At the heart of the community

Annual Report 2006

QNB الوطني

Go Forward الى الأمام

15TH ASIAN GAMES DOHA 2006

His Highness
Sheikh Tamim Bin Hamad Al-Thani
Heir Apparent

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

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Board of Directors

Chairman

H.E. Yousef Hussain Kamal

Vice Chairman

H.E. Sheikh Hamad Bin Faisal Al-Thani

Member

H.E. Sheikh Hamad Bin Jabor Bin Jassim Al-Thani

Member

H.E. Sheikh Jassem Bin Abdulaziz Bin Jassem Bin Hamad Al-Thani

Member

Mr Rashid Misfer Al-Hajri

Member

Mr Mohammad Marzouq Al-Shamlan

Member

Mr Ali Hussain Ali Al-Sada

Member

Mr Bader Abdullah Darwish Fakhroo

Member

Mr Fahad Mohammed Fahad Buzwair

Member

Mr Mansoor Ebrahim Al-Mahmoud

Chairman's Statement

On behalf of Qatar National Bank's Board of Directors, I am pleased to present QNB's 42nd Annual Report for the year ended 31 December 2006.

A number of strategic initiatives were implemented during 2006 that further enhanced QNB's position as the leading financial institution in the domestic banking sector and as a key player in the regional markets. QNB's principal role in local initial public offerings, the launch of new funds on the Doha Stock Market, the structuring of Qatar's first corporate Sukuk issue and providing sophisticated advisory services were some of the key initiatives conducted during 2006.

In addition, as part of the overseas expansion strategy, regulatory approvals were obtained to expand QNB's international presence in a number of locations. This included Representative Offices in Libya and Singapore along with Branches in Kuwait and Yemen. These new overseas locations will become operational in the second half of 2007, representing a starting point of an overall strategic expansion plan that will significantly expand QNB's international presence over the medium term.

Economic activities continue to witness a high growth rate with gross domestic product recording an increase in excess of 30% in 2005 and by about 25% in 2006. As the pace of development plans accelerates, under the visionary leadership of His Highness the Emir, Sheikh Hamad Bin Khalifa Al-Thani, the economy is anticipated to continue its strong performance over the coming years benefiting the performance of the banking sector.

In reference to the financial performance during 2006, I am pleased to report that net profit increased by 30.4% reaching QR2,005 million, as compared to QR1,537 million achieved in 2005. As a result, return on average shareholders' equity increased from 30.8% in 2005 to 33.6% in 2006 and earning per share increased from QR11.8 to QR15.4. This outstanding performance is largely attributed to increased activity across all business lines and the sustained generation of fee income from value added activities. As a result, the ratio of other income to operating income reached 37.6%.

The solid performance during 2006, despite increased competition, comes on top of a remarkable growth in assets witnessed in the past five years. Total assets have increased by 43.2% since 31st December 2005 to reach QR71.7 billion.

For 2007, our business plans and objectives are ambitious and call for a sustained growth in assets and profitability, and to capitalize on our leading position in markets across the region. Through the full exploitation of QNB's franchise in Qatar and the pursuit of promising yet selective opportunities in other markets, a key financial objective for 2007 calls for an increase in profitability of 15%. Increased reliance on fee based revenues remains a core objective for the coming year.

QNB's Head-office

QNB's dominant position in the financial sector, sound assets quality, solid capitalisation and its track record of strong financial performance were amongst key attributes cited by rating agencies. I am proud to report that leading rating agencies have upgraded QNB's rating in the past year to be amongst the highest in the region. Moody's raised the long-term rating to Aa3 from A1 and the short-term rating to P1 from P2. Also during 2006, Fitch increased the long-term rating to A+ from A and Capital Intelligence raised the long-term foreign currency deposits to A+ from A.

In line with the strong financial performance of 2006 and consistent with QNB's aim of maximising long term returns to shareholders, the General Assembly has approved the recommendation of the Board of Directors for the distribution of a cash dividend of 60% of share capital, representing QR6 per share, along with a bonus share issue of 25%, representing one share for every four shares held, thereby increasing share capital to QR1,622 million.

On behalf of the Board of Directors, I express our sincere gratitude to His Highness the Emir, Sheikh Hamad Bin Khalifa Al-Thani and to His Highness the Heir Apparent, Sheikh Tamim Bin Hamad Al-Thani, for their continued support and guidance.

We also extend our congratulation to Qatar Central Bank Governor, His Excellency Abdullah Bin Saud Al-Thani on his appointment and wish him every success. We also take this opportunity to express our gratitude to the previous Governor, His Excellency Abdullah Bin Khalid Al-Attiyah for his long service and leadership in promoting Qatar's banking sector.

Finally, on behalf of the Board, I renew our commitment to our stakeholders in delivering a superior service and sustained growth. Management and staff are totally dedicated towards that end and I thank them for their loyalty.

Yousef Hussain Kamal
Chairman

Acting Chief Executive's Report

It gives me a great pleasure to provide our stakeholders' with an overview of accomplishments during 2006 and to share key initiatives to be implemented in 2007 and beyond.

Given the stellar performance of 2005, accomplishments during 2006 were remarkable across several fronts – financial results, initiatives taken, and new services offered. A key factor in profitability growth during 2006 derived from the diversification of income sources, a strategic aim initiated two years ago. This required not only additional resources but also the ability to anticipate and meet customers' needs in a timely cost effective manner and with a high level of service. Invariably, this process requires a close collaboration among business units and the adoption of a fresh approach in looking at initiatives.

Our role in arranging and structuring Qatar's first corporate Sukuk issue and the advisory role for Q-Tel were among noteworthy achievements in this regard. Going forward, these value added fee income generating activities will gain increased importance both at home and in regional markets. Accordingly, we would enhance our resources and capabilities in order to maximise the benefits arising from these opportunities.

Another key factor in our ability to record a sustained growth in profitability is the efficient leveraging of our resources, whilst minimizing potential long term risks – a philosophy at the heart of QNB's approach, especially given the strong underlying economic activities in Qatar and the region. In this regard, I am pleased to report a further reduction in the ratio of non-performing loans to total loans to 1.2% in 2006, from 2.2% in 2005, which is amongst the lowest in the region.

During 2006, a strategic plan was formulated in regard to QNB's international presence, which was approved by the Board of Directors that covers the GCC region and other selected markets. As part of this expansion plan, a dedicated International Banking Department was established and entrusted with its implementation, which will be carried in several phases over the next five years.

Progress has been noteworthy in establishing our presence in Singapore, Libya and Yemen, and towards the strategic objective of increasing the level of business activities outside Qatar; we are currently seeking regulatory approvals in other selected markets in the region and beyond. The recent approval by the Central Bank of Kuwait to establish a Branch is a major step in our regional expansion plan.

While an expanded international presence is a vital element of our strategy, focus on the domestic market remains a priority given the strong performance of the economy and the opportunity this represents in project finance, corporate, retail, Islamic and wealth management. The human element has been the key factor in our ability to deliver on the set strategic objectives. Being able to recruit and retain talented employees remains a top priority. This, along with the emphasis on training and development along with a performance reward system ensures the existence of a conducive environment for success.

I take this opportunity to thank the Board of Directors for the trust they have placed upon us and for their continued support. I also express my appreciation for management and staff for their dedication and commitment to maintain QNB as the leading Bank in Qatar.

Ali Shareef Al-Emadi
Acting Chief Executive

Risk Management & Corporate Governance

QNB is a trusted institution that plays a crucial role at the heart of the nation’s economy. Risk Management and Corporate governance best practices are therefore integral to its operations. In 2006, the Bank continued to make substantial investments in its people, systems and procedures to safeguard its stakeholders and customers’ investments and to ensure that they always receive the best and most reliable service.

Risk Management Framework for identifying, measuring, reporting and managing all types of risks

In its endeavours to ensure effective and efficient implementation of risk management and corporate governance best practices, the Board laid down and approved a Risk Management Framework for identifying, measuring, reporting and managing all types of risks. The framework applies to the entire QNB Group including the Islamic banking operations. The Bank has also appointed a Shari'a Board and Shari'a Auditor to support the Islamic banking business and ensure compliance with Shari'a principles and Qatar Central Bank regulations.

With reference to the subsidiaries and associates, a framework for managing the relationship between QNB Group including best practice in corporate governance has been developed with the assistance of an internationally recognized consulting firm. To ensure that an adequate Risk Assessment and Management framework exists within QNB Group, the Risk Management Department has been organised along best international practice and covers Credit, Market and Operational Risk. The Risk Department has the responsibility for implementing and managing the policies defined in the risk framework document and related policies.

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In providing overall control and management of all risks across the group, the risk management function is supported by a number of Board and Management committees. These committees include the Board Audit Committee, Board Executive Committee, Risk Management Committee, Asset Liability Committee, Credit Committee, Investment Committee and Strategy and Development Committee.

Responsibility for control rests with line management and entails full accountability, which includes the requirement to report all losses. At each level, management has a duty to consider control implications and requirements, where necessary in consultation with other departments.

The Risk Management Committee meets regularly to review a detailed agenda covering risk management strategies, risk policies, risk limits and recommend corrective actions. It also reviews compliance with the risk management framework, policies and procedures, reviews regulatory compliance, anti money laundering and fraud prevention reports.

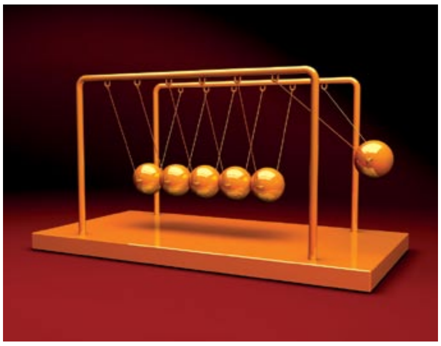
Risk Management & Corporate Governance

Internal Audit provides objective assurance and consulting designed to add value and improve operations

Internal Audit

QNB's Internal Audit function covers the whole bank including its international subsidiary, branches and representative offices. Deriving its authority from, and reporting to Board Audit Committee, it is independent of the management and internal control of the activities audited. It provides objective assurance and consulting designed to add value and improve operations. It helps the Bank achieve its objectives by a systematic disciplined approach to evaluate and improve effectiveness of risk management, control and governance process.

A significant development during the year was that QNB became the first Qatari bank and one of the first Qatari businesses to institute a quality assurance review. This was carried out by a leading consulting firm, as an independent consultant. The review examined the Internal Audit function and established that it conforms with international standards and best professional practices. Compliance is managed on an on-going basis through appropriate controls built into QNB policies and procedures. All new regulations are promptly circulated and policies and procedures updated to reflect the new regulations.



QNB places the highest priority on ensuring the soundness of its assets and works continually to enhance its risk management capabilities

Basel II

On the Basel II front, QNB accepted the challenge to be Basel II compliant before end of 2006 in line with QCB guidelines and instructions. QNB views the Basel II Accord from a strategic point of view and as an opportunity to upgrade and enhance risk management policies, procedures and systems. The Bank has focused a significant amount of resources on the risk management aspects of Basel II in order to maintain reliable and sound banking operations. QNB places the highest priority on ensuring the soundness of its assets and works continually to enhance its risk management capabilities. Basel Committee's sound principles and guidelines on management of credit risk, market risk, operational risk and other risks form the basis of QNB's risk management policies and procedures.

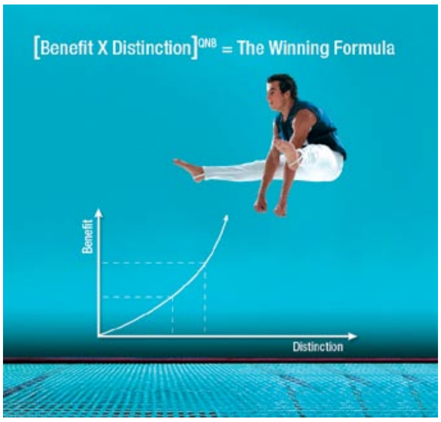
Credit Ratings

During 2006, QNB's credit rating was raised by three leading rating agencies to be among the highest in the region. Moody's Investor Service upgraded QNB's long-term foreign currency deposits from A1 to Aa3 and also raised the short-term rating to P1 from P2. These rating by Moody's are set at the country ceiling reflecting the Bank's importance in the domestic banking system.

Capital Intelligence, the international emerging markets rating agency, upgraded QNB's financial strength rating to A+ from A, due to the Bank's strong fundamentals and its leading position. Meanwhile, taking into account QNB's track record of strong financial performance, Fitch upgraded QNB's long-term rating to A+ from A. Finally, in September 2006, Standard & Poor's has affirmed QNB's rating of A for long-term and A-1 for short-term. This is the highest rating assigned by S&P to a select group of financial institutions in the region.

Personal Customers

QNB provided enhanced benefits to its personal customers during 2006 with significant investments in its brand, services and products. The Bank utilised these improvements in its capabilities to allow its customers a greater participation in Qatar's rapidly accelerating prosperity.



Savings Plus Account was launched to give customers competitive interest rates

The Bank implemented a new strategy in its retail division based on developing relationships of trust and loyalty and reaching out to its clients. The first step in this strategy was the exercise of an in-depth process of market research. This was followed by the launch of more responsive banking products aimed at new arrivals in the country, entrants into the property market and investors.

At the same time the Bank extended its electronic banking network ensuring that customers are able to access services in whichever way they prefer: whether via the internet, mobile text services, over the telephone, by ATM, or face-to-face in a branch.

As the high growth of the Qatari economy brought many new residents to Qatar, the Bank extended its hand to welcome them with its 'Bedaya' new arrivals package. Recognising the need of many to save and invest, a Savings Plus account was launched, which gives customers greater control over their savings with competitive rates of interest.

The Bank also delivered a new product aimed at helping Qatari and non-Qatari nationals enter the real estate market, which has grown strongly in recent years. It launched a competitive mortgage product for the acquisition of properties in the country.

An Award winning Asian Games credit card, the first of its kind in the region

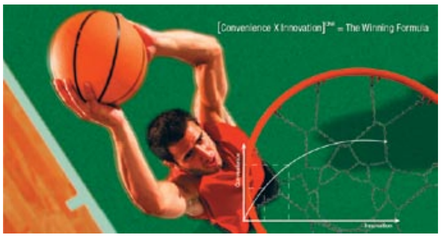
On the consumer side of business, the specially designed commemorative award winning Asian Games credit card was taken up with unprecedented enthusiasm. It was the first of its kind in the region with a unique value proposition. The success of this card was accompanied by the continued popularity of the Qatar Airways co-branded MasterCard, launched in late 2005.

Always ahead of the competition, QNB became the only Bank in Qatar to establish a dedicated business team focused on Small and Medium-sized Enterprises within the retail division. This specialist team draws upon synergies within the Bank to deliver corporate financial solutions and business advice better suited to the scale and needs of this increasingly important sector of the economy.

QNB is also committed to encouraging broader popular participation in capital markets. Its Al-Watani funds provided customers with a vehicle to invest in the Doha Stock Market, managed professionally by the Bank's award winning

Personal Customers

QNB is committed to the e-government initiatives and is constantly developing tools and special services to enable best technology deployment



Hala Recharge, a unique service launched by QNB, to top up phone cards

Improved technology and increased staffing raised the efficiency and quality of service at the Call Centre, enabling it to handle a greater volume of calls

Ansbacher subsidiary. The first two of these funds, launched in October 2005, outperformed the DSM Index by a margin of over 27% since inception.

The Bank also created opportunities for direct investments in the market, utilising its extensive branch network in Qatar so that investors from across the GCC could participate in the Al Rayan IPO. This IPO demonstrated one of QNB's greatest strengths, which is its ability to pass on the benefits of internal synergies from within the Bank to its customers.

Further examples of how customers benefited in this way during 2006 came from the development of partnerships with several key companies and institutions which enabled the Bank to deliver value-added services to the wider community as well as to its own clients. A prime instance of this was the launch of the Securities Trading Electronic Settlement (STES) gateway which delivered faster and more efficient services to capital market investors.

QNB was exclusively selected to connect the country's two largest brokerage companies to their clients via this highly secure electronic processing mechanism providing their customers with on-line real-time trading using their personal accounts.

Additional services available to QNB's own customers include the ability to view their securities trading accounts and transfer or withdraw funds via the Bank's ATMs or online, by telephone as well as in branches themselves.

Customers also benefited from the close partnership between QNB and Q-Tel, the Qatari telecommunications giant. During the year, Hala Recharge, a unique service launched by QNB in November 2005, extended further features to customers allowing them to top up their phone cards by internet, SMS text message, and at all ATMs.

These new services were made possible as a result of the priority which the Bank continues to place on investing in its delivery channels and its centralised operations. Improved technology and increased staffing raised the efficiency and quality of service at the Call Centre, enabling it to handle a greater volume of calls. The ATM network was increased by nearly two-thirds to reach over 130 locations. All ATMs and POS were also upgraded to accept Chip and PIN technology in accordance with international standards. The Bank also made significant improvements to its credit card e-payment gateway and its bilingual Arabic-English website, an achievement recognised by Global Finance which named QNB the Best Consumer Internet Bank for 2006.

High Net Worth Clients

Innovative investment opportunities from Ansbacher, a QNB subsidiary

Ansbacher's office opened in Qatar Financial Center, Doha

Special financing to own super-yachts from Ansbacher's yacht finance division

During the year, QNB continued to develop close relationships with its high net worth clients based on trust, confidentiality and convenience. The Bank presented these clients with expert professional advice and support along with innovative investment opportunities drawing on its own expertise and experience and that of its Ansbacher subsidiary.

A crucial element in delivering the highest possible level of service was the ability to maximise the synergies between the two operations, which are more closely bound due to the opening of Ansbacher's office in the Qatar Financial Centre in Doha in December 2005.

Clients obtained access to top level financial products, including the Al-Watani funds. They also obtained top level access to the international property market through Ansbacher's Prime 1 international property fund. In addition, the Bank also delivered new and innovative opportunities, not just through funds but also with professional advice and support for direct investments both in equities and in the international property markets.

QNB's private banking relationship managers assisted their clients to manage their wealth internationally in the most efficient and secure manner using the world-class products and services provided by Ansbacher. An example of this was the ability to draw on the subsidiary's expertise in off-shore, fiduciary and trust banking which is backed by an international network of offices in numerous jurisdictions including the Channel Islands, Switzerland, Bahamas, Dubai International Financial Centre and Qatar Financial Centre. The quality of this service was recognised in September 2006, when Ansbacher's UK Fiduciary Team was named Institutional Trust Company Team of the Year by the Society of Trust and Estate Practitioners.

Clients also benefit from the services of one of the acknowledged world leaders in superyacht finance and administration. During 2006, the number of yacht finance deals increased at Ansbacher's specialist yacht finance division, which provides the financing necessary for clients to own super-yachts.

Islamic Banking

QNB Al-Islami maintained its pioneering status as Qatar's leading provider of Islamic banking services in 2006. The specialist division attracted numerous new corporate and retail customers seeking Shari'a-compliant options, through an array of innovative products and services rolled out during its first full year of operation. A US$270 million Sukuk, offered on behalf of the Qatar Real Estate Investment Company (QREIC), represented Al-Islami's most important achievement during 2006, and was widely recognised as such, across the country's banking sector. This Sukuk enabled a valued corporate client to tap the Islamic liquidity market, while demonstrating the Bank's commitment to Qatar's thriving real estate sector. It also demonstrated QNB's unique ability to manage complex financial and legislative challenges, while meeting Shari'a requirements.

The success of this achievement was a shared accomplishment reflecting the combined talents and expertise of various QNB departments. Al-Islami called on Ansbacher to create a Special Purpose Vehicle for the bond, which was the first of its kind to be launched through the Qatar Financial Centre (QFC). It also relied on professional advice from QNB's conventional Treasury and Syndications teams.

One of the chief strengths of the Al-Islami brand has been its ability to attract and retain both corporate and retail customers through careful capitalisation of operational synergies. For instance, its partnership with Al-Meera, one of the country's largest chains of hypermarkets, draws on Al-Islami's expertise as a Shari'a-compliant corporate banking advisor, while simultaneously benefitting from the installation of QNB ATMs, Point-of-Sale systems and extensive electronic banking and cash management services. Additionally, Al-Meera through QNB's Mazaya program Al-Meera employees enjoy a range of personal banking benefits.

Ijara Forward Lease, your modern alternate gateway to Istisna

In addition to benefiting from the standard array of Islamic banking services, Al-Islami's clients benefited from several innovative new products. During 2006, the ground-breaking Tawarruk scheme, approved by a fatwa in September 2005, was implemented successfully. This product, which converts conventional debt into Islamic loans, was particularly effective in helping Al-Islami retain customers for the Bank as a whole. This product spawned numerous referrals from conventional branch and relationship managers throughout the year.

The innovative Istisna over Ijara product, which supports long-term projects such as the construction of large manufacturing plants and airplane and ship financing was also popular with clients in 2006.

Corporate Customers

QNB's corporate banking sector delivered an outstanding range of high-level services during 2006. The Bank participated in some of the largest transactions in the GCC. Whether advising corporations, arranging term or trade financing, or providing access to capital markets, the Bank was able to achieve the best expected results for its clients.

Many of the most important transactions during the year also had large regional elements, underlining how the Bank now supports clients throughout the GCC. The Bank exercised the full weight of its reputation, expertise and experience as a major lead arranger in the regional financial markets to give clients, whether at home or abroad, the best advice and to secure them the best financing available.

Global Finance named QNB "Best Bank in Qatar" for 2006

In recognition, Global Finance named QNB "Best Bank in Qatar" for 2006. The magazine also awarded QNB the title of Best Corporate / Institutional Internet in 2006 owing to the success of S@HL corporate internet banking service. This strong performance was managed thanks to the effective deployment of the QNB's wealth of expertise and experience via carefully nurtured relationships with individual clients. Specially formed teams for specific deals and transactions delivered the synergies developed within the Bank directly to clients.

The way that such synergies maximised value for clients could be seen clearly in the successes of the project finance and syndications departments and the newly created corporate advisory department. The Bank not only extended its position as a prime source of financial solutions for Qatari businesses, it also supported major projects based in other GCC countries and international projects coming into the region.

Some of the most important Qatari deals included term financing facilities for Gulf Drilling International, Qatar Navigation and Qatargas. Regional deals included syndications for Kuwait Petroleum, Dubai's Arab Maritime Petroleum Transport Company and Oman's Sohar Aluminum.

QNB took a major financial advisory role on behalf of Q-Tel

The Bank also excelled in its role of trusted financial advisor to some of Qatar's leading corporations. It took on a major financial advisory role on behalf of Q-Tel, the Qatari telecommunications giant. The corporate advisory desk worked closely with Q-Tel to arrange the most cost-effective structure for a US$2 billion loan facility, providing financial resources for acquisition opportunities in other markets.

Leading on from this corporate advisory service, clients were able to draw on QNB's strong expertise in every aspect of loan management. For instance,

Corporate Customers

the Bank was joint mandated lead arranger and joint underwriter and also acted as accounts bank, facility agent and security agent for a US$130 million syndicated term finance facility for Doha-based Gulf Drilling International Ltd.

The Bank also supported its clients by participating substantially itself in large syndications. For example it took a US$225 million tranche of the record Qatargas 4 financing arrangements, clearly demonstrating its commitment to the company and the country in the strategically important gas sector.

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QATARGAS

QNB participated in large syndications such as Qatargas 4

A medium term syndicated loan for Vitol, the Swiss oil trading company, demonstrated a natural niche in the financing of European companies expanding within the GCC region. The Bank spearheaded the seven-year loan to finance Vitol's regional growth plan, using its knowledge of the GCC banking sector to strategically place this transaction.

QNB's expertise in privatisation along with its advanced IT platforms and strong operational capabilities were mobolised for Al-Rayan Bank's pan-GCC initial public offering, which was the largest ever in the region. The QR7 billion flotation, which was six-times oversubscribed, was a notable triumph and one of the major financial events of the year.

شركة الخليج للمخازن
Gulf Warehousing Company

QNB successfully managed the subscription to increase the capital of Gulf Warehousing Company

QNB successfully managed the transaction as prescription arrangement manager and IPO Lead Manager, despite having been mandated just three weeks prior to the launch date. This IPO received massive response from GCC investors, with total participants of about 785,000 of which 225,000 conducted their applications on-line utilizing the technology investment the Bank made available for their convenience.

This was not the only time that QNB assisted a client in raising money from the market in 2006. The subscription to increase the capital of Gulf Warehousing Company by QR180 million was also successfully managed in October. The Bank already has a long and successful track record in this area, having arranged 10 of the 11 IPOs that came into the market since 1998.

QNB's capital market expertise has been greatly enhanced since the acquisition in 2005 of Ansbacher, which brought with it more than 110 years experience in managing the assets of its clients. With the launch of additional Al-Watani funds in 2006, the Bank's assets under management have become one of the largest in the region, totalling approximately QR15 billion. In September 2006, a Shari'a compliant fund was launched by Investment House. This fund is managed by Ansbacher.

Corporate Customers

QNB's assets under management increased substantially to become the largest in the region through the launch of Al Watani Funds

The Bank has added to its fund management capabilities with the introduction of custodian services. The safe-guarding of clients' assets was a necessary and logical addition to the Bank's already dominant position in this sector. This new service also highlights how QNB is extending the benefits of a sustained campaign of investment in centralised financial management systems to benefit its clients.

Meanwhile the treasury department has been instrumental in promoting fixed income securities, derivatives and foreign exchange in Qatar. Working closely in conjunction with Ansbacher and QNB al Islami, Treasury played a key role in the structuring of Qatar's first corporate Sukuk for Qatar Real Estate Investment Company. In recognition of its expertise and role, Global Finance magazine awarded QNB Best Foreign Exchange Bank in Qatar in 2006 and Best Trade Finance Bank.

In the same spirit of supporting the Qatari economy, QNB has laid plans to nurture up and coming Qatari entrepreneurs with the establishment of two new enterprise and technology venture funds. The Bank secured the mandate to establish, launch, manage and market the funds which are designed to support the work of the Qatar Science and Technology Park.

International Banking

Through Ansbacher, QNB has expanded its international network and benefited from its experience in wealth management

QNB is a successful and growing international bank, with established branches in London since 1976 and in Paris since 1978 that contribute a powerful legacy of experience to its operations.

This was a year of integration following the milestone acquisition of the Ansbacher subsidiary in the previous year and the opening of a Representative Office in Tehran. Through Ansbacher, the Bank added important new locations to its existing network and benefited from its experience in wealth management and specialised lending. Measures taken to further expand the scope and reach of its international presence continue. A strategy formulated by the newly established International Banking Department focused on further regional expansion. In March 2006, the Board approved a multi-phase expansion plan with the aim of establishing the Bank as a key regional player.

QNB was the first Qatari bank to be granted licenses to operate in Yemen, Kuwait, Libya and Singapore

The objective is already on track, with the granting of the first licens to any Qatari bank to operate in Yemen, Kuwait, Libya and Singapore. The Bank is also applying for additional licences in other targeted markets. The full service branches in Yemen and Kuwait will support and develop the already strong trade links between these countries and Qatar. QNB will provide its services not only to the many Qatari businesses trading in both countries, but also to Yemeni and Kuwaiti businesses coming to invest in Qatar's booming economy. Both branches will provide a wide range of first class banking services, and investment opportunities to both corporate and retail customers.

The Singapore Representative Office will act as a gateway to Asia, the destination of a sizeable portion of Qatar's natural gas exports. The Libyan Representative Office, meanwhile, establishes a crucial foothold for the Bank in North Africa, a region that is currently witnessing strong economic growth, thanks to its trade ties to Europe and Libya's vital role in the supply of oil and gas. In addition to its role of promoting the Libyan market and extending banking facilities to major corporate clients, this Representative Office will promote operations with Europe through QNB's Paris and London branches.

Meanwhile, the centralisation and standardisation of the IT and Operations in Head Office has continued to improve the quality and efficiency of service for all QNB clients. The tools and investment in technology piloted at existing overseas locations will be a vital resource for the smooth opening of new operations; thereby, maximising benefits for best customer experience while retaining required controls.

Institutions

A unique system in Qatar enabling individuals to make official payments to public administration bodies using a pre-paid eCASH card

QNB deploys its powerful financial capabilities to assist public and private bodies to operate more effectively. The benefits of this are enjoyed not just by the institutions themselves but also by all individuals who interact with these institutions, independently of whether they are clients of the Bank itself. QNB regards the extension of its centralised operations and its wide network of delivery channels for the benefit of the community as one of its top priorities. It has therefore developed a sustained programme of investments in the upgrading of its systems.

This increase in investment has been accompanied by a dramatic surge in demand. In 2006, the Bank vastly extended its role as a preferred partner in the modernisation of the government processes. A further 12 ministries and councils took up the eCASH service, which the Ministry of the Interior first adopted in 2005. This system, unique in Qatar, enables individuals to make official payments to public administration bodies using a pre-paid eCASH card. This is not only more secure and convenient for the institution concerned. It also makes official transactions easier and quicker for citizens, residents and visitors to the country. New institutions using eCASH include the Ministry of Municipal Affairs and Agriculture, the Central Tenders Committee, the Customs and Ports General Authority, the General Organization for Standards and Metrology, the Urban Planning and Development Authority, and the Real Estate Registration Department (the Ministry of Justice).

QNB is committed to the e-government initiatives and is constantly developing tools and special services to enable best technology deployment. Alongside the eCASH system, QNB also provides e-Government electronic payment services for many official bodies. In 2006, the number of services that could be accessed and fully executed on e-Government web portals increased to 30.

Qatari residents can now renew permits, driving licences, apply for medical cards and pay their electricity bills on line. In addition, visitors to Qatar can now apply, pay for and obtain their visas on-line. Thanks to an innovative cutting edge Q-Tel portal, customers can now enquire and settle bills online using any major credit card. This service is possible through a partnership with QNB to enable its credit card internet payment gateway which has been successfully launched in previous years making QNB an award winning e-commerce Bank.

دلالة
DLALA HOLDING

THE GROUP Securities المجموعة للأوراق المالية

Major companies and their customers are also benefiting from efficiencies which the Bank is bringing to traditional payment methods. A process of installing electronic clearing terminals at key corporate clients dramatically increases the speed and efficiency of payments by cheques, while reducing transaction errors. The Bank's partnership with Dlala and The Group Investments, two of the country's largest brokerage houses, is a case in point. QNB enables the brokerage houses to handle the cover payments and settlements with their clients through the Bank's Security Trading Electronic Settlements (STES) gateway that was launched in early 2006.

Our People

The Bank made the development of its personnel and their skills a top priority

QNB contributes to the prosperity of its clients and to the wider community in Qatar thanks to the focus and professionalism of its management and staff. The Bank has therefore made the development of its personnel and their skills a top priority. As the Qatari economy continues to expand and diversify, and as QNB itself grows and develops as a major regional bank, investment in training and human resources will become ever more important. It was with this in mind that the Bank launched a new human capital strategy in 2006.

One of the main aims of this strategy is to ensure that all employees of the Bank understand its core brand values and what they mean in terms of delivering the desired customer experience. The strategy is being implemented via a human resources transformation project, involving business leaders from across the organisation to ensure top level commitment.

Integrated Performance Management and Development (IPMD) system is being gradually implemented to facilitate the overall identification of human talent and to manage career development

One of the most important achievements of the project this year was the introduction of enhanced performance appraisal for all employees. An Integrated Performance Management and Development (IPMD) system is being gradually implemented to facilitate the overall identification of human talent and to manage career development. This has further enhanced employee focus on meeting QNB's strategy and business plan objectives, which have customer satisfaction at their core. Meanwhile, several HR functions have been automated, providing more transparency of the HR process and improved efficiency which allows staff and management to focus on business objectives.

The Bank increased its investment in staff training in 2006. As a result, 85% of employees underwent an average of four days training with a focus on customer service, regulations, policies, procedures, professional development and specialised functional training. As well as nurturing those employees already at the Bank, QNB has also invested energy and resources in attracting the next generation. A specialised recruitment centre was launched with an improved range of tools for attracting applicants with the required talents, making the processes of skill search and recruitment more business focused.

QNB increased its investment in staff training during 2006

The learning development scheme, "Lighting the Torch", inspired by the Doha Asian Games, was extremely successful in attracting new graduate trainees. An established programme of college sponsorship also provided trained candidates in areas of need across the Bank. This demonstrates the Bank's strategy and determination to be the employer of choice for talented, career-minded and service-oriented graduates.

The Qatarisation programme also succeeded in attracting and retaining many young Qatari graduates in productive and challenging functions. With the improved attraction, selection and induction process, the rate increased to 41%.

Corporate Social Responsibility

QNB sponsored the Qatari Middle East Rally Champion, Nasser Saleh Al Attiyah

QNB's vision for the country and its community is ambitious and pioneering. This goes beyond supporting business and economic development. It also means promoting and supporting events of national and international prominence, donating generously to charities and playing an integral role in every sphere of Qatari life including sports, education, health and social welfare.

SPORTS

QNB's commitment to the development of Sports in Qatar has been boundless. For the 14th consecutive year, QNB was the Official Bank of the Association of Tennis Professionals Men's and Women's Tours in Doha in 2006. The Bank also supported the traditional sports of camel and horse racing. It sponsored the QNB Losail National Cup Motorbike Race and was proud to support the Qatari Middle East Rally Champion, Nasser Saleh Al Attiyah.

QNB Losail National Cup Motorbike Race

QNB has recurrently supported the national sports teams as they represented Qatar in international tournaments. In September 2006, QNB decided to take this sponsorship even further by signing an agreement with the Qatar National Olympic Committee (QNOC), becoming the exclusive sponsor of the four major sport championships in Qatar: football, basketball, handball and volleyball for the upcoming three years. The sponsorship includes leagues and His Highness the Emir Cup, and His Highness the Heir Apparent Cup for all four sports.

EDUCATION

A nation is built on the foundation of education and literacy and it is vital that the brightest minds are nurtured and offered an opportunity to further develop their talent. As one of the biggest financial institutions in Qatar, QNB places education high on its list of priorities and has extended staunch support to the educational sector of this nation.

مؤسسة قطر
Qatar Foundation

QNB is a staunched supportor of education in Qatar

QNB enjoys an excellent rapport with Qatar's premier educational institutions under Qatar Foundation and Qatar University and the Bank takes special interest in supporting educational curricula and disciplines that will contribute to excellence and growth.

In the year 2006, QNB provided scholarship support to The Learning Center, a non-profit educational institution devoted to instructional, diagnostic and therapeutic services to students facing academic difficulties. As part of the support, the Bank sponsored eight scholarships to students with academic difficulties.

QNB understands that education is a necessary means to a valuable end, and the educated play a leading role in shaping the country's future. In order to

Corporate Social Responsibility

QNB enjoys an excellent rapport with Qatar's premier educational institutions

utilize young Qatari's potential to the maximum and contribute to the country's progress; QNB has gone beyond merely extending financial support to the educational sector. The Bank recruited four fresh graduates from the College of North Atlantic Qatar (CNAQ), three of whom had been sponsored by QNB earlier this year.

QNB also sponsored the Tasmeem Doha 2006 Exhibition organized by Virginia Commonwealth University - Qatar (VCUQ). Additionally, the Bank launched a sponsorship program for the students of VCUQ in order to encourage educational excellence and provide unparalleled opportunities to the gifted students. QNB also supported individual community schools and Qatar University through financial donations.

The educational sector is incomplete without adequate infrastructure and state-of-the-art facilities and Qatar's education sector has benefited directly from QNB's project financing services.

The Bank financed construction projects at Education City and Qatar Foundation expansions. QNB has also extended infrastructure financing to Qatar University for the construction of the Ibn Khaldoun Auditorium.

SOCIAL WELFARE

Through its continued support of a wide range of charitable activities, QNB is making a positive difference in the lives of many in Qatar and beyond its borders. In collaboration with Qatar Foundation's Social Development Center, the Bank initiated the QNB Volunteer Awards programme aimed at promoting the value of volunteer efforts and encouraging individuals of all ages, as well as corporations and institutions to generously allocate their time and expertise towards this cause.

QNB Volunteer Awards programme aimed at promoting the value of volunteer efforts and encouraging individuals of all ages

It is also a sign of QNB's support towards initiatives introduced by voluntary private organizations and thereby encouraging them to upgrade their contributions to exclusive voluntary projects to promote the development process.

QNB has also provided direct financial support to the Social Development Center, enabling it to deliver various socially responsive programs like The First Step Programme, a community programme that has been instrumental in preparing Qatari women to be a part of the work force by providing rehabilitation, orientation and relevant training to manage interpersonal relations and job skills.

Corporate Social Responsibility

QNB also has been an avid contributor to many of Qatar's charitable organizations, including Qatar Diabetes Association, Qatar National Cancer Society, Qatar Society for Special Needs, Qatar Society for Orphans and the Family Consulting Center and Al Noor Institution.

HEALTH

QNB provided substantial contribution to support the development of health care and medical facilities in Qatar

QNB has taken its responsibility towards development of health care very seriously since it undoubtedly, plays a pivotal role in the national economy. QNB has provided substantial contribution to support the development of health and medical facilities in Qatar. The Bank has worked closely with Hamad Medical Corporation, the governing body on national health care and sponsored several specialized international medical conferences in Qatar organized by HMC. QNB is an ardent supporter of the Qatar National Cancer Society and its mission to educate and create awareness among Qatari citizens and expatriates on the dangers of cancer.

ENVIRONMENT

QNB believes in taking measures to preserve the environment in Qatar. The Bank has been working in collaboration with the Supreme Council of Environment and Natural Reserves, the governing authority on all matters related to Qatar's environment. QNB also sponsored the program "Flower for Each Spring" in cooperation with the Friends of Environment Center.

15TH ASIAN GAMES DOHA 2006

The Bank constructed new branches for the purpose of serving the clients and promoting QNB's products and services

December 2006 witnessed the biggest sports event in the history of Asia – the 15th Asian Games Doha 2006. QNB played a historic role in the Games as one of the four prestige sponsors and the Official Bank. With 750,000 spectators and over 8,000 participants in the Games, the Bank had taken on a challenging task that was executed with perfection. The event was a milestone in the history of Qatar and a turning point in the history of the Bank, reflecting the strong ties that QNB shares in the growth of the nation.

The meticulous organization of the Games was a source of pride for Qatar and a brilliant benchmark in its honorable history of accomplishments under the leadership of His Highness Sheikh Hamad Bin Khalifa Al-Thani, Emir of the State of Qatar. As the Official Bank of the 15th Asian Games Doha 2006, QNB's performance and achievements surpassed all expectations in terms of organization, efficiency and effectiveness, fulfilling the various banking and promotional needs of the Games.

QNB's ATM network was expanded whereby 17 new machines were added specifically catering for the Games

In its quest to support and sponsor this multi-sport event, QNB established a permanent committee to supervise the preparations and carry out the duties of QNB as the Official Bank of the Games in line with the achievements of Doha Asian Games Organizing Committee (DAGOC). A QNB IT Center equipped with state-of-the-art computers was set up specifically for DAGOC. The Bank constructed three new branches in the Athletes' Village, the Temporary Airport and the Main Media Center for the purpose of serving the clients and promoting QNB's products and services.

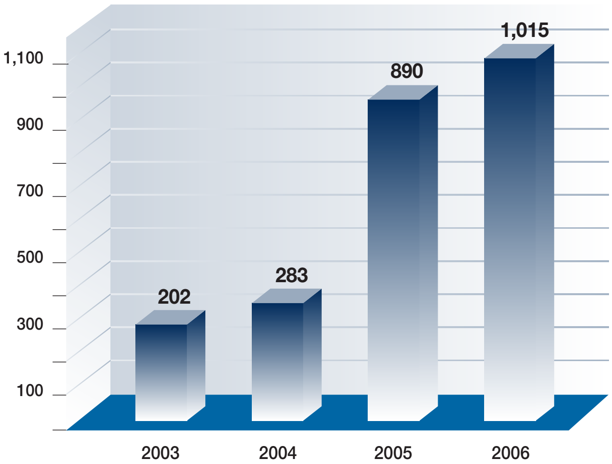
QNB's ATM network was also expanded whereby 17 new machines were added specifically catering for the Games. An integrated mobile branch was also set up to serve the Games and the spectators. Its role in the Games, however, did not end there. QNB sponsored more than 8,000 athletes' shirts and the uniforms for over 10,000 volunteers taking part in organizing this mega event. In addition, and with the start of the Games, more than 150 QNB employees served as volunteers, assisting with the Games under the umbrella of DAGOC at various locations.

QNB played a historic role in the Games as one of the top four prestige sponsors and the Official Bank

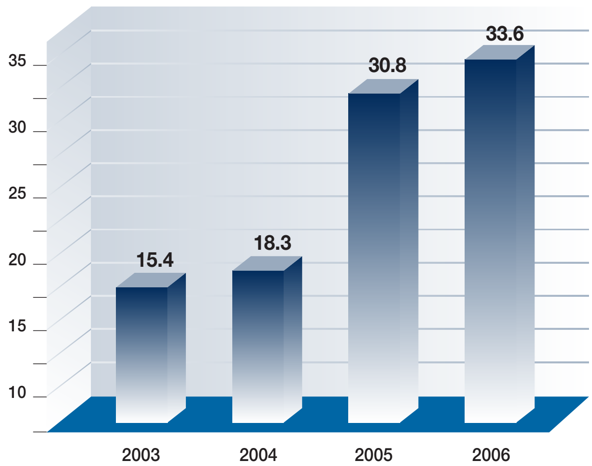
QNB's contribution to the Games also included an element of charity. In collaboration with DAGOC, the Bank launched a special commemorative credit card. For every transaction carried out with the co-branded card, QNB donated a portion of the revenue to the "Reach Out To Asia" charity, an organization set up to support numerous relief efforts on the Asian continent. This tied in with the Bank's commitment to corporate social responsibility by supporting welfare charities whose work extends beyond the borders of Qatar.

On the occasion of the tremendous success of the historical 15th Asian Games Doha 2006, QNB extends its sincerest congratulations and appreciation to His Highness Sheikh Hamad Bin Khalifa Al-Thani, the Emir of the State of Qatar and His Highness Sheikh Tamim Bin Hamad Al-Thani, the Heir Apparent, for their leadership, and to the generous people of Qatar who worked side by side for hosting an event of such magnitude and completing all related preparations successfully.

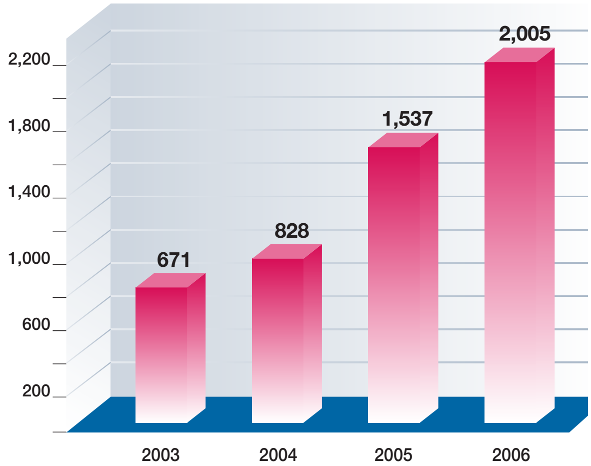
Financial Highlights



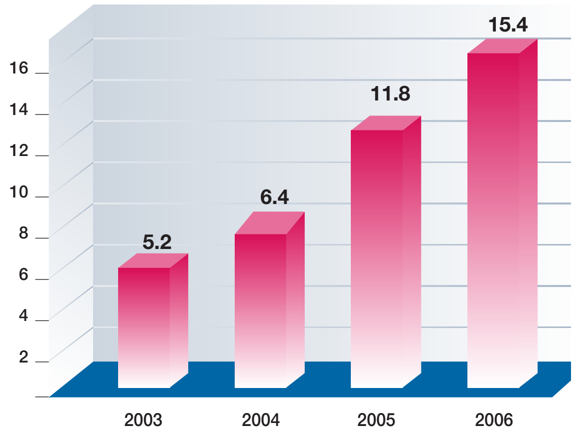
Other Income (QR Million)
Other income up by 14% to QR1,015 million



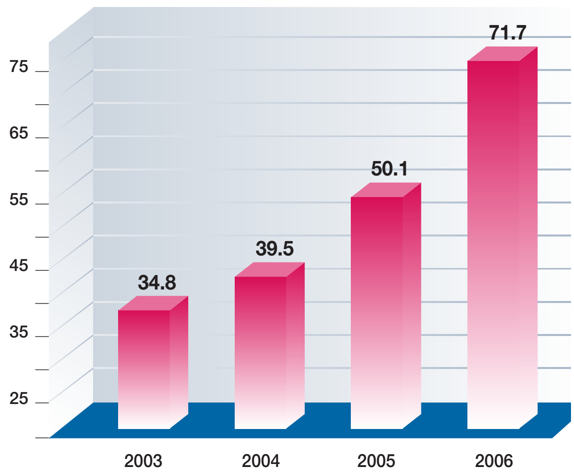
Return on Average Equity (%)
Return on Average Equity up to 33.6%



Net Profit (QR Million)
Net profit up by 30.4% to QR2,005 million



Earnings Per Share (QR)
Earnings Per Share up to QR15.4



Total Assets (QR Billion)
Total Assets up by 43.2% to QR71.7 billion

- Net profit up by QR468 million (30.4%) to QR2,005 million from QR1,537 million in 2005
- Total assets up QR21.6 billion (43.2%) to QR71.7 billion
- Total loans and advances and financing activities up QR14.7 billion (46.9%) to QR46.2 billion
- Total customer deposits and unrestricted investment accounts up QR19.1 billion (52.0%) to QR55.8 billion
- Earnings per share up to QR15.4 from QR11.8
- Return on average equity up from 30.8% to 33.6% in 2006
- QNB's contribution to the various social, sporting and Community Support activities amounted to QR32.1 million

Financial Review

2006 Results

For the first time in its history, QNB was able to exceed the QR2.0 billion profit barrier thanks to its success in diversifying its income resources and the maintenance of a strong efficiency ratio (total costs to total income).

Net profit rose by 30.4% to QR2,005 million, compared with the net profit of QR1,537 million delivered in 2005. The Bank saw a substantial growth in all of if its income components. As a result, total income grew by QR513 million (23.5%) to QR2,701 million.

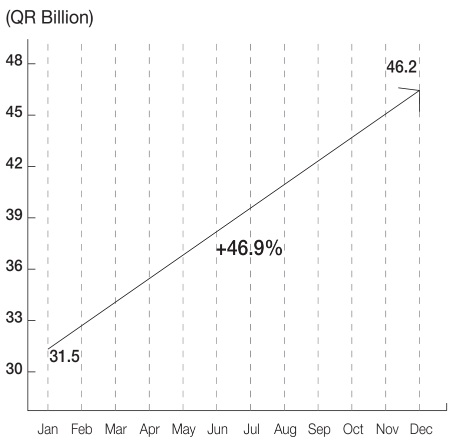
Net interest income and net income from Islamic financing activities improved by QR388 million (29.9%) to QR1,687 million mainly due to the Bank's success in maintaining its interest margins with a strong growth in loans and advances due to the diversification of lending products and services.

Other operating income continued its strong growth reaching QR1,015 million representing an increase of QR125 million (14.0%) with net fees and commissions up by QR65 million (16.8%) to QR453 million and foreign exchange income growing by QR53 million (82.4%) to QR118 million.

At the same time, other income from investment related activities showed strong growth with dividend income increasing by QR18 million (26.2%) to QR87 million, reflecting high dividend received on the Bank's equity portfolio. Realised profit from sales of equity securities generated a gain of QR335 million.

Total costs, excluding Community Support, increased by QR95 million (14.7%) to QR743 million. The increase is mainly attributed to an increase in staff costs, marketing expenses and IT systems development aimed at diversifying and improving customer services. The Bank's success in improving efficiency and increasing productivity was reflected in an improved efficiency ratio, which reached 27.5% in 2006, compared to 29.6% in 2005.

Loan impairment recoveries, net of provisions, were QR139 million compared with net recoveries of QR76 million in 2005. The Bank' success in improving its collection processes and the effectiveness of its credit risk management policies is clearly reflected in its ratio of non-performing loans to gross loans which improved to 1.2% in 2006 compared with 2.2% in 2005.



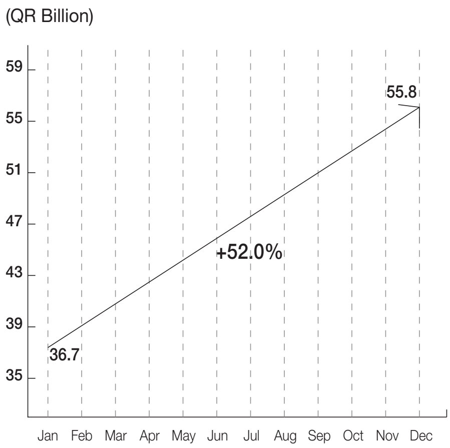
Loans and Advances and Financing Activities - 2006

Balance Sheet Growth

At year-end 2006, the Bank's total assets stood at QR71.7 billion reflecting an increase of QR21.6 billion (43.2%) compared with QR50.1 billion in 2005. The growth in total assets was mainly attributable to the growth in loans and advances and financing activities which grew to QR46.2 billion, representing an increase of QR14.7 billion, or 46.9%. Customer deposits and unrestricted investment accounts also grew by QR19.1 billion (52.0%) during the year to reach QR55.8 billion mainly due to the increase in retail and corporate banking business.

Islamic Banking

During 2006, Al Watani Al Islami succeeded in achieving excellent results, with total assets reaching QR5.9 billion, up by QR3.6 billion (157%) since 31 December 2005 mainly due to the increase in financing activities by QR1.6 billion (378%) to reach QR2.0 billion. Current customer deposits and unrestricted investment accounts grew by QR3.4 billion (161%) to reach QR5.5 billion. Net profit increased by QR68 million to reach QR75 million.



Customer Deposits and Unrestricted Investment Accounts - 2006

Wealth Management (QNB International Holdings)

Total assets of the subsidiary (QNB International Holdings) as at 31 December 2006 totalled QR5.0 billion representing an increase of QR745 million (17.5%) during the year. Loans and advances reached QR3.2 billion and customer deposits QR3.7 billion, up by 27.0% and 27.4% respectively since 31 December 2005. Net losses of the subsidiary in 2006 reached QR7.7 million compared with QR78.3 million in 2005.

Capital Strength

Total shareholders' equity at 31 December 2006 was QR8.4 billion (US$2.3 billion). The Bank's risk assets ratio stood at 16.7%, comfortably in excess of the 10% minimum level set by Qatar Central Bank and the 8% minimum stipulated in the Basle capital adequacy directives. Effective 1 January 2006, the Bank started calculating the capital adequacy ratio under Basel II requirements.

Shareholder Value

The Bank's return on average shareholders' equity improved from 30.8% in 2005 to 33.6% in 2006. Earnings per share improved to QR15.4 from QR11.8 in 2005.

Outlook

During the coming years, QNB will exert maximum efforts to keep on offering the best level of services to its customers and to achieve a steady growth in order to provide shareholders with an optimum return.

FINANCIAL STATEMENTS

Independent Auditors' Report to the Shareholders of Qatar National Bank S.A.Q.

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Report on Other Legal and Regulatory Requirements

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

Firas Qoussous
Ernst & Young
Qatar Auditors' Registry No. 236

15 January 2007
Doha
State of Qatar

STATEMENT OF THE SHARI'A CONTROL BOARD

Praise be to Allah and peace be upon his prophet. Subject to the Articles of Association of Al Watani Al Islami, a branch of Qatar National Bank S.A.Q, the Fatwa and Shari'a Control Board has issued Fatwas (Shari'a opinion) on the matters presented to it, provided Shari'a solutions for the difficulties encountered during implementation and oversaw compliance with the Shari'a principles and rules set by it for the branch.

As well, through its Executive Committee and Internal Shari'a Control, the Board continuously carried out its duties, reviewed the contracts and forms, oversaw the correctness of implementation of its decisions, ensured the soundness of execution of banking operations and reviewed the balance sheet, income statement and the method of calculation adopted for the distribution of profits between the depositors and shareholders for the financial year ended 31 December 2006. The Fatwa and Shari'a Control Board confirms that the application of Shari'a rules and controls is the responsibility of the management, and its role is limited to issuing Fatwa and overseeing transactions through the Internal Shari'a Control within the limits of resources available to it.

In the opinion of the Shari'a Board:

- The branch has complied with the Shari'a principles and rules set for Islamic branches.
- The matters presented to it, including contracts and forms, and the transactions reviewed by the Shari'a Control were in compliance with the Shari'a rules and controls, and the discrepancies discovered were either corrected, revised or the appropriate decision were taken in their respect.
- The distribution of profit was carried out in compliance with the guidance established by the Board in accordance with the principles of Islamic Shari'a.

Finally, we thank, and pray to Allah to bless, the dedicated efforts which contributed to the initiation and success of this business. In particular, our thanks are due to the Board and senior management of Qatar National Bank and the staff of Al Watani Al Islami for their sincere cooperation with the Shari'a Control Board. May Allah Almighty guide all to the prosperity of this country, and praise be to Allah.

His Eminence, Dr. Yousof Al Qaradawi	His Eminence, Dr. Ali Alqurah Dagi	Dr. Sultan Al Hashemi
S.C.B. Chairman	S.C.B. Vice Chairman	S.C.B. Member

CONSOLIDATED BALANCE SHEET
At 31 December 2006

	Note	2006 QR000	2005 QR000
ASSETS			
Cash and Balances with Central Banks	4	2,481,218	2,406,327
Due from Banks and Other Financial Institutions	5	12,780,711	7,499,202
Loans and Advances and Financing Activities to Customers	6	46,226,610	31,477,500
Financial Investments	7	8,877,702	7,585,486
Investment in Associates	8	32,810	52,460
Property and Equipment	9	589,093	467,419
Other Assets	10	674,889	571,762
Total Assets		**71,663,033**	**50,060,156**
LIABILITIES and SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to Banks and Other Financial Institutions	11	6,254,842	2,598,708
Customer Deposits	12	51,930,594	36,457,014
Other Liabilities	13	1,177,176	2,046,368
		59,362,612	**41,102,090**
Unrestricted Investment Accounts	15	3,859,469	249,151
SHAREHOLDERS' EQUITY			
Issued Capital	16	1,297,760	1,038,208
Statutory Reserve	16	1,297,760	1,038,208
Other Reserves	16	1,760,004	1,775,457
Risk Reserve	16	421,000	169,422
Fair Value Reserve	16	1,099,895	2,549,232
Proposed Dividend	16	778,656	778,656
Proposed Bonus Shares	16	324,440	259,552
Proposed Transfer to Statutory Reserve		324,440	259,552
Retained Earnings		1,136,997	840,628
Total Shareholders' Equity		**8,440,952**	**8,708,915**
Total Liabilities and Shareholders' Equity		**71,663,033**	**50,060,156**

These financial statements were approved by the Board of Directors on 15 January 2007 and were signed on their behalf by:

Yousef Hussain Kamal
Chairman

Sheikh Hamad Bin Faisal Al-Thani
Vice Chairman

Ali Shareef Al-Emadi
Acting Chief Executive

The attached notes 1 to 32 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2006

	Note	2006 QR000	2005 QR000
Interest Income	17	3,397,013	2,172,318
Interest Expense	18	(1,794,624)	(887,507)
Net Interest Income		**1,602,389**	**1,284,811**
Fees and Commission Income	19	517,903	416,470
Fees and Commission Expense		(64,630)	(28,477)
Net Fees and Commission Income		**453,273**	**387,993**
Dividend Income	20	86,717	68,709
Net Gains from Dealing in Foreign Currencies	21	117,913	64,646
Net Gains from Financial Investments	22	334,503	340,940
Share in Profit of Associates	8	-	3,750
Income from Islamic Financing and Investing Activities		277,834	14,304
Other Operating Income		22,267	23,698
Total Operating Income		**2,894,896**	**2,188,851**
General and Administrative Expenses	23	(721,651)	(634,910)
Depreciation	9	(53,025)	(56,071)
Recoveries of provision for Impairment of Loans and Advances	6	139,194	76,457
Net Investment Revaluation (Losses) / Gains	7	(66,449)	9,071
Other Recoveries / (Provisions)		8,360	(2,407)
Recovery of Provision for Properties Acquired against Settlement of Debts		5,271	4,020
Goodwill Impairment	32	-	(40,378)
Unrestricted Investment Account Holders' Share of Profit		(193,476)	(798)
Net Profit Before Taxes		**2,013,120**	**1,543,835**
Income Tax Expense		(8,567)	(7,023)
Net Profit for the Year		**2,004,553**	**1,536,812**
Basic Earnings Per Share (QR)	24	15.4	11.8
Diluted Earnings Per Share (QR)	24	15.4	11.8

The attached notes 1 to 32 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2006

	Issued Capital	Statutory Reserve	Other Reserves*	Risk Reserve	Fair Value Reserve	Proposed Dividend	Proposed Bonus Shares	Proposed Transfer to Statutory Reserve	Retained Earnings	Total
	QR000	QR000	QR000	QR000	QR000	QR000	QR000	QR000	QR000	QR000
Balance at 1 January 2006	1,038,208	1,038,208	1,775,457	169,422	2,549,232	778,656	259,552	259,552	840,628	8,708,915
Directors' Fees Paid for the year 2005	-	-	-	-	-	-	-	-	(6,450)	(6,450)
Net Movement in Risk Reserve	-	-	-	251,578	-	-	-	-	(274,198)	(22,620)
Net Movement in Currency Translation Adjustments	-	-	(15,453)	-	-	-	-	-	-	(15,453)
Net Movement in Fair Value Reserve	-	-	-	-	(1,449,337)	-	-	-	-	(1,449,337)
Total Changes in Reserves										
Recognised Directly in Equity	-	-	(15,453)	251,578	(1,449,337)	-	-	-	(280,648)	(1,493,860)
Net Profit for the Year	-	-	-	-	-	-	-	-	2,004,553	2,004,553
Total Income and Expense for the Year	-	-	(15,453)	251,578	(1,449,337)	-	-	-	1,723,905	510,693
Dividend Paid for the year 2005	-	-	-	-	-	(778,656)	-	-	-	(778,656)
Bonus Shares for the year 2005	259,552	-	-	-	-	-	(259,552)	-	-	-
Transfer to Statutory Reserve for the year 2005	-	259,552	-	-	-	-	-	(259,552)	-	-
Proposed Dividend	-	-	-	-	-	778,656	-	-	(778,656)	-
Proposed Bonus Shares	-	-	-	-	-	-	324,440	-	(324,440)	-
Proposed Transfer to Statutory Reserve	-	-	-	-	-	-	-	324,440	(324,440)	-
Balance at 31 December 2006	**1,297,760**	**1,297,760**	**1,760,004**	**421,000**	**1,099,895**	**778,656**	**324,440**	**324,440**	**1,136,997**	**8,440,952**
Balance at 1 January 2005	1,038,208	1,038,208	1,770,034	-	1,439,387	622,925	-	-	626,588	6,535,350
Adjustment Arising from the Application										
of the Revised IAS 39 (Note 2)	-	-	-	149,422	-	-	-	-	-	149,422
Balance at 1 January 2005 (Restated)	1,038,208	1,038,208	1,770,034	149,422	1,439,387	622,925	-	-	626,588	6,684,772
Directors' Fees Paid for the year 2004	-	-	-		-	-	-	-	(4,560)	(4,560)
Net Movement in Risk Reserve	-	-	-	20,000	-	-	-	-	(20,452)	(452)
Net Movement in Currency Translation Adjustments	-	-	5,423	-	-	-	-	-	-	5,423
Net Movement in Fair Value Reserve	-	-	-	-	1,109,845	-	-	-	-	1,109,845
Total Changes in Reserves										
Recognised Directly in Equity	-	-	5,423	20,000	1,109,845	-	-	-	(25,012)	1,110,256
Net Profit for the Year	-	-	-	-	-	-	-	-	1,536,812	1,536,812
Total Income and Expense for the Year	-	-	5,423	20,000	1,109,845	-	-	-	1,511,800	2,647,068
Dividend Paid for the year 2004	-	-	-	-	-	(622,925)	-	-	-	(622,925)
Proposed Dividend	-	-	-	-	-	778,656	-	-	(778,656)	-
Proposed Bonus Shares	-	-	-	-	-	-	259,552	-	(259,552)	-
Proposed Transfer to Statutory Reserve	-	-	-	-	-	-	-	259,552	(259,552)	-
Balance at 31 December 2005	**1,038,208**	**1,038,208**	**1,775,457**	**169,422**	**2,549,232**	**778,656**	**259,552**	**259,552**	**840,628**	**8,708,915**

* Other reserves as at 31 December 2006 include a debit balance of QR10.0 million in respect of currency translation adjustments (2005: a credit balance of QR5.4 million).

Retained earnings as at 31 December 2006 include QR6.69 million in respect of proposed directors' fees for the year 2006 (2005:QR6.45 million).

The attached notes 1 to 32 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2006

	Note	2006 QR000	2005 QR000
Cash Flow From Operating Activities			
Net Profit for the Year Before Taxes		2,013,120	1,543,835
Reconciliation of Net Profit to Net Cash Flow from Operating Activities			
Depreciation	9	53,025	56,071
Recoveries of provision for Impairment of Loans and Advances	6	(139,194)	(76,457)
Net Investment Revaluation Losses / (Gains)	7	66,449	(9,071)
Other Provisions		794	12,388
Release of Staff Indemnity Provision	14	(39,915)	(5,441)
Profit on Sale of Property and Equipment		(12,812)	(12,443)
Profit on Sale of Financial Investments		(334,503)	(340,940)
Goodwill Impairment		-	40,378
Tax Paid		(13,929)	(7,412)
Amortisation of Premium or Discount on Financial Investments		3,389	3,205
Gain from Investment in Associates		-	(3,750)
Recovery of Provision for Property Acquired Against Settlement of Debts	10	(5,271)	(4,020)
		1,591,153	**1,196,343**
Net (Increase) / Decrease In Assets			
Due from Banks		(1,595,417)	(112,702)
Loans and Advances and Financing Activities		(14,609,916)	(4,810,060)
Other Assets		(117,480)	150,639
Net Increase / (Decrease) In Liabilities			
Due to Banks		3,656,134	445,325
Customer Deposits and Unrestricted Investment Accounts		19,083,898	7,092,332
Other Liabilities		(909,790)	965,324
Net Cash Inflow From Operating Activities		**7,098,582**	**4,927,201**
Cash Flow From Investing Activities			
Purchase of Financial Investments		(5,573,810)	(1,007,361)
Sale / Redemption of Financial Investments		3,243,860	2,334,829
Purchase of Associates		-	(48,710)
Purchase of Property and Equipment	9	(123,643)	(42,352)
Sale of Property and Equipment		32,689	24,326
Net Cash (Outflow) / Inflow From Investing Activities		**(2,420,904)**	**1,260,732**
Cash Flow From Financing Activities			
Dividend Paid		(771,976)	(617,384)
Net Cash Outflow from Financing Activities		**(771,976)**	**(617,384)**
Net Cash Inflow During The Year		**3,905,702**	**5,570,549**
Changes in Foreign Exchange Rates		(144,719)	175,973
Balance at 1 January		8,599,594	2,853,072
Balance at 31 December	31	**12,360,577**	**8,599,594**

The attached notes 1 to 32 form an integral part of these financial statements.

1. CORPORATE INFORMATION

Qatar National Bank S.A.Q. (the Bank) was incorporated in the State of Qatar on 6 June 1964 as a Joint Stock Company under Emiri Decree No. 7 issued in 1964.

The Bank is engaged in commercial and Islamic banking activities and operates through its head office in Doha and a total of 36 branches and offices in Qatar, two branches in the United Kingdom and France and a Representative Office in Iran. In addition, QNB owns 100% of the issued share capital of Ansbacher Group Holdings Limited, a wealth management financial institution with operations in the UK, Switzerland, Bahamas, Channel Islands, United Arab Emirates and Qatar Financial Center. It owns Ansbacher Group Holdings Limited through a Luxembourg based holding company, QNB International Holdings Limited.

The consolidated financial statements for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the Board of Directors on 15 January 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Change in Accounting Policies
The following accounting policies have been changed due to the adoption of the revised IAS 32 and 39 becoming mandatory for financial year beginning on or after 1 January 2005:

Originated Debt Securities
Investments in certain debt securities where the Group provided funds directly to the issuer were previously classified as originated debt securities and carried at amortised cost, less provision for impairment. In accordance with the revised IAS 39, these investments have been reclassified with effect from 1 January 2005 as held to maturity investments. There has been no effect on the carrying value of these investments upon this reclassification.

General Provision for Impairment of Loans
The general provision for impairment of loans made by the Group was previously charged to the statement of income. With effect from 1 January 2005, this provision is treated as an appropriation of net profit and appears within shareholders' equity as risk reserve.

b) IASB Standards and Interpretations issued but not adopted
The following IASB Standards and Interpretations have been issued but are not yet mandatory, and have not yet been adopted by the Bank:

Amendments to IAS 1 - Capital Disclosures
IFRS 7 Financial Instruments: Disclosures
IFRS 8 Operating Segments
IFRIC Interpretation 8 Scope of IFRS 2
IFRIC Interpretation 9 Reassessment of Embedded Derivatives

The application of IFRS 7, which will be effective for the year ending 31 December 2007 will result in amended and additional disclosures relating to financial instruments and associated risks. The application of IFRIC 8, which is also effective for 2007 is not expected to have a material impact on the financial statements of the Group.

c) Basis of Presentation and Consolidation
The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives and available for sale financial investments and in accordance with International Financial Reporting Standards and Qatar Central Bank regulations.

The consolidated financial statements are presented in Qatari Riyals (QR), and all values are rounded to the nearest QR thousand except when otherwise indicated. The consolidated financial statements comprise the financial statements of Qatar National Bank S.A.Q and its subsidiary. All intergroup balances and transactions have been eliminated in full. The details of the subsidiary are as follows:

Name of Subsidiary	Country of Incorporation	Share Capital QR000	Ownership
QNB International Holdings Limited	Luxembourg	500,198	100%

d) Islamic Banking

The Group opened its first Islamic branch on 17 April 2005. Islamic Branches carries out Islamic banking services through various Islamic modes of financing. The activities of the Islamic Branches are conducted in accordance with the Islamic Shari'a, as determined by the Shari'a Advisory Board. Islamic branches accounts are prepared in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and regulations of Qatar Central Bank.

e) Foreign Currencies

The consolidated financial statements are denominated in Qatari Riyals. Transactions in foreign currencies are translated into Qatari Riyals at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Qatari Riyals at the rates ruling at the balance sheet date. Exchange gains and losses resulting therefrom appear in the statement of income under net gains from dealing in foreign currencies. Assets and liabilities of subsidiaries and overseas branches are translated into Qatari Riyals at the rates ruling at the balance sheet date, and their statements of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to other reserves within shareholders' equity.

f) Derivatives

Derivatives are measured at fair value. Fair value represent quoted market prices or internal pricing models as appropriate. Derivatives with positive fair value are included in other assets and derivatives with negative fair value are included in other liabilities. The resultant gains and losses from derivatives held for trading purposes are included in the statement of income.

For the purpose of hedge accounting, hedges are classified as either fair value or cash flow hedges. Fair value hedges hedge the exposure to changes in the fair value of a recognised asset or liability. Cash flow hedges hedge exposure to the variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecasted transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the statement of income. The related aspect of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the statement of income. In relation to cash flow hedges which meet the conditions for hedge accounting, any gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in shareholders' equity. The gains or losses on cash flow hedges initially recognised in shareholders' equity are transferred to the statement of income in the period in which the hedged transaction impacts the statement of income. Where the hedged transaction results in the recognition of an asset or a liability, the associated gains or losses that had initially been recognised in shareholders' equity are included in the initial measurement of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the statement of income for the period.

Hedge accounting is discontinued when the hedging instrument expires, is terminated or exercised, or no longer qualifies for hedge accounting. For effective fair value hedges of financial instruments with fixed maturities, any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in shareholders' equity is held therein until the forecasted transaction occurs. When the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in shareholders' equity is transferred to the statement of income.

g) Revenue Recognition

Revenues are recognised on an accrual basis. Interest income and expense are recognised using the effective yield method. Interest income on non-performing loans is suspended if doubt exists with regard to the collectability of the interest or the original loan.

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

Management fees and commission income on syndicated loans are amortised over the period of the transaction using the effective yield method, if applicable. Fees and commission income on other services are accounted for on the date of the transaction giving rise to that income.

Dividend income is recognised when declared.

h) Financial Investments
Available for sale investments are measured at fair value on an individual basis. Unrealised gains or losses arising from a change in the fair value are recognised directly in the fair value reserve under shareholders' equity until the investment is sold, at which time the cumulative gain or loss previously recognised in shareholders' equity is included in the statement of income.

In cases where objective evidence exists that a specific investment is impaired, the recoverable amount of that investment is determined and any impairment loss is recognised in the statement of income as a provision for impairment of investments. Reversals in respect of equity investments classified as available for sale are not recognised in the statement of income. Reversal of impairment losses on debt instruments are reversed through statement of income.

Held to maturity investments are measured at amortised cost, less provision for impairment. In cases where objective evidence exists that a specific investment is impaired, the recoverable amount of that investment is determined and any impairment loss is recognised in the statement of income as a provision for impairment of investments.

Investment in associates are accounted for following the equity method of accounting.

i) Fair Value
The fair value of financial assets traded in organised financial markets is determined by reference to quoted market bid prices on a regulated exchange at the close of business on the balance sheet date. For financial assets where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same.

j) Date of recognition of financial transactions
All financial assets and liabilities are recognised using the settlement date.

k) Loans and Advances and Financing Activities
Loans and advances are stated at amortised cost less any provisions for their impairment and interest in suspense.

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

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

Islamic financing activities such as Murabaha and Musawama which is a sale of goods with an agreed upon profit mark up, Musharaka which is a form of partnership between the Islamic Branch and its clients, Mudaraba which is a partnership in profit between capital and work and Ijara which is the transfer of ownership of services or leased assets for an agreed upon consideration, are stated at their gross principal amounts less any amount received, provision for impairment, profit in suspense and unearned profit. Financing activities are written off and charged against specific provisions only in circumstances where all reasonable restructuring and collection activities have been exhausted, and recoveries from previously written off financing activities are written back to the specific provision.

l) Properties Acquired Against Settlement of Debts
Properties acquired against settlement of debts appear under other assets at their net acquired values. Unrealised losses due to the diminution in the fair value of these assets appear in the statement of income. Future unrealised gains on these properties are recognised in the statement of income to the extent of unrealised losses previously recognised.

In accordance with Qatar Central Bank regulations, all properties acquired against settlement of debts must be sold within three years. Any extension or transfer to property and equipment must be with Qatar Central Bank approval.

m) Property and Equipment
Property and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

	Years
Buildings	20
Equipment, Furniture and Fittings	3 to 7
Motor Vehicles	5

Freehold land is stated at cost.

n) Impairment of Financial Assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset 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.

o) Employees' Termination Benefits and Pension Fund
The Bank makes a provision for all termination indemnity payable to employees in accordance with its regulations, calculated on the basis of the individual's final salary and period of service at the balance sheet date.

The provision for employees' termination benefits is included in other provisions within other liabilities.

With respect to Qatari employees, the Bank makes contribution to the Qatari Pension Fund calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions. The cost is considered as part of general and administrative expenses and is disclosed in note 23.

p) Other Provisions
The Bank takes provisions for any expected legal or financial liabilities as a charge to the statement of income based on the likelihood and expected amount of such liabilities at the balance sheet date. Other provisions are disclosed in note 14.

q) Goodwill
Goodwill on acquisition is initially measured at cost, being the excess of the cost of acquisition over the Bank's interest in the fair value of the subsidiary's net assets. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment on an annual basis.

r) Contingent Liabilities and Other Commitments
At the balance sheet date contingent liabilities and other commitments do not represent actual assets or liabilities.

s) Unrestricted Investment Accounts' Share of Profit

Islamic branches profit for the year is distributed among unrestricted account holders and shareholders in accordance with Qatar Central Bank's instructions, which are summarised as follows:

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

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

Where the Islamic branches results at the end of a financial year is a net loss, the unrestricted investment account holders are not charged with any share of such loss, except as approved by Qatar Central Bank in its capacity as the regulator having responsibility of assessing the Bank's management for such losses and compliance with Islamic Shari'a rules and principles.

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

t) Cash and Cash Equivalents
For the purpose of the statement of cash flows, cash and cash equivalents include cash, balances with central banks and balances with banks and other financial institutions with an original maturity of three months or less as disclosed in note 31.

u) Taxes
Taxes are calculated based on tax laws and regulations in other countries in which the Group operates. Tax provision is made based on an evaluation of the expected tax liability. The Group operations inside Qatar are not subject to income tax.

v) Fiduciary assets
Assets held in a fiduciary capacity are not treated as assets of the Bank in the balance sheet.

3. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS

I. FINANCIAL INSTRUMENTS

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

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

b) Fair value of financial instruments
Based on the methods used to determine the fair value of financial instruments explained in the notes accompanying the financial statements, the book values of financial assets and liabilities, excluding held to maturity investments, are not significantly different from their fair values. The fair value of held to maturity investments is disclosed in note 7.

II. RISK MANAGEMENT

a) Derivatives used in Risk Management
In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes:

Swaps are commitments to exchange one set of cash flows for another. In the case of interest rate swaps, counterparties generally exchange fixed and floating interest payments in a single currency without exchanging principal. In the case of currency swaps, fixed interest payments and principal are exchanged in different currencies. In the case of cross-currency interest rate swaps, principal, fixed and floating interest payments are exchanged in different currencies. Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and changes in future contract values are settled daily.

Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement for the difference between a contracted interest rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Derivatives Held for Trading Purposes
Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order to enable them to transfer, modify or reduce current and future risks.

Positioning involves managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products.

(All amounts are shown in thousands of Qatari Riyals)

3. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (Continued)

Derivatives Held for Hedging Purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves reducing the Group's exposure to fluctuations in foreign exchange rates and interest rates to acceptable levels as determined by the Group within the guidelines issued by Qatar Central Bank. The Group has established levels of currency risk by setting limits on counterparty and currency position exposures. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. The Group has established a level of interest rate risk by setting limits on interest rate gaps for stipulated periods. Asset and liability interest rate gaps are reviewed on a periodic basis and hedging strategies are used to reduce interest rate gaps to within the established limits.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to adjust its own exposure to currency and interest rate risks. This is generally achieved by hedging specific transactions in the balance sheet. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps and interest rate futures to hedge against the interest rate risk arising from specifically identified fixed interest rate exposures. The Group also uses interest rate swaps to hedge against the cash flow risk arising on certain floating rate liabilities. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instruments, are formally documented and the transactions are accounted for as fair value or cash flow hedges. Note 28 discloses the derivative financial instruments used by the Group.

b) Credit Risk

The Group manages its credit risk exposure through diversification of its investments, capital markets and lending and financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

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

Note 6 discloses the distribution of loans and advances and financing activities by industrial sector. Note 27 discloses the geographical distribution of the Group's assets and liabilities

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

	Gross Maximum Exposure	
	2006	**2005**
Cash and Balances with Central Banks (excluding cash on hand)	2,195,826	2,234,276
Due from Banks and Other Financial Institutions	12,780,711	7,499,202
Loans and Advances and Financing Activities to Customers	46,226,610	31,477,500
Financial Investments	8,877,702	7,585,486
Other Assets	674,889	571,762
	70,755,738	**49,368,226**
Contingent Liabilities	21,471,364	14,259,391
Total Credit Risk Exposure	**92,227,102**	**63,627,617**

c) Market Risk Arising from Financial Investments

The Group takes on exposure to market risks from equity products due to general and specific market movements. The Group applies an internal methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Group has a set of limits on the value of risk that may be accepted, which is monitored on a daily basis. Note 7 discloses the fair value of financial investments.

(All amounts are shown in thousands of Qatari Riyals)

3. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (Continued)

d) Interest Rate Risk

Interest rate risk reflects the risk of a change in interest rates which might affect future earnings or the fair value of financial instruments. Exposure to interest rate risk is managed by the Group using, where appropriate, various off-balance sheet instruments, primarily interest rate swaps. Maturities of assets and liabilities have been determined on the basis of contractual pricing.

The following tables summarise the repricing profile of the Group's assets, liabilities and off-balance sheet exposures.

	Within 3 Months	3 - 12 Months	1 - 5 Years	More than 5 Years	Non-Interest Sensitive	Total	Effective Interest Rate
At 31 December 2006:							
Cash and Balances with Central Banks	800,207	-	-	-	1,681,011	2,481,218	
Due from Banks	11,274,986	157,465	-	-	1,348,260	12,780,711	4.64%
Loans and Advances	38,347,662	5,655,474	91,809	-	2,131,665	46,226,610	7.04%
Financial Investments	1,167,384	497,385	2,062,860	1,630,022	3,552,861	8,910,512	5.99%
Other Assets	-	-	-	-	1,263,982	1,263,982	
Total Assets	**51,590,239**	**6,310,324**	**2,154,669**	**1,630,022**	**9,977,779**	**71,663,033**	
Due to Banks	5,978,319	54,608	-	-	221,915	6,254,842	4.54%
Customer Deposits	42,634,738	1,892,573	220,335	-	7,182,948	51,930,594	3.92%
Unrestricted Investment Accounts	-	-	-	-	3,859,469	3,859,469	
Other Liabilities	421,127	54,606	-	-	701,443	1,177,176	
Shareholders' Equity	-	-	-	-	8,440,952	8,440,952	
Total Liabilities and Equity	**49,034,184**	**2,001,787**	**220,335**	**-**	**20,406,727**	**71,663,033**	
Balance Sheet Items	2,556,055	4,308,537	1,934,334	1,630,022	(10,428,948)	-	
Off-Balance Sheet Items	1,182,364	1,665,627	(1,130,360)	(1,717,631)	-	-	
Interest Rate Sensitivity Gap	**3,738,419**	**5,974,164**	**803,974**	**(87,609)**	**(10,428,948)**	**-**	
Cumulative Interest Rate Sensitivity Gap	**3,738,419**	**9,712,583**	**10,516,557**	**10,428,948**	**-**	**-**	
At 31 December 2005:							
Cash and Balances with Central Banks	750,821	-	-	-	1,655,506	2,406,327	
Due from Banks	6,876,717	178,068	-	-	444,417	7,499,202	2.92%
Loans and Advances	25,202,271	4,401,016	1,323,366	100,595	450,252	31,477,500	5.81%
Financial Investments	835,145	347,662	1,367,767	1,336,256	3,751,116	7,637,946	5.65%
Other Assets	-	-	-	-	1,039,181	1,039,181	
Total Assets	**33,664,954**	**4,926,746**	**2,691,133**	**1,436,851**	**7,340,472**	**50,060,156**	
Due to Banks	2,222,133	48,362	-	-	328,213	2,598,708	3.01%
Customer Deposits	28,234,262	1,156,208	213,525	-	6,853,019	36,457,014	2.49%
Unrestricted Investment Accounts	-	-	-	-	249,151	249,151	
Other Liabilities	11,512	56,732	-	-	1,978,124	2,046,368	
Shareholders' Equity	-	-	-	-	8,708,915	8,708,915	
Total Liabilities and Equity	**30,467,907**	**1,261,302**	**213,525**	**-**	**18,117,422**	**50,060,156**	
Balance Sheet Items	3,197,047	3,665,444	2,477,608	1,436,851	(10,776,950)	-	
Off-Balance Sheet Items	310,706	723,208	(1,102,141)	68,227	-	-	
Interest Rate Sensitivity Gap	**3,507,753**	**4,388,652**	**1,375,467**	**1,505,078**	**(10,776,950)**	**-**	
Cumulative Interest Rate Sensitivity Gap	**3,507,753**	**7,896,405**	**9,271,872**	**10,776,950**	**-**	**-**	

(All amounts are shown in thousands of Qatari Riyals)

3. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (Continued)

e) Liquidity Risk

Liquidity risk is the risk that an institution will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or credit down-grades, which may cause certain sources of funding to cease immediately. To mitigate this risk, the Group has a diversification of funding sources and a diversified portfolio of high quality liquid assets and readily marketable securities. The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

	Within 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	More than 5 Years	Total
At 31 December 2006:						
Cash and Balances with Central Banks	2,481,218	-	-	-	-	2,481,218
Due from Banks	10,948,408	205,116	297,344	1,329,843	-	12,780,711
Loans and Advances	12,547,946	8,786,302	9,056,242	12,816,678	3,019,442	46,226,610
Financial Investments	3,872,646	236,587	505,171	2,502,807	1,793,301	8,910,512
Other Assets	430,661	83,333	72,667	77,740	599,581	1,263,982
Total Assets	**30,280,879**	**9,311,338**	**9,931,424**	**16,727,068**	**5,412,324**	**71,663,033**
Due to Banks	4,658,117	1,542,118	54,607	-	-	6,254,842
Customer Deposits	43,845,080	6,104,585	1,760,593	220,336	-	51,930,594
Unrestricted Investment Accounts	3,579,868	116,236	140,293	-	23,072	3,859,469
Other Liabilities	1,129,091	241,866	66,540	1,112	8,179,519	9,618,128
Total Liabilities and Equity	**53,212,156**	**8,004,805**	**2,022,033**	**221,448**	**8,202,591**	**71,663,033**
Difference	**(22,931,277)**	**1,306,533**	**7,909,391**	**16,505,620**	**(2,790,267)**	**-**
At 31 December 2005:						
Cash and Balances with Central Banks	2,406,327	-	-	-	-	2,406,327
Due from Banks	6,926,980	86,284	76,453	409,485	-	7,499,202
Loans and Advances	4,884,935	9,180,585	6,910,663	8,884,935	1,616,382	31,477,500
Financial Investments	3,836,420	105,596	248,887	1,875,881	1,571,162	7,637,946
Other Assets	347,009	88,522	57,835	78,127	467,688	1,039,181
Total Assets	**18,401,671**	**9,460,987**	**7,293,838**	**11,248,428**	**3,655,232**	**50,060,156**
Due to Banks	2,309,267	271,239	18,202	-	-	2,598,708
Customer Deposits	31,292,433	3,678,804	1,264,766	221,011	-	36,457,014
Unrestricted Investment Accounts	202,932	33,855	11,912	-	452	249,151
Other Liabilities	1,939,877	37,765	3,082	55,171	8,719,388	10,755,283
Total Liabilities and Equity	**35,744,509**	**4,021,663**	**1,297,962**	**276,182**	**8,719,840**	**50,060,156**
Difference	**(17,342,838)**	**5,439,324**	**5,995,876**	**10,972,246**	**(5,064,608)**	**-**

(All amounts are shown in thousands of Qatari Riyals)

3. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (Continued)

f) Currency Risk

The Group takes on exposure to the effect of fluctuations in prevailing foreign currency exchange rates on its financial position. The Group has a set of limits on the level of currency exposure, which are monitored daily. The Group has the following significant net exposures denominated in foreign currencies:

	QR	US$	Euro	Pounds Sterling	Other Currencies	Total
At 31 December 2006:						
Assets	26,594,766	36,828,035	4,194,640	3,546,327	499,265	71,663,033
Liabilities and Equity	37,178,876	26,667,934	3,318,201	4,015,709	482,313	71,663,033
Net Balance Sheet Position	**(10,584,110)**	**10,160,101**	**876,439**	**(469,382)**	**16,952**	**-**
At 31 December 2005:						
Assets	18,929,131	24,651,434	3,582,163	2,006,007	891,421	50,060,156
Liabilities and Equity	26,661,918	17,006,636	3,097,549	2,677,638	616,415	50,060,156
Net Balance Sheet Position	**(7,732,787)**	**7,644,798**	**484,614**	**(671,631)**	**275,006**	**-**

g) Capital Adequacy

	2006	2005
Tier 1 Capital	6,134,711	5,205,155
Tier 2 Capital	915,953	1,316,576
Total Capital	**7,050,664**	**6,521,731**
Risk Weighted Assets	**42,188,075**	**31,046,346**
Tier 1 Capital ratio	14.5%	16.8%
Total Capital ratio	16.7%	21.0%

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

Tier 1 capital includes issued capital, statutory reserve, other reserves and retained earnings excluding proposed dividend and proposed directors' fees.

Tier 2 capital includes risk reserve and 45% of the fair value reserve.

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

h) Risk of Managing Customer Investments

The Group provides custody and corporate administration to third parties in relation to mutual funds marketed or managed by the Group. These services give rise to legal and operating risk. Such risks are mitigated through detailed daily procedures and internal audits to assure compliance. Note 29 lists mutual funds marketed by the Group.

(All amounts are shown in thousands of Qatari Riyals)

3. RISK MANAGEMENT OF FINANCIAL INSTRUMENTS (Continued)

i) Operational and Other Risks

Operational risk is the risk of direct or indirect loss due to an event or action causing failure of technology, process infrastructure, personnel, and other risks having an operational risk impact. The Group seeks to minimize actual or potential losses from operational risks failure through a framework of policies and procedures that identify, assess, control, manage, and report those risks.

Other risks to which the Group is exposed are regulatory risk, legal risk, and reputational risk. Regulatory risk is controlled through a framework of compliance policies and procedures. Legal risk is managed through the effective use of internal and external legal advisers. Reputational risk is controlled through the regular examination of issues that are considered to have reputational repercussions for the Group, with guidelines and policies being issued as appropriate.

4. CASH AND BALANCES WITH CENTRAL BANKS

	2006	2005
Cash	285,392	172,051
Cash Reserve with Qatar Central Bank	1,274,165	819,997
Other Balances with Qatar Central Bank	921,507	1,413,463
Balance with Other Central Banks	154	816
Total	**2,481,218**	**2,406,327**

The cash reserve with Qatar Central Bank is a mandatory reserve and cannot be used to fund the Group's day-to-day operations.

5. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2006	2005
Current Accounts	722,261	497,899
Placements	10,054,261	6,265,679
Loans	2,004,189	735,624
Total	**12,780,711**	**7,499,202**

(All amounts are shown in thousands of Qatari Riyals)

6. LOANS AND ADVANCES AND FINANCING ACTIVITIES TO CUSTOMERS

	2006	2005
a) By Type		
(i) Conventional Banking Loans and Advances		
Loans	40,588,275	30,079,809
Overdrafts	3,769,643	1,552,194
Bills Discounted	343,724	62,672
	44,701,642	**31,694,675**
Specific Provision for Impairment of Loans	(298,991)	(465,841)
Interest In suspense	(176,045)	(170,160)
Net Conventional Banking Loans and Advances	**44,226,606**	**31,058,674**
(ii) Financing Activities		
Murabaha and Musawama	872,957	154,558
Musharaka	427,374	-
Mudaraba	94,815	-
Istisna	2,874	42
Ijara	549,467	258,814
Others	52,517	5,412
Net Financing Activities	**2,000,004**	**418,826**
Net Loans and Advances and Financing Activities	**46,226,610**	**31,477,500**

The aggregate amount of non-performing loans and advances amounted to QR553.0 million, 1.2% of total loans and advances (2005: QR690.7 million, 2.2% of total loans and advances).

b) By Industry	**Loans & Advances**	**Overdrafts**	**Bills Discounted**	**Total**
At 31 December 2006:				
Government	6,717,187	2,401,805	-	9,118,992
Government Agencies	5,973,125	25,529	-	5,998,654
Industry	2,533,464	6,227	340,147	2,879,838
Commercial	886,594	109,005	3,361	998,960
Services	8,177,984	21,504	-	8,199,488
Contracting	410,687	155,230	-	565,917
Real Estate	7,800,113	24,337	-	7,824,450
Personal	9,394,321	920,857	216	10,315,394
Others	694,691	105,262	-	799,953
Total Loans and Advances	**42,588,166**	**3,769,756**	**343,724**	**46,701,646**
At 31 December 2005:				
Government	9,126,720	841,039	-	9,967,759
Government Agencies	4,286,512	12,328	-	4,298,840
Industry	1,940,949	5,915	62,456	2,009,320
Commercial	750,019	102,478	-	852,497
Services	2,081,144	18,189	-	2,099,333
Contracting	278,139	144,945	-	423,084
Real Estate	5,266,994	47,649	-	5,314,643
Personal	6,345,615	316,205	216	6,662,036
Others	422,133	63,856	-	485,989
Total Loans and Advances	**30,498,225**	**1,552,604**	**62,672**	**32,113,501**

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

(All amounts are shown in thousands of Qatari Riyals)

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

c) Movement in Provisions for Impairment of Loans and Advances

	Specific Provision	Interest in Suspense	Total
Balance at 1 January 2006	465,841	170,160	636,001
Foreign Currency Translation	5,036	820	5,856
Net (Recoveries) / Provisions during the Year	(136,375)	20,293	(116,082)
Provisions Made during the Year	65,229	59,815	125,044
Recoveries during the Year	(201,604)	(39,522)	(241,126)
Written off during the Year	(35,511)	(15,228)	(50,739)
Balance at 31 December 2006	**298,991**	**176,045**	**475,036**

In addition to the net recoveries, the Group recovered QR2.8 million directly to the statement of income related to loans written off in previous years.

Balance at 1 January 2005	604,001	193,643	797,644
Foreign Currency Translation	(3,314)	(187)	(3,501)
Net Recoveries during the Year	(74,616)	(7,094)	(81,710)
Provisions Made during the Year	96,832	52,302	149,134
Recoveries during the Year	(171,448)	(59,396)	(230,844)
Written off during the Year	(60,230)	(16,202)	(76,432)
Balance at 31 December 2005	**465,841**	**170,160**	**636,001**

7. FINANCIAL INVESTMENTS

Investments as at 31 December 2006 totaled QR8,877,702 thousand (2005: QR7,585,486 thousand). The analysis of financial investments is detailed below:

a) Available for Sale Financial Investments	2006		2005	
	Quoted	Unquoted	Quoted	Unquoted
Equities	2,312,333	86,238	3,543,793	37,878
State of Qatar Debt Securities	217,752	-	226,680	-
Other Debt Securities	354,138	538,199	492,306	236,537
Mutual Funds	1,075,932	45,548	108,130	8,704
	3,960,155	**669,985**	**4,370,909**	**283,119**

Fixed rate securities and floating rate securities amounted to QR314.1 million and QR796.0 million respectively (2005: QR288.2 million and QR667.3 million). In accordance with IFRS 39 and Qatar Central Bank regulations, the Group recognised a revaluation loss of QR66.4 million (2005: a revaluation gain of QR9.1 million).

b) Held to Maturity Financial Investments	2006		2005	
	Quoted	Unquoted	Quoted	Unquoted
- By Issuer				
State of Qatar Debt Securities	907,045	419,604	645,035	419,604
Other Debt Securities	2,120,002	800,911	938,490	928,329
	3,027,047	**1,220,515**	**1,583,525**	**1,347,933**
- By Interest Rate				
Fixed Rate Securities	2,328,784	1,147,704	1,136,909	1,147,704
Floating Rate Securities	698,263	72,811	446,616	200,229
	3,027,047	**1,220,515**	**1,583,525**	**1,347,933**

The fair value of held to maturity financial investments is QR4,453 million (2005: QR3,155 million).

(All amounts are shown in thousands of Qatari Riyals)

8. INVESTMENT IN ASSOCIATES

	2006	2005
Balance at 1 January	52,460	-
Investments Acquired during the Year	-	49,010
Share in Profit	-	3,750
Less: Cash Dividend	-	(300)
Associates Sold / Transferred*	(19,650)	-
Balance at 31 December	**32,810**	**52,460**

* The Bank sold 50% of its investment in Investment House Company and transferred the remaining 50% to financial investments.

Name of Associate	**Nationality**		**Ownership %**
Mansour Bank	Iraqi	25.0%	25.0%

9. PROPERTY AND EQUIPMENT

	Land & Buildings	Leasehold Improvements	Equipment & Furniture	Motor Vehicles	Total
At 31 December 2006:					
Cost:					
Balance at 1 January	463,324	69,805	321,802	668	855,599
Additions / Transfers	63,660	5,262	54,549	172	123,643
Disposals	-	-	(4,357)	-	(4,357)
Foreign Currency Translation	51,316	1,846	14,775	-	67,937
	578,300	**76,913**	**386,769**	**840**	**1,042,822**
Accumulated Depreciation:					
Balance at 1 January	72,824	46,818	267,906	632	388,180
Charged during the Year	10,783	6,520	35,688	34	53,025
Disposals	-	-	(6,237)	-	(6,237)
Foreign Currency Translation	4,785	776	13,200	-	18,761
	88,392	**54,114**	**310,557**	**666**	**453,729**
Net Carrying Amount	**489,908**	**22,799**	**76,212**	**174**	**589,093**
At 31 December 2005:					
Cost:					
Balance at 1 January	500,363	71,482	323,534	1,840	897,219
Additions / Transfers	7,176	6,681	28,495	-	42,352
Disposals	-	(5,799)	(14,898)	(1,373)	(22,070)
Foreign Currency Translation	(44,215)	(2,559)	(15,329)	201	(61,902)
	463,324	**69,805**	**321,802**	**668**	**855,599**
Accumulated Depreciation:					
Balance at 1 January	65,456	46,370	255,672	1,286	368,784
Charged during the Year	11,826	6,665	37,179	401	56,071
Disposals	-	(5,329)	(13,074)	(737)	(19,140)
Foreign Currency Translation	(4,458)	(888)	(11,871)	(318)	(17,535)
	72,824	**46,818**	**267,906**	**632**	**388,180**
Net Carrying Amount	**390,500**	**22,987**	**53,896**	**36**	**467,419**

(All amounts are shown in thousands of Qatari Riyals)

10. OTHER ASSETS

	2006	2005
Interest Receivable	434,046	215,553
Prepaid Expenses	20,886	24,669
Capital Expenditure in Progress	21,260	16,588
Properties Acquired Against Settlement of Debts	360	14,160
Positive Fair Value of Derivatives (Note 28)	51,941	59,268
Sundry Debtors	20,859	7,419
Others	125,537	234,105
Total	**674,889**	**571,762**

Properties acquired against settlement of debts are disclosed net of revaluation provision amounting to QR 0.1 million (2005: QR5.4 million).

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2006	2005
Balances to Qatar Central Bank	103,990	268,180
Current Accounts	1,403,492	273,224
Deposits	4,747,360	2,057,304
Total	**6,254,842**	**2,598,708**

12. CUSTOMER DEPOSITS

	2006	2005
a) By Type		
(i) Conventional Banking Customer Deposits		
Current and Call Accounts	22,588,299	17,382,084
Saving Accounts	670,311	652,897
Time Deposits	26,982,438	16,544,175
	50,241,048	**34,579,156**
(ii) Islamic Banking Current Accounts	**1,689,546**	**1,877,858**
Total	**51,930,594**	**36,457,014**

Customer deposits include QR31.4 million of margins held for direct and indirect facilities (2005: QR31.8 million).

	2006	2005
b) By Sector		
Government	7,299,463	5,404,073
Government Agencies	18,027,082	12,914,729
Individuals	16,332,457	11,941,155
Corporate	10,271,592	6,197,057
Total	**51,930,594**	**36,457,014**

13. OTHER LIABILITIES

	2006	2005
Interest Payable	317,370	111,419
Expense Payable	82,911	88,196
Other Provisions (Note 14)	35,994	80,112
Staff Provident Fund	1,387	80,280
Tax Payable	2,485	7,245
Negative Fair Value of Derivatives (Note 28)	80,809	59,857
Initial Public Offering Proceeds	-	1,191,940
Others	656,220	427,319
Total	**1,177,176**	**2,046,368**

(All amounts are shown in thousands of Qatari Riyals)

14. OTHER PROVISIONS

	Staff Indemnity	Legal Provision	2006 Total	2005 Total
Balance at 1 January	63,084	17,028	80,112	73,935
Foreign Currency Translation	-	1,083	1,083	(770)
Provisions Made during the Year	9,154	307	9,461	12,388
	72,238	**18,418**	**90,656**	**85,553**
Paid and Recovered during the Year	(39,915)	(8,667)	(48,582)	(5,441)
Written Off During the Year	-	(6,080)	(6,080)	-
Balance at 31 December	**32,323**	**3,671**	**35,994**	**80,112**

15. UNRESTRICTED INVESTMENT ACCOUNTS

	2006	2005
Call Accounts	366,308	182,050
Saving Accounts	46,929	19,881
Time Deposits	3,423,160	46,768
	3,836,397	**248,699**
Unrestricted Investment Accounts Share of Risk Reserve	23,072	452
Total	**3,859,469**	**249,151**

Unrestricted investment accounts share of risk reserve amounting to QR22.6 million was transfered from retained earnings (2005: 0.452 million).

16. SHAREHOLDERS' EQUITY

a) Issued Capital

The authorised, issued and fully paid share capital of the Group totaling QR1,298 million consists of 129,775,965 shares of QR10 each (2005: 103,820,772 shares of QR10 each). The Government of Qatar holds 50% of the ordinary shares of the Group with the remaining 50% held by members of the public

b) Statutory Reserve

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

c) Other Reserves

Other reserves represent mainly a general reserve which, in accordance with the Bank's Articles of Association, shall be employed according to a resolution of the General Assembly upon the recommendation from the Board of Directors and after Qatar Central Bank approval.

d) Risk Reserve

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

e) Fair Value Reserve	Cash Flow Hedges	Available for Sale Investments	2006 Total	2005 Total
Balance at 1 January	(5,483)	2,554,715	2,549,232	1,439,387
Net Changes in Fair Value	(10,666)	(1,075,292)	(1,085,958)	1,346,461
Transfer to Statement of Income	-	(363,379)	(363,379)	(236,616)
Net Movement during the Year	(10,666)	(1,438,671)	(1,449,337)	1,109,845
Balance at 31 December	**(16,149)**	**1,116,044**	**1,099,895**	**2,549,232**

Fair value reserve for available for sale financial investments as at 31 December 2006 includes a negative fair value amounting to QR78.3 million (2005: QR822,232).

(All amounts are shown in thousands of Qatari Riyals)

16. SHAREHOLDERS' EQUITY (Continued)

f) Dividend Paid and Proposed

The Board of Directors has proposed a cash dividend of 60% (QR6.0 per share) and a bonus share of 25% of the share capital for the year ended 31 December 2006 (2005: cash dividend 75% (QR7.5 per share) and a bonus share of 25% of the share capital).The amounts are subject to the approval of the General Assembly.

17. INTEREST INCOME	2006	2005
Due from Central Banks	51,685	23,745
Due from Banks and Other Financial Institutions	488,618	152,977
Debt Securities	276,997	242,413
Loans and Advances	2,579,713	1,753,183
Total	**3,397,013**	**2,172,318**

18. INTEREST EXPENSE	2006	2005
Due to Banks and Other Financial Institutions	259,692	113,179
Customer Deposits	1,531,244	750,520
Others	3,688	23,808
Total	**1,794,624**	**887,507**

19. FEES AND COMMISSIONS INCOME	2006	2005
Loans and Advances	222,439	166,347
Off Balance Sheet Items	55,979	39,004
Bank Services	74,372	58,711
Investment Activities to Customers	137,569	136,848
Others	27,544	15,560
Total	**517,903**	**416,470**

20. DIVIDEND INCOME	2006	2005
Available for Sale Securities	85,317	68,399
Mutual Funds	1,400	310
Total	**86,717**	**68,709**

21. NET GAINS FROM DEALING IN FOREIGN CURRENCIES	2006	2005
Dealing in Foreign Currencies	80,119	54,356
Revaluation of Assets and Liabilities	31,474	11,079
Revaluation of Derivatives	6,320	(789)
Total	**117,913**	**64,646**

22. NET GAINS FROM FINANCIAL INVESTMENTS	2006	2005
Net Gains from Sale of Available for Sale Financial Investments	334,503	340,940
Total	**334,503**	**340,940**

(All amounts are shown in thousands of Qatari Riyals)

23. GENERAL AND ADMINISTRATIVE EXPENSES

	2006	2005
Staff Costs	434,950	362,865
Staff Pension Fund Costs	4,296	3,686
Staff Indemnity Costs	9,154	9,981
Training	8,998	8,090
Advertising	49,050	35,597
Professional fees	28,120	33,443
Communication and Insurance	39,400	36,788
Occupancy and Maintenance	47,486	34,962
Computer and IT costs	27,923	25,881
Community Support	32,132	43,457
Others	40,142	40,160
Total	**721,651**	**634,910**

24. EARNINGS PER SHARE

Earnings per share for the Group are calculated by dividing the net profit by the weighted average number of ordinary shares in issue during the year. During the year 2006, the Bank issued bonus shares for the year 2005. Accordingly, the previously reported earnings per share as at 31 December 2005 have been restated for the effect of the bonus share issue made during the year.

	2006	2005
Net Profit for the Year	2,004,553	1,536,812
Weighted Average Number of Shares	129,775,965	129,775,965
Earnings Per Share (QR)	**15.4**	**11.8**

The weighted average number of shares have been calculated as follows:	2006	2005
Qualifying shares at the beginning of the year	103,820,772	103,820,772
Effect of bonus share issue	25,955,193	25,955,193
	129,775,965	**129,775,965**

If the effect of bonus shares issued during the year was not considered on the earnings per share for the previous year, then basic earnings per share for the year ended 31 December 2005 would be QR14.8 per share. There were no potentially dilutive shares outstanding at any time during the year, therefore, the diluted earnings per share are equal to the basic earnings per share.

25. CONTINGENT LIABILITIES AND OTHER COMMITMENTS

	2006	2005
a) Contingent Liabilities		
Unused Facilities	8,023,870	7,002,104
Acceptances	398,145	161,955
Guarantees	7,025,947	4,610,198
Letters of Credit	3,656,562	1,817,403
Others	2,366,840	667,731
Total	**21,471,364**	**14,259,391**
b) Other Commitments		
Forward Foreign Exchange Contracts	4,981,544	3,764,054
Interest Rate Swaps	12,972,547	7,963,329
Options, Caps and Floors	1,784,941	2,527,889
Mutual Funds	5,514,234	250,937
Total	**25,253,266**	**14,506,209**

Unused Facilities

Commitments to extend credit represent contractual commitments to make loans and revolving credits. The majority of these expire in the next year. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Acceptances,Guarantees and Letters of Credit

The Group commits to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. Guarantees and standby letters of credit carry the same credit risk as loans.

(All amounts are shown in thousands of Qatari Riyals)

26. SEGMENT INFORMATION

The Group is organised into three main business segments which comprise conventional commercial banking, Islamic banking and wealth management activities. Details of each of the segments are stated below:

	Conventional Banking	Islamic Banking	Wealth Management (Subsidiary)	Intra-group Transactions	Total 2006
Total Assets	64,385,801	5,893,331	4,993,769	(3,609,868)	71,663,033
Total Liabilities	53,425,703	1,881,366	4,591,946	(536,403)	59,362,612
Net Interest Income	1,509,090	-	93,299	-	1,602,389
Net Income from Financing and Investing Activities	-	84,358	-	-	84,358
Total Other Income	867,629	9,458	137,586	-	1,014,673
Total Operating Income	2,376,719	287,292	230,885	-	2,894,896
General and Administrative Expenses	(487,306)	(18,248)	(216,097)	-	(721,651)
Depreciation	(34,986)	(452)	(17,587)	-	(53,025)
(Provisions) / Recoveries and Others	82,719	-	(4,910)	-	77,809
Net Profit / (Loss)	1,937,146	75,116	(7,709)	-	2,004,553

Geographically, the Group operates in Qatar and through its branches and subsidiary in Europe. Qatar operations contribute 99% in terms of profit (2005: 104%) and hold 80% of the Group's assets (2005: 78%).

27. GEOGRAPHICAL DISTRIBUTION

	Qatar	Other GCC Countries	Europe	North America	Others	Total
At 31 December 2006:						
Cash and Balances with Central Banks	2,472,222	10	8,787	41	158	2,481,218
Due from Banks	900,108	3,993,114	6,747,701	885,777	254,011	12,780,711
Loans and Advances	35,697,801	3,409,478	4,617,797	186,950	2,314,584	46,226,610
Financial Investments	6,318,385	813,684	645,149	37,165	1,096,129	8,910,512
	45,388,516	**8,216,286**	**12,019,434**	**1,109,933**	**3,664,882**	**70,399,051**
Other Assets						1,263,982
Total Assets						**71,663,033**
Due to Banks	1,473,201	1,022,200	322,476	814,990	2,621,975	6,254,842
Customer Deposits	46,268,278	618,845	2,756,366	396,120	1,890,985	51,930,594
Unrestricted Investment Accounts	3,853,651	5,818	-	-	-	3,859,469
	51,595,130	**1,646,863**	**3,078,842**	**1,211,110**	**4,512,960**	**62,044,905**
Other Liabilities						1,177,176
Shareholders' Equity						8,440,952
Total Liabilities and Equity						**71,663,033**
At 31 December 2005:						
Cash and Balances with Central Banks	2,399,601	3	5,211	692	820	2,406,327
Due from Banks	1,089,986	2,205,529	2,396,339	1,095,481	711,867	7,499,202
Loans and Advances	26,039,848	556,637	3,736,530	75,251	1,069,234	31,477,500
Financial Investments	4,338,050	728,442	1,364,509	118,537	1,088,408	7,637,946
	33,867,485	**3,490,611**	**7,502,589**	**1,289,961**	**2,870,329**	**49,020,975**
Other Assets						1,039,181
Total Assets						**50,060,156**
Due to Banks	1,332,318	668,471	269,051	1,734	327,134	2,598,708
Customer Deposits	31,938,587	419,604	2,322,842	758,342	1,017,639	36,457,014
Unrestricted Investment Accounts	243,995	5,156	-	-	-	249,151
	33,514,900	**1,093,231**	**2,591,893**	**760,076**	**1,344,773**	**39,304,873**
Other Liabilities						2,046,368
Shareholders' Equity						8,708,915
Total Liabilities and Equity						**50,060,156**

(All amounts are shown in thousands of Qatari Riyals)

28. DERIVATIVES

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

				Notional amount by term to maturity			
	Positive Fair Value	Negative Fair Value	Notional Amount	Within 3 Months	3 - 12 Months	1-5 Years	More than 5 Years
As at 31 December 2006:							
Derivatives Held for Trading:							
Forward Foreign Exchange Contracts	24,855	46,312	4,981,544	3,847,729	311,765	731,951	90,099
Options	7	7	43,455	43,455	-	-	-
Caps and Floors	1,415	1,415	1,741,486	-	-	1,741,486	-
Interest Rate Swaps	8,739	-	9,997,874	-	908,237	3,006,401	6,083,236
Derivatives Held as Cash Flow Hedges:							
Interest Rate Swaps	16,925	33,075	2,974,673	-	18,203	2,373,481	582,989
Total	**51,941**	**80,809**	**19,739,032**	**3,891,184**	**1,238,205**	**7,853,319**	**6,756,324**
As at 31 December 2005:							
Derivatives Held for Trading:							
Forward Foreign Exchange Contracts	34,415	34,076	3,764,054	3,274,992	489,062	-	-
Options	534	534	490,523	490,523	-	-	-
Caps and Floors	1,484	1,484	2,037,366	-	-	1,786,294	251,072
Interest Rate Swaps	5,357	802	5,837,911	80,445	7,281	2,969,879	2,780,306
Derivatives Held as Cash Flow Hedges:							
Interest Rate Swaps	17,478	22,961	2,125,418	-	9,972	1,446,512	668,934
Total	**59,268**	**59,857**	**14,255,272**	**3,845,960**	**506,315**	**6,202,685**	**3,700,312**

(All amounts are shown in thousands of Qatari Riyals)

29. MUTUAL FUNDS

As part of the Group's investment activities, the following mutual funds were marketed by the Group:

	2006	2005
Al Watani Capital Guaranteed Fund - Class A	-	4,281
Al Watani Capital Guaranteed Fund -Class B	-	1,536
Al Watani Amana - Notes 1	146	211
Al Watani Amana - Notes 2	32,921	43,879
Total	**33,067**	**49,907**

The Group's investment activities also include management of certain investment funds. As at 31 Decemeber 2006, third party funds under management amounted to QR5,481 million (2005: QR201.0 million). The financial statements of these funds are not consolidated with the financial statements of the Group. However, the Group's share of these funds is included in the financial investments of the Group.

30. RELATED PARTIES

The Group has transactions in the ordinary course of business with directors, officers of the Group and entities of which they have significant influence. At the balance sheet date, such significant balances included:

	2006	2005
Balance Sheet Items		
Loans and Advances	920,933	312,835
Deposits	707,134	638,746
Contingent Liabilities and Other Commitments	279,772	152,184
Statement of Income Items		
Interest and Commission Income	41,249	17,825
Interest and Commission Expense	25,045	19,685

The Group also has significant commercial transactions with the Government of Qatar which are disclosed in notes 6 and 12. All the transactions with the related parties are substantially on the same terms, including interest rates and collateral, as those prevailing in comparable transactions with unrelated parties.

Compensation of key management personnel is as follows:	2006	2005
Salaries and Other Benefits	14,586	11,707
End of Service Indemnity Benefits	369	438

31. CASH AND CASH EQUIVALENTS

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

	2006	2005
Cash and Balances with Central Banks	1,207,053	1,586,330
Due from Banks Maturing in 3 months	11,153,524	7,013,264
Total	**12,360,577**	**8,599,594**

Cash and Balances with Central Banks do not include mandatory reserve deposits.

32. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Judgements and Estimating Uncertainty

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:
The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists.

The determination of what is "significant" or "prolonged" requires considerable judgement.

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

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Based on this, the Group decided during 2005 to write off the goodwill in the subsidiary amounting to QR40.4 million.

SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

A) PARENT COMPANY

The balance sheet and statement of income of the parent company are presented below:

(i) Balance Sheet as at 31 December 2006:

	2006 QR000	2005 QR000
ASSETS		
Cash and Balances with Central Banks	2,481,011	2,405,464
Due from Banks and Other Financial Institutions	12,455,346	7,306,702
Loans and Advances and Financing Activities to Customers	43,072,761	28,996,535
Financial Investments	8,851,673	7,575,722
Property and Equipment	242,743	150,334
Other Assets	625,463	527,345
Total Assets	**67,728,997**	**46,962,102**
LIABILITIES and SHAREHOLDERS' EQUITY		
LIABILITIES		
Due to Banks and Other Financial Institutions	6,094,849	2,485,627
Customer Deposits	48,182,614	33,516,094
Other Liabilities	1,052,738	1,930,452
	55,330,201	**37,932,173**
Unrestricted Investment Accounts	3,859,469	249,151
SHAREHOLDERS' EQUITY		
Issued Capital	1,297,760	1,038,208
Statutory Reserve	1,297,760	1,038,208
Other Reserves	1,772,258	1,768,828
Risk Reserve	421,000	169,422
Fair Value Reserve	1,099,961	2,549,378
Proposed Dividend	778,656	778,656
Proposed Bonus Shares	324,440	259,552
Proposed Transfer to Statutory Reserve	324,440	259,552
Retained Earnings	1,223,052	918,974
Total Shareholders' Equity	**8,539,327**	**8,780,778**
Total Liabilities and Shareholders' Equity	**67,728,997**	**46,962,102**

(ii) Statement of Income for the Year Ended 31 December 2006:

	2006 QR000	2005 QR000
Interest Income	3,156,839	1,984,396
Interest Expense	(1,647,749)	(800,459)
Net Interest Income	**1,509,090**	**1,183,937**
Fees and Commission Income	393,908	274,666
Fees and Commission Expense	(61,646)	(25,571)
Net Fees and Commission Income	**332,262**	**249,095**
Dividend Income	86,717	68,709
Net Gains from Dealing in Foreign Currencies	109,441	57,096
Net Gains from Financial Investments	334,503	340,940
Share in Profit of Associates	-	3,750
Income from Islamic Financing and Investing Activities	277,834	14,304
Other Operating Income	14,164	14,062
Total Operating Income	**2,664,011**	**1,931,893**
General and Administrative Expenses	(505,554)	(368,258)
Depreciation	(35,438)	(28,175)
Recoveries of provision for Impairment of Loans and Advances	144,343	76,366
Investment Revaluation (losses) / Gains	(66,183)	9,224
Other Recoveries	8,667	-
Recovery of Provision for Properties Acquired against Settlement of Debts	5,271	4,020
Unrestricted Investment Account Holders' Share of Profit	(193,476)	(798)
Net Profit Before Taxes	**2,021,641**	**1,624,272**
Income Tax Expense	(9,379)	(9,114)
Net Profit for the Year	**2,012,262**	**1,615,158**

B) ISLAMIC BANKING

The balance sheet and statement of income of Al Watani Al Islami are presented below:

(i) Balance Sheet as at 31 December 2006:

	2006 QR000	2005 QR000
ASSETS		
Cash and Balances with Central Banks	64,547	9,460
Due from and Investments with Banks and Financial Institutions	3,757,980	1,818,205
Due from Financing Activities	2,000,004	418,826
Financial Investments	32,473	-
Properties and Equipment	2,010	819
Other Assets	36,317	48,980
Total Assets	**5,893,331**	**2,296,290**
LIABILITIES and SHAREHOLDERS' EQUITY		
LIABILITIES		
Due to Banks and Other Financial Institutions	173,864	-
Customer Current Accounts	1,689,546	1,877,858
Other Liabilities	17,956	62,368
	1,881,366	**1,940,226**
Unrestricted Investment Accounts	3,859,469	249,151
SHAREHOLDERS' EQUITY		
Issued Capital	100,000	100,000
Risk Reserve	3,696	3,534
Retained Earnings	48,800	3,379
Total Shareholders' Equity	**152,496**	**106,913**
Total Liabilities and Shareholders' Equity	**5,893,331**	**2,296,290**

(ii) Statement of Income for the Year Ended 31 December 2006:

	2006 QR000	2005 QR000
Income From Financing and Investing Activities	277,834	14,304
Total Income from Financing and Investing Activities	**277,834**	**14,304**
Fees and Commission Income	6,245	370
Fees and Commission Expense	(115)	(2)
Net Fees and Commission Income	**6,130**	**368**
Net Gains from Dealing in Foreign Currencies	3,314	302
Other Operating Income	14	11
Total Operating Income	**287,292**	**14,985**
General and Administrative Expenses	(18,248)	(6,737)
Depreciation	(452)	(85)
Net Profit for the Year	**268,592**	**8,163**
Less:		
Unrestricted Investment Account Holders' Share of Profits	(193,476)	(798)
Net Profit for the Year Attributable to Shareholders	**75,116**	**7,365**

QNB Branches and Offices

Head Office

P.O.Box 1000, Doha, State of Qatar
Tel. (+974) 440 7407, Fax (+974) 441 3753
Website www.qnb.com.qa, E-mail ccsupport@qatarbank.com

Branches

Main Branch
Al Khor
Al Sadd
Shahaniya
Al Gharrafa
Industrial Area
Wakra
Qatar University Men's Campus
Ras Laffan Industrial City
Grand Hamad
Sheraton Doha Hotel & Resort
Hamad Hospital
Musheireb
West Bay
Al Rayyan
Al Sadd-Ladies
Al Shamal
Air Force Base
The Mall
Qatar Foundation
Qatar University Ladies Campus
City Center-Doha
The Ritz-Carlton Doha
Doha Marriot Gulf Hotel
Mesaieed

QNB Al Islami

Salwa Road
Grand Hamad

Offices

RasGas
Qatargas
Qatar Petroleum - Head Office Doha
Qatar Petroleum - Al Sadd
Exhibition Centre
Airport Departures Terminal
Urban Planning
Q-Post
Ministry of Education

Other Offices

Investment Department
Customer Sales Center

24-Hour Customer Care Center

Telephone
440 7777

Fax
481 6178

QNB Group

Ansbacher
Two London Bridge,
London SE1 9RA
Tel. (+44) 207 089 4700
Fax (+44) 207 089 4850

United Kingdom
51 Grosvenor Street
London W1K 3HH
Tel. (+44) 207 647 2600
Fax (+44) 207 647 2647

France
58 Avenue d'lena
75116 Paris
Tel. (+33) 153 23 0077
Fax (+33) 153 23 0070

Representative Office
6th floor Navak Building
No. 244 Africa Expressway
Tehran, Iran
Tel. (+9821) 88 889 814
Fax (+9821) 88 889 824

Doha, Qatar Financial Center
P.O. Box: 23589
Tel. (+974) 494 5566
Fax (+974) 483 9982