Living here with you

The Commercial Bank of Qatar (Q.S.C.)
Annual Report 2006

Commercialbank has played a part in the growth and prosperity of Qatar since 1975, financing the very infrastructure of the country and providing banking services of established value. We will always conduct our business here with ethics and integrity, reaching out to every aspect of Qatari life, in celebration of the place that we call home. Why? Because each and every one of us at Commercialbank lives here too.

We are proud to be inspired by Qatar.

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

The Commercial Bank of Qatar (Q.S.C.)
Grand Hamad Street, PO Box 3232
Doha, State of Qatar
Telephone: +974 449 0000
Facsimile: +974 449 8182
Telex: 4351 TEJARI DH
www.cbq.com.qa

البنك التجاري
Commercial bank

Chairman's report

On behalf of the Board of Directors, I am pleased to present the Annual Accounts and Financial Statements of Commercialbank for the year ended 31st December 2006.

This has been yet another year of profitable growth for Commercialbank, resulting in a record net profit of QAR 891 million, which is an increase of 19% over 2005. All the core businesses of the Bank have recorded very impressive growth, although earnings from our proprietary Investment portfolio were negatively impacted as a result of major stock market corrections witnessed by many of the bourses across the region. The year also marks confirmation of Commercialbank as a major regional banking group, following the success of the strategic partnership forged in mid 2005 with National Bank of Oman, who also announced record profitability. Commercialbank also became the first bank in Qatar to establish its presence in international capital markets with the listing of a US$ 1.5 billion Euro Medium Term Note (EMTN) programme, and conclusion of a very successful debut bond issue of US$ 500 million, in the form of 5 year Floating Rate Notes. The Bank's investor base has now expanded to include foreign shareholders.

Our performance continues to be inspired by Qatar's vision and the leadership of His Highness the Emir, Sheikh Hamad bin Khalifa Al Thani, who is rapidly transforming the State of Qatar into a modern, industrialized, knowledge based economy. Qatar is among the fastest growing economies globally, and the star performer in the vibrant GCC economic bloc. Its GDP has doubled over last 3 years, and has grown six fold since 1995. With per capita GDP exceeding US$ 55,000 (more than three times the GCC average), it also ranks among the wealthiest nations in the world.

Qatar today stands out as one of the most attractive investment destinations globally. Its sovereign credit ratings have been once again upgraded to the highest in the GCC region by Moodys Investor Services.

Structural reform of Qatar's economy is also building momentum. New laws have been passed to promote foreign investment, competition and labour reform. Government entities are being privatized or corporatised, monopolies are being removed, and family groups are beginning to go public. There is increased transparency and sophistication of management of monetary policies and government finances. The state's commitment and active promotion of greater private participation in key economic sectors is boosting vibrant private sector activity. Other forward looking initiatives such as the establishment of special investment zones like the Qatar Financial Centre, Qatar Science and Technology Park, Energy City, and Qatar Free Zone, have been successful in attracting leading global companies to establish a presence in Qatar.

The GCC region as a whole has recorded accelerating growth and has emerged as a major economic bloc, with a combined GDP of US$ 720 billion that has almost doubled since 2002. Average regional real GDP growth of about 6% projected for 2006 is double that for overall global growth, and Qatar's performance continues to be above the regional average. In nominal terms, Qatar's GDP grew by an impressive 24% over 2005. Despite this impressive growth rate, public finances and all major economic indicators are robust.

The large fiscal surpluses coupled with increasing domestic savings, and robust foreign equity and debt inflows, add up to a very large pool of capital that is fuelling economic activity and infrastructure investments across the region. A young educated population, high employment and growing disposable incomes, quality health care, and increased life expectancy, are important demographic factors that will sustain business growth and investor interest in a number of key economic sectors in Qatar and other GCC countries.

Commercialbank has maintained strong revenue and asset growth in all core business sectors, reflecting the strength of its business franchises, the successful implementation by the Bank's management of its business strategy, and the productive relationship between the Board and the executive management of the Bank. These impressive results have been achieved despite the many challenges in the operating environment last year, most significant of which were increased competition, and the sharp falls and depressed market conditions in the stock markets in the GCC and Qatar during most of 2006, leading to significant reduction in the sizeable investment income booked in the previous year.

In mid 2005, we made a strategic investment in the second largest bank in Oman, National Bank of Oman (NBO). This strategic partnership has been a success by all performance standards. NBO has reported a second consecutive year of record profits, with net income rising by 49% in 2006. NBO's superb performance is reflected by its credit ratings which have been upgraded twice, and the appreciation of its share price by over 30% above our initial acquisition cost, despite the depressed state of the stock markets in the region.

The Board gratefully acknowledges the loyalty and overwhelming support of its shareholders, who have responded to requests for capital needed for business growth, and wholeheartedly subscribed to three large rights issues in the past years. To reward this support, the Board of Directors has announced a generous cash dividend distribution of 70% (or QAR 7.00 per share) for the year 2006, which is a big increase over the 40% cash dividend paid out last year on an enlarged capital base. The large cash dividend declared this year also demonstrates the management's confidence in generating superior profitability growth in coming years, and maintaining the Bank's current strong capitalization ratios.

For 2007, our key focus areas will continue to be diversification into new strategic business areas, expansion of our regional and international business, and forward looking investments in new products, support services and banking technology to meet the evolving needs of the State of Qatar and its multicultural population. We remain confident of continued growth and expansion of Commercialbank in the coming years and achievement of superior profitability and gains in market share. We are also committed to deliver enhanced value and returns to our loyal shareholders in the coming years.

On behalf of The Board of Directors and the Management and staff of Commercialbank, I would like to acknowledge the visionary leadership of His Highness the Emir in inspiring the growth and prosperity achieved by the Bank, and our gratitude to His Highness the Heir Apparent, His Highness the Prime Minister, His Excellency the Minister of Finance and to His Excellency the Governor of the Qatar Central Bank for their efficient governance and continuing advice and support.

We take justifiable pride in our high service quality standards for our shareholders, clients and business partners, our community spirit and commitment to charitable and humanitarian causes. These are also representative of the diversity, success and international character of the State of Qatar.

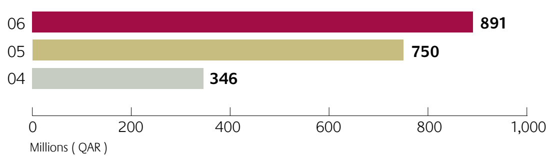
In conclusion, I would like to thank and record the Board's appreciation of the dedicated efforts, loyalty and contribution of our employees to the impressive growth of Commercialbank. Thanks to them, your Bank is well positioned both to face the challenges and opportunities before us, and to achieve planned growth in the coming years.

Abdullah bin Khalifa Al Attiya
Chairman of the Board

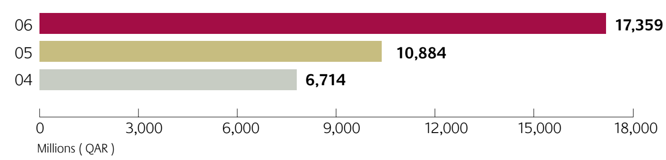
2006 Financial highlights

Net Profit - increased by 19% over 2005	QAR **891 million**
Operating Profit - up 30%	QAR **1.35 billion**
Net interest Income - up 43%	QAR **675 million**
Non Interest Income - up 25%	QAR **678 million**
Total Assets growth of 37%	QAR **30.4 billion**
Loans to Customers - up 60%	QAR **17.3 billion**
Customer Deposits - up 30%	QAR **17.2 billion**
Shareholders' Equity	QAR **5.7 billion**
Earnings per Share - up from QAR 5.35	QAR **6.36**

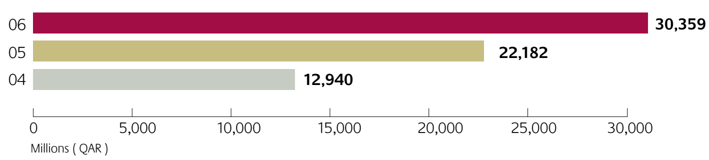
Net Profit



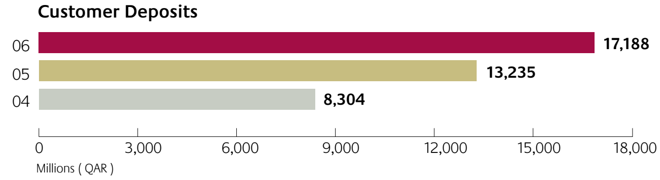
Loans to Customers



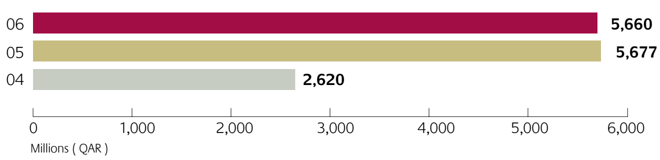
Total Assets



Customer Deposits

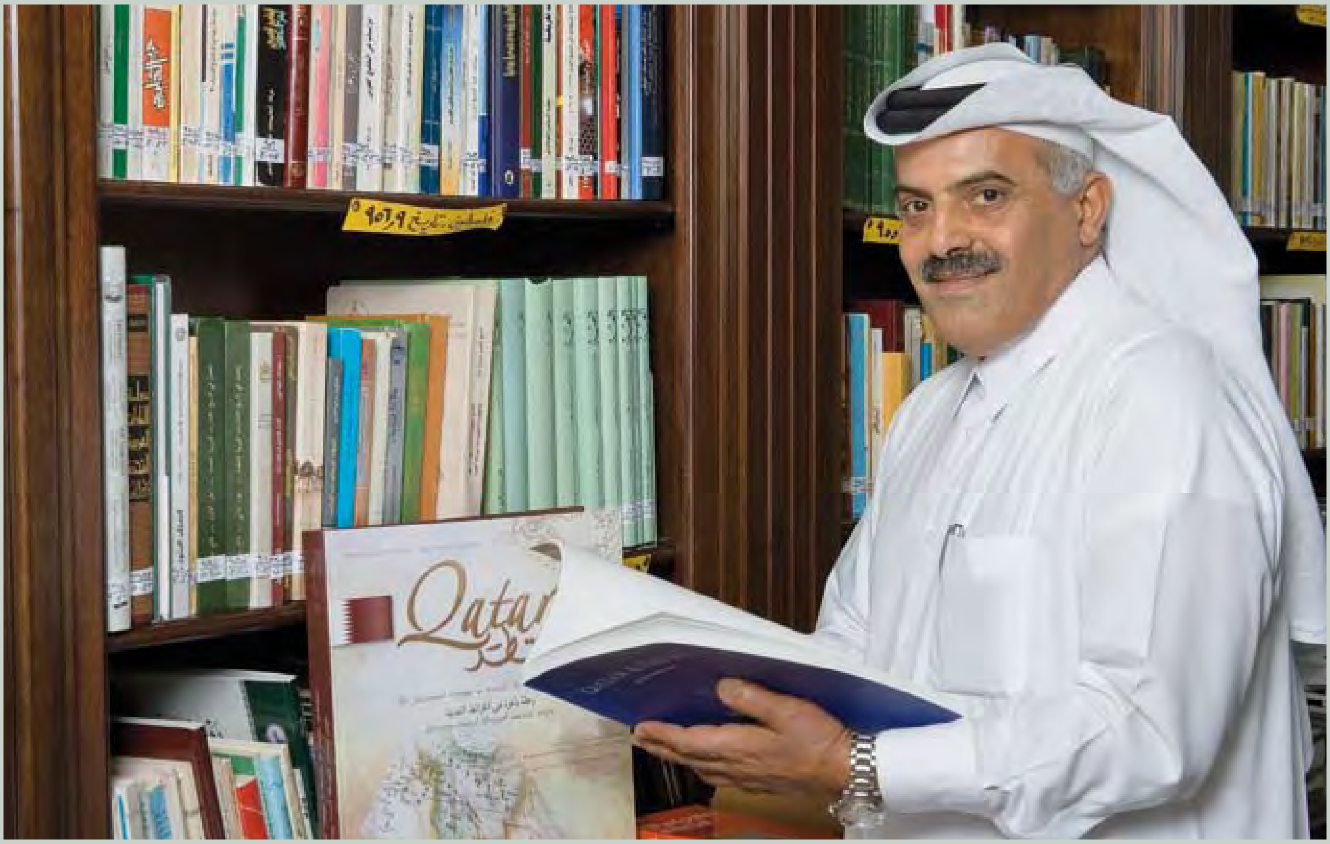


Shareholders' Equity



Every person at Commercialbank is, in his or her own way, connected to Qatar. Our customers; our stakeholders; our employees and our management. That's why we're here; as a vital part of this dynamic country and its culture of diversity and tolerance. So too, our Board of Directors. Each is a leader of industry; a strong contributor to Qatari society. Each has interests, pursuits and human aspirations.
We are proud to dedicate the achievements of this past year to all our stakeholders and to the many, many people of all walks of life who have made our endeavours worthwhile.

We remain committed to Qatar.



The Directors of Commercialbank are leaders in their chosen fields. All are successful businessmen, strategic thinkers, and pioneers in many economic sectors of Qatar. They are, at the same time, family men, each with personal interests and ambitions, and representative of the stability and diversity of Qatar. All have worked hard to achieve, contributing in their own way to the success of the Bank, and dedicating their careers and life to the overall growth and transformation of Qatar, its cultural heritage and its society. Their many successes and contribution to the community are "Inspired by Qatar".

H.E. Abdullah bin Khalifa Al Attiyah, Chairman

State Minister, Abdullah bin Khalifa Al Attiyah has been on the Board of Commercialbank since 1980, becoming Chairman in July 1999. He is also the Deputy Chairman of both Qatar Insurance Company and United Development Company, and the Chairman of Gulf Publishing and Printing. Married with four sons, three daughters and four grandchildren his interests include travelling, hunting and reading, particularly on history and politics. He has built up a valuable library at home including rare old Arabic journals and manuscripts. Firmly committed to Qatar he applauds the wise leadership and vision of His Highness the Emir, Sheikh Hamad bin Khalifa Al Thani, in the transformation of Qatar into a modern, industrialised, knowledge-based economy. He is proud of the Bank's rapid growth since inception, the 30th anniversary celebration in 2005, and of the Bank's contribution and leading role in the emergence of Qatar as one of the fastest growing economies, and a leading investment destination for global companies.

Mr. Hussain Ebrahim Alfardan, Managing Director

Mr. Alfardan has been Managing Director of Commercialbank since its establishment in 1975. He is the Chairman of Alfardan Group, Chairman of United Development Company and a Board Member of Qatar Insurance Company, as well as a founding member of Investcorp, Bahrain. He is also the Vice Chairman of the Qatar Businessmen's Association, and actively promotes the growth of trade and investment in Qatar. He has seven children and twenty-seven grandchildren. An astute and highly respected businessman, Mr Alfardan started his career as a banker with Standard Chartered Bank, and attributes success in any business to strategic planning, careful study and effective implementation. Amongst his many hobbies, Mr. Alfardan enjoys fishing, collecting antique jewelry, and over the years has built an impressive collection of natural pearls. Delighted to be a contributor to the achievements of Qatar's economy, he acknowledges the massive changes in the country and is proud of its many achievements and prosperity. It has been his stated dream to run a successful organisation like Commercialbank, and he looks forward with confidence to a very bright future for the Bank, the country and its citizens. "Qatar is in my heart", he says. "It has a strong economy and a strong direction from its wise leaders. It makes me happy to see where Qatar is today".

Sh. Abdullah bin Ali bin Jabor Al Thani, Vice Chairman

Sheikh Abdullah has served on the Board of Directors of Commercialbank since 1990 and was appointed Deputy Chairman in July 1999. He is also a Director of the National Bank of Oman and owner of Abdullah bin Ali Trading Company. Apart from his many business achievements, Sheikh Abdullah enjoys varied interests and active pursuits including hunting and scuba diving. Married with five sons and one daughter, he was fourteen years old when Commercialbank commenced operations in 1975. His father, Sheikh Ali bin Jabor Al Thani, was one of the founding members of the Bank and Chairman of the Board until he sadly passed away in 1999. Sheikh Abdullah is particularly proud of Commercialbank's acquisition of a strategic shareholding in National Bank of Oman, and is passionate about Qatar's economic prosperity, its growing international stature and its investment potential.

Sh. Nasser bin Faleh Al Thani, Director

Sheikh Nasser is one of the founding members of Commercialbank and he has sat on the Board of Directors since the Bank's inception. He fondly recollects the first discussions and idea of establishing the Bank and is proud that, from those initial beginnings, Commercialbank has grown steadily into one of the leading financial pillars of Qatar's banking sector. Sheikh Nasser is also a Director of United Development Company. He has eight sons, three daughters and many grandchildren. An amiable and social personality, Sh. Nasser is optimistic about the future of Qatar and considers the family atmosphere prevalent in the country, combined with an eagerness for learning and modern progress, to be a good balance for future growth. The result of this is a quality of life that is rarely found in other parts of the world.

Mr. Jassim Mohammed Jabor Al Mosallam, Director

Mr. Al Mosallam is a Founder Member of the Board of Directors and has served on the Board since 1975. His business interests include one of the first furniture showrooms in Doha and the Al Mosallam Trading Company. He is also a Director of Qatar German Medical Devices and of Qatar Clay Bricks. A keen sportsman, Mr. Al Mosallam has played tennis since the 1950's, starting his love of the game in Bahrain. He has six children and one grandchild. Looking at significant achievements during his tenure he remembers 1975. "Our very first year's profit results are a cheerful memory, and as founders we chose to retain our earnings in the Bank for ten consecutive years, allowing the business to prosper," he says. Commenting on Qatar, he praises its leadership, community spirit and social structure and acknowledges the positive transformation that has taken place in industry, infrastructure and construction since the accession of the present Emir in 1995.

Mr. Abdullah Mohammed Ibrahim Al Mannai, Director

Mr. Al Mannai has been a Commercialbank Board Member since 1987 and is also a Director of Qatar Company for Meat and Livestock (Mawashi). A successful business entrepreneur, he is the owner of AMPEX, Qatar Marble and Islamic Mozaic Company and is a prominent member of the Qatari Businessmen's Association. Married with two sons, six daughters and fifteen grandchildren, he enjoys travelling and fishing amongst other interests. He was a pioneer in the import of Australian livestock to Doha back in 1965 and is proud of the rapid progress and growth in the country. "Qatar's economy goes from strength to strength", he explains. "Qataris now have one of the highest per capita incomes in the world and I applaud His Highness, Sheikh Hamad's forward looking vision and role in the country's growth since 1995".

Mr. Khalifa Abdullah Al-Subaey, Director

Mr. Al-Subaey joined the Board of Commercialbank in 1987, as a representative of Qatar Insurance Company. He is on the Boards of insurance and real estate development companies. As the President and Chief Executive Officer of QIC, he has led the growth of QIC into a major regional Insurance group with a GCC wide footprint. A graduate from Central Michigan State University, he majored in Economics and started his career in the Finance Department of Qatar Petroleum. Married with one son, three daughters and a grandchild, Mr. Al Subaey is a keen follower and fan of many sports, and is actively committed to the promotion and development of Qatar as a leading centre for sporting events. He serves in senior positions in various sports promotion organizations including the Qatar National Olympic Committee, and the Asian & Qatar Handball Associations. Also committed to community services, he is a Director of the Social Development Center, Qatar. He sees the rapid growth and sophistication of the financial services sector in Qatar, as one of the many important achievements of Qatar over the last decade.

Sh. Jabor bin Ali bin Jabor Al Thani, Director

Sheikh Jabor has been a member of the Board of Directors since 2002. He is the brother of Sh Abdullah bin Ali bin Jabor, and the son of Sheikh Ali bin Jabor Al Thani, a Founding Member of the Bank and Chairman of the Board until his demise in 1999. He is also a Director of Gulf Publishing and Printing WLL. Married with four children, his many interests include hunting and sailing. The 30th anniversary celebration of Commercialbank was a memorable occasion for him, and he looks forward to many further successes and milestone achievements in the future, both for Commercialbank and for Qatar.

Mr. Omar Hussain Alfardan, Director

Mr. Alfardan joined the Board of Commercialbank in 2002. A successful businessman, he is President of various companies of the diversified Alfardan Group, Director of United Development Company and of National Bank of Oman, President of Resorts Development Company, Chairman of Qatar District Cooling Company and Vice Chairman & Managing Director of Qatar Dredging Company. Married and blessed with four children, he enjoys and is actively involved in water sports - in particular fishing - and is a keen participant in motor racing events. He is proud to be a Qatari, and proud of his involvement in Commercialbank's acquisition of a major shareholding in National Bank of Oman, and of the emergence of The Pearl Qatar as a unique landmark development in Qatar. Mr. Alfardan, a passionate believer in the concept of 'community involvement', is a Board Member of the Qatar Red Crescent Society whose mission covers emergency relief, health and first aid education and social welfare. He is also associated with various other social and humanitarian services in Qatar.

Managing Director's report

The year 2006 was a landmark year for Commercialbank, marked by several achievements and continued growth, in the face of many new challenges.

The Bank has been able to once again report a record net profit of QAR 891.4 million, surpassing the previous record of QAR 749.5 million in 2005. The 19% rise in net income reflects the strong growth in assets and large contribution of recurring income from core business lines, which have offset the negative impact of a sharp fall in investment income which contributed a major portion of earnings in 2005.

I am pleased to advise that the Bank's strategy of diversification into new business lines has generated robust and sustainable growth of both interest and non-interest income streams and further improvement in asset quality, demonstrating the soundness of the management's business strategy as well as our risk management systems. The operating environment however also presented new challenges for us and for the Qatari and regional banking sectors in general. The stock markets in Qatar and in the larger GCC economies were highly volatile last year and recorded sharp declines across all sectors, and remained depressed in the latter half of the year. In addition to the fall in the value of core blue chip investment assets and resulting sharp decline in investment income last year, interest margins were also under pressure due to lower interest rates, and higher cost of deposits required to sustain rapid loan growth, as well as increased competition in local markets for both funding and loans. The outlook for 2007 is however more positive on these fronts, and the Bank is now well positioned to benefit from the business growth opportunities.

Qatar is today one of the world's fastest growing economies, and this growth rate will in fact accelerate in coming years. You all are already aware of our country's manifold achievements in recent years, its economic strength and the visionary leadership of His Highness the Emir who has set in motion many initiatives to place Qatar firmly on the world map as a leading business, financial, cultural, sporting and tourist destination. Commercialbank's growth and business philosophy continues to be 'Inspired by Qatar', and we have been an innovative lead player in promoting our nation's ambitious development projects and in the evolution of its banking industry.

Commercialbank's profile in the international capital markets has been established with the recent listing of a US$ 1.5 billion Euro Medium Term Note (EMTN) programme on the London Stock Exchange. The programme structure allows flexibility to issue both senior and subordinated instruments. Our debut issue of senior bonds for US$ 500 million, in the form of 5 year FRNs, was oversubscribed by 120%, with new investors in Asia and Europe taking up 75% of the issue. The bonds are currently trading at a large premium to issue price, reflecting international investor confidence and demand for our bank paper. Both are firsts for a Qatari bank, and Commercialbank's pioneering achievements have paved the way for other Qatari banks to tap global capital markets.

In Qatar, the Bank continued its business expansion strategy with focus on the future and maintaining Commercialbank as a lead player in a rapidly growing economy. Two branches were opened in 2006, and the activities and operations of the new Al Safa Islamic division are also building momentum. Al Safa Islamic now has 4 branches, and this expansion will continue, as we expect the demand for Islamic and Sharia'ah compliant products and services to grow.

The robust growth of business in 2006 is reflected in the 37% increase in balance sheet size to QAR 30.36 billion, reflecting a healthy 59 % rise in loans and advances to QAR 17.36 billion, a 28% increase in Investment Securities to QAR 4.32 billion and a 9% rise in cash and liquid assets to QAR 6.51 billion. Core businesses in the Corporate banking, Retail banking and Islamic banking sectors have all registered healthy growth in market share and profitability, with superior operating profits, fee income growth and efficiency ratios, despite increased domestic and regional competition.

The balance sheet structure is supported by a strong capital base as well as high levels of liquidity, which provide a stable foundation for the Bank's continued growth. The Bank has now implemented the more stringent Basel II Capital Adequacy Accord requirements, and still maintains a strong Total Capital Adequacy Ratio of 15.27%, compared to the minimum ratio of 10% required by Qatar Central Bank.

The continued growth in Customer deposits from QAR 13.24 billion to QAR 17.19 billion demonstrates the confidence of both domestic and international customers in the Bank's strong credit standing, stability of its business franchises and its future prospects. This growth was achieved despite significant diversion of domestic liquidity into the surging real estate and stock markets. Asset quality has improved significantly, and the Bank's low level of Non Performing loans at 0.81 % of Gross loans with 99% loan loss coverage would represent one of the healthiest and lowest risk loan books in this region.

Recurring Operating Income growth has been exceptionally strong, and rose 33% to QAR 1.35 billion, despite the heavy impact of a 40% decline in investment income this year. We have achieved Net Interest Income growth by 43% despite tightened lending margins. More significantly, our Fee and Commissions income growth at 82% has been a stellar performance, reflecting the Bank's success in the highly competitive Trade Finance business.

The Al Safa Islamic banking operations, which commenced in 2005, are also expanding rapidly in line with our expectations, and we expect them to be an increasingly valuable contributor to the Bank's revenues. Islamic Banking income grew by 472% to QAR 50 million in 2006.

Our superb operating income results have been diluted by a large 388% increase in provisions of QAR 95.9 million we have taken for the Investment portfolio held for sale, which is the result of the sharp and sustained fall of equity prices in the local DSM during 2006 and our strict implementation of new IFRS accounting standards.

National Bank of Oman (NBO), in which Commercialbank has a 34.85% shareholding, saw a second consecutive year of record profits. NBO's net profit after tax for 2006 was the equivalent of QAR 288 million (2005 - QAR 193 million) of which Commercialbank's share represented QAR 100.5 million (2005 - QAR 67 million). In contrast to the prevailing market trends elsewhere in the Gulf region, the stock market value at the end of 2006 of our shareholding in NBO showed an increase of more than 30% over the acquisition cost in July 2005.

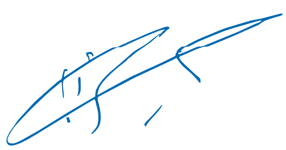
Looking to the many growth opportunities before us, the Bank continued to make investment in new businesses, human capital and technology, training and development, effective risk management systems, quality infrastructure, support areas and distribution systems. The Cost to Income ratio has therefore shown a small increase from 29% in 2005 to 31%, which still compares very favorably with the benchmark for large regional and international banks. The management is confident of higher contributions through improvements in productivity and cost efficiencies as a result of the forward looking initiatives implemented in recent years.

We are committed to a culture of modern risk management systems, adherence to IFRS accounting standards, and comprehensive and transparent financial disclosures, which are factors underpinning our high credit ratings, market reputation and recognition as a professionally managed, progressive and high quality national bank by our regulators, business partners, clients and global credit rating agencies. These high standards we have set for ourselves, along with our wide market penetration and strong capital base, provide us with a strong foundation for superior growth, sustained earnings and enhanced returns for our shareholders in the coming years.

Commercialbank is now rated by all the three globally recognized rating agencies who have all affirmed prime 'A' Grade ratings for the Bank. Fitch Ratings have, in November 2006, upgraded their key long term and short term ratings for Commercialbank.

The completion and occupation in 2007 of the Commercialbank Plaza, which is already prominent in Doha's skyline as a distinctive building on the Corniche, will add a glittering new chapter to our history.

Finally, among Commercialbank's many valuable assets, I must highlight the professionalism, loyalty and productivity of our 'human capital'.... our employees whose creative talents and efforts have enabled the Bank's evolution into a highly respected regional banking group. Their capabilities complement the strong foundation we have built. I confidently look forward to continued growth, superior performance and higher returns for our shareholders in the coming years.



Hussain Ibrahim Alfardan
Managing Director

Management review

Mr. Andrew Stevens, Group Chief Executive Officer of Commercialbank, conducts a presentation on Qatar's financial sector at the September 2006 annual meeting in Singapore of The Institute of International Finance - the leading international association of financial institutions. The Bank spearheaded an initiative for Qatari banks to jointly act as Lead Sponsor of this global conference.

The drivers of Commercialbank's rapid growth are Qatar's growing economic stature, the Bank's diversified business franchises in Qatar, including its strategic investment in National Bank of Oman, prime credit ratings, modern risk management culture, and strong capital base.

2006 has been a challenging and successful year for Commercialbank.
Our strategic partnership and investment in National Bank of Oman ("NBO") has expanded our footprint in the GCC region and is beginning to bear fruit. Amongst our major financial achievements in 2006, we look with satisfaction to the sustained strong growth in core businesses, growth in non-interest income, improving asset quality and a diversified risk profile.

In the local capital markets, Commercialbank successfully managed a large IPO for Gulf Cement Company, co-managed Bond issues by Qatar Petroleum and Nakilat, and strengthened its position as a lead arranger of syndicated loans for Qatari corporate borrowers. We were also the first Qatari bank to establish an EMTN programme, successfully issuing US$ 500 million of 5 year bonds in the global capital markets.

Our external credit ratings, as listed below, demonstrate the solid performance and prospects for our Bank.

Senior Debt	Foreign Currency Bank Deposits/ Issuer Default Ratings		Bank Financial Strength/ Individual
	LT	ST	
Moody's	A1	Prime 1	C-
Fitch	A	F1	C
S&P	A-	A-2	-

The strengths of the Bank, as reflected in the rating assessments by these agencies, include a well established and growing banking franchise in Qatar, a strong retail banking presence, and an experienced management team. The ratings also reflect the Bank's consistently strong financial performance and solid earnings power, good risk profile, healthy asset quality and capitalization, and stable efficiency indicators.

The positive operating environment offers many opportunities for large well capitalized banks to sustain profitable growth. As Qatar's second largest bank, Commercialbank confidently looks forward to the continued growth of all business lines in 2007. Proactive investments in technology and human capital, along with an enhanced capital base and underwriting capability, provide the Bank with a strong foundation for accelerated business growth.

Our partnership with NBO has greatly increased relationship access to financing and syndication opportunities in Oman and the UAE. With our increased size, credibility, organizational resources and experience, we aim to pursue synergic acquisition opportunities that we identify in the future.

National Bank Of Oman

Commercialbank acquired a 34.85% shareholding in National Bank of Oman (NBO) in mid 2005 and has a Management Services Agreement. NBO achieved a second consecutive year of record profits, with net profit rising in 2006 by 49% to RO 30 million (equivalent to QAR 288 million), which is a six-fold increase over 2004.

Over this period, NBO's share capital has also grown from RO 70 million to RO 92 million currently, and its capital adequacy ratio is now the strongest in the Omani banking sector.

The profitability of Commercialbank's investment is reflected in the cumulative appreciation in NBO's share price of over 30% above the initial acquisition price in July 2005, and an overall ROI of over 18% per annum

Under the Management Services Agreement with NBO, Commercialbank is involved in a number of key initiatives designed to improve performance and restructure the organization. Substantial work has been carried out on improving the human resources, operational controls and Internal Audit structures and processes of the Bank. A working group is currently reviewing opportunities for the development of shared services and the exploitation of other potential synergies between the two organisations.

Our assistance to enhancement of the risk management framework at NBO has led to a new risk charter, revised credit policies, and the enhancement of market and operational risk functions. The new risk management culture has resulted in significant improvement in asset quality, with Non Performing Loans reducing from 31% of Total Advances as at end-2004 to 9.2% as at end-2006.

Commercialbank is a corporate entity, structured to provide financial services and solutions, but our organisation also touches upon almost every aspect of life in Qatar - our home. Our endeavours make a difference: to people, to organisations, to the very infrastructure and opportunity that this land provides.

Relationship Banking that spans multiple parties: The Ramada Plaza expansion will add 260 rooms, and also make the hotel, among the oldest hotels in Qatar, one of the largest. Commercialbank's multi-level financing of this project reflects the Bank's market reach and diversified client list in the domestic corporate sector. The Bank is the main relationship bank for the owner, Sheikh Ghanem bin Ali Al-Thani, as well as for one of the largest contracting firms in Qatar - Al Jaber Trading and Contracting - the main contractor for the hotel expansion project.

As a Qatari bank, our focus and strength is derived from building and maintaining long-term partnerships and relationships with our customers and the community at large. Identifying and understanding our customers' need is a priority, and the Bank has been successful in arranging financial assistance for a wide variety of development projects in 2006.

Commercialbank's Corporate Banking Manager, Mr. Fouad Al Jabsheh meeting with the General Manager of the Ramada Hotel, Mr. Gordon McKenzie, together with Mr. Mohamed Sultan Al Jaber and Mr. Ziad abu Ajaina, partners in Al Jaber Trading and Contracting

Management review

Commercialbank's Deputy Chief Executive Officer, Mr. Abdulla Al Raisi (left), with senior members of the Bank's Corporate Banking and Capital Markets team at Ras Laffan Port, with 'Doha', a modern LNG carrier, in the background.

Financing Qatar's success stories: Commercialbank is proud to be a national banking services partner and financier of almost all of Qatar's highly successful ventures in the oil, gas and petrochemical sectors. Our total long term project finance commitments in recent years to the Qatar Petroleum group exceed US$ 1.3 billion.

The Bank's corporate sector involvement has seen several key milestones achieved during 2006: Gulf Cement Company appointed Commercialbank as sole mandated Lead Manager of the Initial Public Offer of its shares on the Doha Securities Market in March. The efficient process and organisation of this issue, enabling an oversubscription by over nine times, was a new accolade for the Bank's Investment Management capabilities.

The Bank was also a Co-Manager of two major international corporate bond issuances out of Qatar: Qatar Petroleum's US$ 1 billion issue and Nakilat Inc's US$ 1.15 billion issue.

Commercialbank's Corporate Finance and Syndications capabilities are evident in all Qatari project financings, and in many large regional financings. Commercialbank has acted at senior levels as Mandated Lead Arranger, Lead Arranger or Co-arranger in twenty seven large syndicated financings in Qatar and the GCC region during 2006, and the aggregate term financing commitments over last three years exceed US$ 2.2 billion.

At the Board of Directors level, the active participation of Commercialbank's four representative directors on the Board and Board Committees of NBO, has contributed to development of new business strategies and enhanced Governance capabilities, as demonstrated by the establishment of Executive and Risk Committees. Commercialbank has brought in experienced management through appointment of a seasoned CEO and other supporting 'key-man' positions.

NBO is now well positioned for growth, with many positive developments since Commercialbank's acquisition of a strategic shareholding. NBO's international credit ratings have also risen in recognition of the substantive improvements, with Moody's currently evaluating the Bank's Deposit Rating at A3/P-2.

Al Safa Islamic Banking

Our Al Safa Islamic Banking service, launched in April 2005, had a successful first full year of operations, registering strong growth in business volumes. Income from Islamic finance and investments rose from QAR 9 million in 2005 to QAR 50 million, and contributed almost 5% of the Bank's net operating income in 2006.

Al Safa Islamic Banking, which now operates from a dedicated Head Office and 4 branches, has recorded rapid growth and expanded its range of Shari'ah compliant services and products.

Following the initial launch of retail banking activities, Tawarruq personal finance and Ijara leasing facility for property purchases, Al Safa has begun to offer corporate and investment banking services.

Al Safa's Shariah Supervisory Board comprises the highly respected scholars Sheikh Abdul Azia Al Khulaifi from Qatar, Dr. Mohammed Elgari from Saudi Arabia and Dr. Abdul Sattar Abu Ghuda from Syria, ensuring the integrity of our Islamic banking services to customers.

The year ahead offers opportunities as well as challenges in the form of increasing competition, evolving market demand for innovative products and new entrants. The demand for and enormous growth potential of the Islamic banking sector is evident in the local and GCC markets, as well as in other regions and global financial centres. Al Safa Islamic Banking is well positioned to capitalize on the diverse opportunities that this sector offers.

Corporate Banking and Capital Markets Group

The Corporate Banking & Capital Markets Group saw increased momentum of growth in 2006, and has been a major contributor to the Bank's growth in recent years. In 2006 this group contributed 67% of the total operating income of the Bank. New business growth in all sectors of business was strong, with total corporate loan assets rising by 63% and fee income by 80% over 2005.

The group has implemented strategic business plans to maximize profitable growth opportunities in the booming Qatar and GCC regional markets. Key focus areas of this strategy are the consolidation of major banking partner relationships with Qatar's public sector institutions, to expand fee income from trade finance, cash management and fund management services, and to re-align Investment Banking resources to capitalise on opportunities in equity and debt capital markets as well as in advisory services.

Domestic Banking Division: Strong domestic corporate credit demand continued to be the major contributor to core revenues in 2006, reflecting a growing private sector share of the massive Government spending on developmental and infrastructure projects. Besides demand for credit and construction bonds from the Real Estate and Contracting sectors, the Bank has been active in new domestic private sector loan originations and syndications. Delivery capabilities have been strengthened through Corporate Internet Banking solutions along with a new focus on products and services for the Small and Medium Enterprises sector, which is targeted as a high growth area.

Project Finance & Syndications: Commercialbank continued to be a major local banking partner for the Government of Qatar in the many large oil & gas, industrial and infrastructure projects launched in 2006. The Bank is now an established and a very visible name in Qatar's high profile project finance sector.

The Public Sector Corporates Division was successfully nominated as a Mandated Lead Arranger with commitments of US$ 493 million (QAR 1.80 billion) in 7 landmark Qatar project & structured financings, which included the QatarGas 4 LNG project, Ras Abu Fontas B Power project, Nakilat Inc Debt Programmes, Nakilat vessel financings, and Q-Chem 1 refinancing. Aggregate financing commitments at senior Arranger level to the State of Qatar, and various Qatar Petroleum sponsored projects, LNG shipping and the Project Finance sector have crossed QAR 4.5 billion (US$ 1.25 billion).

Syndications: The origination and syndication of facilities for Qatari and GCC based private sector companies is a major strategic business focus. In 2006, over US$ 500 million in syndicated facilities was raised for large private sector corporates, including the US$ 225 million term facility arranged for United Development Company. The financing pipeline for 2007 is promising with many new mandates already secured, including the Bank's first advisory mandate for a large domestic private sector project re-financing. The Bank is currently associated in the development of new financing structures, including securitisations, mezzanine funding and equity fund developments.

Commercialbank has successfully leveraged its local expertise in Structured/Project finance, Corporate Finance and Investment Banking, and its substantially increased underwriting capability in the debt and capital markets of Oman and other GCC countries.

Management review

Commercialbank is a leading provider of Contract Finance for large infrastructure projects and during the year has issued large value guarantees for New Doha International Airport Main Terminal & Utilities projects, RasLaffan Common Cooling SeaWater intake, Khaleej Gas Phase 2 and QatarGas 3 & 4 LNG Train projects.

International Banking Division: The continued growth of our cross border client list as well as trade finance and loan books has boosted the international visibility and image of Commercialbank in the regional syndications and debt capital markets. The Bank assumed senior MLA/Arranger roles in 17 regional and international financings with aggregate cross-border commitments of over US$ 520 million during 2006.

New roles secured by the Bank in some of Qatar's large project financings, such as Local Operating Account Bank, Onshore Security Trustee and Agent Bank, are a recognition of the Bank's capabilities in large structured financings.

Investment Banking Division: The Bank's investment banking business has been reorganized to better exploit evolving capital market opportunities, and a number of new initiatives in this area are planned for 2007. The strong results from core corporate banking and treasury business have offset the negative impact of a 60% decline in income from sale of investments, arising from the sharp and sustained fall in local and regional equity markets over 2006. In strict compliance with International Financial Reporting Standards, the Bank recognised net impairments in Available For Sale Investments of QAR 96 million, through prudent mark-to-market revaluations throughout the year.

Despite the challenging market environment, significant fee income was generated from marketing international funds, brokerage and asset management fees. The Bank's proprietary portfolio has generated a return of 8.1% over invested assets. This was achieved through geographic and asset class diversification, and a portfolio of fixed income structures.

Assets under management from major regional institutions have increased to US$ 90 million. The Bank launched its first Qatari share mutual fund, Al Waseela, which is also open to foreign investors, and this will be followed in 2007 by other Qatar-based funds for local and international investors. New regulations issued by the Doha Securities Market ("DSM") required all local banks to discontinue brokerage activities, but Commercialbank has successfully leveraged its technology platform to allow clients to continue trading on the DSM with the Bank acting as a sub-broker. To provide time savings and an enhanced value proposition for clients, the Bank is working towards a single online platform accessing all major international markets.

Treasury Division: The Bank's Treasury Division manages the efficient funding and liquidity management of the Bank (both regulatory and policy), besides catering to the growing demand in Qatar for exchange rate and interest rate hedging solutions.

Treasury business growth continues to be strong, and income from customer dealings rose by 53% in 2006. Our growing Treasury capabilities and competitiveness were demonstrated by the successful award of large tranches of FX hedging contracts by RasGas, under a highly competitive bidding process involving local and international banks. The Treasury sales services and our range of new deposit, interest rate & currency hedging products were significantly expanded.

A new front and back office system under implementation will fully automate and manage all aspects of Treasury products, and establish a fully integrated straight through processing and risk management environment.

During the year interest rates on Qatari Riyals rose in tandem with US dollar interest rates. Rising export earnings and large state spending on local infrastructure development in the lead up to the Asian Games held in Qatar, channeled substantial liquidity into the domestic money markets.

Institutional and Investor Relations Division: 2006 also marked a significant change in the profile and diversity of investors in the Bank with the entry of international bond market investors through the EMTN programme, as well as an increase in the number of foreign shareholders in Commercialbank equity.

In view of the growing importance of the capital market funding programmes of the Bank, a new Institutional and Investor Relations Division was created to develop and pro-actively manage Commercialbank's external relationships and communications with core long term investors, banks, rating agencies and regulatory agencies. The Bank's relationship with global financial institutions and a growing network of correspondent banks will also be managed by this Division.

Transaction Banking Division: The Transaction Banking unit, formed in March 2005 to bring Cash Management and Trade Finance businesses under one umbrella, continued to expand and achieved a substantial increase in transaction volumes. Total trade commissions almost doubled to QAR 70 million in 2006 and the number of trade transactions handled increased by 40%.

The CBCM Group offers a range of corporate banking, treasury, investment banking, transaction banking and corporate finance services, both conventional and Islamic, for domestic and international companies investing, trading or executing projects in Qatar, including IPO management, project / construction finance and business advisory services.

Promoting Qatar: Title ownership of the 'Commercialbank Qatar Masters' golf championship and the Grand Prix of Qatar 'Moto GP' reflect the Bank's promotion of excellence in sports, and the international character of Qatar. Both events are a demonstration of the Bank's commitment to playing a key role in the international promotion of the country and working in harmony with the Qatari Government's initiative of cementing the State as a major sporting destination in the Middle East. These key events are viewed by a television audience of millions across the region and beyond.

In December, 45 Bank employees volunteered to assist the 15th Doha Asian Games. Further sponsorships range in scope from children's rugby through to the 6th Conference on New and Restored Democracies, held in October 2006 and attended by representatives from the Governments of some 192 countries.

In addition to key event sponsorship, Commercialbank involves itself with various co-promotions, working alongside other businesses where there is benefit to its customers.

Top: The Bank's Sponsorship and Events team Managers Mr. John Anthony and Ms. Rania El Khoury discuss the Commercialbank Qatar Masters Golf Championship with Mr. Abdullah Kuwari, Tournament Coordinator and Mr. Mubarak Al Kuwari, Media Coordinator at the Qatar Golf Association.

Casey Stoner, winner of the 2007 Commercialbank Grand Prix of Qatar, celebrates his podium finish in the presence of HE Shaikh Mohammad Bin Fahad Al-Thani Head of Protocol Emiri Diwan; Mr. Omar Al Fardan, Board Member Commercialbank of Qatar and Mr. Nasser Bin Khalifa El Attiyah, President of the QMMF.

Management review

Commercialbank EGM and Chief Retail Banking Officer, Mr. Paul Russell (right), and Sr. AGM Corporate Banking and Capital Markets, Mr. Abdul Jalil Borhanifard (centre), with Mr. Salim Abdul Rahim of United Development Company reviewing the progress of work on the Pearl Qatar.

Financing the physical transformation of Qatar: The Pearl Qatar is a nine billion Riyal landmark project that is transforming the physical landscape of the West Bay area of Doha. This massive development is Qatar's first international real estate project. Commercialbank has been closely associated with the lead developers, United Development Company, from project inception. Besides being the key relationship bank for UDC, the Bank is involved with the many phases of this unique project, ranging from financing developers of properties, the contractors and sub-contractors, and also offering a range of innovative mortgage-finance products for both Qatari and expatriate home owners. The Bank continues to be proactive in the retail home loan market, for example, launching Qatar's first fast-track 'approval-in-principle' service that tells customers instantly how much they can potentially borrow.

New products and value added services that differentiate Commercialbank from the local competition include:

- 'Corporate Premium Service Counter' at our dedicated Corporate Branches.
- 'Door to Door banking service' to collect and deliver both cash and all other trade transaction documents.
- Expansion of our 'Corporate Internet Banking' to include on line trade transaction initiation capability. This is in addition to other services such as pay roll management, bulk remittances and automatic reconciliation.
- Creation of a 'Customer Care Unit' within the Trade Services Department, and further expansion of 'Document Preparation Assistance'.
- Creation of a Small & Medium Enterprise business unit.

Plans for 2007 include the opening of two additional dedicated Corporate Service branches and continued roll-out of new trade and cash products.

Commercialbank established a US$ 1.5 billion EMTN programme in October 2006. A very successful debut issue of 5 Year FRNs was oversubscribed by 120%, and over 75% of the issue was placed outside the region. The programme objectives are to meet the Bank's funding needs in a cost and time efficient manner, expand and diversify the international investor base, and provide flexibility to build out Commercialbank's yield curve across currencies and structures.

Retail Banking Group

The Retail Banking Group achieved continued growth in all areas, and has maintained Commercialbank's long standing reputation for innovation, superior retail banking products, and the highest customer care standards in Qatar. Commercialbank provides personal clients with a broad range of financial services that includes Cards, Loans, Account Services and Property Services, as well as Wealth Management.

Commercialbank's growing client base of over 144,000 customers and a countrywide network of 25 branches (including 5 Al Safa Islamic division units and a Sadara Wealth Management office), 6 Pavilions and Sales Offices, 90 ATM's and 25 Cash Deposit Machines is backed by leading edge Internet, Telephone and SMS Banking Services.

The Bank's retail assets grew in 2006 by 35%, deposits by 30% and fee revenues by 116%, to deliver another record result.

Commercialbank's retail market leadership strategy continues to maximise the value of technology as a source of innovation and differentiation. The ongoing improvement of internal processes, procedures and systems has been key to managing cost and improving customer experience. In 2006, we launched another Qatar first - a bilingual Internet Banking system – bankDirect, which enables retail customers to make real time transactions, 24 hours a day, seven days a week. Customer response to this new service has been strong, with a nearly four-fold increase in registered customers. Along side this, our SMS banking service has continued to grow with 50% of our customers utilising the service and we introduced a new telephone banking Interactive Voice Response (IVR) platform. An upgrade of the Call Centre System has added new functionality with improved services and reduced waiting time. The Sadara hotline is now available to all high net worth customers, 24-hours a day, seven days a week.

Commercialbank provides a range of loans to enable customers to achieve their desired lifestyles. During 2006 we increased our distribution capability significantly by increasing our Direct Sales Force, our specialist Mortgage/property sales force and expanding our branch network. Commercialbank dominates the highly competitive Qatar Cards segment, with our card transactions accounting for 48% of total cards transactions in Qatar. The Bank is also the largest issuer of Diners and Visa in the country. To help protect against fraud, the Bank commenced the migration of its customer card base to EMV compliant 'Chip' cards.

During 2006 we reorganized our business to better align customer needs with growing opportunities in the market. Our commitment to superior service has allowed us to grow customer base and deepen existing relationships.

The Vehicle Finance sector shared similar success with a 45% rise in lending founded on strong campaigns with the top car dealerships in Qatar – BMW, Land Rover, Ferrari, Maserati, Honda, Mitsubishi, Toyota, and Nissan. We took our partnership with BMW a step further by launching the Immediate Vehicle Finance loan approval process.

Commercialbank continues to be a leader in the development of Qatar's personal property finance market. 2006 was a significant year for the residential project sector in Qatar, as signature developments and property sales gained momentum. This has translated into very positive growth for the residential mortgage business. The Bank's retail mortgage assets grew by an impressive 67% during 2006. With several large residential projects like the Pearl Qatar and Lusail now open for investment from non-Qatari residents and overseas buyers, demand for residential real estate is reaching new heights, and exceptional performance in mortgage finance is anticipated over the coming years.

Sadara Wealth Management continues to provide High Net Worth customers with discreet personalized personal banking services, including wealth management solutions developed to the special needs of our affluent customers. The Sadara Wealth Management experience was further enhanced this year with the organisation of several prestigious events that were exclusively for Sadara customers. A unique Sadara "VIP Ladies Night" for Qatar's prominent businesswomen and wealthy female residents, with high quality entertainment and association of premium lifestyle brands, has been very successful in promoting the Sadara brand, introducing rewards programs and focused marketing of our suite of Wealth Management products.

Commercialbank has continued to record substantial growth in non-resident business with its Indian and Egyptian customers. Central to this growth has been the sponsorship of a number of community oriented events, such as the NRI Inter School Painting Competition for children and the NRE Eid Al Adha lunch for the Egyptian community. These initiatives have enhanced the image as well as awareness of Commercialbank within these large communities.

Orient 1

Commercialbank's exclusive Diners Club franchise in the region continues to expand. In 2006, our subsidiary Orient 1, successfully acquired the Diners Club franchise in Oman.

The Orient 1 Group continued to grow its business in Bahrain, Egypt and other Middle East countries. In the Kingdom of Bahrain, Diners maintained its position as the preferred payment medium within the corporate segment - billings increased considerably from this segment alone. In Egypt, net income grew 49% and business volumes for both Cards and merchant acceptances grew substantially through co-brand bank partners. Issuing and acquiring business volumes also registered significant growth.

Risk Management

The Risk Management function in Commercialbank continues to be well positioned to manage the increasing sophistication, range and diversity of the Bank's activities as well as developments in the local and regional markets. The Retail Risk and Collections Unit, Business Continuity and Disaster Recovery Unit were consolidated into the Risk Management Group, bringing not only a greater focus on these areas, but allowing for increased cross functional activities within Risk, and a greater optimization of resources. The refinement of the overall Operational Risk Management framework structure and process has shown tangible benefits resulting in the identification and successful mitigation of a number of key areas where the rapid growth of the Bank in the past few years could have created increased risk.

The risk process covers all risks, principally credit, market, operational, liquidity, sovereign, reputational, legal and strategic. It ensures effective identification, understanding, measurement, mitigation and reporting of all risks, the allocation of adequate capital against those risks, and the assurance of an appropriate level of reward against each risk. These core risk principles are embodied in a comprehensive set of policies and procedures, which have undergone extensive review during 2006 in order to ensure compliance with the highest industry standards.

Risk Strategy, Governance and Guiding Principles

The risk strategy is set by the Board of Directors, which has ultimate responsibility for the management of all risks assumed. It does this through the Audit & Risk Committee, and the Policy & Strategy Committee. Within the Executive Management, the Group Risk Committee, the Credit Committee and the Asset & Liability Committee complete the risk governance structure. Risk appetite across all risks is recommended by the Executive committees and subsequently approved by the Board of Directors.

The following guiding principles apply to all risk management activities:

1. Independence. A clear separation exists between risk management and the business divisions. All activities which commit the Bank either legally or morally to a position of risk require prior approval by authorized individuals or committees at the appropriate level from both Risk and the business.

2. Transparency. Risk Management structures, policies and procedures are transparent, based on consistent principles, in written form, well communicated at all levels.

3. Approval Authority. Committee and individual approval authorities are delegated by the Board of Directors, through the Group Chief Executive Officer and reflect the Committee's or the individual's level of experience, expertise and seniority. These are reviewed annually based on performance.

4. Dual signature. Risk taking commitments require the approval of at least two authorized individuals.

5. Accountability. Risk and reward from a transaction are borne by the same business unit.

Risk Management organisation

The functional management of risk across the Bank is undertaken by the Risk Group headed by the Chief Risk Officer, who reports to the Group Chief Executive Officer. The Risk Group comprises the following divisions, each of which is headed by an experienced and senior professional: Corporate Credit Risk, Retail Credit Risk, Operational Risk (including Business Continuity / Disaster Recovery, Information Security, Reputational Risk), Market Risk, Credit Administration and Control, Portfolio Management and Basel II.

Commercialbank's service quality is reciprocated by the loyalty of its customers, and the Bank is proud to have many merchant businesses and clients who bank with us, and have done so since our inception in 1975. An example of our banking relationships that span generations: Mr. Abdul Razzak Kamali belongs to one of the oldest Souk Merchant families in Qatar, and he now runs the family general merchandise shop in the reconstructed Souk Waqif, a historic Doha landmark which has been restored true to its original Arabic architecture. His shop is unique as the business has been operating from the same location since it was established by his late father over seventy years ago.

Reaching new heights: The Commercialbank Plaza is nearing completion and will be the Bank's new corporate headquarters by the end of 2007. The unique tower with many modern high tech features and an active façade design is already a visible landmark, strategically located in the West Bay business district, near the Corniche. The Bank will soon join many of its large corporate customers whose projects it has financed, in moving into new signature headquarters. The already spectacular but still developing skyline of West Bay area, is only a small part of the Qatar real estate story and its potential for further development.

Pictured Top: Commercialbank customer, Mr. Abdul Razzak Kamali meets with Commercialbank Manager, Corporate Banking, Mr. Raed Jaber in the renovated Souk Waqif in Doha.

Above: Mr. Michael Hyde, Head of Premises and Mr. Hamed Ahmadi, Property Manager at Commercialbank, reviewing the plans and completion status of Commercialbank Plaza, the Bank's new corporate office tower, which will bring a new landmark to Doha's spectacularly growing skyline.

Management review

Commercialbank's Deputy Chief Executive Officer, Mr. Abdulla Al Raisi, helping with a painting session with the children at the Shafallah Center for Children with Special Needs.

Commitment to community services, charitable causes and family values: Commercialbank reaches out directly to the community through creative activities and events that provide a platform to nurture talent and promote self-development. Commercialbank implements a policy of committed backing to the Qatari community; actively supporting and sponsoring many local charities, community service projects and international humanitarian works, in addition to a general involvement in the arts and sporting events. The Bank organises various events such as the Inter-School Painting Competition in November 2006, which encouraged children to discover the power of imagination and display their talents. In Doha, the Bank actively supports the Shafallah Center for Children with Special Needs and is also involved with the 'Road To Asia' project, the Joint Qatar Committee for Relief of Victims of Tsunami, and in various charitable causes for Pakistan, Iran and Lebanon. Commercialbank is also a contributor to the activities of the United Nations Rapporteur in Charge of People with Disabilities.

The Risk Group's activities comprise the following:

- Development, communication, education and monitoring of adherence to comprehensive risk policies
- Approval of risk exposures within delegated authorities, independent of the business
- Recommendation, jointly with the Business Units, of the Bank's risk appetite across all types and categories of risks, to the Board of Directors
- Daily management of all other risk functions, including the control, monitoring and reporting of risk limits and exposures, for internal control and regulatory compliance purposes.

The key risks assumed by the Bank are:

Credit Risk: Defined as the potential risk that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk is attributed to both on-balance sheet financial instruments such as loans, overdrafts and acceptances, and credit equivalent amounts related to off-balance sheet financial instruments. All corporate exposures are risk rated using a proprietary risk rating model which is aligned to Basel II standards. The Bank is implementing a Retail Credit Scoring model that takes into account obligor characteristics and factors in addition to behavioural and demographic data, which will be regularly reviewed and validated.

Market Risk: Defined as the risk of loss resulting from on and off balance sheet positions as a result of adverse movements in market prices. The management of market risk is achieved by the analysis, identification, monitoring, control and reporting of all activity that results from trading exposure taken within Market Risk limits, which reflect the risk tolerance of the Bank and the nature of the trading activities undertaken. The Board of Directors delegates responsibility for the management of Market Risk through the Group Chief Executive Officer to the Assets & Liabilities Committee (ALCO), which in turn delegates individual authority to the Market Risk Head and other responsible individuals. Market Risk limits, authorities, tolerance levels and processes are contained in the Market Risk Policy, the Liquidity Policy and the Structural Risk Management Policy, approved by the Board of Directors.

Operational Risk: Defined as the risk of loss resulting from inadequate or failed internal processes, people and systems arising from either internal or external events. The Operational Risk Management unit in Commercialbank includes management of Business Continuity / Disaster Recovery, Regulatory Risk and Reputational Risk. The unit facilitates the management of Operational Risk by setting policies, developing systems, tools and methodologies, overseeing their implementation and use within the business units, and providing ongoing monitoring and guidance across the company. Their mandate provides the unit with access to all parts of the Bank, at all levels, in order to effectively ensure timely identification and mitigation of these risks.

Strategic Risk: Defined as an existing or potential negative impact on shareholder value as a result of business decisions, inappropriate execution or inadequate awareness and reaction to industry changes. It arises as a result of non alignment of a bank's strategic goals and business policies, the human and physical resources required to implement, and the quality of that effort, taking into consideration economic factors, the competitive landscape, technology, the local and regional regulatory framework and other key factors. Within Commercialbank, Strategic Risk is managed through the Group Risk Committee and through the Group Executive Committee and is playing an increasingly critical role within the Risk Management activities of the Bank.

In 2007 the focus will remain on continued strengthening of both the traditional areas of Credit and Market Risk, but also Operational and Strategic Risk which are increasingly in the forefront of the Risk Management activities of the Bank. Management will continue to be guided in this respect by the principles contained in the Basel II Accord and with recognized industry best practice.

Operations

Progressive automation of the Operations Division has sustained continuous improvement in service quality, increased productivity, and efficient processing of the Bank's growing transaction volumes.

The volume managed by the Bank's centralized processing unit increased by 40% to more than 3.6 million transactions. Many internal processes have been re-engineered with electronic channels utilised to more efficiently deliver a broader range of products and services to our customers.

A new state-of-the-art call centre system has enabled us to efficiently service growing call volumes. Inbound and outbound calls handled in 2006 grew by 33% to 1.3 million, equivalent to 3,500 calls per day. Commercialbank's smooth administration of the launch and closing of a major IPO for Gulf Cement Company was recognized for its efficient management, by customers as well as partner banks throughout the region.

Significant investments and new initiatives planned for 2007 will add functionality and expand the operational capability of the Bank.

Management review

Information Technology

Information Technology and continued enhancement of core banking systems are an ongoing and strategic focus of the Bank. The Bank's IT team has continued to build on the Bank's core strengths, by introducing and deploying industry standard solutions, and strengthening the reliability and resilience of core systems & infrastructure.

During 2006, IT delivered 30 major initiatives ranging from new systems, through enhanced infrastructure and security features to significantly improve quality assurance and governance. These include:

- A Retail Internet Banking system with state-of the-art security features and functionality to provide convenience and safety to our retail customers
- Enhanced the Corporate Internet Banking system, to provide greater functionality for our corporate customers, with a notable feature of online creation of letters of credit
- A new call center solution for our 24x7 telephone banking supplemented by an enhanced Interactive Voice response system and workflow
- A new IPO system which allows investors to register applications online
- A new Anti Money Laundering system for improved risk monitoring
- Introduction of Basel II regulatory reporting
- Enhancements to security and network infrastructure, resiliency and speed over internal and external communications networks

Commercialbank plans to maintain its significant investments in Information Technology in 2007, with focus on enhancement of IT infrastructure and quality of services. IT deliverables for 2007 include new systems for Treasury Management, EMV Chip Card Issuance and Management, innovative Cash Handling & Recycling functionality, Islamic Banking system enhancements and state-of-the-art functions at the Bank's new headquarter building – the Commercialbank Plaza.

Human Resources

The diversity, team spirit, and professionalism of our employees rank high amongst Commercialbank's most valuable assets, and are a differentiating strength. Commercialbank adopts a human capital management framework to ensure that the Bank has the optimal capacity and the right capabilities to support its rapid business growth. Despite the increasingly competitive regional job market and challenges to recruiting and retaining talent, 220 new employees joined the Bank in 2006, raising the Bank's group wide resources to 1003 staff members.

Commercialbank has invested in a number of ongoing initiatives that are aligned with the strategic theme of developing and equipping all our staff with the full range of skills needed to maximize performance and to build a cadre of inspirational leaders. Training and Development programmes were run to a comprehensive calendar and rigorous curriculum that yielded 6788 training man hours; they included leadership & career development programmes for talented and high potential staff.

As an effective and responsible corporate citizen, the Bank has an Internship programme for school and university students, and has launched a Graduate Management Trainee Development programme to attract high potential Qatari University graduates.

Premises

The construction of the Bank's new corporate offices tower – the Commercialbank Plaza - in the modern business district of West Bay is now nearing completion, and is already a visible landmark on the Corniche. The base build is scheduled for completion in Q2 2007 while the interiors will be handed over in phases through the third quarter of 2007. The unique "active" façade is complete and is one of only two such installations in the Gulf.

In addition to a new expanded IPO Processing Unit adjacent to the Operations Centre, two new-build Branch projects were initiated during 2006 – Bin Omran Branch and Safa Rayyan. The latter will be a flagship for Al Safa Islamic Banking providing a full range of services in a self contained building. The new branches will be completed in July and September 2007 respectively. The latter part of 2006 also saw the completion of two new branches, both strategically located - the Villaggio Mall branch and the West Bay Lagoon branch opposite the Doha Golf Club. Al Safa Islamic Banking has moved into new headquarters, strategically located in the Al Fanar Islamic Cultural Centre.

Commercialbank's Qatarisation programme adheres to the principles of achieving and exceeding the targeted Qatarisation percentage, as well as the career progression and development of qualified Qatari staff at all levels.

A new project during 2006 was the Commercialbank Residence. This is due for completion in early 2008 and will provide 187 apartments of 2, 3 and 4 bedroom apartment types over 30 floors for our staff, as well as a Bank Club facility and Sales Office.

2007 will be an exciting year for the Bank with the completion and occupation of the Commercialbank Plaza, one of the most prominent and distinctive buildings on the Doha Corniche.

Corporate Governance

Corporate governance relates to the manner in which the business of the Bank is governed, and in particular the way in which the Bank is managed by the Board and Executive Management and their respective obligations to all stakeholders in the Bank.

Certain activities of the Board are delegated to four Board Committees, the Policy and Strategy Committee, the Executive Committee, the Audit and Risk Committee, and the Premises Committee. Additionally there are a number of Management Committees, the most important of which are the Group Executive Committee, the Group Risk Committee, and the Assets and Liabilities Committee. All of these Committees operate on the basis of clear terms of reference and in compliance with the regulatory directions of Qatar Central Bank.

During the year the Compliance unit of the Bank was substantially re-organised. In recognition of the increasing importance of this function, and the desirability of maintaining its independence, the Compliance and Anti Money Laundering units of the Bank now report (together with the Internal Audit Division) directly to the Board Audit and Risk Committee.

At the end of the year the Bank commissioned a review to compare its current structures with corporate governance regulations and practices elsewhere in the region, and proposed recommendations to align its practices with international best practice.

Community Services

Reflecting its value of family and community, Commercialbank implements a policy of committed backing to the Qatari community, and actively supports and sponsors many local charities, community service projects, humanitarian works worldwide, as well as the arts and sports.

The Bank has been an integral part of Qatar's community since 1975 and has always reached out directly to the Country's multi-cultural population through creative activities and events that provide a platform to nurture and develop talent.

The development of Qatar as a major regional sporting destination is among the many development objectives of our nation. Commercialbank was the title sponsor of the 2006 and 2007 Commercialbank Qatar Masters Golf tournament in Doha, and will again host the event in 2008. This global sporting event, watched by an estimated television audience of 380 million people, has strong potential to continue growing and provide a platform to project Qatar and Commercialbank positively to the rest of the world.

Acknowledgements

The loyalty, professionalism and commitment of our employees are the foundation upon which our many years of profitable growth have been built. We also acknowledge with gratitude, the guidance and support that our Chairman, Managing Director and members of our Board of Directors have provided to the management of the Bank, and their invaluable contribution to the rapid growth of Commercialbank into a respected regional banking group.

Our growth and achievements would not have been possible without the support, guidance and encouragement of the Qatar Central Bank. We welcome the new Governor of the Qatar Central Bank, His Excellency Abdullah bin Saud Al Thani, and congratulate him on his appointment. Qatar's banking and financial sector is supported by the quality of its regulatory framework and governance, as well as a commitment to modern banking technology, transparency and modern risk management standards.

Commercialbank's home is in Qatar, and we dedicate the growth and dynamism of our banking business to the loyal patronage and successes of our many 'local partners' - the people of Qatar, its institutions and its Leaders.

Inspired by Qatar, we remain strongly positioned for continued growth.

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 2006, 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 37.

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 2006, 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 Directors' report is consistent with the books of account of the Group. We report that we have obtained all the information we considered necessary for the 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. 15 of 1993 and its amendments, or the Articles of Association of the Bank and its subsidiaries which would materially affect its activities or its financial position as at 31 December 2006.

Ian R. Clay
PricewaterhouseCoopers
Qatar Auditors' Registry No 150
17 February 2007

Financial Statements 2006

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

Consolidated Balance Sheet

As at 31 December 2006

Figures in thousand Qatar Riyals

	Notes	2006	2005
ASSETS			
Cash and balances with Central Bank	6	**1,017,893**	648,290
Securities held for trading	7	**65**	13,368
Due from banks and financial institutions	8	**5,493,323**	5,352,434
Loans, advances and financing activities for customers	9	**17,359,748**	10,884,138
Investment securities	10	**4,321,315**	3,367,624
Investment in associate	11	**1,285,158**	1,251,304
Property, furniture and equipment	12	**558,213**	317,948
Other assets	13	**323,759**	346,437
Total assets		**30,359,474**	22,181,543
LIABILITIES			
Due to banks and financial institutions	14	**2,694,520**	1,704,233
Customers' deposits	15	**16,701,103**	13,056,421
Other borrowed funds	16	**4,137,227**	1,092,000
Other liabilities	17	**658,756**	470,033
		24,191,606	16,322,687
Unrestricted investment deposits owners' equity	18	**486,836**	178,361
Risk reserve-Unrestricted investment deposit owners share of profit	28	**20,943**	3,396
		507,779	181,757
SHAREHOLDERS' EQUITY			
Paid up capital	19	**1,401,579**	934,386
Legal reserve	19	**2,915,499**	2,915,499
General reserve	19	**26,500**	26,500
Fair value reserve	19	**1,592**	500,559
Risk reserves	19	**176,200**	87,200
Other reserves	19	**84,581**	45,010
Proposed dividend	19	**981,106**	373,754
Proposed bonus shares	19	**-**	467,193
Retained earnings		**73,032**	326,998
Total shareholders' equity		**5,660,089**	5,677,099
Total liabilities and shareholders' equity		**30,359,474**	22,181,543

The financial statements have been approved by the board of directors and signed on their behalf by the following on 23rd January 2007.

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 37 form part of these consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2006

Figures in thousand Qatar Riyals

	Notes	2006	2005
Interest income	20	**1,405,690**	804,283
Interest expense	21	**(730,431)**	(332,272)
Net interest income		**675,259**	472,011
Income from Islamic finance and investment activities	22	**49,979**	8,731
Fees and commissions income	23	**440,689**	253,135
Fees and commissions expense		**(50,683)**	(38,440)
Net fees and commissions income		**390,006**	214,695
Dividend on shares and investment funds units	24	**16,855**	10,550
Profits from foreign currency transactions	25	**55,517**	36,384
Profits from investments, net	26	**150,106**	249,685
Other operating income		**15,097**	21,980
		237,575	318,599
Operating income		**1,352,819**	1,014,036
General and administrative expenses	27	**(380,312)**	(259,729)
Depreciation		**(37,832)**	(34,062)
Impairment losses on loans and advances to financial institutions, net		**1,556**	5,512
Impairment losses on loans and advances to customers, net		**(7,094)**	1,793
Impairment losses on available for sale investments, net		**(95,919)**	(19,638)
Total operating expenses and provisions		**(519,601)**	(306,124)
Profit before share of result of associate		**833,218**	707,912
Share of results of associate net of tax	11	**79,094**	45,002
Profit before share of investment deposit owners		**912,312**	752,914
Less unrestricted investment deposit owners' share of profit	28	**(20,943)**	(3,396)
Net profit for the year		**891,369**	749,518
- Basic/diluted earnings per share (QR)	29	**6.36**	5.35
(Prior year restated in relation to bonus shares issued)			

The attached notes 1 to 37 form part of these consolidated financial statements.

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

Consolidated Statement of Changes in Shareholders' Equity

Figures in thousand Qatar Riyals

		Legal reserve						Retained earnings		
	Share Capital	Proposed Bonus Shares	Other	General Reserve	Fair Value Reserve	Risk Reserve	Other Reserve	Proposed Dividend	Other	Total
Balance at 1 January 2005	533,935	213,574	1,327,042	26,500	206,973	52,100	(40)	213,574	46,336	2,619,994
Distributed bonus shares for the year 2004	213,574	(213,574)	-	-	-	-	-	-	-	-
Distributed dividend for the year 2004	-	-	-	-	-	-	-	(213,574)	-	(213,574)
Directors' fees paid for the year 2004	-	-	-	-	-	-	-	-	(9,000)	(9,000)
Contribution for social responsibilities	-	-	-	-	-	-	-	-	(6,000)	(6,000)
Net profit for the year ended										
31 December 2005	-	-	-	-	-	-	-	-	749,518	749,518
Share of profit of associate net of tax 2005	-	-	-	-	-	-	45,002	-	(45,002)	-
Increase in share capital through right issue	186,877	-	-	-	-	-	-	-	-	186,877
Increase in share premium through right issue	-	-	2,055,650	-	-	-	-	-	-	2,055,650
Net movement in fair values reserve	-	-	-	-	290,697	-	-	-	-	290,697
Share of revaluation reserves of Associate	-	-	-	-	2,889	-	-	-	-	2,889
Risk reserve required as per QCB regulation	-		-	-	-	35,100	-	-	(35,100)	-
Transfer	-	467,193	(467,193)	-	-	-	-	373,754	(373,754)	-
Adjustment for exchange rate fluctuations	-	-	-	-	-	-	48	-	-	48
Balance at 31 December 2005	934,386	467,193	2,915,499	26,500	500,559	87,200	45,010	373,754	326,998	5,677,099
Balance at 1 January 2006	934,386	467,193	2,915,499	26,500	500,559	87,200	45,010	373,754	326,998	**5,677,099**
Distributed bonus shares for the year 2005	467,193	(467,193)	-	-	-	-	-	-	-	**-**
Dividend for the year 2005	-	-	-	-	-	-	-	(373,754)	-	**(373,754)**
Dividend received from associates for 2005	-	-	-	-	-	-	(39,548)	-	39,548	**-**
Directors' fees paid for the year 2005	-	-	-	-	-	-	-	-	(28,683)	**(28,683)**
Contribution for social responsibilities	-	-	-	-	-	-	-	-	(7,000)	**(7,000)**
Net profit for the year ended										
31 December 2006	-	-	-	-	-	-	-	-	891,369	**891,369**
Share of profit of associate net of tax 2006	-	-	-	-	-	-	79,094	-	(79,094)	-
Net movement in fair values reserve	-	-	-	-	(493,237)	-	-	-	-	**(493,237)**
Share of revaluation reserves of Associate	-	-	-	-	(5,730)	-	-			**(5,730)**
Risk reserve required as per QCB regulation	-	-	-	-	-	89,000	-	-	(89,000)	**-**
Proposed dividend		-		-	-	-	-	981,106	(981,106)	**-**
Adjustment for exchange rate fluctuations	-	-	-	-	-	-	25	-	-	**25**
Balance at 31 December 2006	**1,401,579**	**-**	**2,915,499**	**26,500**	**1,592**	**176,200**	**84,581**	**981,106**	**73,032**	**5,660,089**

Note:

I) Retained earning includes proposed directors' remuneration of QR 28.683 million (2005: QR 28.683 million) that is expected to be approved at the forthcoming Annual General Meeting and a social responsibility fund contribution nil (2005: QR 7.0 million).

The attached notes 1 to 37 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Figures in thousand Qatar Riyals

	Notes	**2006**	2005
Cash flows from operating activities			
Net profit for the year		**891,369**	749,518
Adjustments of profit with cash flows from operating activities			
Depreciation		**37,832**	34,062
Impairment loss on available for sale investments		**97,797**	19,822
Profit from sale of property, furniture and equipment		**(4,326)**	(14,677)
Share of results of associate net of tax		**(79,094)**	(45,002)
Profit from investments net		**(150,106)**	(249,685)
Profits before changes in operating assets and liabilities		**793,472**	494,038
Net increase in assets			
Balances with banks and financial institutions		**(300,334)**	(219,505)
Loans, advances and financing activities for customers		**(6,475,610)**	(4,168,915)
Other assets		**22,678**	(198,802)
Net increase in liabilities			
Balances to banks and financial institutions		**364,000**	-
Customers' deposits		**3,953,157**	4,930,645
Other liabilities		**170,587**	177,691
Net cash from operating activities		**(1,472,050)**	1,015,152
Cash flows from Investing activities			
Purchase of investments		**(2,473,227)**	(2,215,363)
Acquisition of shares in associate		**-**	(1,203,413)
Dividend received from associate		**39,548**	-
Proceeds from sale and redemption of securities		**1,097,693**	816,384
Purchase of property and equipment		**(278,102)**	(93,466)
Proceeds from sale of property and equipment		**4,336**	79,769
Net cash used in investing activities		**(1,609,752)**	(2,616,089)
Cash flows from Financing activities			
Proceeds of borrowed funds		**3,045,227**	546,000
Repayment of borrowed funds		**-**	(436,800)
Proceeds from rights issue		**-**	2,242,527
Dividend paid		**(373,754)**	(213,574)
Net cash from financing activities		**2,671,473**	2,138,153
Net increase in cash and cash equivalents during the year		**(410,329)**	537,216
Effects of foreign exchange fluctuation		**25**	30
Cash and cash equivalents at beginning of year	35	**3,541,582**	3,004,336
Cash and cash equivalents at end of year	35	**3,131,278**	3,541,582

The attached notes 1 to 37 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) Amendments to published standards and interpretations effective 1 January 2006

The application of the amendments and interpretations listed below did not result in substantial changes to the Group's accounting policies:
IAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures;
IAS 21 Amendment – Net Investment in a Foreign Operation;
IAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
IAS 39 Amendment – The Fair Value Option;
IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts;
IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards, and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
IFRS 6, Exploration for and Evaluation of Mineral Resources;
IFRIC 4, Determining whether an Arrangement contains a Lease;
IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

- IAS 19 (Amendment), Employee Benefits, is mandatory for the Group's accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group provides the gratuity in accordance with the Qatar Labour Law which does not require actuarial valuations this amendment does not have significant impact to the Group.

- IAS 21 Amendment, IAS 39 Amendment – Cash flow hedge accounting of forecasted intragroup transactions, IFRS 1, IFRS 6, IFRIC 4 and IFRIC 5 are not relevant to the Group's operating activities and therefore have no material effect on the Group's policies.

- IAS 39 Amendment – The Fair Value Option. Prior to the amendment, the Group applied the unrestricted version of the fair value option in IAS 39. The Group meets the new criteria in the amendment and therefore continues to designate certain financial assets and financial liabilities at fair value through profit and loss.

- IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts. These types of contract are now accounted for under IAS 39 and no longer accounted for under IFRS 4, as previously required under IFRS. The measurement and disclosure requirements under IAS 39 have not resulted in a material change to the Group's policies.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Early adoption of standards

None of standards that are not yet effective as at 31 December 2006 have been early adopted by the Group.

(c) Standards and interpretations issued but not yet effective

The Group has chosen not to early adopt the following standard and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2006:

- IFRS 7, Financial Instruments (effective 1 January 2007);
- IFRS 8, Operating Segments (effective 1 January 2008);
- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective 1 May 2006);
- IFRIC 9, Reassessment of embedded derivative (effective 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective 1 November 2006);
- IFRIC 11, IFRS 2 – Group Treasury Share Transactions (effective 1 March 2007); and
- IFRIC 12, Service Concession Arrangements (effective 1 January 2009).

The application of these new interpretations will not have a material impact on the entity's financial statements in the period of initial application.

2.2 Consolidation

(a) Subsidaries

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. 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 2.13). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated 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	2,350,436	100%
Global Card Services LLC (a subsidiary of Orient 1)	Oman	OMR 500,000	4,727,500	100%

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(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 2.13).

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.

(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.

(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. SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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 regulation a risk reserve, with a minimum value of 1.25% of the total loan portfolio excluding lending to Qatar government, is maintained, created by way of appropriations of profit.

(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. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 uses forward contracts, foreign exchange swaps and interest rate swaps for hedging purposes. These are economic hedges but the Group has opted not to designate them as hedges and hence has fair valued these derivative instruments as at the balance sheet date and taken the corresponding fair value changes to the statement of income.

2.8 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.

2.9 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.

2.10 Dividend income

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

2.11 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.

2.12 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.

2.12 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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 the 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 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.

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 credit losses.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 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.

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.

(b) 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.

2.14 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.

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.

2.15 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.

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. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 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.

2.17 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.

2.18 Provisions

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.

2.19 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 guatrantee 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.

2.20 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.

2.21 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.

2.22 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.

2.23 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

a) 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.

b) Fair values

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, other than held-to-maturity investments do not differ substantially from their book values at the date of the balance sheet (e.g. the loans and advances being the largest asset category is re-priced at least annually). The fair values of held to maturity investments are stated in note 10.

3.2 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 Group's lines of business expose it to four major risks: liquidity, credit, market and operational.

Liquidity risk results to the inability to accommodate liability maturities and withdrawals, fund asset growth or otherwise meet contractual obligations at reasonable market rates. Credit risk reflects the possible inability of a customer to meet its repayment or delivery obligations. Market risk, which also includes foreign currency and interest rates risks, is the risk of fluctuation in asset and commodity values caused by changes in market prices and yields. 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.

a) 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 there under 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. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Risk management (continued)

b) Interest rate risk

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.

c) Profit rate risk

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

1. While 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 2006, 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 2006						
Cash and deposits with Central Bank	210,000	-	-	807,893	**1,017,893**	5.21
Securities held for trading		-	-	65	**65**	
Due from banks and financial institutions -						
Conventional Banking (CB)	4,701,913	89,544	351,152	-	**5,142,609**	5.07
Due from banks and financial institutions - Islamic Banking (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	-	1,477,519	**4,321,315**	5.82
Investment in associate	-	-	-	1,285,158	**1,285,158**	
Other assets	-	-	-	881,972	**881,972**	
Total assets	**15,837,187**	**9,332,929**	**736,751**	**4,452,607**	**30,359,474**	
Due to banks and financial institutions	2,330,520	364,000	-	-	**2,694,520**	4.75
Customer deposits	12,757,135	1,285,993	86,793	2,571,182	**16,701,103**	4.44
Other borrowed funds	4,137,227	-	-	-	**4,137,227**	5.61
Other liabilities	-	-	-	679,699	**679,699**	
Unrestricted investment deposits owners equity	-	486,836	-	-	**486,836**	4.30
Shareholders' equity	-	-	-	5,660,089	**5,660,089**	
Total liabilities and shareholders' equity	**19,224,882**	**2,136,829**	**86,793**	**8,910,970**	**30,359,474**	
Balance sheet items gap	(3,387,695)	7,196,100	649,958	(4,458,363)	**-**	
Off-Balance sheet items gap	-	-	-	-	**-**	
Interest rate sensitivity gap	**(3,387,695)**	**7,196,100**	**649,958**	**(4,458,363)**	**-**	
Cumulative interest rate sensitivity gap	**(3,387,695)**	**3,808,405**	**4,458,363**	**-**		

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Risk management (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 2005						
Cash and deposits with Central Bank	-	-	-	648,290	648,290	
Securities held for trading	11,937	-	-	1,431	13,368	
Due from banks and financial institutions - CB	4,822,832	162,367	156,115	-	5,141,314	3.27
Due from banks and financial institutions - IB	211,120	-	-	-	211,120	3.00
Loans, advances and financing activities for customers - CB	6,542,441	4,145,018	7,014	-	10,694,473	6.71
Loans, advances and financing activities for customers - IB	-	-	189,665	-	189,665	4.68
Investment securities	34,271	2,044,990	-	1,288,363	3,367,624	4.85
Investment in associate	-	-	-	1,251,304	1,251,304	
Other assets	-	-	-	664,385	664,385	
Total assets	11,622,601	6,352,375	352,794	3,853,773	22,181,543	
Due to banks and financial institutions	1,704,233	-	-	-	1,704,233	3.27
Customer deposits	10,007,752	1,079,800	96,925	1,871,944	13,056,421	2.98
Other borrowed funds	-	1,092,000	-	-	1,092,000	3.87
Other liabilities	-	-	-	470,033	470,033	
Unrestricted investment deposits owners equity	-	181,757	-	-	181,757	
Shareholders' equity	-	-	-	5,677,099	5,677,099	
Total liabilities and shareholders' equity	11,711,985	2,353,557	96,925	8,019,076	22,181,543	
Balance sheet items gap	(89,384)	3,998,818	255,869	(4,165,303)	-	
Off-Balance sheet items gap	-	-	-	-	-	
Interest rate sensitivity gap	**(89,384)**	**3,998,818**	**255,869**	**(4,165,303)**	**-**	
Cumulative interest rate sensitivity gap	**(89,384)**	**3,909,434**	**4,165,303**	**-**		

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Risk management (continued)

d) Credit risk

Credit risk is the risk that a customer will fail to discharge its financial obligation to the Group and will cause the Group to incur a financial loss.

Credit risk is attributed to both on-balance sheet financial instruments such as loans, overdrafts, Islamic financing and 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. 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. The following methodologies are integral to the Group's credit risk management:

- **Risk Ratings:** Commercial borrowers are assigned an internal risk rating based on an evaluation of the qualitative and quantitative trends and forecasts. The ratings system is based on a 10-point scale.

- **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.

- **Risk Mitigation:** In order to proactively respond to credit deterioration and mitigate risk, by management of and collection of all problem loans are handled by specialist work out units, outside the business groups.

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.

Note 9 to the financial statements summarises the composition of the loan and advances portfolio over different industry sectors and note 5 summarises the geographical distribution.

e) 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.

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. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Risk management (continued)

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

	During 1 month	Upto 3 months	3-12 Months	1-5 Years	No maturity	Total
As at 31 December 2006						
Cash and deposits with Central Bank	210,000	-	-	-	807,893	**1,017,893**
Securities held for trading		-	-	-	65	**65**
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	-	-	3,494,519	826,194	**4,321,315**
Investment in associate	-	-	-	-	1,285,158	**1,285,158**
Property, furniture, equipment and other assets	-	-	-	-	881,972	**881,972**
Total assets	**7,510,455**	**957,643**	**2,209,648**	**15,857,053**	**3,824,675**	**30,359,474**
Due to banks and financial institutions	1,585,547	692,464	364,000	-	52,509	**2,694,520**
Customer deposits	6,499,808	5,632,925	1,285,993	86,793	3,195,584	**16,701,103**
Other borrowed funds	1,783,600	-		2,353,627	-	**4,137,227**
Other liabilities	-	-	-	-	658,756	**658,756**
Unrestricted investment deposits owners equity	192,739	20,847	200,177	20	93,996	**507,779**
Total liabilities	**10,061,694**	**6,346,236**	**1,850,170**	**2,440,440**	**4,000,845**	**24,699,385**
Maturity gap	(2,551,239)	(5,388,593)	359,478	13,416,613	(176,170)	**5,660,089**
As at 31 December 2005						
Cash and deposits with Central Bank	-	-	-	-	648,290	648,290
Securities held for trading	-	-	-	11,937	1,431	13,368
Due from banks and financial institutions	4,011,617	960,348	162,367	156,115	61,987	5,352,434
Loans, advances and financing activities for customers	2,062,367	269,587	520,923	8,031,261	-	10,884,138
Investment securities	-	1,714	15,648	2,409,253	941,009	3,367,624
Investment in associate	-	-	-	-	1,251,304	1,251,304
Property, furniture, equipment and other assets	-	-	-	-	664,385	664,385
Total assets	6,073,984	1,231,649	698,938	10,608,566	3,568,406	22,181,543
Due to banks and financial institutions	1,240,142	402,346	-	-	61,745	1,704,233
Customer deposits	6,341,207	3,666,540	629,504	96,061	2,323,109	13,056,421
Other borrowed funds	-	-	546,000	546,000	-	1,092,000
Other liabilities	-	-	-	-	470,033	470,033
Unrestricted investment deposits owners equity	39,525	11,799	104,721	864	24,848	181,757
Total liabilities	7,620,874	4,080,685	1,280,225	642,925	2,879,735	16,504,444
Maturity gap	(1,546,890)	(2,849,036)	(581,287)	9,965,641	688,671	5,677,099

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Risk management (continued)

f) Foreign currency 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
As at 31 December 2006						
Assets	14,583,002	14,217,997	219,260	86,381	1,252,834	**30,359,474**
Liabilities and shareholders equity	(18,128,815)	(11,882,325)	(220,447)	(94,185)	(33,702)	**(30,359,474)**
Net currency position	(3,545,813)	2,335,672	(1,187)	(7,804)	1,219,132	-
As at 31 December 2005						
Assets	10,113,791	10,559,430	181,267	60,463	1,266,592	22,181,543
Liabilities and shareholders equity	(14,700,997)	(7,227,596)	(183,451)	(49,053)	(20,446)	(22,181,543)
Net currency position	(4,587,206)	3,331,834	(2,184)	11,410	1,246,146	-

g) Financial investments market risk

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.

h) Capital adequacy

Qatar Central Bank (QCB) has mandated that the Basel II framework adopted as the regulatory standard for capital adequacy and risk management from the beginning of 2006. The bank has successfully completed a framework for Basel II implementation under Risk Advisory with ABN AMRO bank N.V., a leading global Bank and an industry leader in best practices relating to risk management.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Risk management (continued)

h) Capital adequacy (continued)

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

Figures in thousand Qatar Riyals

	Capital charge		Risk weighted	
Risk Elements	**2006**	2005	**2006**	2005
Credit risk	**26,371,085**	20,456,182	**26,371,085**	20,456,182
Market risk	**247,052**	241,179	**3,088,156**	3,014,739
Operational risk	**79,609**	57,896	**995,116**	723,702
Total capital charge/Risk weighted assets	**26,697,746**	20,755,257	**30,454,357**	24,194,623

Figures in thousand Qatar Riyals

	Amount		% BIS	
	2006	2005	**2006**	2005
Tier 1 capital	**4,472,508**	4,679,903	**14.69%**	19.34%
Tier 1 + Tier 2 capital	**4,649,424**	4,992,355	**15.27%**	20.63%

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

i) 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 30(b) and 33 summarise these investments.

j) 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

(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 75k higher or QR 75k 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 43 million in its 31 December 2006 financial statements being the transfer of fair value reserve 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 are tainted, the fair value would decrease by QR 5.8 million, with a corresponding entry in the fair value reserve in shareholders' equity.

Fair value of held to maturity investments is considered based on market value.

5. SEGMENT INFORMATION

(a) By business segment

The Group is divided into four main business segments and supported by Corporate Head office.

- Corporate Banking and Capital Market (CBCM) – 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 the Corporate, Commercial and Multinational Customers.

- Consumer Banking (CG) – 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 Corporate and Commercial customers.

- Orient 1 – a subsidiary of the bank, provides credit card services in the regional markets.

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.

5. SEGMENT INFORMATION (continued)

(a) By business segment (continued)

Figures in thousand Qatar Riyals

	Corporate Banking and Capital Markets	Consumer Banking	Islamic Banking	Orient 1	Corporate Head office	Total
For the year ended 31 December 2006						
Interest/profit income	1,117,368	283,229	49,979	5,093	-	**1,455,669**
Interest/profit expense	**(656,679)**	**(73,643)**	**(20,943)**	**(109)**	**-**	**(751,374)**
Net interest/profit income	460,689	209,586	29,036	4,984	-	**704,295**
Non interest income	451,310	151,109	7,379	4,943	12,840	**627,581**
Operating expenses	(166,090)	(224,581)	(16,487)	(9,213)	(1,773)	**(418,144)**
Loan loss provision, net	17,154	(21,780)	-	(912)	-	**(5,538)**
Provision on AFS Investment, net	(93,434)	-	(2,485)		-	**(95,919)**
Share of profits of associates	-	-	-		79,094	**79,094**
Net profit	**669,629**	**114,334**	**17,443**	**(198)**	**90,161**	**891,369**
Other Information						
Assets	23,475,154	3,071,600	861,363	73,164	1,593,035	**29,074,316**
Investment in associates	-	-	-		1,285,158	**1,285,158**
Capital expenditure	-	-	-		278,102	**278,102**
Liabilities	19,948,708	3,484,684	592,444	5,102	668,447	**24,699,385**
For the year ended 31 December 2005						
Interest/profit income	617,121	182,368	8,731	4,794	-	813,014
Interest/profit expense	(291,026)	(41,246)	(3,396)	-	-	(335,668)
Net interest/profit income	326,095	141,122	5,335	4,794	-	477,346
Non interest income	417,510	83,952	1,520	5,072	25,240	533,294
Operating expenses	(143,316)	(135,331)	(5,379)	(8,635)	(1,130)	(293,791)
Loan loss provision , net	31,143	(21,744)	-	(2,094)	-	7,305
Provision on AFS Investment, net	(19,638)	-	-	-	-	(19,638)
Share of profits of associates	-	-	-		45,002	45,002
Net profit	611,794	67,999	1,476	(863)	69,112	749,518
Other Information						
Assets	16,882,800	2,284,170	480,893	71,144	1,211,232	20,930,239
Investment in associates	-	-	-		1,251,304	1,251,304
Capital expenditure	-	-	-		93,466	93,466
Liabilities	13,249,361	2,603,293	229,417	2,909	419,464	16,504,444

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

Balance Sheet	Qatar	Other GCC countries	Europe	North America	Others	Total
As at 31 December 2006						
Cash and balances with Central Bank	1,017,873	-	-	-	20	**1,017,893**
Securities held for trading	-	65	-	-	-	**65**
Due from banks and financial institutions	118,328	3,719,107	1,010,262	29,503	616,123	**5,493,323**
Loans, advances and financing activities for customers	14,782,538	1,734,162	-	91,000	752,048	**17,359,748**
Investment securities	3,076,137	154,073	443,884	575,294	71,927	**4,321,315**
Investment in associate	-	1,285,158	-	-	-	**1,285,158**
Property, furniture and equipment and other assets	859,153	-	-	-	22,819	**881,972**
Total assets	**19,854,029**	**6,892,565**	**1,454,146**	**695,797**	**1,462,937**	**30,359,474**
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	-	2,329,600	1,807,627	-	-	**4,137,227**
Other liabilities	655,188	-	-	-	3,568	**658,756**
Islamic banking liabilities	507,779	-	-	-	-	**507,779**
Shareholders' equity	5,660,089	-	-	-	-	**5,660,089**
Total liabilities and shareholders' equity	**24,092,251**	**3,608,785**	**2,614,139**	**13,648**	**30,651**	**30,359,474**
As at 31 December 2005						
Cash and balances with Central Bank	648,281	-	-	-	9	648,290
Securities held for trading	-	1,408	11,960	-	-	13,368
Due from banks and financial institutions	25,607	2,770,066	1,584,300	531,488	440,973	5,352,434
Loans to and receivables from customers	9,661,724	620,153	-	100,613	501,648	10,884,138
Investment securities	2,632,727	60,187	462,140	173,985	38,585	3,367,624
Investment in associate	-	1,251,304	-	-	-	1,251,304
Property, furniture and equipment and other assets	645,305	-	-	-	19,080	664,385
Total assets	13,613,644	4,703,118	2,058,400	806,086	1,000,295	22,181,543
Due to banks and financial institutions	704,476	297,293	598,253	43,267	60,944	1,704,233
Customer deposits	13,009,040	47,306	72	-	3	13,056,421
Other borrowed funds	-	1,092,000	-	-	-	1,092,000
Other liabilities	467,124	-	-	-	2,909	470,033
Islamic banking liabilities	181,757	-	-	-	-	181,757
Shareholders' equity	5,677,099	-	-	-	-	5,677,099
Total liabilities and shareholders' equity	20,039,496	1,436,599	598,325	43,267	63,856	22,181,543

5. **SEGMENT INFORMATION** (continued)

(b) **By geographical segment** (continued)

Figures in thousand Qatar Riyals

Income Statement	Qatar	Other GCC countries	Europe	North America	Others	Total
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	421,542	4,207	4,439	69	10,432	**440,689**
Fee and commission expense	(48,652)	-	-	-	(2,031)	**(50,683)**
Net fee and commission income	**372,890**	**4,207**	**4,439**	**69**	**8,401**	**390,006**
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	123,189	18,248	7,773	546	350	**150,106**
Other operating income	14,465	-	-	-	632	**15,097**
	206,647	**18,704**	**10,340**	**546**	**1,338**	**237,575**
	1,169,479	**28,744**	**52,378**	**26,394**	**75,824**	**1,352,819**
Operating expenses and provisions	(509,476)	-	-	-	(10,125)	**(519,601)**
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	**639,060**	**107,838**	**52,378**	**26,394**	**65,699**	**891,369**
As at 31 December 2005						
Interest income	617,492	83,720	57,584	12,671	32,816	804,283
Interest expense	(274,980)	(45,062)	(11,383)	(305)	(542)	(332,272)
Net interest income	342,512	38,658	46,201	12,366	32,274	472,011
Income from islamic finance and investment activities	8,731	-	-	-	-	8,731
Fee and commission income	239,211	2,433	2,569	209	8,713	253,135
Fee and commission expense	(36,364)	-	-	-	(2,076)	(38,440)
Net fee and commission income	202,847	2,433	2,569	209	6,637	214,695
Dividend on shares and investment funds units	9,996	554	-	-	-	10,550
Profits from foreign currency transactions	35,682	-	-	-	702	36,384
Profits from investments, net	244,225	2,871	300	2,289	-	249,685
Other operating income	21,526	-	-	-	454	21,980
	311,429	3,425	300	2,289	1,156	318,599
	865,519	44,516	49,070	14,864	40,067	1,014,036
Operating expenses and provisions	(295,395)	-	-	-	(10,729)	(306,124)
Share of results of associate net of tax	-	45,002	-	-	-	45,002
Unrestricted investment deposit owners' share of profit	(3,396)	-	-	-	-	(3,396)
Net Profit for the year	566,728	89,518	49,070	14,864	29,338	749,518

6. CASH AND BALANCES WITH CENTRAL BANK

Figures in thousand Qatar Riyals

	2006	2005
Cash *	279,778	175,029
Cash reserve with Qatar Central Bank	465,124	353,989
Other balances with Qatar Central Bank	272,991	119,272
Total	1,017,893	648,290

* Cash balance includes QR 5.5 million related to Islamic banking branches.

7. SECURITIES HELD FOR TRADING

Figures in thousand Qatar Riyals

	2006 listed	2005 listed
Shares	65	1,431
Notes and bonds	-	11,937
Total	65	13,368

8. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

Figures in thousand Qatar Riyals

	2006	2005
Demand accounts	23,393	61,987
Placements	4,631,536	4,685,263
Loans to banks and financial institutions	493,294	400,920
Total due from banks and financial institutions	5,148,223	5,148,170
- Provision	(5,614)	(6,856)
	5,142,609	5,141,314
Commodity murabaha and wakala of Islamic branches	350,714	211,120
Net due from banks and financial institutions	5,493,323	5,352,434

Interest in suspense of QR 909,000 (2005: 595,000) is for the purpose of the Qatar Central Bank regulations requirements, effectively included in the above provision amount.

Figures in thousand Qatar Riyals

Movement in provision	2006	2005
Balance at 1st January	6,856	30,643
Provisions made during the year	416	1,719
Provisions recoveries during the year	(1,658)	(6,891)
Net recoveries during the year	(1,242)	(5,172)
Provisions used during the year to write off	-	(18,615)
Balance at the end of the year	5,614	6,856

9. LOANS, ADVANCES AND FINANCING ACTIVITIES FOR CUSTOMERS

Figures in thousand Qatar Riyals

i) By type	2006	2005
Conventional		
Loans	**14,417,470**	9,303,666
Overdrafts	**2,235,038**	1,397,346
Bills discounted	**462,875**	118,887
Sub total	**17,115,383**	10,819,899
- Provision	**(140,648)**	(125,426)
Net conventional loans and advances	**16,974,735**	10,694,473
Islamic branches		
Murabaha	**89,641**	171,746
Ijara	**288,285**	17,912
Others	**7,087**	7
Sub total	**385,013**	189,665
Total net loans and advances	**17,359,748**	10,884,138

Interest in suspense of QR 49,434k (2005: 42,302K) is for the purpose of the Qatar Central Bank regulations requirements, effectively included in the above provision amount.

The total non-performing loans and advances at 31 December 2006 amounted to QR 142 million, representing 0.81% of the total loans and advances (QR 126 million representing 1.2% of the total loans and advances at 31 December 2005).

Figures in thousand Qatar Riyals

ii) By industry before provisions	Al Safa Islamic	Loans	Overdrafts	Bills discounted	2006 Total	2005 Total
Government		159,467	899,932	-	**1,059,399**	546,493
Government and semi-government agencies		1,692,536	130	-	**1,692,666**	1,188,502
Industry		175,131	47,271	2,135	**224,537**	114,276
Commercial		1,556,775	274,130	28,483	**1,859,388**	1,131,451
Services		1,526,917	128,363	3,465	**1,658,745**	718,687
Contracting		910,146	158,466	13,758	**1,082,370**	715,290
Real estate	18,080	2,202,855	1,869	420	**2,223,224**	1,631,296
Consumers	362,846	4,010,884	724,877	10,909	**5,109,516**	3,757,383
Other	4,087	2,182,759	-	403,705	**2,590,551**	1,206,186
Total	**385,013**	**14,417,470**	**2,235,038**	**462,875**	**17,500,396**	**11,009,564**

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

Figures in thousand Qatar Riyals

iii) Movement in provision	**Total 2006**	Total 2005
Balance at 1st January	**125,426**	121,617
Add on acquisition of Global Card Services LLC - Oman	**9,626**	-
Provisions made during the year	**49,251**	46,549
Provisions recoveries during the year	**(33,479)**	(39,318)
Net additional provisions during the year	**15,772**	7,231
Recoveries from previously written off loans	**-**	8,306
Provisions used during the year to write off	**(10,176)**	(11,728)
Balance at the end of the year	**140,648**	125,426

The Group calculates provision on the outstanding balance of non-performing loans without factoring the value of the collaterals.

10. INVESTMENT SECURITIES

Figures in thousand Qatar Riyals

Investments comprise the following:		**2006**	2005
a) Available-for-sale investments:	Listed	**931,220**	1,154,920
	Unlisted	**1,149,375**	628,251
b) Held-to-maturity investments:	Listed	**685,257**	319,573
	Unlisted	**1,555,463**	1,264,880
Total		**4,321,315**	3,367,624

a) Available-for-sale investments

Figures in thousand Qatar Riyals

By type	**2006**		2005	
	Listed	**Unlisted**	Listed	Unlisted
Equities	**786,432**	**82,092**	961,673	33,252
Qatar Government bonds in USD *	**32,891**	**-**	147,238	-
Other bonds	**107,485**	**536,160**	42,035	301,217
Investment funds units	**4,412**	**515,226**	3,974	293,782
Investment funds units - Islamic branches	**-**	**15,897**	-	-
Total	**931,220**	**1,149,375**	1,154,920	628,251

Included in bonds are 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 (against fixed rate securities with a value of QR 333.5 million and floating rate securities with a value of QR 157.0 million at 31 December 2005).

QR 551 million unlisted investment funds units includes QR 264 million investments in capital guaranteed fund (31 December 2005: QR 160 million).

Equities, other bonds and investment funds units are net of impairment losses by QR 99.3 million, QR 10.0 million and QR 6.0 million respectively (2005: QR 25.15 million).

10. INVESTMENT SECURITIES (continued)

b) Held-to-maturity investments

Figures in thousand Qatar Riyals

By party	2006 Listed	2006 Unlisted	2005 Listed	2005 Unlisted
Qatar Government bonds in USD *	**672,517**	**-**	319,573	-
Qatar Government bonds in QAR	**-**	**1,136,336**	-	1,141,032
Other bonds & Notes	**-**	**365,183**	-	120,208
Other bonds & Notes - Islamic branches	**12,740**	**53,944**	-	3,640
Total **	**685,257**	**1,555,463**	319,573	1,264,880
By nature of income				
Fixed rate securities	**672,517**	**185,583**	319,573	13,560
Floating rate securities	**-**	**1,323,288**	-	1,247,680
Floating profit at maturity	**12,740**	**46,592**	-	3,640
Total	**685,257**	**1,555,463**	319,573	1,264,880

* The Group has obtained short term borrowings of QR 608.22 million against Government bonds under repurchase agreements.

** The fair value of held to maturity investments amounted to QR 2,234.9 million at 31 December 2006 (2005: QR. 1,589.7 million).

11. INVESTMENT IN ASSOCIATE

Figures in thousand Qatar Riyals

The movement in investment in associate account is as follows:	2006	2005
Balance at beginning of the year	**1,251,304**	-
Acquired during the year	**-**	1,203,413
Less : dividend received for 2005	**(39,548)**	-
Add : share of profit before tax	**114,823**	79,064
Less : share of tax	**(14,081)**	(12,077)
Share of net profit after tax	**100,742**	66,987
Less : share of pre-acquisition net profit after tax	**-**	(21,985)
Less : amortisation of intangible assets	**(21,648)**	-
Share of results of associate net of tax	**79,094**	45,002
Exchange difference	**38**	-
Add : share of post acquisition revaluation reserve	**(5,730)**	2,889
Balance at end of the year	**1,285,158**	1,251,304

11. INVESTMENT IN ASSOCIATE (continued)

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 5.70. The estimated fair value of the investment as at 31 December 2006 is QR 1,510 million (2005: 1,203 million).

Investment in associates at 31 December 2006 includes goodwill of QR 574 million (2005 : QR 574million)

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.

Key figures as at 31 December 2006 were as follows:

Figures in Qatar Riyals

Name	Country of incorporation	Assets	Liabilities	Revenue	Profit	% interest held
National Bank of Oman SAOG	Oman	3.6 billion	2.9 billion	173.0 million	100.7 million	34.85%

12. 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 2005						
Cost	147,360	21,486	108,463	2,396	170,622	**450,327**
Accumulated depreciation	(33,389)	(12,808)	(78,913)	(1,616)	-	**(126,726)**
Net book amount	113,971	8,678	29,550	780	170,622	323,601
Year ended 31 December 2005						
Opening net book amount	113,971	8,678	29,550	780	170,622	323,601
Additions	-	-	5,018	-	88,448	93,466
Disposals, net	(16,684)	-	-	4	(48,412)	(65,092)
Transfer	93,475	10,796	41,397	-	(145,668)	-
Depreciation charge	(12,599)	(1,845)	(19,354)	(264)	-	(34,062)
Exchange differences			35	-		35
Closing net book amount	178,163	17,629	56,646	520	64,990	317,948
Balance at 31 December 2005						
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

12. 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 2006						
Opening net book amount	178,163	17,629	56,646	520	64,990	**317,948**
Add on acquisition of Global Card Services LLC - Oman, net	-	-	43	-	-	**43**
Additions	1,910	2,542	6,605	2,308	264,694	**278,059**
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**

Capital work in progress includes QR 129.6 million for Commercial Bank Plaza, QR 138.3 million for Ummbab tower, QR 19.1 million for branch renovations and QR. 3.1 million for various IT projects.

13. OTHER ASSETS

Figures in thousand Qatar Riyals

	Conventional	Al Safa Islamic	2006	2005
Accrued income	147,411	-	**147,411**	91,029
Prepaid expenses	5,583	-	**5,583**	7,525
Amounts receivable	75,590	3,953	**79,543**	179,523
Net value of the properties acquired in settlement of debts *	1,700	-	**1,700**	2,114
Franchise Rights **	23,883	-	**23,883**	20,106
Derivatives with a positive fair value (Note 31)	8,198	-	**8,198**	3,156
Clearing cheques	15,408	-	**15,408**	14,442
Sundry assets	36,246	5,787	**42,033**	28,542
Total	**314,019**	**9,740**	**323,759**	346,437

* 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 2006 is QR 4.0 million (2005: QR 4.1 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).

14. DUE TO BANKS AND FINANCIAL INSTITUTIONS

Figures in thousand Qatar Riyals

	2006	2005
Current accounts	**52,509**	61,745
Placements	**2,033,792**	1,273,657
Short term borrowings under repurchase agreement	**608,219**	368,831
Total	**2,694,520**	1,704,233

15. CUSTOMERS' DEPOSITS

Figures in thousand Qatar Riyals

	2006	2005
i) By type		
Demand and call deposits	**4,238,907**	3,081,633
Savings deposits	**644,513**	451,160
Time deposits	**11,739,582**	9,486,000
Islamic branches - current deposits	**78,101**	37,628
Total	**16,701,103**	13,056,421
ii) By sector		
Government	**1,239,880**	746,146
Government and semi-government agencies	**5,069,716**	5,101,422
Individuals *	**3,028,290**	2,485,211
Corporate *	**7,363,217**	4,723,642
Total	**16,701,103**	13,056,421

*Individuals and corporate deposits include balances of Islamic branches amounting to QR 47.20 million and QR 30.90 million (2005: QR 25.70 million and QR 11.90 million) respectively.

16. 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 availed a syndicate 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 2006 is USD 146.5 million (2005: USD 146.0 million).

- In July 2006, the Group rolled over two maturing short term loans for a further period of 6 months. The unsecured loans for USD 150 million and USD 340 million are repayable in full in January 2007. Floating rate of interest is linked to US$ LIBOR plus a margin of 25 and 21 basis point respectively. The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

16. OTHER BORROWED FUNDS (continued)

EMTN programme : The Group has established access to international capital markets by listing of a US$ 1.5 billion Euro Medium Term Note (EMTN) programme on the London Stock Exchange. 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 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 fair value of the bond as at 31 December 2006 is QR 1,821.27 million (2005: nil).

17(a). OTHER LIABILITIES

Figures in thousand Qatar Riyals

	Conventional	Al Safa Islamic	2006	2005
Deferred income	62,104	-	**62,104**	36,362
Accrued expenses	214,916	-	**214,916**	99,183
Other provisions -Note 17(b)	62,387	-	**62,387**	50,419
Derivatives with a negative fair values (Note 31)	7,164	-	**7,164**	3,887
Cash margins	55,553	4,105	**59,658**	37,246
Clearing cheque accounts	29,924	-	**29,924**	24,465
Accounts payable	110,767	-	**110,767**	125,166
Social responsibility fund	16,019	-	**16,019**	12,295
Dividend payable	2,995	-	**2,995**	1,218
Outward cheques in collection	1,490	-	**1,490**	3,587
Manager cheque and payment order	11,234	447	**11,681**	9,382
Unclaimed balances	11,403	-	**11,403**	7,855
Sundry liabilities	66,236	2,012	**68,248**	58,968
Total	**652,192**	**6,564**	**658,756**	470,033

17(b). OTHER PROVISIONS

Figures in thousand Qatar Riyals

	Other provision (a)	Pension fund (b)	Provident fund (b)	2006	2005
Balance at 1st January	2,000	545	45,954	**48,499**	37,468
Provisions made during the year- Bank contribution	-	1,617	12,135	**13,752**	11,601
Pension fund - staff fund contribution	-	806	4,973	**5,779**	3,263
Provisions transferred to retirement fund authority	-	(2,735)	-	**(2,735)**	(1,514)
Provisions utilised during the year	-	-	(2,908)	**(2,908)**	(399)
Balance at 31 December	**2,000**	**233**	**60,154**	**62,387**	50,419

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.

18. UNRESTRICTED INVESTMENT DEPOSITS OWNERS EQUITY

Figures in thousand Qatar Riyals

	2006	2005
a) By type		
Saving deposits	**73,053**	21,452
Investment deposits	**413,783**	156,909
Total	**486,836**	178,361
b) By sector		
Individuals	**335,923**	66,819
Corporate	**150,913**	111,542
Total	**486,836**	178,361

19. SHAREHOLDERS' EQUITY

Issue and paid-up capital

The issued, subscribed and paid up share capital of the Bank is QR 1,401,579,330 (2005: QR 934,386,220) divided into 140,157,933 (2005: 93,438,622) ordinary shares of QR 10 each.

Legal reserve

In accordance with Qatar Central Bank Law, 20% 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.

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. The movement in fair value reserve during the year is as follows:

Figures in thousand Qatar Riyals

	2006	2005
Balance at 1st January	**500,559**	206,973
Revaluation results	**(346,786)**	468,948
Transferred to income statement, net	**(146,451)**	(178,251)
Share of revaluation reserves of Associate	**(5,730)**	2,889
Balance at 31 December *	**1,592**	500,559

*Balance at 31st December 2006 includes negative fair value of QR 43 million (2005 : QR 14 million).

Proposed dividend and issue of bonus shares

The Board of Directors have proposed a cash dividend of 70% (or QR 7.0 per share) for the year 2006 (2005: cash dividend QR4.0 per share and bonus share 50% of Bank's capital).

19. SHAREHOLDERS' EQUITY (continued)

Risk reserves

This represents a general reserve as per the regulation of Qatar Central Bank to cover a minimum 1.25% of the loan portfolio excluding Qatar Government borrowings. 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 and exchange gain or loss on consolidation of subsidiaries and associates financial statements.

20. INTEREST INCOME

Figures in thousand Qatar Riyals

	2006	2005
Due from banks and other financial institutions	169,532	99,652
Investment securities	143,160	94,341
Loans and advances to customers	1,092,998	610,290
Total	**1,405,690**	804,283

21. INTEREST EXPENSE

Figures in thousand Qatar Riyals

	2006	2005
Due to banks and financial institutions	50,331	19,348
Customers' deposits	541,371	277,171
Other borrowed funds	138,729	35,753
Total	**730,431**	332,272

22. INCOME FROM ISLAMIC FINANCE AND INVESTMENT ACTIVITIES

Figures in thousand Qatar Riyals

	2006	2005
Financing to customers	27,157	3,068
Balances with bank and financial institution	22,123	5,627
Financial investment	699	36
Total	**49,979**	8,731

23. FEES AND COMMISSIONS INCOME

Figures in thousand Qatar Riyals

	2006	2005
Loans, advances and financing for customers*	**200,240**	101,927
Indirect credit facilities	**70,221**	37,725
Credit card	**100,019**	66,328
Banking and other operations	**46,995**	24,636
Investment activities for customers	**19,281**	22,519
Management fee from associate (National Bank of Oman)**	**3,933**	-
Total	**440,689**	253,135

* Fee income from loans, advances and financing for customers includes QR 7.35 million on account of Islamic branches (2005: QR 1.55 million).

** Management fee income from associate (National Bank of Oman) includes QR 934,000 for 2005 that was received in April 2006.

24. DIVIDEND ON SHARES AND INVESTMENT FUNDS UNITS

Figures in thousand Qatar Riyals

	2006	2005
Investments held for trading	**38**	38
Available-for-sale investments	**16,817**	9,958
Investment funds units	**-**	554
Total	**16,855**	10,550

25. PROFITS FROM FOREIGN CURRENCY TRANSACTIONS

Figures in thousand Qatar Riyals

	2006	2005
Profits from foreign currency transactions *	**56,608**	34,331
Profits from revaluation of assets and liabilities	**(1,091)**	2,053
Total	**55,517**	36,384

* Profits from foreign currency transactions includes QR 56,000 on account of Islamic branches (2005: QR 5,000).

26. PROFITS FROM INVESTMENT

Figures in thousand Qatar Riyals

	2006	2005
a) Profits from sale of investments		
- Held for trading	**243**	-
- Available-for-sale	**149,906**	249,968
b) Differences in revaluation of investments		
- Held for trading	**(43)**	(283)
Total	**150,106**	249,685

27. GENERAL AND ADMINISTRATIVE EXPENSES

Figures in thousand Qatar Riyals

	2006	2005
Salaries and other benefits	**236,669**	135,766
Attendance fees for Board of Directors	**970**	980
Bank's participation in the retirement fund	**1,617**	971
Employees' end of service benefits	**12,135**	10,630
Training programmes costs	**7,697**	3,083
Marketing and promotional expenses	**32,592**	32,578
Legal and professional charges	**18,711**	19,842
Communication, utilities and insurance	**18,380**	13,010
Occupancy and maintenance	**31,346**	23,961
Travel and entertainment expenses	**3,393**	2,690
IT consumables	**1,553**	1,242
Supplies	**5,657**	5,625
Others operating expenses	**9,592**	9,351
Total	**380,312**	259,729

The number of staff as at 31 December 2006 was 1,003 (2005: 872).

General and administrative expenses includes QR 11.474 million (2005: 5.379 million) for Islamic branches activities of which QR 8.130 million (2005: QR 3.646 million) relates to personnel expenses and QR 3.344 million (2005: QR 1.733 million) to other general administrative expenses.

28. UNRESTRICTED INVESTMENT DEPOSIT OWNERS' SHARE OF PROFIT

Figures in thousand Qatar Riyals

	2006	2005
Investment deposit owners' share of profit before Mudaraba share of the Bank	**22,359**	2,290
Bank's share of profit as Mudarib	**(4,463)**	(458)
Investment deposit owners' net share after Mudarib's share of the profit	**17,896**	1,832
Shareholders' cession	**3,047**	1,564
Investment deposit owners' share after cession	**20,943**	3,396

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

Figures in thousand Qatar Riyals

	2006 (%)	2005 (%)
1 year term	**5.00**	4.25
6 months term	**4.25**	4.25
3 months term	**4.00**	3.50
1 month term	**4.00**	3.25
Savings account	**3.00**	2.50
Special deposits	**5.03**	0.00

29. EARNINGS PER SHARE

Figures in thousand Qatar Riyals

	2006	2005
a) Basic		
Profit attributable to equity holders of the Group	**891,369**	749,518
Weighted average number of shares in issue during the year	**140,158**	140,158
Basic earnings per share (QR)	**6.36**	5.35

b) Diluted

Diluted earnings per share is equal to basic earnings per share as the Group does not have any dilutive potential shares as at 31 December 2006

30. OFF-BALANCE SHEET ITEMS

Figures in thousand Qatar Riyals

	2006	2005
a) Loan commitments, guarantee and other financial facilities		
Acceptance	**200,614**	162,963
Guarantees	**8,918,217**	4,080,396
Letter of credit	**2,329,373**	1,603,110
Un-utilised credit facilities granted to customers	**2,198,486**	1,834,722
Certified cheques	**4,961**	12,550
	13,651,651	7,693,741
b) Other undertakings and commitments		
Foreign exchange contracts and derivatives in favour of the Bank and customers (Note 31)	**4,445,233**	1,481,862
Guaranteed investment funds (Note a)	**4,029**	17,606
Portfolios and investments managed for others (Note b)	**58,240**	58,240
Capital commitments in respect of Cb plaza tower	**6,560**	108,991
Capital commitments in respect of Umm Baab tower	**112,799**	-

a) Guaranteed investment funds represents the Group's exposure to credit risk on its principal guaranteed funds issued to investors. The Group has guaranteed the principal amount of the funds issued in collaboration with the lead manager who has, in return, issued a back to back guarantee to the Group. More details are provided in note 33.

b) The Group manages an investment portfolio of USD 16.0 million on behalf of a customer. This portfolio is managed in line with the terms and conditions agreed upon through an investment management agreement.

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 2006							
- 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**
As on 31 December 2005							
- Interest rate swaps	2,912	3,880	1,071,387	21,410	21,410	171,294	857,273
- Forward foreign exchange contracts	244	7	410,475	323,809	50,419	36,247	-
Total	**3,156**	**3,887**	**1,481,862**	**345,219**	**71,829**	**207,541**	**857,273**

32. INVESTMENT CUSTODIAN

On the balance sheet date the Group holds on behalf of its customer QR 367.43 million (2005 QR 206.86 million) worth of international investment securities. Out of this amount, investment securities with a value of QR 176.41 million equivalent to USD 48.46 million (2005 QR 99.87 million equivalent to USD 27.44 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. INVESTMENT FUNDS

On the balance sheet date, the Group's exposure to managed funds is USD 1.1 million or QR. 4.0 million (2005: USD 4.8 million or QR 17.61 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$ 1,107,000	May - 2010

34. 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

	2006	2005
Board Members		
- Loans and advances (a)	**293,839**	201,052
- Deposits	**204,432**	210,190
- Contingent liabilities, guarantees and other commitments	**36,589**	22,415
- Interest income earned from facilities granted to board members	**51,096**	17,443
- Other fees income earned from transactions with board members	**5,300**	899
- Interest paid to deposits accounts of board members	**21,203**	8,682
- Fixed remuneration and meeting attendance fees paid to BM	**2,134**	2,144

34. TRANSACTIONS WITH RELATED PARTIES (continued)

Figures in thousand Qatar Riyals

	2006	2005
Parent/Subsidiaries companies		
- Balance with bank/ customers' deposits (b)	**28,541**	28,174
Associate company		
- NBO's deposit with the Group	**670**	163
- Bank's deposit with NBO	**660**	342
- NBO's contingent liabilities to the Group:		
- Letter of guarantee : Performance bond	**623**	1,414
Tender bond	**1,000**	10,500
- Interest rate swap (notional amount)	**56,727**	56,727
- Interest rate swap (fair value)	**202**	35
Senior Management compensation		
- Fixed remuneration	**17,316**	13,942
- Discretionary remuneration	**10,292**	5,561
Fringe benefits	**3,430**	1,935

Number of staff in the Senior Management team as at 31 December 2006 was 21 (2005: 13).

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.

35. CASH AND CASH EQUIVALENTS FOR CASH FLOW STATEMENTS

Figures in thousand Qatar Riyals

	2006	2005
Cash and balances with Qatar Central Bank*	**552,769**	294,301
Balances from banks and financial institutions	**2,578,509**	3,247,281
Total	**3,131,278**	3,541,582

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

36. FINANCIAL STATEMENTS FOR THE PARENT BANK

Parent Bank Balance Sheet

Figures in thousand Qatar Riyals

As at 31 December 2006	2006	2005
ASSETS		
Cash and balances with Central Bank	1,017,873	648,281
Securities held for trading	65	13,368
Due from banks and financial institutions	5,490,404	5,349,314
Loans, advances and financing activities for customers	17,341,352	10,863,846
Investment securities	4,394,115	3,440,424
Investments in associate	1,285,158	1,251,304
Property, furniture and equipment	557,240	316,835
Other assets	301,913	328,470
Total assets	30,388,120	22,211,842
LIABILITIES		
Due to banks and financial institutions	2,692,986	1,704,233
Customers' deposits	16,729,644	13,084,595
Other borrowed funds	4,137,227	1,092,000
Other liabilities	655,188	467,124
	24,215,045	16,347,952
Unrestricted investment deposits owners' equity	486,836	178,361
Risk reserve - Unrestricted investment deposit owners' share of profit	20,943	3,396
	507,779	181,757
SHAREHOLDERS' EQUITY		
Paid up capital	1,401,579	934,386
Legal reserve	2,915,499	2,915,499
General reserve	26,500	26,500
Fair value reserve	1,592	500,559
Risk reserves	176,200	87,200
Other reserves	84,548	45,002
Proposed dividend	981,106	373,754
Proposed bonus shares	-	467,193
Retained earnings	78,272	332,040
Total shareholders' equity	5,665,296	5,682,133
Total liabilities and shareholders' equity	30,388,120	22,211,842

36. FINANCIAL STATEMENTS FOR THE PARENT BANK (continued)

Parent Bank Statement of Income

Figures in thousand Qatar Riyals

For the year ended 31 December 2006	2006	2005
Interest income	1,400,597	799,489
Interest expense	(730,322)	(332,272)
Net interest income	670,275	467,217
Income from Islamic finance and investment activities	49,979	8,731
Fees and commissions income	434,703	247,143
Fees and commissions expense	(48,652)	(36,364)
Net fees and commissions income	386,051	210,779
Dividend on shares and investment funds units	16,855	10,550
Profits from foreign currency transactions	55,161	35,682
Profits from investments, net	150,106	249,685
Other operating income	14,465	21,526
	236,587	317,443
Operating income	1,342,892	1,004,170
General and administrative expenses	(371,476)	(251,481)
Depreciation	(37,455)	(33,675)
Impairment losses on loans and advances to financial institutions, net	1,556	5,512
Impairment losses on loans and advances to customers, net	(6,182)	3,887
Impairment losses on available for sale investments, net	(95,919)	(19,638)
Total operating expenses and provisions	(509,476)	(295,395)
Profit before share of result of associate	833,416	708,775
Share of results of associate net of tax	79,094	45,002
Profit before share of investment deposit owners	912,510	753,777
Less unrestricted investment deposit owners’ share of profit	(20,943)	(3,396)
Net profit for the year	891,567	750,381

36. FINANCIAL STATEMENTS FOR THE PARENT BANK (continued)

Parent Bank Statement of Cash Flows

Figures in thousand Qatar Riyals

For the year ended 31 December 2006	2006	2005
Cash flows from operating activities		
Net profit for the year	**891,567**	750,381
Adjustments of profit (losses) with cash flows from operating activities		
Depreciation and amortisation	**37,455**	33,675
Impairment loss on available for sale investments	**97,797**	19,822
Profit from sale of property, furniture and equipment	**(4,326)**	(14,677)
Share of results of associate net of tax	**(79,094)**	(45,002)
Profit from sale of investments net	**(150,106)**	(249,685)
Profits before changes in operating assets and liabilities	**793,293**	494,514
Net increase in assets		
Balances with banks and financial institutions	**(300,334)**	(250,148)
Loans, advances and financing activities for customers	**(6,477,506)**	(4,168,485)
Other assets	**26,557**	(199,226)
Net increase in liabilities		
Balances to banks and financial institutions	**364,000**	-
Customers' deposits	**3,953,524**	4,928,922
Other liabilities	**169,928**	174,997
Net cash from operating activities	**(1,470,538)**	980,574
Cash flows from Investing activities		
Purchase of investments	**(2,473,227)**	(2,215,363)
Acquisation of shares in associate	**-**	(1,203,413)
Dividend received from associate	**39,548**	-
Proceeds from sale and redemption of securities	**1,097,693**	818,287
Purchase of property and equipment	**(277,870)**	(92,972)
Proceeds from sale of property and equipment	**4,336**	79,773
Net cash used in investing activities	**(1,609,520)**	(2,613,688)
Cash flows from Financing activities		
Proceeds of borrowed funds	**3,045,227**	546,000
Repayment of borrowed funds	**-**	(436,800)
Proceeds from rights issue	**-**	2,242,527
Dividend paid	**(373,754)**	(213,574)
Net cash from financing activities	**2,671,473**	2,138,153
Net increase in cash and cash equivalents during the year	**(408,585)**	505,039
Effects of foreign exchange fluctuation	**5**	-
Cash and cash equivalents at beginning of year	**3,538,453**	3,033,414
Cash and cash equivalents at end of year	**3,129,873**	3,538,453

37. FINANCIAL STATEMENTS FOR THE ISLAMIC BRANCHES

Al Safa Islamic Banking - Balance Sheet

Figures in thousand Qatar Riyals

As at 31 December 2006	2006	2005
ASSETS		
Cash balances	**5,494**	3,512
Due from and investments with banks and financial institutions	**378,535**	278,602
Due from customers for financing activities	**385,013**	189,665
Financial investments	**82,581**	3,640
Other assets	**9,740**	5,474
Total assets	**861,363**	480,893
LIABILITIES		
Customers' current accounts	**78,101**	37,627
Other liabilities	**6,564**	10,033
	84,665	47,660
Unrestricted investment deposits owners' equity	**486,836**	178,361
Risk reserve - Unrestricted investment deposit owners' share of profit	**20,943**	3,396
	507,779	181,757
CAPITAL FUNDING		
Capital funding from parent	**250,000**	250,000
Undistributed profit	**18,919**	1,476
Total capital funding	**268,919**	251,476
Total liabilities, unrestricted investment deposits owners' equity	**861,363**	480,893

37. FINANCIAL STATEMENTS FOR THE ISLAMIC BRANCHES (continued)

Al Safa Islamic Banking - Statement of Income

Figures in thousand Qatar Riyals

For the year ended 31 December 2006	2006	2005
Income from financing activities	27,157	3,068
Income from investment activities	22,822	5,663
Total income from financing and investment activities	49,979	8,731
Fee and commission income	7,349	1,547
Fee and commission expense	(26)	(32)
Net fee and commission income	7,323	1,515
Profits from foreign currency transactions	56	5
	56	5
Operating income	57,358	10,251
General and administrative expenses	(16,487)	(5,379)
Impairment losses on available for sale of investments	(2,485)	-
Net profit	38,386	4,872
Less unrestricted investment account holder's share of profit	(20,943)	(3,396)
Net profit for the year attributable to owners	17,443	1,476