that same kind of pioneering and visionary thinking that has made Commercialbank the success it is today.

The management at this bank has always led the market with an ambition and commitment second to none, combined with an understanding of people that makes its employees and customers feel more like part of an extended family than just a number. Commercialbank has always evolved to keep pace with the ever changing needs of Qatar and its customers, and I feel very proud to be a part of that.

Huda Hobbi
Senior AGM & Head of Private Clients Relationships
Commercialbank

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The Bank's Information Technology & Operational processing capabilities are well placed to deliver increased market leading performance in 2008 with efficiency initiatives planned, including the increased use of shared services, to maximise this performance.

Premises

Commercialbank's new corporate headquarters, in Doha's new commercial business district in the West Bay area, is nearing completion. Commercialbank Plaza will be both a fittingly prestigious symbol to project the forward looking attributes and image of the Bank and a highly efficient and environmentally responsible long term investment for stakeholders.

Commercialbank's corporate real estate resources drive an aggressive branch development programme, from initial concept, through to the design and build of customer service and support arenas, ranging from mini branches to full service strategic branch platforms.

Key to the Bank's strong performance in 2007 has been the dedication, professionalism and desire to succeed of its people

Human Resources

Key to Commercialbank's strong performance in 2007 has been the dedication, professionalism and desire to succeed of its people. The local and regional job market remains highly competitive. In order to continue to attract the best people, Commercialbank recognises its responsibility to provide all its employees with the opportunity to learn, develop and fulfil their potential.

Almost 7,700 training man days were delivered during the year with more managerial and technical training being delivered than ever before. Commercialbank also embarked on the design and development of a new series of training initiatives that were launched in the latter half of the year. The most important of these initiatives was in the area of Qatarisation. As an effective and responsible corporate citizen, the Bank already has an internship programme for school and university students and a Graduate Management Trainee Development programme which attracts high potential Qatari University graduates. The Bank also launched a Banking Associate programme whereby young Qataris undergo intensive training in a broad based banking technical skills and man management programme for a six month period before assuming a full time role within the Bank. Various other initiatives will be launched in 2008 to further enhance the recruitment and retention of Qatari nationals.

Corporate Governance

Commercialbank aims to set the highest standards of corporate governance throughout the organisation and in everything it does. The Corporate Governance framework functions according to international best practice and complies with Qatar Central Bank regulations. It has a number of elements, key of which are good relations with shareholders, the effective use of committee structures, and transparent and timely reporting.

Certain activities of the Board are delegated to four Board Committees, being the Policy and Strategy Committee, the Executive Committee, the Audit and Risk Committee, and the Premises Committee. A number of management committees are in place to support the Board Committees, the most important of which are the Group Executive Committee, the Group Risk Committee, and the Asset and Liability Committee.

Commercialbank's reporting is in accordance with International Financial Reporting Standards which provides a high degree of transparency and facilitates comparability with its regional and international peers.

Commercialbank carries out periodic reviews of its corporate governance in the light of new events, statutory requirements and developments in local and international standards and amends it accordingly.

Community Support

In addition to the financial contribution that Commercialbank makes to the wider economy, there is a recognition that it is in the bank's long term interest to help improve the social and commercial fabric of local communities in Qatar through the community support programme. Initiatives with organisations such as Qatar Diabetes Association, Qatar University, Al Noor Institute for the Blind, Qatar Foundation and College of the North Atlantic demonstrate the wide ranging nature of the community support given by Commercialbank

In 2007, the international media spotlight again focused on the sporting arena in Qatar, further confirming Qatar's position as a key location in the sporting calendar. Two major events in this calendar are title sponsored by Commercialbank.

Commercialbank is proud to have been the title sponsor of the Qatar Masters international golf tournament since 2006. It is committed to raising the profile of this event to scale new heights and put it on a par with other leading regional and international tournaments. The Commercialbank Qatar Masters, as it is now called, enjoys a global television audience of over 200 million people and this will continue to grow as the popularity of the sport gains momentum.

The 2008 Commercialbank Qatar Masters presented by Dolphin Energy, celebrating more than a decade of golf with The European Tour

The 2008 Commericalbank Grand Prix of Qatar, heralded a new era in the world of MotoGP racing as Losail Circuit, the first floodlit MotoGP circuit in the world, played host to the start of the World Championship's 60th season.

Commercialbank is also the title sponsor of the Commercialbank MOTOGP, giving the Bank involvement in two of the most prestigious sporting events in Qatar. We are committed to using sport to project Qatar's global appeal and use this sporting platform to project its heritage, culture and dynamic business environment on an international stage.

Acknowledgements

Commercialbank's accomplishments are largely due to the commitment and efforts of our employees. It is through their efforts that our record of robust and sustainable growth has been built. We must also express our appreciation for the guidance and support that our Chairman, Managing Director and members of the Board of Directors have given to management, which has enabled Commercialbank to acquire its reputation as a strong, reliable and respected regional banking group.

Commercialbank's success is in no small part due to the guidance, support and counsel provided by Qatar Central Bank and we acknowledge their major contribution, not only to Commercialbank's success, but also to the high regard in which the Qatar banking and financial sector is held.

Commercialbank is committed to people, investing in training and personal development for our staff, creating services of relevance for our customers and supporting our community. Our shareholders, from many walks of life, join us to create a dynamic organisation that will always conduct business with ethics and integrity - reaching out to every aspect of Qatari life in celebration of the place that we call home.

We are proud to be inspired by Qatar and by its people and look forward to the future with confidence.

Andrew C. Stevens
Group Chief Executive Officer

Report of the Auditors

Independent Auditor's Report to the Shareholders of
The Commercial Bank of Qatar (Q.S.C.)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of The Commercial Bank of Qatar (Q.S.C.) (the 'Bank') and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as of 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes 1 to 36.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with QCB regulations.

Report on other legal and regulatory requirements

Further, we confirm that the financial information included in the annual report of the Board of Directors is consistent with the books of account of the Group. We report that we have obtained all the information we considered necessary for the purposes 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, 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
PricewaterhouseCoopers
Qatar Auditors' Registry No 150
12 February 2008

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

Audited Accounts 2007

البنك التجاري

Commercial bank

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

Consolidated Balance Sheet

As at 31 December 2007

Figures in thousand Qatar Riyals

	Notes	2007	2006
ASSETS			
Cash and balances with Central Bank	6	**2,248,858**	1,017,893
Due from banks and financial institutions	7	**9,019,483**	5,493,323
Loans, advances and financing activities for customers	8	**25,021,487**	17,359,748
Investment securities	9	**4,664,672**	4,321,380
Investment in associates	10	**3,329,900**	1,285,158
Property, furniture and equipment	11	**721,393**	558,213
Other assets	12	**391,486**	322,220
Total assets		**45,397,279**	30,357,935
LIABILITIES			
Due to banks and financial institutions	13	**4,907,743**	2,694,520
Customers' deposits	14	**24,656,692**	16,701,103
Other borrowed funds	15	**7,623,105**	4,135,688
Other liabilities	16	**842,275**	687,439
		38,029,815	24,218,750
Unrestricted investment deposits owners' equity	17	**1,139,647**	507,779
		1,139,647	507,779
SHAREHOLDERS' EQUITY			
Paid up capital	18	**1,401,579**	1,401,579
Legal reserve	18	**2,915,602**	2,915,499
General reserve	18	**26,500**	26,500
Fair value reserve	18	**188,426**	1,624
Risk reserves	18	**346,300**	176,200
Other reserves	18	**171,903**	84,549
Proposed dividend	18	**560,632**	981,106
Proposed bonus shares	18	**420,474**	-
Retained earnings		**196,401**	44,349
Total shareholders' equity		**6,227,817**	5,631,406
Total liabilities and shareholders' equity		**45,397,279**	30,357,935

The financial statements have been approved by the board of directors and signed on their behalf by the following on 20th January 2008.

HE Abdullah bin Khalifa Al Attiyah
Chairman

Mr. Hussain Ibrahim Alfardan
Managing Director

Mr. A C Stevens
Group Chief Executive Officer

The attached notes 1 to 36 form part of these consolidated financial statements.

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

Consolidated Statement of Income

For the year ended 31 December 2007

Figures in thousand Qatar Riyals

	Notes	2007	2006
Interest income	19	**2,244,106**	1,405,690
Interest expense	20	**(1,368,079)**	(730,431)
Net interest income		**876,027**	675,259
Income from Islamic financing and investment activities	21	**83,664**	49,979
Fee and commission income	22	**733,275**	436,756
Fee and commission expense		**(67,058)**	(50,683)
Net fee and commission income		**666,217**	386,073
Dividend on shares and investment funds units	23	**38,943**	16,855
Profits from foreign currency transactions	24	**83,754**	55,517
Profits from investments	25	**205,772**	151,984
Other operating income	26	**18,860**	19,030
		347,329	243,386
Operating income		**1,973,237**	1,354,697
General and administrative expenses	27	**(487,925)**	(408,995)
Depreciation		**(52,492)**	(37,832)
Impairment losses on loans and advances to financial institutions, net		**2,240**	1,556
Impairment losses on loans and advances to customers, net		**(50,274)**	(7,094)
Impairment losses on available for sale investments		**(85,904)**	(97,797)
Impairment losses on other assets		**(11,034)**	-
Total operating expenses and provisions		**(685,389)**	(550,162)
Profit before share of result of associate		**1,287,848**	804,535
Share of results of associate net of tax - NBO	10	**132,567**	79,094
Share of results of associate net of tax - UAB	10	**925**	-
Profit before share of investment deposit owners		**1,421,340**	883,629
Less unrestricted investment deposit owners' share of profit	28	**(30,625)**	(20,943)
Net profit for the year		**1,390,715**	862,686
- Basic and diluted earnings per share (QR)	29	**9.92**	6.16

The attached notes 1 to 36 form part of these consolidated financial statements.

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

Consolidated Statement of Changes in Shareholders' Equity

31 December 2007

	Share Capital	Legal reserve: Proposed Bonus Shares	Legal reserve: Other
Balance at 1 January 2006	934,386	467,193	2,915,499
Distributed bonus shares for the year 2005	467,193	(467,193)	-
Dividend for the year 2005	-	-	-
Dividend received from associates for 2005	-	-	-
Contribution for social responsibilities	-	-	-
Net profit for the year ended 31 December 2006	-	-	-
Share of profit of associate net of tax 2006	-	-	-
Net movement in fair values reserve	-	-	-
Share of revaluation reserves of Associate	-	-	-
Risk reserve required as per QCB regulation	-	-	-
Proposed cash dividend	-	-	-
Adjustment for exchange rate fluctuations	-	-	-
Balance at 31 December 2006	1,401,579	-	2,915,499
Balance at 1 January 2007	1,401,579	-	2,915,499
Dividend for the year 2006	-	-	-
Dividend received from associates for 2006	-	-	-
Contribution for social responsibilities	-	-	-
Net profit for the year ended 31 December 2007	-	-	-
Share of profit of associate net of tax 2007 - NBO	-	-	-
Share of profit of associate net of tax 2007 - UAB	-	-	-
Statutory reserve for Oman global card service	-	-	103
Net movement in fair values reserve	-	-	-
Share of revaluation reserves of Associate	-	-	-
Risk reserve required as per QCB regulation	-	-	-
Proposed cash dividend	-	-	
Proposed bonus shares	-	-	-
Adjustment for exchange rate fluctuations	-	-	-
Balance at 31 December 2007	**1,401,579**	**-**	**2,915,602**

Note:

I) Retained earning includes proposed social responsibility fund contribution QR 8.0 million (2006: nil) that is expected to be approved at the forthcoming Annual General Meeting.

The attached notes 1 to 36 form part of these consolidated financial statements.

Figures in thousand Qatar Riyals

	General Reserve	Fair Value Reserve	Risk Reserve	Other Reserves	Retained earnings Proposed Dividend	Retained earnings Proposed Bonus Shares	Retained earnings Other	Total
	26,500	500,566	87,200	45,003	373,754	-	298,315	5,648,416
	-	-	-	-	-	-	-	-
	-	-	-	-	(373,754)	-	-	(373,754)
	-	-	-	(39,548)	-	-	39,548	-
	-	-	-	-	-	-	(7,000)	(7,000)
	-	-	-	-	-	-	862,686	862,686
	-	-	-	79,094	-	-	(79,094)	-
	-	(493,237)	-	-	-	-	-	(493,237)
	-	(5,730)	-	-	-	-	-	(5,730)
	-	-	89,000	-	-	-	(89,000)	-
	-	-	-	-	981,106	-	(981,106)	-
	-	25	-	-	-	-	-	25
	26,500	1,624	176,200	84,549	981,106	-	44,349	5,631,406
	26,500	1,624	176,200	84,549	981,106	-	44,349	5,631,406
	-	-	-	-	(981,106)	-	-	(981,106)
	-	-	-	(46,138)	-	-	46,138	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	1,390,715	1,390,715
	-	-	-	132,567	-	-	(132,567)	-
	-	-	-	925	-	-	(925)	-
	-	-	-	-	-	-	(103)	-
	-	128,792	-	-	-	-	-	128,792
	-	57,956	-	-	-	-	-	57,956
	-	-	170,100	-	-	-	(170,100)	-
	-	-	-	-	560,632	-	(560,632)	-
	-	-	-	-		420,474	(420,474)	-
	-	54	-	-	-	-	-	54
	26,500	**188,426**	**346,300**	**171,903**	**560,632**	**420,474**	**196,401**	**6,227,817**

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

Consolidated Statement of Cash Flows

31 December 2007

Figures in thousand Qatar Riyals

	Note	2007	2006
Cash flows from operating activities			
Net profit for the year		**1,390,715**	862,686
Adjustments of profit with cash flows from operating activities			
Depreciation and amortisation		**59,105**	41,083
Impairment loss on available for sale investments		**85,904**	97,797
Impairment loss on other assets		**11,034**	-
Profit from sale of property, furniture and equipment		**-**	(4,326)
Share of results of associate net of tax		**(133,492)**	(79,094)
Profit from investments		**(205,772)**	(151,984)
Profits before changes in operating assets and liabilities		**1,207,494**	766,162
Net increase in operating assets			
Balances with banks and financial institutions		**(672,605)**	(300,334)
Loans, advances and financing activities for customers		**(7,661,739)**	(6,475,610)
Other assets		**(69,266)**	20,617
Net increase in operating liabilities			
Balances to banks and financial institutions		**(314,000)**	364,000
Customers' deposits		**8,587,457**	3,974,100
Other liabilities		**154,836**	178,327
Net cash from/(used in) operating activities		**1,232,177**	(1,472,738)
Cash flows from Investing activities			
Purchase of investments		**(1,844,980)**	(2,473,227)
Acquisition of shares in associate		**(1,899,882)**	-
Dividend received from associate		**46,138**	39,548
Proceeds from sale and redemption of securities		**1,738,862**	1,099,571
Purchase of property and equipment		**(216,073)**	(278,102)
Proceeds from sale of property and equipment		**-**	4,336
Net cash used in investing activities		**(2,175,935)**	(1,607,874)
Cash flows from Financing activities			
Proceeds of borrowed funds		**5,264,404**	3,044,037
Repayment of borrowed funds		**(1,783,600)**	-
Dividend paid		**(981,106)**	(373,754)
Net cash from financing activities		**2,499,698**	2,670,283
Net increase/decrease in cash and cash equivalents during the year		**1,555,940**	(410,329)
Effects of foreign exchange fluctuation		**54**	25
Cash and cash equivalents at beginning of year	34	**3,131,278**	3,541,582
Cash and cash equivalents at end of year	34	**4,687,272**	3,131,278

The attached notes 1 to 36 form part of these consolidated financial statements.

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

The Commercial Bank of Qatar Q.S.C. ("the Bank") was incorporated in the State of Qatar in 1975 as a public shareholding company under Emiri Decree No.73 of 1974. The Bank and its subsidiaries (together the Group) are engaged in conventional commercial banking, Islamic banking services and credit card business and operates through its Head Office and branches established in Qatar. The Bank also acts as a holding company for its subsidiaries engaged in credit card business in several Middle East countries.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss, and all derivative contracts.

The preparation of financial statements in conformity with IFRS 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.

(a) Standards, amendment and interpretations effective 1 January 2007

IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments but does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to trade and other payables.

IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This interpretation does not have any impact on the Group's financial statements.

IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. As the Group had no impairment loss previously reversed, this interpretation does not have any impact on the Group's financial statements.

(b) Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the group's operations:

- IFRS 4, 'Insurance contracts';
- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies'; and
- IFRIC 9, 'Re-assessment of embedded derivatives'.

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the group has not early adopted them:

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group. (continued)

- IFRS 8, 'Operating segments ' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The group will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash-generating units based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.

- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement in using fair values.

- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The group will apply IFRIC 14 from 1 January 2008, but it is not expected to have any impact on the group's accounts.

(d) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations:

The following interpretations to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

- IFRIC 11, 'IFRS 2 – Group and treasury share transactions', IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

- IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

2.2 Consolidation

(a) 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 rights. The existence and effect of potential voting rights 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 on which 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 are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. 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 (Note 2.14). 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

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

The consolidated financial statements of the Group include the financial statements of the Bank and its controlled subsidiaries listed below:

Company Name	Country of Incorporation	Capital	Eqv. QAR	Share %
Orient 1 Limited	Bermuda	US$ 20,000,000	72,800,000	100%
Diners Club Services Bahrain WLL				
(a subsidiary of Orient 1)	Bahrain	US$ 3,000,000	10,920,000	100%
Diners Club Services Egypt SAE				
(a subsidiary of Orient 1)	Egypt	LE 3,700,000	2,446,503	99%
Global Card Services LLC				
(a subsidiary of Orient 1)	Oman	OMR 500,000	4,726,045	100%

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (Note 2.14).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement; 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 have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The consolidated financial statements are presented in Qatar Riyals, which is the Group's functional and presentation currency.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the 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 the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Financial Assets

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

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

(b) Loans and receivables

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

In accordance with Qatar Central Bank regulations, a risk reserve created by way of appropriations of profit with a minimum value of 1.50% of the total loan portfolio excluding specific provision, suspense interest, deferred profits of Islamic banks, lending to Ministry of Finance of the State of Qatar, lending guaranteed by Ministry of Finance and lending against cash collaterals.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial Assets (continued)

(c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

(d) Available-for-sale financial assets

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

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

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Islamic financing such as Murabaha, Ijara and Musawama are stated at their gross principal amount less any amount received, provision for impairment and unearned profit. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest or profit calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available- for-sale are recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2.6 Offsetting financial instruments

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

2.7 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group derivatives trading instruments includes forward contracts, foreign exchange swaps and interest rate swaps. The Group sells these derivatives to customers in order to enable them to transfer, modify or reduce current and future risks. These derivative instruments are fair valued as at the balance sheet date and the corresponding fair value changes is taken to the statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Recognition of deferred day one profit and loss

The best evidence of fair value at initial recognition is the transaction price (ie, the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (ie, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The Group has entered into transactions, some of which will mature after more than 10 years, where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', is not recognised immediately in profit and loss.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits and losses.

2.9 Interest income and expense

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

Income from financing and investment contracts under Islamic banking principles are recognised within 'income from Islamic finance and investment activities' in the income statement using a method that is analogues to the effective interest method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.10 Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

2.11 Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

2.12 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to banks and financial institutions as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of loan loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The resulting provision is not materially different from that resulting from the application of the Qatar Central Bank guidelines. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for loans and advances.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of financial assets (continued)

(b) Assets classified as available-for-sale

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

(c) Renegotiated loans

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

2.14 Intangible Assets

(a) Goodwill

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 acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains 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.

(b) Assets identified during acquisitions

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

(c) Franchise rights

Franchise rights have a finite useful life and are carried at cost less accumulated amortisation and impairment if any. Amortisation is calculated using the straight-line method to allocate the cost of franchise over the franchise period. The Group annually carries out impairment tests on the carrying value of the franchise rights.

2.15 Property, furniture and equipment

Land and buildings comprise mainly branches and offices. All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings 20 years,
- Furniture and equipment 3 - 8 years,
- Motor vehicles 5 years.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Property, furniture and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income/expenses in the income statement.

2.16 Properties acquired against settlement of customers' debts

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

According to Qatar Central Bank instructions, the Bank should dispose of any land and properties acquired against settlement of debts within a period not exceeding three years from the date of acquisition and this period can be extended for further periods only after obtaining approval from Qatar Central Bank.

2.17 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.18 Cash and cash equivalents

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

2.19 Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Employee benefits

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

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

2.22 Borrowings

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

2.23 Dividends payable

Dividends on shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

2.24 Fiduciary activities

The Group acts as fund manager and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, corporates and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.25 Off-balance sheet

Off-balance sheet items include Group's obligations with respect to foreign exchange forwards, interest rates agreements and others. These do not constitute actual assets or liabilities at the balance sheet date except for assets and obligations relating to fair value gain or loss on derivatives.

2.26 Comparative

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3- FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

3.1 Financial instruments

Definition and classification

Financial instruments comprise the Group's financial assets and liabilities. Financial assets include cash balances and current accounts and placement with Banks, loans and advances, investments and financial liabilities include customers' deposits and due to banks. Financial instruments also include rights and commitments included in off- balance sheet items.

Note 2 describes the accounting policies followed by the Group in respect of recognition and measurement of the key financial instruments and their related income and expense.

Risk management

The Group derives its revenue from assuming and managing customer risk for profit. Through a robust governance structure, risk and return are evaluated to produce sustainable revenue, to reduce earnings volatility and increase shareholder value. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.1 Financial instruments (continued)

Credit risk reflects the possible inability of a customer to meet its repayment or delivery obligations. Market risk, which also includes foreign currency, interest rates risks and other price risks, is the risk of fluctuation in asset and commodity values caused by changes in market prices and yields. Liquidity risk results to the inability to accommodate liability maturities and withdrawals, fund asset growth or otherwise meet contractual obligations at reasonable market rates. Operational risk is the potential for loss resulting from events involving people, processes, technology, legal issues, external events or execution or regulatory issues.

The Group's Market Risk and Structural Risk Management policies envisage the use of interest rate derivative contracts and foreign exchange derivative contracts as part of its asset and liability management process.

Risk Committees

The governance structure of the Group is headed by the Board of Directors. The Board of Directors evaluates risk utilising the Group Chief Executive Officer and the following Board and Management committees:

1. Audit and Risk Committee is a Board committee responsible for all aspects of Enterprise Risk Management including but not restricted to credit risk, market risk, and operational risk. This committee sets the policy on all risk issues and maintains oversight of all Group risks through the Group Risk Committee.

2. Policy and Strategy Committee is a Board committee which is responsible for all policies and strategies of the business.

3. Executive Committee is a Board committee responsible for evaluating and granting credit facilities and to approve the Group's investment activities within authorized limits as per Qatar Central Bank and Board guidelines.

4. Credit Committee is the highest management level authority on all counterparty risk exposures product programmes, associated expenditure programmes thereunder and underwriting exposures on syndications and securities transactions.

5. Group Risk Committee is a management committee which is the highest management authority on all risk related issues at the Group and its subsidiaries and affiliates in which it has strategic investments.

6. Asset Liability Committee (ALCO) is a management committee which is a decision body for developing policies relating to all asset and liability management (ALM) matters.

7. Sharia Supervisory Board is an independent committee comprising three renowned external Islamic Scholars and Specialists in Islamic banking, to ensure that the activities, products and transactions of the Islamic branches are in compliance with Islamic principles (Sharia). The Sharia Board discharge their responsibilities by conducting periodical audits. All new Islamic products require Sharia board pre-launch approval.

3.2 Credit Risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is the most important risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit risk is attributed to both on-balance sheet financial instruments such as loans, overdrafts, debt securities and other bills, Islamic finances, investments, and acceptances and credit equivalent amounts related to off-balance sheet financial instruments. The Group's approach to credit risk management preserves the independence and integrity of risk assessment, while being integrated into the business management processes. Policies and procedures, which are communicated throughout the organisation, guide the day-to-day management of credit exposure and remain an integral part of the business culture. The goal of credit risk management is to evaluate and manage credit risk in order to further enhance this strong credit culture.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2.1 Credit Risk Management

(a) Loans and Advances

The Group has significantly enhanced its loan mix. This improvement is being achieved through a strategy of reducing exposure to non-core client relationships while increasing the size of the consumer portfolio comprising of consumer loans, vehicle loans, credit cards and residential mortgages, which have historically recorded very low loss rates. In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Group reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Group derive the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

(i) The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. Clients of the Group are segmented based on a 10 point scale into five rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events.

Group's internal ratings scale and mapping of external ratings

Group's rating	Description of the grade	External rating: Standard & Poor's equivalent
Grade A	Low risk – excellent	AAA, AA+, AA- A+, A-
Grade B	Standard/Satisfactory risk	BBB+, BBB, BBB-, B+, BB, BB-, B+, B, B-
Grade C	Sub-standard – watch	CCC to C
Grade D	Doubtful	D
Grade E	Bad debts	E

The ratings of the major rating agency shown in the table above are mapped to Group's rating grades based on the long-term average default rates for each external grade. The Group uses the external ratings where available to benchmark internal credit risk assessment. Observed defaults per rating category vary year on year, especially over an economic cycle.

(ii) Exposure at default is based on the amounts the Group expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Group includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

(iii) Loss given default or loss severity represents the Group's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

(b) Debt securities and other bills

For debt securities and other bills, external rating such as Standard & Poor's rating or their equivalents are used by Group Treasury for managing of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2.2 Risk limit control and mitigation policies

(a) Portfolio Diversification

Portfolio diversification is an overriding principle, therefore, the credit policies are structured to ensure that the Group is not over exposed to a given client, industry sector or geographic area. To avoid excessive losses if any single counter-party is unable to fulfil its payment obligations, large exposure limits have been established per credit policy. Limits are also in place to manage exposures to a particular country or sector. These risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

(b) Collateral

In order to proactively respond to credit deterioration the Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Islamic banking division manages its credit risk exposure by ensuring that its customer's meet the minimum credit standards as defined by the Credit Risk Management (CRM) process of the Group.

(c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2.3 Maximum exposure to credit risk before collateral held or other credit enhancements

The following table represents a worse case scenario of credit risk exposure to the Group at 31 December 2007 and 2006 without taking of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposure set out above are based on net carrying amounts as reported in the balance sheet.

Figures in thousand Qatar Riyals

	2007	2006
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from banks and financial institutions		
- Deposits and placements	**8,310,418**	5,005,643
- Loans to financial institutions	**709,065**	487,680
Loans, advances and financing for customers:		
Retail loans		
- Consumers loans to individual	**3,383,473**	2,603,070
- Mortgage loan	**916,012**	450,697
Commercial and Corporate loans		
- Loans to private sector	**16,560,545**	11,168,903
- Loans to Govt. and public sector	**3,241,904**	2,752,065
Islamic Finances		
- Consumers loans to individual	**249,826**	100,617
- Mortgage loan	**649,653**	274,233
- Corporate loan	**20,074**	10,163
Investment Securities		
- Qatari Govt. Bonds	**2,061,456**	1,808,853
- Other Bonds and securities	**411,902**	431,867
On balance sheet total as at 31 December	**36,514,328**	25,093,791
Credit risk exposures relating to off-balance sheet items are as follows:		
Acceptance		
- Cash collateralised	**2,762,793**	-
- Unsecured	**350,959**	200,614
Guarantees		
- On account of banks and financial institutions	**5,513,002**	4,394,105
- On account of customers	**7,596,007**	4,529,073
Letter of Credit		
- On account of banks and financial institutions	**540,518**	407,218
- On account of customers	**3,435,318**	1,922,155
Unutilised credit facilities granted to customers	**2,890,846**	2,198,486
Off balance sheet total as at 31 December	**23,089,443**	13,651,651
Total	**59,603,771**	38,745,442

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2.3 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

As shown above, 57% of the total maximum exposure is derived from loans and advances to customer and due from banks and financial institutions (2006: 59%), 4% represents investments securities (2006: 6%) and 39% represents gross off balance sheet items (2006 : 35%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loan and advances portfolios based on the following:

- 99% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2006 : 98%)
- 79% Corporate loans, which represents the biggest Group in the portfolio, but impaired is only 0.11% (2006: 0.16%)
- 98% of the loans and advances portfolio are considered to be neither past due nor impaired (2006 : 97%)
- Of the QR 4,299 million retail loans assessed on an individual basis, 4% is impaired but total impaired is representing less than 1% of the total loans and advances.

3.2.4 Loans, advances and financing to customers

Loans and advances are summarised as follows:

(a) The following table sets out the credit qualities of its loans and advances portfolio as per the Group's internal ratings.

Figures in thousand Qatar Riyals

		Neither past due nor impaired	%	Past due but not impaired	%	Impaired	%	Gross Total
31 December 2007								
Grade A	Low risk - excellent	11,454,372		8,445				**11,462,817**
Grade B	Standard/satisfactory risk	13,247,559		122,059				**13,369,618**
Grade C	Sub-standard - watch			87,385				**87,385**
Grade D	Doubtful			95,193				**95,193**
Grade E	Bad debts					208,749		**208,749**
Gross		**24,701,931**	**98%**	**313,082**	**1%**	**208,749**	**1%**	**25,223,762**
Less allowance for impairment						202,275		**202,275**
Net		**24,701,931**	**99%**	**313,082**	**1%**	**6,474**		**25,021,487**

Figures in thousand Qatar Riyals

		Neither past due nor impaired	%	Past due but not impaired	%	Impaired	%	Gross Total
31 December 2006								
Grade A	Low risk - excellent	8,644,921		441				8,645,362
Grade B	Standard/satisfactory risk	8,408,898		194,024				8,602,922
Grade C	Sub-standard - watch			41,103				41,103
Grade D	Doubtful			69,009				69,009
Grade E	Bad debts					142,000		142,000
Gross		17,053,819	97%	304,577	2%	142,000	1%	17,500,396
Less allowance for impairment						140,648		140,648
Net		17,053,819	98%	304,577	2%	1,352		17,359,748

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2.4 Loans, advances and financing to customers (continued)

(b) Loans, advances and financing to customers past due but not impaired

Loans and advances to customer less than 180 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

Figures in thousand Qatar Riyals

	Retail	Corporate	Islamic Finances	2007 Total	2006 Total
Past due upto 30 days	**93,101**	**16,314**	**26**	**109,441**	175,928
Past due 30 - 60 days	**51,258**	**7,875**	**463**	**59,596**	31,267
Past due 60 - 90 days	**35,735**	**9,685**	**139**	**45,559**	24,310
Past due 90 -180 days	**95,575**	**2,189**	**722**	**98,486**	73,072
Total	**275,669**	**36,063**	**1,350**	**313,082**	304,577

The fair value of collaterals for corporate loans represents more than 150% of the total exposure. (2006 : 120%).

(c) Impaired loans, advances and financing to customer

i) Loans, advances and financing to customers

Impairment is identified by individual assessment of each loan as per local regulators regulations. The impaired loans and advances to customers before taking into consideration the cash flows from collateral held is QR 209 million (2006: QR 142 million) Breakdown of the gross amount of impaired loans by business segment are as follows:

Figures in thousand Qatar Riyals

	2007	2006
Individually impaired loans		
- Retail loans	**185,617**	119,915
- Corporate loans	**21,879**	22,085
- Islamic finances	**1,253**	-
	208,749	142,000

ii) Loans and advances to banks

The total gross amount of individually impaired loans and advances to banks as at 31 December 2007 was QR 3.7million (2006: QR 5.6million). No collateral is held by the Group, and a full impairment provision has been provided against the gross amount.

(d) Loans and advances to customers renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired totalled QR 1,639k (2006: QR 883k).

3.2.5 Debt securities and other bills

The analysis of debt securities and other bills by rating agency designation at 31 December 2007, based on Standard & Poor's ratings or their equivalent is shown in note 9.

3. **FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT** (continued)

3.2.6 Repossessed collateral

During 2007 the value of repossessed collateral is insignificant.

3.2.7 Concentration of risks of financial assets with credit risk exposure

The Group's concentration of risks of financial assets with credit risk exposure is included in the summary in note 5.

3.3 Market Risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposures to market risk into trading portfolios.

The Group's proprietary investments are managed according to the Group's internal investment policy, which has been approved by the Board of Directors and drafted in accordance with the Qatar Central Bank guidelines. The Group's trading activities are conducted by Treasury and Investments Division. These activities are subject to business lines guidelines and policies. The Group employs several techniques to measure and control activities including sensitivity analysis and position limits. The maximum limit of the Group's total proprietary investments (i.e. total of fair value through profit and loss, held to maturity and available for sale investment) portfolios is restricted to 70% of the Group's capital and reserves (Tier 1 capital). However the individual limit for the held for trading investment portfolio is 10% of capital and reserves (Tier 1 capital) with a maximum permissible loss to carry for a single script and for whole trading portfolio at any given time. Investment policy is reviewed by the Board of Directors annually and day to day limits are independently monitored by the Risk Management department.

Investment decisions are driven by the investment strategy, which is developed by business line under ALCO oversight and approved by the Board.

3.3.1 Market risk measurement techniques

As part of the management of market risk, the Group undertakes various hedging strategies. The Group also enters into interest rate swaps to match the interest rate risk associated with the fixed-rate long-term debt securities and loans to which the fair value option has been applied. The major measurement techniques used to measure and control market risk are outlined below.

(a) Value at Risk

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

VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Group might lose, but only to a certain level of confidence (99%). There is therefore a specified statistical probability (1%) that actual loss could be greater than the VAR estimate. The VAR model assumes a certain 'holding period' until positions can be closed (10 days). It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 10-day periods in the past. The Group's assessment of past movements is based on data for the past five years. The Group applies these historical changes in rates, prices, indices, etc. directly to its current positions – a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation.

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

As VAR constitutes an integral part of the Group's market risk control regime, VAR limits are established by the Board annually for all trading portfolio operations and allocated to business units. Actual exposure against limits, together with a consolidated group-wide VAR, is reviewed daily by Group Treasury. Average daily VAR for the trading portfolio of the Group was QR 32.7million in 2007 (2006: QR 34.1million).

The quality of the VAR model is continuously monitored by back-testing the VAR results for trading books. All back-testing exceptions and any exceptional revenues on the profit side of the VAR distribution are investigated, and all back-testing results are reported to the Board of Directors.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

(b) Stress tests

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

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

3.3.2 VAR summary for 2007 and 2006

Group trading portfolio VAR by risk type

Figures in thousand Qatar Riyals

	12 months to 31 December 2007			12 months to 31 December 2006		
	Average	**High**	**Low**	Average	High	Low
Foreign exchange risk	**549**	**578**	**516**	434	732	158
Interest rate risk	**354**	**677**	**303**	860	1,560	390
Equity risk	**31,779**	**35,722**	**27,947**	32,833	39,314	26,753
Total VAR	**32,682**	**36,977**	**28,766**	34,127	41,606	27,301

The decrease of VAR in 2007, especially the equity risk, mainly relates to the stability and reduction in the overall exposure to the local equity market.

The above VAR results are calculated independently from the underlying positions and historical market moves. The aggregate of the trading VAR results does not constitute the Group's VAR due to correlations and consequent diversification effects between risk types and portfolio types.

3.3.3 Foreign exchange risk

Foreign currency risk is the risk of loss that results from changes in foreign exchange rates. The Group's exposure to foreign currency risk is limited and is strictly controlled by the market risk and structural risk management policies established by the Group which govern the maximum trading and exposure limits that are permitted.

Figures in thousand Qatar Riyals

	Qatar Riyals	**US Dollars**	**Euro**	**Sterling Pounds**	**Other Currencies**	**Total**
On -balance sheet						
As at 31 December 2007						
Assets	**21,369,148**	**17,290,742**	**1,071,660**	**1,580,049**	**4,085,680**	**45,397,279**
Liabilities and shareholders equity	**(21,737,724)**	**(20,692,657)**	**(1,072,673)**	**(1,584,293)**	**(309,932)**	**(45,397,279)**
Net currency position	**(368,576)**	**(3,401,915)**	**(1,013)**	**(4,244)**	**3,775,748**	**-**
Off -balance sheet						
Credit commitments (Contingent liabilities)	**9,440,902**	**11,281,037**	**1,755,465**	**55,959**	**556,080**	**23,089,443**
On -balance sheet						
As at 31 December 2006						
Assets	14,583,002	14,216,458	219,260	86,381	1,252,834	30,357,935
Liabilities and shareholders equity	(18,128,815)	(11,880,786)	(220,447)	(94,185)	(33,702)	(30,357,935)
Net currency position	(3,545,813)	2,335,672	(1,187)	(7,804)	1,219,132	-
Off -balance sheet						
Credit commitments (Contingent liabilities)	6,837,221	5,189,520	1,164,159	56,515	404,236	13,651,651

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.3.4 Interest/Profit rate risk

a) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by Group Treasury.

The ALM process, managed through ALCO, is used to manage interest rate risk associated with non-trading financial instruments. Interest rate risk represents the most significant market risk exposure to the Group's non-trading financial instruments.

The Group's goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect net interest income. Interest rate risk is measured as the potential volatility to the net interest rate income caused by changes in market interest rates. The Group typically manages the interest rate risk of its non-trading financial instruments by segmenting these assets and liabilities into two broad portfolios: non–discretionary and discretionary. The non-discretionary portfolio consists of the Group's customer driven loans and deposit positions and securities required to support regulatory requirements. To manage the resulting interest rate sensitivity of the Group's non-discretionary portfolio, the Group uses a discretionary portfolio of securities, long dated deposits, inter-bank takings and placements, and when warranted, derivatives. Strategically positioning the discretionary portfolio, the Group largely manages the interest rate sensitivity in the non-discretionary portfolio.

b) Profit rate risk

Profit rate risk (under Islamic banking) is the prospective risk of missing available higher earning opportunities due to the locking of assets for long term at a fixed profit rate. Exposures to the profit rate risk of the Islamic Assets are managed as follows:

1. For financing at fixed rate profit, a security margin to cover the expected future appreciation of profit rate is added to the deal profit rate.
2. High value products such as (Ijara transactions) are subject to periodical profit rate revisions.
3. Financing in short term assets or include a profit rate revisionary clause in the financing deal agreement.

The following table summarises the interest / profit rate sensitivity position at 31 December 2007, by reference to the re-pricing period of the Group's assets, liabilities and off-balance sheet exposures:

Figures in thousand Qatar Riyals

	Upto 3 months	3-12 Months	1-5 Years	Non-interest/ profit sensitive	Total	Interest / Profit rate
As at 31 December 2007						
Cash and deposits with Central Bank	708,000	-	-	1,540,858	**2,248,858**	4.24
Due from banks and financial institutions - Conventional Banking (CB)	7,644,928	331,695	398,580	-	**8,375,203**	5.08
Due from banks and financial institutions - Islamic Banking (IB)	644,280	-	-	-	**644,280**	5.32
Loans, advances and financing activities for customers - CB	8,871,005	15,225,090	5,839	-	**24,101,934**	8.14
Loans, advances and financing activities for customers - IB	2,326	88,618	828,609	-	919,553	9.66
Investment securities	542,899	3,012,977	-	1,108,796	**4,664,672**	6.50
Investment in associates	-	-	-	3,329,900	**3,329,900**	-
Other assets	-	-	-	1,112,879	**1,112,879**	-
Total assets	**18,413,438**	**18,658,380**	**1,233,028**	**7,092,433**	**45,397,279**	**-**

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

b) Profit rate risk (continued)

Figures in thousand Qatar Riyals

	Upto 3 months	3-12 Months	1-5 Years	Non-interest/ profit sensitive	Total	Interest / Profit rate
As at 31 December 2007 (continued)						
Due to banks and financial institutions	2,859,046	2,048,697	-	-	**4,907,743**	5.09
Customers' deposits	16,025,447	5,024,101	113,890	3,493,254	**24,656,692**	5.06
Other borrowed funds	7,623,105	-	-	-	**7,623,105**	5.75
Other liabilities	-	-	-	842,275	**842,275**	-
Unrestricted investment deposits owners' equity	-	1,139,647	-	-	**1,139,647**	4.50
Shareholders' equity	-	-	-	6,227,817	**6,227,817**	-
Total liabilities and shareholders' equity	**26,507,598**	**8,212,445**	**113,890**	**10,563,346**	**45,397,279**	**-**
Balance sheet items gap	(8,094,160)	10,445,935	1,119,138	(3,470,913)	**-**	-
Off-Balance sheet items gap	-	-	-	-	**-**	-
Interest rate sensitivity gap	**(8,094,160)**	**10,445,935**	**1,119,138**	**(3,470,913)**	**-**	**-**
Cumulative interest rate sensitivity gap	**(8,094,160)**	**2,351,775**	**3,470,913**	**-**	**-**	**-**
As at 31 December 2006						
Cash and deposits with Central Bank	210,000	-	-	807,893	1,017,893	5.21
Due from banks and financial institutions - CB	4,701,913	89,544	351,152	-	5,142,609	5.07
Due from banks and financial institutions - IB	248,794	101,920	-	-	350,714	5.05
Loans, advances and financing activities for customers - CB	10,309,065	6,658,670	7,000	-	16,974,735	7.82
Loans, advances and financing activities for customers - IB	77	6,337	378,599	-	385,013	5.44
Investment securities	367,338	2,476,458	-	1,477,584	4,321,380	5.82
Investment in associate	-	-	-	1,285,158	1,285,158	-
Other assets	-	-	-	880,433	880,433	-
Total assets	15,837,187	9,332,929	736,751	4,451,068	30,357,935	-
Due to banks and financial institutions	2,330,520	364,000	-	-	2,694,520	4.75
Customers' deposits	12,757,135	1,285,993	86,793	2,571,182	16,701,103	4.44
Other borrowed funds	4,135,688	-	-	-	4,135,688	5.61
Other liabilities	-	-	-	687,439	687,439	-
Unrestricted investment deposits owners equity	-	507,779	-	-	507,779	4.30
Shareholders' equity	-	-	-	5,631,406	5,631,406	
Total liabilities and shareholders' equity	19,223,343	2,157,772	86,793	8,890,027	30,357,935	-
Balance sheet items gap	(3,386,156)	7,175,157	649,958	(4,438,959)	-	-
Off-Balance sheet items gap	-	-	-	-	-	-
Interest rate sensitivity gap	(3,386,156)	7,175,157	649,958	(4,438,959)	-	-
Cumulative interest rate sensitivity gap	(3,386,156)	3,789,001	4,438,959	-	-	-

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4 Liquidity risk

Liquidity is the ongoing ability to accommodate liability maturities, fund asset growth and meet other contractual obligations in a timely and cost effective fashion. Liquidity management involves the maintenance of an ample and diverse funding capacity, liquid assets and other source of cash to cushion fluctuations in asset and liability levels arising from unanticipated events or market turbulence.

3.4.1 Liquidity risk management process

The management of liquidity risk is governed by the Group's liquidity policy. The primary objective of liquidity risk management; over which ALCO has oversight, is to provide a planning mechanism for unanticipated changes in the demand or needs for liquidity created by customer behaviour or abnormal market conditions. ALCO emphasises the maximisation and preservation of customer deposits and other funding sources. ALCO also monitors deposit rates, levels, trends and significant changes. Deposit marketing plans are regularly reviewed for consistency with the liquidity policy requirements. ALCO has in place a contingency plan, which is periodically reviewed. The Group's ability to raise wholesale and/or long term funding at competitive costs is directly impacted by our credit ratings, which are as follows:

a) Moody's : Long Term A1, Short Term P1 and Financial strength C-, outlook stable.
b) Fitch : Long Term A, Short Term F1 and Financial strength C, outlook stable.
c) Standard & Poor's : Long Term A-, Short Term A-2 outlook stable.

3.4.2 Funding approach

Sources of liquidity are regularly reviewed by a ALCO of the Group to maintain a wide diversification by currency, geography, provider, product and term.

3.4.3 Non-derivative cash flows

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

Figures in thousand Qatar Riyals

On balance sheet items	During 1 month	1-3 months	3-12 months	Above 1 years	No maturity	Total
As at 31 December 2007						
Cash and deposits with Central Bank	1,020,237	-	-	-	1,228,621	2,248,858
Due from banks and financial institutions	7,881,672	373,758	331,695	398,580	33,778	9,019,483
Loans, advances and financing activities for customers	3,571,516	1,891,198	2,024,590	17,534,183	-	25,021,487
Investment securities	-	-	-	3,723,776	940,896	4,664,672
Investment in associates	-	-	-	-	3,329,900	3,329,900
Property, furniture, equipment and other assets	-	-	-	-	1,112,879	1,112,879
Total assets	**12,473,425**	**2,264,956**	**2,356,285**	**21,656,539**	**6,646,074**	**45,397,279**
Due to banks and financial institutions	3,405,046	1,452,697	50,000	-	-	4,907,743
Customers' deposits	14,773,588	5,004,326	4,764,908	113,870	-	24,656,692
Other borrowed funds	-	-	2,912,000	4,711,105	-	7,623,105
Other liabilities	-	-	-	-	842,275	842,275
Unrestricted investment deposits owners' equity	197,157	541,482	259,193	20	141,795	1,139,647
Total liabilities	**18,375,791**	**6,998,505**	**7,986,101**	**4,824,995**	**984,070**	**39,169,462**
Maturity gap	(5,902,366)	(4,733,549)	(5,629,816)	16,831,544	5,662,004	6,227,817

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

Figures in thousand Qatar Riyals

On balance sheet items (continued)	During 1 month	1-3 months	3-12 months	Above 1 years	No maturity	Total
As at 31 December 2006						
Cash and deposits with Central Bank	210,000	-	-	-	807,893	1,017,893
Due from banks and financial institutions	4,336,461	590,853	191,464	351,152	23,393	5,493,323
Loans, advances and financing activities for customers	2,963,392	366,790	2,018,184	12,011,382	-	17,359,748
Investment securities	602	-	-	3,452,254	868,524	4,321,380
Investment in associates	-	-	-	-	1,285,158	1,285,158
Property, furniture, equipment and other assets	-	-	-	-	880,433	880,433
Total assets	7,510,455	957,643	2,209,648	15,814,788	3,865,401	30,357,935
Due to banks and financial institutions	1,585,547	692,464	364,000	-	52,509	2,694,520
Customers' deposits	9,695,392	5,632,925	1,285,993	86,793	-	16,701,103
Other borrowed funds	1,783,600	-	-	2,352,088	-	4,135,688
Other liabilities	-	-	-	-	687,439	687,439
Unrestricted investment deposits owners' equity	192,739	20,847	200,177	20	93,996	507,779
Total liabilities	13,257,278	6,346,236	1,850,170	2,438,901	833,944	24,726,529
Maturity gap	(5,746,823)	(5,388,593)	359,478	13,375,887	3,031,457	5,631,406

3.4.4 Derivative instruments

In general forward foreign exchange contracts are settled on a gross basis and interest rate swaps are settled on a net basis.

Maturity of forward foreign exchange contracts is given in note 31.

3.4.5 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 30-a), are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 30-a), are also included below based on the earliest contractual maturity date.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4.5 Off-balance sheet items (continued)

(c) Capital commitments

Capital commitments for the acquisition of buildings and equipment (Note 30-b) are summarised in the table below.

Figures in thousand Qatar Riyals

	Below 1 Year	Above 1 Year	Total
As at 31 December 2007			
Loan commitments	1,041,019	1,849,827	**2,890,846**
Guarantees, acceptances and other financial facilities	12,413,764	7,784,833	**20,198,597**
Capital commitments	153,552	-	**153,552**
Total	**13,608,335**	**9,634,660**	**23,242,995**
As at 31 December 2006			
Loan commitments	654,606	1,543,880	2,198,486
Guarantees, acceptances and other financial facilities	5,226,955	6,226,210	11,453,165
Capital commitments	6,560	112,799	119,359
Total	5,888,121	7,882,889	13,771,010

3.4.6 Fair value of financial assets and liabilities

Based on the methods used to determine the fair value of financial instruments explained in note 2, the fair value of the Group's assets and liabilities do not differ substantially from their book values at the date of the balance sheet. Following are the financial assets and liabilities:

Figures in thousand Qatar Riyals

	Carrying value		Fair value	
	2007	2006	**2007**	2006
Financial assets				
Due from banks and financial institutions	**9,019,483**	5,493,323	**9,019,483**	5,493,323
Loans, advances and financing activities for customers	**25,021,487**	17,359,748	**25,021,487**	17,359,748
Investment securities	**4,664,672**	4,321,380	**4,675,938**	4,315,560
Financial liabilities				
Due to banks and financial institutions	**4,907,743**	2,694,520	**4,907,743**	2,694,520
Customers' deposits	**25,765,714**	17,187,939	**25,765,714**	17,187,939
Other borrowed funds	**7,623,105**	4,135,688	**7,637,819**	4,149,924

i) Due from other banks and financial institutions

Due from banks includes inter-bank placements and lending to banks. The fair value of this financial instrument is not different than its carrying value as the total portfolio has a very short duration and is re-priced frequently.

(ii) Loans, advances and financing activities for customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances is not significantly different from its carrying value as almost the whole portfolio is subject to frequent re-pricing with market rates.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4.6 Fair value of financial assets and liabilities (continued)

(iii) Investment securities
Investment securities includes held to maturity, available for sale and held for trading investments. Investment classified as available for sale and held for trading are measured at fair value. Fair value for held-to-maturity investment is primarily based on market prices, where ever market price is not available, the Group establish the fair value using valuation techniques that includes discounted cash flow analysis, recent arms length transactions and other valuation techniques commonly used by market participants. The fair values of held to maturity investments are stated in note 9.

(iv) Due to banks and financial institutions
Due to banks includes inter bank takings, short term borrowing, overnight and current deposits. The fair value of this financial instrument is not different than its carrying value as the total portfolio has a very short term duration and is re-priced frequently.

(v) Other borrowed funds
The estimated fair value of other borrowed funds represent the discounted amount of estimated future cash flow expected to be paid using current market rates for similar loan facilities. The fair value of borrowed funds is disclosed in note 15.

(vi) Customer Deposits
The estimated fair value of non-interest bearing deposits is the carrying amount as the same in repayable on demand. The estimated fair value of interest bearing deposits is also not different from the carrying values on the balance sheet date, as almost the total portfolio maturity is of very short duration and is re-priced at market rates.

3.5 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The capital adequacy ratio of the Group is calculated in accordance with the Basel Committee guidelines as adopted by Qatar Central Bank, using the pro-rata consolidation method for its investment in associates. The following table shows the risk weighted values and capital charge for capital adequacy ratio purposes.

Figures in thousand Qatar Riyals

	Capital charge		Risk weighted	
	2007	2006	**2007**	2006
Risk Elements				
Credit risk	**42,399,583**	26,371,085	**42,399,583**	26,371,085
Market risk	**302,047**	247,052	**3,020,473**	3,088,156
Operational risk	**152,762**	79,609	**1,527,617**	995,116
Total capital charge/Risk weighted assets	**42,854,392**	26,697,746	**46,947,673**	30,454,357

	Amount		% BIS	
	2007	2006	**2007**	2006
Tier 1 capital	**5,132,459**	4,472,476	**10.93%**	14.69%
Tier 1 + Tier 2 capital	**5,563,551**	4,649,407	**11.85%**	15.27%

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.5 Capital management (continued)

The table below summarises the composition of Tier 1 and Tier 2 capital

Figures in thousand Qatar Riyals

	2007	2006
Tier 1 Capital		
Paid up Capital	**1,401,579**	1,401,579
Legal Reserve	**2,915,602**	2,915,499
General reserve	**26,500**	26,500
Other reserves	**171,903**	84,549
Retained earnings	**616,875**	44,349
Total Tier 1 capital	**5,132,459**	4,472,476
Tier 2 Capital		
Risk reserve	**346,300**	176,200
Fair value reserve	**84,792**	731
Total Tier 2 capital	**431,092**	176,931
Total capital (Tier 1 and Tier 2)	**5,563,551**	4,649,407

The increase of the Tier 1 capital in the year of 2007 is mainly due to the contribution of the current year profit excluding proposed dividend.

3.6 Risk management in relation to others' investments

The Group is managing customers' investments either directly or in the form of investment portfolios. The management of these investments by the Group, could lead to some legal, moral and operational risks. Accordingly, the Group takes necessary measures to control these risks.

Management of client's investment portfolios are guided by the terms and conditions recorded in written agreements signed by the respective clients. These portfolios are primarily invested in fixed income, capital guaranteed or coupon paying structures. Proper books of records for such portfolios are maintained as per Qatar Central Bank guidelines and standard accounting practices. The operations of these portfolios are reviewed annually by external auditors to identify any lapses in regulatory compliance as well as by the Group's Internal Risk Audit function.

Notes 29(b) summarise these investments.

3.7 Operational risk

Operational risk is the risk of direct or indirect loss that may result from inadequate or failed technology, human performance, process or external events. The Group endeavours to minimise operational losses by ensuring that effective infrastructure, controls, system and individuals are in place throughout the organisation.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Impairment losses on loans and advances

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

To the extent that the net present value of estimated future cash flows differs by +5% / -5% percent, the provision would be estimated QR 0.2 million higher or QR 0.2 million lower.

(b) Impairment of available-for-sale equity investments

The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates amongst other factors, the normal volatility in share price. In addition, impairment may be relevant when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows. If any such evidence of impairment for available-for-sale financial assets exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the income statement.

Had all decline in fair value below cost been considered significant and prolonged, the Group would suffer an additional loss of QR 33 million in its 31 December 2007 financial statements being the transfer of negative fair value to the income statement.

(c) Held-to-maturity investments

The Group follows the guidance contained in International Accounting Standard 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost. If the entire held-to-maturity investments holdings were tainted, the fair value would increase by QR 11 million, with a corresponding entry in the fair value reserve in shareholders' equity.

5. SEGMENT INFORMATION

(a) By business segment

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

- Conventional Banking – provides funded and non-funded credit facilities, demand and time deposit services, investment advisory and brokerage services, currency exchange, interest rate swap and other derivative trading services, loan syndication and structured financing services etc. to Corporate, Commercial and Multinational Customers and also provides personal current, savings, time and investment accounts services, credit card and debit card services, consumers and residential mortgage loan services, valuable custody services etc. to retail and individual customers.
- Alsafa Islamic Banking (Alsafa) – provides Islamic principles (Sharia) compliant banking services such as current, savings, time and investment account services, consumers and lease finances, trade finances to retail, corporate and commercial customers.
- Orient 1 – a subsidiary of the bank, provides credit card services in the regional markets.
- Investment in associates – includes the Bank's strategic acquisitions in National Bank of Oman (NBO) and United Arab Bank (UAB) in UAE, which are an accounted for on the equity method.

5. SEGMENT INFORMATION (continued)

(a) By business segment (continued)

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

Figures in thousand Qatar Riyals

	Conventional			Islamic	Subsidiaries	Investment	
	Corporate	Retail	Total	Banking	(Orient 1)	in associates	Total
31 December 2007							
Interest/profit income	1,835,511	404,294	2,239,805	83,664	4,301	-	**2,327,770**
Interest/profit expense	(1,260,320)	(107,678)	(1,367,998)	(30,625)	(81)	-	**(1,398,704)**
Net interest/profit income	575,191	296,616	871,807	53,039	4,220	-	**929,066**
Non interest income	739,865	250,627	990,492	17,473	5,581	-	**1,013,546**
Operating income	1,315,056	547,243	1,862,299	70,512	9,801	-	**1,942,612**
Operating expenses	-	-	(449,156)	(28,170)	(10,599)	-	**(487,925)**
Depreciation	-	-	(50,807)	(1,323)	(362)	-	**(52,492)**
Loan loss provision, net	-	-	(47,279)	(1,253)	498	-	**(48,034)**
Provision on AFS Investment	-	-	(85,904)	-	-	-	**(85,904)**
Impairment losses on other assets	-	-	(10,700)	-	(334)	-	**(11,034)**
Share of Profits of Associates	-	-	-	-	-	133,492	**133,492**
Net Profit	**-**	**-**	**1,218,453**	**39,766**	**(996)**	**133,492**	**1,390,715**
Other Information							
Assets	-	-	40,295,445	1,698,427	73,507	3,329,900	**45,397,279**
Capital expenditure	-	-	216,073	-	-	-	**216,073**
Liabilities	-	-	37,754,413	1,408,661	6,388	-	**39,169,462**
31 December 2006							
Interest/profit income	1,117,368	283,229	1,400,597	49,979	5,093	-	1,455,669
Interest/profit expense	(656,679)	(73,643)	(730,322)	(20,943)	(109)	-	(751,374)
Net interest/profit income	460,689	209,586	670,275	29,036	4,984	-	704,295
Non interest income	466,028	151,109	617,137	7,379	4,943	-	629,459
Operating income	926,717	360,695	1,287,412	36,415	9,927	-	1,333,754
Operating expenses	-	-	(383,680)	(16,479)	(8,836)	-	(408,995)
Depreciation	-	-	(37,447)	(8)	(377)	-	(37,832)
Loan loss provision	-	-	(4,626)	-	(912)	-	(5,538)
Provision on AFS Investment	-	-	(95,312)	(2,485)	-	-	(97,797)
Share of Profits of Associates	-	-	-	-	-	79,094	79,094
Net Profit	-	-	766,347	17,443	(198)	79,094	862,686
Other Information							
Assets	-	-	28,138,250	861,363	73,164	1,285,158	30,357,935
Capital expenditure	-	-	278,102	-	-	-	278,102
Liabilities	-	-	24,127,507	593,920	5,102	-	24,726,529

Intra-group transactions are eliminated from this workings.

5. SEGMENT INFORMATION (continued)

(b) By geographical segment

Although the Group's four business segments are managed on a worldwide basis, Qatar is the home country of the parent bank, which is also the main operating geographical segment as illustrated in the following tables:

Figures in thousand Qatar Riyals

	Qatar	Other GCC countries	Europe	North America	Others	Total
Balance Sheet						
As at 31 December 2007						
Cash and balances with Central Bank	2,248,847	-	-	-	11	**2,248,858**
Due from banks and financial institutions	749,000	5,304,673	2,444,400	5,212	516,198	**9,019,483**
Loans, advances and financing activities for customers	21,522,598	2,181,668	564,200	91,000	662,021	**25,021,487**
Investment securities	2,942,888	154,330	527,048	946,640	93,766	**4,664,672**
Investment in associate	-	3,329,900	-	-	-	**3,329,900**
Property, furniture and equipment and other assets	1,090,595	-	-	-	22,284	**1,112,879**
Total assets	**28,553,928**	**10,970,571**	**3,535,648**	**1,042,852**	**1,294,280**	**45,397,279**
Due to banks and financial institutions	2,341,739	1,737,056	255,648	18,747	554,553	**4,907,743**
Customer deposits	23,507,740	1,119,513	-	-	29,439	**24,656,692**
Other borrowed funds	-	5,812,444	1,810,661	-	-	**7,623,105**
Other liabilities	836,442	-	-	-	5,833	**842,275**
Unrestricted investment deposits owners' equity	1,139,647	-	-	-	-	**1,139,647**
Shareholders' equity	6,227,817	-	-	-	-	**6,227,817**
Total liabilities and shareholders' equity	**34,053,385**	**8,669,013**	**2,066,309**	**18,747**	**589,825**	**45,397,279**
As at 31 December 2006						
Cash and balances with Central Bank	1,017,873	-	-	-	20	1,017,893
Due from banks and financial institutions	118,328	3,719,107	1,010,262	29,503	616,123	5,493,323
Loans to and receivables from customers	14,782,538	1,734,162	-	91,000	752,048	17,359,748
Investment securities	3,076,137	154,138	443,884	575,294	71,927	4,321,380
Investment in associate	-	1,285,158	-	-	-	1,285,158
Property, furniture and equipment and other assets	857,614	-	-	-	22,819	880,433
Total assets	19,852,490	6,892,565	1,454,146	695,797	1,462,937	30,357,935
Due to banks and financial institutions	803,012	1,059,066	805,507	13,648	13,287	2,694,520
Customer deposits	16,466,183	220,119	1,005	-	13,796	16,701,103
Other borrowed funds	-	2,328,061	1,807,627	-	-	4,135,688
Other liabilities	683,871	-	-	-	3,568	687,439
Unrestricted investment deposits owners' equity	507,779	-	-	-	-	507,779
Shareholders' equity	5,631,406	-	-	-	-	5,631,406
Total liabilities and shareholders' equity	24,092,251	3,607,246	2,614,139	13,648	30,651	30,357,935

5. SEGMENT INFORMATION (continued)

(b) By geographical segment (continued)

Figures in thousand Qatar Riyals

	Qatar	Other GCC countries	Europe	North America	Others	Total
Income Statement						
As at 31 December 2007						
Interest income	1,555,466	411,919	140,649	54,402	81,670	**2,244,106**
Interest expense	(914,537)	(288,548)	(150,021)	(2,213)	(12,760)	**(1,368,079)**
Net interest income	**640,929**	**123,371**	**(9,372)**	**52,189**	**68,910**	**876,027**
Income from islamic finance and investment activities	83,664	-	-	-	-	**83,664**
Fee and commission income	673,292	16,784	20,276	-	22,923	**733,275**
Fee and commission expense	(65,149)	-	-	-	(1,909)	**(67,058)**
Net fee and commission income	**608,143**	**16,784**	**20,276**	**-**	**21,014**	**666,217**
Dividend on shares and investment funds units	33,892	1,058	2,794	1,199	-	**38,943**
Profits from foreign currency transactions	83,449	-	-	-	305	**83,754**
Profits from investments	155,212	32,007	8,586	6,245	3,722	**205,772**
Other operating income	17,916	-	-	-	944	**18,860**
	290,469	**33,065**	**11,380**	**7,444**	**4,971**	**347,329**
	1,623,205	**173,220**	**22,284**	**59,633**	**94,895**	**1,973,237**
Operating expenses and provisions	(676,832)	2,240	-	-	(10,797)	**(685,389)**
Share of results of associate net of tax - NBO	-	132,567	-	-	-	**132,567**
Share of results of associate net of tax - UAB	-	925	-	-	-	**925**
Unrestricted investment deposit owners' share of profit	(30,625)	-	-	-	-	**(30,625)**
Net Profit for the year	**915,748**	**308,952**	**22,284**	**59,633**	**84,098**	**1,390,715**

5. SEGMENT INFORMATION (continued)

(b) By geographical segment (continued)

Figures in thousand Qatar Riyals

	Qatar	Other GCC countries	Europe	North America	Others	Total
Income Statement (continued)						
As at 31 December 2006						
Interest income	1,066,969	157,638	87,132	27,160	66,791	1,405,690
Interest expense	(527,006)	(151,805)	(49,533)	(1,381)	(706)	(730,431)
Net interest income	539,963	5,833	37,599	25,779	66,085	675,259
Income from islamic finance and investment activities	49,979	-	-	-	-	49,979
Fee and commission income	417,609	4,207	4,439	69	10,432	436,756
Fee and commission expense	(48,652)	-	-	-	(2,031)	(50,683)
Net fee and commission income	368,957	4,207	4,439	69	8,401	386,073
Dividend on shares and investment funds units	13,832	456	2,567	-	-	16,855
Profits from foreign currency transactions	55,161	-	-	-	356	55,517
Profits from investments, net	125,067	18,248	7,773	546	350	151,984
Other operating income	18,398	-	-	-	632	19,030
	212,458	18,704	10,340	546	1,338	243,386
	1,171,357	28,744	52,378	26,394	75,824	1,354,697
Operating expenses and provisions	(540,037)	-	-	-	(10,125)	(550,162)
Share of results of associate net of tax	-	79,094	-	-	-	79,094
Unrestricted investment deposit owners' share of profit	(20,943)	-	-	-	-	(20,943)
Net Profit for the year	610,377	107,838	52,378	26,394	65,699	862,686

6. CASH AND BALANCES WITH CENTRAL BANK

Figures in thousand Qatar Riyals

	2007	2006
Cash *	**316,326**	279,778
Cash reserve with Qatar Central Bank	**823,488**	465,124
Other balances with Qatar Central Bank	**1,109,044**	272,991
Total	**2,248,858**	1,017,893

* Cash balance includes QR 7.17 million related to Islamic banking branches.

The cash reserve with Qatar Central Bank is a mandatory reserve and are not available for use in the Group's day to day operations.

7. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

Figures in thousand Qatar Riyals

	2007	2006
Demand accounts	33,778	23,393
Placements	7,632,360	4,631,536
Loans to banks and financial institutions	712,768	493,294
Total due from banks and financial institutions	8,378,906	5,148,223
- Allowance for impairment	(3,703)	(5,614)
	8,375,203	5,142,609
Commodity murabaha and wakala of Islamic branches	644,280	350,714
Net due from banks and financial institutions	9,019,483	5,493,323

Interest in suspense of QR 1.237 million (2006: 0.909 million) is for the purpose of the Qatar Central Bank regulations requirements, effectively included in the above allowance for impairment.

Figures in thousand Qatar Riyals

	2007	2006
Movement in allowance for impairment		
Balance at 1st January	5,614	6,856
Allowance for impairment made during the year	328	416
Amounts recovered during the year	(2,239)	(1,658)
Net recoveries during the year	(1,911)	(1,242)
Balance at the end of the year	3,703	5,614

8. LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS

i) By type

Figures in thousand Qatar Riyals

	2007	2006
Conventional		
Loans	21,580,047	14,417,470
Overdrafts	1,989,081	2,235,038
Bills discounted	733,828	462,875
Sub total	24,302,956	17,115,383
- Allowance for impairment	(201,022)	(140,648)
Net conventional loans and advances	24,101,934	16,974,735
Al Safa Islamic branches		
Murabaha	261,489	89,641
Ijara	641,990	288,285
Others	17,327	7,087
Sub total	920,806	385,013
- Allowance for impairment	(1,253)	-
Net Al Safa Islamic branches financing	919,553	385,013
Total net loans and advances	25,021,487	17,359,748

8. **LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS** (continued)

Interest in suspense of QR 66.396 million (2006: 49.434 million) is for the purpose of the Qatar Central Bank regulations requirements, effectively included in the above provision amount.

Al Safa Islamic branches financing is carried at net of deferred profits of QR 297.181 million (2006 : QR 124.049 million).

The total non-performing loans and advances at 31 December 2007 amounted to QR 209 million, representing 0.84% of the total loans and advances (QR 142 million representing 0.81% of the total loans and advances at 31 December 2006).

ii) By industry before allowance for impairment

Figures in thousand Qatar Riyals

	Al Safa Islamic	Loans	Overdrafts	Bills discounted	2007 Total	2006 Total
Government	-	91,000	484,407	-	**575,407**	1,059,399
Government and semi-government agencies	-	2,666,497	-	-	**2,666,497**	1,692,666
Industry	-	489,923	52,237	5,740	**547,900**	224,537
Commercial	-	3,678,158	216,006	30,073	**3,924,237**	1,859,388
Services	77,242	1,484,056	181,107	18,411	**1,760,816**	1,658,745
Contracting	23,288	2,216,958	113,060	43,385	**2,396,691**	1,082,370
Real estate	628,476	2,643,851	10,215	-	**3,282,542**	2,223,224
Consumption	187,982	5,375,727	878,014	14,076	**6,455,799**	5,109,516
Other	3,818	2,933,877	54,035	622,143	**3,613,873**	2,590,551
Total	**920,806**	**21,580,047**	**1,989,081**	**733,828**	**25,223,762**	17,500,396

iii) Movement in allowance for impairment

Figures in thousand Qatar Riyals

	Conventional		Al Safa		2007	2006
	Corporate	Retail	Corporate	Retail	Total	Total
Balance at 1st January	23,016	117,632	-	-	**140,648**	125,426
Add on acquisition of Global Card Services LLC - Oman	-	-	-	-	-	9,626
Allowance for impairment made during the year	3,246	84,297	-	1,260	**88,803**	49,251
Amounts recovered during the year	(1,566)	(14,999)	-	(7)	**(16,572)**	(33,479)
Net additional allowance for impairment during the year	1,680	69,298	-	1,253	**72,231**	15,772
Allowance for impairment used during the year to write off	(3,899)	(6,705)	-	-	**(10,604)**	(10,176)
Balance at the end of the year	**20,797**	**180,225**	**-**	**1,253**	**202,275**	140,648

The Group calculates allowance for impairment on the outstanding balance of non-performing loans.

Retail includes Consumer lending and Mortgage finance. There is no allowance for impairment for Mortgage finance as of 31 December 2007.

9. INVESTMENT SECURITIES

Investments comprise the following:

Figures in thousand Qatar Riyals

	AFS	HTM	2007 Total	2006 Total
Invesment Grading				
AAA	83,600	18,200	**101,800**	101,170
AA+- to AA+	672,789	1,536,706	**2,209,495**	2,750,414
A- to A+	40,116	-	**40,116**	308,665
Lower than A-	21,149	14,560	**35,709**	38,748
Unrated	1,373,660	903,892	**2,277,552**	1,122,383
Total	**2,191,314**	**2,473,358**	**4,664,672**	4,321,380

a) Available-for-sale investments

By type

Figures in thousand Qatar Riyals

	2007		2006	
	Listed	Unlisted	Listed	Unlisted
At fair value				
Equities	**761,178**	**179,718**	786,432	82,092
Qatar Government bonds in USD	**21,930**	**-**	32,891	-
Other bonds	**205,524**	**595,111**	107,485	536,160
Investment funds units	**6,618**	**419,818**	4,477	515,226
Investment funds units - Islamic branches	**1,417**	**-**	-	15,897
Total	**996,667**	**1,194,647**	931,285	1,149,375

Included in bonds are fixed rate securities with a value of QR 258.4 million and floating rate securities with a value of QR 564.1 million at 31 December 2007 (against fixed rate securities with a value of QR 223.8 million and floating rate securities with a value of QR 452.7 million at 31 December 2006).

QR 419.8 million unlisted investment funds units includes QR 209.7 million investments in capital guaranteed fund (31 December 2006: QR 264 million).

Equities, other bonds and investment funds units are net of impairment losses of QR 125.3 million, QR 11.7 million and QR 6.1 million respectively (2006: QR 115.30 million).

9. **INVESTMENT SECURITIES** (continued)

b) **Held-to-maturity investments**

By party

Figures in thousand Qatar Riyals

	2007		2006	
	Listed	**Unlisted**	Listed	Unlisted
At amortised cost				
Qatar Government bonds in USD	**930,050**	**-**	672,517	-
Qatar Government bonds in QAR	**-**	**1,131,406**	-	1,136,336
Other bonds & Notes	**-**	**331,386**	-	365,183
Other bonds & Notes - Islamic branches	**76,876**	**3,640**	12,740	53,944
Total *	**1,006,926**	**1,466,432**	685,257	1,555,463
By nature of income				
Fixed rate securities	**930,050**	**125,032**	672,517	185,583
Floating rate securities	**-**	**1,337,760**	-	1,323,288
Floating profit at maturity	**76,876**	**3,640**	12,740	46,592
Total	**1,006,926**	**1,466,432**	685,257	1,555,463

* The fair value of held to maturity investments amounted to QR 2,484.6 million at 31 December 2007 (2006: QR. 2,234.9 million).

10. INVESTMENT IN ASSOCIATE

The Group's interest in its associate as at 31 December 2007 are as follows:

Figures in thousand Qatar Riyals

		Our share of					Carrying value	
Name	**Country of incorporation**	**Assets**	**Liabilities**	**Operating income**	**Net Profit**	**% interest held**	**2007**	**2006**
a) National Bank of								
Oman SAOG -2007	Oman	4,870,000	4,100,000	214,400	146,967	34.85%	**1,429,093**	-
-2006		3,600,000	2,900,000	173,000	100,742	34.85%	**-**	1,285,158
b) United Arab Bank	UAE	2,140,000	1,700,000	118,180	72,651	34.69%	**1,900,807**	-
Total							**3,329,900**	1,285,158

10. INVESTMENT IN ASSOCIATE (continued)

Further breakup of associates movements are as follows:

a) National Bank of Oman SAOG (NBO)

Figures in thousand Qatar Riyals

	2007	2006
Balance at beginning of the year	**1,285,158**	1,251,304
Less : dividend received	**(46,138)**	(39,548)
Add : share of profit before tax	**165,865**	114,823
Less : share of tax	**(18,898)**	(14,081)
Share of net profit after tax	**146,967**	100,742
Less : amortisation of intangible assets	**(14,400)**	(21,648)
Share of results of associate net of tax	**132,567**	79,094
Exchange difference	**(450)**	38
Add : share of post acquisition revaluation reserve	**57,956**	(5,730)
Balance at end of the year	**1,429,093**	1,285,158

Shares of National Bank of Oman SAOG (NBO) are listed on the Muscat Securities Market and the quoted price on the balance sheet date was OMR 7.48. The estimated fair value of the investment based on this price as at 31 December 2007 is QR 2,267 million (2006: 1,510 million).

Investment in associates at National Bank of Oman (NBO) at 31 December 2007 includes goodwill of QR 574 million (2006 : QR 574 million).

Under a separate management agreement with NBO, the Group is responsible for the day to day management of NBO affairs subject to the overall supervision of NBO Board. The Group does not however control NBO as only 4 out of 11 members of the board of NBO represent by the Group.

In compliance with the International Financial Reporting Standards 3, Bank has carried out one time ‘ purchase price allocation (PPA)’ exercise of the value paid for the acquisition of 34.85% shares of its associate - National Bank of Oman (SAOG). PPA identifies the value paid for the tangible assets, intangible assets and the premium/goodwill arising on the acquisition. Derived values of intangible assets are QR 104.473 million amortized over the eight years useful life of the intangible assets.

b) United Arab Bank (UAB)

Qatar Central Bank and Central Bank of United Arab Emirates had given their approvals to the Bank for the acquisition of up to a 40% stake in United Arab Bank P.J.S.C. (UAB), a bank based in United Arab Emirates. On 24 December 2007, the Bank successfully concluded the acquisition of 246,908,462 shares of UAB at a price of AED 7.75 per share, which is equivalent to 34.692% of its issued share capital. Subsequent to the financial year ended 31 December 2007, the Bank acquired an additional 2,000,000 shares of UAB in the open market at a price of AED7.34 per share, increasing its stake in UAB to 35%. The shares of UAB are listed on the Abu Dhabi Securities Market.

Due to the recent date of acquisition, the Group has not yet finalised the Purchase Price Allocation to identify separately the intangible assets and goodwill of the acquisition. This will be finalised in due course, within the stipulated timeframe. The amortisation of intangible assets is based on provisional purchase price allocation performed at the year end.

10. INVESTMENT IN ASSOCIATE (continued)

b) United Arab Bank (UAB) (continued)

Based on provisional purchase price allocation as at 31 December 2007 derived values of intangible assets of QR 243.350 million and a goodwill of QR 1,218 million is included in the value paid for the acquisition of 34.692% shares of Group's associates in UAB. Intangible assets to be amortized with in the useful 10 year's life of the intangible assets.

Under a separate management service agreement signed with UAB, the Bank would be responsible for the day to day management of UAB affairs subject to overall supervision of the UAB board. However the Group does not control UAB as only 2 out of 11 members of the board of UAB represent by the Group.

The movement in investment in UAB is as follows:

Figures in thousand Qatar Riyals

	2007
Acquired during the year	**1,899,882**
Add : share of net profit	**72,651**
Less : share of pre-acquisition net profit	**(71,258)**
Share of post acquisition net profit	**1,393**
Less amortisation of intangible assets	**(468)**
Share of results of associate	**925**
Balance at end of the year	**1,900,807**

11. PROPERTY, FURNITURE AND EQUIPMENT

Figures in thousand Qatar Riyals

	Land and buildings	Leasehold improvements	Furniture and equipment	Motor vehicles	Capital work-in-progress	Total
Balance at 1 January 2006						
Cost	222,154	32,282	154,125	2,403	64,990	475,954
Accumulated depreciation	(43,991)	(14,653)	(97,479)	(1,883)	-	(158,006)
Net book amount	178,163	17,629	56,646	520	64,990	317,948
Year ended 31 December 2006						
Opening net book amount	178,163	17,629	56,646	520	64,990	317,948
Additions	1,910	2,542	6,648	2,308	264,694	278,102
Disposals, net	-	-	(10)	-	-	(10)
Transfer	10,734	3,771	25,104	-	(39,609)	-
Depreciation charge	(8,424)	(4,734)	(24,146)	(528)	-	(37,832)
Exchange differences	-	-	5	-	-	5
Closing net book amount	182,383	19,208	64,247	2,300	290,075	558,213
Balance at 31 December 2006						
Cost	234,798	38,595	185,877	4,711	290,075	754,056
Accumulated depreciation	(52,415)	(19,387)	(121,630)	(2,411)	-	(195,843)
Net book amount	182,383	19,208	64,247	2,300	290,075	558,213

11. PROPERTY, FURNITURE AND EQUIPMENT (continued)

Figures in thousand Qatar Riyals

	Land and buildings	Leasehold improvements	Furniture and equipment	Motor vehicles	Capital work-in-progress	Total
Year ended 31 December 2007						
Opening net book amount	182,383	19,208	64,247	2,300	290,075	558,213
Additions	31,468	16,849	29,154	1,588	137,014	216,073
Disposals, net	-	-	-	(401)	-	(401)
Depreciation charge	(12,590)	(8,055)	(31,047)	(800)	-	(52,492)
Closing net book amount	**201,261**	**28,002**	**62,354**	**2,687**	**427,089**	**721,393**
Balance at 31 December 2007						
Cost	266,266	55,444	215,031	5,898	427,089	969,728
Accumulated depreciation	(65,005)	(27,442)	(152,677)	(3,211)	-	(248,335)
Net book amount	**201,261**	**28,002**	**62,354**	**2,687**	**427,089**	**721,393**

Capital work in progress includes QR 215.96 million in respect of Commercial Bank Plaza, QR 0.81 million for the tower furnishing, QR 183.03 million for Ummbab tower, QR 18.65 million for branch renovations and QR. 8.64 million for various IT projects.

12. OTHER ASSETS

Figures in thousand Qatar Riyals

	Conventional	Al Safa Islamic branches	2007	2006
Accrued income	208,022	-	**208,022**	147,411
Prepaid expenses	11,818	7,249	**19,067**	5,583
Amounts receivable	83,854	3,547	**87,401**	79,543
Net value of the properties acquired in settlement of debts *	1,700	-	**1,700**	1,700
Franchise Rights **	22,150	-	**22,150**	23,883
Derivatives with a positive fair value (Note 31)	13,601	-	**13,601**	8,198
Clearing cheques	10,711	-	**10,711**	15,408
Sundry assets	28,716	118	**28,834**	40,494
Total	**380,572**	**10,914**	**391,486**	322,220

* This represents the value of the properties acquired in settlement of debts which are stated at their acquisition value net of any provision required for impairment. The estimated market value of these properties as at 31 December 2007 is QR 13.3 million (2006: QR 4.0 million).

** This represents the cost of acquiring the Diners Club franchises in Qatar, Egypt, Bahrain, Syria, Yemen and Oman. The franchise costs are being amortised over the duration of the franchise agreement (20 years).

13. DUE TO BANKS AND FINANCIAL INSTITUTIONS

Figures in thousand Qatar Riyals

	2007	2006
Current accounts	**57,191**	52,509
Placements	**4,850,552**	2,033,792
Short term borrowings under repurchase agreement	**-**	608,219
Total	**4,907,743**	2,694,520

14. CUSTOMERS' DEPOSITS

Figures in thousand Qatar Riyals

	2007	2006
i) By type		
Demand and call deposits	**5,636,914**	4,238,907
Savings deposits	**1,232,293**	644,513
Time deposits	**17,535,092**	11,739,582
Al Safa Islamic branches - current deposits	**252,393**	78,101
Total	**24,656,692**	16,701,103
ii) By sector		
Government	**2,570,598**	1,239,880
Government and semi-government agencies	**4,388,298**	5,069,716
Individuals -		
- Conventional	**3,392,000**	2,981,086
- Al Safa Islamic branches	**159,418**	47,204
Corporate -		
- Conventional	**14,053,403**	7,332,320
- Al Safa Islamic branches	**92,975**	30,897
Total	**24,656,692**	16,701,103

Accounts held as collaterals.included in customer deposits QR 1,452 million (2006: QR 611 million).

15. OTHER BORROWED FUNDS

Syndicated Loans : This represents term borrowings raised through syndicated loan facilities from consortiums of international and regional banks, to support the general funding needs of the Group as follows:

- In May 2004, the Group obtained a syndicated loan for an amount of USD 150 million or QR 546 million to reduce the balance sheet maturity mismatch gap. This is an unsecured bullet repayment loan facility with a floating rate of interest linked to US$ LIBOR plus a margin of 42.5 basis point for the first 36 months and 47.5 basis point thereafter repayable in full after 60 months. The fair value of the loan as at 31 December 2007 is USD 149.63 million (31 December 2006: USD 149.74 million).

- In April 2007, the Group concluded another syndicated loan for an amount of USD 650 million or QR 2,366 million for five years period to refinance two short term loans totalling USD 490 million, that were fully repaid in January 2007. This is an unsecured bullet repayment loan facility with a floating rate of interest linked to US$ LIBOR plus a margin of 27.5 basis point per annum. The fair value of the loan as at 31 December 2007 is USD 651.66 million.

- In November 2007, the Group raised USD 800 million or QR 2,912 million in the form of a term loan facility for general funding purposes, including the financing of a strategic investment in United Arab Bank, UAE.This is an unsecured bullet repayment loan facility with a tenor of 6 months and an option to extend up to 1 year and has a floating rate of interest linked to US$ LIBOR plus a margin of 20 basis point per annum. The fair value of the loan as at 31 December 2007 is USD 796.51 million

EMTN programme : The Group has established access to international capital markets through a listing of a US$ 1.5 billion Euro Medium Term Note (EMTN) programme that is annually renewed on the London Stock Exchange. During the year the programme was renewed for a further one year. The EMTN programme structure allows flexibility for the Group to issue both senior and subordinated instruments, across a wide range of tenors and currencies.

The Group completed on 12 October 2006, its debut international bond issue under the EMTN programme, the first by a Qatari financial institution. The US$ 500 million senior Floating Rate Notes (FRN) pay a floating rate of interest coupon of 40 basis points over 3 month US$ LIBOR, and are payable in full on final maturity of 5 years. The FRNs are listed and traded on the London Stock Exchange, with settlement through Euroclear or Clearstream in Luxembourg. The estimated fair value of the bonds as at 31 December 2007 was QR 1,821.82 million (31 December 2006: QR 1,821.27 million).

Figures in thousand Qatar Riyals

	2007	2006
Syndicated loans	**5,812,444**	2,328,061
EMTN (Bonds)	**1,810,661**	1,807,627
Total	**7,623,105**	4,135,688

Movements in other borrowed funds may be analysed as follows:

Figures in thousand Qatar Riyals

	2007	2006
Balance at beginning of the year	**4,135,688**	1,088,400
Additions of borrowings	**5,264,404**	3,044,037
Repayments of borrowings	**(1,783,600)**	-
Amortisation of discount and transaction cost	**6,613**	3,251
Balances at end of the year	**7,623,105**	4,135,688

The Group has not had any defaults of principals, interest or other breaches with respect to their liabilities during the year. (2006: nil).

16(a). OTHER LIABILITIES

Figures in thousand Qatar Riyals

	Conventional	Al Safa Islamic branches	2007	2006
Deferred income	72,579	-	**72,579**	62,104
Accrued expenses	305,319	-	**305,319**	214,916
Other provisions -Note 16(b)	71,066	-	**71,066**	62,387
Derivatives with a negative fair values (Note 31)	10,259	-	**10,259**	7,164
Cash margins	74,506	3,643	**78,149**	59,658
Clearing cheque accounts	9,641	-	**9,641**	29,924
Accounts payable	119,840	-	**119,840**	110,767
Directors' remuneration (i)	47,856	-	**47,856**	28,683
Social responsibility fund	10,784	-	**10,784**	16,019
Dividend payable	11,729	-	**11,729**	2,995
Outward cheques in collection	8,903	-	**8,903**	1,490
Manager cheque and payment order	22,878	3,124	**26,002**	11,681
Unclaimed balances	16,038	-	**16,038**	11,403
Sundry liabilities	44,256	9,854	**54,110**	68,248
Total	**825,654**	**16,621**	**842,275**	687,439

i) Proposed Board of Directors' remuneration recognised as an accrued expenses as per regulatory requirement.

16(b). OTHER PROVISIONS

Figures in thousand Qatar Riyals

	Other provision (a)	Provident fund (b)	Pension fund (b)	2007	2006
Balance at 1st January	2,000	60,154	233	**62,387**	48,499
Provisions made during the year- Bank contribution	-	10,970	2,022	**12,992**	13,752
Pension fund - staff fund contribution	-	5,243	976	**6,219**	5,779
Provisions transferred to retirement fund authority	-	-	(2,748)	**(2,748)**	(2,735)
Provisions utilised during the year	-	(7,784)	-	**(7,784)**	(2,908)
Balance at 31 December	**2,000**	**68,583**	**483**	**71,066**	62,387

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

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

17. UNRESTRICTED INVESTMENT DEPOSITS OWNERS EQUITY

Figures in thousand Qatar Riyals

	2007	2006
a) By type		
Saving deposits	**111,170**	73,053
Investment deposits	**997,852**	413,783
Total	**1,109,022**	486,836
b) By sector		
Individuals	**535,183**	335,923
Corporate	**573,839**	150,913
Total	**1,109,022**	486,836
Unrestricted investment deposits owners' share of profit	**30,625**	20,943
Total	**1,139,647**	507,779

18. SHAREHOLDERS' EQUITY

Issue and paid-up capital

The issued, subscribed and paid up share capital of the Bank is QR 1,401,579,330 (2006: QR 1,401,579,330) divided into 140,157,933 (2006: 140,157,933) ordinary shares of QR 10 each.

Legal reserve

In accordance with Qatar Central Bank Law, 10% of the net profit for the year is required to be transferred to the Legal Reserve until the reserve equals 100% of the paid up capital. This reserve is not available for distribution except in circumstances specified in the Qatar Commercial Companies Law No. 5 of 2002 and after approval of Qatar Central Bank. Legal reserve also includes the share premium arising on rights issues from the date of incorporation.0

General reserve

As per the Bank's Articles of Associations, general reserve only to be used by a resolution from the General Assembly upon the Board of Directors recommendation and after obtaining Qatar Central Bank approval.

Fair value reserve

The fair value reserve arises from the revaluation of the available-for-sale investments, change of post acquisition fair value reserve of its associates and exchange gain or loss on consolidation of subsidiaries and associates financial statements . The movement in fair value reserve during the year is as follows:

Figures in thousand Qatar Riyals

	2007	2006
Balance at 1st January	**1,624**	500,566
Revaluation results	**181,404**	(346,786)
Transferred to income statement, net	**(52,612)**	(146,451)
Share of revaluation reserves of associated companies	**57,956**	(5,730)
Adjustment for exchange rate fluctuations	**54**	25
Balance at 31 December *	**188,426**	1,624

*Balance at 31 December 2007 includes negative fair value of QR 33 million (2006 : QR 43 million).

18. SHAREHOLDERS' EQUITY (continued)

Proposed dividend and issue of bonus shares

The Board of Directors have proposed a cash dividend of 40% (or QR 4.0 per share) for the year 2007 (2006: QR 7.0 per share). The Board of Directors have also proposed a bonus share issue of 30% of the Bank's capital as at 31st December 2007 (2006: nil)

Risk reserves

This represents a general reserve as per the regulation of Qatar Central Bank to cover a minimum 1.50% of the loan portfolio excluding specific provision, suspense interest, deferred profits of Islamic banks, lending to Ministry of Finance of the State of Qatar, guaranteed by Ministry of Finance and lending against cash collaterals. This amount is not available for distribution without Qatar Central Bank prior permission.

Other reserves

This represents Bank's share of profit from investment in associates net of cash dividend received. The movement in other reserves during the year is as follows:

Figures in thousand Qatar Riyals

	2007	2006
Balance at 1st January	**84,549**	45,003
Less Dividend received from associate (NBO) for 2006	**(46,138)**	(39,548)
Share of profit of associates net of tax - 2007	**133,492**	79,094
Balance at 31 December	**171,903**	84,549

19. INTEREST INCOME

Figures in thousand Qatar Riyals

	2007	2006
Banks and other financial institutions	**275,138**	169,532
Investment securities	**193,018**	143,160
Loans and advances to customers	**1,775,950**	1,092,998
Total	**2,244,106**	1,405,690

20. INTEREST EXPENSE

Figures in thousand Qatar Riyals

	2007	2006
Banks and financial institutions	**195,998**	50,331
Customers' deposits	**899,507**	541,371
Other borrowed funds	**272,574**	138,729
Total	**1,368,079**	730,431

21. INCOME FROM ISLAMIC FINANCE AND INVESTMENT ACTIVITIES

Figures in thousand Qatar Riyals

	2007	2006
Financing to customers	**60,717**	27,157
Balances with bank and financial institution	**18,331**	22,123
Financial investment	**4,616**	699
Total	**83,664**	49,979

22. FEES AND COMMISSIONS INCOME

Figures in thousand Qatar Riyals

	2007	2006
Loans, advances and financing for customers*	**390,977**	200,240
Indirect credit facilities	**135,329**	70,221
Credit card	**139,481**	100,019
Banking and other operations	**42,941**	46,995
Investment activities for customers	**24,547**	19,281
Total	**733,275**	436,756

* Fee income from loans, advances and financing for customers includes QR 14.08 million on account of Al Safa Islamic branches (2006: QR 7.35 million).

23. DIVIDEND ON SHARES AND INVESTMENT FUNDS UNITS

Figures in thousand Qatar Riyals

	2007	2006
Investments held for trading	-	38
Available-for-sale investments	**38,943**	16,817
Total	**38,943**	16,855

24. PROFITS FROM FOREIGN CURRENCY TRANSACTIONS

Figures in thousand Qatar Riyals

	2007	2006
Profits from foreign currency transactions *	**84,768**	56,608
Loss from revaluation of assets and liabilities	**(1,014)**	(1,091)
Total	**83,754**	55,517

* Profits from foreign currency transactions includes QR 35k on account of Al Safa Islamic branches (2006: QR 56k).

25. PROFITS FROM INVESTMENT

Figures in thousand Qatar Riyals

	2007	2006
a) Profits from sale of investments		
- Held for trading	-	243
- Available-for-sale*	**205,772**	151,784
b) Differences in revaluation of investments		
- Held for trading	-	(43)
Total	**205,772**	151,984

* Investment in available-for-sale includes QR 3.417 million related to Al Safa Islamic banking branches.

26. OTHER OPERATING INCOME

Figures in thousand Qatar Riyals

	2007	2006
Management fee from associate (National Bank of Oman)	**6,800**	3,933
Rental income	**4,700**	4,515
Gain on sale of assets and other income	**7,360**	10,582
Total	**18,860**	19,030

27. GENERAL AND ADMINISTRATIVE EXPENSES

Figures in thousand Qatar Riyals

	2007	2006
Salaries and other benefits	**269,063**	236,669
Attendance fees for Board of Directors	**750**	970
Bank's participation in the retirement fund	**2,022**	1,617
Employees' end of service benefits	**10,970**	12,135
Training programmes costs	**4,617**	7,697
Marketing and promotional expenses	**43,278**	32,592
Legal and professional charges	**20,175**	18,711
Communication, utilities and insurance	**21,521**	18,380
Occupancy and maintenance	**40,277**	31,346
Travel and entertainment expenses	**4,181**	3,393
IT consumables	**1,879**	1,553
Supplies	**6,721**	5,657
Directors' remuneration *	**47,856**	28,683
Others operating expenses	**14,615**	9,592
Total	**487,925**	408,995

The number of staff as at 31 December 2007 was 1,007 (2006: 1,003).

General and administrative expenses includes QR 28.170 million (2006: 16.479 million) for Al Safa Islamic branches activities of which QR 12.413 million (2006: QR 8.130 million) relates to personnel expenses and QR 15.757 million (2006: QR 8.349 million) to other general administrative expenses.

* Proposed Board of Directors remuneration of the prior year has been reclassified in order to conform with the current year's accounting policy as per Qatar Central Bank regulations.

28. UNRESTRICTED INVESTMENT DEPOSIT OWNERS' SHARE OF PROFIT

Figures in thousand Qatar Riyals

	2007	2006
Investment deposit owners' share of profit before Mudaraba share of the Bank	38,169	22,359
Bank's share of profit as Mudarib	**(7,544)**	(4,463)
Investment deposit owners' net share after Mudarib's share of the profit	**30,625**	17,896
Shareholders' support	-	3,047
Investment deposit owners' share after cession	**30,625**	20,943

Following are the profit distribution rates for the investment deposit owners'

	2007 (%)	2006 (%)
1 year term	**6.00**	5.00
6 months term	**4.625**	4.25
3 months term	**4.125**	4.00
1 month term	**4.00**	4.00
Savings account	**3.00**	3.00
Special deposits	**5.33**	5.03

29. EARNINGS PER SHARE

Figures in thousand Qatar Riyals

	2007	2006
Basic and diluted		
Profit attributable to equity holders of the Group	**1,390,715**	862,686
Weighted average number of shares in issue during the year	**140,158**	140,158
Basic and diluted earnings per share (QR)	**9.92**	6.16

30. OFF-BALANCE SHEET ITEMS

Figures in thousand Qatar Riyals

	2007	2006
a) Loan commitments, guarantee and other financial facilities		
Acceptance	**3,113,752**	200,614
Guarantees	**13,109,009**	8,923,178
Letter of credit	**3,975,836**	2,329,373
Un-utilised credit facilities granted to customers	**2,890,846**	2,198,486
	23,089,443	13,651,651

30. OFF-BALANCE SHEET ITEMS (continued)

Figures in thousand Qatar Riyals

	2007	2006
b) Other undertakings and commitments		
Foreign exchange contracts and derivatives for customers (Note 31)	**3,323,312**	4,445,233
Guaranteed investment funds (Note i)	**2,373**	4,029
Portfolios and investments managed for others :		
Conventional Banking - Portfolio management (Note ii)	**58,240**	58,240
Al Safa Islamic Branches - restricted investment accounts (Note iii)	**38,000**	-
Capital commitments in respect of Cb plaza tower	**70,052**	6,560
Capital commitments in respect of Umm Baab tower	**83,500**	112,799

i) On the balance sheet date, the Group's exposure to managed funds is USD 0.65 million or QR 2.4 million (2006: USD 1.1 million or QR 4.0 million). These are capital guaranteed funds and have back-to-back guarantees from at least "AA" rated international financial institutions. The Group has customised and resold the customised funds to its customers as its own funds. The following table summarises the size and maturity dates of the funds.

Name of the fund	Size of the Fund	Customers' participation	Maturity
Al Maha Notes	US$ 4,520,000	US$ 652,000	May - 2010

ii) The Group manages an investment portfolio of USD 16.0 million (2006: USD 16.0 million) on behalf of customers. This portfolio is managed in line with the terms and conditions agreed upon through an investment management agreement.

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

31. DERIVATIVE INSTRUMENTS

The table below shows the positive and negative fair values of derivative financial instruments together with the notional amounts analysed by the term to maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved and the credit and market risk, which can be identified from the derivatives fair value.

Principle value at maturity
Figures in thousand Qatar Riyals

	Positive fair value	Negative fair value	Notional Amount	Within three months	3-12 months	1 – 5 years	More than 5 years
As on 31 December 2007							
Derivatives for customers							
- Interest rate swaps	10,257	10,257	1,713,718	21,410	21,410	107,062	1,563,836
- Forward foreign exchange contracts	3,344	2	1,609,594	1,019,086	553,047	37,461	-
Total	**13,601**	**10,259**	**3,323,312**	**1,040,496**	**574,457**	**144,523**	**1,563,836**
As on 31 December 2006							
Derivatives for customers							
- Interest rate swaps	6,612	6,757	1,392,542	21,410	21,410	171,294	1,178,428
- Forward foreign exchange contracts	1,586	407	3,052,691	1,034,126	1,539,402	479,163	-
Total	8,198	7,164	4,445,233	1,055,536	1,560,812	650,457	1,178,428

32. INVESTMENT CUSTODIAN

On the balance sheet date the Group holds on behalf of its customer QR 331.40 million (2006 QR 367.43 million) worth of international investment securities. Out of this amount, investment securities with a value of QR 175.84 million equivalent to USD 48.31 million (2006 QR 176.41 million equivalent to USD 48.46 million) are held with Clearstream Bank, an international AA+ rated custody and settlement house. The remaining investment securities are held with the financial institutions through whom the securities were purchased. These financial institutions are industry leaders in their respective fields. The Group has established maximum limits for such holding with each financial institution according to its risk management policy.

33. TRANSACTIONS WITH RELATED PARTIES

The Group carries out various transactions with subsidiaries and associate companies and with members of the Board of Directors, the executive management or companies in which they have significant interest or any other parties of important influence in the Group's financial or operations decisions. The balances at the year-end with these accounts were as follows:

Figures in thousand Qatar Riyals

	2007	2006
Board Members		
- Loans and advances (a)	**509,502**	293,839
- Deposits	**316,306**	204,432
- Contingent liabilities, guarantees and other commitments	**47,126**	36,589
- Interest income earned from facilities granted to board members	**26,006**	18,989
- Other fees income earned from transactions with board members	**1,433**	1,540
- Interest paid to deposits accounts of board members	**22,589**	11,611
- Fixed remuneration and meeting attendance fees paid to BM	**1,914**	2,134
Parent/Subsidiaries companies		
- Balance with bank/ customers' deposits (b)	**29,439**	28,541
Associate company		
- NBO's deposit with the Group	**607**	670
- Bank's deposit with NBO	**195**	660
- NBO's contingent liabilities to the Group:		
- Letter of guarantee : Performance bond	**623**	623
Tender bond	**1,047**	1,000
- Interest rate swap (notional amount)	**56,727**	56,727
- Interest rate swap (fair value)	**458**	202
Senior Management compensation		
- Fixed remuneration	**18,179**	17,316
- Discretionary remuneration	**9,500**	10,292
- Fringe benefits	**4,173**	3,430

Number of staff in the Senior Management team as at 31 December 2007 was 23 (2006: 21).

Additional information

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

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

34. CASH AND CASH EQUIVALENTS FOR CASH FLOW STATEMENTS

Figures in thousand Qatar Riyals

	2007	2006
Cash and balances with Qatar Central Bank*	**1,425,370**	552,769
Balances from banks and financial institutions	**3,261,902**	2,578,509
Total	**4,687,272**	3,131,278

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

35. FINANCIAL STATEMENTS FOR THE PARENT BANK

Parent Bank Balance Sheet

As at 31 December 2007

Figures in thousand Qatar Riyals

	2007	2006
ASSETS		
Cash and balances with Central Bank	**2,248,847**	1,017,873
Due from banks and financial institutions	**9,015,551**	5,490,404
Loans, advances and financing activities for customers	**25,004,115**	17,341,352
Investment securities	**4,737,472**	4,394,180
Investments in associate	**3,329,900**	1,285,158
Property, furniture and equipment	**720,743**	557,240
Other assets	**369,852**	300,374
Total assets	**45,426,480**	30,386,581
LIABILITIES		
Due to banks and financial institutions	**4,907,188**	2,692,986
Customers' deposits	**24,686,131**	16,729,644
Other borrowed funds	**7,623,105**	4,135,688
Other liabilities	**836,442**	683,871
	38,052,866	24,242,189
Unrestricted investment deposits owners' equity	**1,139,647**	507,779
	1,139,647	507,779
SHAREHOLDERS' EQUITY		
Paid up capital	**1,401,579**	1,401,579
Legal reserve	**2,915,499**	2,915,499
General reserve	**26,500**	26,500
Fair value reserve	**188,340**	1,592
Risk reserves	**346,300**	176,200
Other reserves	**171,903**	84,548
Proposed dividend	**560,632**	981,106
Proposed bonus shares	**420,474**	-
Retained earnings	**202,740**	49,589
Total shareholders' equity	**6,233,967**	5,636,613
Total liabilities and shareholders' equity	**45,426,480**	30,386,581

35. FINANCIAL STATEMENTS FOR THE PARENT BANK (continued)

Parent Bank Statement of Income

As at 31 December 2007

Figures in thousand Qatar Riyals

	2007	2006
Interest income	**2,241,103**	1,400,597
Interest expense	**(1,369,296)**	(730,322)
Net interest income	**871,807**	670,275
Income from Islamic finance and investment activities	**83,664**	49,979
Fees and commissions income	**727,034**	434,703
Fees and commissions expense	**(65,149)**	(48,652)
Net fees and commissions income	**661,885**	386,051
Dividend on shares and investment funds units	**38,943**	16,855
Profits from foreign currency transactions	**83,449**	55,161
Profits from investments	**205,772**	151,984
Other operating income	**17,916**	14,465
	346,080	238,465
Operating income	**1,963,436**	1,344,770
General and administrative expenses	**(477,326)**	(400,159)
Depreciation	**(52,130)**	(37,455)
Impairment losses on loans and advances to financial institutions, net	**2,240**	1,556
Impairment losses on loans and advances to customers, net	**(50,772)**	(6,182)
Impairment losses on available for sale investments	**(85,904)**	(97,797)
Impairment losses on other assets	**(10,700)**	-
Total operating expenses and provisions	**(674,592)**	(540,037)
Profit before share of result of associate	**1,288,844**	804,733
Share of results of associate net of tax - NBO	**132,567**	79,094
Share of results of associate net of tax - UAB	**925**	-
Profit before share of investment deposit owners	**1,422,336**	883,827
Less unrestricted investment deposit owners’ share of profit	**(30,625)**	(20,943)
Net profit for the year	**1,391,711**	862,884

35. FINANCIAL STATEMENTS FOR THE PARENT BANK (continued)

Parent Bank Statement of Cash Flows

Figures in thousand Qatar Riyals

As at 31 December 2007	2007	2006
Cash flows from operating activities		
Net profit for the year	**1,391,711**	862,884
Adjustments of profit (losses) with cash flows from operating activities		
Depreciation and amortisation	**58,743**	40,706
Impairment loss on available for sale investments	**85,904**	97,797
Impairment loss on other assets	**10,700**	-
Profit from sale of property, furniture and equipment	**-**	(4,326)
Share of results of associate net of tax	**(133,492)**	(79,094)
Profit from sale of investments	**(205,772)**	(151,984)
Profits before changes in operating assets and liabilities	**1,207,794**	765,983
Net increase in assets		
Balances with banks and financial institutions	**(673,799)**	(300,334)
Loans, advances and financing activities for customers	**(7,662,763)**	(6,477,506)
Other assets	**(67,939)**	24,496
Net increase in liabilities		
Balances to banks and financial institutions	**(314,000)**	364,000
Customers' deposits	**8,588,335**	3,974,467
Other liabilities	**152,571**	177,668
Net cash from operating activities	**1,230,199**	(1,471,226)
Cash flows from Investing activities		
Purchase of investments	**(1,844,980)**	(2,473,227)
Acquisation of shares in associate	**(1,899,882)**	-
Dividend received from associate	**46,138**	39,548
Proceeds from sale and redemption of securities	**1,738,862**	1,099,571
Purchase of property and equipment	**(216,034)**	(277,870)
Proceeds from sale of property and equipment	**-**	4,336
Net cash used in investing activities	**(2,175,896)**	(1,607,642)
Cash flows from Financing activities		
Proceeds of borrowed funds	**5,264,404**	3,044,037
Repayment of borrowed funds	**(1,783,600)**	-
Dividend paid	**(981,106)**	(373,754)
Net cash from financing activities	**2,499,698**	2,670,283
Net increase in cash and cash equivalents during the year	**1,554,001**	(408,585)
Effects of foreign exchange fluctuation	**10**	5
Cash and cash equivalents at beginning of year	**3,129,873**	3,538,453
Cash and cash equivalents at end of year	**4,683,884**	3,129,873

36. FINANCIAL STATEMENTS FOR THE ISLAMIC BRANCHES

Al Safa Islamic Banking - Balance Sheet

Figures in thousand Qatar Riyals

As at 31 December 2007	2007	2006
ASSETS		
Cash balances	**7,167**	5,494
Due from and investments with banks and financial institutions	**644,280**	350,714
Due from customers for financing activities	**919,553**	385,013
Financial investments	**81,933**	82,581
Due from parent bank	**24,529**	27,821
Property, furniture and equipment	**10,051**	118
Other assets	**10,914**	9,622
Total assets	**1,698,427**	861,363
LIABILITIES		
Customers' current accounts	**252,393**	78,101
Other liabilities	**16,621**	8,040
	269,014	86,141
Unrestricted investment deposits owners' equity	**1,139,647**	507,779
	1,139,647	507,779
CAPITAL FUNDING		
Capital funding from parent	**250,000**	250,000
Undistributed profit	**39,766**	17,443
Total capital funding	**289,766**	267,443
Total liabilities, unrestricted investment deposits owners' equity	**1,698,427**	861,363

36. FINANCIAL STATEMENTS FOR THE ISLAMIC BRANCHES (continued)

Al Safa Islamic Banking - Statement of Income

Figures in thousand Qatar Riyals

As at 31 December 2007	2007	2006
Income from financing activities	**60,717**	27,157
Income from investment activities	**22,947**	22,822
Total income from financing and investment activities	**83,664**	49,979
Fee and commission income	**14,082**	7,349
Fee and commission expense	**(61)**	(26)
Net fee and commission income	**14,021**	7,323
Profits from foreign currency transactions	**35**	56
Profit from investment income	**3,417**	-
	3,452	56
Operating income	**101,137**	57,358
General and administrative expenses	**(28,170)**	(16,479)
Depreciation	**(1,323)**	(8)
Impairment losses on loans and advances to Customers (net)	**(1,253)**	-
Impairment losses on available for sale of investments	**-**	(2,485)
Net profit	**70,391**	38,386
Less unrestricted investment account holder's share of profit	**(30,625)**	(20,943)
Net profit for the year attributable to owners	**39,766**	17,443