

**QATAR INTERNATIONAL ISLAMIC BANK (Q.S.C.)
DOHA - QATAR**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the year ended December 31, 2011

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INDEPENDENT AUDITOR'S REPORT

**To the Shareholders
Qatar International Islamic Bank (Q.S.C.)
Doha – Qatar**

Report on the Financial Statements

We have audited the accompanying financial statements of Qatar International Islamic Bank (Q.S.C) (the “Bank”) which comprise the statement of financial position as at December 31, 2011 and the statements of income, changes in shareholders’ equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions “AAOIFI” , Islamic Shari'a Rules and Principles and Qatar Central Bank regulations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 Bank’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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.

INDEPENDENT AUDITOR'S REPORT (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 December 31, 2011 and of 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 Qatar Central Bank regulations.

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 contraventions by the Bank of its Articles of Association, the Qatar Commercial Companies Law No. 5 of 2002, Qatar Central Bank regulations and Qatar Central Bank Law No.33 of 2006, during the financial year, that would materially affect its activities or its financial position.

For Deloitte & Touche

**January 22, 2012
Doha – Qatar**

**Muhammad Bahemia
License No. 103**

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

STATEMENT OF FINANCIAL POSITION

As at December 31, 2011

	<i>Notes</i>	2011 QR'000	2010 QR'000
ASSETS			
Cash and balances with Qatar Central Bank	4	934,530	954,630
Balances and investments with banks and other financial institutions	5	5,734,175	5,148,012
Receivables and balances from financing activities	6	10,588,963	9,177,747
Financial investments	7	4,259,060	1,694,264
Investment in associates	8	365,231	227,864
Investment properties held for leasing	9	236,279	74,764
Investment properties held for trading	10	639,636	444,123
Property and equipment	11	185,531	216,147
Other assets	12	414,221	241,390
TOTAL ASSETS		23,357,626	18,178,941
LIABILITIES, HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current accounts from banks and financial institutions		15,997	100,110
Customers' current accounts		3,952,019	2,836,131
Other liabilities	13	357,592	227,651
TOTAL LIABILITIES		4,325,608	3,163,892
HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS	15	14,138,758	11,197,751
SHAREHOLDERS' EQUITY			
Share capital	16	1,513,687	1,387,546
Legal reserve	16	2,452,360	1,651,369
Fair value reserve	16	107,309	66,074
Risk reserve	16	167,869	152,869
Foreign currency translation reserve		(10,651)	(1,866)
Other reserves	16	32,896	40,800
Proposed cash dividends	16	529,790	520,330
Retained earnings		100,000	176
TOTAL SHAREHOLDERS' EQUITY		4,893,260	3,817,298
TOTAL LIABILITIES, HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS AND SHAREHOLDERS' EQUITY		23,357,626	18,178,941

These financial statements were approved by the Board of Directors on 22 January, 2012 and signed on its behalf by the following:

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

.....
Abdul Basit Ahmad Abdul Rahman Al Shibi
Chief Executive Officer

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

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

STATEMENT OF INCOME

For the year ended December 31, 2011

	<i>Notes</i>	<i>2011</i> <i>QR'000</i>	<i>2010</i> <i>QR'000</i>
Income from financing activities	17	851,081	855,020
Income from Investing activities	18	205,440	127,638
Total income from financing and investing activities		1,056,521	982,658
Commission and fees income		76,966	99,756
Commission and fees expense		(6,859)	(6,208)
Net commission and fees income	19	70,107	93,548
Gain from foreign exchange operations	20	7,293	9,175
NET OPERATING INCOME		1,133,921	1,085,381
General and administrative expenses	21	(181,945)	(153,513)
Depreciation and amortisation	9,11	(12,986)	(11,690)
Impairment of financial investments		(1,821)	(41,045)
Impairment of receivables and financing activities	6	(19,343)	(16,064)
Other income	22	-	25,228
NET PROFIT FOR THE YEAR BEFORE SHARE OF HOLDERS OF UNRESTRICTED INVESTMENTS' ACCOUNTS		917,826	888,297
Less: Share of holders of unrestricted investment accounts in net profit	23	(264,790)	(329,470)
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS		653,036	558,827
BASIC/DILUTED EARNINGS PER SHARE (QR)	24	4.38	4.03

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2011

	<i>Note</i>	<i>Share capital QR'000</i>	<i>Legal reserve QR'000</i>	<i>Fair value reserve QR'000</i>	<i>Risk reserve QR'000</i>	<i>Foreign currency translation reserve QR'000</i>	<i>Other reserves QR'000</i>	<i>Proposed cash dividends QR'000</i>	<i>Retained earnings QR'000</i>	<i>Total QR'000</i>
Balance at January 1, 2011		1,387,546	1,651,369	66,074	152,869	(1,866)	40,800	520,330	176	3,817,298
Dividends paid		-	-	-	-	-	-	(520,330)	-	(520,330)
Increase in share capital	16	126,141	800,991	-	-	-	-	-	-	927,132
Profit for the year		-	-	-	-	-	-	-	653,036	653,036
Net fair value movements		-	-	41,235	-	-	-	-	-	41,235
Transfer to risk reserve		-	-	-	15,000	-	-	-	(15,000)	-
Translation differences		-	-	-	-	(8,785)	-	-	-	(8,785)
Net movement in other reserve	16	-	-	-	-	-	(7,904)	-	7,904	-
Contribution to social and sport activities support for the year		-	-	-	-	-	-	-	(16,326)	(16,326)
Proposed dividends for 2011		-	-	-	-	-	-	529,790	(529,790)	-
Balance at December 31, 2011		<u>1,513,687</u>	<u>2,452,360</u>	<u>107,309</u>	<u>167,869</u>	<u>(10,651)</u>	<u>32,896</u>	<u>529,790</u>	<u>100,000</u>	<u>4,893,260</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2011

	<i>Share capital</i>	<i>Legal reserve</i>	<i>Fair value reserve</i>	<i>Risk reserve</i>	<i>Foreign currency translation reserve</i>	<i>Other reserves</i>	<i>Proposed cash dividends</i>	<i>Retained earnings</i>	<i>Total</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>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>
Balance at January 1, 2010	1,387,546	1,651,369	54,772	126,869	(1,790)	20,787	529,791	30,005	3,799,349
Dividends paid	--	--	--	--	--	--	(529,791)	--	(529,791)
Social and sport activities support paid	--	--	--	--	--	--	--	(8,342)	(8,342)
Profit for the year	--	--	--	--	--	--	--	558,827	558,827
Translation difference	--	--	--	--	(76)	--	--	--	(76)
Net fair value movements	--	--	11,302	--	--	--	--	--	11,302
Transfer to risk reserve	--	--	--	26,000	--	--	--	(26,000)	--
Transfers to other reserves	--	--	--	--	--	20,013	--	(20,013)	--
Contribution to social and sport activities support for the year	--	--	--	--	--	--	--	(13,971)	(13,971)
Proposed dividends for 2010	--	--	--	--	--	--	520,330	(520,330)	--
Balance at December 31, 2010	<u>1,387,546</u>	<u>1,651,369</u>	<u>66,074</u>	<u>152,869</u>	<u>(1,866)</u>	<u>40,800</u>	<u>520,330</u>	<u>176</u>	<u>3,817,298</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS

For the year ended December 31, 2011

	<i>Note</i>	<i>2011</i>	<i>2010</i>
		<i>QR'000</i>	<i>QR'000</i>
CASH FROM OPERATING ACTIVITIES			
Profit for the year		653,036	558,827
<u>Adjustments for:</u>			
Depreciation and amortisation		12,986	11,688
Provision for impairment of receivables and financing activities		19,343	16,064
Loss from impairment of financial investments		1,821	41,045
Gain on revaluation of investment properties held for trading		-	(2,479)
Share of associates companies loss / (profit)		43	(24,538)
Gain on sale investment property held for trading		-	(4,786)
Loss on sale of financial investments		4,189	1,890
<u>Operating profit before changes in operating assets and liabilities</u>		691,418	597,711
Cash reserve with Qatar Central Bank		(156,537)	(170,904)
Receivables and balances from financing activities		(1,411,216)	(123,800)
Other assets		(134,726)	(289)
Current accounts from banks and financial institutions		(84,113)	78,020
Customers' current accounts		1,115,887	384,402
Other liabilities		126,309	199,487
Net cash flows from operating activities		147,022	964,627
CASH FROM INVESTING ACTIVITIES			
Purchase of financial investments		(3,199,577)	(1,479,089)
Proceeds from repayment and sale of financial investments		626,111	391,863
Purchase of investment properties		(278,524)	(46,436)
Proceeds from sale of investment properties		-	7,000
Dividends received from investment in associates		7,861	4,525
Purchase of property and equipment		(4,308)	(7,391)
Proceeds from sale of property and equipment		-	661
Purchase of investments in associates		(167,164)	(9,800)
Proceeds from sale of investment in associate		-	10,500
Net cash used in investing activities		(3,015,601)	(1,128,167)
CASH FROM FINANCING ACTIVITIES			
Net increase in holders of unrestricted investment accounts		2,871,304	2,082,189
Proceeds from issuance of shares		927,132	--
Dividends paid		(520,330)	(529,791)
Net cash from financing activities		3,278,106	1,552,398
Net increase in cash and cash equivalents during the year		409,527	1,388,858
Balance of cash and cash equivalents at January 1,		5,480,672	4,091,814
Balance of cash and cash equivalents at December 31,	26	5,890,199	5,480,672

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

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 (15) local branches. The Bank is listed and its shares are traded on the Qatar Exchange.

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 January 22, 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

New and amended accounting standard and framework

During 2010, the Accounting and Auditing Organization of Islamic Financial Institution (“AAOIFI”) amended its conceptual framework and issued a new Financial Accounting Standard, (“FAS 25”) “*Investment in sukuk, shares and similar instruments*”, which are both effective as of 1 January 2011.

Statement of financial accounting no.1: conceptual framework for the financial reporting by Islamic financial institutions

The amended conceptual frame work provides the basis for the financial accounting standards issued by AAOIFI. The amended framework introduces the concept of substance and or form compared to the concept of form over substance. The framework states that it is necessary that information, transaction and other events are accounted for and presented in accordance with their substance and economic reality as well as the legal form. The adoption of this standard did not have any impact on the accounting policies, financial position or performance of the bank.

(“FAS 25”) “Investment in sukuk, shares and similar instruments”

The Bank has adopted FAS 25 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investments made by the Islamic Financial Institutions in sukuk, shares and similar investments that exhibit characteristics of debt and equity instruments. The adoption of this standard has impacted the classification of financial investments as disclosed in Note (7) and the Bank’s accounting policies as disclosed in Note (2).

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

Basis of preparation

The financial statements have been prepared under the historical cost basis, except for the equity type investments through equity and debt type instruments through statement of income and investment properties held for trading that are measured at fair value.

The financial statements of the Bank have been prepared in accordance with (FAS) issued by (AAOIFI), International Financial Reporting Standards where no (AAOIFI) standards and guidance exist and relevant laws and instructions issued by the Qatar Central Bank and the Articles of the Qatar Commercial Companies Law.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Transactions

These financial statements are stated in Qatari Riyal which is the functional and presentation currency of the Bank. 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.

Investments in Associated Companies are translated into Qatari Riyals at the rates ruling at the reporting date. The statement of income is translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to the translation reserve within shareholders' equity.

Revenue recognition

- Income on financing contracts of Murabaha, Musawama and Istesna are recognised following the 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 following the 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 are recognised when the right to receive the income is established.
- Other investment 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.
- Profit is allocated proportionately between unrestricted investment account holders and the shareholders on the basis of the average balances outstanding during the year, after deduction of the bank Mudaraba share.

Financial Investments

Debt- type instruments

Those are investments the terms of which provide fixed or determinable payments of profit and capital to the holder of the instrument.

Investments in debt- type instruments are classified under the following categories:

Investments at fair value through statement of Income

An investment is classified as "Investment at fair value through Statement of Income" if acquired or originated principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short term profit taking are also classified within this category.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Investments (Continued)

Investments at fair value through statement of income are initially recognised at the date of acquisition at Fair Value. The related transaction costs are charged directly to statement of income when incurred. Subsequently, at end of each reporting period, these investments are re-measured at fair value and any resulting gain or loss are recognized in the statement of income at that date accordingly.

Investments carried at amortised cost

An investment is classified and measured at amortized cost if the following conditions are met:

1. The instrument is managed on a contractual yield basis;
2. The instrument is not held for trading and has not been designated at “fair value through income statement”.

Investments carried at amortized cost are initially recognized at the date of acquisition at Fair Value plus all related transaction costs. Subsequently, at end of each reporting period the investment is re-measured using the effective profit rate method. All gains or losses arising from the amortisation process and those arising on de-recognition are recognized directly in the statement of income.

Equity type instruments

Those are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the asset of an entity after deducting all its liabilities

Investments in Equity-type instruments are classified under the following categories:

Investments at fair value through statement of Income

An investment is classified as “Investment at fair value through Statement of Income” if acquired or originated principally for the purpose of generating a profit from short term fluctuations in price or dealer’s margin. Any investments that form part of a portfolio where there is an actual pattern of short term profit taking are also classified within this category.

Investments at fair value through statement of income are initially recognised at the date of acquisition at Fair Value. The related transaction costs are charged directly to statement of income when incurred. Subsequently at end of each reporting period those investments are re-measured at fair value and any resulting gain or loss are recognized in the statement of income at that date accordingly.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Investments (Continued)

Investments at fair value through equity

Equity-type instruments that are not designated as fair value through statement on income are classified as investments at fair value through equity.

Investments at fair value through equity are initially recognised at the date of acquisition at their Fair Value plus all related transaction costs. Subsequently at end of each reporting period those investments are re-measured at fair value and the revaluation gain or loss are directly recognized in equity under (fair value reserve), taking into consideration the split between the portion related to the shareholders and the portion related to the holder's of unrestricted investment accounts.

Fair value

For investments listed and traded in active official markets, fair value is determined by reference to quoted market prices at the close of business at the reporting date. For investments where there is no quoted market prices, these investments are carried at cost unless the bank has a determinable and reliable measure of determining fair value.

Investment properties held for leasing purpose

Investments properties held for leasing purposes are stated at cost less depreciation and impairment. Depreciation is provided in accordance with the rates of depreciation applied to property and equipment.

Investment properties held for trading

Investment properties held for trading purposes are recognized at fair value on an individual aggregated basis. Unrealized gain from changes in fair value is included in fair value reserve in equity and unrestricted investments account, until the investment is sold or determined as or impaired at which time, the Bank will then convert profits or losses previously included within the equity and unrestricted investment accounts to the statement of income.

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 a detailed review by management in accordance with Qatar Central Bank instructions.

The loss arising from impairment of receivables and balances from financing activities are recognized in the statement of income in 'Provision for impairment of receivables and balances from financing activities'. Receivables and balances from financing activities are written off and charged against specific provisions only in circumstances where all reasonable restructuring and collection activities have been exhausted. Recoveries from previously written off receivables and balances from financing activities are written back to the provision.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

Property and equipment are stated at cost net of accumulated depreciation and impairment in value. 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	5.0%
Leasehold improvements	20.0%
Computer software and hardware	33.3%
Furniture, fixtures and office equipment	15.0%
Motor vehicles	20.0%

Repairs and maintenance expenses are charged to the statement of income when incurred.

Renewals and improvement expenses concerning the Bank's rented building are amortized during the estimated life, or to the end of leasing contract, whichever is earlier.

Impairment of the Bank's assets

An assessment is made at each reporting 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 statement of income.

Employees' end of service benefits and pension fund

- The Bank provides for end of service benefits in accordance with the regulations of the Qatar Labour Law and policies of the Bank. The provision is calculated based on the period of service of each staff at the year end. This provision is included in 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 under general and administrative expenses.

Other provisions

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

Off balance sheet items

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

Restricted investment funds, invested by the Bank on behalf of clients under Wakala or Mudaraba contracts, are in accordance with the terms and investment products determined by the clients. Results of such investments are not included in the statement of income, but paid directly to the clients when accrued after deducting the Bank's commission or share of profit, as Mudarib or agent, which is recognised in the statement of income (Note 25 b).

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Distribution of profit between holders of unrestricted investment accounts and the shareholders

The Bank complies with the directives of QCB as follows:

- The net of all items of income and expenses at the year end are 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 of the net profit on the basis of daily closing 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 the result of the Bank at the year end is a net loss, then QCB, being the authority responsible for determining the Bank's accountability for the loss, shall decide how the loss 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.

Cash and cash equivalents

Cash and cash equivalents for the purpose of statement of cash flows 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.

Investments in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or have joint control over those policies. The Bank's investments in associates are accounted for using the equity method of accounting.

The Bank's share of its associate's post-acquisition profit or loss is recognized in the statement of income; and its share of post-acquisition movement in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealized gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associate. Unrealized losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Bank.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances.

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received at the date the guarantee was given, and the initial fair value is amortized over the life of the financial guarantee. Subsequent to initial recognition, the Bank liability under such guarantees are measured at the higher of the amortized amount and the best estimate of the expenditure required to settle any financial obligation arising at the reporting 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. The amortization of the premium received is recognized in the income statement under commission and fees income.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Bank has determined its Board of Directors as its chief operating decision maker. Income and expenses directly associated with each segment are included in determining operating segment performance.

Significant accounting judgments and estimates

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

Fair values of financial instruments

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

Impairment losses on financing activities

The Bank reviews its non performing financing activities at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income. In determining the level of allowance required, management considers the past due instalments on the financing activities and the estimated amount and timing of future cash flows. Such estimates are necessarily based on the assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to the allowance.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of investments

The Bank treats equity-type investment at fair value through equity as impaired when there is objective evidence that the estimated future cash flows of the investment will be impacted leading to a permanent decline in the fair value of the investment. In deciding on permanent impairments and in light of the recent and unprecedented levels of volatility in the financial markets the Bank evaluates many factors; These include an analysis of normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities, along with a comprehensive analysis of the strength of the underlying fundamentals of the investments and the macroeconomic environments in which they operate.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

3.1 Financial Instruments

(a) Definition and classification

The Bank's financial instruments represent financial assets and liabilities. Financial assets comprise cash and balances with Qatar Central Bank, balances and investments with banks and other financial institutions, financial investments, receivables and balances from financing activities. Financial liabilities comprise current accounts from banks and 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 financial instruments.

(b) Fair value of financial instruments

Based on the methods used to determine fair value of financial instruments as detailed in the notes to the financial statements, the carrying values of financial assets and liabilities, are not materially different from their fair values.

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. These risks are monitored through the Bank's strategic planning process.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

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.

Executive Bank Management

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

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 risks early. This information is presented and explained to the Board of Directors, and the head of each business division.

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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

Risk measurement and reporting systems (continued)

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

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.

3.2.2 Credit risk

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 collaterals obtained are as follows:

For securities lending, cash or securities.

For commercial and corporate 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 STATEMENTS

For the year ended December 31, 2011

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.2 Credit risk (continued)

(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 statement of financial position. The maximum exposure is shown in gross, before the effect of mitigation through the use of master netting and collateral agreements:

	<i>Gross maximum exposure</i>	
	<i>2011</i>	<i>2010</i>
	<i>QR'000</i>	<i>QR'000</i>
Due from banks and other financial institutions	5,734,175	5,148,012
Receivables and balances from financing activities	10,588,963	9,177,747
Financial investments	4,259,060	1,694,264
Total statement of financial position items	20,582,198	16,020,023
Contingent liabilities	1,268,811	1,001,277
Commitments	67,902	395,415
Total contingent liabilities items	1,336,713	1,396,692
Total credit risk exposure	21,918,911	17,416,715

(b) Credit quality per category of financial assets

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

	<i>Neither past due nor impaired</i>	<i>Watch list or impaired grade</i>	<i>Total</i>
	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>
<u>At December 31, 2011</u>			
Due from banks and other financial institutions	5,734,175	--	5,734,175
Receivables and balances from financing activities:-			
Retail	2,991,849	132,885	3,124,734
Corporate	7,408,951	55,278	7,464,229
	<u>10,400,800</u>	<u>188,163</u>	<u>10,588,963</u>
Financial investments	<u>4,200,608</u>	<u>58,452</u>	<u>4,259,060</u>
<u>At December 31, 2011</u>	<u>20,335,583</u>	<u>246,615</u>	<u>20,582,198</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

	<i>Neither past due nor impaired</i>	<i>Watch list or impaired grade</i>	<i>Total</i>
	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>
<u>At December 31, 2010</u>			
Due from banks and other financial institutions	5,148,012	--	5,148,012
Receivables and balances from financing activities			
Retail	2,998,989	125,745	3,124,734
Corporate	5,819,553	233,460	6,053,013
	<u>8,818,542</u>	<u>359,205</u>	<u>9,177,747</u>
Financial investments	<u>1,604,133</u>	<u>90,131</u>	<u>1,694,264</u>
<u>At December 31, 2010</u>	<u>15,570,687</u>	<u>449,336</u>	<u>16,020,023</u>

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This focuses management on the applicable risks and facilitates 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 less than 90 days are not considered to be impaired. An analysis of past due installment by age, is provided below:

	<i>Less than 60 days 2011</i>	<i>61 to 90 days 2011</i>	<i>Total 2011</i>
	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>
Receivables and balances from financing activities:-			
Retail	33,390	--	33,390
Corporate	42,116	--	42,116
Commercial Financing	74,712	22,470	97,182
	<u>150,218</u>	<u>22,470</u>	<u>172,688</u>
	<i>Less than 60 days 2010</i>	<i>61 to 90 days 2010</i>	<i>Total 2010</i>
	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>
Receivables and balances from financing activities:			
Retail	2,383	--	2,383
Corporate	6,451	--	6,451
Commercial Financing	20,519	13,450	33,969
	<u>29,353</u>	<u>13,450</u>	<u>42,803</u>

As of December 31, 2011 the Bank did not obtain any additional collateral 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 STATEMENTS

For the year ended December 31, 2011

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:

	<i>2011</i>			<i>2010</i>		
	<i>Assets</i>	<i>Liabilities and shareholders' equity</i>	<i>Contingent liabilities</i>	<i>Assets</i>	<i>Liabilities and shareholders' 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	21,993,500	23,073,977	1,268,811	16,972,736	17,687,831	1,001,277
GCC countries	983,537	254,902	--	838,939	387,752	--
Others	380,589	28,747	--	367,266	103,358	--
Total	23,357,626	23,357,626	1,268,811	18,178,941	18,178,941	1,001,277
<i>By industry sector:</i>						
Government	4,197,687	1,477,934	--	2,748,904	1,398,225	--
Industry/Manufacturing	59,431	--	5,708	154,519	--	372
Commercial	627,438	--	--	527,812	--	12,465
Real estate	7,753,208	--	364,354	4,976,766	--	189,451
Banks	6,455,055	1,546,564	--	6,007,899	875,688	--
Consumption	3,696,506	14,989,760	4,766	3,247,662	13,105,626	5,174
Other	568,301	5,343,368	893,983	515,379	2,799,402	793,815
Total	23,357,626	23,357,626	1,268,811	18,178,941	18,178,941	1,001,277

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

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 and Policies and Development Committee measure and manage profit rate risk by establishing the level of risk and setting limits on the profit rate gaps for stipulated periods.

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

The sensitivity of the statement of income is the effect of the assumed changes in profit rates on the net income for one year, based on the floating rate of financial assets and liabilities held at December 31, 2011.

	<u>Change in basis points</u>	<u>Sensitivity of profit income</u>	
		<u>2011</u> <u>QR '000</u>	<u>2010</u> <u>QR '000</u>
Change in net income	+/- 25	<u>+/- 262</u>	<u>+/- 278</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	<u>Change in currency rate</u>	<u>Effect on statement of income</u>	
		<u>2011</u> <u>QR'000</u>	<u>2010</u> <u>QR'000</u>
	%		
Euro	+/- 10%	291	2,087
Sterling Pounds	+/- 10%	1,967	107
Others	+/- 10%	39,621	36,636

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 STATEMENTS

For the year ended December 31, 2011

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 effect on equity, (as a result of a change in the fair value of equity instruments held as equity type instrument at fair value through equity as of December 31, 2011), 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</i>	
		<i>2011</i> <i>QR '000</i>	<i>2010</i> <i>QR '000</i>
<i>Market indices</i>			
Qatar Exchange	+/- 10%	2,462	4,906
New York Stock Exchange	+/- 10%	523	393
Luxembourg Exchange	+/- 10%	9,929	10,179
London Exchange	+/- 10%	46,299	5,054

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, 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.7 Liquidity risk (continued)

The maturity profile of the assets and liabilities at December 31, 2011 is as follows:

<u>At December 31, 2011</u>	<i>Up to 1 month</i> <i>QR '000</i>	<i>1-3 months</i> <i>QR '000</i>	<i>3-12 months</i> <i>QR '000</i>	<i>1-5 years</i> <i>QR '000</i>	<i>Over 5 years</i> <i>QR '000</i>	<i>Total</i> <i>QR '000</i>
ASSETS						
Cash and balances with Qatar Central Bank	934,530	-	-	-	-	934,530
Due from banks and other financial institutions	2,603,957	2,226,576	903,642	-	-	5,734,175
Receivables and balances from financing activities to customers	86,196	548,927	810,665	4,115,983	5,027,192	10,588,963
Financial investments	669,764	648,844	87,396	1,603,056	1,250,000	4,259,060
Investment in associates	-	-	-	-	365,231	365,231
Investment properties for leasing	-	-	-	-	236,279	236,279
Investment properties for trading	-	-	-	639,636	-	639,636
Property and equipment	-	-	-	-	185,531	185,531
Other assets	234,510	-	179,711	-	-	414,221
Total assets	4,528,957	3,424,347	1,981,414	6,358,675	7,064,233	23,357,626
LIABILITIES						
Current accounts from banks and financial institutions	15,997	-	-	-	-	15,997
Customers' current accounts	3,952,019	-	-	-	-	3,952,019
Other liabilities	-	357,592	-	-	-	357,592
Unrestricted investment accounts	4,722,895	1,519,632	4,662,226	3,234,005	-	14,138,758
Shareholders' equity	-	629,790	96,658	-	4,166,812	4,893,260
Total liabilities and shareholders' equity	8,690,911	2,507,014	4,758,884	3,234,005	4,166,812	23,357,626
Net liquidity gap	(4,161,954)	917,333	(2,777,470)	3,124,670	2,897,421	-

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.7 Liquidity risk (continued)

The maturity profile of the assets and liabilities at December 31, 2010 is as follows:

<u>At December 31, 2010</u>	<u>Up to 1 month QR '000</u>	<u>1-3 months QR '000</u>	<u>3-12 months QR '000</u>	<u>1-5 years QR '000</u>	<u>Over 5 years QR '000</u>	<u>Total QR '000</u>
ASSETS						
Cash and balances with Qatar Central Bank	954,630	--	--	--	--	954,630
Due from banks and other financial institutions	4,548,012	600,000	--	--	--	5,148,012
Receivables and balances from financing activities to customers	264,960	718,983	2,740,853	4,281,103	1,171,848	9,177,747
Financial investments	202,877	--	--	185,115	1,306,272	1,694,264
Investment in associates	--	--	--	--	227,864	227,864
Investment properties for leasing	--	--	--	--	74,764	74,764
Investment properties for trading	--	--	--	444,123	--	444,123
Property and equipment	--	--	--	--	216,147	216,147
Other assets	18,497	12,007	209,151	1,735	-	241,390
Total assets	5,988,976	1,330,990	2,950,004	4,912,076	2,996,895	18,178,941
LIABILITIES						
Current accounts from banks and financial institutions	100,110	--	--	--	--	100,110
Customers' current accounts	2,836,131	--	--	--	--	2,836,131
Other liabilities	25,378	48,399	77,316	76,558	--	227,651
Unrestricted investment accounts	3,968,783	887,388	3,487,467	2,854,113	--	11,197,751
Shareholders equity	--	52,103	520,506	--	3,244,689	3,817,298
Total liabilities and shareholders' equity	6,930,402	987,890	4,085,289	2,930,671	3,244,689	18,178,941
Net liquidity gap	(941,426)	343,100	(1,135,285)	1,981,405	(247,794)	--

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

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 summarizes the maturity profile of the Bank's financial and contingent liabilities based on contractual undiscounted repayment obligations:

<u>At December 31, 2011</u>	<u>Up to 1 month QR '000</u>	<u>1-3 months QR '000</u>	<u>3-12 months QR '000</u>	<u>1-5 years QR '000</u>	<u>Over 5 years QR '000</u>	<u>Total QR '000</u>
Financial liabilities						
Current accounts from banks and financial institutions	15,997	-	-	-	-	15,997
Customers' current accounts	3,952,019	-	-	-	-	3,952,019
Unrestricted investment accounts	4,722,895	1,519,632	4,662,226	3,234,005	-	14,138,758
Total	8,690,911	1,519,632	4,662,226	3,234,005	-	18,106,774
Contingent liabilities and commitments						
Unused credit facilities	-	-	67,902	-	-	67,902
Acceptances	27,628	11,617	-	-	-	39,245
Letter of guarantees	-	-	788,115	125,000	-	913,115
Documentary credit	136,861	152,328	16,200	-	-	305,389
Collection notes	-	11,062	-	-	-	11,062
Total	164,489	175,007	872,217	125,000	-	1,336,713

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

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 December 31, 2010</u>	<u>Up to 1 month QR '000</u>	<u>1-3 months QR '000</u>	<u>3-12 months QR '000</u>	<u>1-5 years QR '000</u>	<u>Over 5 years QR '000</u>	<u>Total QR '000</u>
Financial liabilities						
Current accounts from banks and financial institutions	100,110	--	--	--	--	100,110
Customers' current accounts	2,836,131	--	--	--	--	2,836,131
Unrestricted investment accounts	4,349,449	887,388	3,487,467	2,473,447	--	11,197,751
Total	<u>7,285,690</u>	<u>887,388</u>	<u>3,487,467</u>	<u>2,473,447</u>	<u>--</u>	<u>14,133,992</u>
Contingent liabilities and commitments						
Unused credit facilities	395,415	--	--	--	--	395,415
Acceptances	6,771	12,892	--	--	--	19,663
Letter of guarantees	43,335	71,407	399,499	166,813	--	681,054
Documentary credit	49,401	112,835	114,255	14,437	--	290,928
Collection notes	--	9,632	--	--	--	9,632
Total	<u>494,922</u>	<u>206,766</u>	<u>513,754</u>	<u>181,250</u>	<u>--</u>	<u>1,396,692</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

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 reporting 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 to ensure the gaps are within the limits established by the Board. The Bank manages its exposure to currency exchange rate fluctuations to be 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 appetite and the VAR risk metrics is calculated on an ongoing basis to ensure compliances 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 having professional IT personnel that attend all system needs, and independent departments for internal control and risk management. The Bank also seeks to minimize actual or potential losses from operational risk failure through a framework of policies and procedures that identifies, assesses, controls, manages and report those risks.

3.2.10 Other 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 issuance of instructions and policies, when necessary.

3.2.11 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.11 Capital adequacy

	<u>2011</u>	<u>2010</u>
	<u>QR'000</u>	<u>QR'000</u>
Tier 1 capital	3,922,756	3,002,300
Tier 2 capital	163,160	107,478
Total capital	4,085,916	3,109,778
Total risk weighted assets	16,502,178	12,961,891
Tier 1 capital ratio	23.77%	23.16%
Total capital ratio	24.76%	23.99%

The bank applies the requirements of Basel II for banking supervision regarding calculation of the capital adequacy.

Tier 1 capital includes issued capital, legal reserve, other reserves and retained earnings after excluding proposed dividends.

Tier 2 capital includes risk reserve and the fair value reserves (45% if positive and 100% if negative).

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

4. CASH AND BALANCES WITH QATAR CENTRAL BANK

	<u>2011</u>	<u>2010</u>
	<u>QR'000</u>	<u>QR'000</u>
Cash	156,024	129,252
Cash reserve with Qatar Central Bank	778,506	621,969
Current account with Qatar Central Bank	-	203,409
	934,530	954,630

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

5. BALANCES AND INVESTMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	<u>2011</u>	<u>2010</u>
	<u>QR'000</u>	<u>QR'000</u>
Current accounts	96,338	96,536
Balances with Islamic banks	4,933,207	4,831,079
Metals and commodities Murabaha balances	704,630	220,397
	5,734,175	5,148,012

Metals and commodities Murabaha balances represent Murabaha transactions agreed upon with various banks and secured by the commitment of those banks to pay the sum upon maturity along with the associated profits.

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

For the year ended December 31, 2011

6. RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES

	<u>2011</u> <u>QR'000</u>	<u>2010</u> <u>QR'000</u>
(a) By Type		
<u>Receivable and balances from international financing activities</u>		
International Murabaha	<u>24,262</u>	<u>36,415</u>
 <u>Receivables and balances from local financing activities</u>		
Murabaha and Musawama	7,196,415	7,950,178
Istesna	352,127	507,450
Mudaraba financing	4,876	854
Ijarah financing	3,994,888	1,850,680
Transactions in progress	50,812	33,588
Non-profit financing activities	<u>48</u>	<u>118</u>
 Total receivables and balances from local financing activities	<u>11,599,166</u>	<u>10,342,868</u>
Total receivables and financing activities balances	<u>11,623,428</u>	<u>10,379,283</u>
 Deferred income	(875,740)	(1,091,699)
Specific provision	(116,600)	(97,897)
Profit in suspense	<u>(42,125)</u>	<u>(11,940)</u>
	<u>(1,034,465)</u>	<u>(1,201,536)</u>
 Net receivables and balances from financing activities	<u>10,588,963</u>	<u>9,177,747</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

6. RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (Continued)

(b) By Sector and Geographic Region.

The composition of gross receivables from financing activities is as follows:

- By Sector

	<i>Murabaha and Musawama</i>	<i>Istesna</i>	<i>Mudaraba</i>	<i>Ijarah</i>	<i>Others</i>	<i>Total 2011</i>	
<u>At 31 December 2011</u>	<u>QR'000</u>	<u>QR'000</u>	<u>QR'000</u>	<u>QR'000</u>	<u>QR'000</u>	<u>QR'000</u>	<u>%</u>
Government	631,492	-	-	-	-	631,492	5.4
Industry	59,431	-	-	-	-	59,431	0.5
Trade	87,392	-	-	-	-	87,392	0.8
Contracting	627,438	-	-	-	-	627,438	5.4
Housing	2,169,230	352,127	-	3,994,888	-	6,516,245	56.1
Consumer	3,696,506	-	-	-	-	3,696,506	31.8
Other	-	-	4,876	-	48	4,924	0.5
	<u>7,271,489</u>	<u>352,127</u>	<u>4,876</u>	<u>3,994,888</u>	<u>48</u>	<u>11,623,428</u>	<u>100</u>

- By geographic region

	<i>Murabaha and Musawama</i>	<i>Istesna</i>	<i>Mudaraba</i>	<i>Ijarah</i>	<i>Others</i>	<i>Total 2011</i>	
<u>At 31 December 2011</u>	<u>QR'000</u>	<u>QR'000</u>	<u>QR'000</u>	<u>QR'000</u>	<u>QR'000</u>	<u>QR'000</u>	<u>%</u>
Qatar	7,247,227	352,127	4,876	3,994,888	48	11,599,166	99.8
Other countries	24,262	-	-	-	-	24,262	0.2
	<u>7,271,489</u>	<u>352,127</u>	<u>4,876</u>	<u>3,994,888</u>	<u>48</u>	<u>11,623,428</u>	<u>100</u>

Receivable and balances from financing activities represent the gross figure before deducting any provisions for impairment, profit in suspense and deferred income.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

6. RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (Continued)

(b) By Sector and Geographic Region

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

- By Sector

	<i>Murabaha and Musawama</i>	<i>Istesna</i>	<i>Mudaraba</i>	<i>Ijarah</i>	<i>Others</i>	<i>Total 2010</i>	
<u>At 31 December 2010</u>	<u>QR'000</u>	<u>QR'000</u>	<u>QR'000</u>	<u>QR'000</u>	<u>QR'000</u>	<u>QR'000</u>	<u>%</u>
By Sector							
Government	1,456,864	--	--	--	--	1,456,864	12.6
Industry	147,233	--	--	--	7,286	154,519	1.3
Trade	526,508	--	--	--	1,304	527,812	4.6
Contracting	10,449	--	--	--	--	10,449	0.1
Housing	2,592,483	507,450	--	1,850,680	15,704	4,966,317	53.1
Consumer	3,247,662	--	--	--	--	3,247,662	28.2
Other	5,394	--	854	--	9,412	15,660	0.1
	<u>7,986,593</u>	<u>507,450</u>	<u>854</u>	<u>1,850,680</u>	<u>33,706</u>	<u>10,379,283</u>	<u>100</u>

- By geographic region

	<i>Murabaha and Musawama</i>	<i>Istesna</i>	<i>Mudaraba</i>	<i>Ijarah</i>	<i>Others</i>	<i>Total 2010</i>	
<u>At 31 December 2010</u>	<u>QR'000</u>	<u>QR'000</u>	<u>QR'000</u>	<u>QR'000</u>	<u>QR'000</u>	<u>QR'000</u>	<u>%</u>
Qatar	7,950,178	507,450	854	1,850,680	33,706	10,342,868	99.6
Other countries	36,415	--	--	--	--	36,415	0.4
	<u>7,986,593</u>	<u>507,450</u>	<u>854</u>	<u>1,850,680</u>	<u>33,706</u>	<u>10,379,283</u>	<u>100</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

6. RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (Continued)

c) The movements in provisions and profit in suspense are as follows: (continued)

	<i>2011</i>			<i>2010</i>		
	<i>Specific QR'000</i>	<i>Profit in suspense QR'000</i>	<i>Total QR'000</i>	<i>Specific QR'000</i>	<i>Profit in suspense QR'000</i>	<i>Total QR'000</i>
Balance at 1 January	97,897	11,940	109,837	81,974	10,942	92,916
Net additional provision during the year	19,343	30,273	49,616	16,064	998	17,062
New provision during the year	19,343	32,829	52,172	16,064	4,598	20,662
Provisions recovered during the year	--	(2,556)	(2,556)	--	(3,600)	(3,600)
Provision write off during the year	(640)	(88)	(728)	(141)	--	(141)
Provision balance at the year end	116,600	42,125	158,725	97,897	11,940	109,837

Non performing receivables at the end of 2011 amounted to QR188.2 million representing 1.6% of the total receivables and balances from financing activities (2010: QR. 359.2 million representing 3.1% of the total receivables and balances from financing activities).

The total fair value of collaterals held by the bank relating to receivables from financing activities which is considered as individually impaired as on December 31, 2011 amounted to QR. 278,458 thousand (2010: QR. 363,568 thousand).

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

7. FINANCIAL INVESTMENTS

	<u>2011</u> <u>QR'000</u>	<u>2010</u> <u>QR'000</u>
Equity type instruments (a)	164,308	202,877
Debt type instruments (b)	4,094,752	1,491,387
	<u>4,259,060</u>	<u>1,694,264</u>

a) Equity type instruments:

	<u>2011</u>			<u>2010</u>		
	<u>Quoted</u> <u>QR'000</u>	<u>Unquoted</u> <u>QR'000</u>	<u>Total</u> <u>QR'000</u>	<u>Quoted</u> <u>QR'000</u>	<u>Unquoted</u> <u>QR'000</u>	<u>Total</u> <u>QR'000</u>
Fair value through equity	30,252	134,056	164,308	67,661	135,216	202,877
	<u>30,252</u>	<u>134,056</u>	<u>164,308</u>	<u>67,661</u>	<u>135,216</u>	<u>202,877</u>

b) Debt type instruments:

	<u>2011</u>			<u>2010</u>		
	<u>Quoted</u> <u>QR'000</u>	<u>Unquoted</u> <u>QR'000</u>	<u>Total</u> <u>QR'000</u>	<u>Quoted</u> <u>QR'000</u>	<u>Unquoted</u> <u>QR'000</u>	<u>Total</u> <u>QR'000</u>
By Type :						
Fair value through income statement	505,455	-	505,455	-	-	-
Amortised cost	190,452	3,398,845	3,589,297	241,387	1,250,000	1,491,387
	<u>695,907</u>	<u>3,398,845</u>	<u>4,094,752</u>	<u>241,387</u>	<u>1,250,000</u>	<u>1,491,387</u>

By Profit Rate

Fixed rate securities	3,995,464	1,353,727
Variable rate securities	99,288	137,660
	<u>4,094,752</u>	<u>1,491,387</u>

By Geography

State of Qatar	3,398,845	1,250,000
Other	695,907	241,387
	<u>4,094,752</u>	<u>1,491,387</u>

Available for sale equity securities include quoted shares in one local company with a fair market value of QR 17,971 thousands (2010: QR 21,139 thousands) restricted, since the bank is a founder member.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

8. INVESTMENT IN ASSOCIATES

	<u>2011</u> <u>QR'000</u>	<u>2010</u> <u>QR'000</u>
Balance at 1 January	227,864	343,379
Investments during the year	167,164	9,800
Disposals during the year	-	(145,250)
Profit from associate companies	(43)	24,538
Foreign currency translation adjustments	(21,893)	(78)
Profit distributions	(7,861)	(4,525)
	<u>365,231</u>	<u>227,864</u>

The Bank has the following investments in associates:

	<u>Activity</u>	<u>Country of incorporation</u>	<u>Ownership percentage</u>	<u>2011</u> <u>QR'000</u>	<u>2010</u> <u>QR'000</u>
Syria International Islamic Bank	Banking	Syria	20%	107,504	95,148
Al Tashelat Islamic Company W.L.L.	Financing	Qatar	49%	46,584	51,297
Al Moqawil Company W.L.L.	Contracting	Qatar	49%	1,470	1,470
Syria Islamic Insurance Company	Insurance	Syria	20%	14,443	16,684
Mackeen Investment and Real Estate Development Q.C.S.C.	Real Estate	Qatar	49%	195,230	63,265
				<u>365,231</u>	<u>227,864</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

8. INVESTMENTS IN ASSOCIATES (Continued)

	2011					
	Balance at January 1	Investments during the year	Disposals during the year	Profit (loss) from associate Company	Profit distributions	Foreign currency translation
Syria International Islamic Bank	95,148	32,414	-	(758)	-	(19,300)
Al Tasheelat Islamic Company W.L.L.	51,297	-	-	(988)	(3,725)	-
Al Moqawil Company W.L.L.	1,470	-	-	-	-	-
Syria Islamic Insurance Company Development	16,684	-	-	1,306	(954)	(2,593)
Mackeen Investment and Real Estate Development Q.C.S.C.	63,265	134,750	-	397	(3,182)	-
	<u>227,864</u>	<u>167,164</u>	<u>-</u>	<u>(43)</u>	<u>(7,861)</u>	<u>(21,893)</u>
	2010					
	Balance at January 1	Investments during the year	Disposals during the year	Profit (loss) from associate Company	Profit distributions	Foreign currency translation
Syria International Islamic Bank	82,893	--	--	12,321	--	(66)
Al Tasheelat Islamic Company W.L.L.	35,280	9,800	--	6,217	--	--
Al Moqawil Company W.L.L.	1,470	--	--	--	--	--
Syria Islamic Insurance Company	16,696	--	--	--	--	(12)
Mackeen Investment and Real Estate Development Q.C.S.C.	196,540	--	(134,750)	6,000	(4,525)	--
First Educational Group	10,500	--	(10,500)	--	--	--
	<u>343,379</u>	<u>9,800</u>	<u>(145,250)</u>	<u>24,538</u>	<u>(4,525)</u>	<u>(78)</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

9. INVESTMENT PROPERTIES HELD FOR LEASING

	<i>Land</i> <i>QR'000</i>	<i>Buildings</i> <i>QR'000</i>	<i>Properties</i> <i>under</i> <i>construction</i> <i>QR'000</i>	<i>Total</i> <i>2011</i> <i>QR'000</i>	<i>Total</i> <i>2010</i> <i>QR'000</i>
Cost:					
Balance as at January 1	16,557	13,227	44,980	74,764	52,576
Additions during the year	92,517	71,978	2,608	167,103	28,562
Disposals during the year	-	-	-	-	(3,208)
Balance as at December 31	109,074	85,205	47,588	241,867	77,930
Accumulated depreciation:					
Balance as at 1 January	-	3,166	-	3,166	3,485
Depreciation for the year	-	2,422	-	2,422	687
Disposals during the year	-	-	-	-	(1,006)
Balance as at December 31	-	5,588	-	5,588	3,166
Net book value as at December 31	109,074	79,617	47,588	236,279	74,764

Fair value of investment properties (land and buildings) for leasing purposes amounted QR.277 million as at December 31, 2011 (2010: QR.71 million).

10 INVESTMENT PROPERTIES HELD FOR TRADING

	<i>Land</i>	<i>Project under</i> <i>construction</i>	<i>Total</i> <i>2011</i> <i>QR'000</i>	<i>Total</i> <i>2010</i> <i>QR'000</i>
Balance as at January 1	343,044	101,079	444,123	304,223
Additions during the year	-	76,875	76,875	101,079
Transfer from property and equipment	24,231	-	24,231	-
Net change in fair value	94,407	-	94,407	36,342
Loss Recovery	-	-	-	2,479
	461,682	177,954	639,636	444,123

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

11 PROPERTY AND EQUIPMENT

	<i>Land</i>	<i>Buildings</i>	<i>Leasehold</i>	<i>Computer</i>	<i>Furniture,</i>		
	<i>QR'000</i>	<i>QR'000</i>	<i>improvements</i>	<i>hardware</i>	<i>fixture</i>	<i>Vehicles</i>	<i>Total</i>
As at December 31, 2011	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000
Cost:							
Balance as at January 1	175,655	25,205	36,476	47,795	14,365	1,834	301,330
Additions during the year	175	-	895	2,051	1,187	-	4,308
Disposals during the year	-	-	(899)	(630)	(201)	-	(1,730)
Transfer to investment properties held for trading	(24,231)	-	-	-	-	-	(24,231)
Balance as at December 31	151,599	25,205	36,472	49,216	15,351	1,834	279,677
Accumulated depreciation:							
Balance as at January 1	-	11,278	19,692	42,284	10,670	1,259	85,183
Depreciation for the year	-	1,261	4,903	3,151	1,021	228	10,564
Disposals	-	-	(899)	(505)	(197)	-	(1,601)
Balance as at December 31	-	12,539	23,696	44,930	11,494	1,487	94,146
Net book value:							
At December 31, 2011	151,599	12,666	12,776	4,286	3,857	347	185,531

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

11. PROPERTY AND EQUIPMENT (Continued)

	<i>Land</i>	<i>Buildings</i>	<i>Leasehold</i>	<i>Computer</i>	<i>Furniture,</i>	<i>Vehicles</i>	<i>Total</i>
<u>As at December 31, 2010</u>	<u>QR'000</u>	<u>QR'000</u>	<u>improvements</u>	<u>hardware</u>	<u>fixture</u>	<u>QR'000</u>	<u>QR'000</u>
			<u>QR'000</u>	<u>and</u>	<u>and office</u>		
				<u>software</u>	<u>equipment</u>		
				<u>QR'000</u>	<u>QR'000</u>		
Cost:							
Balance as at January 1	175,635	25,205	32,612	45,706	13,568	1,834	294,560
Additions during the year	20	-	3,864	2,391	1,116	-	7,391
Disposals during the year	-	-	-	(302)	(319)	-	(621)
Balance as at December 31	<u>175,655</u>	<u>25,205</u>	<u>36,476</u>	<u>47,795</u>	<u>14,365</u>	<u>1,834</u>	<u>301,330</u>
Accumulated depreciation:							
Balance as at January 1	-	10,039	15,144	38,647	9,831	953	74,614
Depreciation for the year	-	1,239	4,548	3,934	976	306	11,003
Disposals	-	-	-	(297)	(137)	-	(434)
Balance as at December 31	<u>-</u>	<u>11,278</u>	<u>19,692</u>	<u>42,284</u>	<u>10,670</u>	<u>1,259</u>	<u>85,183</u>
Net book value:							
At December 31, 2010	<u>175,655</u>	<u>13,927</u>	<u>16,784</u>	<u>5,511</u>	<u>3,695</u>	<u>575</u>	<u>216,147</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

12. OTHER ASSETS

	<i>2011</i> <i>QR'000</i>	<i>2010</i> <i>QR'000</i>
Clearing and local ATMs	91,160	18,497
Accrued revenue	234,510	196,405
Prepaid expenses	16,622	12,746
Cheques under collection	-	129
Furniture allowance	1,650	1,735
Others	70,279	11,878
	414,221	241,390

13. OTHER LIABILITIES

	<i>2011</i> <i>QR'000</i>	<i>2010</i> <i>QR'000</i>
Advances from customers	99,471	30,632
Accrued expenses	33,217	25,377
Accepted cheques and remittances	71,640	48,399
Other provisions (Notes 14)	3,575	3,622
Dividends payable	11,195	6,413
Employees' end of service benefits (Note 14)	17,477	16,155
Contribution to support social and sport activities	16,326	13,971
Other creditors and others	104,691	83,082
	357,592	227,651

14. EMPLOYEES' FOR END OF SERVICE BENEFITS AND OTHER PROVISIONS

	<i>2011</i>		
	<i>End of service benefit QR'000</i>	<i>Other provisions QR'000</i>	<i>Total QR'000</i>
Year ended December 31, 2011			
Balance at January 1	16,155	3,622	19,777
Provided during the year	2,184	2	2,186
	18,339	3,624	21,963
Paid/written off during the year	(862)	(49)	(911)
Balance at December 31	17,477	3,575	21,052
	<i>2010</i>		
	<i>End of service benefit QR'000</i>	<i>Other provisions QR'000</i>	<i>Total QR'000</i>
Year ended December 31, 2010			
Balance at January 1	14,668	3,781	18,449
Provided during the year	1,885	--	1,885
	16,553	3,781	20,334
Paid/written off during the year	(398)	(159)	(557)
Balance at December 31	16,155	3,622	19,777

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

15. UNRESTRICTED INVESTMENT ACCOUNTS

	<u>2011</u> <u>QR'000</u>	<u>2010</u> <u>QR'000</u>
(a) By type		
Saving accounts	4,447,529	2,833,180
Time accounts	9,514,072	8,215,600
Share in fair value reserve	125,971	68,771
Share of foreign currency reserves	(12,503)	-
Unpaid share in profit	63,689	80,200
	<u>14,138,758</u>	<u>11,197,751</u>

Unrestricted investment accounts include QR 366 million as lien against financing activities (2010: QR 208 million).

	<u>2011</u> <u>QR'000</u>	<u>2010</u> <u>QR'000</u>
(b) By sector		
Government and Government institutions	722,999	539,711
Individuals	10,232,653	7,488,885
Corporate	1,660,585	2,244,605
Financial institutions	1,345,364	775,579
Share in fair value reserve	125,971	68,771
Share of foreign currency reserves	(12,503)	-
Unpaid share in profit	63,689	80,200
	<u>14,138,758</u>	<u>11,197,751</u>

16. SHAREHOLDERS' EQUITY

(a) Paid up share capital

	<u>2011</u> <u>Number of</u> <u>shares</u> <u>(000)</u>	<u>2010</u> <u>Number of</u> <u>shares</u> <u>(000)</u>
Issued and fully paid		
At January 1,	138,755	138,755
Additional shares issued	12,614	-
At December 31,	<u>151,369</u>	<u>138,755</u>

Issued and fully paid capital of QR 1,513,687 thousands comprises 151.4 million shares of nominal value of QR 10 each (2010: QR 1,387,546 thousands comprising 138.8 million shares of QR 10 each).

On January 17, 2011, the Bank received QR. 927,134 thousand representing the final payment of Qatar Investment Authority's contribution to the Bank's share capital (12,614.062 ordinary shares at par value QR. 10 each) hence increasing its stake in the Bank's capital to 16.7% (2010: 9.1%). The formal increase in the Bank's paid up capital came into effect after the Bank's Annual General Assembly Meeting held on March 1, 2011.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

16. SHAREHOLDERS' EQUITY (Continued)

(b) Legal reserve

Qatar Central Bank's Law No. 33 of 2006 requires 10% of the net profit for the year to be transferred to legal reserve until the 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. No amount was transferred from profit to legal reserve in 2011 as the balance of the legal reserve exceeded 100% of the paid up capital.

(c) Other Reserves

Other reserves include the undistributed share of associate's profit after deducting cash profits received.

Movements over the undistributed share of Associates Profit are as follows:

	<u>2011</u> <u>QR'000</u>	<u>2010</u> <u>QR'000</u>
Undistributed share of Associates profit		
Balance at 1 January	40,800	20,787
Less : Dividend received from associates	(7,861)	(4,525)
Add : Share of result of associates for the year	(43)	24,538
Transfer to other reserves	(7,904)	20,013
Balance at December 31	<u>32,896</u>	<u>40,800</u>

d) Contributions to Social and Sport Activities

Pursuant to Law No. 13 of 2008 and further clarification of the Law issued in 2011, the Bank made an appropriation of QR. 16,326 thousand (2010: QR 13,971 thousand) from retained earnings for its contribution to the social and sport activities support fund. This amount represents 2.5% of the net profit for the year ended December 31, 2011.

e) Fair value reserve

	<u>Total</u> <u>2011</u> <u>QR'000</u>	<u>Total</u> <u>2010</u> <u>QR'000</u>
<u>Financial Investments:</u>		
Balance at January 1	8,441	13,942
Revaluation for the year	3,482	(15,859)
Transfer to statement of income on disposal	(827)	4,632
Net change during the year	2,655	(11,227)
Share of holders of unrestricted investment depositors accounts	(1,434)	5,726
As at December 31 (shareholders' share)	<u>9,662</u>	<u>8,441</u>

Investments Properties :

Balance at January 1	57,633	40,830
Revaluation for the year	94,953	36,770
Transfer to statement of income on disposal	-	(2,479)
Net change during the year	94,953	34,291
Share of holders of unrestricted investment depositors accounts	(54,939)	(17,488)
As at December 31 (shareholders' share)	<u>97,647</u>	<u>57,633</u>
Balance at December 31 (shareholders' share)	<u>107,309</u>	<u>66,074</u>

Fair value reserve represents unearned profits or losses at year end. The profit is not available for distribution unless realised and charged to the statement of income.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

16. SHAREHOLDERS' EQUITY (Continued)

f) Risk reserve

In accordance with Qatar Central Bank regulations, a risk reserve has been created to cover contingencies in the private sector financing activities, with a minimum reserve requirement of 1.50% of the total private sector exposure granted by the Bank and its branches after removing specific provisions and profit in suspense and unearned income. The financing provided to/or secured by the Government or financing against cash guarantees are excluded. In accordance with Qatar Central Bank regulation, the risk reserve should be deducted only from the Shareholders' share of profit, and included in Shareholders' equity in its entirety.

g) Proposed dividend

The Board of Directors in its meeting held on January 22, 2012 has proposed to pay a cash dividend of 35% (2010: 37.5%) of its paid up capital equivalent to QR. 3.5 per each share.

17. INCOME FROM FINANCING ACTIVITIES

	<i>2011</i> <i>QR'000</i>	<i>2010</i> <i>QR'000</i>
Murabaha and Musawama	590,437	641,663
Istesna	28,327	40,544
Mudaraba	7,682	5,962
Ijarah Muntahia Bittamleek	224,503	166,576
Musharakat	132	275
	<u>851,081</u>	<u>855,020</u>

18. INCOME FROM INVESTING ACTIVITIES

	<i>2011</i> <i>QR'000</i>	<i>2010</i> <i>QR'000</i>
(a) Income from investments with banks and financial institutions:		
Income from investment deposits with banks and financial institutions	17,956	32,199
Income from Murabaha in metals and commodities	899	551
	<u>18,855</u>	<u>32,750</u>
(b) Investment revenue		
Income from equity type investments	2,761	10,626
Income from debt type investments	167,675	52,541
Investment properties held for leasing	14,094	4,287
Investment in associates	(43)	24,538
	<u>184,487</u>	<u>91,992</u>
c) Gain on sale of investments		
Investment of fair value through income statement	2,098	(1,890)
Investment properties held for trading	-	4,786
	<u>2,098</u>	<u>2,896</u>
	<u>205,440</u>	<u>127,638</u>

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

For the year ended December 31, 2011

19. NET COMMISSION AND FEE INCOME

	<u>2011</u> <u>QR'000</u>	<u>2010</u> <u>QR'000</u>
Commission and fees income		
Commission on local financing	37,880	56,058
Commission on L/C's and guarantees	15,065	9,770
Bank charges	24,021	33,928
	<u>76,966</u>	<u>99,756</u>
Commission and fees expenses	<u>(6,859)</u>	<u>(6,208)</u>
	<u><u>70,107</u></u>	<u><u>93,548</u></u>

20. GAIN FROM FOREIGN EXCHANGE OPERATIONS

	<u>2011</u> <u>QR'000</u>	<u>2010</u> <u>QR'000</u>
Exchange transactions gain	7,368	5,973
Loss / gain on revaluation of monetary assets and liabilities	<u>(75)</u>	<u>3,202</u>
	<u><u>7,293</u></u>	<u><u>9,175</u></u>

21. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2011</u> <u>QR'000</u>	<u>2010</u> <u>QR'000</u>
Salaries, allowances and other benefits	108,833	89,815
Advertising and promotion	8,506	8,237
Rent	9,534	9,450
Telephone, telex and post	7,052	6,328
Fees and subscriptions	2,527	3,003
Computer and ATMs expense	6,764	5,848
End of service benefits	2,184	1,885
Shari'a Committee remuneration	700	800
Business travelling expenses	2,196	1,629
Maintenance and cleaning expense	2,782	2,312
Credit cards expense	8,330	6,063
Insurance	1,347	1,124
Stationery and printing	1,884	1,113
Professional fees	3,051	1,967
Donations	107	523
Water and electricity	900	906
Security services expenses	833	907
Bank contribution to the pension fund	1,203	370
Hospitality expense	1,166	1,068
Training courses	1,500	900
Investment expenses	984	1,056
Board of Directors' remuneration	8,415	7,010
Miscellaneous expense	1,147	1,199
	<u><u>181,945</u></u>	<u><u>153,513</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

22. OTHER INCOME

During the year ended 31 December 2010, the Bank paid cash dividends to Qatar Investment Authority in its capacity as a shareholder of 9.1% of the Bank's share capital. On April 22, 2010, Qatar Investment Authority paid back to the Bank the full amount and exempted the Bank from paying any dividends for the year 2009. The Bank recorded this amount under other income as a grant towards the Qatari government's plan to support national banks.

23. SHARE OF HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS IN THE NET PROFIT

	<u>2011</u> <u>QR'000</u>	<u>2010</u> <u>QR'000</u>
Share in the net profit before Bank's Mudaraba income	495,626	454,200
Bank Mudareb share	(299,638)	(273,896)
Share after Bank's Mudareb share	195,988	180,304
Support provided by the Bank	68,802	149,166
Final share after contribution	264,790	329,470

(a) Rates of profit allotment:

	<u>2011</u> <u>%</u>	<u>2010</u> <u>%</u>
24 months deposits	4.19	5.44
18 months deposits	2.94	4.75
One year deposits	2.25	3.88
6 months deposits	2.08	3.50
3 month deposits	1.91	3.19
One month deposits	1.65	2.88
Saving accounts	1.19	2.00

24. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year.

	<u>2011</u>	<u>2010</u>
Net profit for the year due to shareholders (QR'000)	653,036	558,827
Weighted average number of shares outstanding during the year (thousands)	149,261	138,755
Basic and diluted earnings per share (QR)	4.38	4.03

There were no potentially dilutive shares outstanding at any time during the year. The dilutive earning per share is therefore equal to the basic earnings per share.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

25. OFF BALANCE SHEET ITEMS

To meet the financial needs of customers, the Bank issues various irrevocable commitments and contingent liabilities. Although these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank. In some instances, the amounts recognized on Statement of Financial Position for incurred obligations do not represent the loss potential of the arrangement in full.

The total outstanding commitments and contingent liabilities are as follows:

	<i>2011</i> <i>QR'000</i>	<i>2010</i> <i>QR'000</i>
(a) Deferred or contingent commitments		
Acceptances	39,245	19,663
Letters of guarantees	913,115	681,054
Documentary credits	305,389	290,928
Collection notes	11,062	9,632
	1,268,811	1,001,277
(b) Other contracts and commitments		
Commitments and unused credit limits	67,902	395,415
Restricted investment balances (Note c)	-	12,659
	67,902	408,074
TOTAL	1,336,713	1,409,351

(d) Restricted investment balances

Restricted investment balances represent funds invested by the Bank on behalf of customers as trustee. Accordingly, these funds and associated results are not reflected in the Statement of Financial Position and statement of income.

	<i>2011</i>		<i>2010</i>		
	<i>Balance</i>	<i>Average</i>	<i>Balance</i>	<i>Average</i>	<i>Bank's</i>
	<i>QR'000</i>	<i>distributed</i>	<i>QR'000</i>	<i>distributed</i>	<i>share</i>
		<i>profit</i>		<i>profit</i>	<i>QR'000</i>
Metals and commodities	--	--	12,659	0.65%	1,907

(d) Legal claims

Certain customers of the Bank have raised legal actions against the Bank claiming amounts totalling QR 8,255 thousand (2010: 10,558 thousand). Simultaneously, the Bank has raised counter claims against some of those customers as of December 31, 2010 and the bank management expect to incur losses amounted to QR. 800 thousand as a result of these claims. The bank does not believe that those legal cases will result in any significant cash outflows.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

26. CASH AND CASH EQUIVALENTS

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

	<u>2011</u> <u>QR'000</u>	<u>2010</u> <u>QR'000</u>
Cash and balances with Qatar Central Bank excluding Cash reserve	156,024	332,660
Cash with banks and other financial institutions	5,734,175	5,148,012
	<u>5,890,199</u>	<u>5,480,672</u>

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

27. OPERATING AND GEOGRAPHICAL SEGMENT INFORMATION

(a) Operating segment:

For management purposes, the Bank is organised into business units based on their products and services and has reportable operating segments as follows:

- Retail financing
- Commercial (SME) financing
- Corporate financing
- Investment and treasury

December 31, 2011

	<u>Retail Financing</u>	<u>Commercial (SME) Financing</u>	<u>Corporate Financing</u>	<u>Investment and Treasury</u>	<u>Total</u>
<u>Assets</u>					
Balances and investments with banks and other financial institutions	--	--	--	5,734,175	5,734,175
Financial Investments	--	--	--	4,259,060	4,259,060
Investment in Associate	--	--	--	365,231	365,231
Investment Properties	--	--	--	875,915	875,915
Receivables and balances from financial activities	3,321,024	1,095,158	6,148,519	24,262	10,588,963
Net segment assets	3,321,024	1,095,158	6,148,519	11,258,643	21,823,344
Other asset					1,534,282
Total assets					<u>23,357,626</u>
<u>Liabilities and Shareholder Equity</u>					
Customer's and Banks Current accounts	3,299,485	212,170	440,364	15,997	3,968,016
Customer's And Banks deposits accounts	10,756,717	296,329	1,563,120	1,345,364	13,961,530
Net segment liabilities	14,056,202	508,499	2,003,484	1,361,361	17,929,546
Other liabilities					534,820
Shareholders equity					4,893,260
Total liabilities and equity					<u>23,357,626</u>
Operating revenue	239,026	107,190	516,855	270,850	1,133,921

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

27. OPERATING AND GEOGRAPHICAL SEGMENT INFORMATION (CONTINUED)

(a) Operating segment (continued):

December 31, 2010

	Retail Financing	Commercial (SME) Financing	Corporate Financing	Investment and Treasury	Total
<u>Assets</u>					
Balances and investments with banks and other financial institutions	--	--	--	5,148,012	5,148,012
Financial Investments	--	--	--	1,694,264	1,696,543
Investment in Associate	--	--	--	227,864	227,864
Investment Properties	--	--	--	518,887	518,887
Receivables and balances from financial activities	2,795,724	826,410	5,519,198	36,415	9,177,747
Net segment assets	2,795,724	826,410	5,519,198	7,625,442	16,766,774
Other asset					1,412,167
Total assets					18,178,941
<u>Liabilities and Shareholder Equity</u>					
Customer's and Banks Current accounts	1,890,129	110,000	836,002	100,110	2,936,241
Customer's And Banks deposits accounts	7,539,606	441,984	1,947,984	1,118,912	11,048,486
Net segment liability	9,429,735	551,984	2,783,986	1,219,022	13,984,727
Other liabilities					376,916
Shareholders equity					3,817,298
Total liabilities and equity					18,178,941
<u>Operating revenue</u>	235,621	103,846	496,887	249,027	1,085,381

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

27. OPERATING AND GEOGRAPHICAL SEGMENT INFORMATION (Continued)

(a) Geographical Segment

	<i><u>Qatar</u></i> <i><u>QR'000</u></i>	<i><u>GCC</u></i> <i><u>States</u></i> <i><u>QR'000</u></i>	<i><u>Europe</u></i> <i><u>QR'000</u></i>	<i><u>North</u></i> <i><u>America</u></i> <i><u>QR'000</u></i>	<i><u>Other</u></i> <i><u>Countries</u></i> <i><u>QR'000</u></i>	<i><u>Total</u></i> <i><u>QR'000</u></i>
<u>As at December 31, 2011</u>						
Cash and balances with Qatar Central Bank	934,530	-	-	-	-	934,530
Cash at banks and financial institutions	5,455,959	188,104	50,478	37,946	1,688	5,734,175
Receivables and balances from financing activities	10,564,701	-	-	-	24,262	10,588,963
Financial investments	4,050,554	114,629	46,209	5,631	42,037	4,259,060
Investment in associates	253,399	-	-	-	111,832	365,231
Investment properties for leasing	236,279	-	-	-	-	236,279
Investment properties for trading	325,098	314,538	-	-	-	639,636
Property and equipment	185,531	-	-	-	-	185,531
Other assets	414,221	-	-	-	-	414,221
TOTAL ASSETS	22,420,272	617,271	96,687	43,577	179,819	23,357,626
Customers' and banks' current accounts and financial institution balances	3,966,158	1,306	211	334	7	3,968,016
Other liabilities	357,592	-	-	-	-	357,592
Holders of unrestricted investment accounts	13,717,950	157,290	41,513	-	222,005	14,138,758
Shareholders' equity	4,893,260	-	-	-	-	4,893,260
TOTAL LIABILITIES , HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS AND SHAREHOLDERS' EQUITY	22,934,960	158,596	41,724	334	222,012	23,357,626

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

27. OPERATING AND GEOGRAPHICAL SEGMENT INFORMATION (Continued)

(b) Geographical Segment

	<i>Qatar</i>	<i>GCC</i>	<i>Europe</i>	<i>North</i>	<i>Other</i>	<i>Total</i>
	<i>QR'000</i>	<i>States</i>	<i>QR'000</i>	<i>America</i>	<i>Countries</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>QR'000</i>
<u>As at December 31, 2010</u>						
Cash and balances with Qatar Central Bank	954,630	--	--	--	--	954,630
Cash at banks and financial institutions	4,712,959	353,460	60,980	17,765	2,848	5,148,012
Receivables and balances from financing activities	9,141,332	--	--	--	36,415	9,177,747
Financial investments	1,419,016	165,456	64,753	3,926	41,113	1,694,264
Investment in associates	116,032	--	--	--	111,832	227,864
Investment properties for leasing	74,764	--	--	--	--	74,764
Investment properties for trading	101,079	343,044	--	--	--	444,123
Property and equipment	216,147	--	--	--	--	216,147
Other assets	241,390	--	--	--	--	241,390
TOTAL ASSETS	16,977,349	861,960	125,733	21,691	192,208	18,178,941
Customers' and banks' current accounts and financial institution balances	2,847,056	80,753	400	--	8,032	2,936,241
Other liabilities	227,651	--	--	--	--	227,651
Holders of unrestricted investment accounts	10,795,827	307,000	4,924	--	90,000	11,197,751
Shareholders' equity	3,817,298	--	--	--	--	3,817,298
TOTAL LIABILITIES , HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS AND SHAREHOLDERS' EQUITY	17,687,832	387,753	5,324	--	98,032	18,178,941

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

28. RELATED PARTY TRANSACTIONS

These include various transactions with shareholders, Board Members 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 reporting date no provisions were made against these balances:

	<i>2011</i>		<i>2010</i>	
	<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 and Musawama	33,989	28,721	194,431	74,930
Istisna	75,948	--		
Ijarah	49,828	--	115,460	134,750
	<u>159,765</u>	<u>28,721</u>	<u>309,891</u>	<u>209,680</u>
Liabilities				
Current account balances	5,583	29,883	49,268	82
Unrestricted investment deposits	101,816	285,258	159,112	91,001
	<u>107,399</u>	<u>315,141</u>	<u>208,380</u>	<u>91,083</u>
Off balance sheet items:				
Letter of credits, letter of guarantees and acceptances	600	6,637	4,987	--
Statement of income items				
Fees and commission income	10,385	1,867	22,002	3,151
Income from investing activities	-	-	--	24,358
Compensation of key management personnel				
		<i>2011 QR'000</i>	<i>2010 QR'000</i>	
Salaries and other allowances		18,572	13,345	
End of service benefit		430	367	
Contribution to Qatari Pension		634	323	
Board of directors' remunerations		8,415	7,010	
		<u>28,051</u>	<u>21,045</u>	

29. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to presentation adopted in the current year.