

Qatar International Islamic Bank (Q.S.C.)

Financial Statements

31 DECEMBER 2008

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the year ended December 31, 2008

Independent auditor's report --

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

Report on the Financial Statements

We have audited the accompanying financial statements of Qatar International Islamic Bank (Q.S.C) (the "Bank") which comprises the balance sheet as at 31 December 2008 and the income statement, the statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The financial statements of the bank for the year ended December 31, 2007 were audited by other auditor's who report dated March 5, 2008 expressed an unqualified opinion on those financial statements.

The Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and in accordance with the Islamic Shari'a Rules and Principles and the Directives of Qatar Central Bank. This responsibility includes: designing, implementing and maintaining internal controls 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for 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 the Board of Directors, 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.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS
OF QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.) (continued)**

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Qatar International Islamic Bank (Q.S.C) as of 31 December 2008 and its financial performance and its cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank and the directives of Qatar Central Bank.

Report on other legal and regulatory matters

We have obtained all the information and explanations which we considered necessary for the purpose of our audit. We further confirm that the financial information included in the Annual Report of the Board of Directors is in agreement with the books and records of the Bank and that we are not aware of any contravention by the Bank of its Articles of Association, the Qatar Commercial Companies Law No. 5 of 2002, Qatar Central Bank directives and Qatar Central Bank Law No. 3 of 2006 during the financial year that would materially affect its activities or its financial position.

For Deloitte & Touche

Muhammad Bahemia
License No. 103

January 19, 2009

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

BALANCE SHEET

As at 31 December 2008

	<i>Notes</i>	2008 <u>QR'000</u>	2007 <u>QR'000</u>
ASSETS			
Cash and balances with Qatar Central Bank	4	599,979	431,483
Balances and investments with banks and other financial institutions	5	2,121,449	3,718,681
Receivables and balances from financing activities	6	8,252,726	4,388,628
Financial investments	7	894,667	947,112
Investment in associates	8	265,814	157,690
Investment properties for leasing	9	11,397	22,064
Investment properties for trading	10	260,415	120,145
Property and equipment	11	235,170	34,390
Other assets	12	200,847	131,016
TOTAL ASSETS		<u>12,842,464</u>	<u>9,951,209</u>
LIABILITIES, HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
LIABILITIES			
Current accounts from banks and financial institutions		25,094	54,513
Customers' current accounts		2,326,867	2,033,327
Other liabilities	13	897,933	322,434
TOTAL LIABILITIES		<u>3,249,894</u>	<u>2,410,274</u>
HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS	15	<u>6,812,280</u>	<u>5,184,551</u>
EQUITY			
Authorised and issued share capital	16	1,261,408	700,782
Legal reserve	16	850,246	800,130
General reserve	16	-	210,974
Fair value reserve	16	(32,041)	45,211
Risk reserve	16	114,369	22,024
Proposed bonus shares		-	560,626
Proposed dividends	16	504,562	-
Retained earnings		81,746	16,637
TOTAL EQUITY		<u>2,780,290</u>	<u>2,356,384</u>
TOTAL LIABILITIES, HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		<u>12,842,464</u>	<u>9,951,209</u>

.....
Khalid Bin Thani Al Thani
Chairman and Managing Director

.....
Abdul Basit Ahmad Al Shaibei
Chief Executive Officer

The attached notes 1 to 28 form an integral part of these financial statements.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

INCOME STATEMENT

Year Ended 31 December 2008

	<i>Notes</i>	<u>2008</u> <u>QR'000</u>	<u>2007</u> <u>QR'000</u>
Income from financing activities	17	529,308	397,883
Income from Investing activities	18	353,551	335,404
Total income from financing and investing activities		882,859	733,287
Commission and fees income		80,369	64,076
Commission and fees expense		(5,060)	(4,292)
Net commission and fee income	19	75,309	59,784
(Loss) / gain from foreign exchange operations	20	(25,417)	12,901
NET OPERATING INCOME		932,751	805,972
General and administrative expenses	21	(129,267)	(94,090)
Depreciation and amortisation	9-10	(8,457)	(7,104)
Impairment of investment properties		(2,477)	-
Impairment of financial investments		(86,954)	(26,752)
NET PROFIT FOR THE YEAR BEFORE SHARE OF HOLDERS OF UNRESTRICTED INVESTMENTS' ACCOUNTS		705,596	678,026
Less: Share of holders of unrestricted investment accounts in the:			
- Net profit	22	204,438	193,411
- Risk reserve	16	-	4,620
NET PROFIT FOR THE YEAR DUE TO SHAREHOLDERS		501,158	479,995
BASIC EARNINGS PER SHARE (QR)	23	3.97	3.81
DILUTED EARNING PER SHARE (QR)	23	3.97	3.81

The attached notes 1 to 28 form an integral part of these financial statements.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

STATEMENT OF CHANGES IN EQUITY (continued)

Year Ended 31 December 2008

	<i>Share capital QR'000</i>	<i>Legal Reserve QR'000</i>	<i>General reserves QR'000</i>	<i>Fair value reserve QR'000</i>	<i>Risk reserve QR'000</i>	<i>Proposed issue of bonus shares QR'000</i>	<i>Proposed Dividends QR'000</i>	<i>Retained earnings QR'000</i>	<i>Total QR'000</i>
Balance at 1 January 2008	<u>700,782</u>	<u>800,130</u>	<u>210,974</u>	<u>45,211</u>	<u>22,024</u>	<u>560,626</u>	<u>-</u>	<u>16,637</u>	<u>2,356,384</u>
Issue of stock dividend	<u>560,626</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(560,626)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net fair value movements	<u>-</u>	<u>-</u>	<u>-</u>	<u>(77,252)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(77,252)</u>
Net change recognised directly in equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>(77,252)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(77,252)</u>
Profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>501,158</u>	<u>501,158</u>
Total recognised income and expenses for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(77,252)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>501,158</u>	<u>423,906</u>
Transfer to reserves	<u>-</u>	<u>50,116</u>	<u>-</u>	<u>-</u>	<u>92,345</u>	<u>-</u>	<u>-</u>	<u>(142,461)</u>	<u>-</u>
Proposed of Dividends for 2008	<u>-</u>	<u>-</u>	<u>(210,974)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>504,562</u>	<u>(293,588)</u>	<u>-</u>
Balance at 31 December 2008	<u>1,261,408</u>	<u>850,246</u>	<u>-</u>	<u>(32,041)</u>	<u>114,369</u>	<u>-</u>	<u>504,562</u>	<u>81,746</u>	<u>2,780,290</u>

* Retained earnings include undistributed profit from investment in associates amounted QR. 6,591,000 as at December 31, 2008 (2007: Nil)

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

STATEMENT OF CHANGES IN EQUITY (continued)

Year Ended 31 December 2008

	<i>Share capital QR'000</i>	<i>Legal reserve QR'000</i>	<i>General reserve QR'000</i>	<i>Fair value reserve QR'000</i>	<i>Risk reserve QR'000</i>	<i>Proposed issue of bonus shares QR'000</i>	<i>Retained earnings QR'000</i>	<i>Total QR'000</i>
Balance at 1 January 2007	<u>424,224</u>	<u>413,463</u>	<u>210,974</u>	<u>23,646</u>	<u>17,760</u>	<u>233,594</u>	<u>101,532</u>	<u>1,425,193</u>
Issue of stock dividend	<u>233,594</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(233,594)</u>	<u>-</u>	<u>-</u>
Net fair value movements	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,565</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,565</u>
Net change recognised directly in equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,565</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,565</u>
Profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>479,995</u>	<u>479,995</u>
Total recognised income and expenses for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,565</u>	<u>-</u>	<u>-</u>	<u>479,995</u>	<u>501,560</u>
Payments received from subscription of increase in share capital	<u>42,964</u>	<u>386,667</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>429,631</u>
Transfer to reserves	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,264</u>	<u>-</u>	<u>(4,264)</u>	<u>-</u>
Proposed bonus shares issue for 2007	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>560,626</u>	<u>(560,626)</u>	<u>-</u>
Balance at 31 December 2007	<u>700,782</u>	<u>800,130</u>	<u>210,974</u>	<u>45,211</u>	<u>22,024</u>	<u>560,626</u>	<u>16,637</u>	<u>2,356,384</u>

The attached notes 1 to 28 form an integral part of these financial statements.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

CASH FLOW STATEMENT Year ended 31 December 2008

	<i>Note</i>	<u>2008</u> <u>QR'000</u>	<u>2007</u> <u>QR'000</u>
CASH FROM OPERATING ACTIVITIES			
Profit for the year		501,158	479,995
<u>Adjustments for:</u>			
Depreciation and amortisation		8,457	7,104
Provision for impairment of receivables and financing activities		-	(127)
Loss from impairment of financial investments		86,954	26,752
Loss from impairment of investment properties for trading		2,477	-
Provisions recovery of investments		(15,000)	-
Share of associates companies profit		(20,370)	-
Gain on sale of investment in associate bank		-	(5,462)
Gain on sale investment property for trading		(99,253)	(4,724)
Gain on sale of financial investments		(67,916)	(84,649)
		<u>396,507</u>	<u>418,889</u>
Operating profit before changes in operating assets and liabilities		396,507	418,889
<u>Net decrease (increase) in assets</u>			
Cash reserve with Qatar Central Bank		(188,516)	(41,753)
Receivables and balances from financing activities		(3,864,098)	(768,873)
Other assets		(69,831)	(31,683)
<u>Net increase (decrease) in liabilities</u>			
Current accounts from banks and financial institutions		(29,419)	(47,236)
Customers current accounts		293,540	407,554
Other liabilities		575,498	147,649
		<u>(2,886,319)</u>	<u>84,547</u>
Net cash flows from operating activities		<u>(2,886,319)</u>	<u>84,547</u>
CASH FROM INVESTING ACTIVITIES			
Purchase of financial investments		(842,073)	(784,990)
Proceeds from repayment and sale of financial investments		688,362	517,272
Purchase of investment properties		(390,782)	(101,587)
Proceeds from sale of investment properties		204,479	16,531
Dividends received from investment in associates		11,400	-
Purchase of property, furniture and equipment		(11,978)	(6,377)
Proceeds from sale of property, furniture and equipment		63	-
Purchase of Investments in associates		(99,154)	(51,450)
Proceeds from sale of investment in an associate bank		-	41,877
		<u>(439,683)</u>	<u>(368,724)</u>
Net cash used in investing activities		<u>(439,683)</u>	<u>(368,724)</u>
CASH FROM FINANCING ACTIVITIES			
Net increase in holders of unrestricted investment accounts		1,708,750	97,791
Payments toward the increase in share capital		-	429,632
		<u>1,708,750</u>	<u>527,423</u>
Net cash from financing activities		<u>1,708,750</u>	<u>527,423</u>
Net increase in cash and cash equivalents during the year		(1,617,252)	243,246
Balance of cash and cash equivalents at 1 January		3,915,025	3,671,779
Balance of cash and cash equivalents at 31 December	25	<u>2,297,773</u>	<u>3,915,025</u>

The attached notes 1 to 28 form an integral part of these financial statements.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

1 LEGAL STATUS AND MAIN ACTIVITIES

Qatar International Islamic Bank (Q.S.C.) (“the Bank”) was incorporated under Amiri Decree No. 52 of 1990. The Bank operates through its head office located on Grand Hamad Street in Doha and (10) local branches. The Bank is listed and its shares are traded in the Doha Securities Market.

The Bank is engaged in banking, financing and investing activities in accordance with its Articles of Incorporation, Islamic Shari’a principles and regulations of Qatar Central Bank.

The financial statements have been approved by the Board of Directors on 19 January 2009.

2 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements have been prepared on a historical cost basis, except for the available-for-sale and investment properties held for leasing that have been measured at fair value.

The financial statements of the Bank have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and International Financial Reporting Standards, for matters which no AAOIFI standards exists and in accordance with relevant laws and instructions issued by the Qatar Central Bank and relevant Articles of the Qatar Commercial Companies Law.

All values are rounded to the nearest Qatari Riyal (QR) thousand, except when otherwise indicated.

(b) Foreign Currency Transactions

The financial statements are stated in Qatari Riyals which is the functional currency. Foreign currency transactions during the year are translated at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into Qatari Riyals at the rates of exchange prevailing at the year end. Any differences are taken to the income statement as currency exchange gains or losses.

(c) Revenue recognition

- Income on financing contracts of Murabaha, Musawama and Istesna are recognised on accrual basis using the declining instalment method. When receivable from financing activities become non-performing and where collectibility is doubtful, income is suspended as per the instructions of Qatar Central Bank.
- Ijarah income is recognised on accrual basis and is determined 6 months in advance upon agreement of all parties.
- Income from Musharaka is recognised at the end of the Musharaka.
- Income from dividends and investment funds is recognised when the right to receive the dividend is established.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Other investments income is recognised on an accrual basis.
- Fees and commission income is recognised when earned.
- Income on Mudaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib.
- Income is allocated proportionately between unrestricted investment accounts and shareholders on the basis of the average balances outstanding during the year, after deduction of the bank Mudaraba share.

(d) Valuation of financial investments

Available-for-sale investments are valued at fair value on an individual basis. Unrealised gains or losses arising from a change in fair value is recognised directly in the fair value reserve which is distributed between shareholders' equity and unrestricted investments deposits accounts, until the investment is sold, collected or otherwise disposed off, or the investment is determined to be impaired, at which time the cumulative gain previously recognised in shareholders' equity and the unrestricted investments deposit accounts is included in the income statement. In cases where objective evidence exists that a specific investment is impaired, the recoverable amount of that investment is determined and any impairment loss is recognised in the income statement under provision for impairment of financial investments.

(e) Fair values

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, an estimate of the fair value is determined by one of the following methods:

- Cost
- Recoverable amount estimated by the portfolio manager

(f) Date for Recognition of financial transactions

All purchase transactions of financial assets are recognised on the trade date, which is the date that the Bank is committed to buy the asset. Sale of financial assets is recognised on the settlement date. The ordinary purchases and sales transactions are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or conventions in the market place.

(g) Investment in properties and fixed asset for leasing purpose.

Investment in properties and fixed assets for leasing purpose are recognised at historical cost. Subsequently investments are measured individually where investments in properties and fixed assets acquired for leasing are stated at cost and depreciation is provided in accordance with the rates of depreciation applied to fixed assets.

(h) Investment properties for trading

Investment properties held for trading purpose are recognized at fair value for each investment individually unrealized gain over the change in fair value is included in the fair value reserve which is located between equity and unrestricted investments account until the investment is sold or waived collected or when ensuring that the investment has lost value, the bank will then convert profits or losses previously included within the rights of shareholders and the rights of unrestricted investment accounts to

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Receivables and balances from financing activities

Receivables and balances from financing activities are stated at their gross principal amounts less amounts received on account of these transactions, provision for impairment and deferred income relating to future years. The specific provision for impairment of financing receivables is estimated upon detailed review thereof by the management in accordance with Qatar Central Bank instructions.

Murabaha receivables

Murabaha receivables consist mainly of deferred sales transaction agreements (Murabaha) and are stated net of deferred profits and provision for impairment.

Mudaraba

Mudaraba financing are partnership in which the Bank contributes capital. These are stated at the fair value of consideration given less impairment.

(j) Property and equipment

Property and equipment are stated at cost net of accumulated depreciation. Freehold land is not depreciated. The cost of property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets as per QCB instructions, as follows:

Buildings	5%
Leasehold improvements	20%
Computer software and hardware	33.33%
Furniture, fixtures and office equipment	15%
Motor vehicles	20%

Repairs and maintenance expense is charged to the income statement when incurred.

(k) Cost of software upgrading

The cost of updating computer software is recognised under expenses when incurred. The expenses incurred in upgrading the software and extending its useful life is capitalised and added to the original cost of the software. Maintenance costs of existing software are recognised under expenses when incurred.

(l) Impairment of the bank assets

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

(m) Employees end of service benefits and pension fund

- The Bank provides for end of service benefits in accordance with the regulations of the Bank and amended Labour Law of Qatar. The provision is calculated based on the period of service for each staff at the year end. This provision is included in other provisions under other liabilities.
- The Bank also provides for its contribution to the pension fund in accordance with the Retirement and Pension Law No. 24 of 2002, which is included in staff costs under general and administrative expenses.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Other provisions

The Bank recognises provisions in the income statement for any expected liabilities or claims based on the estimates and the probability of realisation at the balance sheet date (Note 13).

(o) Off balance sheet items

Funds managed by the Bank on behalf of clients are included in contracts and other commitments and include:

- Restricted investment funds invested by the Bank on behalf of clients under Wakala or Mudaraba contracts in accordance with the terms and investment products determined by the clients. Results of such investments are not included in the income statement, but paid directly to the clients when accrued after deducting the Bank's commission or share of profit, as Mudareb or agent, which is recognised in the income statement (Note 24 (b)).

(p) Distribution of profit between holders of unrestricted investment accounts and the shareholders

The Bank complies with the directives of QCB as follows:

- Net gains on all items of income and expenses at the year end is the net profit distributable between the shareholders and the holders of unrestricted investment accounts.
- The share of the holders of unrestricted investment accounts is calculated out from the net profit on the basis of daily balances of their balances after deducting the Bank's Mudaraba percentage agreed upon and declared.
- In case any expense or loss incurred is proved to be resulting from negligence by the Bank due to violation of the directives of QCB or proper banking conventions, the holders of unrestricted investment accounts shall not be charged with these losses, subject to the discretion of QCB.
- In case that results of the Bank at the year end are net losses, then QCB, being the authority responsible for determining the Bank's accountability for these losses, shall decide how these shall be treated without violation to the Islamic Shari'a rules.
- Due to pooling of unrestricted investment funds with the Bank funds for the purpose of investment, no priority has been given to either party in the appropriation of profit.

(q) Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement represent cash and bank balances maturing within three months and comprise cash, balances with central banks excluding cash reserve and balances with banks and financial institutions (Note 25).

(r) Investments in associates

The Bank's investments in associates are accounted for under the equity method of accounting. These are entities over which the Bank exercises significant influence but not control and which are neither subsidiaries nor joint ventures.

Unrealised profits and losses resulting from transactions between the Bank and its associate are eliminated

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

to the extent of the Bank's interest in the associate.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Offsetting

Assets should not be set-off against liabilities and liabilities should not be set-off against assets unless there is a religious or legal right and an actual expectation of set-off.

(t) Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is in relation to impairment of financial assets discussed below:

The Bank reviews its doubtful financial contracts and investments on a quarterly basis to assess whether a provision for impairment should be recorded in the statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

(u) Contingent liabilities and other commitments

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

2.1 New and revised standards

In October 2008, the AAOFFI has issued the revised Financial Accounting Standard 17 regarding the treatment of available for sale investments' measurement with effect from July 1, 2008 any unrealised losses resulting from re-measurement of investment in Sukuk and shares available for sale have now been allowed to be presented in equity as "Fair Value Reserve" provided that there is no impairment effects on the investment available for sale.

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

3.1 Financial Instruments

(a) Definition and classification

The Bank's financial instruments represent the financial assets and liabilities. Financial assets comprise cash balances and balances with Qatar Central Bank, balances and investments with banks and financial institutions, financial investments, receivables and balances from financing activities. Financial liabilities comprise current accounts from banks and other financial institutions, customer's current accounts and other liabilities. Financial instruments also include balances due to holders of unrestricted investment accounts and commitments under "off-balance sheet items".

Note 2 to the financial statements explains the accounting policies used to recognise and measure the major financial instruments and related income and expenses.

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

(b) Fair value of financial instruments

Based on the methods used to determine the fair value of financial instruments detailed in the notes to the financial statements, the carrying values of financial assets and liabilities, are not materially different from their fair values, except for investment properties and fixed assets held for leasing which are stated at cost Note 9.

3.2 Risk management

3.2.1 Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit, liquidity, market, including trading and non-trading, and operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk Management Structure

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the risk management methodology and approving the strategic plans and risk management principles.

Risk Management Function

The Risk Management Function is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It is also responsible for monitoring compliance with risk principles, policies and limits, across the Bank. Each business group has a decentralised department which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This function also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Management

Bank Management is responsible for managing the Bank's assets and liabilities and the overall financial structure and also responsible for the Bank's credit and liquidity risk.

Internal audit

Risk management processes throughout the Bank are audited annually by the Internal Audit function, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.1 Introduction (continued)

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, the models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the business departments is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, and the head of each business division.

The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis.

Frequent reports are given to the senior management and all other relevant members of the Bank on the utilisation of market limits, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio, with limits set on geographic and industry sector exposures. Identified concentrations of credit risks are controlled and managed accordingly.

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.2 Credit risk (continued)

Credit risk is the risk that one party to a financial instrument will fail to discharge a financial obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or group of customers in specific locations or businesses. It also obtains collaterals, when appropriate. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending, cash or securities.
- For commercial lending, mortgages over real estate properties, inventory, cash and securities.
- For retail lending, mortgages over residential properties and securities.

Management monitors the market value of collateral.

The Bank also obtains corporate guarantees from parent companies for receivables and balances from financing activities to their subsidiaries.

Details of the composition of the receivables and balances from financing activities to customers are set out in Note 6.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.2 Credit risk (continued)

The geographical distribution of assets, liabilities and commitments on behalf of customers are set out in Note 26.

(a) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

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

	<i>Gross maximum exposure</i>	
	<i>2008</i>	<i>2007</i>
	<i>QR'000</i>	<i>QR'000</i>
Cash and balances with Qatar Central Bank	490,608	359,875
Due from banks and other financial institutions	2,121,449	3,718,681
Receivables and balances from financing activities to customers	8,252,726	4,388,628
Financial investments	894,667	947,112
Other assets	200,847	131,016
Total	11,960,297	9,545,312
Contingent liabilities	677,167	504,795
Commitments	756,986	181,085
Total	1,434,153	685,880
Total credit risk exposure	13,394,450	10,231,192

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.2 Credit risk (continued)

(b) Credit quality per class of financial assets

The table below shows the credit quality by class of financial assets, based on the Bank's credit rating system:

	<i>Neither past due nor impaired QR'000</i>	<i>Watch list or impaired grade QR'000</i>	<i>Total QR'000</i>
<u>At 31 December 2008</u>			
Cash and balances with Qatar Central Bank	599,979	-	599,979
Due from banks and other financial institutions	2,121,449	-	2,121,449
Receivables and balances from financing activities to customers:			
Retail	2,250,625	39,510	2,290,135
Corporate	5,748,341	70,174	5,818,515
	10,720,394	109,684	10,830,078
Financial investments	825,368	69,299	894,667
	11,545,762	178,983	11,724,745
	11,545,762	178,983	11,724,745
	<i>Neither past due nor impaired QR'000</i>	<i>Watch list or impaired grade QR'000</i>	<i>Total QR'000</i>
<u>At 31 December 2007</u>			
Cash and balances with Qatar Central Bank	431,483	-	431,483
Due from banks and other financial institutions	3,718,681	-	3,718,681
Receivables and balances from financing activities to customers:			
Retail	2,024,840	35,555	2,060,395
Corporate	2,159,598	54,482	2,214,080
	8,334,602	90,037	8,424,639
Financial investments	947,112	-	947,112
	9,281,714	90,037	9,371,751
	9,281,714	90,037	9,371,751

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.2 Credit risk (continued)

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

(c) Age analysis of past due but not impaired receivables and balances from financing activities

Past due receivables and balances from financing activities to customers include those that are only past due by a few days. The majority of the past due receivables and balances from financing activities to customers are not considered to be impaired. An analysis of past due instalments, by age, is provided below:

	<i>Less than 60 days 2008 QR'000</i>	<i>61 to 90 days 2008 QR'000</i>	<i>Total 2008 QR'000</i>
Receivables and balances from financing activities to customers:			
Retail	6,860	1,567	8,427
Corporate	4,878	117	4,995
Commercial Financing	<u>3,506</u>	<u>655</u>	<u>4,161</u>
	<u>15,244</u>	<u>2,339</u>	<u>17,583</u>
	<i>Less than 60 days 2007 QR'000</i>	<i>61 to 90 days 2007 QR'000</i>	<i>Total 2007 QR'000</i>
Receivables and balances from financing activities to customers:			
Retail	2,936	286	3,222
Corporate	2,196	1	2,197
Commercial Financing	<u>1,791</u>	<u>114</u>	<u>1,905</u>
	<u>6,923</u>	<u>401</u>	<u>7,324</u>

As of 31 December 2008 the Bank did not obtain any additional collaterals against the past due but not impaired receivables and balances from financing activities to customers.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.3 Concentration analysis

The distribution of assets, liabilities and contingent liabilities by geographic region and industry sector is as follows:

	<u>2008</u>			<u>2007</u>		
	<i>Assets</i>	<i>Liabilities and equity</i>	<i>Contingent liabilities</i>	<i>Assets</i>	<i>Liabilities and equity</i>	<i>Contingent liabilities</i>
	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>
<i>By geographic region:</i>						
Qatar	12,119,550	12,817,375	523,190	5,926,975	9,951,209	394,289
GCC countries	475,504	15	13,543	599,651	-	5,525
Others	247,410	25,074	140,434	3,424,583	-	104,981
Total	12,842,464	12,842,464	677,167	9,951,209	9,951,209	504,795
<i>By industry sector:</i>						
Government	423,525	1,125,176	-	423,560	228,536	42,552
Government agencies	-	59,510	-	265	24,827	-
Industry/Manufacturing	20,953	-	-	12,874	-	1,293
Commercial	1,308,282	-	457,088	1,462,375	161,180	146,823
Real estate	3,178,376	-	-	922,784	36,601	92,524
Banks	2,721,428	350,754	-	4,834,189	64,513	-
Consumption	4,754,560	7,643,932	169,292	1,833,236	6,924,731	184,058
Other	435,340	3,663,092	50,787	461,926	2,510,821	37,545
Total	12,842,464	12,842,464	677,167	9,951,209	9,951,209	504,795

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.4 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates might affect the value of financial instruments or the future profitability of the Bank. The Board of Directors measure and manage profit rate risk and set limits on the profit rate gaps for stipulated periods.

Due to the nature of the assets and liabilities as of 31 December 2008, the Bank is not exposed to profit rate gaps since all of the Bank's assets and liabilities, with the exception of Sukuk, carry fixed profit rates.

Changes in profit rate sensitivity analysis as follows:

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Bank's income statement.

The sensitivity of the income statement is the effect of the assumed changes in profit rates on the net income for one year, based on the floating rate of Sukuk held at 31 December 2008.

	<i>Increase in basis points</i>	<i>Sensitivity of profit income</i>	
		<i>2008 QR '000</i>	<i>2007 QR '000</i>
<i>Currency</i>			
Qatari Riyal	25%	<u>7,143</u>	<u>7,944</u>

3.2.5 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank takes an exposure to the effect of fluctuation in prevailing foreign currency exchange rates on its financial position. The Board of Directors have set maximum limits on the level of currency exposure, which are monitored daily.

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

Currency	Change in currency rate 2008	Effect on	Effect on
		income statement 2008 QR'000	income statement 2007 QR'000
	%		
Euro	+10%	13,164	5,260
Sterling Pounds	+10%	40	403
Others	+10%	-	-
Euro	-10%	(13,164)	(5,260)
Sterling Pounds	-10%	(40)	(403)
Others	-10%	-	-

The Bank manages its currency exposures within limits laid down by the Board of Directors. Limits are laid down for each currency individually and in total at the beginning of each year. The Qatar Riyal is pegged to the US Dollar. Although the Bank is not exposed to any currency risk due to the peg, limits are set for US Dollar exposures. All other currency exposures are limited and the Bank is not significantly exposed to the other currencies exposures.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.6 Equity price risk

Equity price risk arises from fluctuations in equity indices and prices. The Board has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Bank's Investment Committee.

The non-trading equity price risk exposure arises from the Bank's investment portfolio.

The effect on equity, (as a result of a change in the fair value of equity instruments held as available-for-sale investments as of 31 December 2008), due to change in equity indices, with all other variables held constant, is as follows:

	<i>Change in equity price %</i>	<i>Effect on equity 2008 QR '000</i>	<i>Effect on equity 2007 QR '000</i>
<i>Market indices</i>			
Doha Stock Market index	10%	51,675	25,455
Dubai Stock Market index	10%	84,572	66,829
London Stock Market index	10%	4,435	3,787

3.2.7 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities and Metal and Commodities.

In addition, the Bank maintains a mandatory deposit with Qatar Central Bank at the rate of 4.75% of average customer deposits.

The maturity profile of the assets and liabilities at 31 December 2008 is as follows:

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.7 Liquidity risk (continued)

<u>At 31 December 2008</u>	<i>Up to 1 month QR '000</i>	<i>1-3 months QR '000</i>	<i>3-12 months QR '000</i>	<i>1-5 years QR '000</i>	<i>Over 5 years QR '000</i>	<i>Total QR '000</i>
ASSETS						
Cash and balances with Qatar Central Bank	599,979	-	-	-	-	599,979
Due from banks and other financial institutions	213,367	1,263,355	644,727	-	-	2,121,449
Receivables and balances from financing activities to customers	299,937	955,374	1,312,191	5,685,224	-	8,252,726
Financial investments	519,943	10,354	46,811	317,559	265,814	894,667
Investment in associates	-	-	-	-	-	265,814
Investment properties for trading	-	-	-	260,415	-	260,415
Rental investment properties for leasing	-	-	-	-	11,397	11,397
Property, furniture and equipment	-	-	-	-	235,170	235,170
Other assets	-	200,847	-	-	-	200,847
Total assets	1,633,226	2,429,930	2,003,729	6,263,198	512,381	12,842,464
LIABILITIES						
Current accounts from banks and financial institutions	25,094	-	-	-	-	25,094
Customers' current accounts	2,326,867	-	-	-	-	2,326,867
Other liabilities	857,602	-	11,674	28,658	-	897,933
Unrestricted investment accounts	3,120,294	702,783	2,308,815	680,388	-	6,812,280
Shareholders equity	-	(32,041)	-	-	2,812,331	2,780,290
Total liabilities and shareholders' equity	6,329,857	670,742	2,320,489	709,046	2,812,331	12,842,464
Net liquidity gap	(4,696,631)	1,759,188	(316,760)	5,554,152	(2,299,950)	-

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.7 Liquidity risk (continued)

The following tables reflects the due dates for assets and liabilities as of December 31, 2008.

<u>At 31 December 2007</u>	<i>Up to 1 month QR '000</i>	<i>1-3 months QR '000</i>	<i>3-12 months QR '000</i>	<i>1-5 years QR '000</i>	<i>Over 5 years QR '000</i>	<i>Total QR '000</i>
ASSETS						
Cash and balances with Qatar Central Bank	431,483	-	-	-	-	431,483
Due from banks and other financial institutions	42,740	2,893,728	682,765	99,448	-	3,718,681
Receivables and balances from financing activities to customers	88,545	455,464	665,443	2,842,571	336,605	4,388,628
Financial investments	550,655	10,955	49,526	335,976	-	947,112
Investment in associates	-	-	-	-	157,690	157,690
Investment properties for trading	-	-	-	120,145	-	120,145
Rental investment properties for leasing	-	-	-	-	22,064	22,064
Property, furniture and equipment	-	-	-	-	34,390	34,390
Other assets	-	131,016	-	-	-	131,016
	<u>1,113,423</u>	<u>3,491,163</u>	<u>1,397,734</u>	<u>3,398,140</u>	<u>550,749</u>	<u>9,951,209</u>
Total assets						
LIABILITIES						
Current accounts from banks and financial institutions	54,513	-	-	-	-	54,513
Customers' current accounts	2,033,327	-	-	-	-	2,033,327
Other liabilities	308,238	-	-	4,109	10,087	322,434
Unrestricted investment accounts	2,314,854	358,509	220,934	2,290,254	-	5,184,551
Shareholders equity	-	45,211	-	-	2,311,173	2,356,384
	<u>4,710,932</u>	<u>403,720</u>	<u>220,934</u>	<u>2,294,363</u>	<u>2,321,260</u>	<u>9,951,209</u>
Total liabilities and shareholders' equity						
Net liquidity gap	<u>(3,597,509)</u>	<u>3,087,443</u>	<u>1,176,800</u>	<u>1,103,777</u>	<u>(1,770,511)</u>	<u>-</u>

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.7 Liquidity risk (continued)

Analysis of financial and contingent liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations:

<u>At 31 December 2008</u>	<i>Up to 1 month QR '000</i>	<i>1-3 months QR '000</i>	<i>3-12 months QR '000</i>	<i>1-5 years QR '000</i>	<i>Over 5 years QR '000</i>	<i>Total QR '000</i>
Financial liabilities						
Current accounts from banks and financial institutions	25,094	-	-	-	-	25,094
Customers' current accounts	2,326,867	-	-	-	-	2,326,867
Unrestricted investment accounts	<u>3,120,295</u>	<u>702,782</u>	<u>2,308,815</u>	<u>680,388</u>	-	<u>6,812,280</u>
Total	<u>5,472,256</u>	<u>702,782</u>	<u>2,308,815</u>	<u>680,388</u>	-	<u>9,164,241</u>
Contingent liabilities and commitments						
Unused credit facilities	-	-	756,986	-	-	756,986
Acceptances	-	-	-	20,497	-	20,497
Guarantees	-	-	-	504,751	-	504,751
Letters of credit	-	-	-	134,292	-	134,292
Collection notes	-	-	17,627	-	-	17,627
Total	-	-	<u>774,613</u>	<u>659,540</u>	-	<u>1,434,153</u>

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.7 Liquidity risk (continued)

Analysis of financial and contingent liabilities by remaining contractual maturities (continued)

<u>At 31 December 2007</u>	<i>Up to 1 month QR '000</i>	<i>1-3 months QR '000</i>	<i>3-12 months QR '000</i>	<i>1-5 years QR '000</i>	<i>Over 5 years QR '000</i>	<i>Total QR '000</i>
Financial liabilities						
Current accounts from banks and financial institutions	54,513	-	-	-	-	54,513
Customers' current accounts	2,033,327	-	-	-	-	2,033,327
Unrestricted investment accounts	<u>2,765,310</u>	<u>230,934</u>	<u>1,804,018</u>	<u>384,289</u>	<u>-</u>	<u>5,184,551</u>
Total	<u><u>4,853,150</u></u>	<u><u>230,934</u></u>	<u><u>1,804,018</u></u>	<u><u>384,289</u></u>	<u><u>-</u></u>	<u><u>7,272,391</u></u>
Contingent liabilities and commitments						
Unused credit facilities	-	-	181,085	-	-	181,085
Acceptances	-	-	-	22,408	-	22,408
Guarantees	-	-	-	394,289	-	394,289
Letters of credit	-	-	-	76,390	-	76,390
Collection notes	<u>-</u>	<u>-</u>	<u>11,708</u>	<u>-</u>	<u>-</u>	<u>11,708</u>
Total	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>192,793</u></u>	<u><u>493,087</u></u>	<u><u>-</u></u>	<u><u>685,880</u></u>

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.7 Liquidity risk (continued)

The above contractual maturities of assets and liabilities have been determined by the management on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

3.2.8 Market risk

Market risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates and equity prices. The Bank manages its market risks within the framework of limits defined by the Qatar Central Bank. Setting the internal framework for the management of market risks and ensuring compliance with this framework is the responsibility of the Policies and Development Committee in the Bank.

Assets and liabilities profit rate gaps are reviewed on a regular basis which used to reduce the profit rate gaps to within the limits established by the Board. The Bank manages its exposure to currency exchange rate fluctuations to within the levels defined by the Board of Directors, which sets limits on currency position exposures. Positions are monitored on an ongoing basis. VaR limits are set to define the Bank's risk appetite and the VaR risk metric is calculated on an ongoing basis to ensure compliance with these limits.

3.2.9 Operating and other risks

Operating risks are the direct or indirect risks arising from failure of information technology systems, databases, individuals or any other risks having impact on operating risks. The Bank mitigates these risks through professional IT personnel that attend to all system needs, independent departments for internal control and risk management by ensuring the availability of measurement, control and reporting systems on all elements of the operating risks.

The Bank is exposed to a number of other risks including organisation, regulatory and goodwill risks. The organisation risks are managed through policies and procedures. Regulatory risks are managed by employment of proficient in-house and external legal consultants. Goodwill risks are managed by continuous review of the matters that affect the standing of the Bank and issue of instructions and policies, when necessary.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.10 Capital Management

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

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue capital. No changes were made in the objectives, policies and processes from the previous year.

The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by Qatar Central Bank.

3.2.11 Capital adequacy

	<u>2008</u> <i>QR'000</i>	<u>2007</u> <i>QR'000</i>
Tier 1 capital	2,440,024	2,290,013
Tier 2 capital	42,410	42,369
Total capital	2,482,434	2,332,382
Total risk weighted assets	12,347,022	9,302,122
Tier 1 capital ratio	19.76%	24.62%
Total capital ratio	20.11%	25.07%

The bank started from 1/1/2006 to apply the requirements of Basel II for banking supervision regarding calculation of the capital adequacy.

Tier 1 capital includes issued capital, statutory reserve, other reserves and retained earnings including profit of the year.

Tier 2 capital includes risk reserve and the fair value reserves.

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

4 CASH AND BALANCES WITH QATAR CENTRAL BANK

	<u>2008</u> <i>QR'000</i>	<u>2007</u> <i>QR'000</i>
Cash	109,371	71,608
Cash reserve with Qatar Central Bank	423,655	235,139
Current account with Qatar Central Bank	66,953	124,736
	599,979	431,483

The cash reserve with Qatar Central Bank represents mandatory reserve not used in the daily operations of the Bank.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

5 BALANCES AND INVESTMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	<i>2008</i> <i>QR'000</i>	<i>2007</i> <i>QR'000</i>
Current accounts	102,807	42,740
Balances with Islamic banks	1,908,082	810,233
Metals and commodities Murabaha balances	<u>110,560</u>	<u>2,865,708</u>
	<u><u>2,121,449</u></u>	<u><u>3,718,681</u></u>

Metals and commodities Murabaha balances represent Murabaha transactions agreed upon through banks and secured by the commitments of the banks to pay the sum on the maturity date along with the associated profits.

6 RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES

	<i>2008</i> <i>QR'000</i>	<i>2007</i> <i>QR'000</i>
(a) By Type		
<u>Receivable balances from international financing activities</u>		
International Murabaha	105,768	-
International Ijarah	<u>72,815</u>	<u>54,623</u>
	178,583	54,623
<u>Receivables and balances from local financing activities</u>		
Murabaha and Musawama	5,532,672	4,053,620
Istesna	423,374	342,998
Mudaraba financing	624,258	42,416
Ijarah financing	2,174,262	486,995
Transactions in progress	157,822	99,855
Non-profit financing activities	<u>2,186</u>	<u>1,924</u>
Total receivables and balances from local financing activities	<u>8,914,574</u>	<u>5,027,808</u>
Total receivables balances	<u>9,093,157</u>	<u>5,082,431</u>
Deferred income	764,401	618,642
Special provision	67,737	67,744
Profit in suspense	<u>8,293</u>	<u>7,417</u>
	<u>840,431</u>	<u>693,803</u>
	<u><u>8,252,726</u></u>	<u><u>4,388,628</u></u>

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

6 RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (Continued)

(b) The composition of the gross receivables from financing activities is as follows:

At 31 December 2008	<i>Murabaha and Musawama QR'000</i>	<i>Istesna QR'000</i>	<i>Mudaraba QR'000</i>	<i>Ijarah QR'000</i>	<i>Others QR'000</i>	<i>Total 2008 QR'000</i>	%
By Sector							
Government	423,525	-	-	-	-	423,525	4.7%
Industry	20,953	-	-	-	-	20,953	0.2%
Trade	1,004,405	366,964	491,225	300,166	16,559	2,179,319	24%
Contracting	-	-	-	-	-	-	0.0%
Housing	1,487,838	-	133,033	1,946,911	-	3,567,782	39.2%
Consumer	1,494,380	-	-	-	-	1,494,380	16.4%
Other	1,207,339	56,410	-	-	143,449	1,407,198	15.5%
	<u>5,638,440</u>	<u>423,374</u>	<u>624,258</u>	<u>2,247,077</u>	<u>160,008</u>	<u>9,093,157</u>	<u>100%</u>

The receivable and balances from financing activities includes the gross figure before deducting the provisions of the impairment and the profit in suspense.

By geographic region	<i>Murabaha and Musawama QR'000</i>	<i>Istesna QR'000</i>	<i>Mudaraba QR'000</i>	<i>Ijarah QR'000</i>	<i>Others QR'000</i>	<i>Total 2008 QR'000</i>	%
Qatar	5,565,625	423,374	624,258	2,141,309	160,008	8,914,574	98.5%
Other GCC countries	32,197	-	-	105,768	-	137,965	1.5%
Other countries	40,618	-	-	-	-	40,618	0.0%
	<u>5,638,440</u>	<u>423,374</u>	<u>624,258</u>	<u>2,247,077</u>	<u>160,008</u>	<u>9,093,157</u>	<u>100%</u>

GCC countries comprise the members of the Gulf Co-Operation Council being Kingdom of Bahrain, State of Kuwait, Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

6 RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (Continued)

(b) The composition of the receivables from financing activities is as follows (continued):

<u>At 31 December 2007</u>	<i>Murabaha and Musawama QR'000</i>	<i>Istesna QR'000</i>	<i>Mudaraba QR'000</i>	<i>Ijarah QR'000</i>	<i>Others QR'000</i>	<i>Total 2007 QR'000</i>	%
By Sector							
Government	423,825	-	-	-	-	423,825	8.4
Industry	12,874	-	-	-	-	12,874	0.3
Trade	878,419	1,799	-	541,618	-	1,421,836	28.0
Contracting	-	-	42,416	-	-	42,416	0.8
Housing	910,047	331,322	-	-	-	1,241,369	24.4
Consumer	1,622,008	9,877	-	-	1,924	1,633,809	32.1
Other	306,302	-	-	-	-	306,302	6.0
	<u>4,153,475</u>	<u>342,998</u>	<u>42,416</u>	<u>541,618</u>	<u>1,924</u>	<u>5,082,431</u>	<u>100</u>
	<i>Murabaha and Musawama QR'000</i>	<i>Istesna QR'000</i>	<i>Mudaraba QR'000</i>	<i>Ijarah QR'000</i>	<i>Others QR'000</i>	<i>Total 2007 QR'000</i>	%
By geographic region							
Qatar	4,153,475	342,998	42,416	486,995	1,924	5,027,808	99
Other GCC countries	-	-	-	54,623	-	54,623	1
	<u>4,153,475</u>	<u>342,998</u>	<u>42,416</u>	<u>541,618</u>	<u>1,924</u>	<u>5,082,431</u>	<u>100</u>

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

6 RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (Continued)

(c) **The age analysis of non-performing financing activities**

	2008				2007			
	<i>3 months to 1 year QR'000</i>	<i>1 to 3 years QR'000</i>	<i>Over 3 years QR'000</i>	<i>Total QR'000</i>	<i>3 months to 1 year QR'000</i>	<i>1 to 3 years QR'000</i>	<i>Over 3 years QR'000</i>	<i>Total QR'000</i>
Gross receivable balances from financing activities	7,157	44,762	74,576	126,495	6,044	37,803	62,982	106,829
Provision for impairment of receivables	(4,742)	(21,676)	(41,320)	(67,738)	(4,742)	(21,678)	(41,324)	(67,744)
Profit in suspense	(415)	(1,410)	(6,468)	(8,293)	(371)	(1,261)	(5,785)	(7,417)
Total non-performing financing activities	<u>2,000</u>	<u>21,676</u>	<u>26,788</u>	<u>50,464</u>	<u>931</u>	<u>14,864</u>	<u>15,873</u>	<u>31,668</u>

Total non-performing financing activities balances as at the end of 2008 amounted to QR 126.5 million representing 1.5% of the total receivables and balances from financing activities (2007 : 106.8 million representing 2.4 % of the total receivables and balances from financing activities).

The fair value of collateral for the bank which relates to the balance of balances of receivable from financing activities which is considered as individually impaired as on December 31, 2008 for an amount of QR. 152,874 thousand (2007: QR. 239,654 thousand). Collateral contains cash deposits, shares, property and collateral letters.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

6 RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (Continued)

(d) The movement in provisions by the major sectors is as follows:

	2008				2007			
	<i>Retail</i> <i>QR'000</i>	<i>Corporate</i> <i>QR'000</i>	<i>Commercial</i> <i>finance</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>	<i>Retail</i> <i>QR'000</i>	<i>Corporate</i> <i>QR'000</i>	<i>Commercial</i> <i>finance</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>
At 1 January	67,457	4,072	3,632	75,161	67,412	4,072	3,513	74,997
Add/(less):								
Amounts written off during the year	(3)	-	(4)	(7)	(127)	-	-	(127)
Charge for the year	-	-	-	-	-	-	-	-
Recovering during the year	-	-	-	-	-	-	-	-
Suspense profit during the year	518	-	358	876	172	-	119	291
	<u>67,972</u>	<u>4,072</u>	<u>3,986</u>	<u>76,030</u>	<u>67,457</u>	<u>4,072</u>	<u>3,632</u>	<u>75,161</u>
Gross impaired receivables and balances from financing activities	89,306	4,877	32,311	126,494	92,583	6,641	7,605	106,829
Specific provision for receivables and balances and profit in suspense	<u>(67,972)</u>	<u>(4,072)</u>	<u>(3,986)</u>	<u>(76,030)</u>	<u>(67,457)</u>	<u>(4,072)</u>	<u>(3,632)</u>	<u>(75,161)</u>
Net impaired receivables and balances and financing activities	<u>21,334</u>	<u>805</u>	<u>28,325</u>	<u>50,464</u>	<u>25,126</u>	<u>2,569</u>	<u>3,973</u>	<u>31,668</u>

The provisions created by the Bank relate only to individually impaired receivables and balances, financing activities resulting in specific provision.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

6 RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (Continued)

(d) The movement in provisions by the major sectors is as follows: (continued)

	2008			2007		
	<i>Special QR'000</i>	<i>Profit in suspense QR'000</i>	<i>Total QR'000</i>	<i>Special QR'000</i>	<i>Profit in suspense QR'000</i>	<i>Total QR'000</i>
Balance at 1 January	67,744	7,417	75,161	67,871	7,126	74,997
Net additional provision during the year	-	876	876	-	1,596	1,596
New provision during the year	-	1,673	1,673	-	1,596	1,596
Recovered provisions during the year	-	(797)	(797)	-	-	-
Used provision during the year	(7)	-	(7)	(127)	(1,305)	(1,432)
Provision balance at the year end	67,737	8,293	76,030	67,744	7,417	75,161

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

7 FINANCIAL INVESTMENTS

Available for sale investments

	2008			2007		
	<i>Quoted QR'000</i>	<i>Unquoted QR'000</i>	<i>Total QR'000</i>	<i>Quoted QR'000</i>	<i>Unquoted QR'000</i>	<i>Total QR'000</i>
Shares	224,438	115,193	339,631	291,820	92,376	384,196
State of Qatar Sukouk	288,196	-	288,196	346,176	-	346,176
Other Sukouk	189,303	-	189,303	190,152	-	190,152
Mutual fund units	-	79,872	79,872	-	28,923	28,923
	<u>701,937</u>	<u>195,065</u>	<u>897,002</u>	<u>828,148</u>	<u>121,299</u>	<u>949,447</u>
Provisions for losses	-	(2,335)	(2,335)	-	(2,335)	(2,335)
	<u>701,937</u>	<u>192,730</u>	<u>894,667</u>	<u>828,148</u>	<u>118,964</u>	<u>947,112</u>

Available for sale shares include quoted restricted shares in five local companies with a fair market value of QR 24,419 thousand. These include shares in a company where the bank is a founder member of one of the companies and shares in four companies where the bank is represented by a Member of the Board of Directors (2007 : QR 17,008 thousands).

The Bank's investment in Sukuk are investments with variable return rates.

8 INVESTMENTS IN ASSOCIATES

	2008 <i>QR'000</i>	2007 <i>QR'000</i>
Balance at 1 January	157,690	135,777
Investments during the year	99,154	51,450
Disposals during the year	-	(36,415)
Net share of profit	20,370	6,878
Distributing received profit	<u>(11,400)</u>	<u>-</u>
	<u>265,814</u>	<u>157,690</u>

The Bank has the following investments in associates:

	<i>Country of incorporation</i>	<i>Ownership percentage</i>	2008 <i>QR'000</i>	2007 <i>QR'000</i>
Syria International Islamic Bank (a)	Syria	20%	80,915	75,025
Al Tashelat Islamic Company W.L.L. (b)	Qatar	49%	35,280	22,245
Al Moqawil Company W.L.L. (c)	Qatar	49%	1,470	1,470
Syria Islamic Insurance Company (d)	Syria	20%	15,854	-
Mackeen Investment and Real Estate Development Q.C.S.C. (e)	Qatar	49%	<u>132,295</u>	<u>58,950</u>
			<u>265,814</u>	<u>157,690</u>

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

8 INVESTMENTS IN ASSOCIATES (continued)

- (a) The main activity of the bank is to offer banking, financing and investing activities in accordance with the Islamic Shari'a Rules and Principles and regulation of Syria Central Bank.
- (b) The main activity of the Company is the purchase and sale of all manufactured and consumer goods, purchase and sale of equipment, machinery and vehicles, trade agencies, distribution, market research and survey and provision of financial and commercial advise.
- (c) The main activity of the Company is the construction of commercial and residential buildings, complexes and towers, import of building materials, carrying out of maintenance services to real estate, owning, selling and leasing of all kinds of movable assets and leasing and hiring of fixed assets. The Company did not start its activities yet.
- (d) The main activity of the company is to offer Islamic insurance products in accordance with the Islamic Shari'a Rules and Principles. The Company did not start its activities yet.
- (e) The main activity of the company purchase, and development and sell of real estate investments.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

	2008					
	Balance at January 1	Investment during the year	Disposals during the year	Profit from associate Company	Profit distributions	Balance at December 31
Syria International Islamic Bank	75,025	-	-	5,890	-	80,915
Al Tasheelat Islamic Company W.L.L.	22,245	9,800	-	5,391	2,156	35,280
Al Maqawil Company W.L.L.	1,470	-	-	-	-	1,470
Syria Islamic Insurance Company	-	15,854	-	-	-	15,854
Macken Investment and Real Estate Development Q.C.S.C.	58,950	73,500	-	9,089	9,244	132,295
	<u>157,690</u>	<u>99,154</u>	<u>-</u>	<u>20,370</u>	<u>11,400</u>	<u>265,814</u>
	2007					
Syria International Islamic Bank	114,707	-	(36,415)	(3,267)	-	75,025
Al Tasheelat Islamic Company W.L.L.	19,600	-	-	2,645	-	22,245
Al Maqawil Company W.L.L.	1,470	-	-	-	-	1,470
Syria Islamic Insurance Company	-	-	-	-	-	-
Macken Investment and Real Estate Development Q.C.S.C.	-	51,450	-	7,500	-	58,950
	<u>135,777</u>	<u>51,450</u>	<u>(36,415)</u>	<u>6,878</u>	<u>-</u>	<u>157,690</u>

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

9 INVESTMENT PROPERTIES FOR LEASING

	<i>Land</i> <i>QR'000</i>	<i>Buildings</i> <i>QR'000</i>	<i>Total</i> <i>2008</i> <i>QR'000</i>	<i>Total</i> <i>2007</i> <i>QR'000</i>
Cost:				
Balance as at January 1	8,977	18,293	27,270	27,270
Additions during the year	-	-	-	-
Disposals during the year	(3,364)	(9,468)	(12,832)	-
Balance as at 31 December	<u>5,613</u>	<u>8,825</u>	<u>14,438</u>	<u>27,270</u>
Accumulated depreciation:				
Balance as at 1 January	-	5,206	5,206	4,293
Depreciation for the year	-	676	676	913
Disposals during the year	-	(2,841)	(2,841)	-
Balance as at 31 December	<u>-</u>	<u>3,041</u>	<u>3,041</u>	<u>5,206</u>
Net book value as at 31 December	<u>5,613</u>	<u>5,784</u>	<u>11,397</u>	<u>22,064</u>

Fair value of investment properties for leasing purposes amounted QR. 69.9 million as at 31 December 2008 (2007: 48.7million).

10 INVESTMENT PROPERTIES FOR TRADING

	<u><i>2008</i></u> <u><i>QR'000</i></u>	<u><i>2007</i></u> <u><i>QR'000</i></u>
Balance as at 1 July	120,145	30,365
Additions during the year	390,782	101,587
Transfer to fixed assets	(196,675)	-
Disposals during the year	(89,226)	(11,807)
Net movement of revaluation	35,389	-
	<u>260,415</u>	<u>120,145</u>

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

11 PROPERTY AND EQUIPMENT

<u>As at 31 December 2008</u>	<i>Land QR'000</i>	<i>Buildings QR'000</i>	<i>Leasehold improvements QR'000</i>	<i>Computer hardware and software QR'000</i>	<i>Furniture, fixture and office equipment QR'000</i>	<i>Vehicles QR'000</i>	<i>Total QR'000</i>
Cost:							
Balance as at 1 January	4,985	25,205	13,196	36,996	10,669	1,304	92,355
Additions during the year	-	-	5,488	4,892	1,099	499	11,978
Transfer from Investment Properties*	196,675	-	-	-	-	-	196,675
Disposals during the year				(96)	(148)	(331)	(575)
Balance as at 31 December	<u>201,660</u>	<u>25,205</u>	<u>18,684</u>	<u>41,792</u>	<u>11,620</u>	<u>1,472</u>	<u>300,433</u>
Accumulated depreciation:							
Balance as at 1 January	-	7,518	9,754	31,799	8,002	892	57,965
Depreciation for the year	-	1,261	2,130	2,974	1,175	241	7,781
Disposals				(11)	(141)	(331)	(483)
Balance as at 31 December		<u>8,779</u>	<u>11,884</u>	<u>34,762</u>	<u>9,036</u>	<u>802</u>	<u>65,263</u>
Net book values:							
At 31 December 2007	<u>201,660</u>	<u>16,426</u>	<u>6,800</u>	<u>7,030</u>	<u>2,584</u>	<u>670</u>	<u>235,170</u>

* The Board of Directors of the bank has decided to transfer some pieces of the investment properties to property and equipment in the intention of forming new branches to the bank.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

11 PROPERTY AND EQUIPMENT (continued)

<u>At 31 December 2007</u>	<i>Land QR'000</i>	<i>Buildings QR'000</i>	<i>Leasehold improvements QR'000</i>	<i>Computer hardware and software QR'000</i>	<i>Furniture, fixture and office equipment QR'000</i>	<i>Vehicles QR'000</i>	<i>Total QR'000</i>
Cost:							
Balance as at 1 January	4,985	25,205	12,659	32,688	9,635	1,244	86,416
Additions during the year	-	-	547	4,717	1,053	60	6,377
Disposals during the year	-	-	(10)	(409)	(19)	-	(438)
Balance as at 31 December	<u>4,985</u>	<u>25,205</u>	<u>13,196</u>	<u>36,996</u>	<u>10,669</u>	<u>1,304</u>	<u>92,355</u>
Accumulated depreciation:							
Balance as at 1 January	-	6,486	8,370	29,912	6,669	722	52,159
Depreciation for the year	-	1,032	1,394	2,243	1,352	170	6,191
Disposals	-	-	(10)	(356)	(19)	-	(385)
Balance as at 31 December	<u>-</u>	<u>7,518</u>	<u>9,754</u>	<u>31,799</u>	<u>8,002</u>	<u>892</u>	<u>57,965</u>
Net book values:							
At 31 December 2007	<u>4,985</u>	<u>17,687</u>	<u>3,442</u>	<u>5,197</u>	<u>2,667</u>	<u>412</u>	<u>34,390</u>

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)**NOTES TO THE FINANCIAL STATEMENT**Year ended 31 December 2008

12 OTHER ASSETS

	<i>2008</i> <i>QR'000</i>	<i>2007</i> <i>QR'000</i>
Clearing and local ATMs	16,975	24,608
Accrued revenues	73,368	61,292
Prepaid expenses	22,716	13,489
Cheques under collection	47,612	-
Furniture allowance	2,013	2,103
Prepayment and others	38,163	29,524
	<u>200,847</u>	<u>131,016</u>

13 OTHER LIABILITIES

	<i>2008</i> <i>QR'000</i>	<i>2007</i> <i>QR'000</i>
Cash insurance	765,526	224,215
Accrued expenses	24,533	16,025
Clearing account	52,157	26,548
Accepted cheques and remittances	26,561	22,773
Other provisions (Notes 14)	3,949	4,109
Dividends payable	612	606
Provision for end of service benefit (Note 14)	13,581	10,087
Other creditors and others	11,014	18,071
	<u>897,933</u>	<u>322,434</u>

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

14 PROVISION FOR END OF SERVICE BENEFITS AND OTHER PROVISIONS

	<i>2008</i>		
	<i>End of service benefit QR'000</i>	<i>Other provisions QR'000</i>	<i>Total QR'000</i>
<u>Year ended 31 December 2008</u>			
Balance at 1 January	10,087	4,109	14,196
Provided during the year	4,104	-	4,104
	<u>14,191</u>	<u>4,109</u>	<u>18,300</u>
Paid/written off during the year	<u>(610)</u>	<u>(160)</u>	<u>(770)</u>
Balance at 31 December	<u><u>13,581</u></u>	<u><u>3,949</u></u>	<u><u>17,530</u></u>
	<i>2007</i>		
	<i>End of service benefit QR'000</i>	<i>Other provisions QR'000</i>	<i>Total QR'000</i>
<u>Year ended 31 December 2007</u>			
Balance at 1 January	11,021	4,154	15,175
Provided during the year	1,887	-	1,887
	<u>12,908</u>	<u>4,154</u>	<u>17,062</u>
Paid/written off during the year	<u>(2,821)</u>	<u>(45)</u>	<u>(2,866)</u>
Balance at 31 December	<u><u>10,087</u></u>	<u><u>4,109</u></u>	<u><u>14,196</u></u>

15 UNRESTRICTED INVESTMENT ACCOUNTS

	<i>2008 QR'000</i>	<i>2007 QR'000</i>
(a) By type		
Saving accounts	2,503,814	2,257,327
Time accounts	4,258,673	2,783,858
Share in the fair value reserve	(32,041)	48,979
Share in the risk reserve (Note 16)	-	36,860
Share in the profit *	<u>81,834</u>	<u>57,527</u>
	<u><u>6,812,280</u></u>	<u><u>5,184,551</u></u>

Unrestricted investment accounts include QR 205 million withheld as retentions against financing activities (2007 : QR 39.2 million).

* Includes an amount of QR. 6,592 thousand which represents share of owners of unrestricted investment from undistributed profit of associate companies.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

15 UNRESTRICTED INVESTMENT ACCOUNTS (continued)

	<i>2008</i> <i>QR'000</i>	<i>2007</i> <i>QR'000</i>
(b) By sector		
Government and Government institutions	607,661	303,326
Individuals	4,595,711	3,529,214
Corporate	1,233,455	1,198,645
Financial institutions	325,660	10,000
Share in the fair value reserve	(32,041)	48,979
Share in the risk reserve (Note 16)	-	36,860
Share in the profit	81,634	57,527
	<u>6,812,280</u>	<u>5,184,551</u>

16 EQUITY

Authorised, issued and paid up capital

Authorised, issued and fully paid capital of QR 1,261,406 thousands comprising 126.1 million shares of nominal value of QR 10 each (2007: QR 700,782 thousands comprising 70.1 million shares of QR 10 each).

The Board of Directors, in its meeting held on 19 January 2009, have proposed to pay cash dividends by 40% of paid capital.

At 23 November 2008, the extraordinary general assembly has approved the board of director recommendation for special issuance by 20% of the bank share capital to Qatar Investment Authority using day 12 Oct.2008 closing price (QR 73.5 per share).

Legal reserve

Furthermore, Qatar Central Bank's Law No. 33 of 2006 requires to transfer 10% of the net profit for the year to the legal reserve until the legal reserve equals 100% of the paid up share capital. This reserve is not available for distribution except in the manner specified in the Qatar Commercial Companies' Law No. 5 of 2002 and subject to the approval of Qatar Central Bank.

General reserve

The general reserve was made in accordance with the Bank's Articles of Association and shall be transferred to retained earnings in order to be employed according to a resolution of the General Assembly as recommended by the Board of Directors, subject to the approval of Qatar Central Bank, a cash dividend of 40% of paid capital of 2008 for the shareholders.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

16 EQUITY (continued)

Fair value reserve

	<i>Total 2008 QR'000</i>	<i>Total 2007 QR'000</i>
<u>Available-for-sale investments</u>		
Balance at 1 January	45,211	23,646
Revaluation for the year	(303,321)	51,631
Charged to income statement	107,183	(13,740)
Net change during the year	(196,138)	37,891
Share of holders of unrestricted investment deposits accounts	99,953	(16,326)
As at 31 December (shareholder's share)	<u>(50,974)</u>	<u>45,211</u>

Investments Properties

Balance at 1 January	-	-
Revaluation for the year	37,866	-
Charged to income statement	-	-
Net change during the year	37,866	-
Share of holders of unrestricted investment deposits accounts	(18,933)	-
As at 31 December (shareholder's share)	<u>18,933</u>	<u>-</u>
Balance at 31 December (shareholders' share)	<u>(32,041)</u>	<u>45,211</u>

Fair value reserve represents unearned profits, being not available for distribution unless realised and charged to the income statement.

Risk reserve

In accordance with Qatar Central Bank regulations, risk reserve has been created to cover contingencies on the private sector financing activities, with a minimum requirement of 1.50% of the total private sector exposure granted by the Bank and its branches inside and outside Qatar after the exclusion of the specific provisions and profit in suspense. The finance provided to/or secured by the Government or finance against cash guarantees is excluded as well. In accordance with Qatar Central Bank new regulation which adopted during 2008, the risk reserve has to deducted only from Shareholder's share of profit ,then included totally in Owner's equity

17 INCOME FROM FINANCING ACTIVITIES

	<i>2008 QR'000</i>	<i>2007 QR'000</i>
Murabaha and Musawama transactions	382,191	330,851
Istesna	40,289	27,759
Mudaraba	10,737	5,354
Ijarah Muntahia Bittamleek	92,870	33,919
Musharakat	3,221	-
	<u>529,308</u>	<u>397,883</u>

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

18 INCOME FROM INVESTING ACTIVITIES	<i>2008</i> <i>QR'000</i>	<i>2007</i> <i>QR'000</i>
<u>(a) Income from investments with banks and financial institutions:</u>		
Income from investment deposits with banks and financial institutions	45,575	32,655
Income from Murabaha in metals and commodities	<u>58,192</u>	<u>155,953</u>
	<u>103,767</u>	<u>188,608</u>
<u>(b) Investment revenues:</u>		
Available for sale investments	57,498	38,079
Investment properties for leasing	5,271	7,004
Investment in associates	<u>20,370</u>	<u>6,878</u>
	<u>83,139</u>	<u>51,961</u>
<u>(c) Gain on sale of investments:</u>		
Available for sale investments	67,392	84,649
Investment in properties for trading	99,253	4,724
Investment in associates	<u>-</u>	<u>5,462</u>
	<u>166,645</u>	<u>94,835</u>
	<u>353,551</u>	<u>335,404</u>
 19 NET COMMISSION AND FEE INCOME		
	<i>2008</i> <i>QR'000</i>	<i>2007</i> <i>QR'000</i>
<u>Commission and fees income</u>		
Commission on local financing	38,964	30,110
Commission on L/C's and guarantees	8,499	8,871
Bank charges	32,819	25,017
Bank's share of restricted investment profits	<u>87</u>	<u>78</u>
	<u>80,369</u>	<u>64,076</u>
Commission and fees expenses	<u>(5,060)</u>	<u>(4,292)</u>
	<u>75,309</u>	<u>59,784</u>
 20 (LOSSES) / GAIN FROM FOREIGN EXCHANGE OPERATIONS		
	<i>2008</i> <i>QR'000</i>	<i>2007</i> <i>QR'000</i>
Exchange transactions gain	5,025	5,131
(Loss) Gain on revaluation of monetary assets and liabilities	<u>(30,442)</u>	<u>7,770</u>
	<u>(25,417)</u>	<u>12,901</u>

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)**NOTES TO THE FINANCIAL STATEMENT**

Year ended 31 December 2008

21 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2008</i> <i>QR'000</i>	<i>2007</i> <i>QR'000</i>
Salaries, allowances and other benefits	71,554	55,749
Advertising and promotion	8,175	5,419
Rents	5,437	2,467
Telephone, telex and post	4,580	3,817
Fees and subscriptions	2,260	2,315
Computer and ATMs expense	3,775	2,601
End of service benefits	4,104	1,887
Managing Director's and Shari'a Committee remuneration	4,754	2,145
Business travelling expenses	1,873	2,047
Maintenance and cleaning expense	1,750	1,418
Credit cards expense	3,984	2,020
Insurance	1,083	947
Stationery and printing	1,264	796
Professional fees	1,543	892
Donations	314	302
Water and electricity	916	659
Security services expenses	487	539
Bank contribution to the pension fund	725	527
Hospitality expense	1,070	798
Training courses	1,009	224
Investment expenses	97	435
Board of Directors' remuneration	6,445	3,600
Miscellaneous expense	2,068	2,486
	<u>129,267</u>	<u>94,090</u>

22 SHARE OF HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS IN THE NET PROFIT

	<i>2008</i> <i>QR'000</i>	<i>2007</i> <i>QR'000</i>
Share of in the net profit before Bank's Mudaraba income	342,369	343,846
Bank's Mudaraba income	<u>(151,447)</u>	<u>(156,406)</u>
Share after Bank's Mudaraba income	<u>190,922</u>	<u>187,440</u>
Support provided by the Bank	<u>13,516</u>	<u>5,971</u>
Final share after contribution (Note a)	<u>204,438</u>	<u>193,411</u>

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

22 SHARE OF HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS IN THE NET PROFIT (continued)

(a) The balance represents the following:

	<i>2008</i> <i>QR'000</i>	<i>2007</i> <i>QR'000</i>
Share of holders of unrestricted investment accounts in the net profit after the support	204,438	193,411
Reversal of risk reserve for share of holders of unrestricted investment	<u>36,860</u>	<u>-</u>
	<u><u>241,298</u></u>	<u><u>193,411</u></u>
Rates of profit allotment:	<i>2008</i> <i>%</i>	<i>2007</i> <i>%</i>
24 months deposits	6.75	-
18 months deposits	6.0	6.0
One year deposits	5.8	5.0
Six months deposits	4.75	4.1
3 month deposits	4.0	4.0
One month deposits	3.5	3.6
Saving accounts	2.5	3.0

23 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year. During the current year, the Bank issued bonus shares. Accordingly, the previously reported earnings per share have been restated for the bonus share issue made during the year.

	<i>2008</i>	<i>2007</i>
Net profit for the year due to shareholders (QR'000)	<u>501,158</u>	<u>479,995</u>
Weighted average number of shares outstanding during the year (thousands) (i)	<u>126,141</u>	<u>125,897</u>
Basic and diluted earnings per share (QR)	<u><u>3.97</u></u>	<u><u>3.81</u></u>

(i) The weighted average number of shares has been calculated as follows:

	<i>2008</i> <i>Nos.'000</i>	<i>2007</i> <i>Nos.'000</i>
Qualifying shares at beginning of the year	70,078	40,625
Effect of new shares issued	-	5,850
Effect of bonus shares issued	<u>56,063</u>	<u>79,422</u>
Weighted average number of shares at end of the year	<u><u>126,141</u></u>	<u><u>125,897</u></u>

(ii) There were no potentially dilutive shares outstanding at any time during the year, therefore, the dilutive earning per share are equal to the basic earning per share.

If the effect of bonus shares issued during the year was not considered on the earnings per share for the previous year, then basic earning per share for the year ended 31 December 2007 would be QR 6.87 per share.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

24 OFF BALANCE SHEET ITEMS

	<i>2008</i> <i>QR'000</i>	<i>2007</i> <i>QR'000</i>
(a) Deferred or contingent commitments		
Acceptances	20,497	22,408
Letters of guarantees	504,751	394,289
Documentary credits	134,292	76,390
Collection notes	<u>17,627</u>	<u>11,708</u>
	<u>677,167</u>	<u>504,795</u>
(b) Other contracts and commitments		
Commitments and unused credit limits	756,986	181,085
Restricted investments balances (Note (a) and Note 28)	2,327	57,139
Istesna commitments	<u>-</u>	<u>220,002</u>
	<u>759,313</u>	<u>458,226</u>
TOTAL	<u>1,436,480</u>	<u>963,021</u>

Notes:

- (a) Restricted investment balances represent the funds invested by the Bank on behalf of customers as a trustee. Accordingly, these funds and associated results are not reflected in the balance sheet and income statement.

Legal claims

Certain customers of the Bank have raised legal actions against the Bank claiming amounts totalling QR 4,226 thousand (2007: 2,361 thousand). Furthermore, the Bank has raised legal action against some of those customers as of 31 December 2008. In the opinion of the Board of Directors, the Bank will hold losses because of the legal claim amounted QR.10,000.

Letter of guarantees

The Bank commits to make payments on behalf of customers upon their failure to perform under the terms of the contract. Guarantees and letter of credits carry the same financing risk as receivables and balances from financing activities.

25 CASH AND CASH EQUIVALENTS

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

	<i>2008</i> <i>QR'000</i>	<i>2007</i> <i>QR'000</i>
Cash and balances with Qatar Central Bank excluding Cash reserve	176,324	196,344
Cash with banks and other financial institutions	<u>2,121,449</u>	<u>3,718,681</u>
	<u>2,297,773</u>	<u>3,915,025</u>

The cash reserve with Qatar Central Bank has been excluded as it is not used in the day-to-day operations of the Bank.

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

26 GEOGRAPHICAL SEGMENTATION

	<i>Qatar</i> <i>QR'000</i>	<i>GCC</i> <i>States</i> <i>QR'000</i>	<i>Europe</i> <i>QR'000</i>	<i>North</i> <i>America</i> <i>QR'000</i>	<i>Other</i> <i>Countries</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>
<u>As at 31 December 2008</u>						
Cash and balances with Qatar Central Bank	599,979	-	-	-	-	599,979
Cash at banks and financial institutions	1,883,055	151,081	59,400	27,605	308	2,121,449
Receivables and balances from financing activities	8,114,761	137,965	-	-	-	8,252,726
Financial investments	650,836	186,458	17,736	5,463	34,174	894,667
Investment in associates	163,090	-	-	-	102,724	265,814
Investment properties for leasing	11,397	-	-	-	-	11,397
Investment properties for trading	-	260,415	-	-	-	260,415
Property and equipment	235,170	-	-	-	-	235,170
Other assets	200,847	-	-	-	-	200,847
TOTAL ASSETS	<u>11,859,135</u>	<u>735,919</u>	<u>77,136</u>	<u>33,068</u>	<u>137,206</u>	<u>12,842,464</u>
Customers' and banks' current accounts and financial institution balances	2,326,872	15	-	-	25,074	2,351,961
Other liabilities	897,933	-	-	-	-	897,933
Holders of unrestricted investment accounts	6,812,281	-	-	-	-	6,812,281
Shareholders' equity	2,780,289	-	-	-	-	2,780,289
TOTAL LIABILITIES , HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY	<u>12,817,375</u>	<u>15</u>	<u>-</u>	<u>-</u>	<u>25,074</u>	<u>12,842,464</u>

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

26 GEOGRAPHICAL SEGMENTATION (Continued)

	<i>Qatar</i> <i>QR'000</i>	<i>GCC</i> <i>States</i> <i>QR'000</i>	<i>Europe</i> <i>QR'000</i>	<i>North</i> <i>America</i> <i>QR'000</i>	<i>Other</i> <i>Countries</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>
<u>As at 31 December 2007</u>						
Cash and balances with Qatar Central Bank	431,483	-	-	-	-	431,483
Cash at banks and financial institutions	345,945	3,260,372	33,657	6,256	72,451	3,718,681
Receivables and balances from financing activities	4,334,005	54,623	-	-	-	4,388,628
Financial investments	397,042	79,344	441,017	3,641	26,068	947,112
Investment in associates	82,665	-	-	-	75,025	157,690
Investment properties for leasing	22,064	-	-	-	-	22,064
Investment properties for trading	120,145	-	-	-	-	120,145
Property and equipment	34,390	-	-	-	-	34,390
Other assets	131,016	-	-	-	-	131,016
TOTAL ASSETS	<u>5,898,755</u>	<u>3,394,339</u>	<u>474,674</u>	<u>9,897</u>	<u>173,544</u>	<u>9,951,209</u>
Customers' and banks' current accounts	2,087,840	-	-	-	-	2,087,840
Other liabilities	322,434	-	-	-	-	322,434
Holders of unrestricted investment accounts	5,184,551	-	-	-	-	5,184,551
Shareholders' equity	2,356,384	-	-	-	-	2,356,384
TOTAL LIABILITIES , HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY	<u>9,951,209</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,951,209</u>

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2008

27 RELATED PARTY TRANSACTIONS

These include various transactions with shareholders, Board Members and Executive Management and with key personnel or with the companies where they hold significant interests or any other parties having significant influence on the financial or operational decisions of the Bank. Receivables and financing activities to related parties were granted at market rates and as of the balance sheet date no provisions were made against these balances:

	2008		2007	
	<i>Board of directors QR'000</i>	<i>Others QR'000</i>	<i>Board of directors QR'000</i>	<i>Others QR'000</i>
Balance sheet items				
Assets				
Murabaha	78,009	-	18,396	-
Musawama	68,162	508	41,533	874
Istesna	15,956	-	1,976	-
Ijarah	30,927	-	-	-
	193,054	508	61,905	874
Liabilities				
Current account balances	42,747	557	7,375	826
Unrestricted investment deposits	214,218	11,053	16,783	13,708
	256,965	11,610	24,158	14,534
Off balance sheet items:				
Letter of credits, letter of guarantees and acceptances	30,396	108	2,264	2,103
	30,396	108	2,264	2,103
Income statement items				
Fees and commission income	15,444	43	4,952	70
	15,444	43	4,952	70

QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)

NOTES TO THE FINANCIAL STATEMENT

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27 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

	<i>2008</i> <i>QR'000</i>	<i>2007</i> <i>QR'000</i>
Salaries and other allowances	18,070	14,199
End of service benefit	594	477
	<u>18,664</u>	<u>14,676</u>

28 RESTRICTED INVESTMENT BALANCES

	<i>2008</i>			<i>2007</i>		
	<i>Balance</i> <i>QR'000</i>	<i>Average</i> <i>distributed</i> <i>profit</i>	<i>Bank's</i> <i>share</i> <i>QR'000</i>	<i>Balance</i> <i>QR'000</i>	<i>Average</i> <i>distributed</i> <i>profit</i>	<i>Bank's</i> <i>share</i> <i>QR'000</i>
Metals and commodities	2,327	317%	1,315	57,139	4.93%	823