QIIB SUKUK FUNDING LIMITED

(*incorporated as an exempted company in the Cayman Islands with limited liability*)

U.S.$700,000,000 Certificates due 2017

Issue Price: 100 per cent.

The U.S.$700,000,000 Certificates due 2017 (the **Certificates**) of QIIB Sukuk Funding Limited (in its capacity as issuer, the **Issuer** and, in its capacity as trustee, the **Trustee**) will be constituted by a declaration of trust (the **Declaration of Trust**) dated 18 October 2012 (the **Issue Date**) made by the Issuer, the Trustee, Qatar International Islamic Bank (Q.S.C.). (**QIIB**) and Citicorp Trustee Company Limited (the **Delegate**). Pursuant to the Declaration of Trust, the Issuer, as trustee for and on behalf of the Certificateholders (as defined herein), will declare that it will hold the Trust Assets (as defined herein), upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates (the **Conditions**).

On the 18th day of April and October in each year commencing on 18 April 2013 (each, a **Periodic Distribution Date**), the Issuer will pay Periodic Distribution Amounts (as defined herein) to Certificateholders calculated at the rate of 2.688 per cent. per annum on the outstanding face amount of the Certificates as at the beginning of the relevant Return Accumulation Period (as defined herein) calculated on the basis of a year of 12 30-day months divided by 360.

The Issuer will pay such Periodic Distribution Amounts solely from the proceeds received in respect of the Trust Assets which include payments by QIIB (in such capacities, the **Managing Agent** and the **Mudarib**) under the Management Agreement and Restricted Mudaraba Agreement respectively (each as defined herein). Unless previously redeemed in the circumstances described in Condition 8, the Certificates will be redeemed on 18 October 2017 (the **Scheduled Dissolution Date**) at the Dissolution Distribution Amount (as defined herein). The Issuer will pay Dissolution Distribution Amounts solely from the proceeds received in respect of the Trust Assets which include payments by QIIB under the Purchase Undertaking (as defined herein), the Management Agreement and the Restricted Mudaraba Agreement.

The Certificates will be limited recourse obligations of the Issuer. An investment in the Certificates involves certain risks. For a discussion of these risks, see "*Risk Factors*".

This Prospectus has been approved by the Central Bank of Ireland (the **Central Bank**) as competent authority under the Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State) (the **Prospectus Directive**). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union (**EU**) law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Certificates to be admitted to listing to the official list (the **Official List**) and admitted to trading on its regulated market (the **Regulated Market**). The Regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC). References in this Prospectus to Certificates being **listed** (and all related references) shall mean that such Certificates have been admitted to listing on the Official List and have been admitted to trading on the Regulated Market.

The Certificates are expected to be assigned a rating of "A-" by Fitch Ratings Ltd. (**Fitch**) and "A3" by Moody's Investors Service Ltd, DIFC Branch (**Moody's**). A rating is not a recommendation to buy, sell or hold the Certificates (or beneficial interests therein) and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Each of Fitch and Moody's Investors Service Ltd is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such, each of Fitch and Moody's Investors Service Ltd is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold the Certificates (or beneficial interests therein) and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Certificates may only be offered, sold or transferred in registered form in minimum face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States (as defined under the Securities Act (**Regulation S**)) or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Certificates are being offered or sold solely to persons outside the United States who are not U.S. persons in reliance on Regulation S. Each purchaser of the Certificates is hereby notified that the offer and sale of Certificates to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

Delivery of the Certificates in book-entry form will be made on the Issue Date. The Certificates will be represented by interests in a global certificate in registered form (the **Global Certificate**) deposited on or about the Issue Date with, and registered in the name of a nominee for, a common depositary (the **Common Depositary**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of interests in the Certificates will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein.

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by QIIB's Sharia Supervisory Committee, HSBC Amanah Central Shariah Committee and the Shariah Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own Sharia advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with Sharia principles.

Joint Lead Managers and Joint Bookrunners

HSBC **QNB Capital** **Standard Chartered Bank**

Co-Lead Managers

CIMB **Qatar Islamic Bank**

The date of this Prospectus is 16 October 2012.

This Prospectus comprises a prospectus for the purposes of the Prospectus (Directive 2003/71/EC) Regulations 2005 and the Prospectus (Directive 2003/71/EC) (Amendment) Regulations 2012 (together, the **Prospectus Regulations**) (which implement the Prospectus Directive) in Ireland) and for the purpose of giving information with regard to the Issuer and QIIB. Each of the Issuer and QIIB accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Issuer and QIIB (each having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Prospectus in connection with the offering of the Certificates and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, QIIB, the Joint Lead Managers on behalf of the Managers (each as defined under "*Subscription and Sale*"), the Trustee, the Delegate, the Agents (as defined herein) or any other person.

Neither the delivery of this document nor any sale of any Certificates shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Certificates is correct as of any time subsequent to the date hereof. The Managers expressly do not undertake to review the financial condition or affairs of the Issuer or QIIB during the life of the Certificates or to advise any investor in the Certificates of any information coming to their attention or that there has been no change in the affairs of any party mentioned herein since that date.

None of the Managers, the Delegate or the Agents has verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them as to the accuracy, adequacy, reasonableness or completeness of the information contained in this Prospectus or any other information provided by the Issuer or QIIB in connection with the Certificates, their distribution or their future performance.

Neither this Prospectus nor any other information supplied in connection with the Certificates is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Issuer, the Trustee, QIIB, the Managers, the Delegate or the Agents that any recipient of this Prospectus should purchase any of the Certificates. Each investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and QIIB. None of the Managers, the Delegate or the Agents accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer and QIIB in connection with the Certificates.

No comment is made or advice given by the Issuer, the Trustee, QIIB, the Managers, the Delegate or the Agents in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under any applicable law.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, LEGAL, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF THE CERTIFICATES.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of the Certificates may be restricted by law in certain jurisdictions. None of the Issuer, the Trustee, QIIB, the Managers, the Delegate or the Agents represents that this Prospectus may be lawfully distributed, or that any Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Trustee, QIIB, the Managers, the Delegate or the Agents which is intended to permit a public offering of any Certificates or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of the Certificates. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the United Kingdom, the Cayman Islands, Malaysia, the Kingdom of Saudi Arabia, Singapore, the State of Qatar (**Qatar**) (excluding the Qatar Financial Centre (the **QFC**)), the Kingdom of Bahrain, the United Arab Emirates (excluding the Dubai International Financial Centre) and the Dubai International Financial Centre, see "*Subscription and Sale*".

The Certificates may not be a suitable investment for all investors. Each potential investor in Certificates must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

(a) has sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this Prospectus;

(b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;

(c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor's currency;

(d) understands thoroughly the terms of the Certificates and be familiar with the behaviour of any relevant indices and financial markets; and

(e) is able to evaluate possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

IN CONNECTION WITH THE ISSUE OF THE CERTIFICATES, HSBC BANK PLC, IN ITS CAPACITY AS STABILISING MANAGER (THE *STABILISING MANAGER*) OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER MAY EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE CAN BE NO ASSURANCE THAT THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE ISSUE DATE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE CERTIFICATES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE CERTIFICATES.

ANY STABILISATION ACTION SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus contains "forward-looking statements" – that is, statements related to future, not past, events. In this context, forward-looking statements often address QIIB's expected future business and financial performance, and often contain words such as "expect", "anticipate", "intend", "plan", "believe", "seek" or "will". Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For QIIB, particular uncertainties that could adversely or positively affect its future results include: the behaviour of financial markets and macro-economic conditions, including fluctuations in interest and exchange rates, commodity and equity prices and the value of financial assets; continued volatility and further deterioration of the capital markets; the commercial and consumer credit environment; the impact of regulation and regulatory, investigative and legal actions; strategic actions, including acquisitions and dispositions; future integration of acquired businesses; future financial performance of the banking, financial services and Islamic Finance industries; and numerous other matters of national, regional and global scale, including those of a political, economic, business and competitive nature. These uncertainties may cause QIIB's actual future results to be materially different than those expressed in its forward-looking statements.

The forward-looking statements in this Prospectus speak only as at the date of this Prospectus. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*". Without prejudice to any requirements under applicable laws and regulations, QIIB expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any forward-looking statement is based.

CERTAIN PUBLICLY AVAILABLE INFORMATION

Certain information under the headings *"Overview of Qatar"* and *"Banking Industry and Regulation in Qatar"* has been extracted from information provided or obtained by the Qatar Central Bank (**QCB**)'s Quarterly Statistical Bulletin dated June 2012, December 2009 and December 2006, the U.S. Energy Information Administration, the International Monetary Fund 2010 Article IV Consultation Paper, the Qatar Statistics Authority and the QCB Annual Report 2010 and, in each case, the relevant source of such information is specified where it appears under those headings. QIIB confirms that all such third party information has been accurately reproduced and, so far as QIIB is aware and has been able to ascertain from that published information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this Prospectus, unless otherwise specified or the context otherwise requires, references to "*$*", "*U.S.$*", "*USD*", "*U.S. dollars*", "*United States dollars*" and "*dollars*" are to the lawful currency for the time being of the United States of America and references to "*QAR*", "*QR*", "*riyals*" and "*Qatari riyals*" are to the lawful currency for the time being of Qatar.

Translations of amounts from riyals to U.S. dollars in this Prospectus are solely for the convenience of the reader. The riyal currently is, and since the mid-1980s has been, pegged to the U.S. dollar at a fixed exchange rate of 3.64 riyals per U.S. dollar and, accordingly translations of amounts from riyals to U.S. dollars have been made at this exchange rate for all periods in this Prospectus.

Certain figures contained in this Prospectus, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Prospectus may not conform exactly to the total figure given for that column or row.

The financial information included in this Prospectus has not been prepared in accordance with International Financial Reporting Standards (*IFRS*) and there may be material differences in the financial information had IFRS been applied to the historical financial information. See *"Summary of Significant Differences Between the Financial Accounting Standards Issued by AAOIFI and International Financial Reporting Standards"*.

NOTICE TO CAYMAN ISLAND RESIDENTS

No invitation may be made to any member of the public of the Cayman Islands to subscribe for the Certificates.

NOTICE TO QATARI RESIDENTS

This Prospectus is not intended to constitute an offer, sale or delivery of bonds or other debt financing instruments under the laws of Qatar. The Certificates have not been and will not be authorised by the Qatar Financial Markets Authority (*QFMA*), the QFC Regulatory Authority or the QCB in accordance with their regulations or any other regulations in Qatar. The Certificates and interests therein will not be offered to investors domiciled or resident in Qatar and do not constitute debt financing in Qatar under the Commercial Companies Law No. (5) of 2002 (the *Commercial Companies Law*) or otherwise under any laws of Qatar.

NOTICE TO RESIDENTS OF MALAYSIA

The Certificates may not be offered for subscription or purchase and no invitation to subscribe for or purchase the Certificates in Malaysia may be made, directly or indirectly, and this Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within the categories set out in Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the Capital Market and Services Act 2007 of Malaysia (*CMSA*).

The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Issuer, the Trustee or QIIB and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

The Central Bank of Bahrain and the Bahrain Stock Exchange assume no responsibility for the accuracy and completeness of the statements and information contained in this Prospectus and expressly disclaim any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the contents of this Prospectus. Each potential investor resident in Bahrain intending to subscribe for the Certificates (each, a *potential investor*) may be required to provide satisfactory evidence of identity and, if so required, the source of funds to purchase the Certificates within a reasonable time period determined by the Issuer, the Trustee, QIIB and the Managers. Pending the provision of such evidence, an application to subscribe for the Certificates will be postponed. If a potential investor fails to provide satisfactory evidence within the time specified, or if a potential investor provides evidence but none of the Issuer, the Trustee, QIIB and the Managers are satisfied therewith, its application to subscribe for Certificates may be rejected, in which event any money received by way of application will be returned to the potential investor (without any additional amount added thereto and at the risk and expense of such potential investor). In respect of any potential investors, the Issuer, the Trustee and QIIB will comply with Bahrain's Legislative Decree No. (4) of 2001 with respect to Prohibition and Combating of Money Laundering and various Ministerial Orders issued thereunder, including, but not limited to, Ministerial Order No. (7) of 2001 with respect to Institutions' Obligations Concerning the Prohibition and Combating of Money Laundering.

KINGDOM OF SAUDI ARABIA NOTICE

This Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the *Capital Market Authority*). The Capital Market Authority does not make any representations as to the accuracy or completeness of this Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective purchasers of Certificates should conduct their own due diligence on the accuracy of the information relating to the Certificates. If a prospective purchaser does not understand the contents of this Prospectus he or she should consult an authorised financial adviser.

TABLE OF CONTENTS

RISK FACTORS

The purchase of Certificates may involve substantial risks and is suitable only for sophisticated investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in the Certificates. Before making an investment decision, prospective purchasers of Certificates should consider carefully, in the light of their own financial circumstances and investment objectives, all of the information in this Prospectus.

Each of the Issuer and QIIB believes that the factors described below represent the principal risks inherent in investing in the Certificates, but the inability of the Issuer to pay any amounts on or in connection with any Certificate may occur for other reasons and neither the Issuer nor QIIB represents that the statements below regarding the risks of holding any Certificate are exhaustive. There may also be other considerations, including some which may not be presently known to the Issuer or QIIB or which the Issuer or QIIB currently deems immaterial, that may impact any investment in the Certificates. References in this "Risk Factors" section to the "Trustee" shall mean QIIB Sukuk Funding Limited acting in any capacity, except where the context does not permit.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision. Words and expressions defined in "Terms and Conditions of the Certificates" shall have the same meanings in this section.

Risk factors relating to the Issuer

The Issuer is a newly formed entity and has no operating history. The Issuer will not engage in any business activity other than the issuance of the Certificates, the acquisition of the Trust Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents to which it is a party.

The Issuer's only material assets, which will be held on trust for Certificateholders, will be the Trust Assets, including its right to receive payments under the Management Agreement, the Restricted Mudaraba Agreement and the Purchase Undertaking. The ability of the Issuer (acting in its capacity as the Issuer) to pay amounts due on the Certificates will primarily be dependent upon receipt by the Issuer of all amounts due from QIIB under the Management Agreement, the Restricted Mudaraba Agreement and the Purchase Undertaking. Therefore the Issuer is subject to all the risks to which QIIB is subject to the extent that such risks could limit QIIB's ability to satisfy in full and on a timely basis its obligations under the Transaction Documents to which it is a party. See "*Risk factors relating to QIIB and its business*" below for a further description of these risks.

Risk factors relating to QIIB and its business

QIIB's business, financial condition and results of operations are materially affected by conditions in the global financial markets and by global economic conditions

There has been significant volatility and disruption in global capital and credit markets since late 2007 which reached unprecedented levels in the second half of 2008 and early 2009. These conditions also resulted in a material reduction in the availability of financing, both for financial institutions and their customers, compelling many financial institutions to rely on central banks and governments to provide liquidity and, in some cases, additional capital during this period. Governments around the world, including in Qatar and some other countries in the Middle East and North Africa (**MENA**) region, have taken action intended to stabilise financial markets and prevent the failure of financial institutions. See "*Banking Industry and Regulation – Qatar – Qatari Banking Sector*". Notwithstanding the recovery in markets across the world from the second quarter of 2009 and the unprecedented levels of coordinated government and central bank support from across the world, there remains considerable volatility in the capital and credit markets.

Changes in interest rates and/or widening credit spreads that have resulted from the financial crisis have created a less favourable environment for some of QIIB's businesses and have led to a decrease in demand for certain financing arrangements and other products and services offered by QIIB and its associates. In addition, fluctuations in interest rates and credit spreads have affected the fair value of financial instruments that QIIB holds.

Recessionary conditions more generally have been evident around the world since the last quarter of 2008. These conditions have contributed to a downward pressure on stock prices and have reduced the availability of credit to financial institutions. The deteriorating macroeconomic environment has resulted in higher credit losses and there remains an increasing risk of future credit losses. The foregoing factors also affect QIIB's flexibility in planning for, or reacting to, changes in its operations and in the financial industry generally. If these levels of market disruption and volatility continue or recur, QIIB may experience reductions in business activity, increased funding costs and funding pressures, decreased asset values, credit losses, write-downs and impairment charges and lower profitability. QIIB's performance may also be affected by future recovery rates on assets and the historical assumptions underlying asset recovery rates, which may not be as accurate given the unprecedented recent market disruption.

As a result of the foregoing, QIIB's business, financial condition, results of operations, liquidity and prospects could be adversely affected by conditions in the global economy and financial markets.

QIIB could be adversely affected by the soundness or the perceived soundness of other financial institutions and counterparties, which could result in significant systemic liquidity problems, losses or defaults

Against the backdrop of constraints on liquidity and the high cost of funds in the interbank lending market and given the high level of interdependence between financial institutions that became increasingly evident during the credit crisis, QIIB, like other financial institutions, is subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of other financial services institutions. Within the financial services industry the default of any one institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by QIIB or by other institutions. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearinghouses, banks, securities firms and exchanges with whom QIIB interacts on a daily basis. Systemic risk could have a material adverse effect on QIIB's ability to raise new funding and on its business, financial condition, results of operations, liquidity and prospects.

With more than 90 per cent. of its assets and liabilities in Qatar at 30 June 2012, QIIB is dependent on the state of the Qatari economy which, in turn, is dependent on developments in international oil and gas prices

Qatar's economy is materially affected by international oil and natural gas prices, which have fluctuated widely over the past two decades. The oil and gas sector contributed 51.7 per cent. and 57.7 per cent. to Qatar's total nominal GDP for the years ended 31 December 2010 and 31 December 2011, respectively. It also contributed 85.14 per cent. and 81.16 per cent. to the annual revenues of Qatar in the fiscal years ended 31 March 2011 and 31 March 2012, respectively.

International prices for crude oil have fluctuated substantially as a result of many factors, including global demand for oil and natural gas, changes in governmental regulations, weather, general economic conditions and competition from other energy sources. In addition, as crude oil prices provide a benchmark for gas and petrochemical feedstock prices, changes in crude oil prices may also have an impact on gas and petrochemical prices. International prices for natural gas have also fluctuated significantly in the past depending on global supply and demand and the availability and price of alternative energy sources.

In the past, Qatar has been able to partially offset lower hydrocarbon prices by increases in hydrocarbon production, but the future rate of growth in Qatar's hydrocarbon production is expected to slow down. Most of Qatar's oilfields are mature and oil production may have peaked in 2011. Additionally, the reserves at Al Shaheen, one of Qatar's most productive oil fields, were recently reduced after drilling results led to a reserves reassessment. Qatar is also approaching the end of a 20-year development cycle for LNG projects and LNG production is expected to plateau in the near future.

With a moratorium on the development of new gas projects in the North Field in place (excluding the Barzan gas pipeline project which is targeted for local consumption), and given the long lead time to develop gas projects, Qatar may not be able to significantly increase gas production in the near future through new gas projects.

Thus, any material reduction in the prices of natural gas, crude oil and other hydrocarbons may have a significant adverse impact on the economy of Qatar and may also materially adversely impact Qatar's revenues and financial condition. Such affects would be likely to materially adversely affect QIIB by reducing the demand from its Qatari customers for financing and by adversely affecting the quality of its outstanding financing, thus potentially increasing its impairment losses and so reducing profitability. In addition, any reduction in Qatar's revenues would reduce the likelihood and/or extent of government financial support being available to Qatari banks, including QIIB, should such support be needed in the future.

Slower economic growth in the countries where QIIB and its associates operate could adversely impact QIIB

The economies of Qatar and the GCC countries are dependent on oil, gas and related industries, as well as the prices and quantities of these commodities. During the second half of 2008 and the first half of 2009, the prices for both oil and gas and related products experienced significant volatility and rapid deterioration before stabilising and recovering later in 2009.

QIIB's financial performance has been and will remain closely linked to the rate of economic growth of Qatar and the other countries in which QIIB and its associates operate. Consequently, any deterioration in economic conditions in Qatar due to deterioration in oil, gas or related industries or due to other factors, or any deterioration in any other country where QIIB or its associates operate, could have a materially adverse effect on many of QIIB's customers and contractual counterparties.

Qatar

Operations in Qatar accounted for in excess of 95.0 per cent. of QIIB's net operating income for the period ended 30 June 2012. In currency terms 98.0 per cent. of QIIB's assets at 31 December 2011 were denominated in Qatari riyal or U.S. dollars. The Qatari riyal has been pegged to the U.S. dollar at a fixed exchange rate since 1975. As a result, any volatility in the value of these currencies could have a material adverse effect on QIIB's business and results of operations. The government of the State of Qatar (the **Government**) has, in the past, relied upon loans to finance its economic development and infrastructure projects. If current economic conditions cause delays in key projects as a result of the decrease in the availability of credit, the Government may need to draw on its sovereign wealth fund in order to finance these projects. As long as these conditions persist, QIIB's business, financial condition, results of operations, liquidity and prospects could be adversely affected by conditions in the global economy and financial markets.

The GCC

The economies of many GCC countries have expanded significantly in recent years, driven by revenues from oil and gas exports. The economies of GCC countries are dependent on oil, gas and related industries, as well as the prices and quantities of those commodities and oil prices have experiences significant volatility from 2008 to the present. Furthermore, the GCC's main export markets in Asia have continued to be affected by the global economic downturn in 2009, which has affected the GCC's rate of growth. Although it was hoped that the creation of the GCC customs union would assist in the establishment of free trade agreements with the European Union and the United States, talks have not yet advanced and there is no guarantee that these free trade agreements will be established. It is likely that if there is any sustained deterioration in the economies of these countries or a major political upheaval, this could have a material adverse effect on QIIB's business and results of operations.

Geopolitical unrest

QIIB's business may be affected if there are geopolitical events that prevent QIIB from delivering its services. Since early 2011 there has been political unrest in a range of countries in the MENA region including Egypt, Algeria, Libya, Bahrain, Saudi Arabia, Yemen, Syria, Tunisia and Oman. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict and has given rise to increased political uncertainty across the region. QIIB has two associates in Syria (Syria International Islamic Bank and Syria Islamic Insurance Company). There can be no assurance that such political instability in the MENA region will not escalate in the future and affect hitherto stable countries such as Qatar, that political instability will not spread to additional countries in the MENA region, that further violent activities will not occur or that the governments of the MENA region will be successful in maintaining domestic order and stability. This unrest may result in credit becoming more expensive for certain countries in the region. Although these events have not had a significant impact on QIIB's operations to date there can be no assurance that they will not do so in the future. It is not possible to predict the occurrence of such events or circumstances or the impact of such occurrences and no assurance can be given that QIIB would be able to sustain its current performance levels if such events or circumstances were to occur. A general downturn in Qatar or geopolitical instability in Qatar or the broader regional economy could have an adverse effect on QIIB's business, financial condition, results of operations, liquidity and prospects.

Failure to comply with international sanctions could adversely affect the Bank

European, U.S. and other international sanctions have in the past been imposed on companies engaging in certain types of transactions with specified countries or companies or individuals in those countries. Companies operating in certain countries in the MENA region have been subject to such sanctions in the past. The terms of legislation and other rules and regulations which establish sanctions regimes are often broad in scope and difficult to interpret.

QIIB has two associates which operate in Syria, a country that the U.S. Department of Treasury's Office of Foreign Assets Control has targeted for economic and trade sanctions. In addition, United States Department of Treasury sanctions were imposed on one of these, Syria International Islamic Bank on 30 May (see ("*Description of Qatar International Islamic Bank Q.S.C. – Associates*")). QIIB's investments in these Syrian associates represented 0.5 per cent. of the Bank's total assets as at 30 June 2012. Upon imposition of these sanctions on Syria International Islamic Bank, QIIB's representative, who held a non-executive position on Syria International Islamic Bank's board of directors, resigned from their position. Also, the Arab League as well as the European Union recently imposed certain sanctions on Syria due to the continuing unrest in Syria. Sanctions imposed include restrictions on conducting transactions with the Syrian central bank, halting funding by Arab governments for projects in Syria, the banning of commercial and cargo flights between Syria and member states of the Arab League and the European Union, restrictions on the transportation of Syrian crude oil and petroleum products to any country, restrictions on the provision of certain support services to the oil and gas and power generation industries, including technical and financial assistance and restrictions on the sale, supply, transfer or export of luxury goods to Syria.

As at the date of this Prospectus, QIIB believes that it is not in violation of any existing European, U.S. or international sanctions. Should QIIB or its associates in the future violate any existing or further European, U.S. or international sanctions, penalties could include a prohibition or limitation on such company's ability to conduct business in certain jurisdictions or on the QIIB's ability to access the U.S. or international capital markets. Any such sanction could have a material adverse effect on the QIIB's business, financial condition, results of operations, liquidity and prospects.

The GCC may enter into monetary union

On 5 May 2009, the GCC announced that Riyadh had been selected as the home of the new regional central bank for the proposed single GCC currency to be adopted across the GCC States. This announcement has reinforced the possibility that Bahrain, Kuwait, the Kingdom of Saudi Arabia and the State of Qatar may each abandon their respective national currencies within the next few years. If a single GCC currency is adopted, the necessary convergence of laws, policies and procedure will bring significant changes to the economic and political infrastructure in each of the GCC States. As yet there has been no announcement of an official timetable for the progression of monetary union or whether a GCC monetary union will indeed be implemented and there are currently no details of new legislation or policies. Investors should, however, be aware that new legislation and any resulting shifts in policy and procedure in Qatar could affect QIIB's ability to perform its obligations in respect of the Transaction Documents to which it is a party and, in turn, affect the Trustee's ability to perform its obligations in respect of the Certificates.

QIIB is subject to the risk that liquidity may not always be readily available; this risk may be exacerbated by conditions in global financial markets

Liquidity risk is the risk that QIIB will be unable to meet its obligations, including funding commitments, as they fall due. QIIB has historically relied substantially on retail and corporate depositors to meet most of its funding needs as access to other funding sources has been limited. Such deposits are subject to fluctuation due to certain factors outside QIIB's control, such as any possible loss of confidence and competitive pressures, which could result in a significant outflow of deposits within a short period of time. This risk is inherent in banking operations and can be heightened by a number of enterprise specific factors, including over-reliance on a particular source of funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Credit markets worldwide experienced a severe reduction in liquidity and term-funding during the global financial crisis, particularly towards the end of 2008 and into 2009. Since then, the availability of liquidity has continued to be constrained, particularly at times when the European sovereign debt crisis has intensified.

The perception of counterparty risk between banks has also increased significantly, which has led to further reductions, in common with many other banks, in QIIB's access to traditional sources of liquidity, such as the financing markets. QIIB's access to these traditional sources of liquidity has been, and may continue to be, restricted or available only at a higher cost and there can be no assurance that the QCB will continue to provide the levels of support that it has provided to date.

In addition, uncertainty or volatility in the capital and credit markets may limit QIIB's ability to refinance maturing liabilities with long-term funding and increase the cost of such funding. The availability to QIIB of any additional financing it may need will depend on a variety of factors, such as market conditions, the availability of credit generally and to borrowers in the financial services industry specifically, and QIIB's financial condition, credit ratings and credit capacity.

QIIB may be subject to increased capital requirements or standards due to new Governmental or regulatory requirements and changes in perceived levels of adequate capitalisation

Financial institutions have experienced, and may continue to experience, irregularity in the markets in which QIIB and its associates operate, increasing the capital requirements for either QIIB's or its associates' operations. On 6 May 2009 the QCB issued a Basel II guideline on the calculation of the capital adequacy ratio (**CAR**) of Qatari banks whereby investment in associates is required to be deducted from capital. Under the previous guidelines, Qatari banks were given an option to either deduct investment in associates from capital when calculating CAR or consolidate the risk weighted assets on a *pro rata* basis. The change in the methodology for calculating QIIB's CAR has had an adverse effect on QIIB's CAR as well as on the ratios of other Qatari banks that have associates. It should be noted that pursuant to QCB laws and regulations, the QCB is entitled to amend capital adequacy requirements at its sole discretion. Various other regulatory regimes to which QIIB and its associates are subject, such as Basel II, are likely to be modified such that they will affect capital adequacy ratios (and the level of capital required) applicable to financial institutions. In addition, these regulations may limit QIIB's activities and changes in supervision and regulation in Qatar could adversely affect QIIB's business, financial condition, results of operations, liquidity and prospects, as well as the value of its assets.

In December 2010 the Basel Committee published a revised set of guidelines (**Basel III**), the implementation of which will begin on 1 January 2013. Although the minimum risk-based capital ratio under Basel III remains at 8 per cent., the minimum common equity ratio will increase from 2 per cent. (before the application of regulatory adjustments) to 4.5 per cent. (after the application of stricter regulatory adjustments) and the total Tier 1 capital requirement, which includes common equity and other qualifying financial instruments, will increase from 4 per cent. to 6 per cent. In addition, banks will be required to maintain, in the form of common equity (after the application of deductions), a capital conservation buffer of 2.5 per cent. to withstand future periods of stress, bringing the total common equity requirements to 7 per cent., and, if there is excess credit growth in any given country resulting in a system-wide build-up of risk, a countercyclical buffer within a range of 0 per cent. to 2.5 per cent. of common equity (or possibly other fully loss-absorbing capital) is to be applied as an extension of the conservation buffer. On 15 February 2011, the QCB issued Circular No 16. of 2011 which indicated that the QCB envisages a revised target capital adequacy ratio of 12 per cent. and a total capital adequacy ratio of 14.5 per cent. if a capital conservation buffer is put in place, but no fixed date has been set as to when this would be implemented. Under the circular, the QCB required all national banks to provide the QCB with a comprehensive report on the implementation of Basel III within three months of the date of the circular. A second circular concerning Basel III was issued in August 2012 relating to Basel IIII's liquidity requirements. This circular mandated all national banks to submit liquidity ratio calculations in accordance with Basel III's requirements for Liquidity Coverage, Net Stable Funding and Leverage Ratios on a monthly basis, with initial reports to be submitted based on 31 August 2012 data.

The implementation of Basel III in Qatar has not occurred to date, and the effect that these revised guidelines will have on the Bank's capital requirements and capital position is uncertain. If any future alterations to the capital adequacy standards under Basel III (or Qatari legislation implementing Basel III) with regard to limits on the deployment and use of capital require the Bank to maintain higher capital levels or limit the use of significant portions of its capital, this could have a material adverse effect on QIIB's business, financial condition, results of operations, liquidity and prospects.

Requirements imposed by regulators, including capital adequacy requirements, are designed to ensure the integrity of the financial markets and to protect customers and other third parties with whom the Bank deals. These requirements are not designed to protect the holders of the Notes. Consequently, these regulations may limit the Bank's activities, including its lending, and may increase the Bank's costs of doing business, or require the Bank to seek additional capital in order to maintain Qatari capital adequacy requirements or different varieties of funding to satisfy the Qatari liquidity requirements. In addition, a regulatory breach of guidelines in Qatar could expose the Bank to potential liability and other sanctions, including the loss of its general banking licence.

Additional capital, whether in the form of financing arrangements, or additional equity, may not be available on attractive terms, or at all. Further, any such development may require QIIB to change how it conducts its business, including by reducing the risk and leverage of certain activities, or otherwise have an adverse impact on its business, the products and services it offers and the value of its assets. QIIB may become subject to mandatory guidelines and direct monitoring by the QCB should it fail to strengthen its capital position.

There can be no assurance that any of these alternative methods of raising capital would be successful in increasing QIIB's capital ratios sufficiently or within the timetable required. If QIIB is unable to increase its capital ratios sufficiently, its credit ratings may drop, its cost of funding may increase and its share price may decline.

The growth and diversification of QIIB's financing portfolio has increased its credit exposure and risk profile

Risks arising from adverse changes in the credit quality and recoverability of QIIB's financing portfolio, securities and amounts due from counterparties are inherent in a wide range of QIIB's businesses, principally in its financing and investment activities. QIIB's failure to maintain growth of its financing portfolio while maintaining the quality of its assets through effective risk management policies could lead to higher financing loss provisioning and result in higher levels of defaults and write-offs, which in turn could have a material adverse effect on QIIB's results of operations, business, financial condition, liquidity and prospects. See "*Description of Qatar International Islamic Bank (Q.S.C.) – Risk Management*".

In March 2011, the QCB launched the Central Credit Bureau, the purpose of which is to collate information about customers based in Qatar and their credit history. However, given its lack of operational history, there can be no assurance that the Central Credit Bureau will support QIIB's assessment of the overall debt level and creditworthiness of credit applicants in Qatar. Because the availability of accurate and comprehensive financial and general credit information on individuals and small businesses in Qatar is limited, it is likely to be more difficult for QIIB to accurately assess the credit risk associated with such lending. As a result, retail and small business customers may be overextended by virtue of other credit obligations of which QIIB is unaware. QIIB is therefore exposed to retail and small business credit risks that it may not be able to accurately assess and provide for. These factors may result in QIIB facing credit delinquencies in its customer financing portfolio. Although QIIB has policies to deal with problem financings, there can be no assurance that these policies will result in full or partial recovery of all amounts due.

If QIIB is unable to maintain the quality of its assets through effective risk management policies, this could lead to higher impairment losses and result in higher levels of defaults and write-offs, which in turn could have a material adverse effect on QIIB's financial condition or results of operations.

QIIB is exposed to declining property values in Qatar on the collateral supporting residential and commercial real estate lending

QIIB's total financing assets as at 31 December 2010, 31 December 2011 and 30 June 2012 was QR 9.2 billion, QR 10.6 billion, and QR 11.4 billion, respectively, of which real estate amounted to 54.3 per cent. or QR 5.0 billion, 61.3 per cent. or QR 6.5 billion, and 58.8 per cent. or QR 6.7 billion respectively. Residential property prices and commercial property prices in QIIB's core markets declined from 2008 to 2011 reflecting the slowdown in economic growth as well as uncertainty and lower availability of credit. Economic and other factors could lead to contraction in the residential funding and commercial funding market and to further decreases in residential and commercial property prices. These factors have also led to a significant slowdown in the construction sector in Qatar. See "*– A recurrence of rising inflation, or continued deflation may impact QIIB's profitability*". Furthermore, the economic conditions in the Qatari banking sector prompted the Government to provide certain support measures relating to the Qatari commercial banking sector's real estate portfolio. Although QIIB has benefited from such measures, there is no assurance that such support from the Government will continue.

Credit risk

Credit risks could arise from a deterioration in the credit quality of specific borrowers, issuers and counterparties of QIIB, or from a general further deterioration in local or global economic conditions, or from systemic risks within these financial systems, which could affect the recoverability and value of QIIB's assets and require an increase in QIIB's provisions for the impairment of loans, securities and other credit exposures.

Concentration risk

Concentrations in the financing and deposit portfolio of QIIB subjects it to risks of default by QIIB's larger borrowers, from exposure to particular sectors and from withdrawal of large deposits. The financing portfolio of QIIB shows borrower and industry concentration.

QIIB's 10 largest private sector borrowers represented 32.6 per cent. of QIIB's total financing receivables as at 30 June 2012. As at 30 June 2012, QIIB's largest funded exposure to a private sector borrower was QR 1.8 billion, which constitutes 45.0 per cent. of its total regulatory capital (total regulatory capital being QR 4.0 billion as at 30 June 2012).

In terms of the industry concentration of QIIB's deposit portfolio, as at 30 June 2012, retail banking operation deposits accounted for 74.0 per cent., small-to-medium banking operation deposits accounted for 4.0 per cent., corporate banking operation deposits accounted for 17.0 per cent. and Investment and Treasury operations deposits accounted for 5.0 per cent.

A downturn in the fortunes of any of QIIB's depositors, or in the sectors in which they operate, could have an adverse affect on QIIB's results of operations, business, financial condition, liquidity and prospects.

Recent market conditions have increased the risk of financing activities being impaired, and financing activity losses are increasing

QIIB and its associates are exposed to the risk that borrowers may not repay on their financing activities according to their contractual terms and that any collateral securing the payment of these activities may be insufficient. QIIB continuously reviews and analyses its financing portfolio and credit risks. QIIB's allowance for losses on financing activities is based on, among other things, its analysis of current and historical delinquency rates and the valuation of any underlying assets, as well as numerous other management assumptions. These internal analyses and assumptions may give rise to inaccurate predictions of credit performance in the current economic environment particularly because, prior to 2008, QIIB was operating in a less volatile credit environment with historically low loan losses. Due to worsening economic conditions in recent years, QIIB has experienced an increase in past due financings as well as an increase of impaired financings and in provisions for potential credit losses in its financing activity books (see "*Description of Qatar International Islamic Bank Q.S.C. – Risk Management – Credit Risk*"). A material increase in financing activity losses would have a material adverse effect on QIIB's financial condition and results of operations.

QIIB is a highly regulated entity and changes to applicable laws or regulations, the interpretation or enforcement of such laws or regulations or the failure to comply with such laws or regulations could have a material adverse effect on QIIB

QIIB is subject to a number of prudential and regulatory controls designed to maintain the safety and soundness of banks, ensure their compliance with economic and other objectives and limit their exposure to risk. These regulations include Qatari laws, regulations, administrative actions and policies (particularly those of the QCB, the Qatar Financial Markets Authority (**QFMA**) and the Qatar Exchange (**QE**)), as well as the laws, regulations, administrative actions and policies of the other countries in which QIIB's associates operate.

These regulations may limit QIIB's ability to increase its financing operations. Changes in supervision and regulations may also increase QIIB's cost of doing business, limit the products or services offered and could have a material adverse effect on the value of its assets and its financial condition.

In response to the global economic crisis, it is also expected that there will be an increase in the regulation of financial institutions as evidenced by recent actions around the world. Increased regulations, changes in laws and regulations (such as pursuant to Basel II and Basel III) and the manner in which they are interpreted or enforced (such as Resolution No. (11) of 1997) may have a material adverse effect on QIIB's results of operations, business, financial condition, liquidity and prospects.

Additionally, the Government announced its intention to establish a single financial regulator in Qatar, which will regulate the banking, insurance and securities sectors. Although these plans have been postponed by the Government for the foreseeable future, the establishment of a single regulator (if implemented) may change the way that current regulations are implemented or enforced. Furthermore, non-compliance with regulatory guidelines could expose QIIB to potential liabilities. Although QIIB works closely with its regulators and continually monitors the situation, future changes in regulation, fiscal or other policies cannot be predicted and are beyond the control of QIIB.

Furthermore, QIIB is required to comply with applicable anti-money laundering and anti-terrorism laws and other regulations in Qatar and other jurisdictions where it has operations. To the extent QIIB may fail or be perceived to fail to comply fully with applicable laws and regulations (such as the sanctions administered by the U.S. Office of Foreign Assets Contract, the U.S. Foreign Corrupt Practices Act of 1977 or the UK Bribery Act 2010), the regulatory agencies to whom QIIB reports have the power and authority to impose fines and other penalties on QIIB. In addition, QIIB's business and reputation could suffer if customers use QIIB for money laundering or illegal or improper purposes.

QIIB's ability to achieve its strategic objectives could be impaired if it is unable to maintain or obtain required licences, permits, approvals and consents

In order to carry out and expand its business, QIIB needs to maintain or obtain a variety of licences, permits, approvals and consents from regulatory, legal, administrative, tax and other authorities and agencies. The processes for obtaining these permits and approvals are often lengthy, complex, unpredictable and costly. If QIIB is unable to maintain or obtain the relevant permits and approvals, its ability to achieve its strategic objectives could be impaired, with a consequent adverse impact on the market value of the Certificates, the Issuer's and QIIB's ability to perform its obligations under the Transaction Documents to which it is a party and QIIB's results of operations, business, financial condition, liquidity and prospects.

QIIB may not be able to manage its expansion strategy effectively, which could impact its profitability

QIIB cannot assure prospective investors that it will be able to manage its growth effectively. Challenges that may result from strategic investments or acquisitions include QIIB's ability to: finance strategic investments or acquisitions; fully integrate strategic investments, or newly established entities or acquisitions in line with its strategy; assess the value, strengths and weaknesses of investment or acquisition candidates; align its current information technology systems adequately with those of an expanded organisation; manage efficiently the operations and employees of expanding businesses; manage a growing number of entities without over-committing management or losing key personnel; maintain its existing customer base; acquire and maintain all necessary licences, permits, approvals and consents (as described further above) and apply its risk management policy effectively to an enlarged organisation.

QIIB cannot ensure that it will be able to adequately address these concerns, which could prevent QIIB from achieving its strategic objectives and expansion targets, and could also have a material adverse effect on QIIB's results of operations, business, financial condition, liquidity and prospects.

A recurrence of rising inflation, or continued deflation may impact QIIB's profitability

Inflation in Qatar increased from 2004 to 2008, with a compound annual growth rate of 60.0 per cent. However, in 2009, Qatar experienced an overall annual deflation rate of 4.9 per cent., in 2010, an overall annual deflation rate of 2.5 per cent. with the deflationary trend reversing in 2011 with an overall annual inflation of 1.9 per cent. This is in contrast to the inflation rate of 15.2 per cent. in 2008 and 13.6 per cent. in 2007.

Historically, inflation has increased staff and living expenses and any recurrence of higher levels of inflation in the future is likely to increase such expenses further. High inflation could slow the ratio of economic growth and consumer spending in Qatar. A continuing deflationary environment in Qatar could also impact QIIB's profitability by adversely affecting property values, which could have an adverse effect on QIIB's real estate portfolio. High rates of inflation or deflation could have a material adverse affect on QIIB's business growth and the profitability of QIIB.

QIIB's financial condition and operating results could be affected by market risks

QIIB's financial condition and operating results could be affected by market risks that are outside QIIB's control, including, amongst other things, prices of securities, profit and interest rates, currency exchange rates and investment and asset and liability management activities.

Fluctuations in interest rates could adversely affect QIIB's operations and financial condition in a number of different ways. An increase in such rates generally may decrease the value of QIIB's fixed rate financing arrangements and raise QIIB's funding costs. Such an increase could also generally decrease the value of QIIB's securities portfolio. Volatility in interest rates may result in a repricing gap between QIIB's profit rate sensitive assets and liabilities. As a result, QIIB may incur additional costs.

QIIB's financial condition and operating results may also be affected by changes in market value of QIIB's securities portfolio. QIIB's income from investment activities depends on numerous factors beyond its control, such as overall market trading activity, interest rate levels (as described above), fluctuations in currency exchange rates and general market volatility. Although QIIB has risk management processes that review and monitor the market risk aspects of investment proposals and investment portfolios (which respond to QCB requirements and guidelines, including overall structure and investment limits), market price fluctuations may still adversely affect the value of QIIB's securities portfolio. See "*Description of Qatar International Islamic Bank (Q.S.C.) – Risk Management – Market Risk*".

Although QIIB has risk management processes that review and monitor the market risk aspects of investment proposals and investment portfolios in accordance with QCB requirements and guidelines, including overall structure and investment limited, market price fluctuations may still adversely affect the value of QIIB's securities portfolio.

Market fluctuations and volatility may adversely affect the value of QIIB's positions in certain securities and make it more difficult to assess the fair value of certain of its assets

Financial markets have been subject to significant stress conditions since late 2008, with steep falls in perceived or actual asset values accompanied by a severe reduction in market liquidity. These events have affected the prices of securities that QIIB holds. Moreover, market volatility and illiquidity have made it difficult to value certain investment exposures. Valuations in future periods, reflecting then-prevailing market conditions, may result in significant changes in the fair values of QIIB's exposure. In addition, the value ultimately realised by QIIB may be materially different from the current or estimated fair value. Any of these factors could require QIIB to recognise valuation losses or realise impairment charges, any of which may adversely affect its business, financial condition, results of operations, liquidity and prospects.

QIIB's business may be adversely affected if the Qatari Riyal/U.S. dollar peg were to be removed or adjusted

As the date of this Prospectus, the Qatari Riyal remains pegged to the U.S. dollar (U.S.$1.00 = QAR 3.64). However, there is market risk relating to the possible de-pegging of the Qatari Riyal and various GCC currencies from the dollar, although it would depend on the level of open positions and exposure to the U.S. dollar of QIIB and its associates. QIIB's operations could be adversely impacted if Qatar (or any country where QIIB or its associates operate) should de-peg its currency. Ultimately, there can be no assurance that QIIB will be able to protect itself from any adverse effects of a currency revaluation or the de-pegging from the U.S. dollar which could have a material adverse effect on QIIB's financial condition and results of operations.

Increasing competition may have a material adverse effect on QIIB's results of operations

QIIB and its associates face high levels of competition for all of their products and services. QIIB competed with other Islamic banks and (until the closing of the "Islamic window" on 31 December 2011) conventional banks with Islamic capabilities in Qatar. International banks are increasing their presence in Qatar, either directly or through strategic investments, and compete with QIIB for its wholesale corporate and Government-related clients. According to the QCB, as at 30 September 2010, there were a total of 18 banks licensed by the QCB, consisting of six domestic conventional banks, one state owned development bank, four Islamic banks and seven foreign banks. In addition to the existing retail banks in Qatar, more international banks are expected to commence business through the QFC, which would allow them to compete for large corporate and Government business (see "*Banking Industry and Regulation – International Banks*"). The competitive nature of the Qatar market and QIIB's potential failure to continue to compete successfully may adversely impact QIIB's business. Increased competition in countries where QIIB's associates currently operate, could result in similar competition for associates.

The QCB circular on retail banking, which sets certain limits on QIIB's retail operations, may have adverse implications on the profitability of QIIB's business

On 10 April 2011 the QCB issued a circular to all banks operating in Qatar which, amongst other things, caps the loan amounts, both in real terms and as a percentage of salary, that may be made available to retail customers in Qatar. The circular also limits the repayment period and caps the interest payable (or profit rate for Islamic banks) on retail loans, and puts similar interest rate restrictions (or profit rate restrictions for Islamic banks) in place in respect of credit cards made available to retail customers. The circular only applies to transactions entered into by QIIB after 10 April 2011. In the period immediately following the issuance of the circular, QIIB experienced a noticeable slowdown in credit growth. This has been mitigated by the September 2011 Government's initiative to increase the salaries of public sector employees. This initiative was subsequently adopted by Qatari private sector companies (see "*Description of Qatar International Islamic Bank Q.S.C. – Strategy – Maintaining a highly visible and expanding presence in the local Qatari and regional markets through organic and acquisition growth*"). However, QIIB's profitability in respect of its retail operations may be adversely affected in the future as a result of this QCB circular.

QIIB's compliance systems might not be fully effective

QIIB's ability to comply with all applicable legal restrictions and QCB regulations is largely dependent on its maintenance of compliance, audit and reporting systems and procedures, and its ability to attract and retain personnel qualified to manage and monitor such systems and procedures. QIIB cannot provide assurance that these systems and procedures are fully effective. QIIB is subject to extensive oversight by regulatory authorities, including regular examination activity. In addition, QIIB performs regular internal audits and employs an external auditor to monitor and test its compliance systems. In the case of actual or alleged non-compliance with regulations, QIIB could be subject to investigations and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits, including by customers for damages. Any of these could have a material adverse effect on QIIB's results of operations, business, financial condition, liquidity and prospects. Notwithstanding the foregoing, QIIB believes that its risk management and internal control policies and procedures are sufficient to ensure the Issuer complies with its obligations as a company with securities admitted to the Official List.

QIIB may not be able to recruit and retain qualified and experienced personnel which could have an adverse effect on its business and its ability to implement its growth strategy

QIIB's success and ability to maintain current business levels and sustain growth will depend, in part, on QIIB's ability to continue to recruit and retain qualified and experienced banking and management personnel. QIIB could face challenges in recruiting qualified personnel to manage its business. Additionally, if QIIB continues to grow, it will need to continue to increase its number of employees. QIIB is guided in its human resources decisions by the Government's recommended policy that 20 per cent. of QIIB's total staff consists of Qatari nationals. While QIIB believes that it has effective staff recruitment, training and incentive programs in place, QIIB's failure to recruit, train and/or retain necessary personnel or the shortage of qualified Qatari or other nationals prepared to relocate to Qatar, could have a material adverse effect on its business, financial condition and results of operations.

The loss of key personnel may adversely affect QIIB's ability to implement its strategies

QIIB's future success and growth depends to a substantial degree on its ability to retain and motivate QIIB's senior management and other key personnel. QIIB depends especially on the efforts, skill, reputation and experience of its key senior management, as well as synergies among their diverse fields of expertise and knowledge. Moreover, QIIB is not insured against losses that may be incurred in the event of the loss or dismissal of its key personnel.

The salaries of QIIB's non-Qatari employees may be increased

The Government had issued Emiri Decree No. 50 of 2011 requiring a 60 per cent. increase in the basic salary and social allowance for state civilian employees. In the third quarter of 2011, QIIB introduced corresponding increases in the salaries of their Qatari employees. The increase of the salaries of QIIB's Qatari employees may give rise to an increase of the salaries of QIIB's non-Qatari employees. QIIB's operating costs have increased in proportion with the increase in the salaries of its Qatari employees. QIIB's operating costs may increase further should it implement similar salary increases for its non-Qatari employees.

QIIB's risk management policies and procedures may leave it exposed to unidentified or unanticipated risks

In the course of its business activities, QIIB is exposed to a variety of risks, the most significant of which are credit risk, market and refinancing risk, liquidity risk, legal risk and operational risk. See "*Description of Qatar International Islamic Bank (Q.S.C.) – Risk Management*". QIIB's risk management techniques may not be fully effective in mitigating its exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of QIIB's methods of managing risk are based upon its use of historical market behaviour. These methods may not predict future risk exposures, which could be significantly greater than historical measures indicate. There can be no assurance that QIIB's risk management and internal control policies and procedures will adequately control, or protect QIIB against, all credit and other risks. In addition, certain risks could be greater than QIIB's empirical data would otherwise indicate. QIIB also cannot guarantee that all of its staff will adhere to its policies and procedures.

QIIB is susceptible to, among other things, failure of internal processes or systems, unauthorised transactions by employees and operational errors, including clerical or record keeping errors, errors resulting from faulty computer or telecommunications systems, and fraud by employees or outsiders. See "*QIIB is subject to risks relating to its information technology systems*". QIIB's risk management and internal control capabilities are also limited by the information, tools and technologies available to QIIB. Any material deficiency in QIIB's risk management or other internal control policies or procedures may expose QIIB to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on QIIB's business, results of operations and financial condition. Notwithstanding the foregoing, QIIB believes that its risk management and internal control policies and procedures are sufficient to ensure compliance with the Prospectus Regulations applicable to QIIB.

A downgrade in QIIB's credit ratings could limit its ability to negotiate new loan facilities, access the debt capital markets and may increase its borrowing costs and/or adversely affect its relationship with creditors

QIIB's credit ratings, which are intended to measure its ability to meet its debt obligations as they mature, are an important factor in determining QIIB's cost of borrowing funds. The profit rates on QIIB's financings are partly dependent on its credit ratings. As of the date of this Prospectus, QIIB's long-term local and foreign currency rating was assessed by Fitch at A- and by Moody's at A3. A downgrade of QIIB's credit ratings, or being placed on a negative ratings watch, may increase its cost of borrowing and materially adversely affect its results of operations.

QIIB is subject to risks relating to its information technology systems

QIIB depends on its information technology systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of QIIB's business and operating data. The proper functioning of QIIB's financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between its branches and main data processing centers, are critical to QIIB's business and ability to compete effectively. QIIB's business activities would be materially disrupted if there were a partial or complete failure of any of the information technology systems or communications networks. Such failures can be caused by a variety of factors, including natural disasters, extended power outages and computer viruses. The proper functioning of QIIB's information technology systems also depends on accurate and reliable data and other system input, which are subject to human errors. Any failure or delay in recording or processing QIIB's transaction data could subject it to claims for losses and regulatory fines and penalties. QIIB has implemented and tested detailed business continuity plans and processes as well as disaster recovery procedures, but there can be no assurance that these safeguards will be fully effective and any failure may have a material adverse effect on QIIB's business, results of operations and financial condition.

QIIB may not receive future support from the Government, or it may not receive future support that is commensurate with the support that it has received in the past

In light of the global economic crisis and its impact on the Qatari banking sector, the Government has initiated several plans to support domestic banks in Qatar. See "*Description of Qatar International Islamic Bank (Q.S.C.) – Competitive Strengths – Strong Governmental support of the Qatari banking sector*". Although the Government has supported the domestic banking industry during the recent global economic crisis, there can be no assurance, however, that the Government will provide any additional support to QIIB and the domestic banking industry in response to the recent crisis or initiate support if another major economic disruption were to occur in the future as the Government is currently under no legal obligation to provide such support.

QIIB's corporate governance standards are not equivalent to those of the United States or Western Europe

In 2008, the QCB published the Corporate Governance Guidelines for Banks and Financial Institutions (the **Guidelines**), which sets out the principles for corporate governance for banks and financial institutions in Qatar. While the Guidelines reflect the increasing importance that the QCB places on corporate governance to improve the perception and performance of the Qatari banking industry, the provisions are not as stringent as those of many developed countries. The Guidelines are subject to a "comply or explain" principle. It is unclear what the impact will be, if any, if a bank or financial institution fails to comply with the recommendations in the Guidelines. Although QIIB has brought itself in compliance with the Guidelines, these standards are not equivalent to those required in the United States or Western Europe.

The Government, through the QIA, has a significant shareholding in QIIB, and its interests may conflict with those of the Certificateholders

The Government, through the QIA, holds approximately 17 per cent. of QIIB's share capital. By virtue of such shareholding, the Government has the ability to influence QIIB's business through its ability to vote on corporate actions that require shareholder approval. If circumstances were to arise where the interests of the Government conflicted with the interests of the Certificateholders, the Certificateholders may be disadvantaged by such conflict.

The QIA may not agree to waive dividend payments in the future

Although the QIA has previously waived its right to dividend payments with respect to its first tranche of capital participation, there is no guarantee that it would do so in the future.

QIIB is operating within a Sharia environment, which may impact its profitability and competitiveness due to a lack of Islamic financing products

As QIIB is governed by the Sharia Supervisory Committee, the range of products and services that it can offer might be limited compared to those offered by conventional banks. This factor may limit its ability to compete effectively with conventional banks for the business of customers who are not sensitive as to whether or not their banking arrangements are structured in a Sharia-compliant manner.

Like some conventional financial products, the structure of Islamic financial products can include the financial institution offering the products by acquiring legal title to physical assets including, for example, real estate, aircraft or ships. Whilst the risks associated with ownership of these products can be mitigated through contractual arrangements and the purchase of Islamic insurance (*takaful*), if QIIB is found to have financial liability arising from the ownership of assets comprising part of its offering of financial products, this could have a material adverse effect on QIIB's business and results of operations.

Qatar has a relatively new insolvency law and there is no certainty as to how Qatari courts will construe or enforce such law in the event of a bankruptcy affecting QIIB

Qatar has adopted a relatively new bankruptcy and insolvency provision (part of new Commercial Code No. 27 of 2006) (the **Bankruptcy Law**), which came into effect on 13 May 2007. The Bankruptcy Law provisions are similar to those included in the Egyptian and most other GCC laws and relate largely to the declaration of bankruptcy, its effects and its administration, and include conciliation to prevent bankruptcy. However, because the Bankruptcy Law is relatively new and untested by Qatari courts, there is no certainty as to how Qatari courts would construe or enforce the Bankruptcy Law in the event of a bankruptcy affecting QIIB. There can also be no assurance that a Qatari court would compel a bankruptcy administrator to perform any of the QIIB's obligations under the Transaction Documents to which it is a party during an administration period. The Bankruptcy Law also enables Qatari courts to defer adjudication of a company's bankruptcy if the court decides that it is possible to improve that company's financial position during a period (such period to be specified by the court) or if judged to be in the interest of the national economy.

QIIB's financial statements are prepared in accordance with financial accounting standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and, for matters not covered by those standards International Financial Reporting Standards (IFRS) and significant discretion is required to be exercised by management in the preparation of QIIB's financial statements

QIIB's financial statements are prepared in accordance with financial accounting standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI standards) and, for matters not covered by those standards International Financial Reporting Standards (IFRS). In preparing its financial statements, QIIB also takes into account Sharia rules and principles as determined by its Sharia Supervisory Board and applicable regulations of the QCB and Qatari company law. As a result, there may be significant differences between QIIB's financial statements as currently prepared and its financial statements if they had been prepared solely in accordance with IFRS and applicable Qatari law and regulation. For a discussion of certain differences between AAOIFI standards and IFRS, see "*Summary of Significant Differences between the Financial Accounting Standards issued by AAOIFI and International Financial Reporting Standards*".

Both AAOIFI standards and IFRS change from time to time and these changes may have a material effect on how QIIB reports its results of operations and financial position.

In accordance with applicable accounting standards, QIIB's management is required to make a number of significant accounting estimates, assumptions and judgments in preparing QIIB's financial statements. Many of these estimates, assumptions and judgments relate to determinations as to whether or not financing advances and financial assets should be impaired. In part, the judgments are based on observable market data and QIIB's historical experience of losses in relation to assets of the type concerned. In other cases, significantly greater levels of judgment are required. QIIB's management also uses significant discretion in determining the fair value of financial instruments, particularly in cases where there is no observable market data on which to base the determination, and in determining the useful lives of fixed assets, which in turn affects the annual depreciation charges on those assets. QIIB has established detailed policies and control procedures that are intended to ensure that these significant accounting estimates, assumptions and judgments are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding QIIB's estimates, assumptions and judgments, QIIB cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future.

Risk factors relating to the Certificates

Absence of secondary market/limited liquidity

There is no assurance that a secondary market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that a secondary market will continue for the life of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates. An investor in the Certificates must be prepared to hold the Certificates for an indefinite period of time or until their maturity. Application has been made for the listing of the Certificates on the Regulated Market but there can be no assurance that any such listing will occur on or prior to the Issue Date or at all or, if it does occur, that it will enhance the liquidity of the Certificates.

The Certificates are limited recourse obligations

The Certificates are not debt obligations of the Issuer. Instead, the Certificates represent an undivided ownership interest solely in the Trust Assets. Recourse to the Issuer in respect of the Certificates is limited to the Trust Assets and proceeds of such Trust Assets are the sole source of payments on the Certificates. Upon the occurrence of a Dissolution Event, the sole rights of each of the Delegate and, through the Delegate, the Certificateholders will be against QIIB, the Trustee and the Issuer to perform their respective obligations under the Transaction Documents to which it is a party (including, in particular, payment by QIIB to the Delegate of the exercise price (the **Exercise Price**) under the Purchase Undertaking and to require the Mudarib to liquidate the Mudaraba and pay the proceeds thereof to the Delegate, together with any other amounts payable by QIIB under the Management Agreement and Restricted Mudaraba Agreement). Certificateholders will otherwise have no recourse to the Issuer, the Delegate, the Trustee, any director or officer of the Trustee or the Issuer or QIIB or any affiliate of the foregoing entities in respect of any shortfall in the expected amounts due under the Trust Assets. Each of the Managing Agent, the Mudarib and QIIB is obliged to make certain payments under the Transaction Documents to which it is a party directly to the Trustee, and the Delegate will have direct recourse against the Managing Agent, the Mudarib and QIIB, to recover such payments due to the Trustee pursuant to the Transaction Documents. In the absence of default by the Delegate, investors have no direct recourse to QIIB and there is no assurance that the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets (which, as described above, will be by way of enforcing each of QIIB's, the Trustee's and the Issuer's respective obligations under the Transaction Documents to which they are a party) will be sufficient to make all payments due in respect of the Certificates. After enforcing or realising the Trust Assets (in the manner described above) and distributing the net proceeds of the Trust Assets in accordance with Condition 4.2, the obligations of the Issuer in respect of the Certificates shall be satisfied and neither the Delegate nor any Certificateholder may take any further steps against the Issuer or the Trustee or against any director or officer of the Trustee or the Issuer to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, the obligations of the Issuer in respect of the Certificates are not secured in any way, and under no circumstances (including the occurrence of a Dissolution Event) shall the Trustee, the Delegate or any Certificateholder have (i) any right to cause the sale or other disposition of any of the Trust Assets except pursuant to the Transaction Documents (which, in particular, do not permit any such sales or dispositions to any person other than QIIB) or (ii) any other recourse against the Trust Assets, except the right to receive distributions derived from the Trust Assets in accordance with the Conditions, and the sole right of the Trustee, the Delegate and the Certificateholders against QIIB shall be to enforce the obligation of QIIB to perform its obligations under the Transaction Documents to which it is a party.

The Trust may be subject to early dissolution and, in consequence, the Certificates may be redeemed early

If as a result of certain changes affecting taxation in the Cayman Islands or Qatar (as the case may be) or in each case any political subdivision or any authority thereof or therein having power to tax, the Issuer and/or QIIB is required to pay additional amounts in respect of the Certificates pursuant to certain Transaction Documents, the Trustee may terminate the Trust upon giving notice in accordance with the Terms and Conditions of the Certificates and in consequence of such termination, the Certificates will be redeemed in whole but not in part.

Certificates which have a denomination that is not an integral multiple of U.S.$200,000 may be illiquid and difficult to trade

The denomination of the Certificates is U.S.$200,000 and integral multiple amounts of U.S.$1,000 in excess thereof. It is possible that the Certificates may be traded in amounts that are not integral multiples of U.S.$200,000. In such a case a holder who, as a result of trading such amounts, holds a face amount which is less than U.S.$200,000 in his account with the relevant clearing system at the relevant time may not receive a Definitive Certificate in respect of such holding (should Definitive Certificates be printed) and would need to purchase a face amount of Certificates such that its holding amounts to U.S.$200,000 to do so.

If Definitive Certificates are issued, holders should be aware that Definitive Certificates which have a denomination that is not an integral multiple of U.S.$200,000 may be illiquid and difficult to trade.

No third party guarantees

Investors should be aware that no guarantee is or will be given in relation to the Certificates by the shareholders of QIIB or any other person.

Risk factors relating to the Sukuk Assets

Investment in the Mudaraba Portfolio

Pursuant to the Restricted Mudaraba Agreement, the Mudaraba Percentage of the Issue Proceeds (each as defined under "*Structure Diagram and* Cashflows" below) will be directly invested in a Mudaraba Portfolio with a view to earning profit therefrom, which will in turn be applied towards payments due to Certificateholders in respect of the Certificates. In the event that any of the risks relating to the business of QIIB mentioned above (see "*Risk factors relating to QIIB and its business*") materialise or otherwise impact QIIB's business, QIIB may not be able to perform its obligations under the Restricted Mudaraba Agreement which may, in turn, have a material adverse effect on the Issuer's ability to fulfil its repayment obligations in respect of the Certificates.

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Mudaraba Assets. The Mudaraba Assets will be selected by QIIB and the Certificateholders will have no ability to influence such selection. Only limited representations will be obtained from QIIB in its capacity as Mudarib in respect of the Mudaraba Assets. In particular, the precise terms of the Mudaraba Assets, and the nature of the assets leased or sold underlying each Mudaraba Asset, will not be known.

Ownership of Wakala Assets

In order to comply with the requirements of Sharia, an interest in the Wakala Assets will pass to the Trustee under the Purchase Agreement and under any Sale Agreement entered into under the Wakala Assets Substitution Undertaking. Such Wakala Assets will form part of the Wakala Portfolio in respect of which QIIB has been appointed Managing Agent under the Management Agreement. The Trustee will declare a trust in respect of its ownership interest in the Wakala Portfolio and the other Trust Assets in favour of the Certificateholders pursuant to the Declaration of Trust. Accordingly, Certificateholders will have beneficial interests in the Wakala Assets unless transfer of the Wakala Assets is prohibited by, or ineffective under, any applicable law (see "*Sale and transfer of the Wakala Assets*" below).

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Wakala Assets. The Wakala Assets in the Wakala Portfolio will be selected by QIIB and the Managing Agent, and the Certificateholders will have no ability to influence such selection. Only limited representations will be obtained by each of the Issuer and Managing Agent from QIIB in respect of the Wakala Assets. In particular, the precise terms of the Wakala Assets or the nature of the assets leased, sold or held will not be known (including whether there are any restrictions on transfer or any further obligations required to be performed by QIIB to give effect to the transfer of the ownership interest in the Wakala Assets). No steps will be taken to perfect any transfer of the ownership interest in the Wakala Assets or otherwise give notice to any lessee or obligor in respect thereof.

In addition, if and to the extent that a third party is able to establish a direct claim against the Trustee, the Delegate or any Certificateholder on the basis of legal or beneficial ownership of the Wakala Assets, QIIB has agreed in the Declaration of Trust to indemnify the Trustee, the Delegate and any Certificateholder against any such liability. In the event that QIIB is unable to meet any such claims then the Certificateholders may suffer losses in excess of the original face amount invested.

Sale and transfer of the Wakala Assets

No investigation will be made as to whether any interest in the Wakala Assets may be transferred as a matter of the law governing the contracts, the law of the jurisdiction where such assets are located or any other relevant law. No investigation will be made to determine if the Purchase Agreement and/or any Sale Agreement entered into under the Wakala Assets Substitution Undertaking will have the effect of selling and transferring an ownership interest in the Wakala Assets. The Purchase Agreement is governed by, and any Sale Agreement entered into under the Wakala Assets Substitution Undertaking will be governed by, Qatari law and, to the extent that such laws are applied in relation to any dispute, there are doubts whether an ownership interest in certain assets (in particular receivable assets such as ijara contracts) can be effectively transferred without notice of the transfer being given to the lessee or other obligor. Accordingly, no assurance can be given that any ownership interest in the Wakala Assets has been or will be transferred to the Trustee.

However, QIIB shall agree in the Purchase Undertaking to indemnify the Issuer for the purposes of redemption in full of the outstanding Certificates in the event that any transfer of an ownership interest in the Wakala Assets is found to be ineffective. In addition, QIIB shall agree in the Purchase Agreement that, to the extent that the sale and purchase or transfer of an ownership interest in the Wakala Assets is not (or is alleged not to be) effective in any jurisdiction for any reason it will (i) make payment of an amount equal to the Purchase Price (as defined in the Purchase Agreement) by way of restitution to the Trustee immediately upon request; and/or (ii) indemnify fully the Trustee for the purpose of redemption in full of the outstanding Certificates in an amount equal to the Exercise Price, in each case without duplication. QIIB will provide similar undertakings in any Sale Agreement entered into under the Wakala Assets Substitution Undertaking. QIIB shall agree in the Declaration of Trust to comply with the obligations described in the previous two sentences and shall undertake in the Declaration of Trust (as an independent, severable and separately enforceable and continuing obligation) to pay to the Trustee or the Delegate (as the case may be) immediately upon request an amount equal to the liability of the Trustee in respect of those obligations. In the event that the Wakala Assets are not repurchased by QIIB for any reason, the Delegate will seek to enforce the above provisions of the relevant documents. To the extent that the Delegate obtains an English judgment or an arbitration award in its favour, it may seek to enforce that judgment or award in a Qatari court (see "*– Enforcing foreign judgments and arbitral awards in Qatar*").

Risk factors relating to taxation

Taxation risks on payments

Payments made by QIIB to the Trustee under the Transaction Documents to which it is a party or by the Issuer in respect of the Certificates could become subject to taxation. The Management Agreement, the Restricted Mudaraba Agreement, the Purchase Undertaking and any Sale Agreement entered into under the Sale Undertaking each require the Managing Agent, the Mudarib and QIIB, respectively, to pay additional amounts in the event that any withholding or deduction is required to be made in respect of payments made by it to the Issuer. Condition 10 provides that the Issuer is required to pay additional amounts in respect of any such withholding or deduction imposed by or on behalf of any Relevant Jurisdiction (as defined in Condition 10) in certain circumstances. In the event that the Issuer fails to pay any such additional amounts in respect of any such withholding or deduction on payments due in respect of the Certificates to Certificateholders, QIIB has unconditionally and irrevocably undertaken (irrespective of the payment of any fee), as a continuing obligation, to pay to the Issuer (for the benefit of the Certificateholders) an amount equal to the liabilities of the Issuer in respect of any and all additional amounts required to be paid in respect of the Certificates pursuant to Condition 10 in respect of any withholding or deduction in respect of any tax as set out in that Condition.

Payments by QIIB under the Transaction Documents may be subject to withholding tax in Qatar

The Income Tax Law and the Executive Regulations of the Income Tax Law issued in June 2011 (the **Executive Regulations**) provide that any interest payments made to "non-residents" in respect of activities not connected with a permanent establishment in Qatar will be subject to withholding tax. However, the Executive Regulations provide for certain exemptions to such application of withholding tax, in respect of which a written clarification dated 1 December 2011 (the **Clarification**) has been obtained from the Director of Public Revenues and Taxes Department at the Ministry of Economy and Finance in Qatar (the **Taxes Department**).

Paragraph 3 of Article 21.4 of the Executive Regulations provides that "interest on transactions, facilities and loans with banks and financial institutions" shall not be subject to withholding tax. The Taxes Department has confirmed to QIIB in the Clarification that the provisions of Paragraph 3 of Article 21.4 of the Executive Regulations apply to profit payments made under Islamic financial instruments (including sukuk and certificates).

Accordingly, profit payments received by the Issuer from QIIB, acting in any capacity, under the Transaction Documents will be exempt from withholding tax under Paragraph 3 of Article 21.4 of the Executive Regulations, on the basis that QIIB qualifies as a "bank and financial institution".

The Clarification does not have the force of law in Qatar and it is therefore possible that the official interpretation of the Executive Regulations will in the future differ to that provided in the Clarification. To the extent that a different official interpretation or application of the Executive Regulations is established in the future, or if any law or regulation relating to withholding tax is changed, then, in relation to any then outstanding Certificates, the Issuer may be entitled to redeem the Certificates pursuant to Condition 8.2 (*Early Dissolution for Tax Reasons*).

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the **Directive**), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Certificate as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Risk factors relating to enforcement

Enforcement risk

Ultimately, the payments under the Certificates are dependent upon QIIB, the Managing Agent and the Mudarib making payments to the Trustee in the manner contemplated under the Transaction Documents to which they are a party. If QIIB (acting in any capacity) fails to do so, it may be necessary to bring an action against it to enforce its obligations and/or to claim damages, as appropriate, which may be costly and time consuming. Certain of the Transaction Documents are governed by English law, with an arbitral tribunal with its seat in London (or, subject to the exercise of an option to litigate given to certain parties (other than QIIB (acting in any capacity))) the courts of England and Wales are stated to have jurisdiction to settle any disputes. Notwithstanding that an arbitral award may be obtained from an arbitral tribunal in London or that a judgment may be obtained in an English court, there is no assurance that QIIB has, or would at the relevant time have, assets in the United Kingdom against which such arbitral award or judgment could be enforced.

Enforcing foreign judgments and arbitral awards in Qatar

There is currently no treaty or convention for the reciprocal enforcement of judgments of the courts of Qatar and the courts of England on the other. A judgment obtained from a court in England will be enforceable in Qatar subject to the provisions of Article 379 and 380 of the Civil and Commercial Procedure Law, which provides, (i) in the case of Article 379, that judgments and orders pronounced in a foreign country may be ordered to be executed in Qatar upon the conditions determined in that country for the execution of Qatari judgments and orders; and (ii) in the case of Article 380, that an order for execution of a foreign judgment or order will not be made unless and until the following have been ascertained, that: (a) the judgment or order was delivered by a competent court of the foreign jurisdiction in question; (b) the parties to the action were properly served with notice of proceedings and properly represented; (c) the judgment or order is one that is capable of being executed by the successful party to the proceedings in conformity with the laws of the foreign jurisdiction in question; and (d) the foreign judgment or order does not conflict with a previous judgment or order of a competent Qatari court and is not contrary to public policy or morality in Qatar.

If enforcement of a judgment were to be sought in Qatar, under current Qatari law, due to the lack of reciprocity of enforcement of judgments between the courts of Qatar and England, the Qatari courts would be unlikely to enforce such judgment without re-examining the merits of the claim (although a judgment obtained from a court in England would be admissible as evidence in any proceedings brought in Qatar to enforce such judgment), and may not observe the choice by the parties of English law as the governing law of the relevant Transaction Documents and may apply Qatari law instead.

Under the relevant Transaction Documents and the Certificates, the parties have agreed that any disputes will, subject as provided in the paragraph below, be referred to arbitration under the LCIA Arbitration Rules. Qatar is a signatory to the New York Convention on Enforcement of Foreign Arbitral Awards of 1958 with effect from 30 March 2003. The enforcement of foreign arbitral awards in Qatar is presumed to be straightforward, however, a Qatari court may refuse enforcement of an arbitral award and may consider the relevant dispute on its merits if the subject matter of the award is not compatible with mandatory provisions of Qatari law and public policy and morals in Qatar. Under the relevant Transaction Documents and the Certificates, any dispute may, at the option of certain parties (but not QIIB (acting in any capacity)), also be referred to the courts in England who shall have jurisdiction to settle any dispute arising from such Transaction Documents or Certificates. Where an English judgment has been obtained, there is no assurance that QIIB has, or would at the relevant time have, assets in the United Kingdom against which such judgment could be enforced.

As the Qatari legal system is based on a civil code, judicial precedents in Qatar have no binding effect on subsequent decisions. In addition, there is no formal system of reporting court decisions in Qatar. As a result, any experience with and knowledge of prior rulings of the Qatari courts may not be a reliable basis from which to predict decisions that Qatari courts may adopt in the future. These factors create greater uncertainty

Waiver of sovereign immunity

Each of QIIB, the Managing Agent and the Mudarib has waived its rights, if any, in relation to sovereign immunity (including, without limitation, Decree Law No. (18) of 1996 Amending Certain Provisions of Law No. (10) of 1987 in respect of the State of Qatar's Public and Private Properties). However there can be no assurance as to whether such waivers of immunity from execution or attachment or other legal process by QIIB under the Transaction Documents to which it is a party are valid and binding under the laws of Qatar and applicable in Qatar.

Change of law

The structure for the issue of the Certificates is based on Qatari, English and Cayman Islands law and administrative practices in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English, Qatari or Cayman Islands law or administrative practices in each jurisdiction after the date of this Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Certificates or of QIIB, to comply with its obligations under the Transaction Documents to which it is a party.

Claims for specific enforcement

In the event that QIIB fails to perform its obligations under any Transaction Document to which it is a party, the potential remedies available to the Trustee and the Delegate include obtaining an order for specific enforcement of the relevant obligations or a claim for damages. There is no assurance that any court would order specific enforcement of a contractual obligation, as this is generally a matter for the discretion of the relevant court.

The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors including an obligation on the Delegate to mitigate any loss arising as a result of the breach. No assurance is provided on the level of damages which a court may award in the event of a failure by QIIB to perform its obligations as set out in the Transaction Documents to which it is a party.

Additional risk factors

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Certificates. The ratings may not reflect the potential impact of all risks related to the transaction structure, the market, the additional factors discussed above, and other factors that may affect the value of the Certificates. A credit rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of repayment and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings is set out on the front page of this Prospectus and under the section entitled "*Overview of the Offering – Summary of the Certificates*".

Emerging markets

Investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Consents to variation of Transaction Documents and other matters

The Declaration of Trust contains provisions permitting the Delegate at any time without any consent or sanction of the Certificateholders to make any modification of, or to the waiver or authorisation of any breach or proposed breach of, the Conditions or any provisions of the Declaration of Trust or any other Transaction Document, or to any amendment to the Issuer's memorandum of association and by-laws, or determine that any Dissolution Event or Potential Dissolution Event (as defined in the Declaration of Trust) shall not be treated as such in relation to the Declaration of Trust if, in the opinion of the Delegate, such modification (a) is of a formal, minor or technical nature, or (b) is made to correct a manifest error, or (c) is not materially prejudicial to the interest of Certificateholders. Unless the Delegate otherwise decides, any such modification, waiver, authorisation or determination may be made on such terms and subject to such conditions (if any) as the Delegate may determine and shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

Reliance on Euroclear and Clearstream, Luxembourg procedures

The Certificates will be represented on issue by a Global Certificate that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Certificates in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Certificate. While the Certificates are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Certificates are represented by the Global Certificate, the Issuer will discharge its payment obligation under the Certificates by making payments through the relevant clearing systems. A holder of a beneficial interest in the Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the relevant Certificates. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interest in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or the review of such laws and regulations by certain governmental or regulatory authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) the Certificates constitute legal investments for it; (ii) the Certificates can be used as collateral for various types of borrowing; and (iii) other restrictions apply to any purchase or pledge of any Certificates by the investor. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Certificates under any applicable risk-based capital or similar rules and regulations.

Exchange rate risks and exchange controls

The Issuer will pay Periodic Distribution Amounts and Dissolution Distribution Amounts on the Certificates in United States dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than United States dollars.

These include the risk that exchange rates may significantly change (including changes due to devaluation of the United States dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls.

An appreciation in the value of the Investor's Currency relative to the United States dollar would decrease: (i) the Investor's Currency equivalent yield on the Certificates; (ii) the Investor's Currency equivalent value of any Dissolution Distribution Amount payable on the Certificates; and (iii) the Investor's Currency equivalent market value of the Certificates.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive a lower Dissolution Distribution Amount than expected, or no Dissolution Distribution Amount.

Sharia rules

The Sharia Supervisory Committee of the Obligor, the HSBC Amanah Central Shariah Committee and the Shariah Supervisory Committee of Standard Chartered Bank have each reviewed the Transaction Documents. However, there can be no assurance that the Transaction Documents or the issue and trading of the Certificates will be deemed to be Sharia compliant by any other Sharia board or Sharia scholars. None of the Issuer, the Trustee, the Delegate, QIIB or the Managers makes any representation as to the Sharia compliance of the Certificates and potential investors are reminded that, as with any Sharia views, differences in opinion are possible. Potential investors should obtain their own independent Sharia advice as to the compliance of the Transaction Documents and the issue and trading of the Certificates with Sharia principles.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties in the transaction would be, if in dispute, either the subject of arbitration under English law or court proceedings under the laws of Qatar or England and Wales. In such circumstances, the arbitrator or judge, as the case may be, will likely first apply the relevant law of the Transaction Document rather than Sharia principles in determining the obligations of the parties.

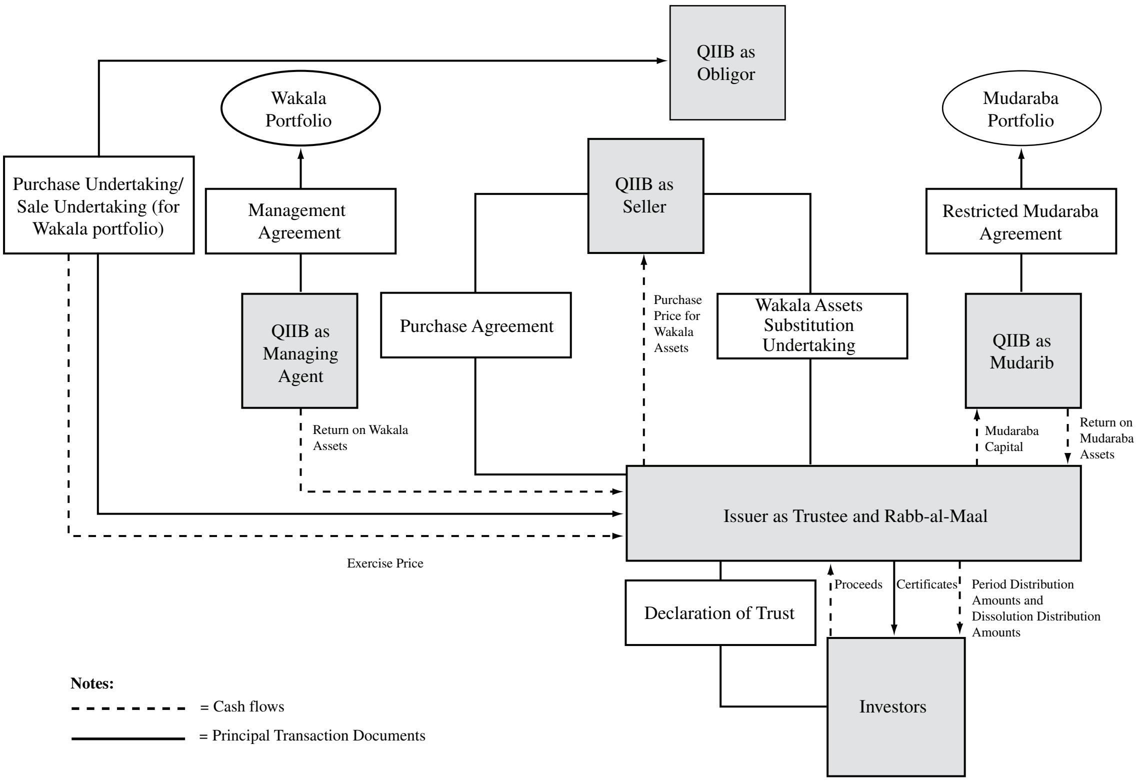
Sharia requirements in relation to interest awarded by an arbitrator or court

In accordance with applicable Sharia principles, each of the Issuer, the Trustee and the Delegate will waive all and any entitlement it may have to interest awarded in its favour by any arbitrator or court in connection with any dispute under any of the Transaction Documents. Should there be any delay in the enforcement of a judgment or arbitration given against QIIB, judgment interest (or equivalent interest awarded in connection with an arbitration) may well accrue in respect of that delay and, as a result of the waiver referred to above, Certificateholders will not be entitled to receive any part of such interest. Certificateholders should note that the Trust Assets specifically exclude any rights which have been expressly waived by the Trustee in any of the Transaction Documents (which, to the extent applicable, would extend to any award of interest made in favour of the Trustee by an arbitrator or court in respect of a dispute).

STRUCTURE DIAGRAM AND CASHFLOWS

Set out below is a simplified structure diagram and description of the principal cash flows underlying the transaction. Potential investors are referred to the terms and conditions of the Certificates and the detailed descriptions of the relevant Transaction Documents set out in the Summary of the Principal Transaction Documents section in this Prospectus for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below.

Structure Diagram



Principal cash flows

Payments by the Certificateholders and the Trustee

On the Issue Date, the Certificateholders will pay the issue price in respect of the Certificates to QIIB Sukuk Funding Limited and QIIB Sukuk Funding Limited will pay:

(i) 11 per cent. (the **Wakala Percentage**) of such amount to or to the order of QIIB (in its capacity as seller, the **Seller**) as the purchase price payable under the Purchase Agreement for the sale, transfer and assignment to QIIB Sukuk Funding Limited of the rights, title, interests, ownership, benefits and entitlements (as the case may be) of the Seller in, to and under the wakala assets identified in the schedule to the Purchase Agreement. Under the Management Agreement, the Managing Agent will manage the wakala assets from time to time comprising the portfolio of wakala assets (the **Wakala Portfolio**) under the Management Agreement. For the purposes of the Management Agreement, the Wakala Portfolio will comprise any of the following assets (all in accordance with the terms of the Management Agreement): (a) non-real estate assets and related ijara receivable (lease) contracts, excluding, in the case of the Wakala Portfolio, Vehicle Financing Assets (as defined in the Purchase Agreement) (**Non-Real Estate Ijara Assets**), (b) receivables under murabaha (sales of commodities or goods on a deferred payment basis with a profit element) (**Murabaha Receivables**) and (c) other Sharia compliant income generating assets excluding, in the case of the Wakala Portfolio, Vehicle Financing Assets (**Other Sharia Compliant Assets**), which for the purposes of the Wakala Portfolio must be non-real estate related (each such Non-Real Estate Ijara Asset, Murabaha Receivable and Other Sharia Compliant Asset, a **Wakala Asset**); and

(ii) 89 per cent. (the **Mudaraba Percentage**) of such amount to or to the order of the Mudarib as the initial capital of the Mudaraba (the **Mudaraba Capital**), which the Mudarib will invest in accordance with a restricted mudaraba agreement (the **Restricted Mudaraba Agreement**), including a mudaraba investment plan (the **Mudaraba Investment Plan**) in an initial portfolio of Mudaraba Assets (the **Mudaraba Portfolio**) of (a) real estate assets and related ijara receivable contracts (the **Real Estate Ijara Assets**), (b) Non-Real Estate Ijara Assets, (c) Other Sharia Compliant Assets having associated with them tangible underlying assets (**Other Tangible Sharia Compliant Assets**) and (d) Sharia compliant deposits with QIIB (each such deposit, Real Estate Ijara Asset, Non-Real Estate Ijara Asset and Other Tangible Sharia Compliant Asset, a **Mudaraba Asset** and, the Wakala Assets and the Mudaraba Assets together, the **Sukuk Assets**).

Periodic Distribution Payments

Prior to each Periodic Distribution Date: (i) the Managing Agent will pay to the Trustee amounts reflecting the returns generated in respect of the Wakala Portfolio (the **Wakala Portfolio Income Revenues**) and (ii) the Mudarib will pay to the Trustee (as Rabb-al-Maal), in accordance with a pre-agreed profit sharing ratio, amounts representing returns generated in respect of the Mudaraba Portfolio (the **Mudaraba Profit**), which, in aggregate, are intended to be sufficient to fund the Periodic Distribution Amounts payable by the Issuer under the Certificates (the **Required Amount**) and shall be applied by the Trustee for that purpose.

If the returns generated by the Wakala Portfolio are greater than the Wakala Percentage of any Required Amount or the returns generated by the Mudaraba Portfolio are greater than the Mudaraba Percentage of such amount, such excess returns shall be credited to a separate account maintained by the Managing Agent or the Mudarib, respectively (such account, in the case of the Wakala Portfolio, the **Wakala Reserve Collection Account** and, in the case of the Mudaraba Portfolio, the **Mudaraba Reserve Account**). In the event that the returns generated by the Sukuk Assets are insufficient to fund the respective percentages of any Required Amount and there is no sum standing to the credit of the Mudaraba Reserve Account, the Managing Agent may, after having applied sums standing to the credit of the Wakala Reserve Collection Account towards such shortfall, make Sharia-compliant funding available to the Trustee in the amount of the shortfall remaining (if any) (a **Liquidity Facility**).

Dissolution Payment by QIIB, the Managing Agent and the Mudarib

On the Scheduled Dissolution Date:

(i) the Trustee will have the right under the Purchase Undertaking to require QIIB to purchase all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the Wakala Portfolio; and

(ii) the Mudarib will be required under the Restricted Mudaraba Agreement to have liquidated on the business day prior to the Scheduled Dissolution Date the Mudaraba and to have paid to the Trustee (as Rabb-al-Maal) the proceeds of such liquidation,

and such liquidation proceeds, together with (i) any principal revenues in respect of the Wakala Assets then held by the Managing Agent and payable to the Trustee under the Management Agreement (the **Wakala Portfolio Principal Revenues**); (ii) any Wakala Portfolio Income Revenues and Mudaraba Profit payable to the Trustee on the Scheduled Dissolution Date; and (iii) the Exercise Price payable by QIIB under the Purchase Undertaking, are intended to fund the Dissolution Distribution Amount payable by the Issuer under the Certificates.

The Trust may be dissolved prior to the Scheduled Dissolution Date as a result of either a redemption following a Dissolution Event or an early redemption for tax reasons. In each case, the amounts payable by the Issuer on the due date for dissolution will be funded in the same manner as for the payment of the Dissolution Distribution Amount on the Scheduled Dissolution Date.

OVERVIEW OF THE OFFERING

The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus. This overview may not contain all of the information that prospective investors should consider before deciding to invest in the Certificates. Accordingly, any decision by a prospective investor to invest in the Certificates should be based on a consideration of this Prospectus as a whole.

Words and expressions defined in "Terms and Conditions of the Certificates" and "Summary of the Principal Transaction Documents" shall have the same meanings in this overview. Each reference to a "Condition" is to a numbered condition of the Conditions.

Parties

Issuer	QIIB Sukuk Funding Limited a limited liability exempted company incorporated in accordance with the laws of, and formed and registered in, the Cayman Islands with company registration number 263560. QIIB Sukuk Funding Limited has been incorporated solely for the purpose of participating in the transactions contemplated by the Transaction Documents to which it is a party.
Ownership of the Trustee	The authorised share capital of the Trustee is U.S.$50,000 consisting of 50,000 shares of U.S.$1.00 nominal or par value each, of which 250 shares are fully paid up and issued. The Trustee's entire issued share capital is held by Intertrust SPV (Cayman) Limited, with its registered office at 87 Mary Street, George Town, Grand Cayman, KY1-9002, Cayman Islands on trust for charitable purposes.
Administration of the Trustee	The affairs of the Trustee are managed by Intertrust SPV (Cayman) Limited (the **Corporate Administrator**), who will provide, amongst other things, certain administrative services for and on behalf of the Trustee pursuant to the Corporate Services Agreement dated 24 October 2011 between, *inter alios*, the Trustee and the Corporate Administrator (the **Corporate Services Agreement**).
Seller	Qatar International Islamic Bank (Q.S.C.) (the **Seller**). In accordance with the Purchase Agreement, the Seller will sell the Wakala Assets specified in the schedule thereto to QIIB Sukuk Funding Limited (to hold as trustee for and on behalf of the Certificateholders) who will purchase such assets using the Wakala Percentage of the proceeds of the issue of the Certificates (the **Issue Proceeds**).
Managing Agent	Qatar International Islamic Bank (Q.S.C.) (in such capacity, the **Managing Agent**). In accordance with the Management Agreement, the Managing Agent will provide certain services with respect to the Wakala Portfolio. The Managing Agent will make periodic payments to QIIB Sukuk Funding Limited from profit received in respect of the Wakala Portfolio. These payments, together with the Rabb-al-Maal's share of the relevant Mudarib Profit, are intended to fund the Periodic Distribution Amounts payable by the Issuer in respect of the Certificates.
Mudarib and Rabb-al-Maal	Qatar International Islamic Bank (Q.S.C.) (in such capacity, the **Mudarib**) and QIIB Sukuk Funding Limited (in such capacity, the

	Rabb-al-Maal). The Rabb-al-Maal will invest the Mudaraba Percentage of the Issue Proceeds with the Mudarib pursuant to the Restricted Mudaraba Agreement and in accordance with the Mudaraba Investment Plan, which shall constitute a mudaraba (the **Mudaraba**). The Mudarib will also provide certain services with respect to the Mudaraba Portfolio in accordance with the Restricted Mudaraba Agreement and the Mudaraba Investment Plan. The Mudarib will make periodic payments to the Rabb-al-Maal from profit realised in respect of the Mudaraba Portfolio (the **Mudarib Profit**). The Rabb-al-Maal's share of the payments of Mudarib Profit, together with periodic payments received from the Managing Agent in respect of the Wakala Portfolio, are intended to fund the Periodic Distribution Amounts payable by the Issuer in respect of the Certificates.
QIIB	Qatar International Islamic Bank (Q.S.C.) (**QIIB**). In accordance with the Purchase Undertaking, QIIB will, at the option of the Trustee, purchase all of QIIB Sukuk Funding Limited's rights, title, interests, benefits and entitlements in, to and under the Wakala Portfolio. QIIB shall have the right, under the Sale Undertaking on an early redemption for tax reasons, to require the sale to QIIB of all of QIIB Sukuk Funding Limited's rights, title, interests, benefits and entitlements in, to and under the Wakala Portfolio. Pursuant to Condition 9, QIIB and/or any Subsidiary of QIIB may at any time purchase Certificates at any price in the open market or otherwise. Following any purchase of Certificates pursuant to Condition 9, the Trustee may, pursuant to the Sale Undertaking, transfer, assign and convey Wakala Assets and the Mudarib may release the Mudaraba Assets, of a total Value (as defined in the Management Agreement or the Restricted Mudaraba Agreement, as applicable) that is not greater than the aggregate face amount of the Certificates so purchased in return for the delivery of such Certificates to the Principal Paying Agent for cancellation.
Joint Lead Managers and Joint Bookrunners	HSBC Bank plc QNB Capital LLC Standard Chartered Bank
Co-Lead Managers	CIMB Bank (L) Limited Qatar Islamic Bank S.A.Q.
Trustee	QIIB Sukuk Funding Limited. In accordance with the Declaration of Trust, the Trustee shall act as trustee in respect of the Trust Assets for the benefit of the Certificateholders.
Delegate	Citicorp Trustee Company Limited. In accordance with the Declaration of Trust, the Trustee will unconditionally and irrevocably delegate to the Delegate certain present and future duties, powers, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as trustee.
Principal Paying Agent	Citibank, N.A.

Registrar, Transfer Agent and Paying Agent	Citigroup Global Markets Deutschland AG.
Summary of the Transaction Structure and Principal Documents	An overview of the structure of the transaction and the principal cash flows is set out under "*Structure Diagram and Cashflows*" and a description of the principal Transaction Documents is set out under "*Summary of the Principal Transaction Documents*".

Summary of the Certificates

Certificates	U.S.$700,000,000 Certificates due 2017.
Sukuk Assets	The **Sukuk Assets** will comprise the Wakala Portfolio and the Mudaraba Portfolio.
Trust Assets	Each Certificate evidences an undivided beneficial ownership interest in the Trust Assets, subject to the terms of the Transaction Documents and the Conditions, and is a limited recourse obligation of the Issuer. The Trust Assets are all of the Trustee's rights, title, benefits, entitlements and interests, present and future, in, to and under the Sukuk Assets and the Transaction Documents (excluding the representations given by QIIB (acting in any capacity) to the Issuer, the Trustee and the Delegate under the Transaction Documents to which it is a party and any rights which have been expressly waived by the Trustee in the Transaction Documents), together with all monies standing to the credit of the Transaction Account (as defined below) and all proceeds of the foregoing (the **Trust Assets**).
Issue Date	18 October 2012.
Issue Price	100 per cent. of the aggregate face amount of the Certificates.
Periodic Distribution Dates	The 18th day of April and October in each year commencing on 18 April 2013.
Periodic Distributions	On each Periodic Distribution Date, Certificateholders will receive a Periodic Distribution Amount in U.S. dollars equalling the product of (i) 2.688 per cent. per annum, (ii) the face amount of their Certificates and (iii) the number of days in the relevant Return Accumulation Period calculated on the basis of a year of 12 30-day months divided by 360. See Condition 6.
Return Accumulation Period	The period from and including the Issue Date to but excluding the first Periodic Distribution Date and each successive period from and including a Periodic Distribution Date to but excluding the next succeeding Periodic Distribution Date or, if earlier, the relevant Dissolution Date.
Scheduled Dissolution of the Trust	The Scheduled Dissolution Date is 18 October 2017. Upon receipt by the Trustee of the Exercise Price payable in accordance with the terms of the Purchase Undertaking, any Wakala Portfolio Principal Revenues and Wakala Portfolio Income Revenues payable in accordance with the terms of the Management Agreement and the Final Liquidation Proceeds and Mudaraba Profit payable in accordance with the terms of the Restricted Mudaraba Agreement, the Trust will be terminated and in consequence the above amounts will be applied to redeem the Certificates at the Dissolution Distribution Amount.

Early Dissolution of the Trust	Other than as a result of the occurrence of a Dissolution Event or an early dissolution for tax reasons, the Trust will not be subject to dissolution and, accordingly, the Certificates will not be redeemed, prior to the Scheduled Dissolution Date.
Dissolution Events	The Dissolution Events are set out in Condition 12. Following the occurrence of a Dissolution Event which is continuing, the Certificates may be redeemed in full at the Dissolution Distribution Amount. Upon payment in full of the Dissolution Distribution Amount, the Trust will terminate.
Dissolution Distribution Amount	The aggregate outstanding face amount of the Certificates plus all accrued and unpaid Periodic Distribution Amounts in respect of such Certificates.
Covenants	The Purchase Undertaking contains a negative pledge given by QIIB and events of default (including a cross default provision) that apply to QIIB, see "*Summary of the Principal Transaction Documents*".
Role of Delegate	Pursuant to the Declaration of Trust, the Trustee shall delegate to the Delegate certain of the present and future duties, powers, trusts, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. In particular, the Delegate shall be entitled to (and, in certain circumstances, shall, subject to being indemnified and/or secured and/or pre-funded to its satisfaction, be obliged to): (a) deliver an exercise notice to QIIB in accordance with the Purchase Undertaking; and (b) following a Dissolution Event, take enforcement action in the name of the Trustee against QIIB, the Managing Agent and/or the Mudarib.
Form and Delivery of the Certificates	The Certificates will be issued in registered global form only. The Certificates will be represented on issue by beneficial interests in the Global Certificate which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of Certificates will be issued in exchange for interests in the Global Certificate only in the limited circumstances described under "*Global Certificate*".
Clearance and Settlement	Holders of the Certificates must hold their interest in the Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg, as the case may be. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearance systems.
Face Amounts of the Certificates	The Certificates will be issued in minimum face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Status of the Certificates	Each Certificate represents an undivided beneficial ownership interest in the Trust Assets, subject to the terms of the Transaction Documents and the Conditions, and will rank *pari passu*, without any preference, with the other Certificates.

Transaction Account	The Principal Paying Agent will maintain and operate a U.S. dollar account opened in the name of the Issuer (the **Transaction Account**). Payments to the Trustee by the Managing Agent, the Mudarib and QIIB under the Management Agreement, the Restricted Mudaraba Agreement and the Purchase Undertaking or the Sale Undertaking, as the case may be, will be credited to the Transaction Account. Periodic Distribution Amounts and the Dissolution Distribution Amount will be paid to holders of the Certificates from funds standing to the credit of the Transaction Account in accordance with the order of priority described under "*Priority of Distributions*" below.
Priority of Distributions	On each Periodic Distribution Date and on any Dissolution Date, the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account in the following order of priority: (a) *first*, (to the extent not previously paid) to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate; (b) *second,* (to the extent not previously paid) to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid; (c) *third*, only if such payment is made on a Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of the Dissolution Distribution Amount; (d) *fourth*, only if such payment is made on a Dissolution Date, to the Managing Agent in or towards payment of any outstanding Management Liabilities Amount (as defined in the Management Agreement); (e) *fifth*, only if such payment is made on a Dissolution Date, to the Managing Agent to repay any amounts advanced by way of a Liquidity Facility (as defined in the Management Agreement); (f) *sixth,* only if such payments are made on a Dissolution Date, to the Managing Agent as an Incentive Fee (as defined in the Management Agreement) in accordance with the terms of the Management Agreement; and (g) *seventh*, only after all necessary payments above have been made in full, to QIIB.
Limited Recourse	Each Certificate represents solely an undivided beneficial ownership interest in the Trust Assets. No payment of any amount whatsoever shall be made in respect of the Certificates except to the extent that funds for that purpose are available from the Trust Assets. Certificateholders have no recourse to the Sukuk Assets, the Issuer, the Trustee (other than the Trust Assets), the Delegate, the Seller, QIIB, the Managing Agent or the Mudarib (to the extent that each of them fulfils all of its obligations under the Transaction Documents to which it is a party) in respect of any shortfall in the

	expected amounts from the Trust Assets to the extent the Trust Assets have been exhausted, following which all obligations of the Trustee and its directors and officers shall be extinguished.
Withholding Tax	All payments by the Issuer under the Certificates are to be made without withholding or deduction for or on account of Cayman Islands or Qatari taxes, unless the withholding or deduction of the taxes is required by law. In such event, subject to certain exceptions, the Issuer will be required to pay, failing which, QIIB will be required pursuant to the relevant Transaction Documents to pay to the Issuer, such additional amounts as may be necessary to ensure that the full amount which otherwise would have been due and payable under the Certificates is received by the Certificateholders. All payments by QIIB, the Managing Agent and the Mudarib under the Transaction Documents are to be made without withholding or deduction for or on account of any taxes in Qatar, unless the withholding or deduction of the taxes is required by law. In such event, the relevant payer will be required pursuant to the Purchase Undertaking, any Sale or Transfer Agreement entered into under the Sale Undertaking, the Management Agreement or the Restricted Mudaraba Agreement, as the case may be, to pay to the Trustee such additional amounts as may be necessary to ensure that the Trustee will receive the full amount which otherwise would have been due and payable.
Use of Proceeds	The Wakala Percentage of the Issue Proceeds will be paid by the Issuer on the Issue Date to the Seller as the purchase price for the Wakala Assets specified in the schedule to the Purchase Agreement and the Mudaraba Percentage of the Issue Proceeds will be deposited with the Mudarib as the initial Mudaraba Capital of the Rabb-al-Maal in the Mudaraba (which will be invested in the initial Mudaraba Portfolio pursuant to the Restricted Mudaraba Agreement and the Mudaraba Investment Plan).
Listing	Application has been made to the Irish Stock Exchange for the Certificates to be admitted to listing on the Official List and for such Certificates to be admitted to trading on the Regulated Market.
Rating	The Certificates are expected to be assigned a rating of "A-" by Fitch and "A3" by Moody's. A rating is not a recommendation to buy, sell or hold the Certificates (or the beneficial interests therein) and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.
Certificateholder Meetings	A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests as such is set out in Condition 16.
Tax Considerations	See "*Taxation*" for a description of certain tax considerations applicable to the Certificates.
Transaction Documents	The Transaction Documents are the Purchase Agreement, the Management Agreement, the Restricted Mudaraba Agreement, the Purchase Undertaking, the Sale Undertaking, the Wakala Assets Substitution Undertaking, the Declaration of Trust and the Agency Agreement.

Governing Law	The Declaration of Trust, the Agency Agreement, the Management Agreement, the Restricted Mudaraba Agreement, the Purchase Undertaking, the Sale Undertaking, the Wakala Assets Substitution Undertaking and the Certificates will be governed by English law. The Purchase Agreement and each Sale or Transfer Agreement, as the case may be, entered into under the Purchase Undertaking, the Sale Undertaking or the Wakala Assets Substitution Undertaking will be governed by the laws of Qatar. The Corporate Services Agreement will be governed by the laws of the Cayman Islands.
Waiver of Immunity	To the extent that QIIB may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, QIIB will agree in the Transaction Documents to which it is a party not to claim and will irrevocably and unconditionally waive such immunity in relation to any legal proceedings. Further, QIIB will irrevocably and unconditionally consent to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any legal proceedings.
Selling Restrictions	There are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the United Kingdom, the Cayman Islands, Malaysia, the Kingdom of Saudi Arabia, Singapore, Qatar (excluding the Qatar Financial Centre), the Kingdom of Bahrain, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre and such other restrictions as may be required in connection with the offering and sale of the Certificates. See "*Subscription and Sale*" below.

TERMS AND CONDITIONS OF THE CERTIFICATES

The following is the text of the Terms and Conditions of the Certificates which (subject to modification and except for the text in italics) will be endorsed on each Certificate in definitive form (if issued) and will, save as provided in "Global Certificate", apply to the Global Certificate:

Each of the U.S.$700,000,000 Certificates due 2017 (the **Certificates**) is issued by QIIB Sukuk Funding Limited (in its capacity as issuer, the **Issuer**) and represents an undivided beneficial ownership interest in the Trust Assets (as defined in Condition 4.1) held on trust (the **Trust**) for the holders of such Certificates pursuant to a declaration of trust (the **Declaration of Trust**) dated 18 October 2012 (the **Issue Date**) made between QIIB Sukuk Funding Limited (in its capacity as Issuer and in its capacity as trustee, the **Trustee**), Qatar International Islamic Bank (Q.S.C.) (**QIIB**) and Citicorp Trustee Company Limited as the delegate of the Trustee (the **Delegate**).

Payments relating to the Certificates will be made pursuant to an agency agreement dated the Issue Date (the **Agency Agreement**) made between the Issuer, QIIB, the Delegate, Citibank, N.A. as principal paying agent (in such capacity, the **Principal Paying Agent**), and Citigroup Global Markets Deutschland AG as paying agent (together with the Principal Paying Agent and any further or other paying agents appointed from time to time in respect of the Certificates, the **Paying Agents**), as registrar (in such capacity, the **Registrar**) and as transfer agent (in such capacity, the **Transfer Agent** and, together with the Registrar and any further or other transfer agents appointed from time to time in respect of the Certificates, the **Transfer Agents**). The Paying Agents and the Transfer Agents are together referred to in these Conditions as the **Agents**. References to the Agents or any of them shall include their successors.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents (as defined in Condition 4.1). In these Conditions, words and expressions defined and rules of construction and interpretation set out in the Declaration of Trust shall, unless defined herein or the context otherwise requires, have the same meanings and application herein. Copies of the Transaction Documents are available for inspection during normal business hours at the specified offices of the Paying Agents. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Issuer (acting as Trustee on behalf of the Certificateholders), (i) to apply a portion of the sums paid by it in respect of its Certificates to the Seller in accordance with the Purchase Agreement and the remaining portion of such sums paid by it to the Mudarib in accordance with the Restricted Mudaraba Agreement (each as defined in Condition 4.1) and (ii) to enter into each Transaction Document to which it is a party, subject to the provisions of the Declaration of Trust and these Conditions.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Certificates are issued in registered form in face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each an **Authorised Denomination**). A single definitive Certificate will be issued to each Certificateholder in respect of its registered holding of Certificates. Each definitive Certificate will be numbered serially with an identifying number which will be recorded on the relevant definitive Certificate and in the register of Certificateholders (the **Register**).

The Certificates will be issued in the form of a Global Certificate. The Conditions are modified by certain provisions contained in the Global Certificate. Except in certain limited circumstances, owners of interests in the Global Certificate will not be entitled to receive definitive Certificates representing their holdings of Certificates. See "Global Certificate".

1.2 Title

The Issuer will cause the Registrar to maintain the Register in respect of the Certificates in accordance with the provisions of the Agency Agreement. Title to the Certificates passes only by registration in the Register. The registered holder of any definitive Certificate will (except as otherwise required by law) be treated as the absolute owner of the Certificates represented by the definitive Certificate for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the definitive Certificate) and no person will be liable for so treating the holder of any definitive Certificate. The registered holder of a definitive Certificate will be recognised by the Issuer as entitled to his definitive Certificate free from any equity, set-off or counterclaim on the part of the Trustee against the original or any intermediate holder of such definitive Certificate. In these Conditions, **Certificateholder** and (in relation to a Certificate) **holder** have the meanings given thereto in the Declaration of Trust.

2. TRANSFERS OF CERTIFICATES

2.1 Transfers

Subject to Conditions 2.4 and 2.5 and the provisions of the Agency Agreement, a Certificate may be transferred in an Authorised Denomination only by depositing the definitive Certificate by which it is represented, with the form of transfer on the back duly completed and signed, at the specified office of any of the Transfer Agents.

Transfers of interests in the Global Certificate will be effected in accordance with the rules of the relevant clearing system through which the interest is held.

2.2 Delivery of New Definitive Certificates

Each new definitive Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant definitive Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or mailed by uninsured mail at the risk of the holder entitled to the definitive Certificate to the address specified in the form of transfer. For the purposes of this Condition, **business day** shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a definitive Certificate is deposited in connection with a transfer is located.

Where some but not all of the Certificates in respect of which a definitive Certificate is issued are to be transferred, a new definitive Certificate in respect of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original definitive Certificate, be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

2.3 Formalities Free of Charge

Registration of any transfer of Certificates will be effected without charge by or on behalf of the Issuer or any Transfer Agent but upon payment (or the giving of such indemnity as the Issuer or any Transfer Agent may reasonably require) by the transferee in respect of any stamp duty, tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Certificateholder may require the transfer of a Certificate to be registered during the period of seven days ending on (and including) the due date for any payment of the Dissolution Distribution Amount (as defined in Condition 8.1) or any Periodic Distribution Amount (as defined in Condition 6.1).

2.5 Regulations

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning transfer of Certificates scheduled to the Agency Agreement. The Regulations may be changed by the Issuer from time to time with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests in writing a copy of such regulations.

The holder of Certificates shall be entitled to receive, in accordance with Condition 2.2, only one definitive Certificate in respect of his entire holding of Certificates. In the case of a transfer of a portion of the face amount of a definitive Certificate, a new definitive Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 2.2.

3. STATUS AND LIMITED RECOURSE

3.1 Status

Each Certificate evidences an undivided beneficial ownership interest in the Trust Assets, subject to the terms of the Declaration of Trust and these Conditions, and is a direct, unsecured, unsubordinated and limited recourse obligation of the Issuer. Each Certificate ranks *pari passu*, without any preference or priority, with the other Certificates.

3.2 Limited Recourse

The proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as provided in the next sentence, the Certificates do not represent an interest in or obligation of any of the Issuer, the Trustee, the Delegate, the Managing Agent, the Mudarib or QIIB. Accordingly, Certificateholders, by subscribing for or acquiring the Certificates, acknowledge that they will have no recourse to any of the assets of the Issuer, the Trustee (other than the Trust Assets), the Delegate, the Managing Agent, the Mudarib or QIIB (to the extent that each of them fulfils all of its obligations under the Transaction Documents to which it is a party) or any director or officer of the Trustee or the Issuer in respect of any shortfall in the expected amounts from the Trust Assets when the Trust Assets have been exhausted, following which all obligations of the Issuer and the Trustee shall be extinguished.

Each of QIIB, the Mudarib and the Managing Agent is obliged to make certain payments under the Transaction Documents to which it is a party directly to the Issuer, and the Trustee and the Delegate will have direct recourse against QIIB, the Mudarib and the Managing Agent to recover such payments.

The net proceeds of the realisation of, or enforcement with respect to, the Trust Assets may not be sufficient to make all payments due in respect of the Certificates. If, following the distribution of such proceeds, there remains a shortfall in payments due under the Certificates, subject to Condition 13, no holder of Certificates will have any claim against the Issuer, the Trustee (to the extent the Trust Assets have been exhausted), the Delegate, QIIB, the Mudarib or the Managing Agent (to the extent that each of them fulfils all of its obligations under the Transaction Documents to which it is a party) or any director or officer of the Trustee or the Issuer or against any assets (other than the Trust Assets to the extent not exhausted) in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. In particular, no holder of Certificates will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership of QIIB Sukuk Funding Limited as a consequence of such shortfall or otherwise.

3.3 Agreement of Certificateholders

By purchasing Certificates, each Certificateholder is deemed to have agreed that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

(a) no payment of any amount whatsoever shall be made by the Trustee or any of its agents on its behalf except to the extent funds are available therefor from the Trust Assets and further agrees that no recourse shall be had for the payment of any amount owing hereunder or under any Transaction Document, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee to the extent the Trust Assets have been exhausted, following which all obligations of the Trustee shall be extinguished;

(b) prior to the date which is one year and one day after the date on which all amounts owing by the Trustee under the Transaction Documents to which it is a party have been paid in full, it will not institute against, or join with any other person in instituting against, the Trustee any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law; and

(c) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Issuer or the Trustee arising under or in connection with these Conditions by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer or director of the Issuer or the Trustee in their capacity as such and any and all personal liability of every such shareholder, officer or director in their capacity as such for any breaches by the Issuer or the Trustee of any such duty, obligation or undertaking is hereby expressly waived and excluded to the extent permitted by law.

4. THE TRUST

4.1 Summary of the Trust

The Trustee will enter into a purchase agreement (the **Purchase Agreement**) to be dated the Issue Date with QIIB and, acting in its capacity as seller under the Purchase Agreement, the **Seller**). Pursuant to the Purchase Agreement the Seller will sell, transfer and assign certain wakala assets to the Trustee in consideration for payment of a percentage of the proceeds of the issue of the Certificates. The Trustee will also enter into a management agreement (the **Management Agreement**) to be dated the Issue Date with QIIB as managing agent (in such capacity, the **Managing Agent**) to manage the wakala assets sold under the Purchase Agreement and other wakala assets from time to time constituting the portfolio of wakala assets (the **Wakala Portfolio** and, each such wakala asset within the Wakala Portfolio, a **Wakala Asset**) under the Management Agreement.

QIIB Sukuk Funding Limited (in such capacity, the **Rabb-al-Maal**) will enter into a restricted mudaraba agreement (the **Restricted Mudaraba Agreement**) to be dated the Issue Date with QIIB (in such capacity, the **Mudarib**). Pursuant to the Restricted Mudaraba Agreement, the Rabb-al-Maal will pay a portion of the proceeds of the issue of the Certificates to the Mudarib, which proceeds will form the initial capital of the Mudaraba (as defined below) (the **Mudaraba Capital**). The Mudarib will invest the Mudaraba Capital in a portfolio of certain assets (the **Mudaraba Portfolio** and each such mudaraba asset within the Mudaraba Portfolio, a **Mudaraba Asset**) in accordance with the Restricted Mudaraba Agreement, which shall include an investment plan prepared by the Mudarib and constitute a mudaraba (the **Mudaraba**).

QIIB will enter into a purchase undertaking (the **Purchase Undertaking**) to be dated the Issue Date in favour of the Trustee to purchase all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the Wakala Portfolio on the Scheduled Dissolution Date (as defined in Condition 8.1) or, if earlier, on the due date for dissolution in accordance with Condition 12 at the Dissolution Distribution Amount. In addition, the Mudarib will liquidate the Mudaraba and distribute the Rabb-al-Maal's share of the final liquidation proceeds in respect of the Mudaraba Portfolio to the Rabb-al-Maal on each of the above dates, as applicable.

The Trustee will execute a sale undertaking (the **Sale Undertaking**) in favour of QIIB. Pursuant to the Sale Undertaking, subject to the Issuer being entitled to redeem the Certificates early pursuant to Condition 8.2, QIIB may, by exercising its option under the Sale Undertaking and serving notice on the Trustee no later than 45 days prior to the Tax Redemption Date (as defined in Condition 8.2), oblige the Trustee to sell all of its rights, title, interests, benefits and entitlements in, to and under the Wakala Portfolio on the Tax Redemption Date at the Dissolution Distribution Amount. Following any purchase of Certificates by or on behalf of QIIB or any Subsidiary of QIIB pursuant to Condition 9, the Sale Undertaking may also be exercised in respect of certain only of the Wakala Assets as set out in Condition 9 against the delivery of the Certificates so redeemed or purchased to the Principal Paying Agent for cancellation. The Restricted Mudaraba Agreement will provide for a similar liquidation of the Mudaraba in all of the above circumstances.

The Trustee will execute a wakala assets substitution undertaking (the **Wakala Assets Substitution Undertaking**) in favour of QIIB. Pursuant to the Wakala Assets Substitution Undertaking, QIIB may, by exercising its option thereunder and serving notice on the Trustee, from time to time substitute certain Wakala Assets (the **Substituted Wakala Assets**) within the Wakala Portfolio for new wakala assets of a Value (as defined in the Wakala Assets Substitution Undertaking) not less than the Substituted Wakala Assets. The Restricted Mudaraba Agreement will provide for similar substitutions from time to time of Mudaraba Assets within the Mudaraba Portfolio.

The Issuer has opened a transaction account (the **Transaction Account**) in the name of the Issuer with the Principal Paying Agent into which (i) the Managing Agent, the Mudarib and QIIB will deposit all amounts paid to the Issuer under the Management Agreement, the Purchase Undertaking, the Restricted Mudaraba Agreement and the Sale Undertaking, as the case may be; and (ii) the Delegate will deposit all the proceeds of any action to enforce or realise the relevant Trust Assets taken in accordance with Condition 13.

Pursuant to the Declaration of Trust, the Trustee will declare that it will hold certain assets (the **Trust Assets**) primarily consisting of:

(a) all of the Trustee's rights, title, benefits, entitlements and interests, present and future, in, to and under the assets from time to time constituting the Wakala Portfolio and the Mudaraba Portfolio (together, the **Sukuk Assets**);

(b) all of the Trustee's rights, title, benefits, entitlements and interests, present and future, in, to and under the Transaction Documents (excluding the representations given by QIIB (acting in any capacity) to the Issuer, the Trustee and the Delegate under the Transaction Documents to which it is a party and any rights which have been expressly waived by the Trustee in any of the Transaction Documents); and

(c) all monies standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing upon trust absolutely for the holders of the Certificates *pro rata* according to the face amount of Certificates held by each holder in accordance with the Declaration of Trust and these Conditions.

The Purchase Agreement, the Restricted Mudaraba Agreement, the Management Agreement, the Purchase Undertaking, the Sale Undertaking, the Wakala Assets Substitution Undertaking, the Declaration of Trust and the Agency Agreement are together referred to in these Conditions as the **Transaction Documents**.

4.2 Application of Proceeds from the Trust Assets

Pursuant to the Declaration of Trust, the Trustee holds the Trust Assets for and on behalf of the holders of the Certificates. On each Periodic Distribution Date and on any Dissolution Date, the Principal Paying Agent will apply the monies standing to the credit of the Transaction Account in the following order of priority:

(a) *first*, (to the extent not previously paid) to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate;

(b) *second,* (to the extent not previously paid) to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;

(c) *third*, only if such payment is made on a Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of the Dissolution Distribution Amount;

(d) *fourth*, only if such payment is made on a Dissolution Date, to the Managing Agent in or towards payment of any outstanding Management Liabilities Amount (as defined in the Management Agreement);

(e) *fifth*, only if such payment is made on a Dissolution Date, to the Managing Agent to repay any amounts advanced by way of a Liquidity Facility (as defined in the Management Agreement);

(f) *sixth,* only if such payments are made on a Dissolution Date, to the Managing Agent as an Incentive Fee (as defined in the Management Agreement) in accordance with the terms of the Management Agreement; and

(g) *seventh*, only after all necessary payments above have been made in full, to QIIB.

5. COVENANTS

The Trustee covenants that, for so long as any Certificate is outstanding, it will not (without the prior written consent of the Delegate):

(a) incur any indebtedness in respect of borrowed money whatsoever (whether structured in accordance with the principles of the Sharia or otherwise), or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) or any other certificates except, in all cases, as contemplated in the Transaction Documents;

(b) grant or permit to be outstanding any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);

(c) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist) any part of its interest in any of the Trust Assets except pursuant to the Transaction Documents;

(d) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;

(e) except as provided in Condition 16, amend or agree to any amendment to any Transaction Document to which it is a party (other than in accordance with the terms thereof) or amend its memorandum of association and by-laws;

(f) act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;

(g) have any subsidiaries or employees;

(h) redeem or purchase any of its shares or pay any dividend or make any other distribution to its shareholders;

(i) prior to the date which is one year and one day after the date on which all amounts owing by the Issuer under the Transaction Documents to which it is a party have been paid in full, put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceedings with respect to it; and

(j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:

(i) as provided for or permitted in the Transaction Documents;

(ii) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and

(iii) such other matters which are incidental thereto.

In the Purchase Undertaking, QIIB has undertaken that, so long as any Certificate remains outstanding, QIIB will not, and will ensure that none of its Material Subsidiaries will, create or have outstanding any Security Interest, other than a Permitted Security Interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or Relevant Sukuk Obligation or any Guarantee in respect of Relevant Indebtedness or Relevant Sukuk Obligation given by it without:

(a) at the same time or prior thereto securing equally and rateably therewith its obligations under the Transaction Documents to which it is, in whatever capacity, a party; or

(b) providing such other Security Interest for those obligations as (i) the Delegate shall in its absolute discretion deem not materially less beneficial to the interests of the Certificateholders; or (ii) as may be approved by the Certificateholders by an Extraordinary Resolution.

For these purposes:

***Guarantee** means, in relation to any Indebtedness, Relevant Indebtedness or Relevant Sukuk Obligation of any person, any obligation of another person to pay such Indebtedness, Relevant Indebtedness or Relevant Sukuk Obligation following demand or claim on that person including (without limitation):*

(a) any obligation to purchase such Indebtedness, Relevant Indebtedness or Relevant Sukuk Obligation;

(b) any obligation to extend financing, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness, Relevant Indebtedness or Relevant Sukuk Obligation;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness, Relevant Indebtedness or Relevant Sukuk Obligation; and

(d) any other agreement to be responsible for such Indebtedness, Relevant Indebtedness or Relevant Sukuk Obligation;

***Indebtedness** means any present or future indebtedness of any person for or in respect of any money borrowed or raised including (without limitation) any borrowed money or liability arising under or in respect of any acceptance or acceptance credit or evidenced by any notes, bonds, debentures, debenture stock, loan stock or other securities or any monies raised under any transaction having the commercial effect of borrowing or raising money (whether structured in accordance with the principles of Sharia or otherwise);*

***Material Subsidiary** means, at any time, any Subsidiary:*

(a) whose total assets (consolidated, in the case of a Subsidiary which itself has Subsidiaries) exceed 5 per cent. of the consolidated total assets of QIIB and its Subsidiaries; or

(b) whose revenues (consolidated, in the case of a Subsidiary which itself has Subsidiaries) exceed 5 per cent. of the consolidated net operating revenues of QIIB and its Subsidiaries.

For the purposes of this definition:

(i) *for the purpose of determination of the thresholds set forth in paragraphs (a) and (b) above at any given time, the assets and revenues of the relevant Subsidiary will be determined from the then latest available (if applicable, consolidated) annual or semi-annual financial statements, as the case may be, of such relevant Subsidiary, and the consolidated total assets and consolidated net operating revenues of QIIB will be determined from the then latest available annual or semi-annual financial statements, as the case may be, of QIIB; and*

(ii) *upon a Material Subsidiary transferring all or substantially all of its assets to another Subsidiary, the transferor shall cease to be a Material Subsidiary on the effective date of such transfer and thereupon the transferee shall be deemed to be a Material Subsidiary until the next date of determination of the thresholds set forth in paragraphs (a) and (b) above with respect to such Subsidiary.*

Non-recourse Project Financing *means any financing of all or part of the costs of the acquisition, construction or development of any project, provided that (i) any Security Interest given by QIIB or the relevant Material Subsidiary, as the case may be, is limited solely to assets of the project, (ii) the person providing such financing expressly agrees to limit its recourse to the project financed and the revenues derived from such project as the principal source of repayment for the monies advanced and (iii) there is no other recourse to QIIB or the relevant Material Subsidiary, as the case may be, in respect of any default by any person under the financing;*

Permitted Security Interest *means:*

(a) *any Security Interest securing any Relevant Indebtedness or Relevant Sukuk Obligation of a person existing at the time that such person is merged into, or consolidated with, QIIB or the relevant Material Subsidiary, as the case may be, provided that such Security Interest was not created in contemplation of such merger or consolidation and does not extend to any other assets or property of QIIB or the relevant Material Subsidiary, as the case may be;*

(b) *any Security Interest existing on any property or assets prior to the acquisition thereof by QIIB or the relevant Material Subsidiary, as the case may be, provided that such Security Interest was not created in contemplation of such acquisition and does not extend to other assets or property of QIIB or the relevant Material Subsidiary, as the case may be (other than proceeds of such acquired assets or property), and provided that the maximum amount of Relevant Indebtedness or Relevant Sukuk Obligation thereafter secured by such Security Interest does not exceed the purchase price of such property or the Relevant Indebtedness or Relevant Sukuk Obligation incurred solely for the purpose of financing the acquisition of such property; or*

(c) *any renewal of or substitution for any Security Interest permitted by any of paragraphs (a) to (b) (inclusive) of this definition, provided that with respect to any such Security Interest the principal amount or face amount, as the case may be, secured has not increased and the Security Interest has not been extended to any additional assets (other than the proceeds of such assets);*

Relevant Indebtedness *means any Indebtedness, other than Indebtedness incurred in connection with a Non-recourse Project Financing or a Securitisation, which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange, over-the-counter or other securities market;*

Relevant Sukuk Obligation *means any undertaking or other obligation, other than any undertaking or obligation incurred in connection with a Non-recourse Project Financing or a Securitisation, to pay any money given in connection with the issue of trust certificates or instruments, as the case may be, whether or not in return for consideration of any kind, which trust certificates or instruments for the time being are, or are intended to be or are capable of being, quoted, listed, dealt in or traded on any stock exchange, over-the-counter or other securities market;*

Securitisation *means any securitisation of existing or future assets and/or revenues, provided that (i) any Security Interest given by QIIB or the relevant Material Subsidiary, as the case may be, in connection therewith is limited solely to the assets and/or revenues which are the subject of the securitisation; (ii) each person participating in such securitisation expressly agrees to limit its recourse to the assets and/or revenues so securitised as the principal source of repayment for the money advanced or payment of any other liability; and (iii) there is no other recourse to QIIB or the relevant Material Subsidiary, as the case may be, in respect of any default by any person under the securitisation;*

Security Interest *means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and*

Subsidiary *means, any person (a) in which another person (the* ***parent****) holds a majority of the voting rights; or (b) of which the parent has the right to appoint or remove a majority of the board of directors; or (c) of which the parent controls a majority of the voting rights, and includes any person which is a Subsidiary of a Subsidiary of the parent.*

6. PERIODIC DISTRIBUTIONS

6.1 Periodic Distribution Amounts and Periodic Distribution Dates

Subject to Condition 4.2 and Condition 7, the Principal Paying Agent shall distribute to holders of the Certificates, *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account, a distribution in relation to the Certificates on each Periodic Distribution Date equal to the applicable Periodic Distribution Amount. The **Periodic Distribution Amount** payable on each Periodic Distribution Date shall be U.S.$13.44 per U.S.$1,000 in face amount of Certificates. For this purpose, **Periodic Distribution Date** means the 18th day of each of April and October in each year commencing on 18 April 2013 and, subject to Condition 6.3, ending on the Scheduled Dissolution Date (as defined in Condition 8.1).

6.2 Calculation of Periodic Distribution Amounts payable other than on a Periodic Distribution Date

If a Periodic Distribution Amount is required to be calculated in respect of a period of less than a full Return Accumulation Period (the **Relevant Period**), it shall be calculated as an amount equal to the product of (a) 2.688 per cent. per annum, (b) the face amount of the relevant Certificate and (c) the number of days in such Relevant Period calculated on the basis of a year of 12 30-day months divided by 360 (with the result being rounded to the nearest U.S.$0.01, U.S.$0.005 being rounded upwards). The period from and including the Issue Date to but excluding the first Periodic Distribution Date and each successive period from and including a Periodic Distribution Date to but excluding the next succeeding Periodic Distribution Date is called a **Return Accumulation Period**.

6.3 Cessation of Accrual

No further amounts will be payable on any Certificate from and including its due date for redemption, unless default is made in any payment of the Dissolution Distribution Amount, in which case the Trust will not be terminated and Periodic Distribution Amounts will continue to accrue in respect of the outstanding Certificates in the manner provided in this Condition 6.

7. PAYMENTS

7.1 Payments in respect of the Certificates

Subject to Condition 7.2, payment of the Dissolution Distribution Amount and any Periodic Distribution Amount will be made by the Principal Paying Agent in U.S. dollars by wire transfer in same-day funds to the registered account of the Certificateholder or by U.S. dollar cheque drawn on a bank that processes payments in U.S. dollars mailed to the registered address of the Certificateholder if it does not have a registered account. Payments of the Dissolution Distribution Amount will only be made against presentation and surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Dissolution Distribution Amount and each Periodic Distribution Amount will be paid to the holder shown on the Register at the close of business on the date (the **record date**) being the seventh day before the date on which the Dissolution Distribution Amount or the relevant Periodic Distribution Amount, as the case may be, is paid.

For the purposes of this Condition 7, a Certificateholder's **registered account** means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant record date, and a Certificateholder's **registered address** means its address appearing on the Register at that time.

Distributions of amounts in respect of book-entry interests in the Certificates held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures.

7.2 Payments subject to Applicable Laws

Payments in respect of Certificates are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 10.

7.3 Payment only on a Payment Business Day

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, in each case by the Principal Paying Agent, on the due date for payment or, in the case of a payment of the Dissolution Distribution Amount, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent for value as soon as practicable thereafter.

Certificateholders will not be entitled to any additional payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the relevant Certificateholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

If the amount of the Dissolution Distribution Amount or any Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount in fact paid.

Payment Business Day means a day on which commercial banks and foreign exchange markets in London and New York City are open for general business and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

7.4 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that (a) it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity), and (b) there will at all times be a Paying Agent (which may be the Principal Paying Agent) located in an EU Member State that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, any such Directive. Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders promptly by the Issuer in accordance with Condition 15.

8. CAPITAL DISTRIBUTIONS OF THE TRUST

8.1 Scheduled Dissolution

Unless the Certificates are previously redeemed, the Issuer will redeem each Certificate at the Dissolution Distribution Amount on 18 October 2017 (the **Scheduled Dissolution Date**). Upon payment in full of the Dissolution Distribution Amount to the Certificateholders, the Trust will terminate, the Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Issuer and the Trustee shall have no further obligations in respect thereof.

In these Conditions, **Dissolution Date** means any of the Scheduled Dissolution Date, the Tax Redemption Date (as defined in Condition 8.2) and any date specified by the Delegate in accordance with Condition 12 and **Dissolution Distribution Amount** in relation to a Certificate means its outstanding face amount plus all accrued and unpaid Periodic Distribution Amounts in respect of such Certificate.

8.2 Early Dissolution for Tax Reasons

The Certificates may be redeemed by the Issuer in whole, but not in part, at any time (the date of any such redemption, the **Tax Redemption Date**), on giving not less than 30 nor more than 60 days' notice to the Delegate and the Certificateholders in accordance with Condition 15 (which notice shall be irrevocable), at the Dissolution Distribution Amount, if a Tax Event occurs where **Tax Event** means:

(a) (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 10 as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 10) or any change in the application or official interpretation of such laws or regulations (excluding, for the avoidance of doubt, any interpretation by QIIB (acting in any capacity) of the application of such laws or regulations), which change or amendment becomes effective or is enacted on or after 16 October 2012 and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(b) (i) the Issuer has received notice from QIIB that it has or will become obliged to pay additional amounts pursuant to the terms of the Restricted Mudaraba Agreement and/or the Management Agreement, as the case may be, as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations (excluding, for the avoidance of doubt, any interpretation by QIIB (acting in any capacity) of the application of such laws or regulations), which change or amendment becomes effective on or after 16 October 2012 and (ii) such obligation cannot be avoided by QIIB taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given unless an Exercise Notice has been received by the Trustee under the Sale Undertaking and no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which (in the case of (a) above) the Issuer would be obliged to pay such additional amounts if a payment in respect of the Certificates were then due or (in the case of (b) above) QIIB would be obliged to pay such additional amounts if a payment to the Rabb-al-Maal under the Restricted Mudaraba Agreement and/or to the Trustee under the Management Agreement, as the case may be, was then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Delegate (i) a certificate signed by two directors of the Issuer or, as the case may be, QIIB stating that the Trustee is entitled to effect such dissolution and setting forth a statement of facts showing that the conditions precedent in (a) or (b) above to the right of the Trustee so to dissolve have occurred and (ii) an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer or QIIB, as the case may be, has or will become obliged to pay such additional amounts as a result of such change or amendment. The Delegate shall be entitled to accept (without further investigation) any such certificate and opinion as sufficient evidence thereof, in which event it shall be conclusive and binding on the Certificateholders. Upon the expiry of any such notice as is referred to in this Condition 8.2, the Issuer shall be bound to redeem the Certificates at the Dissolution Distribution Amount and, upon payment in full of the Dissolution Distribution Amount to the Certificateholders, the Trust will terminate, the Certificates shall cease to represent Trust Assets and no further amounts shall be payable in respect thereof and the Issuer shall have no further obligations in respect thereof.

8.3 Dissolution Following a Dissolution Event

Upon the occurrence of a Dissolution Event (as defined in Condition 12) which is continuing, the Certificates may be redeemed at the Dissolution Distribution Amount and the Trust dissolved as more particularly specified in Condition 12.

8.4 No other Dissolution

The Issuer shall not be entitled to redeem the Certificates, and the Trustee shall not be entitled to dissolve the Trust, otherwise than as provided in this Condition 8 and Condition 12.

8.5 Cancellations

All Certificates which are redeemed will forthwith be cancelled and accordingly may not be held, reissued or resold.

9. PURCHASE OF CERTIFICATES

QIIB and/or any Subsidiary of QIIB may at any time purchase Certificates at any price in the open market or otherwise. Following any purchase of Certificates pursuant to this Condition 9, the Trustee may transfer, assign and convey Wakala Assets and the Mudarib may release the Mudaraba Assets, of a total Value (as defined in the Management Agreement or the Restricted Mudaraba Agreement, as applicable) that is not greater than the aggregate face amount of the Certificates so purchased in return for the delivery of such Certificates to the Principal Paying Agent for cancellation as described below.

Any transfer, assignment, conveyance and release of the Sukuk Assets to QIIB pursuant to this Condition 9 and delivery of Certificates to the Principal Paying Agent for cancellation as described below may only take place on a Periodic Distribution Date and any Sukuk Assets to be so transferred, assigned, conveyed and released must be transferred, assigned, conveyed and released in full and there may not be any transfer of such Sukuk Assets in part only.

Following any purchase of Certificates by QIIB or any Subsidiary of QIIB pursuant to this Condition 9, such Certificates shall be delivered by QIIB or such Subsidiary to the Principal Paying Agent for cancellation on the immediately following Periodic Distribution Date and accordingly may not be held, reissued or resold.

In these Conditions, **Subsidiary** means any person (i) in which another person (the **parent**) holds a majority of the voting rights; or (ii) of which the parent has the right to appoint or remove a majority of the board of directors; or (iii) of which the parent controls a majority of the voting rights, and includes any person which is a Subsidiary of a Subsidiary of the parent.

10. TAXATION

All payments in respect of the Certificates shall be made without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of any Relevant Jurisdiction (**Taxes**), unless the withholding or deduction of the Taxes is required by law. In such event, the Issuer will pay additional amounts so that the full amount which otherwise would have been due and payable under the Certificates is received by the parties entitled thereto, except that no such additional amount shall be payable in relation to any payment in respect of any Certificate:

(a) presented for payment (where presentation is required) by or on behalf of a holder who is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate or an interest therein; or

(b) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day; or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented for payment (where presentation is required) by or on behalf of a Certificateholder who would be able to avoid such withholding or deduction by presenting the relevant Certificate to another Paying Agent in a different Member State of the European Union.

In these Conditions, references to the **Dissolution Distribution Amount** or any **Periodic Distribution Amount** payable in respect of a Certificate shall be deemed to include any additional amounts payable under this Condition 10. In addition, in these Conditions **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Delegate on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to Certificateholders by the Issuer in accordance with Condition 15.

Relevant Jurisdiction means the Cayman Islands or the State of Qatar, or, in each case, any political sub-division or authority thereof or therein having power to tax.

The Purchase Undertaking, the Sale Undertaking, the Restricted Mudaraba Agreement and the Management Agreement each provides that payments thereunder by QIIB, the Mudarib and the Managing Agent, respectively, shall be made without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of the taxes is required by law and, in such case, provide for the payment by QIIB, the Mudarib and the Managing Agent, respectively, of additional amounts so that the full amount which would otherwise have been due and payable is received by the Trustee.

11. PRESCRIPTION

The right to receive distributions in respect of the Certificates will be forfeited unless claimed within periods of ten years (in the case of the Dissolution Distribution Amount) and five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof, subject to the provisions of Condition 7.

12. DISSOLUTION EVENTS

Upon the occurrence and continuation of any of the following events (**Dissolution Events**):

(a) default is made in the payment of the Dissolution Distribution Amount or any Periodic Distribution Amount and, in the case of the Dissolution Distribution Amount, such default continues for a period of seven days from the due date for payment and, in the case of a Periodic Distribution Amount, such default continues for a period of 14 days from the due date for payment; or

(b) the Issuer or the Trustee (acting in any capacity) defaults in the performance or observance of or compliance with any of its other obligations or undertakings under the Transaction Documents to which it is a party and such default is not capable of remedy (in the opinion of the Delegate) or (if capable of remedy) (in the opinion of the Delegate) is not remedied within

30 days after written notice of such default shall have been given to the Issuer or the Trustee by the Delegate; or

(c) a QIIB Event (as defined in the Purchase Undertaking) occurs; or

(d) the Issuer or the Trustee (acting in any capacity) repudiates any Transaction Document or does or causes to be done any act or thing evidencing an intention to repudiate any Transaction Document; or

(e) at any time it is or will become unlawful or impossible for the Issuer or the Trustee (acting in any capacity) (by way of insolvency or otherwise) to perform or comply with any or all of its obligations under the Transaction Documents to which it is a party or any of the obligations of the Issuer or the Trustee under the Transaction Documents to which it is a party are not or cease to be legal, valid, binding and enforceable; or

(f) either (i) the Issuer or the Trustee becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the whole or substantially the whole of the undertaking, assets and revenues of the Issuer or the Trustee is appointed (or application for any such appointment is made), (iii) Issuer or the Trustee takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it, or (iv) Issuer or the Trustee ceases or threatens to cease to carry on all or substantially the whole of its business (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

(g) an order or decree is made or an effective resolution is passed for the winding up, liquidation or termination of the Issuer or the Trustee; or

(h) any event occurs which under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraph (e), (f) or (g) above,

the Delegate shall give notice of the occurrence of such Dissolution Event to the holders of Certificates in accordance with Condition 15 with a request to such holders to direct the Delegate in writing or by Extraordinary Resolution if they wish the Certificates to be redeemed and the Trust to be dissolved, provided, however, that in the case of the event described in paragraph (b) above, such notice may only be given if the Delegate is of the opinion that the event is materially prejudicial to the interests of the Certificateholders. If so directed in writing by the holders of at least 20 per cent. of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution of the holders of the Certificates, the Delegate shall or, if the Delegate so decides in its discretion, the Delegate may (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer, the Trustee, QIIB and the holders of the Certificates in accordance with Condition 15 that the Certificates are to be redeemed by the Issuer at the Dissolution Distribution Amount on the date specified in such notice. Upon payment in full of the Dissolution Distribution Amount, the Trust will terminate, the Certificates shall cease to represent the Trust Assets and no further amounts shall be payable in respect thereof and the Issuer and the Trustee shall have no further obligations in respect thereof.

For the purpose of paragraph (a) above, amounts shall be considered due in respect of the Certificates (including any amounts calculated as being payable under Condition 6, Condition 8 and this Condition 12) notwithstanding that the Issuer has, at the relevant time, insufficient funds to pay such amounts.

*Under the Purchase Undertaking, a **QIIB Event** means:*

(i) QIIB (acting in any capacity) fails to pay any amount in the nature of principal payable by it pursuant to any Transaction Document to which it is a party and the failure continues for a period of seven days or QIIB fails to pay an amount in the nature of profit payable by it

pursuant to any Transaction Document to which it is a party and the failure continues for a period of 14 days; or

(ii) *QIIB (acting in any capacity) fails to perform or observe any of its covenants and/or obligations under any Transaction Document to which it is a party and such default is incapable of remedy or, if, in the opinion of the Delegate, is capable of remedy, is not, in the opinion of the Delegate, remedied within 30 days after notice of such default shall have been given to QIIB by the Delegate, except that a failure by QIIB (acting in its capacity as Managing Agent) to comply with its obligations set out in clause 3.1(c) of the Management Agreement or (acting in its capacity as Mudarib) to comply with its obligations set out in clause 4(d) of the Restricted Mudaraba Agreement will not constitute a QIIB Event under this paragraph (ii); or*

(iii) *any Indebtedness of QIIB or any of QIIB's Material Subsidiaries (or any Guarantee given by any of them in respect of any Indebtedness) is not paid when due or, as the case may be, within any originally applicable grace period or any such Indebtedness is declared to be or otherwise becomes due and payable prior to its specified maturity (or, in the case of a Guarantee, is called) as a result of an event of default (however described) or any creditor of QIIB or any of QIIB's Material Subsidiaries becomes entitled to declare any such Indebtedness due and payable prior to its specified maturity or to call any such Guarantee as a result of an event of default (however described) provided, however, that it shall not constitute a QIIB Event unless the aggregate amount (or its equivalent in U.S. dollars) of all such Indebtedness or Guarantees either alone or when aggregated with all other Indebtedness or Guarantees which shall remain unpaid or unsatisfied or is so declared or becomes due and payable or is called, or a creditor becomes entitled so to do, as the case may be, shall be more than U.S.$5,000,000 (or its equivalent in any other currency or currencies); or*

(iv) *QIIB or any of QIIB's other Material Subsidiaries takes any corporate action or other steps are taken or legal proceedings are started for its winding-up, nationalisation, dissolution, bankruptcy, administration or reorganisation (whether by way of voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of any substantial part or all of its revenues and assets, except for the purposes of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Certificateholders or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in QIIB or another Subsidiary of QIIB; or*

(v) *QIIB or any of QIIB's other Material Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business except for the purposes of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Certificateholders or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in QIIB or another Subsidiary of QIIB; or*

(vi) *QIIB or any of QIIB's other Material Subsidiaries is (or is deemed by a court or any applicable legislation to be) insolvent or bankrupt or unable to pay its debts (or any class of its debts) as the same fall due, or stops, suspends or threatens to stop or suspend payment of, or admits its inability to pay, its debts (or any class of its debts), or commences negotiations with its creditors as a whole or any one or more classes of its creditors with a view to the general readjustment or rescheduling of its debts (or any class of its debts) or proposes or makes a general assignment for the benefit of or an arrangement or a composition or conciliation with its creditors in respect of such debts; or*

(vii) *any expropriation, execution, attachment, distress, sequestration or other similar legal process made pursuant to a court order or judgment or arising by virtue of any law or regulation affects the whole or any substantial part of the property of QIIB or any of QIIB's other Material Subsidiaries and is not discharged within 30 days; or*

(viii) *QIIB or any of QIIB's Material Subsidiaries fails to comply with or pay any sum which amount shall not be less than U.S.$5,000,000 due from it under any judgment or any order made or given by any court of competent jurisdiction and the judgment or order continues unsatisfied, unstayed or unappealed (or, if appealed, the appeal is unsuccessful and thereafter the judgment or order continues unsatisfied and unstayed for a period of 30 days) for a period of 30 days from the later of (a) the date of such judgment or order, as the case may be, and (b) the date specified in the judgment or order, as the case may be, for payment thereof; or*

(ix) *by or under the authority of any government or governmental body, (i) the management of QIIB or any of QIIB's Material Subsidiaries is wholly or partially displaced or the authority of QIIB or any of its Material Subsidiaries in the conduct of its business is wholly or partially curtailed or (ii) all or a majority of the issued shares of QIIB or any of QIIB's Material Subsidiaries or the whole or any part of their respective revenues or assets is seized, nationalised, expropriated or compulsorily acquired; or*

(x) *QIIB repudiates any Transaction Document to which it is a party or at any time it is or becomes unlawful for QIIB (acting in any capacity) to perform or comply with any or all of its material (in the opinion of the Delegate) obligations under or in respect of the Transaction Documents to which it is respectively a party or any of the material (in the opinion of the Delegate) obligations of QIIB (acting in any capacity) thereunder are not or cease to be legal, valid, binding and enforceable; or*

(xi) *any Security Interest present or future, created or assumed by QIIB or any of QIIB's Material Subsidiaries in respect of all or a material part of the property, assets or revenues of QIIB or any of its Material Subsidiaries, as the case may be, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person); or*

(xii) *any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable QIIB (acting in any capacity) lawfully to enter into, exercise its rights and perform and comply with its obligations under any Transaction Document to which it is respectively a party, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Transaction Documents admissible in evidence in the courts of Qatar is not taken, fulfilled or done and, in each case, is incapable of remedy or, if, in the opinion of the Delegate, is capable of remedy, is not, in the opinion of the Delegate, remedied within 30 days after written notice requiring remedy shall have been given to QIIB by the Delegate; or*

(xiii) *any event occurs which under the laws of any other relevant jurisdiction has a similar or analogous effect to any of the events described in (iv), (v), (vi), (vii), (ix) and (xi) above.*

References in paragraph (iii) and (vi) to "Indebtedness" and "debts", respectively, shall be deemed to include any debt or other financing arrangement issued (or intended to be issued) in compliance with the principles of Sharia, whether entered into directly or indirectly by QIIB or a Material Subsidiary of QIIB, as the case may be.

13. ENFORCEMENT AND EXERCISE OF RIGHTS

13.1 Following the distribution in full of the net proceeds of the Trust Assets in respect of the Certificates to the Certificateholders in accordance with these Conditions and the Declaration of Trust, the Issuer shall not be liable for any further sums and, accordingly, Certificateholders may not take any action against the Issuer, the Delegate or any other person to recover any such sum in respect of the Certificates or Trust Assets.

13.2 The Delegate shall not be bound in any circumstances to take any action to enforce or to realise the Trust Assets or take any action against the Issuer and/or QIIB under any Transaction Document unless directed or requested to do so (a) by an Extraordinary Resolution of the Certificateholders or (b) in writing by the holders of at least 20 per cent. of the then aggregate face amount of the Certificates outstanding and, in either case, then only if it shall be indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing.

13.3 No Certificateholder shall be entitled to proceed directly against the Issuer, the Trustee or QIIB unless (a) the Delegate, having become bound so to proceed, fails to do so within 30 days of becoming so bound and such failure is continuing and (b) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against any of the Issuer, the Trustee or QIIB, as the case may be) holds at least 20 per cent. of the then aggregate face amount of the Certificates outstanding. Under no circumstances (including the occurrence of a Dissolution Event) shall the Delegate or any Certificateholder have (i) any right to cause the sale or other disposition of any of the Trust Assets except pursuant to the Transaction Documents or (ii) any other recourse against the Sukuk Assets, except the right to receive distributions derived from the Sukuk Assets in accordance with the Conditions, and the sole right of the Delegate and the Certificateholders against the Sukuk Assets, the Issuer, the Trustee and QIIB shall be to enforce their respective obligations under the Transaction Documents to which they are a party and to enforce or realise the Trust Assets.

13.4 The foregoing paragraphs in this Condition 13 are subject to this paragraph. After enforcing or realising the Trust Assets and distributing the proceeds of the Trust Assets in accordance with Condition 4.2 and the Declaration of Trust, the obligations of the Issuer in respect of the Certificates shall be satisfied and no holder of the Certificates may take any further steps against the Issuer, the Trustee, the Delegate or any other person to recover any further sums in respect of the Certificates and the right to receive any sums unpaid shall be extinguished. In particular, no holder of the Certificates shall be entitled in respect thereof to petition or to take any other steps for the winding-up of QIIB Sukuk Funding Limited.

14. REPLACEMENT OF CERTIFICATES

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer or QIIB may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. NOTICES

All notices to Certificateholders will be valid if:

(a) published in a daily newspaper having general circulation in the Republic of Ireland (which is expected to be the Irish Times) approved by the Delegate or published on the website of the Irish Stock Exchange (www.ise.ie) or, if in either case such publication is not practicable, in a leading English language newspaper having general circulation in Europe approved by the Delegate; or

(b) mailed to them by first class pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective registered addresses.

The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system (if any) by which the Certificates have then been admitted to listing, trading and/or quotation. Any notice shall be deemed to have been given on the day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

16. MEETINGS OF CERTIFICATEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

16.1 The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of these Conditions or the provisions of the Declaration of Trust. The quorum at any meeting for passing an Extraordinary Resolution will be one or more Eligible Persons (as defined in the Declaration of Trust) present holding or representing more than 50 per cent. of the outstanding face amount of the Certificates, or at any adjourned such meeting one or more Eligible Persons present whatever the outstanding face amount of the Certificates held or represented by him or them, except that any meeting the business of which includes the modification of certain provisions of the Certificates (including modifying the Scheduled Dissolution Date, reducing or cancelling any amount payable in respect of the Certificates or altering the currency of payment of the Certificates, amending certain covenants given by the Issuer, the Trustee and QIIB in the Transaction Documents and sanctioning any scheme or proposal for the exchange or sale of the Certificates for or the conversion of the Certificates into or the cancellation of the Certificates in consideration of shares, stock, sukuk and/or other obligations and/or securities), the quorum shall be one or more persons present holding or representing not less than 75 per cent. of the outstanding face amount of the Certificates, or at any adjourned such meeting one or more persons present holding or representing not less than 25 per cent. of the outstanding face amount of the Certificates. The expression "Extraordinary Resolution" is defined in the Declaration of Trust to mean any of (i) a resolution passed at a meeting duly convened and held by a majority consisting of not less than 75 per cent. of the votes cast, (ii) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Delegate) by or on behalf of not less than 75 per cent. in face amount of the Certificates for the time being outstanding.

16.2 The Declaration of Trust and any Transaction Document may only be amended by the Trustee with the consent of the Delegate. The Delegate may agree, without the consent or sanction of the Certificateholders, to any modification (other than a Reserved Matter (as defined in the Declaration of Trust)) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Declaration of Trust or any other Transaction Document, or to any amendment to the Trustee's memorandum of association and by-laws, or determine, without any such consent or sanction as aforesaid, that any Dissolution Event or Potential Dissolution Event (as defined in the Declaration of Trust) shall not be treated as such, which in any such case is not, in the opinion of the Delegate, materially prejudicial to the interests of Certificateholders or may agree, without any such consent or sanction as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error.

16.3 In connection with the exercise by it of any of its powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Delegate shall have regard to the general interests of the Certificateholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Delegate or, without prejudice to Condition 10, any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders.

16.4 Any modification, abrogation, waiver, authorisation or determination shall be binding on all of the Certificateholders and shall be notified by the Issuer to the Certificateholders as soon as practicable thereafter in accordance with Condition 15.

17. INDEMNIFICATION AND LIABILITY OF THE DELEGATE AND THE TRUSTEE

17.1 The Declaration of Trust contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction.

17.2 The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of QIIB under the Transaction Documents to which it is a party, and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payments which should have been paid by QIIB but are not so paid and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in the Conditions or in the Declaration of Trust.

17.3 Each of the Trustee and the Delegate is exempted from (a) any liability in respect of any loss or theft of the Trust Assets or any cash, (b) any obligation to insure the Trust Assets or any cash and (c) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depositary or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of wilful default, fraud or negligence by the Trustee or the Delegate, as the case may be.

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

19. GOVERNING LAW AND DISPUTE RESOLUTION

19.1 The Declaration of Trust, the Certificates and these Conditions (including the remaining provisions of this Condition 19) and any non contractual obligations arising out of or in connection with the Declaration of Trust, the Certificates and these Conditions are governed by, and shall be construed in accordance with, English law.

19.2 Subject to Condition 19.3, any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Declaration of Trust, the Certificates and these Conditions (including any dispute as to their the existence, validity, interpretation, performance, breach or termination of the Declaration of Trust, the Certificates and these Conditions or the consequences of the nullity of any of them or a dispute relating to any non-contractual obligations arising out of or in connection with them) (a **Dispute**) shall be referred to and finally resolved by arbitration under the LCIA Arbitration Rules (the **Rules**), which Rules (as amended from time to time) are incorporated by reference into this Condition 19. For these purposes:

(a) the seat of arbitration shall be London;

(b) there shall be three arbitrators, each of whom shall be disinterested in the arbitration, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions; and

(c) the language of the arbitration shall be English.

19.3 Notwithstanding Condition 19.2 above, the Trustee, the Delegate or (only where permitted to take action in accordance with the terms of the Declaration of Trust) any Certificateholder may, in the alternative, and at its sole discretion, by notice in writing to the Issuer:

(a) within 28 days of service of a Request for Arbitration (as defined in the Rules); or

(b) in the event no arbitration is commenced, require that a Dispute be heard by a court of law. If such notice is given, the Dispute to which such notice refers shall be determined in accordance with Condition 19.4 and, subject as provided below, any arbitration commenced under Condition 19.2 in respect of that Dispute will be terminated. With the exception of the Delegate (whose costs will be borne by the Issuer, failing which QIIB), each of the parties to the terminated arbitration will bear its own costs in relation thereto.

19.4 If any notice to terminate is given after service of any Request for Arbitration in respect of any Dispute, the Issuer must promptly give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

(a) the validity of any act done or order made by the arbitrator or by the court in support of that arbitration before his appointment is terminated;

(b) his entitlement to be paid his proper fees and disbursements; and

(c) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

19.5 In the event that a notice pursuant to Condition 19.3 is issued, the following provisions shall apply:

(a) subject to paragraph (c) below, the courts of England shall have exclusive jurisdiction to settle any Dispute and each of the Issuer and QIIB submits to the exclusive jurisdiction of such courts;

(b) each of the Issuer and QIIB agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and

(c) this Condition 19.5 is for the benefit of the Trustee, the Delegate and the Certificateholders only. As a result, and notwithstanding paragraph (a) above, the Trustee, the Delegate and the Certificateholders may take proceedings relating to a Dispute (**Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, the Trustee, the Delegate and the Certificateholders may take concurrent Proceedings in any number of jurisdictions.

(d) The Issuer has, in the Declaration of Trust, appointed Law Debenture Corporate Services Limited at its registered office at Fifth Floor, 100 Wood Street, London EC2V 7EX as its agent for service of process and has undertaken that, in the event of Law Debenture Corporate Services Limited ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Delegate as its agent for service of process in England in respect of any Proceedings or Disputes. Nothing herein shall affect the right to serve proceedings in any matter permitted by law.

19.6 Under the Declaration of Trust, QIIB has agreed that, to the extent that it may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, it will not claim and has irrevocably and unconditionally waived such immunity in relation to any Proceedings or Disputes. Further, QIIB has irrevocably and unconditionally consented to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any Proceedings or Disputes.

19.7 Each of QIIB, the Issuer, the Trustee and the Delegate have agreed in the Declaration of Trust that, if any arbitration is commenced in relation to a Dispute and/or any Proceedings are brought by or on behalf of a party under the Declaration of Trust, it will:

(a) not claim interest under, or in connection with, such arbitration and/or Proceedings; and

(b) to the fullest extent permitted by law, waive all and any entitlement it may have to interest awarded in its favour by any arbitrator as a result of such arbitration and/or by a court as a result of such Proceedings.

GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Certificates in respect of which it is issued whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Unless otherwise defined, terms defined in the Conditions have the same meaning in paragraphs 1 to 7 below.

1. HOLDERS

For so long as all of the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, the registered holder of the Global Certificate shall, except as ordered by a court of competent jurisdiction or as required by law, be treated as the owner thereof and the expression **Holder** shall be construed accordingly. Each of the persons (other than another clearing system) who is for the time being shown in the records of either such clearing system as the holder of a particular aggregate face amount of such Certificates (the **Accountholders**) (in which regard any certificate or other document issued by a clearing system as to the aggregate face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Holder. In addition, holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

2. CANCELLATION

Cancellation of any Certificate represented by the Global Certificate will be effected by reduction in the aggregate face amount of the Certificates in the Register.

3. PAYMENTS

Payments of the Dissolution Distribution Amount in respect of Certificates represented by the Global Certificate will be made upon presentation and surrender of the Global Certificate to or to the order of the Registrar or such other Agent as shall have been notified to the Holder for such purpose. Distributions of amounts with respect to book-entry interests in the Certificates held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures. A record of each payment made in respect of the Certificates will be entered into the Register by or on behalf of the Registrar and shall be prima facie evidence that payment has been made.

4. NOTICES

So long as all the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices may be given by delivery of the relevant notice to those clearing systems for communication to their Accountholders in substitution for notification as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given on the day after the day on which such notice is delivered to the relevant clearing systems.

Whilst any of the Certificates held by a Certificateholder are represented by the Global Certificate, notices to be given by such Certificateholder may be given (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Registrar and Euroclear and Clearstream, Luxembourg may approve for this purpose.

5. REGISTRATION OF TITLE

The Registrar will not register title to the Certificates in a name other than that of a nominee for the Common Depositary for a period of seven calendar days preceding the due date for any payment of any Periodic Distribution Amount or the Dissolution Distribution Amount in respect of the Certificates.

Record dates will be determined in accordance with the standard practices of Euroclear and Clearstream, Luxembourg.

6. TRANSFERS

Transfers of book-entry interests in the Certificates will be effected through the records of Euroclear or Clearstream, Luxembourg and their respective direct and indirect participants in accordance with their respective rules and procedures.

7. EXCHANGE FOR DEFINITIVE CERTIFICATES

Interests in the Global Certificate will be exchanged for Certificates in definitive form upon the occurrence of an Exchange Event.

For these purposes, **Exchange Event** means that (a) the Delegate has given notice in accordance with Condition 12 that a Dissolution Event has occurred and is continuing or (b) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor or alternative clearing system satisfactory to the Delegate is available. Upon the occurrence of an Exchange Event, the Issuer will issue definitive Certificates in exchange for the whole of the Global Certificate within 30 days of the occurrence of the relevant Exchange Event upon presentation of the Global Certificate by the person in whose name it is registered in the Register on any day (other than a Saturday or Sunday) on which banks are open for business in the city in which the Registrar has its specified office.

USE OF PROCEEDS

The Issue Proceeds will be paid by the Issuer on the Issue Date as follows:

(a) the Wakala Percentage will be used to purchase from QIIB, by way of sale and transfer, all of the rights, title, interests and benefits and entitlements that QIIB has in the Wakala Assets specified in the schedule to the Purchase Agreement; and

(b) the Mudaraba Percentage will be deposited with the Mudarib, such amount constituting the Mudaraba Capital of the Rabb-al-Maal in the Mudaraba (which will be invested in the initial Mudaraba Portfolio pursuant to the Restricted Mudaraba Agreement and the Mudaraba Investment Plan).

DESCRIPTION OF THE ISSUER

Introduction

The Issuer was incorporated in the Cayman Islands on 19 October 2011 as an exempted company with limited liability under the Companies Law (as amended) under the name QIIB Sukuk Funding Limited with company registration number 263560 and its registered office address is c/o the offices of Intertrust SPV (Cayman) Limited, 87 Mary Street, George Town, Grand Cayman, KY1-9002, Cayman Islands, telephone number +1345 943 3100.

Business of the Issuer

The Issuer's entire issued share capital is held by Intertrust SPV (Cayman) Limited of 87 Mary Street, George Town, Grand Cayman, KY1-9002, Cayman Islands under the terms of a charitable purpose trust dated 24 October 2011 under which Intertrust SPV (Cayman) Limited holds all of the issued shares of the Issuer in trust until the Termination Date as defined in the charitable purpose trust.

Prior to the Termination Date (as defined in the charitable purpose trust), the trust is an accumulation trust but Intertrust SPV (Cayman) Limited (as trustee of the shares in the Issuer) has the power to benefit the Certificateholders or a Qualified Charity (as defined in the charitable purpose trust). It is not anticipated that any distribution will be made whilst any Certificate is outstanding. Following the Termination Date (as defined in the charitable purpose trust) Intertrust SPV (Cayman) Limited (as trustee of the shares in the Issuer) will wind up the trust and make a final distribution to charity. Intertrust SPV (Cayman) Limited (as trustee of the shares in the Issuer) has no beneficial interest in and derives no benefit (other than its fee for acting as trustee of the shares in the Issuer) from its holding of the shares in the Issuer.

The primary purpose of the Issuer is to issue the Certificates and enter into the transactions contemplated by the Transaction Documents. The Issuer received a one-off transaction fee of U.S.$250 for its role in the transaction but does not receive any fees for the provision of trustee services in its capacity as Trustee in respect of the Declaration of Trust.

Share Capital of the Issuer

The Issuer has no subsidiaries. The Issuer is authorised to issue up to 50,000 shares of U.S.$1.00 par value.

As at the date of this Prospectus, the Issuer had issued 250 shares at an agreed price of U.S.$1.00 each.

Corporate Administration

Intertrust SPV (Cayman) Limited of 87 Mary Street, George Town, Grand Cayman, KY1-9002, Cayman Islands will act, or procure that a subsidiary acts, as the corporate administrator of the Issuer (the **Corporate Administrator**) pursuant to the terms of the Corporate Services Agreement entered into between the Issuer, the Corporate Administrator and QIIB. In consideration of the foregoing, the Corporate Administrator will be entitled to receive various fees payable by the Issuer at rates agreed upon from time to time, plus expenses.

The Corporate Administrator will be subject to the overview of the Issuer's Board of Directors. The Corporate Services Agreement may be terminated by either the Issuer or the Corporate Administrator giving the other party at least one month's written notice.

The Directors of the Issuer are all employees of the Corporate Administrator. The Issuer has no employees (save as disclosed under "Directors" below) and is not expected to have any employees in the future.

Financial Statements

As at the date of this Prospectus the Issuer has not prepared any financial statements.

Management and Employees

The Issuer has no employees other than those directors listed below in the section entitled "Directors".

Directors

The directors of the Issuer and their other principal activities at the date hereof are as follows:

Name	Other principal activities
Rachael Rankin	Senior Vice President, Intertrust SPV (Cayman) Limited
Otelia Scott	Assistant Vice President, Intertrust SPV (Cayman) Limited

The business address of the directors is 87 Mary Street, George Town, Grand Cayman, KY1-9002, Cayman Islands.

Directors' Interests

No director listed above has any interest in the promotion of, or any property acquired or proposed to be acquired by, the Issuer and no director has any conflict of interest and/or any potential conflict of interest between any of its duties to the Issuer and its private interests and/or other duties. As a matter of Cayman Islands law, each director is under a duty to act honestly and in good faith with a view to the best interests of the Issuer, regardless of any other directorships he may hold.

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

OVERVIEW

Qatar International Islamic Bank (Q.S.C.) (**QIIB** or the **Bank**) was incorporated in 1990 by an Amiri Decree (No. 52 of 1990) with commercial registration number 13023 and began operations on 1 January 1991 as the second full service Islamic bank in Qatar. QIIB's registered office is Grand Hamad Street, Doha, Qatar and its telephone number is +974 4438 5555. It operates through its head office located on Grand Hamad Street and through 15 branches in Qatar. QIIB is listed and its shares are traded on the Qatar Exchange (the **QE**).

As at 30 June 2012, QIIB was the third largest listed Islamic bank in Qatar by total assets, representing approximately 3.2 per cent. of total assets of all commercial banks in Qatar. QIIB also accounted for approximately 13.5 per cent. of Qatar's Islamic banks' assets as at 30 June 2012 (*Source: Qatar Statistical Bulletin, Final Draft June 2012 published by the Qatar Central Bank*).

As at 30 June 2012, QIIB had total assets of QR 23.7 billion, the third largest market capitalisation on the QE of all listed Islamic banks in Qatar and the sixth largest market capitalisation of all banks on the QE, with a market capitalisation of QR 7.3 billion.

QIIB's shareholders include founding member Sheikh Thani Bin Abdullah Al-Thani and his family (being extended family members of the Qatar ruling family). Their business group currently holds 23 per cent. of QIIB's shares. In addition to being shareholders, members of the Sheikh Thani family are also members of the Board of Directors of QIIB (the **Board**). Another significant shareholder is the Qatar Investment Authority (**QIA**), which currently holds 17 per cent. of the Bank's shares as a consequence of the Government initiative, announced in late 2008, to support Qatari banks in the face of the global financial crisis (see "*Description of Qatar International Islamic Band (Q.S.C.) – Competition and Competitive Strengths – Strong Governmental Support of the Qatari Banking Sector*" below for further details).

Over the last three and a half years, QIIB has experienced significant growth of its assets, deposits and net operating income. QIIB's total assets were QR 23.7 billion, QR 23.4 billion, QR 18.2 billion and QR 15.5 billion for the six month period ended 30 June 2012 and for the years ended 31 December 2011, 31 December 2010 and 31 December 2009, respectively. Amounts held by QIIB in unrestricted investment accounts were QR 13.9 billion, QR 14.1 billion, QR 11.2 billion and QR 9.1 billion for the years ended 31 December 2011, 31 December 2010 and 31 December 2009, respectively. QIIB's net operating income was QR 1,133.9 million, QR 1,085.4 million and QR 957.9 million for the years ended 31 December 2011, 31 December 2010 and 31 December 2009, respectively. For the six month period ended 30 June 2012, QIIB's net operating income was QR 581.9 million and for the six month period ended 30 June 2011, QIIB's net operating income was QR 566.2 million.

QIIB initially commenced operations principally as a retail bank, with its corporate financing activities initially developed through the activities of its retail customer base as a result of the growth and development of Qatar's economy. Since then, QIIB has significantly expanded its corporate banking activities, particularly in the real estate sector, by taking advantage of opportunities for growth, such as the Asian Games which were hosted in Doha in 2006. Reflecting its retail-based roots, QIIB's operations were historically organised into two main activities: (i) financing activities; and (ii) investing activities.

With the expansion of its corporate banking activities and the growth of its business generally, the Bank reorganised its operating units in 2011 into four main business segments:

- Retail Financing;
- Commercial (Small-to-Medium Enterprise (**SME**)) Financing;
- Corporate Financing; and
- Investment and Treasury, including QIIB's International and Correspondent Banking functions.

The Retail Financing, Commercial (SME) Financing and Corporate Financing segments focus on financing activities whilst the Investment and Treasury segment focuses on investing activities, as well as managing and providing liquidity in support of QIIB's business activities. These segments are now fully operational for financial reporting purposes and QIIB has recently finalised the related review of its human capital resources across the business segments (see "*Business Activities – Overview*").

At the date of this Prospectus, QIIB has the second largest Islamic banking network in Qatar with a total of 15 branches and 70 automatic teller machines (**ATMs**) throughout Qatar. QCB approval was recently received for the opening of its sixteenth branch located in Barwa City, a newly developed shopping and residential district in the outer suburban area of Doha.

QIIB's successes have been internationally recognised, with the Bank receiving Deutsche Bank's Best Straight Through Processing Bank in Qatar Award (April 2011), Commerzbank AG's Excellence in Straight Through Processing Award (December 2010) and Wachovia Bank's Best Straight Through Processing Bank in Qatar Award (2009, 2008, 2007, 2006 and 2005).

QIIB continues to build on its success by pursuing organic growth through its established businesses and strategic partnerships in the MENA region and surrounding regions. With continued strong growth in the Qatar economy, the Bank is focused on tapping into the accompanying infrastructure development and wealth generation which is expected to accompany this economic growth by expanding its Corporate Financing segment and developing an affluent banking business line within its Retail Financing segment, moving away from its primarily real estate-based financing portfolio in both the Retail Financing and Corporate Financing segments. To diversify its revenue sources further, QIIB is working to establish itself in surrounding regions through strategic acquisitions, either directly or in partnership with other Islamic businesses (see "*–Strategy – Maintaining a highly visible and expanding presence in the local Qatari and regional markets through organic and expansion growth – Regional and international markets*").

QIIB complies with the QCB requirement to maintain a total capital adequacy ratio in excess of 10 per cent. The Bank's total capital adequacy ratio (calculated in accordance with the QCB's guidelines) was 19.8 per cent. as at 31 December 2009, 24.0 per cent. as at 31 December 2010, 24.8 per cent. as at 31 December 2011 and 22.4 per cent. as at 30 June 2012. QIIB's Tier 1 capital was QR 2,491.4 million as at 31 December 2009, QR 3,002.3 million as at 31 December 2010, QR 3,922.8 million as at 31 December 2011 and QR 3,906.1 million as at 30 June 2012. QIIB's Tier 1 capital adequacy ratio was 19.8 per cent. as at 31 December 2009, 23.2 per cent. as at 31 December 2010, 23.8 per cent. as at 31 December 2011 and 22.0 per cent. as at 30 June 2012.

QIIB's Sharia Supervisory Committee (**SSC**) ensures the Bank's compliance with Sharia principles and is responsible for vetting the products and services offered by QIIB to its customers.

QIIB has long-term issuer ratings of A- by Fitch Ratings Ltd (**Fitch**) and A3 by Moody's Investors Service Ltd., DIFC Branch (**Moody's**), both with stable outlooks. Each of Fitch and Moody's Investors Service Ltd. is established in the European Union and is registered under Regulation (EC) No. 1060/2009.

HISTORY

QIIB was incorporated in 1990 as a joint stock company to provide banking services, investment and financing activities through various Sharia compliant modes of financing such as *Murabaha, Ijara, Mudaraba, Musharaka, Musawama* and *Istisna* agreements. The Bank also carries out investment activities on its own account and on behalf of its customers. QIIB's activities are conducted in accordance with Islamic Sharia principles as determined by the SSC and in accordance with the provisions of its Memorandum and Articles of Association and regulations of the QCB. QIIB holds a full Islamic banking licence issued and regulated by the QCB.

On 1 January 1991, the Bank began operations with an authorised capital of QR 100.0 million and paid-up capital of QR 50.0 million. QIIB's initial primary focus was to provide retail financing. Through its retail customers engaging in business activities, the Bank developed its corporate financing business.

On 26 May, 1997, QIIB's shares began trading on the QE.

In January 2000, in light of its growth and in anticipation of the Bank's move to its new headquarters at Grand Hamad Street, the Board launched a re-organisation plan to improve the Bank's longer-term development and performance. The re-organisation was implemented with the intention of improving customer satisfaction, increasing operational efficiency through automation and improving working conditions for QIIB's employees.

In December 2001, the Bank moved to its current headquarters in Grand Hamad Street. During the same year, QIIB doubled its paid up capital to QR 100.0 million, doing so through progressive share dividend issues (bonus share issues).

In May 2003, QIIB's risk management department (the **Risk Management Department**) was established as the culmination of the development of a risk management function arising from the re-organisation plan launched in January 2000. The Risk Management Department greatly enhanced QIIB's risk management capabilities. This was demonstrated in October 2003, when QIIB was appointed as a joint lead manager (along with HSBC) for the issuance of U.S.$ 700.0 million sukuk by Qatar Global Sukuk QSC, on behalf of the Government. QIIB was responsible for the completion of the legal and financial due diligence for this transaction.

In 2008, the Bank's paid-up capital exceeded QR 1.0 billion, reaching a total paid-up capital of QR 1.3 billion. The Bank's paid-up capital had been built up through continued share dividend issues (bonus share issues). This reflected the commitment of the Bank's shareholders, which was demonstrated by the re-investment of earnings into the Bank as capital.

In November 2009, the Bank signed a contract for the construction of its new office tower in Al Dafna, which is expected to be completed in January 2013.

In 2011, QIIB undertook a review and update of its strategy, refining its organisation into four major business segments (see "*Description of Qatar International Islamic Bank (Q.S.C.) – Business Activities*"). This update was completed and the re-organisation came into effect in April 2011. QIIB also undertook its debut ratings exercise with Fitch and Moody's ratings agencies, being assigned long-term ratings of A- and A3, stable outlook, respectively (and these ratings were affirmed in June 2012).

Further to the implementation of QIIB's business segment update in 2011, in 2012 the Bank commenced a review of its human capital resources into order to align staffing needs with the revised business segmentation. QIIB has now implemented a new organisational structure (see "*Business Activities – Overview*")*,* including the rationalisation of business functions and the employment of new staff.

ASSOCIATES AND OTHER INVESTMENTS

The following table outlines QIIB's investments in associates as at 30 June 2012:

	Activity	**Country of incorporation**	**Percentage of holding**	**Total investment amount**
				(QR'000)
Syria International Islamic Bank	Banking	Syria	20%	98,207
Syria Islamic Insurance Company	Insurance	Syria	20%	12,485
Al Tashelat Islamic Company W.L.L.	Financing	Qatar	49%	49,303
Mackeen Investment and Real Estate Development Q.C.S.C.	Real Estate	Qatar	49%	215,933
Al Moqawil Company W.L.L.	Contracting	Qatar	49%	1,470

Syria International Islamic Bank (**SIIB**) is an Islamic bank licensed and operating in Syria. The net book value of the Bank's investment in SIIB was QR 107.5 million as at 31 December 2011 and QR 98.2 million as at 30 June 2012.

SIIB's latest available financial figures are for the period ended 31 December 2011. For the financial year ended 31 December 2011, SIIB's total assets amounted to Syrian pounds 63.321 billion (approximately QR 4.7 billion and U.S.$1.3 billion). For the financial year ended 31 December 2011, QIIB's annual net profit from SIIB's operations amounted to QR 10.6 million.

On 30 May 2012, United States Department of Treasury sanctions were imposed on SIIB by reason of SIIB's dealings with the Syrian Lebanese Commercial Bank on behalf of the Commercial Bank of Syria (which are also subject to United States sanctions). Upon imposition of these sanctions on 31 May 2012, two members of QIIB's senior management who held non-executive positions on SIIB's board of directors resigned from SIIB's board of directors.

As at the date of this Prospectus, QIIB continues to hold its 20 per cent. shareholding in SIIB and continues to monitor this shareholding. QIIB is not currently actively involved in, or capable of influencing, the management and operations of SIIB which are separate from those of QIIB. QIIB is in regular contact with the QCB regarding its holding in SIIB.

Syria Islamic Insurance Company is an Islamic insurance company operating in Syria. Al Tashelat Islamic Company W.L.L. provides Islamic financing services to retail customers for the purchase of consumer goods. Al Moqawil Company W.L.L. provides contracting services to corporate customers in support of real estate and other construction projects.

Mackeen Investment and Real Estate Development Q.C.S.C. manages the development of real estate and develop properties for corporate customers for rental and leasing.

In addition to the above investments in associates, QIIB is an investor in the Islamic Bank of Britain plc (**IBB**). IBB was delisted from London's AIM Exchange on 27 April 2011. QIIB has initiated a United Kingdom scheme of arrangement in order to acquire the remaining shares in IBB. This acquisition is expected to be completed by the end of October 2012. QIIB's investment in IBB is currently under consideration for divestment to interested third parties. Such divestment would be subject to the satisfactory conclusion of commercial discussions and obtaining all relevant regulatory approvals.

STRATEGY

QIIB's mission

QIIB's overall mission is to be a leading Islamic bank in Qatar and the wider GCC region, adhering to Sharia and ethical principles whilst meeting international banking standards.

QIIB expects to achieve this mission by adopting the following strategic themes, which were adopted following the re-organisation of QIIB's business into four operating segments in 2011 (see "*Description of Qatar International Islamic Bank Q.S.C. – Business Activities*"*)*:

Providing the best value for Islamic banking products and services

By providing the best value for Islamic banking products and services, QIIB aims to attract customers from both its natural markets (the Qatari and Islamic population) and targeted markets (the non-Qatari Arab, non-Arab speaking population and non-Qatari, non-Muslim population segments) within Qatar, the wider GCC region and internationally. Its strength in gathering and maintaining low-cost deposits results in the Bank providing competitively priced products and services to differentiate itself from its competitors.

QIIB's pricing capabilities are proving to be an advantage following the winding down of the "Islamic windows" of conventional banks in Qatar at the end of 2011. QIIB's competitive pricing capabilities provide QIIB with the market strength to attract additional customers (see "*Description of Qatar International Islamic Bank (Q.S.C.) – Competition and Competitive Strengths – closing of the* "*Islamic windows*"). QIIB reviewed the Islamic windows which were available for sale in 2011 but opted instead to pursue its internal re-organisation, marketing and sales incentive strategies in order to attract the customers that are expected to become available from the closure of the "Islamic windows".

Whilst competitive pressures remain in the Qatari banking market, the closure of the "Islamic windows" by conventional banks in Qatar reduces the competitive strength of the conventional banks. This presents an opportunity for QIIB to accelerate its domestic organic growth strategy by acquiring customers from these operations in order to expand its market share in Qatar.

Providing superior customer service and relationship management

Supporting its product pricing approach, QIIB is updating its customer service capabilities to develop a superior customer service experience for customers. It has recently introduced an incentive reward structure to incentivise QIIB staff to provide improved, superior customer service. As part of this update, the Bank is upgrading its call centre functionality to provide enhanced inbound and outbound service channels. This upgrade is expected to be completed by the end of October 2012. QIIB is also developing an affluent banking business line within the Retail Financing segment.

Simultaneously, the Bank is also enhancing its corporate relationship management capabilities through the expansion of its relationship management team and the planned introduction of corporate E-Banking facilities. E-Banking facilities, which are currently available to QIIB's retail customers, will be made available to corporate customers. Such facilities will include the provision of account enquiries, statement requests, cheque issuances, local and overseas money transfer facilities, utility payments, foreign exchange transactions, deposit transactions and financing enquiries to corporate customers. The Board has approved an investment of over QR 1.0 million for the establishment of E-Banking infrastructure and systems for QIIB's corporate customers.

Through these actions, the Bank aims to cement its existing customer relationships, whilst enhancing its capabilities to obtain new customer relationships that are being obtained through its competitive pricing strategy.

Maintaining a highly visible and expanding presence in the local Qatari and regional markets through organic and expansion growth

QIIB aims to maintain a highly visible local presence and to leverage off that presence to expand both in the local, the GCC and wider international regional markets. Recent developments in the local and regional environments have provided opportunities for both organic and expansion growth for the Bank.

Qatari market

Qatar has benefitted from the strength of hydrocarbon prices in recent years. In July 2008, the ruling family and the Government implemented Qatar's National Vision 2030 (the **National Vision**). The National Vision is based around four pillars:

- Human development: the development of Qatari people to sustain a prosperous society;
- Social development: the development of a just and caring society based on high moral standards;
- Economic development: the development of a competitive and diversified economy capable of meeting the needs of and securing high standards of living for, the Qatari nation and future generations; and
- Environmental development: the management of the environment to ensure harmony between economic growth, social development and environmental protection.

QIIB believes that the need for financial products and services to support the development of the National Vision has arisen and will continue to arise. For example, infrastructure and sporting facility development opportunities will arise as Qatar prepares for the FIFA World Cup in 2022.

Further, the Government has introduced measures which support the SME sector through the Al-Dhameen programme, which is managed by the Qatar Development Bank (**QDB**) in partnership with all local banks that elect to participate in the programme. The Al-Dhameen programme provides financing for SMEs which are normally limited in their ability to obtain traditional financing from banks by guaranteeing certain financings granted to SMEs by partner banks. QIIB became a member of the Al-Dhameen programme in March 2011, integrating this programme into the Bank's Commercial (SME) Financing product and service offerings.

Regional and international markets

Social and economic developments within the region provide opportunities for QIIB to leverage off the growth expected in the Qatari market in order to establish its presence in selected markets across the wider MENA region.

In the wider MENA region, recent political and economic events are bringing about significant changes to the affected countries. QIIB believes that these changes present opportunities to develop Islamic banking activities within certain jurisdictions. Countries such as Egypt and Tunisia, having undergone a significant change in the manner of governance, are working towards the re-construction of their governments and economies and will require financing support to do so. With predominantly Muslim populations in both countries, the situation presents opportunities for Islamic banks such as QIIB to enter these markets.

Internationally, the growth of Islamic financing is expected to increase. QIIB believes that the South-East Asian region is fast establishing itself as an Islamic financial centre with its natural Islamic population bases, and therefore presents opportunities for Islamic banks. Qatar, through the QCB, is a member of the Islamic Financial Services Board which promulgates international standards on Islamic financing activities. See "*Description of Qatar International Islamic Bank Q.S.C. – Strategy – Investment and Treasury*".

QIIB plans to establish and develop its presence in regional and international markets by seeking strategic alliances and/or partnerships within targeted markets (either directly or through equity investments). QIIB has already developed some regional opportunities by investing in and establishing associations (see "*Description of Qatar International Islamic Bank (Q.S.C.) – Associates*"). For example, the Bank has established the Pak-Qatar Family Takaful and Pak-Qatar General Takaful companies, which are Islamic compliant insurance companies operating in Pakistan. The Bank has made equity investments in these companies of approximately 10 per cent. and 8 per cent. respectively of these entities' overall shareholdings.

Being a recognised social and community development contributor

Pursuant to QIIB's adherence to Sharia principles, QIIB contributes to social schemes within the communities in which it operates or intends to operate.

QIIB is developing a community-focused programme to engage with the local communities to support development through sponsorship and other social activities. The Bank also continues to support Government initiatives, for example, Qatarisation (see "*Description of Qatar International Islamic Bank (Q.S.C.) – Strategy – Management and Employees – Qatarisation*") and development of the SME market (see "*Description of Qatar International Islamic Bank (Q.S.C.) – Strategy – Maintaining a highly visible and expanding presence in the local Qatari and regional markets through organic and expansion growth*").

Focusing on improving productivity through automation and staff development

The pursuit of best value pricing and a superior customer service experience necessitates greater productivity and efficiency from QIIB’s operational processes. QIIB has undertaken a review of its information technology (**IT**) capabilities and the requirements imposed by the pursuit of the Bank's strategic goals. How QIIB develops and integrates its IT capabilities in line with its strategic themes and goals, as opposed to simply having "standard banking industry" IT capabilities is a key differentiating factor of QIIB, compared to its competitors. For example, the Bank's straight-through processing (**STP**) capabilities have been internationally recognised by winning a number of STP-related excellence awards (see "*Description of Qatar International Islamic Bank Q.S.C. Overview*" above).

QIIB recently upgraded its core IT systems to the latest available platform and continues to build in additional enhancements to improve the Bank's data capture capabilities. These upgrades and enhancements will significantly improve QIIB's ability to track costs and develop accurate pricing models for the benefit of their customers.

QIIB is reviewing its customer relationship management IT systems to support the development of its customer service experience and affluent banking services (see "*Strategy – Business Segment Strategies – Retail Financing Strategy*" and "*Information Technology*" below).

As processes automate, staff capabilities will be enhanced to work around the new automation. IT automation will allow the re-allocation of resources, with additional staff training required. QIIB is focused on developing staff to meet the strategic requirements of the Bank. Further to the refinement of QIIB's operating segments into its four business segments, the Bank has recently updated its organisation structure to better align its resources with the Bank's strategies (see "*Business Activities – Overview*").

Business Segment Strategies

As mentioned in the "*Description of Qatar International Islamic Bank Q.S.C. – History*" section above, QIIB updated its strategy in early 2011 and refined its business organisation into four business segments. The segmentation into discrete business units serves to enhance the Bank's market focus to better connect with its existing and intended customers.

Retail Financing Strategy

QIIB aims to take advantage of retail financing growth opportunities by:

- developing a superior retail customer service and banking experience. As an initial step, the Bank is in the process of upgrading its call centre system in order to enhance call centre services to its customers;
- developing a "one-stop shop" banking experience providing a full suite of retail products and services from each QIIB officer at all locations. The "one-stop shop" concept is intended to provide QIIB's existing and potential customers from the Retail Financing, Commercial (SME) Financing and Corporate Financing segments with full access to the Bank's services at each branch location and via each service distribution channel. Branch staff have been undertaking training on the provision of QIIB's relevant products and services;
- expanding its distribution capabilities by opening additional branches and ATMs. QCB approval for the opening of QIIB's sixteenth branch was recently received. The Bank also currently intends to open a further 10 additional branches in major shopping malls in Qatar. Up to four of these new branches are expected to be opened within the next 12 months. The Bank's ATM network was increased by seven in 2011, bringing the total number of ATMs in service in QIIB's network to 70;
- enhancing existing E-Banking channel capabilities. QIIB is undertaking a strategic review of its IT capabilities with the intention of re-organising its IT division and systems for greater efficiency and capabilities; and
- defining and identifying market segments (such as the affluent retail banking sector) to develop segment-specific products and services with competitive pricing and targeted marketing. With the affluent banking business line currently being developed, QIIB has identified a market segment between mass market retail and high net worth individuals where the segment's growing affluence is providing certain customers with the ability to differentiate themselves from the mass market retail. The Bank is establishing a fully dedicated marketing and business development team to support QIIB's Retail Financing segment targeting and has already hired specific experienced personnel to focus on business development and support the development of this new segment. Affluent banking segment products and services are expected to be available from the first quarter of 2013.

Commercial (SME) Financing Strategy

QIIB aims to grow the Commercial (SME) Financing unit by increasing its asset (credit financing) portfolio and customer deposit liabilities by at least 20 per cent. over five years from the implementation of the strategy (in April 2011) by:

- extending the customer service capabilities developed within the Retail Financing segment to cater for Commercial (SME) Financing clients. QIIB plans to include Commercial (SME) Financing products and services in the "one-stop shop" concept banking experience being developed through the Retail Financing channels. This is particularly useful for Commercial (SME) Financing customers, as it allows individuals to perform both private individual and Commercial (SME) Financing business transactions at the same location, thereby avoiding multiple relationship managers for different products and services;

- expanding and improving relationship management capabilities through hiring and training. This is a key aspect of the Commercial (SME) Financing strategy given the relative infancy of the SME market in Qatar and therefore, the importance developing key relationships at this early stage; and

- defining and identifying market segments within the Commercial (SME) Financing sector to develop SME-specific products and services with competitive pricing and targeted marketing. For example, financing products for low-to-medium value fixed asset purchases by Commercial (SME) Financing clients based on cash flow frequency and maintenance of current accounts at a certain threshold average balance with QIIB would be feasible within certain Commercial (SME) Financing segments that have regular and/or high cash flows, but not for other segments which have irregular cash flows.

The ability to define and target the Commercial (SME) Financing market segment is key in the development of strong and close business relationships within this segment.

Corporate Financing Strategy

QIIB aims to take advantage of the potential corporate financing opportunities that will arise from the Government's infrastructure development plans by:

- extending customer service capabilities, including the "one-stop shop" concept being developed by the Retail Financing and Commercial (SME) Financing units, to cater for Corporate Financing clientele. Due to the specialised nature of corporate banking, branches will still refer to the corporate relationship management team. However, as part of a total-service concept, the corporate customers will be able to commence at least the initial interaction with the Bank at a single "shop" to enhance the banking experience. QIIB is also working to introduce additional E-Banking capabilities for its corporate customers;

- expanding the relationship management team. The nature of corporate banking in the Middle East is highly relationship sensitive. As part of the Bank-wide segment re-organisation, QIIB has undertaken a re-organisation of the Corporate Financing unit to further focus resources on improving relationship management capabilities. For internal purposes, the Corporate Financing unit has been further split into type A (Government & Government-related entities) and type B (Private Corporate entities) corporate segments. This division is not relevant for financial reporting purposes and is only applicable to QIIB's internal processes. The relationship managers focus on specific corporate entity segments (see "*Description of Qatar International Islamic Bank Q.S.C. Business Activities – Corporate Financing Unit*" below); and

- maximising opportunities arising from economic developments and growth in Qatar by targeting Government and Government-related financial transactions. QIIB will place a particular emphasis on projects in oil and gas, utilities and telecom, aviation, health, education and rail sectors and continue to move away from pure real estate financing. QIIB intends to identify potential customers and business opportunities in the type A and type B corporate segments and to provide close relationship support and refined risk-based pricing for products. The risk-based pricing offerings to Corporate clients will be both customer and sector specific.

Investment and Treasury Strategy

QIIB aims to expand its regional and international presence by taking advantage of the opportunities developing in these markets by:

- diversifying the Bank's investment portfolio by identifying alternative international investments and, where possible, participating as a "cornerstone" investor (being an investor who provides seed capital and/or holds the majority of an investment);
- developing investment products and opportunities for QIIB's own investment book as well as the Bank's clients. Such products and opportunities include investment funds, as well as direct investments in equities, sector or investment-strategy specific funds and other alternative investments;
- expanding QIIB's international banking network and developing the Bank's trade financing business. With increases in the volumes of cross-border trading with Qatar in recent years, QIIB intends to utilise the greater trade flows in Qatar to provide trade finance services to both new and existing customers;
- diversifying the Bank's operating markets by identifying regional and international markets in which to establish QIIB's presence. In this regard, the Bank continues to develop certain existing investments in Syria (subject to the development of the current sanctions situation) and Pakistan and is evaluating a number of regional and international locations to establish a presence, either on its own or in partnership with another entity. Markets being evaluated are, amongst others, South-East Asia (in particular, Singapore, Malaysia and Indonesia) and Morocco.

South-East Asia

QIIB intends to establish a regional presence in South-East Asia. Initially, QIIB plans to establish a representative office in a South-East Asian country. This representative office will support the development of the Bank's trade finance services. Depending on suitable business opportunities arising, QIIB then intends to establish a permanent unit such as an off-shore branch in order to create a permanent presence in South-East Asia.

Morocco

QIIB has held preliminary talks with the Moroccan Prime Minister and other government officials in order to explore the possibility of QIIB supporting the establishment of Islamic banking and insurance companies in Morocco.

COMPETITION AND COMPETITIVE STRENGTHS

Competition

QIIB is subject to competition in Qatar from both locally incorporated and foreign banks. The following factors highlight some of the competitive challenges faced by QIIB:

Increased competition from Qatar local and international banks

According to the QCB, as at 30 June 2012, there were a total of 18 banks licensed by the QCB, consisting of six domestic conventional banks, one state owned development bank, four Islamic banks and seven foreign banks (*Source: Qatar Central Bank List of Registered Banks, 30 September 2011*). As at 30 June 2012, Qatar National Bank was the largest bank in Qatar and accounted for approximately 45 per cent. of the market share in terms of total assets. Within the Islamic banking sector, as at 30 September 2011, QIIB had a market share of approximately 16 per cent. with respect to total assets of QE-listed Islamic banks and its main competitors include Qatar Islamic Bank (**QIB**) (which accounted for an estimated 43 per cent. of the total assets of listed Islamic banks) and Masraf Al Rayan (**Masraf**) (with an estimated 41 per cent. of total assets of listed Islamic banks). In October 2009, Barwa Bank (P.S.C.) (**Barwa Bank**), the newest entrant to the Islamic banking sector in Qatar, initiated operations with a "soft" launch. The increased competition in the Islamic banking sector was alleviated by the announcement of the QCB in February 2011 of the closure of "Islamic windows" of the conventional banks by the end of 2011. The announcement accelerated competition amongst the Islamic banks during 2011 to acquire the "Islamic windows" of the conventional banks. In August 2011, Barwa Bank announced the acquisition of the Islamic banking retail operations of the International Bank of Qatar (**IBQ**), whilst in December 2011, QIB announced its acquisition of IBQ's Islamic corporate portfolio. Barwa Bank continues to work towards a listing on the QE.

Although locally incorporated banks generally have stronger relationships with locally incorporated customers, foreign banks may have greater resources and access to cheaper funding than locally incorporated banks. Foreign banks may also be able to leverage their international expertise and therefore may prove more attractive to key domestic companies and governmental bodies as well as foreign companies operating in Qatar. To this extent, QIIB may be at a competitive disadvantage.

*Increasing competition from entities established in the Qatar Financial Centre (**QFC**)*

The QFC has attracted new banks and financial institutions given its low-tax environment, 100 per cent. foreign ownership and profit repatriation. The QFC is targeting international institutions which have expertise in banking, insurance, asset management, financial advisory services and securities and derivatives dealing, as well as Islamic finance. Current licensees of the QFC include investment banks and multinational banks. Institutions registered with the QFC undertake activities which are categorised as: (i) "regulated activities" (essentially financial services); or (ii) "non-regulated" activities (essentially activities in support of financial services). QFC registered banks are subject to restrictions on the local banking activities they are permitted to undertake as a result, they cannot conduct transactions with retail customers in Qatar.

Competitive Strengths

Notwithstanding the competition faced by QIIB as discussed above, the Bank believes that it has a number of principal strengths which may offer it a competitive advantage, including the following:

Strong brand in Islamic banking

As at 30 June 2012, QIIB was the third largest listed Islamic bank operating in Qatar by total assets (*Source: QIIB's published results and Qatar Statistical Bulletin, Final Draft June 2012, published by Qatar Central Bank*). With the guidance of QIIB's SSC, the Bank maintains strict compliance with Sharia principles in all its financial transactions. QIIB's SSC is composed of scholars who are globally renowned in the field of commercial and financial Islamic transactions (see "*Description of Qatar International Islamic Bank Q.S.C. Management and Employees – Sharia Supervisory Committee*"). QIIB has consistently maintained continued profitable growth since its inception, notwithstanding the recent global financial crisis, due to its strong brand, careful risk management and a focus on asset quality. This is evidenced by its continued annual net profit growth in recent years:

	Year ended 31 December				
	2007	**2008**	**2009**	**2010**	**2011**
	(QR millions)	*(QR millions)*	*(QR millions)*	*(QR millions)*	*(QR millions)*
Net Profit (due to shareholders)	480.0	501.2	511.3	558.8	653.0

The Bank's continued involvement in local community social and sporting events helps to maintain its strong brand. For example, QIIB was the main sponsor for local football club, Al Gharafa, from 2008 to 2010, with Al Gharafa achieving championship success in the local league in 2010. The Bank has recently entered into an agreement with Qatar Charity to provide a donation collection service to enable customers to donate sums to Qatar Charity via the Bank's online system and branches. The service is expected to be launched in the fourth quarter of 2012.

Strong Governmental support of the Qatari banking sector

Over the past three years, the Government, through the QCB, has taken several steps to provide capital to support its domestic commercial banking sector and thereby ensure the general financial health of the country's banks (see "*Description of Qatar International Islamic Bank Q.S.C. Banking and Industry Regulation – Qatar – Qatari Banking Sector*"). In November 2008, the Bank's shareholders approved the issuance of 25,228,120 additional shares to the Government (represented by the QIA), at a price of QR 73.5 per share. This represented 20 per cent. of the total shares issued by the Bank as at that date. In January 2009, the QIA subscribed for these shares. QIIB received consideration from QIA in advance of each of the three tranches of settlement. This capitalisation process has enhanced QIIB's financial position and affirmed its ability to meet its goals and strategic plans.

Although the QIA has previously waived its right to dividend payments with respect to its first tranche of capital participation, there is no guarantee that it would do so in the future.

In line with its support policy for the banking sector in Qatar, in March 2009, the Government proposed to purchase the domestic equity portfolios of seven of the nine domestic banking listed on the QE. QIIB sold the significant majority of its portfolio of Qatar equity securities to the Government for QR 261.7 million.

In June 2009, the Government further increased its support by proposing to purchase loans, advances, real estate investments and other exposures of Qatari commercial banks listed on the QE. QIIB participated in this programme by selling QR 347.9 million of real estate-based financing assets to the Government, further strengthening its balance sheet.

These Government actions have served to further strengthen the Bank's already strong capital base. With its 30 June 2012 capital adequacy ratio of 22.4 per cent. (with Tier 1 ratio at 22.0 per cent.), QIIB is well positioned to take advantage of its planned strategies for growth.

Closing of the "Islamic windows"

In February 2011, the QCB issued directives to licensed conventional banks requiring them to close their Islamic banking operations by 31 December 2011. Reasons given by the QCB for this decision included the difficulties experienced in regulating "Islamic windows" of conventional banks and managing monetary policy for such Islamic windows, independently of their conventional bank businesses (see "*Description of Qatar International Islamic Bank Q.S.C. Banking Industry and Regulation*" for further details). Some conventional banks have sought to sell off their Islamic assets where they are unable to convert them to conventional banking-based assets in order to help them achieve a better return than winding down the business over a period of time. The QCB also stated that conventional banks may consider selling their Islamic banking operations to Islamic banks in Qatar. In August 2011, IBQ announced the sale of its Al Yusr Islamic banking retail operations to Barwa Bank, followed by an announcement of the sale of its Al Yusr Islamic banking corporate operations to QIB in December 2011. Other conventional banks have opted to retain their Islamic banking operations and to run down their existing Islamic portfolios to their final maturities.

Strong domestic growth track record

Since its incorporation, QIIB's domestic branch network and related banking and investment services have significantly expanded, both in terms of geographical coverage and range of services. For example, over the last three years, QIIB has increased its domestic branches and offices network from 10 local branches at the beginning of 2009 to 15 as at the date of this Prospectus and the number of ATMs from 51 to 70 during the same period. The QCB has approved the opening of the Bank's sixteenth branch.

Although the returns generated on assets and equity have slowed as a consequence of the recent global financial crisis, QIIB has been able to maintain strong asset growth throughout the crisis, thereby offsetting the decline in average returns on assets and equity to sustain net profit growth. Shareholder profitability improved by 5.5 per cent. to QR 340.1 million for the six month period ended 30 June 2012, compared to QR 322.3 million for the six month period ended 30 June 2011, with the recovery in profitability was evident with QIIB's 2010 year-on-year profitability increasing by 9.3 per cent. from 2009 and 2011 year-on-year profitability increasing by 16.9 per cent. from 2010.

The following table sets out certain asset growth and profitability ratios:

	As at 31 December		
Asset Growth & Profitability Ratios	**2009**	**2010**	**2011**
	(QR'000)	*(QR'000)*	*(QR'000)*
Return on Average Assets(1)	3.4%	3.3%	3.1%
Return on Average Equity(2)	15.5%	14.7%	15.0%
Cost/Income	23.0%	21.9%	22.4%
Net profit due to shareholders	**511.3**	**558.8**	**653.0**
Total Assets	**15,520.9**	**18,178.9**	**23,357.6**

Notes
(1) Average assets represents the average of total assets calculated on a yearly basis
(2) Average equity represents the average of total equity calculated on a yearly basis

Experienced management team and commitment to corporate governance

QIIB's Chairman, H.E. Sheikh Dr. Khalid Bin Thani Bin Abdullah Al-Thani has over 16 years' experience in the banking sector, including four years serving as Chairman of QIIB. During his tenure, H.E. Sheikh Dr. Khalid Bin Thani Bin Abdullah Al-Thani has overseen unprecedented growth in QIIB's operations, both in Qatar and internationally, combined with year-on-year increases in net operating income and total assets. Day-to-day management of QIIB is entrusted to the Chief Executive Officer, Mr. Abdulbasit Ahmad Abdulrahman Al-Shaibei, who has over 25 years' experience in the banking sector, including 16 years serving as Chief Executive Officer (**CEO**) of QIIB. Mr. Al-Shaibei is assisted by an experienced management team including, amongst others, the Deputy Chief Executive Officer (**DCEO**), the Head of Retail and Commercial (SME) Financing, the Head of Corporate, the Head of Investment and Treasury, the Chief Operations Officer, the Chief Risk Officer and the Chief Financial Officer. The Board and senior management team have extensive knowledge and experience of the banking sector in Qatar and the MENA region and more generally, is leading financial institutions with an international presence.

QIIB's Board and Risk Committee sets standards for a robust and effective corporate governance framework. Management believes that corporate governance is a matter of vital importance and a fundamental part of the business practices of QIIB. The combination of an existing team of highly experienced professionals, coupled with best practice corporate governance standards, positions QIIB well for future growth. QIIB recently signed a memorandum of engagement with the Pearl Initiative, a private sector-led not for profit organisation based in Sharjah in the United Arab Emirates and New York in the United States of America. It was set up to improve transparency, accountability and business practices in the Arab world. QIIB was engaged by the Pearl Initiative to foster, develop and support, both within its own organisation and in the wider business, social and academic communities in the region:

- ethical behaviour and business practices; and
- transparency in financial accounting, accountability, corporate social responsibility and corporate governance.

Commitment to staff training and development

QIIB is committed to the training and development of its employees, having created and implemented a number of training and development programme for its staff. For example, branch staff have been undergoing training in connection with the provision of QIIB products and services with a view to developing a "one-stop shop" banking experience for customers. Further, QIIB has also implemented E-training methodologies to ensure consistent mandatory training across all levels of employees, as well as to encourage employee self-learning.

Full product offering to meet both retail and corporate client needs

QIIB offers customers a comprehensive range of customised Islamic products and services that meet the needs of both its individual and corporate clients.

Strong liquidity position with diverse funding sources

QIIB has access to diverse sources of funding. The Bank's assets are managed with liquidity in mind, in order to maintain a healthy balance of cash, cash equivalents and readily marketable securities and metals and commodities. In addition, the Bank maintains a mandatory deposit with the QCB and has contingent funding facilities in place with the QCB. The Bank also complies with the QCB's liquidity ratio which requires the ratio of liquid assets to liabilities to be not less than 100 per cent.

QIIB's liquidity positions are monitored closely by the Treasurer of the Bank and both the Treasurer and the Asset and Liability Management Committee have joint responsibility for managing liquidity risk and ensuring compliance with the QCB's liquidity ratio.

CAPITAL STRUCTURE

As at 30 June 2012, QIIB's authorised, issued and paid up share capital comprised 151.4 million shares with a nominal value of QR 10 each.

QIIB's major shareholder groups and their approximate shareholdings as at 30 June 2012 were as follows:

	As at 30 June 2012
	(%)
Qatar Holdings Company[1]	17
Other Qatari companies and individuals[2]	80
GCC nationals	1
Other foreign shareholders	2
Total	**100**

Notes

(1) Qatar Holdings Company is an indirect subsidiary of QIA.

(2) None of these shareholders individually hold more than 2.0 per cent. of QIIB's shares although the business group and family of Sheikh Thani bin Abdullah Al-Thani collectively holds approximately 23 per cent. of the Bank's shares.

The aggregate ownership of the Qatar government (through Qatar Holdings Company) and the Sheikh Thani bin Abdullah Al Thani family and business group is approximately 40 per cent.

Dividend levels are proposed by the Board based on QIIB's liquidity position, profits for the current year, future capital requirements and market trends. Dividends are subsequently approved by the QCB and QIIB's shareholders.

BUSINESS ACTIVITIES

Overview

Prior to April 2011, QIIB split its business between financing and investing activities and only reported for these two segments accordingly. Set out below is summary information for these segments for the years ended 31 December 2009, 31 December 2010 and 31 December 2011:

Income from financing activities

	As at 31 December		
	2009	**2010**	**2011**
	(QR'000)	*(QR'000)*	*(QR'000)*
Murabaha and musawama	543,038	641,663	590,437
Istisna	55,848	40,544	28,237
Mudaraba	37,785	5,962	7,682
Ijara muntahia bittamleek	145,357	166,576	224,503
Musharakat	943	275	132
	782,971	**855,020**	**851,081**

Income from investing activities

	Year ended 31 December		
	2009	**2010**	**2011**
	(QR'000)	*(QR'000)*	*(QR'000)*
(a) Income from investments with banks and financial institutions:			
Income from investment deposits with banks and financial institutions	26,064	32,199	17,956
Income from Murabaha in metals and commodities	9,359	551	899
	35,423	**32,750**	**18,855**
(b) Investment revenues:			
Income from equity-type instruments	–	10,626	2,761
Income from debt-type instruments	–	52,541	167,675
Available for sale investments	32,493	63,167	–
Investment properties held for leasing	4,114	4,287	14,094
Investment in associates	10,793	24,538	(43)
	47,400	**91,992**	**184,487**
(c) Gain on sale of investments:			
Available for sale investments	2,828	(1,890)	2,098
Investment properties held for trading	943	4,786	–
	3,771	**2,896**	**2,098**
	86,594	**127,638**	**205,440**

Notes:

For the year ended 31 December 2011, the new accounting standard, FAS 25, issued by AAOIFI replaced the definition and disclosure of available-for-sale investments with Equity-type and Debt-type instruments. The disclosure for 2011 therefore does not have available-for-sale investments. For the year ended 31 December 2010, comparatives are provided according to the new definitions as required by FAS 25.

As a result of the internal re-organisation in 2011, QIIB's four core business segments are now Retail Financing, Commercial (SME) Financing, Corporate Financing and Investment and Treasury, which are managed from QIIB's headquarters in Doha and operated through QIIB's network of branches located across Qatar.

Set out below is a summary of certain additional segmental financial information for each of these segments for the years ended 31 December 2011 and 31 December 2010 and the six-month period ended 30 June 2012:

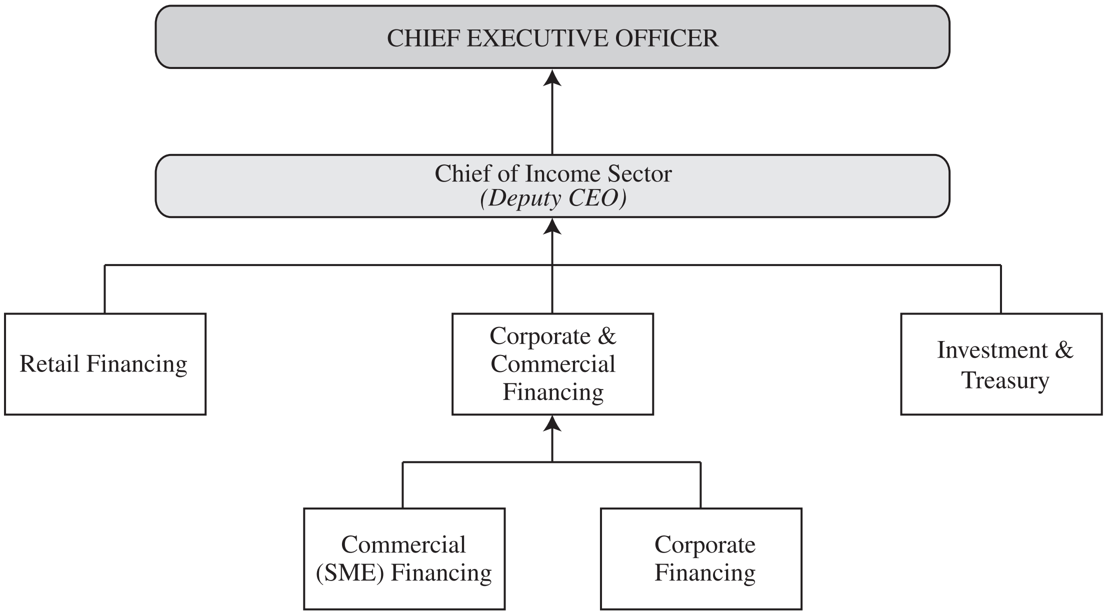
	Twelve-month period ended 31 December 2011				
	Retail Financing	**Commercial (SME) Financing**	**Corporate Financing**	**Investment and Treasury**	**Total**
	(QR'000)	*(QR'000)*	*(QR'000)*	*(QR'000)*	*(QR'000)*
Balances and investments with banks and other financial institutions	–	–	–	5,734,175	5,734,175
Financing Investments		–	–	4,259,060	4,259,060
Investments in Associates		–	–	365,231	365,231
Investments in Properties	–			8875,915	875,915
Receivables and balances from financial activities	3,321,024	1,095,158	6,148,519	24,262	10,588,963
Net Segment Assets	**3,321,024**	**1,095,158**	**6,148,519**	**11,258,643**	**21,823,344**
Percentage contribution to Total	**15.2**	**5.0**	**28.2**	**51.6**	**100.0**
Other Assets					1,534,282
Total Assets					**23,357,626**
Customers' and banks' current accounts	3,299,485	212,170	440,364	15,997	3,968,016
Holders of unrestricted investment accounts (gross)	10,756,717	296,329	1,563,120	1,345,364	13,961,530
Net Segment Liabilities	**14,056,202**	**508,499**	**2,003,484**	**1,361,361**	**17,929,546**
Percentage contribution to Total	**78.4**	**2.8**	**11.2**	**7.6**	**100.0**
Total Revenue	**239,026**	**107,190**	**516,855**	**270,850**	**1,133,921**
Percentage contribution to Total	**21.1**	**9.4**	**45.6**	**23.9**	**100.0**

	Twelve-month period ended 31 December 2010				
	Retail Financing	**Commercial (SME) Financing**	**Corporate Financing**	**Investment and Treasury**	**Total**
	(QR'000)	*(QR'000)*	*(QR'000)*	*(QR'000)*	*(QR'000)*
Balances and investments with banks and other financial institutions	–	–	–	5,148,012	5,148,012
Financing Investments	–	–	–	1,694,264	1,694,264
Investments in Associates	–	–	–	227,864	227,864
Investments in Properties........................	–	–	–	518,887	518,887
Receivables and balances from financial activities	2,795,724	826,410	5,519,198	36,415	9,177,747
Net Segment Assets	**2,795,724**	**826,410**	**5,519,198**	**7,625,442**	**16,766,774**
Percentage contribution to Total	**16.7**	**4.9**	**32.9**	**45.5**	**100.0**
Other Assets					1,412,167
Total Assets					**18,178,941**
Customers' and banks' current accounts ..	1,890,129	110,000	836,002	100,110	2,936,241
Holders of unrestricted investment accounts (gross)	7,539,606	441,984	1,947,984	1,118,912	11,048,486
Net Segment Liabilities	**9,429,735**	**551,984**	**2,783,986**	**1,219,022**	**13,984,727**
Percentage contribution to Total	**67.4**	**4.0**	**19.9**	**8.7**	**100.0**
Total Revenue	**235,621**	**103,846**	**496,887**	**249,027**	**1,085,381**
Percentage contribution to Total	**21.7**	**9.6**	**45.8**	**22.9**	**100.0**

	Twelve-month period ended 31 December 2011				
	Retail Financing	Commercial (SME) Financing	Corporate Financing	Investment and Treasury	Total
	(QR'000)	*(QR'000)*	*(QR'000)*	*(QR'000)*	*(QR'000)*
Balances and investments with banks and other financial institutions	–	–	–	5,581,426	5,581,426
Financing Investments	–	–	–	3,656,395	3,656,395
Investments in Associates	–	–	–	377,398	377,398
Investments in Properties	–	–	–	981,196	981,196
Receivables and balances from financial activities	3,421,493	1,333,302	6,654,087	15,997	11,424,879
Net Segment Assets	**3,421,493**	**1,333,302**	**6,654,087**	**10,612,412**	**22,021,294**
Percentage contribution to Total	**15.5**	**6.1**	**30.2**	**48.2**	**100.0**
Other Assets					1,681,939
Total Assets					**23,703,233**
Customers' and banks' current accounts	3,200,740	317,541	1,063,080	77,700	4,659,061
Holders of unrestricted investment accounts (gross)	10,531,452	424,384	2,095,854	848,279	13,899,969
Net Segment Liabilities	**13,732,192**	**741,925**	**3,158,934**	**925,979**	**18,559,030**
Percentage contribution to Total	**74.0**	**4.0**	**17.0**	**5.0**	**100.0**
Total Revenue	**151,087**	**44,763**	**252,769**	**133,290**	**581,909**
Percentage contribution to Total	**26.0**	**7.7**	**43.4**	**22.9**	**100.0**

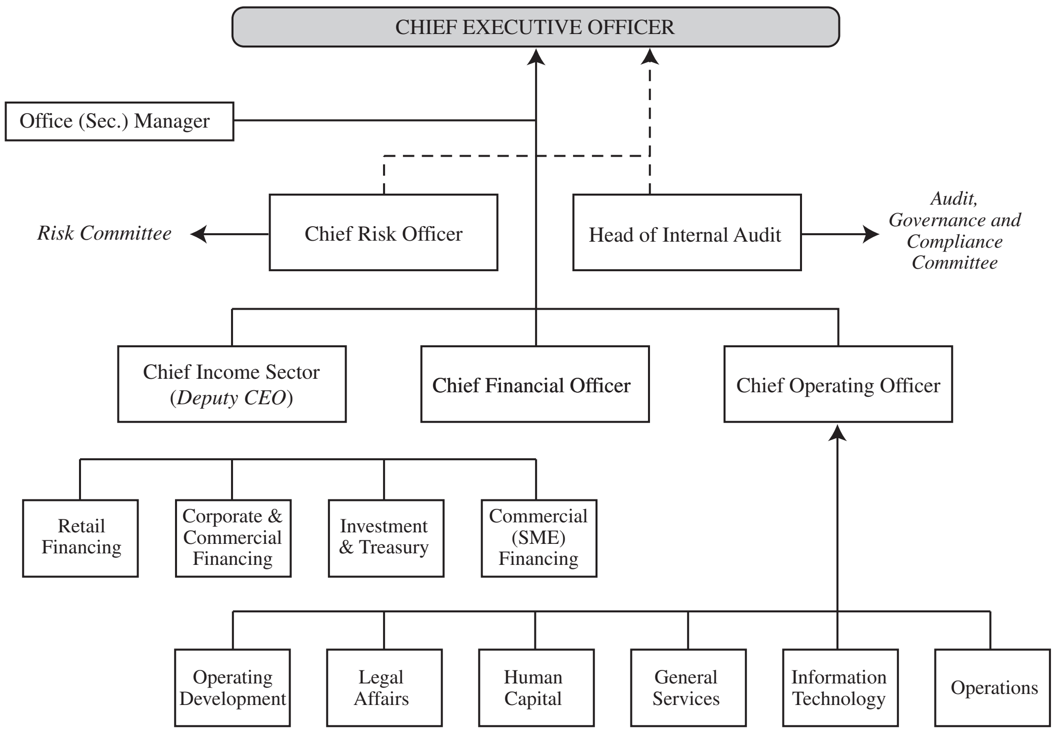
As discussed in the "*Description of Qatar International Islamic Bank (Q.S.C.) – History*" section above, the Bank has recently completed the process of aligning its human capital resources with the new segmental structure. As at the date of this Prospectus, the Bank's Commercial (SME) Financing and Corporate Financing segments share the same reporting path (and are together currently referred to as the "Corporate and Commercial Financing unit" for certain internal reporting purposes). This merging of the Commercial (SME) Financing and Corporate Financing units is only relevant to the Bank's internal reporting line structure. These units are split into the corresponding separate segments for both financial reporting and operational purposes.

The Retail, Corporate and Commercial Financing and Investment and Treasury units report to the Chief of the Income Sector. The position of the Chief of the Income Sector is held by the DCEO. The Chief of the Income Sector reports to the CEO. The applicable reporting structure as at the date of this Prospectus is set out below:



The operational and back-office support units report to the Chief Operating Officer (**COO**). In turn, the COO reports to the CEO.

QIIB's consolidated reporting structure as at the date of this Prospectus is set out below:



The Bank's Sharia audit operating unit, internal audit operating unit (which incorporates the Bank's compliance function) and risk management operating unit report directly to the SSC, the Audit, Governance and Compliance Committee and the Risk Committee, respectively, independently of the CEO and/or DCEO.

Retail Financing Unit

The Retail Financing Unit (**RFU**) provides retail customers with Islamic banking products and services which are distributed through QIIB's network of 15 branches and 70 ATMs, as well as electronic banking and telephone banking channels (see "*Description of Qatar International Islamic Bank (Q.S.C.) – Branch Network and Product Distribution*"). For the six month period ended 30 June 2012, the RFU accounted for 26.0 per cent. of QIIB's revenue and as at 30 June 2012, its total assets amounted to QR 3.4 billion.

As at 30 June 2012, RFU had a total of 92,075 retail customers. Total customer deposits from the RFU as at 30 June 2012 amounted to QR 13.7 billion, representing 74.0 per cent. of QIIB's total customer and bank deposits. Within these deposits, 49.3 per cent. (or QR 6.7 billion) are savings and current account type deposits.

Although the RFU's products and services are targeted at both Qatar nationals and expatriates, historically, QIIB had focused primarily on positioning itself as the bank of choice for Qataris. More recently the retail focus has expanded to include expatriates of all nationalities based in Qatar (see "*Description of Qatar International Islamic Bank (Q.S.C.) – Strategy – Retail Financing Strategy*" for further details). Currently, QIIB is further refining its retail functions and intends to focus, among other things, on providing banking services to non-Arab speaking expatriates based in Qatar. The Bank is in the process of preparing to establish new branches which are staffed primarily by non-Arab speaking expatriates. QIIB aims to provide its retail customers with a "one-stop shop" experience to meet all of their Islamic banking needs through best value product pricing with a superior customer service. The principal services and products offered to RFU customers include:

- non profit-earning demand deposits accounts (or "current accounts");
- profit-paying demand deposit accounts (or "savings accounts");
- profit-paying term deposit accounts (with a minimum term of one month to a maximum term of 24 months);
- consumer financing services including the provision of financing for automobile, household goods, residential property, building material and share purchases through *Murabaha, Musawama, Istisna, Ijara* and *Musharaka* methods of financing;
- electronic credit and debit cards (including Visa and Mastercard banking cards, "Classic", "Gold" or "Platinum" credit cards and QIIB Smart Debit Cards); and
- the provision of safe deposit lockers.

The *Musawama* sale is the most popular form of retail financing, representing 97.5 per cent. of total gross retail financing as at 30 June 2012. These financing products are used to finance the purchase of cars, homes and consumer household items. Vehicle financing makes up approximately 31.0 per cent. of the retail financing portfolio as at 30 June 2012. *Musawama* and *Murabaha* financing is provided to retail customers for the purchase of consumer goods and investments including, amongst others, automobiles, other vehicles, white goods, furnishings and shares.

Commercial (SME) Financing Unit

The Commercial (SME) Financing Unit (**CSFU**) provides Islamic financing to SMEs for commercial purposes where repayment sources are related to business activities. For QIIB's purposes, "SMEs" are businesses that have annual sales of up to QR 50.0 million, with the maximum financing facilities granted to the same threshold (or its equivalent in any other currency).

For the six month period ended 30 June 2012, the CSFU accounted for 7.7 per cent. of QIIB's revenue and, as at 30 June 2012, total assets amounted to QR 1.3 billion.

The CSFU is focused on delivering specific SME-based solutions from a combination of existing services and new SME-tailored products distributed through the retail branch network, consistent with the "one-stop shop" concept. Further, a fully dedicated SME relationship management team, which is managed independently of the corporate banking team, is focused on direct client contact and developing business relationships.

The CSFU represents a strategic entry by QIIB into the largely under-developed Qatari SME market which is expected to grow with the support of the Government as Qatar moves towards preparing for the World Cup 2022 event, in addition to the Government's pursuit of Qatar's National Vision 2030. In March 2011, QIIB signed up to the Al-Dhameen programme to partner with the QDB to develop the SME sector (see "*Description of Qatar International Islamic Bank (Q.S.C.) Strategy – Qatari Market*"). QIIB is currently in the process of offering two loans pursuant to the Al-Dhameen programme.

Direct facilities

The direct facilities offered by QIIB to SMEs include *Murabaha*, *Musawama*, *Mudaraba*, *Ijara,* participations, agency facilities and *Istisna*. For a further description of these products, see "*Description of Qatar International Islamic Bank (Q.S.C.) – Business Activities – Corporate Financing Unit*".

Indirect facilities

Indirect facilities offered by QIIB to SMEs include letters of credit, letters of guarantee and collection and payment services.

Deposit services

QIIB offers SMEs a variety of deposit services including current accounts, savings accounts, term deposits, cheque collections, fund transfers and internet banking (via the existing retail E-Banking platform).

Corporate Financing Unit

The Corporate Financing Unit (**CFU**) developed from QIIB's early retail customer base, where a number of the Bank's customers were involved in business ventures. The CFU now provides a full range of Sharia compliant financial products and services to its corporate customers. Its primary activity is to lend to Government entities and large corporate entities by way of *Ijara, Murabaha, Musawama, Mudaraba, Istisna* and foreign trade finance products.

For the six-month period ended 30 June 2012, the CFU accounted for 43.4 per cent. of QIIB's net operating income and, as at 30 June 2012, total assets amounted to QR 6.7 billion. The CFU focuses primarily on financing real estate, contracting and Government related entities with the real estate industry representing in excess of 61.4 per cent. of the corporate financing portfolio as at 30 June 2012.

The CFU's products and services are distributed by its dedicated relationship management team through direct client contact and, in a limited manner, through its retail branch network (developing as part of the "one-stop shop" concept). Further, QIIB is working to introduce e-Banking facilities for its corporate customers in 2012. CFU's principal products and services include the following financing arrangements:

Ijara (muntahia bittamleek)

The form of *Ijara* offered by QIIB is a finance or capital lease which enables the Bank's corporate customers to acquire an asset through a leasing arrangement. Customers contract with the Bank to make lease payments for the use of an asset which the Bank purchases. At the end of the lease period, the ownership of the asset transfers to the customer. *Ijara* financing is provided predominantly to corporate customers for the purchase or lease of properties.

Murabaha

Murabaha offers customers the ability to acquire assets for over a period of time consistent with their sources of income and their financial position. Under a *Murabaha* transaction, QIIB provides the customer with the money needed to purchase an asset for business use. The customer, in conjunction with the Bank, negotiates the purchase price of the asset with the third party. The Bank purchases the asset from the seller then sells it to the customer after adding an agreed profit amount and allows the customer to pay the full amount over a period of time in instalments.

Musawama

Musawama offers the customer the ability to acquire assets when needed and to pay the purchase price plus profit in instalments over a period of time. In a *Musawama* transaction the customer requests QIIB to purchase a certain asset or commodity from a third party. The price of the commodity is usually unknown to the customer. Upon acquiring the commodity, QIIB adds its profit amount and offers to sell it to the customer who has the right to accept, refuse, or negotiate the price. If accepted, the customer repays the total amount to QIIB in agreed instalments. *Musawama* is usually provided to finance local purchases including vehicles, real estate, machinery and equipment.

Murabaha and *Musawama* contracts are provided to corporate customers for the financing of, among other things, working capital and the purchase of plant and equipment.

Mudaraba

QIIB provides project financing or *Mudaraba* financing to customers in construction and project development industries in Qatar. QIIB may finance projects awarded to the contractor provided the project owner is a Government, quasi-Government entity, or other credit-worthy public companies. Projects financed under *mudaraba* contracts are usually state infrastructure projects.

Istisna

In an *Istisna* financing, QIIB enters into a contract with the customer requesting the financing in order to execute a specific construction project (such as a residential compound, office building), private residence, or an apartment building.

Unless the customer requests appointing a specific contractor to execute the work at his or her own risk, QIIB will usually appoint a contractor under a formal tender process after which the contract will be assigned to the most qualified bidder (as determined by QIIB).

As at 30 June 2012, the most popular financing method for QIIB's corporate customers was *Ijara*, which represents 61.0 per cent. of the total gross corporate financing portfolio as at that date. The table below sets out the financing methods for QIIB's CFU customers as at 30 June 2012:

Product	**Outstanding**	**Proportion of Portfolio**
	(QR'000)	*(%)*
Ijara	4,060,565	61.0
Musawama	1,284,634	19.3
Murabaha	867,894	13.0
Others	440,994	6.7
Total Corporate	**6,654,087**	**100**

Foreign trade finance

QIIB offers a variety of products to facilitate customers' requirements in foreign trade services. Customers in the import and export business can Utilise QIIB's Sharia-compliant services to facilitate purchases of goods, materials, equipment, vehicles and other assets from abroad. QIIB's foreign trade finance services include:

- letters of credit;

- documents against collection;
- documents against payment;
- letters of guarantee; and
- financing foreign purchases from abroad.

Investment and Treasury

QIIB's Investment and Treasury unit (**I&TU**) offers investment options to all QIIB customers and manages QIIB's own investment portfolio. The I&TU also manages larger financing transactions. The I&TU unit comprises two distinct functions:

- Treasury; and
- Local and International Investments.

For the six month period ended 30 June 2012, the I&TU accounted for 22.9 per cent. of QIIB's revenue and, as at 30 June 2012, total assets amounted to QR 10.6 billion.

Treasury

The Treasury Department manages all of QIIB's currency positions, invests surplus funds and manages QIIB's balance sheet to ensure the availability of adequate liquidity to meet its day-to-day operating requirements. The Treasury Department also generally performs other related functions such as managing QIIB's reserve and risk capital requirements and funding QIIB's balance sheet. In this regard, the Treasury Department is focused on:

- liquidity management: it manages short-term assets and liabilities in order to ensure that the Bank has adequate funds and liquidity using the inter-bank market. This includes managing the funding requirements of QIIB's banking activities;
- foreign exchange: it provides exchange rate and foreign exchange services to branches and customers;
- support the management and pricing of profit rates: it provides the Asset and Liability Management Committee with rate forecasts for the Qatari Riyal and major currencies to support the pricing of profit rates for customer deposits and, subsequently, developing the internal cost of funds for transfer pricing; and
- limited opportunistic sukuk sales/trading: in conjunction with the Local and International Investment Department, the Treasury Department monitors the market price of sukuk holdings for potential sales opportunities to realise profits for the Bank.

Local and International Investments

The Investment and International Portfolio Department offers investment options to QIIB customers and manages QIIB's own investment portfolio. This department also manages larger financing transactions usually involving foreign trade, infrastructure projects, sovereign project financing, or foreign bank's financing participations. The Local and International Investment Department functions include:

- developing investment opportunities for equity participations and investment opportunities in local quoted shares;
- private equity (investing on the Bank's and customers' behalf);
- investment funds (investing on the Bank's behalf and generating investment opportunities for customers);
- sukuk investments; and

- international finance and syndications.

The Local and International Investment Department is also responsible for the maintenance and development of correspondent banking relationships. As at 30 June 2012, the Local and International Investment Department manages approximately 80 correspondent banking relationships, whereby correspondent banks act on QIIB's behalf in foreign countries. Such relationships are necessary in jurisdictions where QIIB does not have a banking presence. QIIB is also able to act on behalf of these correspondent banks in Qatar, where the correspondent banks do not have a banking presence within Qatar.

The Local and International Investment Department also works closely with senior management to develop QIIB's international presence through strategic alliances and partnerships or acquisitions into targeted regions.

The following table presents a breakdown of the Bank's direct financial investments:

	31 Dec 2011	**30 June 2012**
	(QR'000)	*(QR'000)*
Debt-type investments		
Sukuk at amortised cost	3,589,297	3,433,615
Sukuk held-for-trading	505,455	–
Total debt-type instruments	**4,094,752**	**3,433,615**
Equity-type investments (fair value through equity):		
Local Quoted Shares	24,621	91,794
Equity Participations	17,477	18,472
Investment Funds	16,961	17,949
Private Equity	109,349	110,319
Provisions for Impairment	(4,100)	(15,753)
Total equity-type instruments	**164,308**	**222,781**
Total Financial Investments	**4,259,060**	**3,656,396**

BRANCH NETWORK AND PRODUCT DISTRIBUTION

As at 30 June 2012, QIIB had a network of 15 branches throughout Qatar, with the sixteenth branch in the process of being opened, having already received the Qatar Central Bank's approval to do so. QIIB's branches are classified based upon the size of the relevant branch as:

- Type A branches which typically accommodate more than eight members of staff (including a Branch Manager, Head Teller, Head of Customer Service, three Customer Service Representatives and two tellers);

- Type B branches which typically accommodate between four and seven members of staff; and

- Offices with approximately three members of staff and are usually a sub-office of either a Type A or Type B branch. For example, a Type B branch next to an airport may have an Office within the airport terminal.

As at the date of this Prospectus, QIIB had a network of 70 ATMs. QIIB is also a part of the Qatari National ATM and POS Switch network of shared ATMs, thereby broadening access to ATM banking for its customers through shared ATMs and other banks' ATMs. Internationally, QIIB's customers have access to ATMs through GCCNet (an ATM network available throughout GCC countries) and Visa Electron ATMs.

QIIB also has a range of additional distribution channels available to customers, some examples of which are set out below. As part of the "one stop shop" concept, QIIB is working to ensure that all distribution channels are available to customers in all of the Bank's operating segments (see "*Description of Qatar International Islamic Bank (Q.S.C.) – Strategy – Business Segments*' *Strategies*" above for further details).

E-Banking platform

QIIB's E-Banking service allows retail customers to access their accounts securely and reliably, transfer funds between accounts locally and internationally, pay utility bills, request transfer of funds and obtain currency exchange rates. This E-Banking service is also currently being rolled out (in phases) to the Bank's corporate customers.

Telephone banking services

QIIB's telephone banking service provides retail customers with 24-hour access to account information. Customers are able to make account balance enquiries, request transfer of funds and request statements.

The Bank has also developed the "QIIB Mobile Application", which will enable retail customers to conduct their day-to-day retail banking activities using their mobile phones. The QIIB Mobile Application tailors the user interface to the screen dimensions of different mobile handsets and can be used by QIIB's retail customers to view their accounts, credit card balances and transactions.

FINANCIAL INVESTMENTS

QIIB's financial investments are all currently classified as either "debt type" or "equity type" instruments in accordance with the new AAOIFI accounting standard, FAS 25 (see "*Summary of Significant Differences Between the Financial Accounting Standards Issued By AAOIFI and International Financial Reporting Standards*"). Within each classification type, financial investments are either valued at amortised cost or fair value, depending on the intention of QIIB with respect to the investment at the inception of the transaction.

For "debt type" instruments managed on a contractual profit yield return basis, investments are measured at amortised cost less any provisions for impairment. For all other bases of managing "debt type" instruments, including held-for-trading, such investments are measured on a fair value basis, with gains and losses arising from fair value changes being booked through the income statement.

For "equity type" instruments, investments are measured on a fair value basis with the gains and losses arising from changes in fair value being recognised through the equity account. For "equity type" investments held-for-trading or managed and performance-evaluated internally by management on a fair value basis, such investments are measured on a fair value basis with the gains and losses arising from changes in fair value being recognised through the profit and loss account.

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

- at cost;
- comparison with the current market value of a similar financial instrument;
- the expected cash flows from the investment; or
- internal pricing models.

The table below shows a breakdown of QIIB's "equity" and "debt" types instruments in relation to QIIB's financial investments as at 31 December of the relevant year.

	As at 31 December		
	2009	**2010**	**2011**
	(QR'000)	*(QR'000)*	*(QR'000)*
Equity-Type Instruments:			
Equity securities	51,512	67,661	30,252
Mutual fund units	18,979	17,058	16,961
Private equity investments	192,785	120,437	121,195
Provision for losses	(2,279)	(2,279)	(4,100)
Total	**260,997**	**202,877**	**164,308**
Debt-Type Instruments:			
By issuer			
State of Qatar sukuks	150,821	1,250,000	3,398,845
Other sukuks	246,059	241,387	695,907
Total	**396,880**	**1,491,387**	**4,094,752**
By profit rate			
Fixed rate securities	93,879	1,353,727	3,995,464
Variable rate securities	303,001	137,660	99,288
Total	**396,880**	**1,491,387**	**4,094,752**

INVESTMENT PROPERTIES

QIIB's investment properties can be classified and valued as one of the following categories:

Held for leasing

The net book value of QIIB's investment properties held for leasing as at 31 December 2009, 2010 and 2011, stated at fair value representing the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation is set out below:

	As at 31 December		
	2009	**2010**	**2011**
	(QR'000)	*(QR'000)*	*(QR'000)*
Balance as at 1 January	14,438	52,576	77,930
Additions during the year	38,138	28,562	163,937
Disposals during the year	–	(3,208)	–
Balance as at 31 December	**52,576**	**77,930**	**241,867**
Accumulated depreciation	(3,485)	(3,166)	(5,588)
Net book value as at 31 December	**49,091**	**74,764**	**236,279**

Investment properties held for leasing are properties purchased by the Bank with the intention and purpose to hold such properties to generate an income stream by leasing of the properties. The Bank may still realise potential capital gains from movements in the prices of the properties over the long term, not in the short term, for such properties. Investment properties held for leasing are valued at least once annually, with valuations being performed by independent third party professional valuers. The increase in the net book value of QIIB's properties held for leasing from 2010 to 2011 was primarily due to the Bank's purchase of a fully constructed residential compound as an investment property for leasing.

Held for trading

The net book value of QIIB's investment properties held for trading as at 31 December 2009, 2010 and 2011 are stated at fair value representing the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation is set out in the table below.

	As at 31 December		
	2009	**2010**	**2011**
	(QR'000)	*(QR'000)*	*(QR'000)*
Balance as at 1 January	260,415	304,223	444,123
Additions	–	101,079	76,875
Transfer from Property & Equipment	–	–	24,231
Disposals	–	–	–
Net change in fair value	43,808	36,342	94,407
Losses recovery	–	2,479	–
Balance as at 31 December	**304,223**	**444,123**	**639,636**

Investment properties held for trading are properties purchased by the Bank with the intention and purpose to realise potential capital gains from short term movement in the prices of the properties. In this regard, the QCB permits a period of up to five years for such properties to be held under this classification. The increase in the net book value of QIIB's properties held for trading from 2009 to 2011 was primarily due to the continuing construction of QIIB's new office tower in Al Dafna.

PROPERTY

This section relates to properties purchased and held by QIIB with the intention of using these properties as part of QIIB's banking operations. The net book value of QIIB's properties as at 31 December 2009, 2010 and 2011, stated at fair value representing the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation is set out below:

	As at 31 December		
	2009	**2010**	**2011**
	(QR'000)	*(QR'000)*	*(QR'000)*
Balance as at 1 January	226,865	200,840	200,860
Additions during the year	562	20	175
Transfers to investment properties	–	–	(24,231)
Disposals during the year	(26,587)	–	–
Balance as at 31 December	**200,840**	**200,860**	**176,804**
Accumulated depreciation	(10,039)	(11,278)	(12,539)
Net book value as at 31 December	**190,801**	**189,582**	**164,265**

The fair value of properties held by QIIB as part of its banking operations are ascertained annually by external real estate professionals. For Qatar-based properties, the appraising external real estate professionals are certified by banks and Qatari courts. For cross border and non-Qatar-based properties, the appraising real estate professionals are internationally recognised. For example, international real estate company Coldwell Banker KSA ascertains the fair value of QIIB's properties held outside Qatar.

QIIB's new tower office in Al Dafna is categorised as a property held for trading in accordance with QCB rules on the classification of properties held by banks. Construction of the tower commenced in 2010 and is expected to be completed by January 2013. As at 30 June 2012, the office tower development carried a value of QR 372.3 million, comprising the fair value of the land site and accumulation of the construction costs.

RISK MANAGEMENT

QIIB is exposed to different types of risks in its normal course of business, including credit risk, liquidity risk, market risk (trading and non-trading) and operational risk. QIIB's risk management philosophy can be summarised as follows:

- to ensure that QIIB is not subject at any time to undue or excessive risks beyond the levels approved by the Board;
- to achieve a balance between current and future risks incurred by QIIB and its targeted returns on equity for its shareholders; and
- to protect the reputation, solvency and liquidity of QIIB.

Risks are managed through a process of on-going identification, measurement and monitoring subject to established risk limits and other controls. QIIB has adopted a de-centralised approach and each operational segment of the Bank is responsible for managing risks within that segment. Each operational unit undertakes four risk management processes:

• Risk Identification:	Identify and analyse risks surrounding the processes and understand how to respond to these risks.
• Risk assessment and measurement:	Quantify and assess risk impact.
• Risk controlling:	Implement systems and recommend measures to control and mitigate risks.
• Risk monitoring and compliance:	Monitor the effectiveness of risk management controls and report progress.

The decentralised approach and processes are consolidated within the Risk Management Department, which aggregates the risks captured through the relevant operational segments and monitors them against Bank-wide policies, standards and established limits.

Policies and standards

QIIB's lending principles are laid out in a series of corporate policies, standards, guidelines, directives and procedures, all of which are reviewed on a regular basis to maintain their relevance to QIIB's current risk limits. The structure, limits, collateral requirements, ongoing management, monitoring and reporting of the QIIB's credit exposures are all governed by these lending principles.

In summary, the principles provide that:

- all credit facilities and investments must meet in principle the Sharia guidelines, the QCB regulations and should be in line with QIIB's internal policies;
- all credit facilities and investments should be risk-rated based on the QIIB's internal risk rating guidelines;
- all credits, as well as investments, must be approved by an officer or an appropriate committee that is authorised to provide such approval pursuant to the internal approval thresholds of QIIB's operations. The relevant committees are the Finance Committee (which approves credits up to QR 17.0 million), the Chairman; Managing Director and CEO collectively (who can approve credits up to QR 25.0 million) the Executive Committee (which approve credits up to QR 150.0 million), and finally, the Board (which approve credits in excess of QR 150.0 million);

- QIIB must avoid speculative business. Any focus on a sector or industry should be based on stable outlooks; and
- as directed by the Board and management, all credit facilities and investments made must be targeted to ensure QIIB is able to limit concentrations of credit risk (whether by geography or industry), reduce volatilities in the portfolio, achieve optimum earnings and manage liquidity.

Credit Risk

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

QIIB has developed an internal credit rating framework which is used to classify all counterparties. This framework provides guidance parameters for, among other things, the establishment of credit limits and granting facilities to customers. Credit exposures are then monitored through a regular credit review. The frequency of the credit review is based on the credit risk rating of the particular counterparty (with a minimum frequency of at least once a year).

QIIB seeks to manage its credit exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. The Bank also obtains collateral, when appropriate, depending on the perceived credit risk of the counterparty. Guidelines are implemented across all operating segments regarding the acceptability of types of collateral and valuation parameters. QIIB's Guarantees Department monitors the market value of collateral obtained in connection with QIIB's lending activities.

The main types of collateral obtained are as follows:

- for securities lending – cash or securities;
- for commercial and corporate financing – mortgages over real estate properties, inventory, cash and securities; and
- for retail financing – mortgages over residential property and securities.

As part of the Bank's credit policy for retail customers, online credit checks are made through the Government's Central Credit Bureau. The Bureau shows the full credit history and liability position of any potential application in order to ascertain if such applicants are on a blacklist maintained by the QCB. The Bank extends financing on the basis of such checks, ensuring compliance with QCB guidelines on consumer credit and salary assignments by any employer of the applicants.

Retail financing credit risk is further mitigated by securing the source of repayments from retail customers through an assignment of that customers' salaries to the Bank. The salaries of these customers are deposited by their respective employers directly into their accounts with QIIB. QIIB then has a right of lien over salaries in the customers' account pending the collection of regular repayments of their liabilities with the Bank.

Where salary assignments are not made in favour of QIIB, financing is only provided against cash collateral deposited with QIIB and pledged against the facility. As at 30 June 2012, approximately 85.0 per cent. of QIIB's retail customers have their salaries assigned to the Bank.

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

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

For risk management purposes, credit risk on QIIB's own investments is managed independently through a quarterly review for impairment of the investment and reported as a component of market risk exposure.

For non-retail financings, credit proposals prepared by the relationship management team are first reviewed by the Credit Risk section of the Risk Management Department before the being passed on to the Finance Committee (the **FC**) (whose membership includes the Chief Risk Officer (or his or her delegate)), for approval. Proposals which falls outside the authority of the FC are escalated to (i) the Chairman of the Board, the Managing Director and the CEO (meeting collectively), (ii) the Executive Committee and (iii) the Board. The Board is the ultimate decision maker in connection with credit proposals.

For retail financings, credit applications are completed at branches and submitted to the senior branch managers who have the authority to approve applications which are within standard policy parameters. Policy exceptions are passed to the Risk Management department for review and approval.

Credit Risk Provisioning

QIIB's provisioning policies and procedures are established in accordance with QCB's specific requirements. Individual financing facilities are categorised on a sliding scale pursuant to the QCB's latest instructions into: (i) performing; (ii) special mention; (iii) substandard; (iv) doubtful; and (v) bad. The latter three categories are non-performing classifications and require a provision against the outstanding facility (after taking into account collateral secured against the facility). Outstanding facilities are reviewed on an individual basis and classified accordingly as:

- *Substandard*: facilities with a due payment outstanding for more than 90 days (but less than 180 days), requiring a 20 per cent. provision against the unsecured portion of such facility;

- *Doubtful*: facilities with a due payment outstanding for more than 180 days (but less than 270 days), requiring a 50 per cent. provision against the unsecured portion of such facility; and

- *Bad*: facilities with a due payment outstanding for more than 270 days, requiring a 100 per cent. provision against the unsecured portion of such facility.

QIIB's internal credit rating framework has additional classifications within each of the QCB's "substandard", "doubtful" and "bad" classifications. These additional classifications are consistent with the QCB's classifications. When facilities are aggregated according to the QCB's classifications, they are consistent with the intention and requirements of the QCB's regulations.

QIIB prepares a draft provisioning requirement annually based on the QCB's categories above which is submitted to the QCB in November of each year. The QCB has the authority to vary the draft provisioning in consultation with the Bank. The QCB's process of variation and consultation is applied in a consistent manner for all Qatari banks.

Collections

QIIB has established a loan collections department to engage with retail customers that are experiencing difficulties in meeting their payment obligations. The aim of this collection engagement is to work with the customers in resolving payment difficulties. Enforcing the Bank's legal rights is typically considered as a last resort measure.

Due to the sensitive nature of corporate and SME relationships, such collection matters are referred to the relevant relationship managers. The relationship managers directly engage with the corporate or SME customer with a view to resolving outstanding payment obligations.

Impairment Provisioning

Financial investments are reviewed for impairments on a quarterly basis and other investments are reviewed at least annually. An investment is considered impaired when, in the opinion of QIIB's management, there is a reasonable doubt regarding the collectability of the carrying value of the investment and/or there is a substantial and prolonged fall in the fair value of the investment compared to its carrying value.

When such impairments are identified, an assessment of the required impairment provision is made on each individual investment and processed accordingly.

Risk (General) Reserve

In addition to undertaking specific credit risk and impairment provisioning, QIIB maintains a risk reserve in accordance with QCB requirements. The QCB requires such a reserve to be established at between 1.5 per cent. to 2.0 per cent. of a bank's outstanding financing portfolio. Facilities granted to or secured by the Government or secured by cash collateral are excluded from the financing portfolio for the purposes of assessing the required risk reserve amount. The use of the risk reserve is subject to the prior approval of the QCB.

In December 2011, the QCB released circular 102/2011 which raised the risk reserve to a minimum of 2.5 per cent. of each bank's outstanding financing portfolio. Banks have two years to achieve this requirement, needing to reach a minimum of risk reserve of 2.0 per cent. of their outstanding financing portfolio by the end of 2012 and 2.5 per cent. by the end of 2013.

The table below sets out the receivables and balances from financing activities and risk reserves as at the dates indicated:

	As at 31 December		
	2009	**2010**	**2011**
	(QR'000)	*(QR'000)*	*(QR'000)*
Net receivables and balances from financing activities excluding Government financing and securities and cash collateralised facilities	7,376,336	7,512,454	9,605,265
Risk Reserve	126,869	152,869	167,869

Excessive Risk Concentration

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

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

Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades resulting in certain sources of funding being immediately unavailable. To mitigate against this risk, QIIB has diversified its funding sources (see "*Financial Review – Funding*" for further details). Assets are managed with liquidity in mind, maintaining a balance of cash, cash equivalents and readily marketable securities and metals and commodities.

In addition, the Bank maintains a mandatory deposit with the QCB and has contingent funding facilities in place with the QCB. The Bank also complies with the QCB's liquidity ratio which requires the ratio of liquid assets to liabilities to be not less than 100 per cent.

Liquidity positions are monitored closely by the Treasurer of the Bank and both the Treasurer and the Asset and Liability Management Committee have joint responsibility for managing liquidity risk and ensuring compliance with the QCB's liquidity ratio.

Market Risk

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

Assets and liabilities profit rate gaps are reviewed by PPDC on a regular basis to ensure the gaps are within the limits established by the Board. The PPDC reports directly to the Board and works to develop policies and procedures in accordance with its Board-mandated framework. The PPDC also formulates feedback to the Board in connection with areas it considers will require development in the future, such as new regulations or risk practice standards.

The Board has set limits on the amount and type of investments that may be accepted by the Bank to mitigate equity price risk. This is monitored on an on-going basis by the Bank's Investments and Limits Committee. See "*Description of Qatar International Islamic Bank (Q.S.C.) – Risk Management Structure – Investments and Limits Committee*".

The Bank manages its exposure to currency exchange rate fluctuations within the levels defined by the Board, which sets limits on currency position exposures. Positions are monitored daily on an on-going basis. Value at Risk (**VaR**) limits are set to define the Bank's risk appetite and the VaR risk metrics is calculated on an on-going basis to ensure compliance with these limits.

Operating and Other Risks

Operating risks are the direct or indirect risks arising from functions which impact on the Bank's operations, for example, failure of IT systems, databases and the actions and inactions of individuals. The Bank mitigates these risks through the appointment of professional IT personnel and the establishment of independent operating departments for internal control and risk management, such as, *inter alia*, the Operations Risk department, Internal Audit and the appointment of a Compliance Officer. These independent operating departments ensure the availability of measurement, control and reporting systems relating to all elements of operating risks.

QIIB is exposed to a number of other risks including organisation, regulatory and goodwill (reputational) risks. Organisation risk represents the aggregation of factors that may affect an organisation's human resources and cause negative effects (such as human error, attrition and employee family issues) which impact on the Bank's ability to operate. These are managed through the establishment of policies and procedures which serve to provide a proper and professional working environment. Regulatory risks are managed by the appointment of proficient in-house and external legal advisors. Goodwill risks are managed by the continuous review of the matters affecting the standing of the Bank and issue of instructions and policies, when necessary.

Risk management structure

Board Supervision

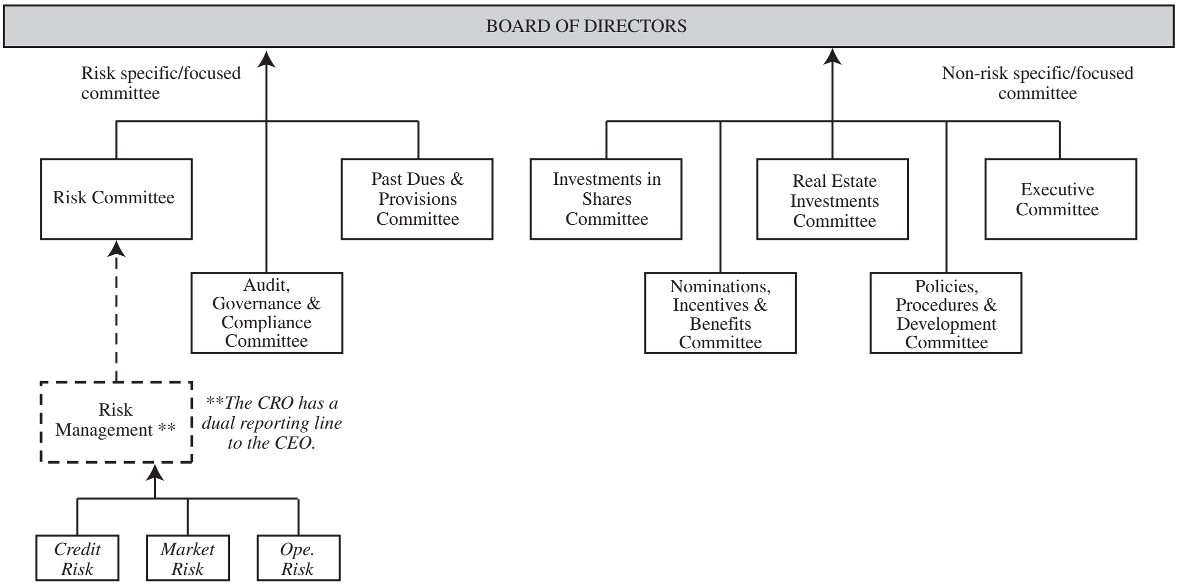
The Board has overall responsibility for the establishment and oversight of QIIB's risk management framework. The Board is responsible for formulating QIIB's risk management methodology and approving the strategic plans and risk management policies in accordance with industry advances and international best practice standards.

Risk management function

The risk management function is administered by the Chief Risk Officer and the Risk Management Department. The CRO and RMD responsibilities are explained in detail in the "*Business Description – Risk Management Structure – Risk Management Department*" section. The RMD is responsible for implementing and maintaining risk-related procedures to ensure an independent control process. It is also responsible for monitoring compliance with risk principles, policies and limits, across QIIB. Each business group has a decentralised department which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This function also ensures the complete capture of the risks in risk measurement and reporting systems.

The risk management function is further augmented by a number of Board and CEO mandated committees.

The Board oversees the risk management committees in order to ensure effective risk mitigation, as described in the chart below:



Each of the Risk Committee, Audit, Governance and Compliance Committee, Past Dues and Provisions Committee, Investments in Shares Committee, Nominations, Incentives and Benefits Committee, Real Estate Investments Committee, Policies, Procedures and Development Committee and Executive Committee is established by Board resolutions and reports directly to the Board. Some of these committees, whilst not specifically focused on a risk management function, augment the risk-focused committees through the decentralised approach to risk management adopted by the Bank, where risks arising in their areas of responsibility are identified, reviewed and monitored by the Bank's risk function.

Risk Committee

The Risk Committee comprises three members of the Board, the CEO and the Chief Risk Officer (**CRO**) (or, for the latter two, their delegates). The Risk Committee meets as often as it determines is appropriate and at least once every two months. Under authority delegated to it by the Board, the Risk Committee plays a key role in the fulfilment of corporate governance standards and overall risk management by assisting the Board:

- in the formulation of strategy for enterprise-wide risk management;
- in the evaluation of overall risks faced by QIIB and the alignment of risk policies with business strategies;
- in the determination of the level of risks which will be in the best interests of QIIB; and

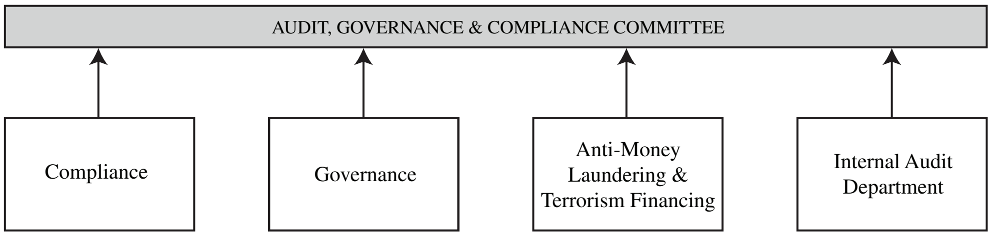
- through risk-based capital planning.

Past Dues and Provisions Committee

The Past Dues and Provisions Committee (**PDPC**) comprises one member of the Board, the CEO, the Deputy CEO, the Head of Corporate Financing, a representative from the Legal Department, a representative from the Risk Management Department and the Head of Internal Audit. The PDPC is focused on highlighting and monitoring the development of late payments and potential provisioning. Credit risks monitored by the PDPC are aggregated through the Risk Management function in order to ensure that there is adequate collateral and provisioning to match the internal ratings classifications of the facilities provided by QIIB.

Audit, Governance and Compliance Committee

The table below sets out the functions of the Audit, Governance and Compliance Committee (the **AGCC**).



The AGCC is principally responsible for:

- ensuring the Bank's compliance with external regulations and other guidance on bank governance and anti-money laundering and terrorism financing (**AML & TF**);
- establishing and reviewing the Bank's internal audit programme;
- considering the major findings of each compliance, governance, AML & TF and internal audit reviews;
- making appropriate investigations and responses to these findings, ensuring co-ordination between the internal and external auditors where necessary;
- keeping under review the effectiveness of internal control systems; and
- reviewing the external auditor's management letter and formulating QIIB's responses thereto.

The AGCC is also responsible for ensuring the development of governance principles at the Bank in line with governance guidelines of relevant Qatari authorities. An annual governance report is submitted to the Qatar Financial Markets Authority (**QFMA**) in accordance with QFMA's disclosure requirements.

The AGCC comprises three Board members with the Head of the Internal Audit Department acting as the Secretary. The Committee meets bi-monthly or at least six times a year.

Compliance Department

The Compliance Department reports to the AGCC. Its role is to receive all communications from the QCB and co-ordinate required actions and responses to the QCB from the Bank where necessary. Communications between the QCB and the Bank are collated and presented to the AGCC as and when required and at least on a quarterly basis.

Governance Department

The Governance Department reports to the AGCC. Its role is to receive all correspondence from relevant regulatory authorities concerning corporate governance regulations and guidelines. The Governance

Department co-ordinates the required actions and responses from the Bank where necessary. Currently, only two regulatory bodies have imposed such regulations and guidelines; the QCB and the QFMA. Communications concerning corporate governance matters between the QCB or QFMA and the Bank are collated and presented to the AGCC as and when required and at least on a quarterly basis.

The Governance Department also supports the AGCC in the development of Bank-wide governance principles to ensure that the Bank operates in compliance with the regulations and guidelines of the regulatory authorities.

AML & TF Department

The AML & TF Department reports to the AGCC. Its role is (i) to receive all communications to QIIB concerning anti-money laundering and terrorist finance issues and to respond accordingly; and (ii) to ensure that the Bank has adequate anti-money laundering and terrorist finance procedures in place to meet the anti-money laundering and terrorist finance requirements of applicable regulatory authorities.

Internal Audit

The Internal Audit Department reports to the AGCC and the Managing Director and its role is to evaluate and report to the Board (through the AGCC) that the risk management, governance and control systems are functioning as intended in order to ensure that the organisation's resources are operating in accordance with the policies and procedures of the Bank. The IAD is obliged to report instances of operational failure of these systems and/or control deficiencies identified during its audit reviews to the AGCC. Such audit findings are also communicated to the relevant auditees so that the operational failures or weaknesses identified may be addressed or mitigated. The Internal Audit Department meets with the AGCC on a quarterly basis.

Risk Management Department

The Risk Management Department (**RMD**) is headed by the CRO, who reports directly to the CEO, with a functional responsibility to the Risk Committee and is, at the date of this Prospectus, staffed by eight risk specialist personnel and two support staff. The RMD's remit is to identify credit risks, market risks and operational risks and develop and implement relevant risk management processes. The RMD is responsible for the implementation and maintenance of the Board's risk policies and the monitoring of the QIIB's risk against risk limits as established by these policies, with monitoring of risks carried out by way of regular reporting of risk levels against established limits and, where applicable, within the context of stress scenarios.

Non-risk specific/focused Board Committees

The primary functions of these committees do not focus on risk management, however, by virtue of their specific functions, such committees are involved in supporting the risk management function through the identification, quantification, assessment, control and monitoring of risks relating to their specific functions.

- Executive Committee: Comprises the Chairman of the Board, two other Board members and the CEO. The Executive Committee reviews all activities of the Bank including, *inter alia*, performance of the Bank through key performance indicators, including selected compliance and risk ratios. The Executive Committee meets bi-monthly.

- Real Estate Investments Committee: Comprises three Board members. The Real Estate Investments Committee reviews property and investment holdings of the Bank including, *inter alia*, assessing new real estate investment opportunities, performance of real estate portfolio, compliance with regulatory ratios for real estate investments and assessing risks of real estate holdings. The Real Estate Investments Committee meets monthly.

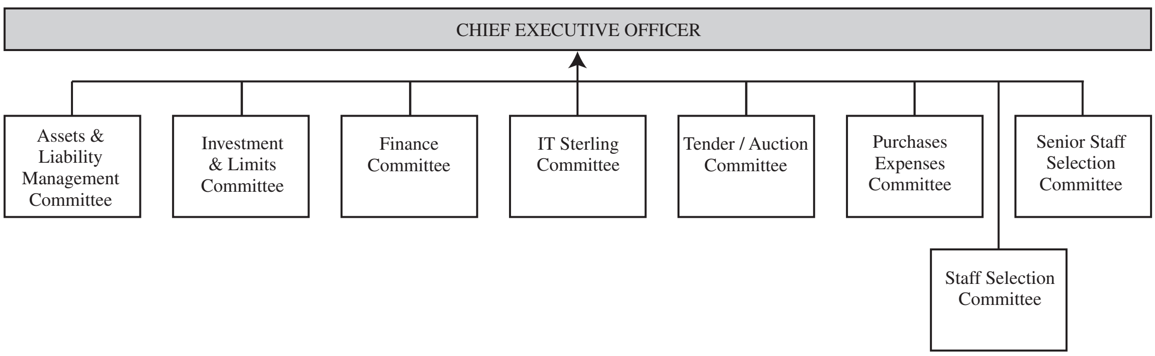
- Investments in Shares Committee: Comprises two Board members and the CEO. The Investments in Shares Committee reviews the Bank's equity investment portfolio (see "*Description of Qatar International Islamic Bank Q.S.C. – Financial Investments*" above) including, *inter alia*, assessing portfolio performance through profit return ratios, assessing requests for additional investments to be made and assessing risks of equity holdings. The Investments in Shares Committee meets as and when required.

- Policies, Procedures and Development Committee: Comprises three board members, the CEO and the Deputy CEO. The Policies, Procedures and Development Committee reviews the status of policies and procedures, including, *inter alia*, the setting and implementation of such policies and procedures, assessing the need for new or amended policies and procedures taking into account the environmental and other operating risks faced by the Bank. The Policies, Procedures and Development Committee meets bi-monthly.

- Nominations, Incentives and Benefits Committee: Comprises the Chairman of the Board, one other Board member and the CEO. The Nominations, Incentives and Benefits Committee reviews nominations, incentives and benefits for the Board. It also considers the appointment of new members to the Board. The Nominations, Incentives and Benefits Committee meets as and when required and at least on a quarterly basis.

CEO Committees

In addition to the Board committees, certain executive committees reporting in to the CEO (**CEO Committees**) serve to augment the Bank's risk management function.



The key CEO Committees are:

Asset and Liability Management Committee

The Asset and Liability Management Committee (the **ALCO**) is established by resolution of the Board, reporting to the CEO, to assist the Board, through the CEO and the management team in fulfilling their responsibility to oversee QIIB's asset and liability and market risk management functions. The primary goal of QIIB's asset and liability management strategy is to achieve optimal return while ensuring adequate levels of liquidity and capital within an effective risk control framework. The ALCO is responsible for establishing these policy directives. The ALCO comprises the CEO, Deputy CEO, CFO, Head of Investment and Treasury and the Treasurer and meets on a monthly basis.

Investments and Limits Committee

The Investments and Limits Committee (the **ILC**) comprises the CEO, Deputy CEO, Chief Risk Officer (or his or her delegate), Head of Investment and International Banking and the Treasurer. The ILC meets as and when required to assess investment opportunities and/or requests to amend investment limits which includes an assessment of the risks of such new investments and requested limit amendments.

The ILC also monitors the status and development of equity price risk on an on going basis.

Risk Measurement and Reporting Systems

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

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

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

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

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

Regulatory and Legal Compliance

Regulatory and legal risk is the risk of negative impact to business activities, earnings or capital, regulatory relationships or reputation as a result of failure to comply with or a failure to adapt to current and changing regulations, law, industry codes or rules, regulatory expectations, or ethical standards.

The identification and assessment of regulatory risk includes formal risk assessment activities carried out across the organisation, both at the individual business and operational level and at the enterprise level. Risk is measured through the assessment of the impact of regulatory and organisational changes, the introduction of new products and services and the acquisition or development of new lines of business. It is also measured through the testing of the effectiveness of the controls established to ensure compliance with regulatory requirements.

Capital Management/Adequacy

As at 30 June 2012, QIIB's Tier 1 capital adequacy ratio was 22.0 per cent. and its combined Tier 1 and Tier 2 capital adequacy ratio was 22.4 per cent. with total Tier 1 Capital at QR 3.9 million.

The capital adequacy ratio of QIIB is calculated in accordance with the Basel II guidelines and QCB instructions. There is no distinction in these guidelines and instructions between Islamic and conventional banks. As such, notwithstanding the capital nature of the Islamic deposits of its customers, such deposits are excluded from the calculation of capital adequacy under these guidelines and instructions.

The shareholders of QIIB have consistently maintained a strong level of capitalisation to support the business activities and development of the Bank. The following table shows the risk weighted values and capital charge for capital adequacy ratio purposes of QIIB as at 30 June 212 compared with historical levels:

	Year ended 31 December			Period ended 30 June
	2009	**2010**	**2011**	**2012**
	(QR million)	*(QR million)*	*(QR million)*	*(QR million)*
Tier 1 Capital	2,483	3,002	3,923	3,906
Tier 2 Capital	–	107	163	65
Total Capital	**2,483**	**3,110**	**4,086**	**3,971**
Credit Risk	10,407	10,391	12,805	13,740
Market Risk	1,172	1,383	2,402	2,555
Operational Risk	1,072	1,189	1,295	1,443
Total RWA	**12,651**	**12,962**	**16,502**	**17,738**
Tier 1 Capital Adequacy Ratio	**19.6%**	**23.2%**	**23.8%**	**22.0%**
Total Capital Adequacy Ratio	**19.6%**	**24.0%**	**24.8%**	**22.4%**

Basel Capital Accords

Basel II

QIIB is currently compliant with Basel II having adopted the Standardised Approach for credit risk, the Basic Indicator Approach for operational risk and the Standardised Approach for market risk and the calculation of its capital taking into account the required regulatory deductions for investments in associates. In this context, QIIB's capital adequacy ratios in excess of 20.0 per cent. (as at 30 June 2012) are above the minimum capital adequacy ratio of 10 per cent. for Qatari banks as stipulated by the QCB.

Internal Capital Adequacy Assessment Programme

Although the QCB instructions do not yet incorporate the principles and requirements of Pillar 2 of Basel II (the Supervisory Review pillar) QIIB is currently developing its Internal Capital Adequacy Assessment Programme (**ICAAP**). The Bank has developed a base assessment of its capital requirements in connection with its growth strategy over this period. The development and implementation of the ICAAP policy will further serve to enhance QIIB's ability to monitor and manage its capital adequacy requirements, particularly in light of the pending Basel III framework which is effective, globally, in a transitional manner, from 1 January 2013 onwards. The ICAAP policy is scheduled to be completed and implemented during 2012.

Basel III

The QCB issued a circular on 15 February 2011 requiring all national banks to provide the QCB with a comprehensive report on the implementation of the Basel III Capital Accord (**Basel III**). QIIB submitted its report to the QCB in May 2011. In terms of improving the quality of each bank's capital base, the QCB envisages a target capital adequacy ratio of 10 per cent. and a total capital adequacy ratio of 14.5 per cent. if a capital conservation buffer is put in place.

In the course of submitting its report to the QCB under the circular, QIIB confirmed its ability to meet the enhanced capital requirements under Basel III. Further, the capital calculation requirements of Basel III do not materially affect the calculation of either Tier 1 or Tier 2 capital as derived by QIIB under current Basel II guidelines and QCB instructions.

For compliance with liquidity ratios required under Basel III, the QCB issued circular AR71 / 2012 in August 2012 providing templates and guidance for the computation of the liquidity coverage, net stable funding and leverage ratios. The circular requires banks to submit their calculations to the QCB for observation starting with their financial position as at the end of August 2012. QIIB is currently preparing the relevant reports and continues to develop its liquidity management strategy and approach in line with the guidance received to date from the QCB.

Following its review of these various reports, the QCB will co-ordinate with individual banks in order to issue further instructions on the implementation of Basel III.

INFORMATION TECHNOLOGY

QIIB's IT Department is responsible for QIIB's IT strategy and the delivery of all IT services throughout QIIB. QIIB's IT strategy is focused on providing reliable information systems to QIIB's customers and employees in a secure environment whilst supporting the development of the Bank's business and operations.

For QIIB's customers, the IT Department focuses on providing a convenient and efficient banking service. For its internal businesses, the IT Department focuses on providing effective methods and solutions and processes for promoting and delivering services to its customers.

Having recently upgraded its core IT systems, QIIB has state of the art hardware, network and storage infrastructure. Given the sensitivity of securing its banking data, QIIB has implemented a number of security initiatives including a strong multi-tiered firewall system, an intrusion prevention system and a data leakage prevention system, in addition to having sophisticated end-point protection. Data and systems are also replicated to be made available in the event of an unforeseen emergency.

The data replication capability is part of the Bank's wider business continuity plan, which encapsulates the disaster recovery plan. Both are tested and updated regularly to ensure that QIIB is always ready to meet its customers' needs notwithstanding a failure of its primary IT system.

TAKAFUL (ISLAMIC INSURANCE)

QIIB maintains insurance policies and coverage that it deems appropriate. This includes a financial institution's blanket bond covering standard risk including electronic equipment and professional indemnity cover. QIIB maintains standard property insurance for all premises and maintains terrorism insurance. Electronic equipment is insured separately.

QIIB reviews insurance coverage on an ongoing basis and believes the coverage to be in accordance with industry practice in Qatar.

LITIGATION

In the ordinary course of business, QIIB may be subject to governmental, legal and arbitration proceedings. No material provision has been made as at the date of this Prospectus regarding any outstanding legal proceedings against QIIB. Procedurally, an annual review is conducted by the Legal Department to ascertain if provisioning is required for pending litigation and if required, the estimated amount is communicated to the Finance division for the raising of the necessary provisions.

SHARIA SUPERVISORY COMMITTEE

The SSC is appointed at QIIB's General Assembly and must consist of at least three members who are experts in Islamic jurisprudence. The SSC may include an expert in the field of Islamic financial institutions who also has knowledge of Islamic jurisprudence. Members must at all times be independent and should not hold positions of responsibility in QIIB other than as part of the SSC.

The current members of the SSC are as follows:

Head of the Sharia Supervisory Committee	Sh. Dr. Waleed Bin Hadi
Qualifications:	Masters and PhD in Islamic Law (Sudan and Kingdom of Saudi Arabia)
Current principal Sharia representations:	SSC executive member for QIB and Masraf
	SSC member for International Bank of Qatar, QInvest, European Finance House, Asian Finance Bank, and Arab Finance House.
Member	Sh. Dr. Abdul Sattar Abu Guddah,
Qualifications:	PhD in Sharia and Islamic Law (Egypt)
Current principal Sharia representations:	SSC Chairman for Asian Finance Bank Berhad
	SSC member for Bank Al Khair, Islamic Bank of Asia, Noor Islamic Bank, Al Baraka Islamic Bank, and Meezan Bank.
Member	Sh. Mohammed Othman Shubeir
Qualifications	PhD in Islamic Law (Egypt)
Current principal Sharia representations:	SSC member for QIB and Masraf

The SSC is the ultimate authority on Sharia compliance for QIIB. The primary function of the SSC is to review QIIB's proposed transactions and activities and issue resolutions and fatwas that approve or reject such proposed transactions or activities for compliance with Islamic Sharia principles. The SSC provides advice to all of QIIB's departments with regards to all of its business activities. In addition, the SSC deals with enquiries received from third parties regarding QIIB's business, whether such third parties are local or international and whether they are involved in the Sharia compliant investment sector or not.

QIIB is bound by the resolutions and fatwas of the SSC. The SSC may reject or suspend any activity or procedure of QIIB that is not compliant with Islamic Sharia principles. If an investment is deemed to be non-Sharia compliant, QIIB may be required to sell or otherwise dispose of its interest in such investment, with proceeds from such disposal to be donated to a designated charity acceptable to QIIB and the SSC.

The SSC, through the Sharia Audit Department (see below), continuously reviews the Bank's transactional procedures and policies to ensure adherence to Sharia principles and the broader framework established by the fatwas of the SSC to ensure that QIIB's activities and investments do not:

- constitute involvement in unlawful entertainment, such as casinos, gambling, cinema, music and pornographic materials;
- constitute involvement in hotels and leisure companies that provide any of the above products or services;
- exceed QIIB's debts and receivables beyond the Bank's assets as set out in its most recent balance sheet; or
- constitute any other activity deemed by the SSC to be in contradiction of the Sharia rules and principles.

The SSC meets at least on a quarterly basis each year.

Sharia Audit Department

The Sharia Audit Department (the **SAD**) reports directly to the SSC and is responsible for monitoring the day-to-day operations of QIIB, ensuring that all activities, products and services are conducted with and offered to customers on a Sharia compliant basis.

To mitigate breaches of Sharia principles, QIIB has implemented procedures that raise awareness and understanding of Sharia principles amongst its employees. Further, new products and services are subjected to vetting and approval of the SSC for compliance with Sharia principles before being released to the market. Should breaches of Sharia principles occur, these are documented and policies and procedures are amended, if necessary, to ensure that breaches identified do not recur. The SAD supports this process through its regular audits of the various activities of the Bank.

MANAGEMENT AND EMPLOYEES

QIIB is domiciled and registered in Qatar as an Islamic bank under the regulatory oversight of the QCB. This section sets out QIIB's organisational structure as at the date of this Prospectus.

The Board

The Board is responsible for the overall direction, supervision and control of QIIB. The day-to-day management of QIIB is conducted by the Executive Committee, the Managing Director and the CEO.

The principal role of the Board is to oversee the implementation of QIIB's strategic initiatives and its functions within the agreed framework in accordance with relevant statutory and regulatory structures. The Board meets at least six times a year. The Board (which is required to have between three and 15 members) currently comprises nine members. Each Director holds his position for three years, which may then be renewed for a further three year term.

Decisions of the Board are, with limited exceptions, made by majority votes of those present (in person or by proxy) at the meeting. The Board and QIIB's senior management have delegated certain powers to committees, as described below.

The members of the Board are:

Chairman and Managing Director (Executive Director)	H.E. Shk. Dr. Khalid Bin Thani A. Al. Thani	
	Date of Appointment:	May 1996
	Educational Qualifications:	BA, MBA (USA), PhD (UK)
	Current Principal Directorships:	Qatar Islamic Insurance Company Medical Care Group ARCAPITA (Bahrain) Ezdan Real Estate Company
Vice Chairman (Non-Executive Director)	H.E. Shk. Abdullah Bin Thani Bin Abdullah Al Thani	
	Date of Appointment:	May 2002
	Educational Qualifications:	B. Comm (Qatar)
	Current Principal Directorships:	Al Wefaq, Medical Care Group Qatar Islamic Insurance Company Ezdan Real Estate Company
Board Member (Non-Executive Director)	Ali Mohammed Ali Al Ebidly	
	Date of Appointment:	March 2012
	Educational Qualifications:	BEcon (Qatar), Masters of Finance (USA)
	Current Principal Directorships:	Tadawul Holdings, Ezdan Real Estate Company

Board Member (Non-Executive Director)	Mr. Abdullah Mohamed Abdul Raheem Al Emadi	
	Date of Appointment:	December 2005
	Educational Qualifications:	BBuss (Egypt)
	Current Principal Directorships:	Qatar Islamic Insurance Company Islamic Facilities Group
Board Member (Non-Executive Director)	Mr. Hisham Mustafa Mohammad Sahtari	
	Date of Appointment:	April 2008
	Educational Qualifications:	Bachelor of Architecture (Egypt)
	Current Principal Directorships:	Ezdan Real Estate Company
Board Member (Non-Executive Director)	Dr. Yousuf Ahmed Al-Naama	
	Date of Appointment:	May 1996
	Educational Qualifications:	PhD Law (Egypt)
	Current Principal Directorships:	Islamic Securities Market (Qatar) Gulf Holding Company Syrian Islamic Insurance Company
Board Member (Non-Executive Director)	Mr. Ali Abdul Rahman Al Hashmi	
	Date of Appointment:	February 2007
	Educational Qualifications:	MBA (UK)
	Current Principal Directorships:	Makeen Holding Islamic Securities Company Ritaj
Board Member (Non-Executive Director)	Mr. Abdullah Mohamed Saif Al Suwaidi	
	Date of Appointment:	April 2008
	Educational Qualifications:	Senior Matriculation (Qatar)
	Current Principal Directorships:	Qatar Islamic Insurance Company
Board Member (Executive Director)	Mr. Abdulbasit Ahmad Abdulrahman Al-Shaibei	
	Date of Appointment:	January 2009
	Educational Qualifications:	B. Comm & Econ (USA)
	Current Principal Directorships:	Islamic Securities Company Medical Care Group Gulf Cement Company

QIIB's code of conduct (the **Code**) covers the conduct of members of QIIB's Board. The Code binds signatories to the highest standards of professionalism and due diligence in the performance of their duties. It also covers conflicts of interest, disclosure and the confidentiality of insider information. Members of the Board are also bound by specific regulations relating to insider trading and are required to disclose details of their shareholdings in QIIB.

Certain members of the Board, their families and companies of which they are principal owners are customers of QIIB in the ordinary course of business. The transactions with these parties were made on the same terms, including profit rates, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk, see "*Selected Financial Information — Related Party Transactions*".

Senior Management

The senior management of QIIB is as follows:

Chief Executive Officer	Mr. Abdulbasit Ahmad Abdulrahman Al-Shaibei	
	Date of Appointment:	January 1994
	Educational Qualifications:	Bachelor of Commerce and Economics, Fayetteville State University (USA)
Deputy CEO, Chief Income Sector	Mr. Jamal Al-Jamal	
	Date of Appointment:	May 1997
	Educational Qualifications:	Bachelor of Commerce, Qatar University (Qatar)
Investment and Treasury	Mr. Peter Bokma	
		September 2012
		Masters of Business Administration, Heriot-Watt University (Scotland)
Chief Operating Officer	Mr. Ali Hamad Al-Mesaifri	
	Date of Appointment:	August 1992
	Educational Qualifications:	Bachelor of Law, Beirut Arab University (Qatar)
Chief Risk Officer	Dr. Jamal Al Asmar	
	Date of Appointment:	January 1995
	Educational Qualifications:	B. Accounting, Beirut Arab University (Lebanon)
Chief Financial Officer	Mr. Edward T S Wong	
	Date of Appointment:	August 2010
	Educational Qualifications:	Bachelor of Economics (Accounting), Monash University, Australia

The business address of each member of the Board and senior management is PO Box 664, Doha, Qatar. No member of either the Board or the senior management has any actual or potential conflict of interest between his duties to QIIB and his private interests and/or other duties.

Board Committees

QIIB has the following Board Committees:

Executive Committee	H.E. Sheikh Dr. Khalid Bin Thani Abdullah Al-Thani *(Chairman)* Dr. Yousuf Ahmad Al-Nama *(Member)* Mr. Abdullah Mohammed Abdulraheem Al-Emadi *(Member)* Mr. Abdulbasit Ahmad Abdulrahman Al-Shaibei *(Member)*
Policies, Procedures and Development Committee	Dr. Yousuf Ahmad Al-Nama (*Chairman*) Ali Mohammed Ali Al Ebidly (*Member*) Mr. Ali Abdulrahman Al-Hashemi (*Member*) Mr. Abdulbasit Ahmad Abdulrahman Al-Shaibei (*Member*) Mr. Jamal Abdullah Al-Jamal (*Member*)
Risk Committee	Dr. Yousuf Ahmad Al-Nama (*Chairman*) Mr. Ali Mohammed Ali Al Ebidly (*Member*) Mr. Ali Abdulrahman Al-Hashemi (*Member*)

QIIB's Chief Executive Officer or his Representative (*Member*)
Head of Risk Sector or his Representative (*Member*)

Audit, Governance and Compliance Committee

H.E. Sheikh Abdullah Bin Thani Bin Abdullah Al-Thani (*Chairman*)
Ali Mohammed Ali Al Ebidly (*Member*)
Mr. Abdullah M.S. Al-Suwaidi (*Member*)

Past Dues and Provisions Committee

Dr. Yousuf Ahmad Al-Nama (*Chairman*)
Mr. Abdulbasit Ahmad Abdulrahman Al-Shaibei (*Member*)
Mr. Jamal Abdullah Al-Jamal Deputy CEO (*Member*)
Representative from Corporate and SME Financing Sector (*Member*)
Representative from Risk Sector (*Member*)
Legal Dept. (*Member*)
Mr. Moustafa Khalifa Internal Audit (*Member*)

Real Estate Investments Committee

Dr. Hesham Mustafa El-Sehetry (*Chairman)*
Mr. Ali Abdulrahman Al-Hashemi (*Member)*
Mr. Abdullah M.S. Al-Suwaidi (*Member*)

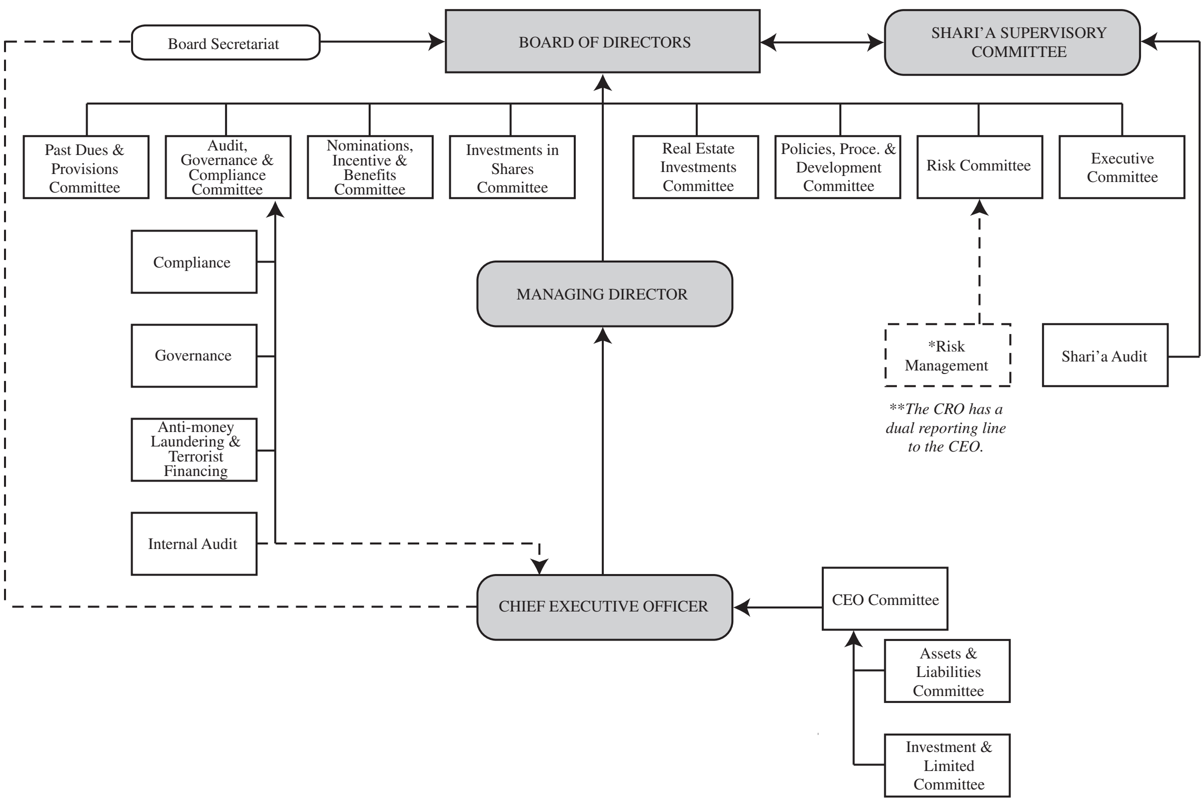
Investment in Shares Committee

Dr. Yousuf Ahmad Al-Nama (*Chairman*)
Mr. Abdullah Mohammed Abdulraheem Al-Emadi (*Member*)
Mr. Abdulbasit Ahmad Abdulrahman Al-Shaibei (*Member*)

Nominations, Incentives and Benefits Committee

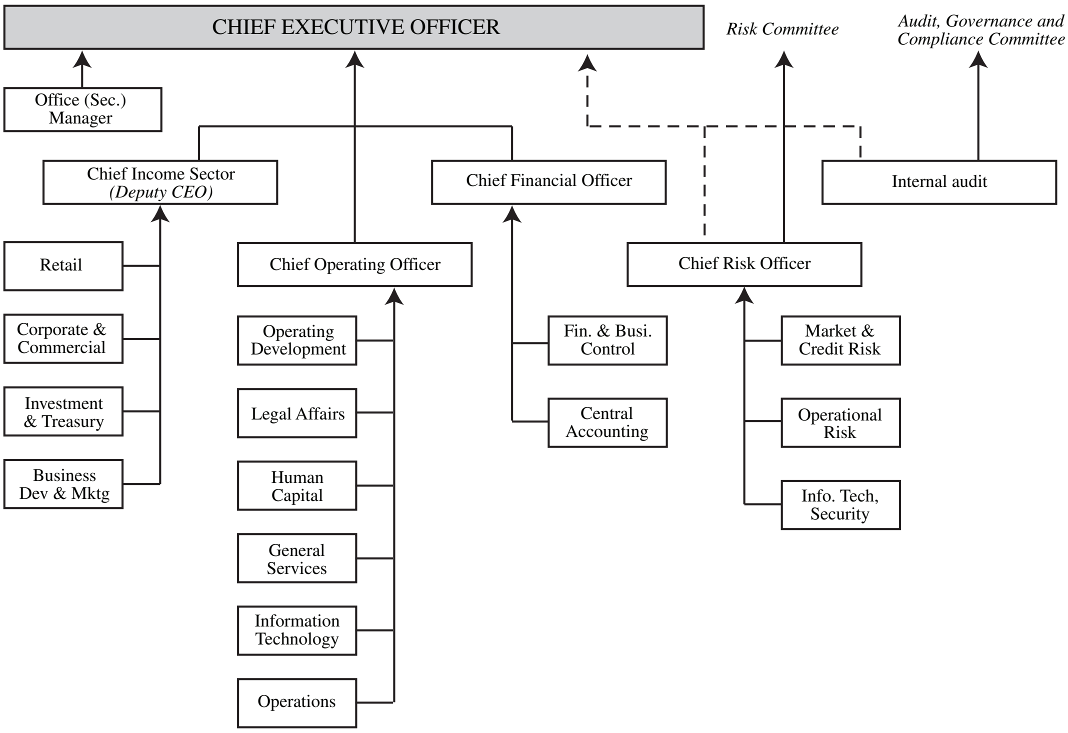
H.E. Sheikh Dr. Khalid Bin Thani Bin Abdullah Al-Thani (*Chairman*)
Ali Mohammed Ali Al Ebidly (*Member*)
Mr. Abdulbasit Ahmad Abdulrahman Al-Shaibei (*Member)*

The following chart sets out the organisational structure of QIIB as at the date of this Prospectus:



* Please see page 99 of this Prospectus for a full list of the key CEO Committees.

The following chart sets out the CEO level management team organisational structure as at the date of this Prospectus:



The CRO and Head of IAD both have independent functional reporting lines to the Risk Committee and the Audit, Governance and Compliance Committee, respectively, with a secondary, administrative reporting line to the CEO.

Employees

Overview

As at 30 June 2012, QIIB employed 368 members of staff as compared to 364 as at 31 December 2011, 354 as at 31 December 2010 and 338 as at 31 December 2009.

QIIB's human resources policies aim to ensure that QIIB's staffing requirements are met through the recruitment and development of talented individuals and the implementation of tailored training and development programmes, performance appraisal and reward systems.

End of Service Benefits and Pension Fund

The Bank provides end of service benefits and pension funds to employees in accordance with the relevant labour laws of Qatar. For Qatari employees, the Bank provides its contribution to the pension fund in accordance with the Retirement and Pension Law No. 24 of 2002. Such payments are included as "general and administrative expense" for the purposes of QIIB's Financial Statements (as defined below).

For non-Qatari employees, the Bank provides end of service benefits in accordance with the regulations of the Bank and Labour Law of Qatar. The provision is calculated based on the period of service (in years) for each staff at the end of the relevant financial year. This provision is charged against the Bank's statement of income as "general and administrative expenses" and recorded in "other liabilities" on the Bank's statement of financial position until it is utilised.

Qatarisation

In common with all Qatar banks, QIIB is required by the QCB to achieve a target of 20 per cent. of its employees being Qatari nationals, known as Qatarisation targets. Qatar nationals accounted for 22.3 per cent. of QIIB's employees as at 30 June 2012, compared to 22.7 per cent. as at 31 December 2011 and 21.6 per cent. as at 31 December 2010. In 2010, QIIB signed an agreement with Qatar's Department of Manpower in the Ministry of Labour for the employment of 24 Qatari males and females within QIIB following their studies at the College of the North Atlantic. Ten of these sponsored students have since joined QIIB as contracted employees, with another eight joining as trainees. Including these additional contracted employees (who are still subject to probation periods) and trainees, QIIB's Qatarisation has increased to 24.2 per cent.

QIIB has an internal target to achieve 35 per cent. Qatarisation over the next three years.

ZAKAT AND SOCIAL COMMITMENTS

QIIB does not have any zakat obligations as profits earned are paid out to its shareholders and unrestricted investment account holders accordingly. Individual shareholders and customers are responsible for complying with their respective zakat obligations.

Under Law No.13 of 2008, the Bank is required to provide annual contributions to support social and sports activities in an amount equal to 2.5 per cent. of the Bank's annual net profit. Contributions made to the Government social and sporting activities support fund in 2011 were QR 16.3 million, in 2010 were QR 14.0 million and in 2009 were QR 8.3 million. In 2009, the total contribution to social and sporting activities was QR 12.8 million, of which QR 4.5 million was paid directly for the sponsorship Al Gharafa football club and other charities.

SELECTED FINANCIAL INFORMATION

The following information has been derived from, and should be read in conjunction with, and is qualified in its entirety by reference to, QIIB's financial statements for the years ended 31 December 2009, 2010 and 2011 and for the six month periods ended 30 June 2011 and 30 June 2012 and in each case the notes thereto, which are set out elsewhere in this Prospectus (the ***Financial Statements****).*

The following tables set out selected consolidated financial information of QIIB, as extracted from the Financial Statements. The ratios included herein have been prepared based on management information and information in the Financial Statements. QIIB prepares its financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (**AAOIFI**), International Financial Reporting Standards where no AAOIFI standards and guidance exist, and relevant laws and instructions issued by the Qatar Central Bank (**QCB**) and the provisions of the Qatar Commercial Companies Law.

Selected balance sheet data

	As at 31 December			As at 30 June
	2009	**2010**	**2011**	**2012**
	(QR'000)	*(QR'000)*	*(QR'000)*	*(QR'000)*
Cash and balances with Qatar Central Bank	642,377	954,630	934,530	1,152,402
Balances and investments with banks and financial institutions	3,900,502	5,148,012	5,734,175	5,581,426
Receivables and balances from financing	9,070,011	9,177,747	10,588,963	11,424,879
Financial investments	657,877	1,694,264	4,259,060	3,656,395
Investment in associates	343,379	227,864	365,231	377,398
Investment properties held for leasing	49,091	74,764	236,279	234,877
Investment properties held for trading	304,223	444,123	639,636	746,319
Property and equipment	219,946	216,147	185,531	182,789
Other assets	333,505	241,390	414,221	346,748
Total assets	**15,520,911**	**18,178,941**	**23,357,626**	**23,703,233**
Current accounts for banks and financial institutions	22,090	100,110	15,997	77,700
Customers' current accounts	2,451,729	2,836,131	3,952,019	4,581,361
Other liabilities	146,180	227,651	357,592	447,656
Total liabilities	**2,619,999**	**3,163,892**	**4,325,608**	**5,106,717**
Holders of unrestricted investment accounts	**9,101,563**	**11,197,751**	**14,138,758**	**13,899,969**
Share capital	1,387,546	1,387,546	1,513,687	1,513,687
Legal reserve	1,651,369	1,651,369	2,452,360	2,452,360
Fair value reserve	54,772	66,074	107,309	100,825
Risk reserve	126,869	152,869	167,869	167,869
Foreign currency translation reserve	(1,790)	(1,866)	(10,651)	(11,178)
Other reserves	20,787	40,800	32,896	30,862
Proposed cash dividends	529,791	520,330	529,790	-
Retained earnings	30,005	176	100,000	442,122
Total equity	**3,799,349**	**3,817,298**	**4,893,260**	**4,696,547**
Total liabilities, holders of unrestricted investment accounts and shareholders' equity	**15,520,911**	**18,178,941**	**23,357,626**	**23,703,233**

Selected income statement data

	As at 31 December			As at 30 June
	2009	2010	2011	2012
	(QR'000)	*(QR'000)*	*(QR'000)*	*(QR'000)*
Income from financing activities	782,971	855,020	851,081	379,004
Income from investing activities	86,594	127,638	205,440	168,144
Total income from financing and investing activities	**869,565**	**982,658**	**1,056,521**	**547,148**
Net commission and fees income	**82,622**	**93,548**	**70,107**	**29,734**
Gain from foreign exchange operations	**5,753**	**9,175**	**7,293**	**5,027**
Net operating income	**957,940**	**1,085,381**	**1,133,921**	**581,909**
Provision for impairment of financing activities	**(16,500)**	**(16,064)**	**(19,343)**	**(10,051)**
Net profit for the year attributable to shareholders	**511,337**	**558,827**	**653,036**	**340,088**

Selected ratios

	As at 31 December			As at 30 June
	2009	2010	2011	2012
Earnings per share	3.89	4.03	4.38	2.25
	(%)	*(%)*	*(%)*	*(%)*
Return on average equity[1]	15.5	14.7	15.0	14.2
Return on average assets[2]	3.4	3.3	3.1	2.9
Capital adequacy ratio[3]	19.8	24.0	24.8	22.4
Net financing receivables' to deposit ratio[4]	78.4	64.9	58.5	61.6
Cost to income ratio[5]	23.2	21.9	22.4	17.2
Net profit margin[6]	74.4	73.9	75.1	73.8
Total financing to total assets ratio[7]	58.4	50.5	45.3	48.2
Non performing financing ratio[8]	1.4	3.5	1.6	1.5
Non-performing coverage ratio[9]	51.6	27.3	62.0	66.0

Notes

(1) Profit for the period divided by average shareholders' equity for the period

(2) Profit for the period divided by average assets for the period

(3) Tier one capital as at period end plus tier two capital as at period end divided by risk weighted assets for the period

(4) Net financing and receivables as at period end divided by deposits as at period end

(5) General administrative expenses for the period divided by net operating income (after netting off share of profit paid to URIA holders) for the period

(6) Net profit for the period divided by net operating income for the period

(7) Net financing and receivables for the period divided by total assets for the period

(8) Non performing financing facilities as at period end divided by gross financing and receivables as at period end

(9) Specific provisions as at period end divided by non performing financing facilities as at period end

Related party transactions

Certain related parties (principally the major shareholders, board members, key personnel of QIIB and companies where they hold a significant interest and any other parties having significant influence on the financial or operational decisions of QIIB) are customers of QIIB in the ordinary course of business. The transactions with these parties were made on substantially the same terms, including profit and commission rates and the requirements for collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve an amount of risk which was more than the amount of risk relating to such comparable transactions.

The following table demonstrates the Bank's related parties transactions:

	As at/year ended 31 December		
	2009	2010	2011
	(QR'000)	*(QR'000)*	*(QR'000)*
Board of Directors			
Assets including murabaha, musawama and ijara	302,368	309,891	159,765
Liabilities including current account balances and unrestricted deposits	63,420	208,380	107,399
Letter of credit, letter of guarantee and acceptances	291,370	4,987	600
Fees and commission income	21,166	22,002	10,385
Others			
Assets including murabaha, musawama and ijara	4,995	209,680	28,721
Liabilities including current account balances and unrestricted deposits	2,121	91,083	315,141
Letter of credit, letter of guarantee and acceptances	112	–	6,637
Fees and commission income	350	3,151	1,867
Income from investing activities	10,793	24,358	–
Compensation of key management personnel			
Salaries and other allowances	18,647	13,345	18,572
End of service benefit	339	367	430
Contribution to Qatari pension	323	323	634
Board of Directors' remuneration	6,664	7,010	8,415

FINANCIAL REVIEW

The following discussion should be read in conjunction with the Financial Statements. Unless otherwise specified, the financial data discussed below has been extracted without material adjustment from the Financial Statements.

References in this financial review to 2009, 2010 and 2011 are to the 12 month periods ended 31 December. References to average balances in relation to a year and period of six months are (except where otherwise stated) references to averages based on balances at the start and end of each period. As a result of rounding, the totals stated in the tables below may not be an exact arithmetical sum of the numbers in respect of which they are expressed to be a total.

This discussion contains forward-looking statements that involve risks and uncertainties. The Bank's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this prospectus, particularly under the heading "Risk Factors".

Overview

Qatar International Islamic Bank (Q.S.C) (**QIIB**) was incorporated under Amiri Decree No. 52 of 1990 and began operations on 1 January 1991 with a focus on providing retail Islamic financing products and services. The Bank has since developed into a fully-fledged Islamic financial institution providing both retail and wholesale Islamic banking products and services to its customers who are predominantly based in Qatar.

QIIB operates through its head office located on Grand Hamad Street in Doha and 15 branches in Qatar, augmented by 70 ATMs and other E-Banking service channels. QIIB is listed and its shares are traded on the Qatar Exchange (**QE**).

The principal revenue earning activities of the Bank comprise Islamic financing (including the provision of guarantees and commitments) which generates profit yield, fee and commission income and investment activities which generate investment income and other services (including, among other things, the provision of electronic cards) which principally generate fee and commission income.

As at 30 June 2012, QIIB had total assets of QR 23.7 billion compared with QR 23.4 billion as at 31 December 2011, total receivables and balances from financing activities of QR 11.4 billion compared with QR 10.6 billion as at 31 December 2011 and an aggregate amount of total liabilities and holders of unrestricted investment accounts of QR 19.0 billion compared with QR 18.5 billion as at 31 December 2011. For the six month period ended 30 June 2012, QIIB recorded net operating income of QR 581.9 million, net profit before share of holders of unrestricted investment accounts of QR 461.0 million and net profit attributable to shareholders of QR 340.1 million.

QIIB's annualised return on average equity for the six month period ended 30 June 2012 was 14.2 per cent. and its annualised return on average assets was 2.9 per cent. for the same period. For each of 2009, 2010 and 2011, QIIB's return on average equity was 15.5 per cent. 14.7 per cent. and 15.0 per cent., respectively, and its return on average assets was 3.4 per cent., 3.3 per cent. and 3.1 per cent., respectively.

Significant Factors Affecting Results of Operations

QIIB's revenues and results of operations during the periods under review have been affected by the following factors:

Global financial conditions

QIIB's revenues and results of operations have been adversely affected by economic and market conditions in Qatar, the broader GCC region and around the world. The financial crisis in 2008 brought about a substantial deleveraging of the financial markets which began in the developed economies of the United States of America and Europe and subsequently moved to the Middle East region. This deleveraging caused unprecedented levels of volatility and had serious adverse consequences for stock market and real estate values, employment, consumer confidence and levels of economic activity. As a result, QIIB's total assets' growth slowed from 28.9 per cent. between 2008 and 2009 to 17.1 per cent. between 2009 and 2010.

Stock market decline

As a result of global financial conditions, stock markets in Qatar and GCC countries experienced significant declines in share valuations in 2008. For example, the QE index dropped by 28.1 per cent. from 2007 to 2008. The QE index stabilised in 2009 but remained essentially flat. However, Qatar (unlike the wider GCC region) saw a recovery in share valuations in 2010, with the QE index rising by 24.8 per cent. in 2010 and remaining stable throughout 2011 and 2012. This decline in share valuations narrowed QIIB's opportunities to realise gains by selling investments, which had a consequential negative impact on QIIB's profits from sales of financial investments. QIIB's profits from sales of financial investments were QR 2.1 million for the year ended 31 December 2011, QR 2.9 million for the year ended 31 December 2010 and QR 3.8 million for the year ended 31 December 2009. See "*Results of Operations for the years ended 2009, 2010 and 2011 – Income from Investing Activities*".

Compliance with QCB consumer credit guidelines

In April 2011, the QCB issued a circular to all banks operating in Qatar which, among other things, limited the loan amounts, both in real terms and as a percentage of a customers' salary, that may be made available to retail customers in Qatar. The circular also limited the repayment period and profit rate payable on retail loans. Similar profit rate restrictions were also imposed in respect of credit cards available to retail customers. The circular applies to transactions with retail customers entered into after 10 April 2011.

In the period immediately following the issuance of the circular, QIIB experienced a noticeable slowdown in credit growth, with a growth in consumer credit of 13.8 per cent. from 2010 to 2011 compared to 42.9 per cent. from 2009 to 2010. The impact of the QCB circular was partially mitigated in 2012 when the salaries of Qatari nationals were increased (see "*Financial Review – Significant Factors Affecting Results of Operations – Salary Increase for Qatari Nationals*" below).

Segregation of Islamic financing

In February 2011, the QCB announced measures to segregate Islamic financing from conventional banking activities in Qatar. As a consequence, conventional banks operating in Qatar sought to divest Islamic assets where they were unable to convert them to conventional banking-based assets (see "*Description of Qatar International Islamic Bank (Q.S.C.) – Competition and Competitive Strengths – Closing of the* "*Islamic windows*"). This had a particular impact in the retail sector where customers are traditionally more sensitive to the type of financing provided. The segregation of Islamic financing helped to mitigate the 2011 slowdown in credit growth discussed above, which resulted from the introduction of the QCB consumer credit guidelines.

Salary increase for Qatari nationals

Strong growth in QIIB's retail portfolio has also been influenced by the Government's announcement in September 2011 of a substantial increase in salaries for Qatari nationals employed by the Government. This initiative was subsequently adopted by Qatari private sector companies leading to a substantial salary increase for both public and private sector Qatari national employees. Both the closure of the "Islamic windows" of conventional banks operating in Qatar and the increase in salaries for Qatari nationals contributed to the growth of QIIB's retail portfolio. As a result, QIIB's Retail Financing segment's assets increased by 18.8 per cent. year-on-year from 2010 to 2011, with a significant part of the growth achieved in the latter part of 2011 as the Qatari nationals' salary increase was effected across Qatar between September and October 2011, and the deadline for closure of conventional banks' Islamic windows was 31 December 2011.

Development of the Qatari market

Prior to the global financial crisis in 2008, the ruling family and the government implemented Qatar's National Vision 2030 (see "*Description of Qatar International Islamic Bank (Q.S.C.) – Strategy – Qatari market*" for further information). The development and implementation of the Qatar National Vision 2030 provides for sustainable economic growth which allows QIIB to invest in Qatar's future through financings and direct investment holdings. Qatar National Vision 2030 projects have contributed to sustained economic growth in Qatar, notwithstanding the impact of the global financial crisis on Middle Eastern economies between 2009 and 2010. Projects implementing the Qatar National Vision 2030 have not been materially affected by the global financial crisis.

Qatar's levels of stable growth throughout the recent global financial conditions has contributed to QIIB's continued profitability. These growth levels, together with QIIB's prudent risk management framework have resulted in net profits of QR 511.3 million for the year ended 31 December 2009, QR 558.8 million for the year ended 31 December 2010, QR 653.0 million for the year ended 31 December 2011. QIIB's net profits for the six months ended 30 June 2011 were QR 322.3 million and for the six months ended 30 June 2012 were QR 340.1 million.

Critical Accounting Policies

Significant accounting judgements and estimates

In the process of applying QIIB's accounting policies, management has used its judgement and made estimates in determining certain amounts recognised in the Financial Statements. The most significant judgements and estimates made are as follows.

Fair value of financial instruments

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

Impairment losses on financing activities

QIIB reviews its non-performing financing activities at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income. In determining the level of allowance required, management considers the past due instalments on the financing activities and the estimated amount and timing of future cash flows. Such estimates are necessarily based on assumptions about factors involving varying degrees of judgement and uncertainty. These assumptions may be varied from period to period reflecting QIIB's experience of actual outcomes over time.

Impairment of equity investments

QIIB treats available for sale equity investments as impaired when there is objective evidence that the estimated future cash flows of the investment will be impacted leading to a permanent decline in the fair value of the investment. QIIB evaluates a range of factors in determining whether or not to make an impairment, including an analysis of normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities, along with a comprehensive analysis of the strength of the underlying fundamentals of the investments and the macroeconomic environments in which they operate.

Results of Operations for six months ended 30 June 2012 compared to six months ended 30 June 2011

Income from Financing Activities and Investing Activities

The following table sets out QIIB's income from financing activities and income from investing activities for each period indicated:

	6 months ended 30 June		Percentage change
	2011	2012	2011/2012
	(QR'000)	*(QR'000)*	*(%)*
Income from financing activities	419,861	379,004	(9.7)
Income from investing activities	96,584	168,144	74.1
Total income from financing and investing activities	**516,445**	**547,148**	**5.9**

QIIB principally derives income from the Islamic financing facilities it grants to its corporate and retail customers. Income from investment activities is generated through:

- deposits and commodity *Murabahas* with banks and financial institutions;
- investments in equities and debt securities;
- income derived from other investments such as investments in associates;
- investments in properties held for leasing and trading; and
- gains or losses of sales of such investments.

QIIB's total income from financing and investing activities for the six month period ended 30 June 2012 amounted to QR 547.1, compared to QR 516.4 million for the six month period ended 30 June 2011.

QIIB's income from financing activities amounted to QR 379.0 million for the six month period ended 30 June 2012, a decline of 9.7 per cent. compared to income from financing activities of QR 419.9 million for the six month period ended 30 June 2011. The introduction of profit rate caps on consumer credit in April 2011 and the fiscal pressures arising from the interest rate differential between the US Dollar and Qatari Riyal whilst the Qatari Riyal remains pegged to the US Dollar have contributed to this decline in income from financing activities, as further discussed below.

As a result of implementation of the QCB's consumer credit guidelines, QIIB has been required since April 2011 to apply the current profit rate cap of 6.0 per cent. to all new retail financings entered into. The QCB guidelines set the cap at 1.50 per cent. plus the current QCB rate (which is 4.50 per cent. as at the date of this Prospectus). Prior to the introduction of the QCB cap, QIIB's retail portfolio (which carries fixed financing rates due to the nature of the Islamic products financed) generated an average financing profit yield of 10.5 per cent. per annum for the year ending 31 December 2010.

The continued maintenance of a low interest rate environment for the US Dollar by the US Federal Reserve has resulted in Qatari corporate customers seeking to refinance their Qatari Riyal denominated liabilities from Qatari Riyals to US Dollar to benefit from the lower financing cost. The Qatari Riyal carries a fixed exchange rate to the US Dollar. This led the QCB to reduce the QCB interest rate by 50 basis points during 2011 which, in turn, has resulted in a reduction of the financing yield on Qatari Riyals generally.

QIIB's corporate portfolio grew by 8.2 per cent. from 31 December 2011 to 30 June 2012 as QIIB continued to participate in financing arising from the Government's infrastructure initiatives designed to implement the Qatar National Vision 2030. In particular, to prepare for the World Cup 2022 (see "*Description of Qatar International Islamic Bank Q.S.C. – Strategy – Maintaining a highly visible and expanding presence in the local Qatari and regional markets through organic and acquisition growth*"). Overall, QIIB's financing portfolio grew by 12.9 per cent. between 30 June 2011 and 30 June 2012.

Income from investing activities amounted to QR 168.1 million for the six month period ended 30 June 2012, a 74.1 per cent. increase compared to income from investing activities of QR 96.6 million for the six month period ended 30 June 2011. This increase is mainly due to (a) a QR 40.2 million increase in gains on trading in securities and (b) increased profits earned from investments in properties held for leasing.

Profit yield spread and margin

Profit yield spread (which is defined as the difference between the gross profit rate earned on average financing receivables and the gross profit rate paid on average customer financing liabilities, in principle, being the Islamic equivalent of conventional banks' interest spread) was 6.3 per cent. annualised for the six month period ended 30 June 2012 compared with 7.8 per cent. annualised for the six month period ended 30 June 2011.

Profit yield margin (which is defined as difference between the gross profit rate earned on average financing receivables and the gross profit rate paid on average customer financing liabilities divided by average financing receivables, in principle, the Islamic equivalent of conventional banks' net interest margin) was 4.6 per cent. annualised for the six month period ended 30 June 2012 compared to 5.5 per cent. annualised for the six month period ended 30 June 2011.

Other Operating Income

The following table sets out QIIB's other operating income for each of the periods indicated:

	6 months ended 30 June		**Percentage change**
	2011	**2012**	**2011/2012**
	(QR'000)	*(QR'000)*	*(%)*
Commission and fee income	48,858	39,207	(19.8)
Commission and fee expense	(3,582)	(9,473)	(164.5)
Net commission and fee income	**45,276**	**29,734**	**(34.3)**
Gain from foreign exchange operations	4,517	5,027	11.3

QIIB's commission and fee income for the six month period ended 30 June 2012 amounted to QR 39.2 million compared to QR 48.9 million for the six month period ended 30 June 2011. Commission and fee income during these periods was predominantly generated by corporate financing transactions undertaken by QIIB's Corporate Financing Unit. Net commission and fee income declined to QR 29.7 million for the six month period ended 30 June 2012 from QR 45.3 million for the six month period ended 30 June 2011. This reflected the decline in commission and fee income as well as an increase in commission and fee expenses, which were incurred as a result of:

- increased brokerage activities. Increased brokerage activity costs were incurred as a result of increased trading activities. These trading activities generated the increased gains trading in securities noted in the above section discussing the increase of income from investing activities;
- a change in retail customer behaviour. QIIB's retail customers are increasingly using their electronic cards at non-QIIB ATMs. This increases the fee paid or payable by QIIB to the service providers of the locally and internationally shared ATM services; and
- re-classification of certain expenses relating to QIIB's electronic card services. Electronic card-related expenses were classified as general and administration expenses in the 2011 period and as commission and fee expenses in the 2012 period.

During the six month period ended 30 June 2012, QIIB's foreign exchange income amounted to QR 5.0 million compared to QR 4.5 million for the six month period ended 30 June 2011. This increase principally reflects increased customer activity arising from asset growth of foreign exchange trades for QIIB's retail and corporate customers.

Net Operating Income and Net Profit

The following table sets out QIIB's net operating income and net profit for the period due to shareholders for each of the periods indicated:

	6 months ended 30 June		Percentage change
	2011	**2012**	**2011/2012**
	(QR'000)	*(QR'000)*	*(%)*
Net operating income	**566,238**	**581,909**	**2.8**
Net profit for the six month period before share of holders of unrestricted investment accounts	**463,262**	**461,037**	**(0.1)**
Less: Share of profit of holders of unrestricted investment accounts	(140,935)	(120,949)	(14.2)
Net profit for the six month period attributable to shareholders	**322,327**	**340,088**	**5.5**

QIIB's total net operating income for the six month period ended 30 June 2012 amounted to QR 581.9 million compared to QR 566.2 million for the six month period ended 30 June 2011. This 2.8 per cent. increase in net operating income arose primarily from the increase in income from investing activities as discussed above.

Net profit attributable to shareholders for the six month period ended 30 June 2012 amounted to QR 340.1 million, representing a 5.5 per cent. increase from the net profit attributable to shareholders of QR 322.3 million for the six month period ended 30 June 2011. The increase in net profit attributable to shareholders in the 2012 period principally arose from the increase in net operating income (as noted above) and a reduction of QR 20.0 million in the share of profit paid to holders of unrestricted investment accounts from QR 140.9 million for the six month period ended 30 June 2011, compared to QR 120.9 million paid for the six month period ended 30 June 2012. The reduction in the share of profit of holders of unrestricted investment accounts, notwithstanding a period-to-period growth of 3.7 per cent. in deposit liabilities of unrestricted investment accounts from QR 13.4 billion as at 30 June 2011 to QR 13.9 billion as at 30 June 2012, reflects the reducing cost of financing through customer deposits experienced between these two periods.

For the six month period ended 30 June 2011, no impairment provisions were recorded. For the six month period ended 30 June 2012, provisions for impairment of investments of QR 31.7 million were recorded primarily in connection with the devaluation of QIIB's investments in Syria. Private equity investments in renewable energy projects also contributed, to a lesser degree, to this impairment provision.

Results of Operations for the years ended 2009, 2010 and 2011

Income from Financing Activities and Investing Activities

The following table sets out QIIB's income from financing activities and investing activities and QIIB's total income from financing activities and investing activities for each of the years indicated:

	As at 31 December			Percentage change	
	2009	**2010**	**2011**	**2009/2010**	**2010/2011**
	(QR'000)	*(QR'000)*	*(QR'000)*	*(%)*	*(%)*
Income from financing activities	782,971	855,020	851,081	9.2	(0.1)
Income from investing activities	86,594	127,638	205,440	47.4	61.0
Total income from financing and investing activities	**869,656**	**982,658**	**1,056,521**	**13.0**	**7.5**

QIIB's income from financing activities as at 31 December 2009 amounted to QR 782.9 million, as at 31 December 2010 amounted to QR 855.0 million and as at 31 December 2011 amounted to QR 851.1 million. Income from financing activities increased by QR 72.0 million in 2010, a 9.2 per cent. increase when compared to 2009, and decreased by QR 3.9 million in 2011, a 0.5 per cent. decrease when compared to 2010. The introduction of consumer credit profit rate caps in April 2011 and the fiscal pressures arising from the interest rate differential between the US Dollar and Qatari Riyal contributed to the decline in income from financing activities experienced in 2011.

QIIB's income from investing activities as at 31 December 2009 amounted to QR 86.6 million, as at 31 December 2010 amounted to QR 127.6 million and as at 31 December 2011 amounted to QR 205.4 million.

Income from financing activities

The following table sets out the principal components of QIIB's income from financing activities for each of the years indicated:

	As at 31 December			Percentage change	
	2009	**2010**	**2011**	**2009/2010**	**2010/2011**
	(QR'000)	*(QR'000)*	*(QR'000)*	*(%)*	*(%)*
Murabaha and *Musawama*	543,038	641,663	590,437	18.2	(8.0)
Istisna	55,848	40,544	28,327	(27.4)	(30.1)
Mudaraba	37,785	5,962	7,682	(84.2)	28.8
Ijara Muntahia Bittamleek	145,357	166,576	224,503	14.6	34.8
Musharakat	943	275	132	(70.8)	(52.0)
Total income from financing activities	**782,971**	**855,020**	**851,081**	**9.2**	**(0.5)**

Income from *Murabaha, Musawama, Istisna, Mudaraba* and *Musharakat* transactions principally reflects QIIB's profit on such transactions entered into by it. Income from *Ijara Muntahia Bittamleek* transactions represents rental revenue (net of the costs of leasing the assets concerned) received by QIIB from its customers. Financing income is primarily earned through *Murabaha, Musawama* and *Ijara Muntahia Bittamleek* contracts. Together, these sources of financing represented 87.9 per cent. of total income from financing activities in 2009, 94.5 per cent. in 2010 and 95.7 per cent. in 2011.

Different types of Islamic financing are available, depending on the circumstances. For example, although real estate related financing can be offered pursuant to *Murabaha*, *Musawama* facilities, QIIB most commonly finances real estate through *Istisna* and *Ijara* facilities. Such election is determined by customer preference, as well as the nature of the real estate being financed.

The repayment of a significant *Mudaraba* facility in 2010 resulted in a reduction of QIIB's outstanding *Mudaraba* balances by 84.2 per cent. from 2009 to 2010. Similarly, a significant *Murabaha* facility was partially settled in 2011, resulting in a net reduction of *Murabaha* and *Musawama* balances of 9.0 per cent. from 2010 to 2011.

The reduction in income from *Istisna* financings during the period from 2009 to 2011 is primarily due to the completion of the underlying financed projects and the resulting repayment or refinancing of the facilities. However, a number of these financings were converted to *Ijara Muntahia Bittamleek* financings, thereby partially contributing to the increse in income from these financing activities during the same period.

The number of *Ijara Muntahia Bittamleek* financings entered into by QIIB increased year-on-year from 2009 to 2011. In 2011, a drawdown by one particular customer under an existing facility resulted in a net increase of *Ijara Muntahia Bittamleek* financing balances of 34.8 per cent. from 2010 to 2011.

Income from investing activities

The following table sets out breakdowns of QIIB's income from investing activities for each of the years indicated:

	As at 31 December			Percentage change	
	2009	**2010**	**2011**	**2009/2010**	**2010/2011**
	(QR'000)	*(QR'000)*	*(QR'000)*	*(%)*	*(%)*
Income from investments with banks and financial institutions	**35,423**	**32,750**	**18,855**	**(7.5)**	**(42.4)**
Income from investment deposits with banks and financial institutions	26,064	32,199	17,956	23.5	(44.2)
Income from *Murabaha* in metals and commodities	9,359	551	899	(94.1)	63.2
Investment revenues	**47,400**	**91,992**	**184,487**	**94.1**	**100.5**
Income from investments	32,493	63,167	170,436	94.4	169.8
Investment properties held for leasing	4,114	4,287	14,094	4.2	228.8
Investment in associates	10,793	24,538	(43)	127.4	(100.2)
Gain on sale of investments	**3,771**	**2,896**	**2,098**	**(23.2)**	**(27.6)**
Investment of fair value through income statement	2,828	(1,890)	2,098	(166.8)	100.0
Investment properties held for trading	943	4,786	–	407.5	(100.0)
Total income from investing activities	**86,594**	**127,638**	**205,440**	**47.4**	**61.0**

QIIB's principal source of income from investing activities is earned from its investments in sukuk and other financial institutions. The aggregate of income from investments with banks and financial institutions and income from investments accounted for 78.4 per cent. of total income from investing activities in 2009, 75.2 per cent. in 2010, and 92.1 per cent. in 2011.

Income from investment deposits with banks and financial institutions increased by 23.5 per cent. from 2009 to 2010. This increase occurred as a result of the increase in QIIB's balances and investments with Islamic banks by 29.7 per cent. from 2009 to 2010.

Income from investment deposits with banks and financial institutions fell by 44.2 per cent. from 2010 to 2011. This reduction was due to lower profit rates following reductions of the QCB's interbank rate by 25 basis points in both April and August 2011. The QCB interbank rate fell from 1.25 per cent. to 0.75 per cent. as a result of these reductions. In addition, balances and investments with Islamic banks grew by only 2.1 per cent. from 2010 to 2011.

Income from investments are predominantly investments in sukuk issued by GCC sovereigns and other financial institutions. Income from investments increased by 169.8 per cent. from 2010 to 2011 as a result of QIIB's subscription of QR 1.5 billion for the Government's sukuk issue for Qatari banks in January 2011. QIIB also subscribed for and purchased other regional sukuk issues by GCC sovereigns and financial institutions.

Income from investments in associates represents QIIB's share of profit (or losses) arising from the activities of QIIB's associates. QIIB's share of profits from associates was QR 10.8 million in 2009 compared to QR 24.5 million in 2010. No income from investments in associates was recorded in QIIB's financial statements for the year ended 31 December 2011. Rather, income from investments in associates for the year ended 31 December 2011 of QR 34.4 million was recognised in QIIB's financial statements for the first quarter of 2012. This reflected a delay in the issuance of the audited financial statements of certain of QIIB's associate entities. QCB regulations provide that banks must rely on the latest audited end of year financial statements in order to calculate their share of profits in the associates. QIIB was therefore required to delay reporting its 2011 income from investments in associates until the first quarter of 2012.

Commission and fees income

The following table sets out QIIB's commission and fees income and expenses for each of the years indicated:

	As at 31 December			**Percentage change**	
	2009	**2010**	**2011**	**2009/2010**	**2010/2011**
	(QR'000)	*(QR'000)*	*(QR'000)*	*(%)*	*(%)*
Commission and fees income	**88,131**	**99,756**	**76,966**	**13.2**	**13.2**
Commission on local financing	48,943	56,058	37,880	14.5	(32.4)
Commission on letters of credit and guarantees	9,662	9,770	15,065	1.1	54.2
Bank charges	29,526	33,928	24,021	14.9	(29.2)
Commission and fees expenses	**(5,509)**	**(6,208)**	**(6,859)**	**12.7**	**10.5**
Net commission and fees income	**82,622**	**93,548**	**70,107**	**13.2**	**(25.1)**

Commission and fees income is earned primarily from commissions on financing activities and bank charges. Commissions on local financing comprise commissions earned upon QIIB granting local financing. Bank charges comprise commissions and fees for the issuance of bank drafts, bank services, and electronic card usage. Together, these sources of commission and fees income represent 89.0 per cent. of the Bank's total gross commission and fees income in 2009 compared to 90.2 per cent. in 2010 and 80.4 per cent. in 2011.

QIIB's commission on local financing amounted to QR 48.9 million for the year ended 31 December 2009, increasing by 14.5 per cent. to QR 56.1 million for the year ended 31 December 2010 and decreasing by 32.4 per cent. to QR 37.9 million for the year ended 31 December 2011. Although financing assets increased by 15.3 per cent. from 31 December 2010 to 31 December 2011, this reduction of commission on local financing was caused by:

- the growth of QIIB's financing assets resulting primarily from drawdowns on existing facilities; and
- reduced commission charges levied on corporate transactions (in order to improve QIIB's pricing competitiveness).

QIIB's commission on letters of credit and guarantees was QR 9.7 million for the year ended 31 December 2009, increasing by 1.1 per cent. to QR 9.8 million for the year ended 31 December 2010 and increasing by 54.2 per cent. to QR 15.1 million for the year ended 31 December 2011. The increase in commissions on letters of credit and guarantees in 2011 was a result of QIIB's strategy to take advantage of greater trade flows between Qatar and the rest of the world (see "*Description of Qatar International Islamic Bank Q.S.C. – Strategy – Investment Treasury Strategy*").

Bank charges are a reflection of the level of overall retail banking activity. The level of retail banking activity in 2011 had been affected by the QCB's consumer credit guidelines which were released in April 2011 (see "*Financial Review – Significant Factors Affecting Results of Operations – Compliance with consumer credit guidelines*"). Although the impact of these guidelines was mitigated by the increase in salaries of Qatar nationals, bank charges incurred decreased by 29.2 per cent. from QR 33.9 million for the year ended 31 December 2010 to QR 24.0 million for the year ended 31 December 2011.

Commission and fees expenses primarily represent payments made to card service and brokerage providers. Commission and fees expenses were QR 5.5 million for the year ended 31 December 2009, increasing by 12.7 per cent. to QR 6.2 million for the year ended 31 December 2010 and further increasing by 10.5 per cent. to QR 6.9 million for the year ended 31 December 2011. The increased use of cards by customers has resulted in additional commission and fees expenses being paid to card usage and interchange service providers, whilst increased investing activities has resulted in additional commission and fees expenses being paid to brokerage service providers.

Gain on foreign exchange operation

The following table sets out QIIB's gain on foreign exchange operation for each of the years indicated.

	As at 31 December			**Percentage change**	
	2009	**2010**	**2011**	**2009/2010**	**2010/2011**
	(QR'000)	*(QR'000)*	*(QR'000)*	*(%)*	*(%)*
Gain from foreign exchange operation	**5,753**	**9,175**	**7,293**	**59.4**	**(20.5)**

QIIB's foreign exchange operation income comprises income earned through trading and the revaluation of assets and liabilities on the balance sheet of QIIB. Foreign exchange trading income is generated from QIIB's involvement in customer-initiated foreign exchange transactions and positions. This constitutes in excess of 95 per cent. of the gains on income from foreign exchange operation for the years presented.

Expenses, depreciation and impairments

General and administrative expenses

The following table sets out the principal components of QIIB's operating expenses (before impairment charges) for each of the years indicated:

	As at 31 December			**Percentage change**	
	2009	**2010**	**2011**	**2009/2010**	**2010/2011**
	(QR'000)	*(QR'000)*	*(QR'000)*	*(%)*	*(%)*
Staff costs[1]	84,818	92,970	113,720	9.6	22.3
Other general & administrative expenses	64,357	60,543	68,225	(5.9)	12.7
Total general & administrative expenses	**149,175**	**153,513**	**181,945**	**2.9**	**18.5**
Depreciation and amortisation	10,047	11,690	12,986	16.4	11.1
Total operating expenses (before impairment charges)	**159,222**	**165,203**	**194,931**	**3.8**	**18.0**

Note

(1) Staff costs comprise salaries, allowances and other benefits, end of service benefits, bank contribution to the pension fund and training courses. See Note 21 to the Financial Statements for further details.

In 2011, QIIB's total operating expenses (before impairment charges) were QR 194.9 million (representing a 18.0 per cent. increase from the 2010 figure of QR 165.2 million) and in 2010, QIIB's total operating expenses were QR 165.2 million (representing a 3.8 per cent. increase from the 2009 figure of QR 159.2 million). The increase in operating expenses in 2011 principally resulted from an increase in staff costs as a result of the adjustments to Qatari salary remuneration.

Staff Costs

Staff costs were QR 84.8 million in 2009, representing 53.3 per cent. of total operating expenses for the year. Staff costs were QR 93.0 million in 2010, representing 56.3 per cent. of total operating expenses for the year. Staff costs were QR 113.7 million in 2011, representing 58.3 per cent. of total operating expenses for the year.

Staff costs increased by QR 8.2 million, or 9.6 per cent. from 2009 to 2010, compared to QR 20.8 million, or 22.3 per cent. from 2010 to 2011. The increased staff costs incurred between 2009 and 2011 resulted from:

- an increase in the average headcount (with an average of 338 staff employed by QIIB during 2009 compared to an average of 359 staff employed during 2011); and
- a special adjustment for Qatari salary remuneration in September 2011.

Other General & Administrative Expenses

Other general and administrative expenses were QR 64.4 million in 2009, representing 40.4 per cent. of total operating expenses for the year. Other general and administrative expenses were QR 60.5 million in 2010, representing 36.6 per cent. of total operating expenses for the year. Other general and administrative expenses were QR 68.2 million in 2011, representing 35.0 per cent. of total operating expenses for the year.

Other general and administrative expenses reduced by QR 3.8 million, or 5.9 per cent., from 2009 to 2010 and increased by QR 7.7 million, or 12.7 per cent., from 2010 to 2011.

The decrease of other general and administrative expenses in 2010 arose as a result of:

- reduced advertising and promotion expenses (compared to 2009 when expenses had increased as a result of the opening of three new branches); and
- reduced social contributions, as QIIB's sponsorship arrangements for a local football club concluded in 2009 without renewal.

The increase in general and administrative expenses in 2011 arose from a rise in professional consultancy fees and electronic banking expenses.

Depreciation and amortisation

In 2010, QIIB's depreciation and amortisation was QR 11.7 million, representing a 16.4 per cent. increase on the 2009 depreciation and amortisation figure of QR 10.0 million. In 2011, QIIB's depreciation and amortisation was QR 13.0 million, representing a 11.1 per cent. increase on the 2010 amount for depreciation and amortisation. The increase in depreciation and amortisation costs across both years arose as a result of QIIB's additional investments in property, plant and equipment, which were made during 2009 and 2010. These investments in property, plant and equipment were made as part of QIIB's growth and expansion strategy.

Impairment Charges

The following table sets out the principal components of QIIB's impairment charges for each of the years indicated:

	As at 31 December			Percentage change	
	2009	2010	2011	2009/2010	2010/2011
	(QR'000)	*(QR'000)*	*(QR'000)*	*(%)*	*(%)*
Impairment of financial investments	–	(41,045)	(1,821)	100.0	(95.6)
Impairment of receivables and financing activities	(16,500)	(16,064)	(19,343)	(2.6)	20.4
Total impairment charges	**(16,500)**	**(57,109)**	**(21,164)**	**246.1**	**(62.9)**

QIIB's total impairment charge was QR 16.5 million in 2009, QR 57.1 million in 2010 and QR 21.2 million in 2011, respectively. The increased impairment charge in 2010 was a result of an impairment in respect of financial investments of QR 41.0 million, representing 71.9 per cent. of total impairment charges made for that year. This impairment charge related to a QR 36.4 million private equity investment in an offshore power generator project and an investment of QR 4.6 million made into an Islamic investment fund.

Impairment of Receivables and Financing Activities

The following table sets out QIIB's movements in provisions and profit in suspense for each of the periods indicated:

	2009			2010			2011		
	Specific	Profit in Suspense	Total	Specific	Profit in Suspense	Total	Specific	Profit in Suspense	Total
	(QR'000)	*(QR'000)*	*(QR'000)*	*(QR'000)*	*(QR'000)*	*(QR'000)*	*(QR'000)*	*(QR'000)*	*(QR'000)*
Balance as at 31 January	67,737	8,293	76,030	81,974	10,942	92,916	97,897	11,940	109,837
Net additional provision during the year	**16,500**	**2,649**	**19,149**	**16,064**	**998**	**17,062**	**19,343**	**30,273**	**49,616**
New provision during the year	16,500	3,934	20,434	16,064	4,598	20,662	19,343	32,829	52,172
Provisions recovered during the year..........	–	(1,285)	(1,285)	–	(3,600)	(3,600)	–	(2,556)	(2,556)
Provision written off during the year..........	2,263	–	(2,263)	(141)	–	(141)	(640)	(88)	(728)
Provision balance at the end of the year	**81,974**	**10,942**	**92,916**	**97,897**	**11,940**	**109,837**	**116,600**	**42,125**	**158,725**

In 2009, a specific impairment charge of QR 16.5 million, which represented QIIB's total impairments in 2009 was recorded in connection with non-performing loans, allocated as follows:

- QR 8.4 million in connection with retail loans;
- QR 4 million in connection with corporate loans; and
- QR 4.3 million in connection with commercial (SME) financing.

In 2010, a specific impairment charge for financing activities of QR 16.1 million, which represented 28.1 per cent. of QIIB's total impairment charges recorded in 2010, was recorded against receivables and financing activities due to payment delays for a single corporate facility.

In 2011, a specific impairment charge for financing activities of QR 19.3 million, which represented 91.4 per cent. of QIIB's total impairment charges was recorded in connection with new payment delays arising from the retail sector.

QIIB's specific impairment charges for financing activities for the years 2009, 2010 and 2011 in aggregate amount to 0.5 per cent. of QIIB's average net receivables and balances from financing activities over the three year period.

Non-Performing Receivables from Financing Activities

QIIB's non-performing receivables at 31 December 2009 amounted to QR 189.7 million, representing 1.7 per cent. of total receivables and balances from financing activities, compared to QR 359.2 million as at 31 December 2010, representing 3.1 per cent. of total receivables and balances from financing activities, and QR 188.2 million as at 31 December 2011, representing 1.6 per cent. of total receivables and balances from financing activities.

The increase in non-performing receivables in 2010 arose from a delay of payments for two facilities (in excess of 90 days). Pursuant to relevant QCB regulations and QIIB's equivalent credit risk provisioning, non-payment under these facilities triggered classification of the two facilities as non-performing and substandard. Delay in payment of these facilities was resolved in early 2011. As a result, both facilities were removed from the non-performing classification and non-performing receivables were reduced in 2011 as a result.

Financial Condition as at 31 December 2009, 2010 and 2011 and as at 30 June 2012

Total Assets

As at 31 December 2009, QIIB had total assets of QR 15.5 billion as compared to QR 18.2 billion as at 31 December 2010 (representing a 17.1 per cent. increase of total assets from 2009 to 2010), QR 23.4 billion as at 31 December 2011 (representing a 28.5 per cent. increase of total assets from 2010 to 2011) and QR 23.7 billion as at 30 June 2012 (representing a 1.4 per cent increase of total assets from 31 December 2011 to 30 June 2012). These increases principally reflect commensurate increases in balances and investments with banks and other financial institutions, receivables and balances from financing activities and financial investments.

The following table sets out the relevant balances and investments and their percentage contributions to total assets for each of the periods indicated:

	As at 31 December						**As at 30 June**	
	2009		**2010**		**2011**		**2012**	
	(QR'000)	*(%)*	*(QR'000)*	*(%)*	*(QR'000)*	*(%)*	*(QR'000)*	*(%)*
Balances and investments with banks and other financial institutions	3,900,502	25.1	5,148,012	28.3	5,734,175	24.5	5,581,426	23.5
Receivables and balances from financing activities................	9,070,011	58.4	9,177,747	50.5	10,588,963	45.3	11,424,879	48.2
Financial investments	657,877	4.2	1,694,264	9.3	4,259,060	18.2	3,656,395	15.4
Total	**13,628,390**	**87.7**	**16,020,023**	**88.1**	**20,582,198**	**88.1**	**20,662,700**	**87.2**

Balances and investments with banks and other financial institutions

As at 31 December 2009, QIIB had balances and investments with banks and other financial institutions of QR 3.9 billion, compared to QR 5.1 billion as at 31 December 2010, QR 5.7 billion as at 31 December 2011 and QR 5.6 billion as at 30 June 2012. The increase in balances and investments with banks and other financial institutions in 2010 resulted from the slower financing asset growth experienced as a result of the effect of the global financial crisis in the MENA region. High levels of liquidity experienced in 2010 were also experienced in 2011 in anticipation of the initiation of the Government's development projects. While a high level of liquidity was maintained in 2011, growth slowed in comparison to the growth experienced in 2010 when financing assets increased.

Receivables and balances from financing activities – by sector

As at 31 December 2009, QIIB had receivables and balances from financing activities of QR 9.1 billion, compared to QR 9.2 billion as at 31 December 2010, QR 10.6 billion as at 31 December 2011 and QR 11.4 billion as at 30 June 2012. The slower growth experienced from 2009 to 2010 resulted from the effects of the global finance crisis in the MENA region. The slowdown in growth had a negative effect on general retail and corporate demand for bank financing in the region. The stronger growth levels experienced in 2011 and 2012 reflect growth in the economy in Qatar and the Government's investment in Qatari development projects in the second half of 2011 and the first half of 2012.

QIIB's financing portfolio comprises receivables and balances arising from financing activities to retail and corporate customers across various economic sectors. The following table sets out the composition of gross receivables from QIIB's financing activities by sector for each of the periods indicated and its contribution to total gross receivables.

	As at 31 December					
	2009		**2010**		**2011**	
	(QR'000)	*(%)*	*(QR'000)*	*(%)*	*(QR'000)*	*(%)*
Housing	3,212,425	28.9	4,966,317	47.8	6,516,245	56.1
Consumer	2,273,449	20.4	3,247,662	31.3	3,696,506	31.8
Government	1,456,827	13.1	1,456,864	14.0	631,492	5.4
Contracting	47,691	0.5	10,449	0.1	627,438	5.4
Trade	2,171,964	19.5	527,812	5.1	87,392	0.8
Industry	93,308	0.8	154,519	1.5	59,431	0.5
Other	1,867,528	16.8	15,660	0.2	4,924	0.0
Total	**11,123,192**	**100.0**	**10,379,283**	**100.0**	**11,623,428**	**100.0**

The Trade sector refers to the financing of commercial trading companies. In 2010, facilities were re-classified to the Housing sector from the Trade sector pursuant to the QCB's new definition of "real estate financing" which was introduced by the QCB in early 2011. This new definition linked the type of financing being provided by a bank to the type of collateral being provided and the source of repayment. If the collateral and/or the source of repayment is related to real estate, the non-performing financing is considered as "real estate financing" for financial reporting purposes.

In 2009, advance payments were reported separately under Other liabilities. From 2010, advance payments were deducted from the relevant sector financing based on clarifications from, and instructions by, the QCB. The impact of the advance payment deductions in 2009 was approximately QR 1.0 billion, and in 2010, approximately QR 1.2 billion. See "*Receivables and balances from financing activities – by type*" for further details below.

The Housing sector comprises residential or commercial financing for real estate assets (both completed and work-in-progress projects). Excluding the re-classification of "real estate financing" noted above, the Housing sector grew by QR 1.8 billion, or by 54.6 per cent. from 2009 to 2010. This growth was incurred as the market began to stabilise in late 2010 following the effects of the global financial crisis. The Housing sector grew by QR 1.5 billion, or 31.2 per cent., from 2010 to 2011, reflecting growth in the Qatar economy.

Although the global financial crisis affected equity and real estate prices and resulted in a general slowdown in economic growth, consumer credit in Qatar continued to grow. The slowdown in growth did not result in a related reduction in employment rates in Qatar and was accompanied by a reduction in prices, which improved disposable income. The Bank's consumer financing portfolio increased by 42.9 per cent. from 2009 to 2010 and by 13.8 per cent. from 2010 to 2011. The slow-down of growth in 2011 is a result of the introduction of the QCB consumer credit guidelines in April 2011.

The reduction in receivables and balances in the Government sector in 2011 was a result of the settlement of a commodity *Murabaha* transaction undertaken with a Government entity.

Receivables and balances from financing activities – by type

The following table sets out the composition of gross receivables from QIIB's financing activities by type for each of the periods indicated:

	As at 31 December		
	2009	**2010**	**2011**
	(QR'000)	*(QR'000)*	*(QR'000)*
Receivables and balances from international financing activities			
International *Murabaha*	109,245	36,415	24,262
Receivables and balances from local financing activities			
Murabaha and *Musawama*	7,808,449	7,950,178	7,196,415
Istisna	535,693	507,450	352,127
Mudaraba financing	6,864	854	4,876
Ijara financing	2,569,609	1,850,680	3,994,888
Transactions in progress	92,906	33,588	50,812
Non-profit financing activities	426	118	48
Total receivables and balances from local financing activities	11,013,947	10,342,868	11,599,166
Total gross receivables and financing activities balances	**11,123,192**	**10,379,283**	**11,623,428**
Deferred income	(930,230)	(1,091,699)	(875,740)
Specific provision	(81,974)	(97,897)	(116,600)
Profit in suspense	(10,942)	(11,940)	(42,125)
Advanced Payment	(1,030,035)	–	–
	(2,053,857)	(1,201,536)	(1,034,465)
Net receivables and balances from financing activities	**9,070,011**	**9,177,747**	**10,588,963**

The majority of QIIB's receivables and financing activities between 31 December 2009 and 31 December 2011 have been focused on local *Murabaha, Musawama* and *Ijara* financing. Together, these three sources of financing represent 92.6 per cent. of total gross receivables and financing activities as at 31 December 2009, 94.4 per cent. as at 31 December 2010, and 96.2 per cent. as at 31 December 2011.

All *Ijara* financing is Housing related. *Murabaha* and *Musawama* financing transactions are available to all sectors, however, most transactions fall under the Housing and Consumer sectors. Movements in receivables and balances from financing activities are dependent upon trends in the underlying financing sector.

In 2009, *Murabaha* and *Musawama* financing activities included QR 2.1 billion of *Wakala* investments. In 2010, the QCB issued new guidelines requiring the reclassification of such *Wakala* investments from receivables and balances from financing activities to balances with banks and other financial institutions.

Financial investments

The following table sets out a breakdown of QIIB's financial investments for each of the periods indicated:

	As at 31 December		
	2009	2010	2011
	(QR'000)	*(QR'000)*	*(QR'000)*
Available for sale investments	260,997	238,746	
Held-to-maturity investments	396,880	1,455,518	
Total	**657,877**	**1,694,264**	
Equity-type instruments (fair value through equity)		202,877	164,308
Debt-type instruments (fair value through income statement)		–	505,455
Debt-type instruments (amortised cost)		1,491,387	3,589,297
Total		**1,694,264**	**4,259,060**

Financial investments comprise MENA region sovereign and corporate sukuk and local equities. In 2011, FAS 25 was issued by AAOIFI (see "*Summary of Significant Differences between the Financial Accounting Standards issued by AAOIFI and International Financial Reporting Standards*"). This new accounting standard re-classified certain financial investments which were previously categorised as "Available-for-sale" and "Held-to-maturity" investments as "Equity-type" and "Debt-type instruments" which are further sub-categorised by their accounting treatment as indicated in the table above.

In order to compare historic figures above, QIIB uses the historical captions (such as "available for sale assets") which applied at the time of the publications of such figures in QIIB's Financial Statements.

The majority of QIIB's financial investments are classified as Debt-type investments and primarily represent investments in Government sukuk. In 2010 and 2011, the Government offered a sukuk to Qatari Islamic banks which was fully subscribed by all Qatari Islamic banks. QIIB opted to invest in order to utilise its available liquidity and to take advantage of the competitive profit rate being offered. These investments resulted in an increase of QR 2.6 billion, or 174.6 per cent., in Debt-type instruments from 2010 to 2011.

Total Liabilities and Holders of Unrestricted Investment Accounts

QIIB's total liabilities and holders of unrestricted investment accounts were QR 11.7 billion as at 31 December 2009, QR 14.4 billion as at 31 December 2010, QR 18.5 billion as at 31 December 2011 and QR 19.0 billion as at 30 June 2012. The increasing liabilities over the periods principally reflect increases in customer current accounts and deposits.

As at 31 December 2009, QIIB's market share of total liabilities (including holders of unrestricted investment accounts) was 4.7 per cent. and as at 31 December 2011 and 30 June 2012 its market share of total liabilities (including holders of unrestricted investment accounts) was 4.6 per cent.

Holders of Unrestricted Investment Accounts

Balances for holders of unrestricted investment accounts represent funds received by an Islamic bank from account holders on the basis that the Islamic bank will have the right to use and invest these funds without restriction. The holders of unrestricted investment accounts may invest these funds with QIIB with different maturity periods from one month to two years and receive a share of the profit earned by the Bank commensurate with the proportion of their funds invested with the Bank relative to the total pool of investment funds available to QIIB.

As at 31 December 2009, the amount held by QIIB in unrestricted investment accounts amounted to QR 9.1 billion, as compared to QR 11.2 billion as at 31 December 2010 (which represents an increase of 23.0 per cent. on the 2009 figure), QR 14.1 billion as at 31 December 2011 (which represents an increase of 26.3 per cent. on the 2010 figure) and QR 13.9 billion as at 30 June 2012 which represents a decrease of 1.7 per cent. on the 31 December 2011 figure. The increases principally reflect the success of QIIB's strategy to improve its longer-term funding by paying increased profit rates for customers' deposit liabilities. The increases are also due to higher general liquidity in Qatar as investors are cautious as a result of the global financial crisis.

The decrease of QR 238.8 million in unrestricted investment accounts in the six month period to 30 June 2012 was primarily due to an intentional reduction in unrestricted investment accounts from financial institutions. In anticipation of QIIB's sukuk issuance and other liquidity positions, QIIB took the opportunity to liquidate certain higher cost unrestricted investment accounts.

The following table sets out QIIB's unrestricted investment accounts by sector for the relevant periods:

	As at 31 December						**As at 30 June**	
	2009		**2010**		**2011**		**2012**	
	(QR'000)	*(%)*	*(QR'000)*	*(%)*	*(QR'000)*	*(%)*	*(QR'000)*	*(%)*
Individuals	5,486,384	60.3	7,488,885	66.9	10,232,653	72.4	10,480,853	75.4
Corporate	1,200,184	13.2	2,244,605	20.0	1,660,585	11.7	1,765,406	12.7
Financial institutions	1,926,051	21.2	775,579	6.9	1,345,364	9.5	796,969	5.7
Government institutions	362,781	4.0	539,711	4.8	722,999	5.1	682,460	4.9
Share in fair value reserve	54,772	0.6	68,771	0.6	125,971	0.9	128,326	0.9
Share in foreign currency reserve	–	0.0	–	0.0	(12,503)	(0.1)	(14,227)	-0.1
Unpaid share in profit	71,391	0.8	80,200	0.7	63,689	0.5	60,182	0.5
Total	**9,101,563**	**100**	**11,197,751**	**100**	**14,138,758**	**100**	**13,899,969**	**100**

Holders of unrestricted investment accounts are principally from the retail and corporate sectors, which together account for 73.5 per cent. of funds from unrestricted investment accounts as at 31 December 2009, 86.9 per cent. as at 31 December 2010, 84.1 per cent. as at 31 December 2011 and 88.1 as at 30 June 2012.

Save in respect of certain financial institutions' unrestricted investment accounts mentioned above, QIIB has pursued a strategy of increasing its longer-term funding from customer deposits over these periods and was successful in doing so, which resulted in an increase in funds from holders of unrestricted investment accounts by 23.0 per cent. from 2009 to 2010, and by 26.3 per cent. from 2010 to 2011.

Funding

The following table sets out the principal sources of QIIB's funding together with total liabilities, holders of unrestricted investment accounts and shareholders' equity for QIIB as at the specified dates:

	As at 31 December			As at 30 June
	2009	**2010**	**2011**	**2012**
	(QR'000)	*(QR'000)*	*(QR'000)*	*(QR'000)*
Current accounts from banks and financial institutions	22,090	100,110	15,997	77,700
Customers' current accounts	2,451,729	2,836,131	3,952,019	4,581,361
Holders of unrestricted investment accounts	9,101,563	11,197,751	14,138,758	13,899,969
Total shareholders' equity	3,799,349	3,817,298	4,893,260	4,696,547
Total Funding	**15,374,731**	**17,951,290**	**23,000,034**	**23,255,577**
Total liabilities, holders of unrestricted investment accounts and shareholders' equity	**15,520,911**	**18,178,941**	**23,357,626**	**23,703,233**

The main sources of QIIB's funding besides shareholders' equity are:

- Funds from holders of unrestricted investment accounts which are discussed above and which accounted for 59.2 per cent. of total funding as at 31 December 2009, 62.4 per cent. as at 31 December 2010, 61.5 per cent. as at 31 December 2011, and 59.8 per cent. as at 30 June 2012; and

- Customers' current accounts, which accounted for 15.9 per cent. as at 31 December 2009, 15.8 per cent. as at 31 December 2010, 17.2 per cent. as at 31 December 2011 and 19.7 per cent. of total funding as at 30 June 2012.

Customers' current accounts

As at 31 December 2009, QIIB's total customer current account deposits amounted to QR 2.5 billion compared to QR 2.9 billion as at 31 December 2010, QR 4.0 billion as at 31 December 2011 and 4.6 billion as at 30 June 2012. The increases over the periods discussed principally reflect the high levels of liquidity available in Qatar as a result of investor caution resulting from the global financial crisis. QIIB's customers have opted to hold funds in easy-access current accounts or short-term fixed deposit liabilities, rather than invest in more structured or risky products.

As part of QIIB's strategy, the relative mix of customers' current accounts is targeted to be between 15.0 – 20.0 per cent. of its total funding, in order to mitigate the overall cost of funds. Although these accounts are available to depositors on demand, in practice, these deposits have tended to be stable as shown by the relative percentage of the balances for the periods presented remaining at around 16.0 per cent for 2009 and 2010 and reaching around 20.0 per cent. in 2011.

Total shareholders' equity

QIIB's total shareholders' equity amounted to QR 3.8 billion as at 31 December 2009 and 2010 compared to 4.9 billion as at 31 December 2011 and QR 4.7 billion as at 30 June 2012. The reduction in total equity between 31 December 2011 and 30 June 2012 was due to a dividend of QR 529.8 million paid to QIIB's shareholders.

QIIB's total shareholders' equity comprises its reserves, retained earnings and paid-up share capital. Paid up share capital amounted to QR 1.4 billion as at 31 December 2009 and 2010 compared to QR 1.5 billion as at 31 December 2011 and 30 June 2012. QIIB's reserves and retained earnings amounted to QR 2.4 billion as at 31 December 2009 and 2010 compared to QR 3.4 billion as at 31 December 2011 and QR 3.2 billion as at 30 June 2012.

QIIB's most significant reserves are:

- the legal reserve into which, under QCB's Law No. 33 of 2006, 10 per cent. of the net profit for the year is to be transferred until that reserve equals 100 per cent. of QIIB's paid up share capital; and
- the risk reserve which was created in accordance with QCB regulations to cover contingencies in private sector financing activities. The contingency reserve is set at a minimum of 1.5 per cent. of the Bank's total private sector exposure (after excluding specific risk provisions and any profit in suspense).

The legal reserve is not available for distribution except in the manner specified in the Qatar Commercial Companies' Law No. 5 of 2002 and subject to the approval of the QCB. No amount was transferred from QIIB's profits to the legal reserve in 2010 as the balance of the legal reserve exceeded 100 per cent. of the paid up capital. However, in 2011 the legal reserve increased to 2.5 billion due to the final payment of Qatar Investment Authority's contribution to the Bank's share capital.

The assessment of the risk reserve balance does not include financing facilities granted to or guaranteed by the Government. The maintenance and use of the risk reserve is governed by the QCB.

Contingency Funding

QIIB maintains access to QR 3.0 billion of contingency funding as part of its funding strategy and liquidity management. The contingency funding comprises:

- a QR 1.0 billion term facility with the QCB;
- a QR 0.5 billion repo facility with the QCB; and
- a QR 1.5 billion Government sukuk with a three year term which can be pledged (for example, as collateral for a repurchase agreement) or sold in the secondary sukuk market.

Risk Management

Overview

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

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

Further details of the Bank's risk management structure and reporting systems are set out under "*Description of Qatar International Islamic Bank Q.S.C. – Risk Management*".

Credit risk

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

Further details of the Bank's approach to credit risk are set out under "*Description of Qatar International Islamic Bank Q.S.C. – Risk Management – Credit risk*".

Credit quality per category of financial assets

The table below sets out QIIB's credit quality by category of financial assets, based on QIIB's credit rating system.

	Neither past due nor impaired	**Watch list or impaired grade**	**Total**
	(QR'000)	*(QR'000)*	*(QR'000)*
At 31 December 2009			
Due from banks and other financial institutions	**3,900,502**	**–**	**3,900,502**
Receivables and balances from financing activities			
– Retail	2,318,973	105,364	2,424,337
– Corporate	6,561,351	84,323	6,645,674
	8,880,324	**189,687**	**9,070,011**
Financial investments	**636,295**	**21,582**	**657,877**
Total	**13,417,121**	**211,269**	**13,628,390**
At 31 December 2010			
Due from banks and other financial institutions	**5,148,012**	**–**	**5,148,012**
Receivables and balances from financing activities:			
– Retail	2,669,979	125,745	3,795,724
– Corporate	6,148,563	233,460	6,382,023
	8,818,542	**359,205**	**9,177,747**
Financial investments	**1,604,133**	**90,131**	**1,694,264**
Total	**15,570,687**	**449,336**	**16,020,023**
At 31 December 2011			
Due from banks and other financial institutions	**5,734,175**	**–**	**5,734,175**
Receivables and balances from financing activities:			
– Retail	3,188,139	132,885	3,321,024
– Corporate	7,212,661	55,278	7,267,939
	10,400,800	**188,163**	**10,588,963**
Financial investments	**4,200,608**	**58,452**	**4,259,060**
Total	**20,335,583**	**246,615**	**20,582,198**

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

The following tables set out an analysis of receivables and balances from financing activities which are past due but not yet impaired for the relevant period:

	2009		
	Less than 60 days	**61 to 90 days**	**Total**
	(QR'000)	*(QR'000)*	*(QR'000)*
Receivables and balances from financing activities:			
– Retail	**3,053**	**47**	**3,100**
– Corporate	**3,241**	**4,097**	**7,338**
– Commercial financing	**6,231**	**694**	**6,925**
Total	**12,525**	**4,838**	**17,363**

	2010		
	Less than 60 days	**61 to 90 days**	**Total**
	(QR'000)	*(QR'000)*	*(QR'000)*
Receivables and balances from financing activities:			
- Retail	**2,383**	**–**	**2,383**
- Corporate	**6,451**	**–**	**6,451**
- Commercial financing	**20,519**	**13,450**	**33,969**
Total	**29,353**	**13,450**	**42,803**

	2011		
	Less than 60 days	**61 to 90 days**	**Total**
	(QR'000)	*(QR'000)*	*(QR'000)*
Receivables and balances from financing activities:			
- Retail	**33,390**	**–**	**33,390**
- Corporate	**42,116**	**–**	**42,116**
- Commercial financing	**74,712**	**22,470**	**97,182**
Total	**150,218**	**22,470**	**172,688**

As at 31 December 2011, QIIB had not obtained any additional collateral against the past due but not impaired receivables and balances from financing activities to customers.

The following table sets out the movements in total provisions and profit in suspense for the relevant periods:

	2009	**2010**	**2011**
	(QR'000)	*(QR'000)*	*(QR'000)*
Balance at 1 January	76,030	92,916	109,837
New provision during the year	20,434	20,662	52,172
Provisions recovered during the year	(1,285)	(3,600)	(2,556)
Provision write off during the year	(2,263)	(141)	(728)
Provision balance at the year end	**92,916**	**109,837**	**158,725**

Non-performing receivables at the end of 2009 amounted to QR 189.7 million, which represented 1.7 per cent. of total receivables and balances from financing activities. Non-performing receivables at the end of 2010 amounted to QR 359.2 million, which represented 3.1 per cent. of total receivables and balances from financing activities. Non-performing receivables at the end of 2011 amounted to QR 188.2 million, which represented 1.6 per cent. of total receivables and balances from financing activities. (See "*Expenses, Depreciation, and Impairment – Impairment of Receivables from Financing Activities*" and "*Non-Performing Receivables from Financing Activities*").

The total fair value of collateral held by QIIB relating to receivables from financing activities which are considered as individually impaired as at 31 December 2009 amounted to QR 63.1 million. The total fair value of collaterals held by QIIB relating to receivables from financing activities which are considered as individually impaired as at 31 December 2010 amounted to QR 363.6 million. The total fair value of collateral held by QIIB relating to receivables from financing activities which are considered as individually impaired as at 31 December 2011 amounted to QR 278.5 million.

Concentration analysis

The following tables set out QIIB's distribution of assets, liabilities and contingent liabilities by geographic region and industry sector as at 31 December 2009, 2010 and 2011:

	2009					
	Assets	%	Liabilities and shareholders' equity	%	Contingent liabilities	%
	(QR'000)		*(QR'000)*		*(QR'000)*	
By geographic region:						
Qatar	14,314,732	92.2	15,352,538	98.9	897,192	93.1
Other GCC countries	928,332	6.0	162,409	1.0	11,040	1.1
Others	277,847	1.8	5,964	0.0	55,750	5.8
Total	**15,520,911**	**100.0**	**15,520,911**	**100.0**	**963,982**	**100.0**
By industry sector:						
Government	1,667,369	10.7	963,011	6.2	–	–
Industry/manufacturing	93,308	0.6	–	–	146,139	15.2
Commercial	2,171,964	14.0	–	–	646,165	67.0
Real estate	3,203,259	20.6	–	–	–	–
Banks	4,501,097	29.0	1,948,141	12.6	–	–
Consumption[1]	3,303,467	21.3	9,491,109	61.2	–	–
Other	580,447	3.7	3,118,650	20.1	171,678	17.8
Total	**15,520,911**	**100.0**	**15,520,911**	**100.0**	**963,982**	**100.0**

Note

(1) Consumption represents "consumers" as defined by the QCB's guidelines for the classification of sectors and is based on the nature of the financing where such consumption financing facilities are defined as credit facilities granted against salaries, i.e. where the repayment source is salaries of the borrowers.

	2010					
	Assets	%	Liabilities and shareholders' equity	%	Contingent liabilities	%
	(QR'000)		*(QR'000)*		*(QR'000)*	
By geographic region:						
Qatar	16,972,736	93.4	17,687,831	97.3	1,001,277	100.0
Other GCC countries	838,939	4.6	387,752	2.1	–	–
Others	367,266	2	103,358	0.6	–	
Total	**18,178,941**	**100.0**	**18,178,941**	**100.0**	**1,001,277**	**100.0**
By industry sector:						
Government	2,748,904	15.1	1,398,225	7.7	–	–
Industry/manufacturing	154,519	0.8	–	–	372	0.0
Commercial	527,812	2.9	–	–	12,465	1.2
Real estate	4,976,766	27.4	–	–	189,451	18.9
Banks	6,007,899	33.0	875,688	4.8	–	–
Consumption	3,247,662	17.9	13,105,626	72.1	5,174	0.5
Other	515,379	2.8	2,799,941	15.4	793,815	79.3
Total	**18,178,941**	**100.0**	**18,178,941**	**100.0**	**1,001,277**	**100.0**

	2011					
	Assets	%	Liabilities and shareholders' equity	%	Contingent liabilities	%
	(QR'000)		*(QR'000)*		*(QR'000)*	
By geographic region:						
Qatar	21,993,500	94.2	23,073,977	98.8	1,268,811	100.0
Other GCC countries	983,537	4.2	254,902	1.1	–	–
Others	380,589	1.6	28,747	0.1	–	
Total	**23,357,626**	**100.0**	**23,357,626**	**100.0**	**1,268,811**	**100.0**
By industry sector:						
Government	4,197,687	18.0	1,477,934	6.3	–	–
Industry/manufacturing	59,431	0.3	–	–	5,708	0.4
Commercial	627,438	2.7	–	–	–	–
Real estate	7,753,208	33.2	–	–	364,354	28.7
Banks	6,455,055	27.6	1,377,054	5.9	–	–
Consumption	3,696,506	15.8	14,989,760	64.2	4,766	0.4
Other	568,301	2.4	5,512,878	23.6	893,983	70.5
Total	**23,357,626**	**100.0**	**23,357,626**	**100.0**	**1,268,811**	**100.0**

As of 31 December 2009, 92.2 per cent. of QIIB's total assets and 98.9 per cent. of QIIB's liabilities and shareholders' equity were based in Qatar. As of 31 December 2010, 93.4 per cent. of QIIB's total assets and 97.3 per cent. Of QIIB's liabilities and shareholders' equity were based in Qatar. As of 31 December 2011, 94.2 per cent. of QIIB's total assets and 98.8 per cent. of QIIB's liabilities and shareholders' equity were based in Qatar.

Details of the Bank's approach to excessive risk concentration are set out under "*Description of Qatar International Islamic Bank Q.S.C. – Risk Management – Excessive Risk Concentration*".

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates might affect the value of financial instruments or the future profitability of QIIB. The Board and the Policies Development Committee measure and manage profit rate risk by establishing the level of risk and setting limits on the profit rate gaps for stipulated periods.

The following table sets out QIIB's sensitivity of profit income to a reasonable possible change in profit rates as at 31 December 2009, 31 December 2010 and 31 December 2011. The sensitivity measures the effect of the assumed changes in profit rates on QIIB's net income for a particular financial year, based on the floating rate of financial assets and liabilities held as at 31 December in that year, and assumes that all other variables remain constant.

	Sensitivity of profit income			
	Changes in basis points	2009	2010	2011
		(QR'000)	*(QR'000)*	*(QR'000)*
Change in net income	+/- 25	+/- 3,955	+/- 278	+/- 262

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. QIIB is exposed to the effect of fluctuations in prevailing foreign currency exchange rates on its financial position. The Board has set maximum limits on the level of currency exposure, which are monitored daily.

The table below indicates the effect of a reasonably possible movement of certain currencies against the Qatar Riyal on the income statement for the year ended 31 December 2009, 31 December 2010 and 31 December 2011, assuming all other variables held constant.

	Changes in currency rate 2011	**Effect on Statement of income 2009[1]**	**Effect on Statement of income 2010[1]**	**Effect on Statement of income 2011[1]**
	(%)	*(QR'000)*	*(QR'000)*	*(QR'000)*
Euro	+/- 10	11,966	2,087	**291**
Pounds Sterling	+/- 10	5,836	107	**1,967**
Other[2]	+/- 10	31,991	36,636	**39,621**

Notes

(1) Effect on statement of income refers to the effect on the ultimate net profit.

(2) This includes U.S.$ exposures. However any movement in U.S.$ exchange rates will have no effect, as the Qatari riyal is pegged to the United States dollar.

QIIB manages its currency exposures within limits laid down by the Board. Limits are laid down for each currency individually and in total at the beginning of each year. The Qatar Riyal is pegged to the US Dollar. Although QIIB is not exposed to any currency risk due to the peg, limits are set for US Dollar exposures. QIIB is not subject to significant exposures in connection with any other currency.

Equity price risk

Equity price risk arises from fluctuations in equity indices and prices. The Board has set limits on amounts and types of investments. This is monitored on an ongoing basis by QIIB's Investment Committee.

The effect on equity (as a result of a change in the fair value of equity investments as of 31 December 2011) due to change in equity indices, assuming all other variables remain constant, is as follows:

	Changes in currency rate 2011	**Effect on Statement of income 2009**	**Effect on Statement of income 2010**	**Effect on Statement of income 2011**
	(%)	*(QR'000)*	*(QR'000)*	*(QR'000)*
Qatar Exchange Market Index	+/- 10	+/- 2,500	+/- 4,906	+/- 2,462
New York Stock Exchange	+/- 10	+/- 493	+/- 393	+/- 523
Luxembourg Stock Exchange	+/- 10	–	+/- 10,179	–
London Stock Exchange	+/- 10	+/-2,158	+/- 5,054	–

Liquidity risk

Further details of the Bank's approach to managing liquidity risk is set out under "*Description of Qatar International Islamic Bank Q.S.C. – Risk Management – Liquidity Risk*".

The maturity profile of the Bank's assets and liabilities as at 31 December 2009 is as follows:

	As at 31 December 2009					
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
	(QR'000)	*(QR'000)*	*(QR'000)*	*(QR'000)*	*(QR'000)*	*(QR'000)*
At December 31 2009						
Assets						
Cash and balances with Qatar Central Bank	642,377	–	–	–	–	642,377
Due from banks and other financial institutions......	3,727,546	172,956	–	–	–	3,900,502
Receivables and balances from financing activities to customers ..	233,654	1,262,505	3,317,054	4,256,798	–	9,070,011
Financial investments........	249,907	161,909	36,415	144,497	65,149	657,877
Investment in associates....	–	–	–	–	343,379	343,379
Investment properties for Leasing	–	–	–	–	49,091	49,091
Investment properties for trading.....................	–	–	–	304,223	–	304,223
Property and equipment....	–	–	–	29,144	190,802	219,946
Other assets	12,742	41,167	277,848	1,748	–	333,505
Total assets	**4,866,226**	**1,638,537**	**3,631,317**	**4,736,410**	**648,421**	**15,520,911**
Liabilities						
Current accounts from banks and financial institutions	22,090	–	–	–	–	22,090
Customers' current accounts	2,451,729	–	–	–	–	2,451,729
Other liabilities.................	17,746	97,284	–	12,701	18,449	146,180
Unrestricted investment accounts	4,003,665	834,642	2,709,577	1,553,679	–	9,101,563
Shareholders' equity..........	–	54,772	559,923	–	3,184,654	3,799,349
Total liabilities and shareholders' equity....	**6,495,230**	**986,698**	**3,269,500**	**1,566,380**	**3,203,103**	**15,520,911**
Net liquidity gap.............	**(1,629,004)**	**651,839**	**361,817**	**3,170,030**	**(2,554,682)**	**–**

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

	As at 31 December 2010					
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
	(QR'000)	*(QR'000)*	*(QR'000)*	*(QR'000)*	*(QR'000)*	*(QR'000)*
At December 31 2010						
Assets						
Cash and balances with Qatar Central Bank	954,630		–	–	–	954,630
Due from banks and other financial institutions......	4,548,012	600,000	–	–	–	5,148.012
Receivables and balances from financing activities to customers	264,960	718,983	2,740,853	4,281,103	1,171,848	9,177,747
Financial investments........	202,877	–	–	185,115	1,306,272	1,694,264
Investment in associates....	–	–	–	–	227,864	227,864
Investment properties for leasing.....................	–	–	–	–	74,764	74,764
Investment properties for trading.....................	–	–	–	444,123	–	444,123
Property and equipment....	–	–	–	–	216,147	216,147
Other assets	18,497	12,007	209,151	1,735	–	241,390
Total assets	**5,988,976**	**1,330,990**	**2,950,004**	**4,912,076**	**2,996,895**	**18,178,941**
Liabilities						
Current accounts from banks and financial institutions	100,110	–	–	–	–	100,110
Customers' current accounts	2,836,131	–	–	–	–	2,836,131
Other liabilities.................	25,378	48,399	77,316	76,558	–	227,651
Unrestricted investment accounts	3,968,783	887,388	3,487,467	2,854,113	–	11,197,751
Shareholders' equity..........	–	52,103	520,506	–	3,244,689	3,817,298
Total liabilities and shareholders' equity....	**6,930,402**	**987,890**	**4,085,289**	**2,930,671**	**3,244,689**	**18,178,941**
Net liquidity gap.............	**(941,426)**	**343,100**	**(1,135,285)**	**1,981,405**	**(247,794)**	**–**

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

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

Analysis of financial and contingent liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial and contingent liabilities based on contractual undiscounted repayment obligations for the relevant periods.

	As at 31 December 2009					
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
	(QR'000)	*(QR'000)*	*(QR'000)*	*(QR'000)*	*(QR'000)*	*(QR'000)*
At December 31 2009						
Financial liabilities						
Current accounts from banks and financial institutions	22,090	–	–	–	–	22,090
Customers' current accounts	2,451,729	–	–	–	–	2,451,729
Unrestricted investment accounts	4,003,665	834,642	2,709,577	1,553,679	–	9,101,563
Total	**6,477,484**	**834,642**	**2,709,577**	**1,553,679**	**–**	**11,575,382**
Contingent liabilities and commitments						
Unused credit facilities	–	–	233,626	–	–	233,626
Acceptances	3,424	4,375	–		–	7,799
Letter of guarantees	–	–	–	603,604	–	603,604
Documentary credit	13,551	17,077	10,056	299,616	–	340,300
Collection notes	–	–	12,280	–	–	12,280
Total	**16,975**	**21,452**	**255,962**	**903,220**	**–**	**1,197,609**

	As at 31 December 20010					
	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
	(QR'000)	*(QR'000)*	*(QR'000)*	*(QR'000)*	*(QR'000)*	*(QR'000)*
At December 31 2010						
Financial liabilities						
Current accounts from banks and financial institutions	100,110	–	–	–	–	100,110
Customers' current accounts	2,836,131	–	–	–	–	2,836,131
Unrestricted investment accounts	4,349,449	887,388	3,487,467	2,473,447	–	11,197,751
Total	**7,285,690**	**887,388**	**3,487,467**	**2,473,447**	**–**	**14,133,992**
Contingent liabilities and commitments						
Unused credit facilities	395,415	–	–	–	–	395,415
Acceptances	6,771	12,892	–	–	–	19,663
Letter of guarantees	43,335	71,407	399,499	166,813	–	681,054
Documentary credit	49,401	112,835	114,255	14,437	–	290,928
Collection notes	–	9,632	–	–	–	9,632
Total	**494,922**	**206,766**	**513,754**	**181,250**	**–**	**1,396,692**

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

The above contractual maturities of assets and liabilities have been determined by QIIB's management on the basis of the remaining period between the reporting date and the contractual maturity date. Such contractual maturity figures do not take account of the effective maturities indicated by QIIB's deposit retention history and the availability of liquid funds.

Further details of the Bank's approaches to managing market risks, as well as operating and other risks are set out under "*Description of Qatar International Islamic Bank Q.S.C. – Risk Management – Market Risk* and – *Operating and Other Risks*".

Capital adequacy

The following table sets out details of the Bank's capital adequacy figures for the relevant periods:

	2009	2010	2011
	(QR'000)	*(QR'000)*	*(QR'000)*
Tier 1 capital	2,491,390	3,002,300	3,922,756
Tier 2 capital	10,460	107,478	163,160
Total capital	**2,501,850**	**3,109,778**	**4,085,916**
Total risk weighted assets	12,613,803	12,961,891	16,502,178
Tier 1 capital ratio	**19.75%**	**23.16%**	**23.77%**
Total capital ratio	**19.83%**	**23.99%**	**24.76%**

QIIB applies the requirements of Basel II for banking supervision regarding capital adequacy calculations.

Tier 1 capital includes issued capital, legal reserve, other reserves and retained earnings including profit of the year but after excluding proposed dividends.

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

The minimum accepted capital adequacy ratio is 10 per cent. under the QCB requirements.

Off Balance Sheet Items

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

The following table sets out an analysis of the Bank's off balance sheet items for the relevant periods:

	2009	2010	2011
	(QR'000)	*(QR'000)*	*(QR'000)*
Deferred or contingent commitments			
Acceptances	**7,799**	**19,663**	**39,245**
Letters of guarantees	**603,604**	**681,054**	**913,115**
Documentary credits	**340,299**	**290,928**	**305,389**
Collection notes	**12,280**	**9,632**	**11,062**
	963,982	**1,001,277**	**1,268,811**
Other contracts and commitments			
Commitments and unused credit limits	**233,626**	**395,415**	**67,902**
Restricted investment balances	**12,790**	**12,659**	**–**
	246,416	**408,074**	**67,902**
	1,210,398	**1,409,351**	**1,336,713**

Restricted investment balances

Restricted investment balances represent the funds invested by the Bank on behalf of customers in its capacity as trustee. Accordingly, these funds and associated results are not reflected in the Bank's Financial Statements.

Segmental analysis

An analysis of the Bank's operating and geographical segments is contained in Note 27 to the financial statements for the year ended 31 December 2011.

OVERVIEW OF QATAR

Qatar

Unless indicated otherwise, information in this section has been derived from Government publications.

Country Profile

Qatar is an independent state in the Southern Arabian Gulf. Qatar shares a land border and maritime boundaries with Saudi Arabia and maritime boundaries with Bahrain, the UAE and Iran. Qatar covers an area of approximately 11,493 square kilometres. Doha is the capital city of Qatar, the seat of government and Qatar's cultural, commercial and financial centre. It includes the country's main seaport and international airport and has an advanced road system linking it with the international road network.

According to the most recent Government census, Qatar's population was 1,699,435 in April 2010 indicating a 128.4 per cent. growth in population since the census prior to that was carried out in 2004. The Qatar Statistics Authority more recently estimated Qatar's population at 1,713,266 at the end of July 2012. A large portion of Qatar's population is comprised of non-Qatari nationals. In terms of foreign relations and membership of international organisations, Qatar, together with Bahrain, Kuwait, Oman, Saudi Arabia and the UAE form the GCC. Furthermore, Qatar is a member of the Organisation of the Petroleum Exporting Countries (**OPEC**), the Gas Exporting Countries Forum (which was established in 2008 and has its headquarters in Doha) and the United Nations. It is also a member of numerous international and multilateral organisations, including the International Monetary Fund, the International Bank for Reconstruction and Development, the World Trade Organisation, the League of Arab States, The Organisation of the Islamic Conference, the Multinational Investment Guarantee Organisation and UNESCO.

Legal System

Over the last decade, Qatar's legal system has been significantly reformed by the enactment of various pieces of legislation intended to bring Qatari laws in line with international laws, standards and practices. Qatar's civil law sets forth civil law principles, including with respect to conflict of laws, contracts, rights and obligations, security, ownership and torts. Qatar's commercial law addresses commercial affairs and entities, competition, commercial obligations and contracts, and commercial paper. The commercial law also provides comprehensive provisions addressing bankruptcy matters, permitting creditors to file claims against any corporate entity, except for certain professional companies and other companies that are at least majority owned by the Government. Finally, the Commercial Companies Law addresses matters with respect to the ownership of shares, limited liability, capital contributions, payment of dividends, shareholder rights and obligations and general principles of corporate governance. The Commercial Companies Law also introduces the concept of a single member limited liability company, and is not dissimilar to the companies laws of more mature legal systems. The Government has passed other significant legislation in recent years, including the Foreign Investment Law, the Central Bank Law, the Money Laundering Law, the Doha Securities Market Law (now the Qatar Exchange Law) and the Qatar Financial Centre Law (the **QFC Law**), as well as competition, intellectual property, labour, property and environmental laws. Following the establishment of the QFC in 2005, the QFC Law established a legal and regulatory regime to govern the QFC that is generally parallel to and separate from Qatari laws and the Qatari legal system, except for Qatari criminal law. The QFC has established its own rules and regulations applicable to, among others, financial services companies, and which cover such topics as employment, companies, anti-money laundering, contracts and insolvency. In accordance with the rules and regulations of the QFC, the Qatar Financial Centre Regulatory Authority (the **QFCRA**) regulates, authorises and supervises banking, financial and insurance related businesses carried on, in or from the QFC in accordance with legislative principles of an international standard, modelled closely on those used in London and other major financial centres. In addition, the Qatar International Court and Dispute Resolution Centre comprises the QFC Civil and Commercial Court, the Regulatory Tribunal and a Dispute Resolution Centre. The QFC Civil and Commercial Court deals with matters arising under the QFC Law, the QFC Regulatory Tribunal hears appeals against the decisions of the QFC Authority and other QFC institutions and the Dispute Resolution Centre offers international arbitration and mediation services.

Economic Overview

Qatar is one of the most prosperous countries in the world, with a nominal GDP per capita of QR 364,536 (U.S.$100,147) in 2011 based on Qatar's 2011 mid-year population figure of 1,732,638. Over the last several years, Qatar has been one of the fastest growing economies in the world. As of January 2011, Qatar's proven reserves of hydrocarbons amount to approximately 181.3 billion barrels of oil equivalent. These hydrocarbons consist of proven reserves of approximately 883.2 trillion cubic feet of natural gas, 2.3 billion barrels of crude oil and 22.1 billion barrels of condensate. Virtually all of Qatar's proven reserves of natural gas and condensate are located in the North Field, which is estimated by the U.S. Energy Information Administration to be the largest non-associated gas field in the world, representing approximately 15 per cent. of the world's natural gas reserves in 2009. Qatar has over 100 years of proven gas reserves at projected long-term production levels.

Qatar's carefully planned exploitation of its hydrocarbon reserves resulted in a nominal GDP compound annual growth rate (**CAGR**) of 27.5 per cent. from 2004 to 2011. Qatar's economy achieved a new record in 2011 with a total nominal GDP of QR 631,609 million (U.S.$173,519 million) representing a growth of 36.3 per cent. in 2011 compared to 2010. The increase in Qatar's total nominal GDP in 2011 has been attributed to the expansion in the production levels of gas-related products, LNG and condensates, coupled with high hydrocarbon prices. The oil and gas sector contributed 51.7 per cent. and 57.7 per cent. of Qatar's total nominal GDP in 2010 and 2011, respectively. As Qatar reaches the end of its successful 20 year LNG development plan, LNG production is expected to plateau at a high, but steady, level over the next few years. Future growth in gas production is expected to come from the Barzan Project, which is a gas project under development to provide domestic pipeline gas. Qatar has focused on diversifying its economy in recent years in an effort to reduce its historical dependence on oil and gas revenues. The construction and real estate sectors have recently made substantial contributions to Qatar's economic growth and significant investments have been made to increase economic returns from, in particular, petrochemicals, financial services, infrastructure development and tourism. As a result, nominal GDP for the non-oil and gas sector grew at a CAGR of 25.7 per cent. between 2004 and 2011, reflecting a slightly lower annual growth rate than the oil and gas sector for the same period. Nominal GDP for the non-oil and gas sector reached QR 267,150 million (U.S.$73,393 million), or 42.3 per cent. of Qatar's total nominal GDP, in 2011.

In recent years, Qatar has focused on developing and exploiting its natural gas resources beyond the LNG industry by implementing a downstream strategy driven by opportunities to generate additional revenue from its existing oil and gas production. Qatar Petroleum (**QP**) has developed pipeline gas projects both for regional export markets and for domestic petrochemicals and industrial consumption. In addition, QP is the majority shareholder in a number of industrial companies located primarily at Ras Laffan City and Mesaieed Industrial City, which use natural gas as feedstock and/or fuel to produce various value added products, such as petrochemicals, fertiliser, steel, iron and metal coating, both for domestic consumption and for export. Qatar has also invested in exploiting various gas-to-liquid (**GTL**) technologies and has two joint venture projects currently in operation to generate GTL products like distillates.

Throughout a period characterised by rapid growth and development, Qatar has demonstrated fiscal responsibility by managing its budget and public finances prudently. Qatar has historically had low levels of indebtedness but there was an increase in indebtedness starting in 2009 and continuing through 2012 mainly due to the support given by Qatar to the commercial banking sector during the global financial crisis in 2009 and the issuance of bonds and treasury bills by the QCB in 2010, 2011 and 2012 to absorb excess liquidity among domestic commercial banks and to develop a yield curve for riyal-denominated domestic bonds. Qatar's total direct external indebtedness was QR 87,873 million (U.S.$24,141 million) as of 31 March 2012. Most of Qatar's significant energy projects are funded on a stand-alone, limited recourse basis.

The significant revenues generated by the oil and gas sector (which contributed 85.14 per cent. And 81.16 per cent. of Qatar's annual revenues in the fiscal years ended 31 March 2011 and 31 March 2012, respectively) have provided sustained liquidity while ensuring sizeable surpluses in the fiscal and external accounts. Qatar has had budget surpluses since the fiscal year ended 31 March 2001, with an estimated budgeted surplus of QR 44,514 million (U.S.$12,229 million) or 21.8 per cent. of total Government revenues for the fiscal year ended 31 March 2012. In addition, Qatar's trade activity is strong, with total goods exported (including re-exports) in 2010 valued at QR 262,277 million (U.S.$72,054 million) and total imports in 2010 valued at QR 76,210 million (U.S.$20,937 million), together constituting 73.0 per cent. of total nominal GDP. Between 2007 and 2010, the value of Qatar's exports increased by 65.7 per cent., while the value of imports decreased by 0.8 per cent. The external sector has been characterised by a large current account surplus each year since 2000 and robust growth in imports has been counterbalanced by a significant rise in hydrocarbon exports.

In recent years, Qatar has used its budget surpluses to diversify the economy through increased spending on infrastructure, social programmes, healthcare and education, which have modernised Qatar's economy. Qatar's economic growth has also enabled it to diversify its economy through domestic and international investment into different classes of assets. This diversification will be important to Qatar's future Government revenues as the growth rate of the State's revenue from the oil and gas sector is expected to stabilise given the completion of several of the State's long-term hydrocarbon investment programmes. In 2005, the QIA was established to propose and implement investments for Qatar's growing financial reserves, both domestically and abroad. Through the QIA, Qatar has invested in private equity, the banking sector, real estate, publicly traded securities and alternative assets. With its growing portfolio of international and domestic long-term strategic investments, the QIA has continued to develop Qatar's economic diversification strategy while contributing to the nation's significant economic expansion.

The QIA has provided financial support to Qatar's financial sector as a response to the global economic downturn and as a preventative measure to preserve the general stability in Qatar's banking sector. In early 2009, the QIA began making direct capital injections in Qatar's commercial banking sector through a plan to purchase equity ownership interests of up to 20 per cent. in the domestic banks listed on the QE. In line with the plan, from 2009 through to 2011, the QIA acquired equity positions ranging from 5 per cent. to 20 per cent. in various domestic banks, including QIIB, Commercial Bank of Qatar, Qatar Islamic Bank, Ahli Bank and Doha Bank. The total equity injections in the domestic banks currently amounts to QR 11.2 billion (U.S.$3.1 billion). The Government is expected to give these banks an option to buy back their shares over the next five years.

In addition to the equity purchases, the QIA also assisted the banking sector by purchasing certain portions of their investment and real estate portfolios. On 22 March 2009, the QIA purchased the investment portfolios of seven of the nine domestic banks listed on the QE at a total purchase price of approximately QR 6,500 million (U.S.$1,786 million) paid through a combination of cash and domestic Government bonds. This purchase price was equal to the value of such investment portfolios as registered in the records of each bank as of 28 February 2009. In an effort to further boost liquidity and encourage lending, in early June 2009, the QIA made a second round of investments and bought the real estate portfolios and investments of nine domestic commercial banks at a sale price equivalent to the net book value of such portfolios and investments with a total ceiling amount of QR 15,000 million (U.S.$4,121 million). The total support to the banking sector, which includes purchases of real estate and investment portfolio in domestic banks as well as the equity injections, has been QR 32,700 million (U.S.$8,984 million).

Annual Indicators

The following table sets forth certain economic data for Qatar for the years indicated (*Source: Qatar Central Bank*).

	2006	2007	2008	2009	2010	2011[1]
GDP (QR million)	206,644	259,411	419,583	355,986	463,489	630,883
Growth Rate (%)	33.7	25.5	44.6	-15.2	30.2	36.1
Oil Sector Share (%)	57.3	56.5	54.9	44.8	51.7	57.8
Growth Rate (%)	28.6	23.7	53.5	-30.8	50.3	52.0
Non-Oil Sector Share (%)	42.7	43.5	45.1	55.2	48.3	42.2
Growth Rate (%)	41.1	28.0	35.1	3.8	13.9	19.1
GDP Per Capita (QR Thousand).......................	198.4	211.6	289.1	218.2	283.1	–
CPI-Inflation (%)[2]	11.84	13.76	15.10	-4.86	-2.46	1.77

Notes

1 Preliminary estimates set out in QCB's Quarterly Statistical Bulletin, June 2012.

2 On a yearly basis.

BANKING INDUSTRY AND REGULATION IN QATAR

Unless otherwise indicated, information in this section has been derived from publications of the Government, the QCB and the QFC's annual report and website.

Qatar Central Bank

The QCB was established in 1993 and operates in co-ordination with the Ministry of Economy and Finance The QCB is managed by a board of directors and chaired by its Governor. The board of directors includes the Deputy Governor of the QCB and at least three other members, including representatives from the Ministry of Economy and Finance, the Ministry of Business and Trade and the Economic Adviser, from the Emiri Diwan.

In its supervisory capacity, the QCB oversees the activities of Qatar's commercial banks and non-bank financial institutions (with the exception of insurance companies) with a view to minimising banking and financial risk in Qatar's financial sector. The QCB conducts regular inspections of commercial banks and reviews reports and other mandatory data submitted by commercial banks, including monthly capital adequacy compliance reports.

The QCB has initiated single factor stress testing of the portfolios of commercial banks in Qatar. The testing covers the four broad areas of liquidity risk, credit risk, interest rate risk and equity market risk. The results of these stress tests illustrate the possible impact of adverse financial conditions on a commercial bank's capital adequacy ratio or return on assets. Recent stress testing of commercial banks, conducted on an aggregate basis by the QCB, suggested that neither the capital adequacy ratio nor the returns on assets of Qatar's domestic banks would be significantly impaired. The QCB has implemented regulations regarding non-performing loans, large exposures, country risk, money market and foreign exchange accounts, credit ratios, fixed assets for banks' use, reserve requirements and banks' investments. The QCB has the authority to impose penalties in the event that banks fail to comply with these regulations. It requires commercial banks to maintain a minimum reserve requirement of 4.75 per cent. and a capital adequacy requirement of 10 per cent. in line with the Basel II guidelines. The QCB has also established the Qatar Credit Bureau which provides analytical data and supports banks in their implementation of advanced risk management techniques outlined by Basel II. The QCB plans to implement Basel III standards earlier than the required timeline for completion of different aspects of the Basel III framework which fall between 2013 and 2019. Commercial banks are required to have their annual accounts audited by the QCB's approved independent auditors and to obtain prior approval from the QCB to appoint senior management.

The IMF's staff report for the 2010 Article IV consultation was completed on 20 January 2011. The report noted that almost all banks in Qatar are above the minimum threshold for the common equity requirement of 4.5 per cent. and have Tier 1 capital in excess of the 6 per cent. prescribed under Basel III. The IMF Report further noted that the QCB is conducting regular stress tests on banks and that it had published its first Financial Stability Report as of November 2010. The IMF Report acknowledged Qatar‘s commitment to establish a single regulator for the financial system under the umbrella of the QCB as an appropriate response to addressing regulatory and supervisory gaps and strengthening financial sector reforms.

The IMF's staff report for the 2011 Article IV consultation, which was completed on 12 January 2012, noted that the Qatari banking system continued to remain resistant to any economic shocks. The IMF Report further noted that results of stress tests done on banks indicated that the Qatari banking system has the ability to withstand credit and market risks, and that the exposure of local Qatari banks to European banks was limited, with local banks' exposures (loans and investments) to the European banking sector being approximately U.S.$3.3 billion as at the end of June 2011.

The QCB also issues domestic currency and conducts bank clearing operations and settlements. The investment department of the QCB manages the investments of the QCB's financial reserves. These investments are primarily in the form of securities issued or guaranteed by other sovereigns with maturities of up to 10 years and are maintained at a level at least equal to 100 per cent. of the riyals issued by the QCB at any time.

The QCB, in order to ensure better regulation and risk management in the domestic Islamic and conventional banking sector, issued instructions in 2011 to conventional banks to wind up their Islamic banking operations by the end of 2011. The QCB also imposes certain exposure limits and credit controls on commercial banks. Credit facilities in excess of 20 per cent. of any bank's capital and reserves cannot be extended to a single customer's borrower group and credit and investment facilities in excess of 25 per cent. of any commercial bank's capital and reserves cannot be extended to a single customer's borrower group. Credit facilities extended to a single major shareholder's borrower group in any bank cannot exceed 10 per cent. of that bank's capital and reserves.

The QCB sets a maximum limit on loans and Islamic finance against transfer of salaries of QR 2 million for Qatari citizens and QR 400,000 for non-Qatari residents, with an overall cap on non-Qatari residents of QR 1 million. The QCB provides that the maximum terms on loans and Islamic finance are six years for Qatari citizens and four years for non-Qatari residents. Maximum rates of interest are set at the QCB lending rate (the **QCB Rate**) on top of which 1.5 per cent. is added for Qatari citizens and non-Qatari residents. The QCB also sets caps in relation to the amount of total monthly obligations that an individual can have against salary which is set at 75 per cent. of the sum of basic salary and social allowance for Qatari citizens and 50 per cent. of total salary for non-Qatari residents.

The QCB regulations dictate that the maximum credit card withdrawal limit of an individual in Qatar is double his or her net total salary for both Qatari citizens and the non-Qatari residents. The QCB provides that maximum rates of interest for credit cards are set at 1 per cent. monthly for Qatari citizens and non-Qatari residents. The QCB also provides that the maximum rate of interest arising from credit cards is set at 0.25 per cent. monthly for Qatari citizens and for non-Qatari residents.

The QCB has specific regulations applicable to real estate financing. In cases where an individual's salary is the main source of repayment, the QCB provides that the maximum limit of total real estate finance available is 70 per cent. of the value of mortgaged properties. In addition, the maximum period permitted for repayment of the real estate finance is 20 years, including any grace period. The QCB regulations dictate that the maximum salary deductions, including instalments and other liabilities is capped at 75 per cent. of the basic salary and social allowance for Qatari citizens, and capped at 50 per cent. of total salary for non-Qatari residents, provided that the salary and post retirement service dues are transferred to the bank offering the finance.

The QCB regulations also require that where real estate finance is granted to an individual whose salary is not the main source of repayment, the maximum limit of total finance available to that individual is 60 per cent. of the value of the mortgaged properties and that the maximum repayment period of that real estate finance is 15 years, including any grace period. QCB regulations also provide that these maximum limits may be increased to 70 per cent. if cash is regularly transferred to the bank through a formal assignment of claims to cover the full instalment during the repayment period, including rents and other contractual incomes and revenues. The QCB has determined that real estate finance risk should not exceed 150 per cent. of the bank's capital and reserves at any time.

The main exposure restrictions imposed by QCB are set out below:

Capital

Capital adequacy

- Basel II minimum ratio is 10 per cent.
- For credit and market risk the standardised approach is to be followed.
- For operational risk, the basic indicator approach is to be followed.
- Banks are subject to a capital adequacy ratio (**CAR**) imposed by, and calculated in accordance with regulations of the QCB.

Credit and concentration

- Maximum limit for a single customer may not exceed 20 per cent. of a bank's capital and reserves. Maximum limit for any shareholder who owns five per cent. or more of the bank's share capital either directly or through his minor children, spouse or through the companies in which they own 50 per cent. or more of the shares may not exceed 10 per cent. of a bank's capital and reserves. Maximum limit of total of investment and credit concentration to a single customer is 25 per cent. of a bank's capital and reserves.

- Total real estate financing may not exceed 150 per cent. of a bank's Tier 1 Capital.

Foreign investment

Foreign investment in Qatari banks is not permitted, save with a specific permission from the Council of Ministers. This restriction does not apply to Qatari banks listed on the QE, although foreign investors are restricted to holding, in aggregate, not more than 25 per cent. of the shares of any company so listed. This limit may be increased for individual companies in certain circumstances.

Required Reserve

On 15 April 2008 the QCB specified that a reserve requirement of 4.75 per cent. of a bank's total deposits are to be kept with the QCB. The percentage is calculated on the basis of the average daily total deposits balances during the period from the 16th of each month to the 12th of the following month.

Risk Reserve

The QCB requires local banks to charge a risk reserve of a minimum of 1.5 per cent. on total credit facilities. The risk reserve is not charged as an income statement expense but as an appropriation account and included under shareholders' equity as a separate line item.

The following table sets out the QCB's balance sheet data as at 31 December 2008 to 31 December 2011 and as at 30 June 2012.

	As at 31 December				**As at 30 June**
	2008	**2009**	**2010**	**2011**	**2012**
	(in millions of QAR)				
Assets:					
Foreign assets:					
Gold	1,267.0	1,587.1	2,062.0	2,279.0	2,321.6
Foreign government securities	24,019.3	54,568.6	87,155.0	27,168.7	41,297.6
Balances with foreign banks	10,267.3	10,474.2	22,451.1	29,765.5	48,612.9
IMF reserve position	85.9	87.4	85.9	85.6	84.6
SDR holdings	168.6	1,534.5	1,508.3	1,505.8	1,488.8
Total foreign assets	35,808.1	68,251.8	113,262.3	60,804.6	93,805.5
Claims on commercial banks	8,215.4	2,528.0	3,239.6	5,050.3	3,837.5
Unclassified assets	435.0	499.7	535.8	616.3	667.3
Total assets	**44,458.5**	**71,279.5**	**117,037.7**	**66,471.2**	**98,310.3**

	As at 31 December				As at 30 June
	2008	2009	2010	2011	2012
	(in millions of QAR)				
Liabilities:					
Reserve money:					
Currency issued	6,912.8	7,191.4	7,974.3	9,092.3	10,120.6
Required reserves	10,033.5	11,791.9	14,611.0	16,433.0	18,250.4
Deposits of local banks	6,677.1	26,920.0	69,223.3	5,660.4	11,486.6
Total reserve money[(1)]	23,623.4	45,903.3	91,808.6	31,185.7	39,857.6
Foreign liabilities	18.4	1,451.9	1,441.2	1,455.1	1,416.8
Government deposits	1,015.2	468.1	668.4	13,914.0	22,041.0
Capital accounts	9,982.5	11,063.8	12,092.8	12,167.1	12,167.1
Reserve revaluation	1,843.8	2,593.4	3,220.9	3,296.1	3,394.9
Unclassified liabilities	7,975.2	9,799.0	7,805.7	4,453.2	19,432.9
Total liabilities	**44,458.5**	**71,279.5**	**117,037.7**	**66,471.2**	**98,310.3**

Note:

(1) Excess reserves maintained by banks along with QMR deposits place with QCB.

Source: Qatar Central Bank

Interest Rates

Prior to 2000, the QCB imposed certain ceilings on the credit and deposit interest rates offered by commercial banks. The QCB removed these restrictions in order to further liberalise the financial sector. Since 2000, Qatar's banking system has been free from any form of interest rate ceilings, other than in respect of credit cards.

The QCB utilises three different interest rates: a lending rate, a deposit rate and a repo rate. The lending rate applies to the lending facility through which commercial banks can obtain liquidity from the QCB. The deposit rate applies to the deposit facility through which commercial banks can place deposits with the QCB. Both of these facilities may be rolled over to the next day, when transactions are executed electronically. The repo rate is a pre-determined interest rate set by the QCB for repo transactions entered into between the QCB and commercial banks. Also, an overnight liquidity facility rate of 3 per cent. applies to overnight lending by the QCB to commercial banks.

Prior to July 2007, the QCB tracked the interest rates of the U.S. Federal Reserve. However, and especially since the global financial crisis, the QCB has not deemed it necessary to change interest rates in tandem with the U.S. Federal Reserve on all occasions in view of domestic macroeconomic conditions, in particular trends in inflation. Although the QCB's money market rates are largely influenced by the movements in the interest rates of the U.S. Federal Reserve due to the peg on the exchange rate, the QCB acted independently in 2010 and 2011 by changing its policy rate even as the U.S. Federal Reserve continued to keep interest rates unchanged at near-zero levels. The QCB deposit rate which had been kept at 2 per cent. from May 2008 until July 2010 was thereafter reduced by 125 basis points in total in three phases to its current level of 0.75 per cent. by August 2011. Since April 2011, the QCB lending rate has been reduced in two phases by 100 basis points in total to 4.5 per cent. and the QCB repo rate has been reduced in two phases by 105 basis points in total to 4.5 per cent.. The surplus liquidity conditions in 2010 and 2011 were reflected in the general softening of interbank interest rates across the maturity spectrum.

On 6 May 2012, the QCB and Bloomberg launched the first ever Qatar Interbank Offer Rate (**QIBOR**) fixings, in a move aimed at encouraging a more active interbank market in Qatar. QIBOR, which uses the contributed offer rates quoted by nine panel banks, is calculated by Bloomberg and published on the QCB website and Bloomberg Professional service. QIBOR fixings for eight different tenures ranging from overnight to one year is publicly available each business day making market activity transparent to other banks around the world.

Liquidity

The QCB, on behalf of the Government, issues bonds to absorb domestic liquidity and develop a yield curve for riyal-denominated domestic bonds. The QCB has issued a number of domestic bonds since 1999, including six issues in 2009 and three issues in 2010 (including one *sukuk* issue). In 2011, the QCB also issued bonds amounting to QR 50 billion (U.S.$13.7 billion) to Qatari domestic banks, of which roughly two thirds went to Islamic banks and the rest to conventional banks. The funds so generated were transferred by the QCB to the State of Qatar's account and the State of Qatar used these funds for various governmental uses and for investment. The QCB also prescribes reserve requirements for commercial banks to be maintained with the QCB in order to control domestic liquidity.

Banking System

Commercial Banks

Commercial banks in Qatar consist of six locally owned conventional commercial banks (including Qatar National Bank, which is 50 per cent. Government owned), four Islamic institutions that operate according to Islamic *Shari'a* principles (including the prohibition on the charging of interest on loans) and seven foreign banks with established branches in Qatar.

Commercial banks are the primary financial institutions in Qatar, providing deposit taking, credit and investment services, as well as foreign exchange and clearance services. The deposits made in Qatar's commercial banks are not insured as there is no deposit insurance scheme in Qatar.

The QCB requires commercial banks to maintain a capital adequacy ratio of 10 per cent. in accordance with the Basel II guidelines. Historically, commercial banks have complied with this ratio. In 2011, the average banking sector capital adequacy ratio (**CAR**) was 20.6 per cent., an increase of 4.5 per cent. points from 2010. The CAR for 2010 was 16.1 per cent., the same ratio as in 2009, and in 2008 there was a CAR of 15.5 per cent. In 2011, the average banking sector regulatory tier 1 capital-to-asset ratio for all banks was 12.6 per cent. compared to 11.1 per cent. in 2010 and 11.5 per cent. in 2009. Currently, Qatar's commercial banks are compliant with Basel II pillar one, and are working to become compliant with the remaining risk components of pillars two and three.

The QIA has provided financial support to Qatar's financial sector as a response to the global economic downturn and as a preventative measure to preserve the general stability in Qatar's banking sector. In early 2009, the QIA began making direct capital injections in Qatar's commercial banking sector through a plan to purchase equity ownership interests of up to 20 per cent. in the domestic banks listed on the QE. In line with the plan, from 2009 through to 2011, the QIA acquired equity positions ranging from 5 per cent. to 20 per cent. in various domestic banks, including QIIB, Commercial Bank of Qatar, Qatar Islamic Bank, Ahli Bank and Doha Bank. The total equity injections in the domestic banks currently amount to QR 11.2 billion (U.S.$3.1 billion). The Government is expected to give these banks an option to buy back their shares over the next five years.

In addition to the equity purchases, the QIA also assisted the banking sector by purchasing certain portions of their investment and real estate portfolios. On 22 March 2009, the QIA purchased the investment portfolios of seven of the nine domestic banks listed on the QE at a total purchase price of approximately QR 6,500 million (U.S.$1,786 million) paid through a combination of cash and domestic Government bonds. This purchase price was equal to the value of such investment portfolios as registered in the records of each bank as of 28 February 2009. In an effort to further boost liquidity and encourage lending, in early June 2009, the QIA made a second round of investments and bought the real estate portfolios and investments of nine domestic commercial banks at a sale price equivalent to the net book value of such portfolios and investments with a total ceiling amount of QR 15,000 million (U.S.$4,121 million). The total support to the banking sector, which includes purchases of real estate and investment portfolio in domestic banks as well as the equity injections has been QR 32,700 million (U.S.$8,984 million).

The amount of credit extended by commercial banks to the private sector grew by a compound annual growth rate of 100.7 per cent. between 2007 and 2011, increasing by 16.1 per cent. in 2011 to QR 221,645 million

(U.S.$60,891 million) from QR 190,862 million (U.S.$52,435 million) in 2010. In 2011, credit extended to the real estate sector amounted to 34.3 per cent. of total private sector credit extended by commercial banks, while credit extended to the services sector and consumer credit amounted to 13.4 per cent. and 30.7 per cent. of total private sector credit, respectively. In 2011, the amount of credit extended to the real estate sector showed the sharpest increase, with an annual growth rate of approximately 49.3 per cent.. The amount of credit to contractors declined by 11.9 per cent. in 2011 compared to 2010.

The level of "non performing" commercial bank loans in Qatar has been low over the past five years. The level of non-performing loans was 1.2 per cent. in 2008, 1.7 per cent. in 2009, 2.0 per cent. in 2010 and 1.7 per cent. in 2011. Under QCB regulations, non performing loans are determined by reference to a range of indicators, and include loans that meet one of the following conditions for at least three months: (i) the borrower is not able to meet its loan repayments and the loan is past due; (ii) other credit facilities of that borrower are past due; (iii) the existing credit limits granted to that borrower for its other credit facilities are not renewed; or (iv) a borrower exceeds its agreed credit limit by 10 per cent. or more without prior authorisation. Commercial banks in Qatar categorise non performing loans into three groups: sub standard, doubtful and bad. Sub standard loans are those that have not performed for three or more months, doubtful loans are those that have not performed for six or more months, and bad loans are those that have not performed for nine or more months. The QCB also obliges national banks to form a "risk reserve" from their net profits, which should not be less than 1.5 per cent. of the total direct credit facilities granted by the bank and its branches and subsidiaries inside and outside Qatar. This figure is calculated according to each bank's consolidated balance sheet, after deduction of the specific provisions, suspended interests and deferred profits for Islamic banks, with the exception of credit facilities extended to the Ministry of Economy and Finance, credit facilities guaranteed by the Ministry of Economy and Finance and credit facilities secured by cash collateral (with a lien on cash deposits). The QCB issued a circular number 102/2011 in December 2011 which instructed that the risk reserve level that national banks must adhere to will be increase from 1.5 per cent. to 2 per cent. of the total direct credit facilities granted by the banks by the end of 2012, and to 2.5 per cent. by the end of 2013.

The following table sets out the consolidated balance sheet of the Qatari commercial banking sector as at 31 December 2008 to 2011 and as at 30 June 2012.

	As at 31 December				**As at 30 June**
	2008	**2009**	**2010**	**2011**	**2012**
	(in millions of QAR)				
Assets:					
Reserves:					
Cash	1,544.6	1,538.4	1,879.4	2,079.1	2,217.9
Balances with the QCB	16,561.7	38,361.3	83,578.5	21,802.1	29,756.6
Foreign assets:					
Cash	181.2	262.5	403.4	1,212.0	1,197.6
Claims on foreign banks	50,268.5	43,712.7	41,781.8	59,836.3	50,667.2
Foreign credit	21,845.6	18,561.6	20,560.5	26,867.3	28,474.7
Foreign investments	26,873.2	25,957.9	28,379.1	31,523.8	30,196.3
Domestic Assets:					
Due from Banks in Qatar	32,777.0	35,323.4	27,999.1	38,656.4	30,043.4
Domestic Credit	220,807.3	251,915.9	293,920.0	376,695.2	431,136.8
Domestic Investments	22,110.0	41,844.4	56,174.7	121,567.2	121,017.1
Fixed Assets	3,012.7	3,372.3	4,082.3	4,196.6	4,514.1
Other Assets	5,933.2	7,048.7	8,723.4	9,864.5	9,513.4
Total assets	**401,915.0**	**467,899.1**	**567,482.2**	**694,300.5**	**738,735.1**

	As at 31 December				As at 30 June
	2008	2009	2010	2011	2012
	(in millions of QAR)				
Liabilities:					
Foreign Liabilities:					
Non-resident deposits	14,428.8	22,021.5	29,680.8	19,835.2	26,678.9
Due to foreign banks	67,763.9	79,208.1	97,103.4	133,276.7	162,470.4
Debt securities	3,896.5	7,230.3	12,525.1	8,420.1	24,237.7
Domestic Liabilities:					
Resident deposits	198,050.3	224,840.3	277,106.7	343,777.2	351,575.5
Due to domestic banks	33,271.5	32,606.4	23,419.9	32,246.4	25,894.3
Due to QCB	6,782.3	2,719.1	3,413.2	4,910.3	2,614.6
Debt securities	76.8	300.0	115.0	7,541.3	0.0
Margins	1,379.4	1,881.6	1,047.8	1,096.2	981.3
Capital accounts	48,300.1	53,801.7	62,793.1	87,744.6	96,207.3
Provisions	4,253.1	5,864.6	7,315.8	8,162.0	9,512.1
Unclassified liabilities	23,712.3	37,425.5	52,961.4	47,290.5	38,563.0
Total liabilities	**401,915.0**	**467,899.1**	**567,482.2**	**694,300.5**	**738,735.1**

Source: Qatar Central Bank.

The following table summarises the capital adequacy ratio and the ratio of non-performing loans to capital for the Qatari banking system as at 31 December 2008 to December 2011.

	As of 31 December			
	2008	2009	2010	2011
Capital adequacy ratio (per cent.)	15.5	16.1	16.1	20.6
Non-performing loans/capital (per cent.)	1.0	1.2	1.3	1.0

Source: Qatar Central Bank website – Bank's Performance Indicators.
(http://www.qcb.gov.qa/English/Pages/BanksPerformanceIndicators.aspx)

The following table sets out the distribution of Qatari commercial bank credit facilities as at 31 December 2008 to 31 December 2011 and as at 30 June 2012.

	As at 31 December				As at 30 June
	2008	**2009**	**2010**	**2011**	**2012**
	(in millions of QAR)				
Public Sector:	13,205.9	34,722.4	36,303.1	40,801.2	31,967.0
Government	36,794.6	26,265.9	50,452.2	90,618.9	136,991.7
Government institutions	10,588.9	13,468.9	16,302.7	17,750.3	23,199.0
Semi government institutions	**60,589.4**	**74,457.2**	**103,058.0**	**149,170.4**	**192,157.7**
Total public sector loans					
Private sector:	21,884.3	24,685.8	24,875.2	26,855.3	29,566.1
General trade	5,500.8	5,525.7	6,648.2	6,534.0	6,249.8
Industry	11,454.2	12,987.9	18,410.6	16,219.9	15,195.4
Contractors	33,278.9	40,430.9	51,041.8	76,220.4	81,976.5
Real estate	56,771.0	53,235.6	56,735.1	67,975.3	74,152.5
Consumption	26,440.6	31,171.7	29,541.1	29,709.0	26,781.1
Services	4,888.1	9,421.1	3,610.0	4,010.9	5,057.7
Other	**160,217.9**	**177,458.7**	**190,862.0**	**221,644.8**	**238,979.1**
Total private sector loans	**220,807.3**	**251,915.9**	**293,920.0**	**376,695.2**	**431,136.8**
Total domestic loans	**13,205.9**	**34,722.4**	**36,303.1**	**40,801.2**	**31,967.0**
Loans outside Qatar	**21,845.6**	**18,561.6**	**20,560.5**	**26,867.3**	**28,474.7**
Total loans	**242,652.9**	**270,477.5**	**314,480.5**	**403,562.5**	**459,611.5**

Source: Qatar Central Bank.

The following table sets out the breakdown of Qatari commercial bank deposits as at 31 December 2008 to 31 December 2011 and as at 30 June 2012.

	As at 31 December				As at 30 June
	2008	**2009**	**2010**	**2011**	**2012**
	(in millions of QAR)				
Public Sector:					
By term and currency:					
In Qatari Riyal					
Demand deposits	10,885.2	10,331.4	13,877.7	19,274.6	16,761.9
Time and savings deposits	18,208.7	38,340.5	41,875.4	47,655.1	43,877.7
In foreign currencies					
Demand deposits	15,638.7	12,005.7	10,086.2	25,101.1	22,951.6
Time and savings deposits	31,102.6	7,500.1	6,231.9	33,844.8	24,263.7
By sector:					
Government	19,413.4	15,411.5	18,485.8	40,824.6	26,354.3
Government institutions	43,104.8	32,917.7	32,276.5	57,350.9	54,821.9
Semi government institutions	13,317.3	19,848.5	21,308.9	27,700.1	26,678.7
Total public sector deposits	**75,835.2**	**68,177.7**	**72,071.2**	**125,875.6**	**107,854.9**

	As at 31 December				As at 30 June
	2008	2009	2010	2011	2012
	(in millions of QAR)				
Private sector:					
By term and currency:					
In Qatari Riyal					
Demand deposits	36,714.6	39,220.5	51,793.1	61,926.2	67,232.1
Time and savings deposits	71,090.6	103,078.9	137,392.9	131,942.2	149,878.2
In foreign currencies					
Demand deposits	6,160.3	7,213.6	10,024.3	11,823.2	10,564.3
Time and savings deposits	8,249.6	7,149.6	5,825.2	12,210.0	16,046.0
By sector:					
Personal	65,867.5	70,231.3	90,828.1	103.093.1	117,147.0
Companies and institutions	56,347.6	86,431.3	114,207.4	114.808.5	126,573.6
Total private sector deposits	**122,215.1**	**156,662.6**	**205,035.5**	**217,901.6**	**243,770.6**
Total deposits:					
By currency:					
In Qatari Riyal	136,899.1	190,971.3	244,939.1	260,798.1	277,749.9
In foreign currencies	61,151.2	33,869.0	32,167.6	82,979.1	73,825.6
By term:					
Total demand deposits	69,398.8	68,771.2	85,781.3	118,185.1	117,509.9
Total time and savings deposits	128,651.5	156,069.1	191,325.4	225,652.1	232,753.5
Non-resident deposits	**14,428.8**	**22,021.5**	**29,680.8**	**19,835.2**	**26,678.9**
Total deposits	**212,479.1**	**246,861.8**	**306,787.5**	**363,612.4**	**378,254.4**

Source: Qatar Central Bank.

Qatar Development Bank

Qatar Development Bank (**QDB**) was established by the Government in 1997, with contributions from national banks under the name of Qatar Industrial Development Bank. In 2006, QDB became a government-owned bank and the following year changed its name to Qatar Development Bank. QDB's main objective is to contribute to the development and diversification of economic and industrial investments in Qatar. QDB finances small and medium sized industrial projects and provides technical assistance and advice to industrialists for the implementation of their projects. QDB also provides consultancy services and financing for projects in the education, agriculture, fisheries, healthcare, animal resources and tourism sectors. As of 31 December 2011, QDB's paid up capital was QR 2.9 billion (U.S.$796.7 million).

Qatar Financial Centre

The QFC is a financial and business centre established by the Government in 2005 with a view to attracting international financial services institutions and multinational corporations to Doha in order to grow and develop the market for financial services in the region. Unlike other financial centres in the region, the QFC is an onshore financial and business environment.

The QFC comprises: the QFCA, the QFCRA and the QFC Dispute Resolution Centre. The QFCA determines the commercial strategy of the QFC and is responsible for legislation and compliance matters relating to the QFC legal environment. The QFCRA regulates, authorises, supervises and, when necessary, disciplines banking, securities, insurance and other financial businesses carried on in or from the QFC. The QFCRA also registers and supervises the directors and other designated officers of the businesses authorised by it. The QFCRA's regulatory approach is modelled closely on that of the UK's Financial Services Authority. The QFC Civil and Commercial Court has jurisdiction over civil and commercial disputes arising between: (i) entities established within the QFC; (ii) employees or contractors employed by entities established in the QFC and the employing entity; (iii) QFC entities and residents of State of Qatar; and (iv) QFC institutions and entities established in the QFC. The QFC Regulatory Tribunal hears appeals against decisions of the QFCRA, QFCA and other QFC institutions. The QFC Dispute Resolution Centre offers international arbitration and mediation services. The QFCA, QFCRA, the QFC Civil and Commercial Court and the Regulatory Tribunal are all statutory independent bodies reporting to the Council of Ministers.

Firms operating under the QFC umbrella fall into two categories: those providing financial services, which are regulated activities, and those engaged in non-regulated activities in support of financial services. All QFC firms must apply to the QFCA for a business license to conduct a permitted activity in or from the QFC. Firms planning to conduct regulated activities also need to apply to the QFCRA for authorisation. The operations of the Company Registration Office are handled by the QFCA. Approximately 52 per cent. of the firms operating under the QFC umbrella, as of March 2012, are regulated financial institutions, including global financial institutions. The QFCA imposed a tax rate of 10 per cent. on local source business profits effective 1 January 2010.

Financial institutions licensed by the QFCRA as "Category-1" financial institutions are authorised to operate as universal banks and, among other things, may make various types of loans and accept deposits in any currency. Under the QFC licensing policy, such institutions are currently prohibited from conducting retail banking with, or on behalf of, retail customers unless they obtain authorisation from the QFCRA. Financial institutions authorised by the QFCRA as "Category-2", "Category-3" or "Category-4" are permitted to undertake certain more limited activities, and "Category-5" institutions may undertake Islamic finance activities.

Proposed single regulator

Although postponed indefinitely, the Ministry of Business and Trade has announced its intention to establish a single financial regulator in Qatar, which will regulate the banking, insurance and securities sectors, and QFC. The proposed single regulator would incorporate the Banking Supervision Division of QCB, the QFMA, the regulatory division of the QE and the Qatar Financial Centre Regulatory Authority and would also supervise the insurance sector in Qatar.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agent (as defined in the Conditions).

The Declaration of Trust

The Declaration of Trust will be entered into on the Issue Date between QIIB, the Issuer, the Trustee and the Delegate and will be governed by English law.

The Declaration of Trust shall provide that, on or after any Dissolution Date, the rights of recourse in respect of Certificates shall be limited to the amounts from time to time available and comprising the relevant Trust Assets, subject to the priority of payments set out in the Declaration of Trust, the Certificates and the Conditions. The Certificateholders have no claim or recourse against the Issuer, the Trustee or the Delegate in respect of any amount which is or remains unsatisfied and any such amounts will be extinguished.

Pursuant to the Declaration of Trust, the Trustee will, *inter alia*:

(a) hold the Trust Assets on trust absolutely for the Certificateholders as beneficial tenants in common pro rata according to the face amount of Certificates held by each Certificateholder; and

(b) act as trustee in respect of the Trust Assets, distribute the income from such Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust.

In the Declaration of Trust, the Trustee shall irrevocably and unconditionally delegate to the Delegate the performance of certain present and future duties, powers, authorities and discretions vested in the Trustee by the relevant provisions of the Declaration of Trust (including but not limited to the authority to request instructions from any Certificateholders and the power to make any determinations to be made under the Declaration of Trust). The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as trustee.

Pursuant to the Declaration of Trust the Delegate will undertake that, *inter alia*:

(a) it may or shall (subject, in either case, to being indemnified and/or secured and/or pre-funded to its satisfaction) upon being directed to do so by the Certificateholders enforce the obligations of QIIB under the Declaration of Trust, the Purchase Undertaking, the Management Agreement, the Restricted Mudaraba Agreement and any other Transaction Document to which QIIB is a party; and

(b) following the occurrence of a Dissolution Event and subject to Condition 12, it shall (subject to being indemnified and/or secured and/or pre-funded to its satisfaction) (i) promptly notify the Certificateholders of the occurrence of such Dissolution Event, and (ii) take all such steps as are necessary to enforce the obligations of QIIB under the Declaration of Trust, the Purchase Undertaking, the Management Agreement, the Restricted Mudaraba Agreement and any other Transaction Document to which QIIB is a party.

A Transaction Account will be established in the name of the Issuer. Monies received in the Transaction Account will, *inter alia*, comprise (i) payments from the Income Collection Account immediately prior to each Periodic Distribution Date (see "– *The Management Agreement*" below), (ii) payments of the Rabb-al-Maal's share of Mudaraba Profit immediately prior to each Periodic Distribution Date (see "– *The Restricted Mudaraba Agreement*" below) and (iii) the Exercise Price received from QIIB under the Purchase Undertaking or Sale Undertaking, as the case may be (see "– *The Purchase Undertaking*" and "– *The Sale Undertaking*" below). The Declaration of Trust shall provide that all monies credited to the Transaction Account will be applied in the order of priority set out in Condition 4.2.

In the Declaration of Trust, QIIB shall undertake to the Trustee and the Delegate that, if any amount payable by QIIB to the Trustee pursuant to any Transaction Document is not recoverable from QIIB for any reason whatsoever or the Trustee suffers any cost, expense or loss as a result of the Trustee's holding of the Sukuk Assets, which cost, expense or loss is not recoverable under the Purchase Agreement, then QIIB will, as a sole, original and independent obligor, forthwith upon demand by the Trustee or the Delegate pay such sum by way of a full indemnity in the manner and currency as is provided for in the relevant Transaction Document and indemnify the Trustee and the Delegate against all losses, claims, costs, charges and expenses to which it may be subject or which it may incur under or in respect of the Transaction Documents.

Pursuant to the Declaration of Trust, QIIB will pay certain fees and expenses of, and indemnify against certain losses of, the Delegate.

The Purchase Agreement

The Purchase Agreement will be entered into on the Issue Date between the Seller and QIIB Sukuk Funding Limited and will be governed by the laws of Qatar.

Pursuant to the Purchase Agreement, the Seller will sell, transfer and assign to QIIB Sukuk Funding Limited, and QIIB Sukuk Funding Limited will buy from the Seller, the Wakala Portfolio together with all of the Seller's rights, title, interests, benefits and entitlements in, to and under the Wakala Assets for U.S.$77,000,000 (the **Purchase Price**), payable on the Issue Date. The Wakala Assets purchased pursuant to the Purchase Agreement are set out in the schedule to the Purchase Agreement.

The proportion of the Purchase Price payable in respect of each Wakala Asset shall be an amount in U.S. dollars not less than the Value of such asset.

For the purposes of the Transaction Documents, the **Value** of a Wakala Asset means in respect of any Wakala Asset, the amount in United States dollars (following conversion, if necessary, of any relevant amount(s) at the Wakala Exchange Rate) determined by QIIB on the relevant date as:

(a) in the case of a Non-Real Estate Ijara Asset or Other Tangible Sharia Compliant Asset, the aggregate of all outstanding fixed rental instalment amounts payable by the lessee (whether then due and unpaid or due and payable on or after such date) or other equivalent fixed instalment amounts payable by the obligor (as the case may be), in each case in the nature of capital or principal payments in respect of the relevant asset, each of which is payable to QIIB, under or in respect of the related Non-Real Estate Ijara Contract or Other Tangible Sharia Compliant Asset, as applicable; and

(b) in the case of a Murabaha Receivable or Other Intangible Sharia Compliant Asset, its then outstanding face amount, principal amount or par value.

For these purposes:

Other Intangible Sharia Compliant Asset means any Other Sharia Compliant Asset that does not have associated with it underlying tangible assets; and

Wakala Exchange Rate means, in the case of any amount payable in respect, or any face amount, principal amount or par value, of a Wakala Asset that is in a currency (the **Wakala Currency**) other than United States dollars, the spot rate of exchange at which the Managing Agent was, or would have been, able to purchase United States dollars with such amount of the Wakala Currency on the date on which the relevant asset became part of the Wakala Portfolio (or if it was not practicable to make such purchase on such date, on the immediately preceding date on which it was so practicable), without taking into account any premium or other costs of exchange.

The Management Agreement

The Management Agreement will be entered into on the Issue Date between the Trustee and the Managing Agent and will be governed by English law.

The Trustee shall appoint the Managing Agent to manage the Wakala Portfolio. In particular, the Managing Agent:

(a) shall manage the Wakala Portfolio in accordance with the terms of the Management Agreement;

(b) shall, in conjunction with the Mudarib, ensure that, on the Issue Date (but not necessarily thereafter) at least 51 per cent. of the aggregate of the Wakala Portfolio Value and the Mudaraba Portfolio Value on the Issue Date is derived from Tangible Wakala Assets and Tangible Mudaraba Assets;

(c) shall procure that, at all times, at least 30 per cent. of the Wakala Portfolio Value is derived from Tangible Wakala Assets and in the event that, at any time, the aggregate Value of the Tangible Wakala Assets comprised within the Wakala Portfolio should fall below 30 per cent. of the Wakala Portfolio Value, the Managing Agent shall use its reasonable endeavours to acquire as soon as reasonably practicable thereafter sufficient Tangible Wakala Assets to increase such percentage to a level that is equal to or greater than 30 per cent. of the Value of the Wakala Portfolio at such time;

(d) shall use its best efforts to manage the Wakala Portfolio such that the Wakala Portfolio Value is, on the Payment Business Day immediately preceding any relevant Dissolution Date, at least equal to the Purchase Price paid by QIIB Sukuk Funding Limited under the Purchase Agreement less the Wakala Percentage of any relevant Surrender Amount;

(e) shall reinvest all Wakala Portfolio Principal Revenues in acquiring from QIIB, for and on behalf of the Trustee, further Eligible Wakala Assets (as defined in the Purchase Agreement) such that the further Eligible Wakala Assets so originated are included in the Wakala Portfolio, subject to (i) the Value of such further Eligible Wakala Assets being not less than the consideration given for, the purchase price of or the amounts otherwise applied in the origination of such further Eligible Wakala Assets and (ii) such further Eligible Wakala Assets being Eligible Wakala Assets in respect of which the representations and warranties equivalent to those set out in the Purchase Agreement can be given;

(f) shall do all acts and things (including execution of such documents, issue of notices and commencement of any proceedings) that it considers (and without the need for the consent of the Trustee) reasonably necessary to ensure the assumption of, and compliance by each Wakala Asset Obligor with its covenants, undertakings or other obligations under the Wakala Asset Contract to which it is a party in accordance with applicable law and the terms of the Wakala Asset Contract, in each case in respect of the Wakala Assets;

(g) shall discharge or procure the discharge of all obligations to be discharged by it (in whatever capacity) in respect of any of the Wakala Assets under all Wakala Asset Contracts, it being acknowledged that the Managing Agent may appoint one or more agents to discharge these obligations on its behalf;

(h) may pay on behalf of the Trustee any costs, expenses, losses and Taxes which would otherwise be payable by the Trustee as a result of the Trustee's ownership of the Wakala Portfolio;

(i) shall use its reasonable endeavours to ensure the timely receipt of all Wakala Portfolio Revenues (as defined below), investigate non-payment of Wakala Portfolio Revenues and generally make all reasonable efforts to collect or enforce the collection of such Wakala Portfolio Revenues under all Wakala Asset Contracts as and when the same shall become due;

(j) shall use its best endeavours to ensure that the Expected Wakala Portfolio Income Revenues are generated in relation to the Wakala Portfolio;

(k) shall maintain the Wakala Collection Accounts in accordance with the terms of the Management Agreement;

(l) shall obtain all necessary authorisations in connection with any of the Wakala Assets and its obligations under or in connection with the terms of the Management Agreement;

(m) shall use its reasonable endeavours to ensure that the Non-Real Estate Ijara Lessees and other obligors in respect of the Tangible Wakala Assets maintain industry standard insurances (on a takaful basis if such takaful insurance is available or is available on commercially viable terms), and fulfil all structural repair and major maintenance obligations, in respect of the relevant Non-Real Estate Ijara

Assets and Other Tangible Sharia Compliant Assets in accordance with the terms of the related Wakala Asset Contracts;

(n) on each Periodic Distribution Date may, after payment to the Transaction Account of amounts credited to the Wakala Reserve Collection Account in accordance with the terms of the Management Agreement, provide Sharia compliant funding, to the extent necessary, on terms that such funding is repayable from Wakala Portfolio Income Revenues in accordance with the terms of the Management Agreement on the Dissolution Date, to ensure that the Issuer receives on each Wakala Distribution Determination Date the Required Amount payable by it on the immediately following Periodic Distribution Date (such funding, a **Liquidity Facility**); and

(o) shall carry out any incidental matters relating to any of the above.

For these purposes:

Expected Wakala Portfolio Income Revenues means U.S.$2,069,760 per annum being the amount which the Managing Agent and the Trustee commercially intend to earn from the Wakala Assets;

Mudaraba Exchange Rate means, in the case of any amount payable in respect, or any face amount or par value, of a Mudaraba Asset that is in a currency (the **Mudaraba Currency**) other than United States dollars, the spot rate of exchange at which the Mudarib was, or would have been, able to purchase United States dollars with such amount of the Mudaraba Currency on the date on which the relevant asset became part of the Mudaraba Portfolio (or if it was not practicable to make such purchase on such date, on the immediately preceding date on which it was so practicable), without taking into account any premium or other costs of exchange;

Mudaraba Portfolio Principal Revenues means any amounts received in the nature of capital or principal payments in respect of the Mudaraba Assets;

Mudaraba Portfolio Value means, on the relevant date, an amount in U.S. dollars (following conversion, if necessary, of any relevant amount(s) at the Mudaraba Exchange Rate) equal to the sum of (i) the aggregate Value of the Mudaraba Assets comprising the Mudaraba Portfolio on such date and (ii) any Mudaraba Portfolio Principal Revenues held by the Mudarib on such date;

Surrender Amount means the aggregate face amount of any Certificates cancelled pursuant to Condition 9 (*Redemption following a Change of Control and Purchase*);

Tangible Mudaraba Asset means a Real Estate Ijara Asset, Non-Real Estate Ijara Asset or Other Tangible Sharia Compliant Asset that is an Eligible Mudaraba Asset (as defined in the Restricted Mudaraba Agreement);

Tangible Wakala Asset means a Non-Real Estate Ijara Asset or Other Tangible Sharia Compliant Asset that is that is an Eligible Wakala Asset;

Wakala Asset Contract means a Non-Real Estate Ijara Contract or the contracts and/or other agreements and/or documents evidencing or otherwise related to or associated with a Murabaha Receivable or Other Sharia Compliant Asset;

Wakala Asset Obligor means a Non-Real Estate Ijara Lessee or any person (other than QIIB) that is a party to a Wakala Asset Contract; and

Wakala Distribution Determination Date means the Payment Business Day immediately preceding each Periodic Distribution Date.

The Managing Agent shall perform its duties under the Management Agreement in accordance with all applicable laws and regulations, with the degree of skill and care that it would exercise in respect of its own assets and in a manner that complies in all material respects with the Shari'a principles laid down by QIIB's Sharia Supervisory Committee.

In the Management Agreement, the Trustee and the Managing Agent will agree that, provided no Dissolution Event has occurred and is continuing, the Managing Agent may at any time (and shall, upon any default in respect of any Wakala Asset or upon any Wakala Asset ceasing to be an Eligible Wakala Asset) substitute any one or more of the Wakala Assets as the Managing Agent may select (subject to any Wakala Asset(s) to be substituted being the defaulting Wakala Asset(s), if applicable) under the Wakala Assets Substitution Undertaking. The substitute Wakala Asset(s) for these purposes shall be an Eligible Wakala Asset of a Value not less than the Value of the Wakala Asset(s) to be substituted which shall be not less than the value of the consideration paid for such Wakala Asset when it first became part of the Wakala Portfolio and any such substitution shall otherwise be undertaken in accordance with the terms of the Management Agreement and the Wakala Assets Substitution Undertaking.

The Managing Agent will maintain three separate book-entry ledger accounts (referred to as the **Principal Collection Account**, the **Income Collection Account** and the **Wakala Reserve Collection Account**, respectively, and, together, the **Wakala Collection Accounts**) in which all revenues from the Wakala Assets (the **Wakala Portfolio Revenues**) will be recorded.

All Wakala Portfolio Revenues will be recorded (a) to the extent that any such amounts comprise Wakala Portfolio Principal Revenues, in the Principal Collection Account; and (b) to the extent that any such amounts comprise Wakala Portfolio Income Revenues, in the Income Collection Account.

Amounts standing to the credit of the Income Collection Account will be applied by the Managing Agent on the Business Day immediately preceding each Periodic Distribution Date in the following order of priority:

(a) first, in payment of any Management Liabilities Amounts for the Return Accumulation Period ending immediately before the immediately following Periodic Distribution Date;

(b) second, to the extent not already paid, in repayment of any amounts advanced by way of a Liquidity Facility;

(c) third, the Managing Agent shall pay into the Transaction Account an amount equal to the lesser of the Wakala Percentage of the Required Amount payable on the immediately following Periodic Distribution Date and the balance of the Income Collection Account; and

(d) any amounts still standing to the credit of the Income Collection Account immediately following payment of the relevant amounts pursuant to paragraphs (a) to (c) above, shall be debited from the Income Collection Account and credited to the Wakala Reserve Collection Account.

For these purposes:

Management Liabilities Amount means the amount of any claims, losses, costs and expenses properly incurred or suffered by the Managing Agent or other payments made by the Management Agent on behalf of the Trustee, in each case in providing the relevant services during the relevant period, but does not include any amount due to the Managing Agent under the Management Agreement in respect of any Liquidity Facility; and

Wakala Portfolio Value means, on the relevant date, an amount in U.S. dollars (following conversion, if necessary, of any relevant amount(s) at the Wakala Exchange Rate) equal to the sum of (i) the aggregate Value of the Wakala Assets comprising the Wakala Portfolio on such date and (ii) any Wakala Portfolio Principal Revenues held by the Managing Agent on such date.

If there is a shortfall at any relevant time between the amounts standing to the credit of the Transaction Account and the Required Amount payable on the immediately following Periodic Distribution Date, amounts standing to the credit of the Wakala Reserve Collection Account may be applied towards such shortfall.

Following such application, together with the corresponding application of any amounts standing to the credit of the Mudaraba Reserve Account as described below, to the extent there remains a shortfall, the Managing Agent may also advance amounts to the Trustee by way of a Liquidity Facility to ensure the Trustee receives the Required Amount on such Periodic Distribution Date to pay the relevant Periodic

Distribution Amount, by paying the amounts so advanced into the Transaction Account on the Business Day immediately preceding the relevant Periodic Distribution Date. Any Liquidity Facility shall be provided on terms that it is repayable from Wakala Portfolio Income Revenues in accordance with paragraph (b) above and on the Dissolution Date.

The Managing Agent shall keep detailed records of all movements in the Wakala Collection Accounts and, if so requested, provide the Trustee with copies of such records and any other information or details in relation to Collection Accounts as the Trustee may reasonably request. Following payment of all amounts due and payable under the Certificates on the Dissolution Date, the Managing Agent shall be entitled to retain any amounts that remain standing to the credit of the Wakala Reserve Collection Account for its own account as an incentive payment for acting as Managing Agent.

The Managing Agent will agree in the Management Agreement that all payments by it under the Management Agreement will be made without any deduction or withholding for or on account of tax unless required by law and without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding, the Managing Agent shall pay all additional amounts as will result in the receipt by the Trustee of such net amounts as would have been received by it if no deduction or withholding had been made. The payment obligations of the Managing Agent under the Management Agreement will be direct, unconditional, unsecured, unsubordinated and general obligations of the Managing Agent and shall rank at least *pari passu* with all other unsecured, unsubordinated and general obligations of the Managing Agent.

The Restricted Mudaraba Agreement

The Restricted Mudaraba Agreement will be entered into on the Issue Date between QIIB Sukuk Funding Limited (in its capacities as Trustee for the Certificateholders and as Rabb-al-Maal) and QIIB (in its capacity as the Mudarib).

Pursuant to the Restricted Mudaraba Agreement, the Rabb-al-Maal shall invest the Mudaraba Capital with the Mudarib and the Mudarib agrees to invest and manage the Mudaraba Capital, in each case, in accordance with the Restricted Mudaraba Agreement (including the Mudaraba Investment Plan as defined below). The Mudaraba Investment Plan will specify, among other things, the services and activities of the Mudarib and the Rabb-al-Maal's share of the Mudaraba Profit which the parties commercially intend to achieve from the Mudaraba Assets during the term of the Mudaraba, which is 2.688 per cent. of the Mudaraba Capital per annum.

Pursuant to the Restricted Mudaraba Agreement, the Mudarib will unconditionally and irrevocably undertake to:

(a) invest the Mudaraba Capital in accordance with the terms of the Restricted Mudaraba Agreement;

(b) invest the Mudaraba Capital solely in Eligible Mudaraba Assets (as defined in the Restricted Mudaraba Agreement) the Value of which is not less than the value of the consideration given for such asset as at the date upon which it becomes part of the Mudaraba Portfolio;

(c) in conjunction with the Managing Agent, ensure that, on the Issue Date (but not necessarily thereafter) at least 51 per cent. of the aggregate of the relevant Mudaraba Portfolio Value and Wakala Portfolio Value is derived from Tangible Mudaraba Assets and Tangible Wakala Assets;

(d) procure that, at all times, at least 30 per cent. of the Mudaraba Portfolio Value is derived from Tangible Mudaraba Assets and in the event that, at any time, the aggregate Value of the Tangible Mudaraba Assets comprised within the Mudaraba Portfolio should fall below 30 per cent. of its Value, the Mudarib shall use its reasonable endeavours to acquire as soon as reasonably practicable thereafter sufficient Tangible Mudaraba Assets to raise such percentage to a level that is equal to or greater than 30 per cent. of the Value of the Mudaraba Portfolio at such time;

(e) (to the extent and as soon as reasonably practicable) reinvest all Mudaraba Portfolio Principal Revenues received in relation to the Mudaraba in additional Eligible Mudaraba Assets. Such additional assets will form part of the Mudaraba Portfolio from the date of such investment and the value of the consideration given for the purchase price of, or the amounts otherwise applied in the origination of such assets shall be not less than the Value of such assets;

(f) monitor, subject to, and in accordance with the usual and standard practices of QIIB from time to time, the Value and income generating properties of the Mudaraba Assets on a monthly basis and use its best endeavours to manage the Mudaraba Portfolio such that the Mudaraba Portfolio Value is, on the Business Day immediately preceding any relevant Dissolution Date, at least equal to the Mudaraba Capital less (i) the Mudaraba Percentage of any relevant Surrender Amount and (ii) the aggregate of any Mudaraba Portfolio Principal Revenues then held by the Mudarib at such time;

(g) use its reasonable endeavours to ensure that lessees and other obligors in respect of the Tangible Mudaraba Assets maintain industry standard insurances and fulfil all structural repair and major maintenance obligations in respect of the relevant Real Estate Ijara Assets, Non-Real Estate Ijara Assets and Other Tangible Sharia Compliant Assets (each in accordance with the terms of the relevant Real Estate Ijara Contract, Non-Real Estate Ijara Contract or contracts relating to the Other Tangible Sharia Compliant Assets, as applicable);

(h) exercise such rights, powers and discretions as arise under the Restricted Mudaraba Agreement (together with any other incidental rights, powers, authorities and discretions), and take such action as it deems appropriate, in each case:

  (i) in accordance with material applicable laws;

  (ii) with the degree of skill and care that it would exercise in respect of its own assets; and

  (iii) in a manner that complies in all material respects with Sharia principles as laid down by QIIB's Sharia Supervisory Committee;

(i) maintain separate ledger accounts to record:

  (i) any amount of Mudaraba Portfolio Principal Revenues received in respect of the Mudaraba Assets;

  (ii) the amount of Mudaraba Profit for each Return Accumulation Period payable to the Rabb-al-Maal; and

  (iii) any amount of Mudaraba Profit remaining on each Periodic Distribution Date after deducting amounts payable to the Rabb-al-Maal; and

(j) at any time after the Issue Date, in the event that any Mudaraba Asset is determined not to be an Eligible Mudaraba Asset, substitute (in accordance with the provisions of the Restricted Mudaraba Agreement) such ineligible Mudaraba Asset with any one or more Mudaraba Assets in respect of which certain representations and warranties set out in the Restricted Mudaraba Agreement can be given, including, without limitation, a representation that the Mudaraba Asset is an Eligible Mudaraba Asset,

which, together, comprises the **Mudaraba Investment Plan**.

For these purposes:

Tangible Mudaraba Asset means a Real Estate Ijara Asset, Non-Real Estate Ijara Asset or Other Tangible Sharia Compliant Asset that is an Eligible Mudaraba Asset.

In the Restricted Mudaraba Agreement, the Mudarib and the Rabb-al-Maal will acknowledge and agree that, provided no Dissolution Event has occurred and is continuing (a) QIIB may at any time request the Mudarib to substitute and (b) the Mudarib may at any time (and shall, upon any default in respect of any Mudaraba Asset or breach of the representations and warranties given in relation to a Mudaraba Asset or upon any Mudaraba Asset ceasing to be an Eligible Mudaraba Asset) substitute, any one or more of the Mudaraba Assets as QIIB or the Mudarib may respectively select (subject to any Mudaraba Asset(s) to be substituted being the defaulting Mudaraba Asset(s) or the Mudaraba Asset not in compliance with such representations and warranties, if applicable). The substitute Mudaraba Asset(s) for these purposes shall be an Eligible Mudaraba Asset(s) of a Value not less than the Value of the Mudaraba Asset(s) to be substituted which shall be not less than the value of the consideration paid for such Mudaraba Asset when it first became part of the Mudaraba Portfolio and any such substitution shall otherwise be undertaken on the terms and subject to the conditions of the Restricted Mudaraba Agreement.

The Mudaraba Profit for each period corresponding to a Return Accumulation Period will be determined by the Mudarib on the Business Day immediately preceding each Periodic Distribution Date or the Dissolution Date, as the case may be, or no later than the Dissolution Date, in the case of any redemption of the Certificates following a Dissolution Event, and will be the amount equal to all revenues received in respect of the Mudaraba Assets during such period less (i) any Mudaraba Portfolio Principal Revenues received in respect of the Mudaraba Assets during the Profit Distribution Period; (ii) any costs (consisting of direct costs and allocated costs) and/or provisions associated with the Mudaraba Assets during the Profit Distribution Period; and (iii) any taxes incurred in connection with the Restricted Mudaraba Agreement (including in connection with any transfer, sale or disposal of any Mudaraba Asset during the Profit Distribution Period) but excluding the Mudarib's obligations (if any) to pay any taxes or additional amounts under, or in connection with, Condition 10.

Payments in respect, or on account, of any Mudaraba Profit will be allocated in accordance with the profit sharing ratio of 99 per cent. to the Rabb-al-Maal and one per cent. to the Mudarib. The Mudarib will pay the Rabb-al-Maal's share of such Mudaraba Profit by payment of the same into the Transaction Account on the date of its determination. The Mudarib shall be entitled to use for its own account any amounts received in the nature of Mudaraba Profit provided that such amount shall be repaid when required.

In the event that the Rabb-al-Maal's share of any Mudaraba Profit to be paid by the Mudarib into the Transaction Account on any relevant date is greater than the Mudaraba Percentage of the Required Amount on the immediately following Periodic Distribution Date, the amount of any excess shall be retained by the Mudarib as a reserve and credited to a reserve ledger account (the **Mudaraba Reserve Account**) and the amount payable to the Transaction Account in respect of such Mudaraba Profit shall be reduced accordingly. If there is a shortfall on such date between the amounts standing to the credit of the Transaction Account and the Required Amount payable on the immediately following Periodic Distribution Date or the Dissolution Date, as the case may be, amounts standing to the credit of the Mudaraba Reserve Account may be applied towards such shortfall.

The Mudarib will be entitled to deduct amounts standing to the credit of the Mudaraba Reserve Account at any time and use such amounts for its own account, provided that such amounts shall be repaid by it if so required to fund any shortfall as described above. After all amounts due and payable under the Certificates have been paid in full, the Mudarib shall be entitled to retain the remaining balance (if any) of the Mudaraba Reserve Account for its own account as an incentive payment.

On the Dissolution Date, QIIB and the Mudarib shall liquidate the Mudaraba and through such liquidation the Mudarib shall transfer to the Rabb-al-Maal an amount in U.S. dollars equal to the Mudaraba Portfolio Value on the relevant Dissolution Date by paying the same into the Transaction Account on the Business Day immediately preceding the Dissolution Date.

The payment obligations of the Mudarib under the Restricted Mudaraba Agreement will be direct, unconditional, unsecured, unsubordinated and general obligations of the Mudarib and shall rank at least *pari passu* with all other unsecured, unsubordinated and general obligations of the Mudarib.

The Purchase Undertaking

The Purchase Undertaking will be executed by way of deed on the Issue Date by QIIB in favour of QIIB Sukuk Funding Limited and the Delegate and will be governed by English law.

QIIB will irrevocably undertake in favour of the Trustee and the Delegate to purchase the Wakala Portfolio, together with all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the Wakala Portfolio on the Scheduled Dissolution Date or any earlier due date for dissolution following the occurrence of a Dissolution Event, as the case may be, at the Exercise Price, being an amount in U.S. dollars equal to the aggregate of:

(a) the Wakala Portfolio Value on the relevant Dissolution Date less the amount of any Wakala Portfolio Principal Revenues held by the Managing Agent on such Dissolution Date;

(b) an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Certificates, less any U.S. dollar amounts standing to the credit of the Transaction Account for the payment of such Periodic Distribution Amounts, on the date on which payment of the Exercise Price is made pursuant to the Purchase Undertaking; and

(c) an amount equal to the sum of any outstanding (i) amounts repayable in respect of any Liquidity Facility and (ii) Management Liabilities Amounts;

If the Delegate exercises its option prior to the Scheduled Dissolution Date, an exercise notice will be required to be delivered by the Delegate under the Purchase Undertaking.

QIIB will undertake in the Purchase Undertaking that if it fails to pay all or part of any Exercise Price that is due, then QIIB shall irrevocably, unconditionally and automatically (without the necessity for any notice or any other action) continue to act as managing agent for the provision of the relevant services in respect of the Wakala Portfolio on the terms and conditions, *mutatis mutandis*, of the Management Agreement.

QIIB will agree in the Purchase Undertaking that all payments by it under the Purchase Undertaking will be made without any deduction or withholding for or on account of tax unless required by law and without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding, QIIB shall pay all additional amounts as will result in the receipt by the Trustee of such net amounts as would have been received by it if no deduction or withholding had been made. The payment obligations of QIIB under the Purchase Undertaking will be direct, unconditional, unsubordinated, unsecured and general obligations of QIIB and shall rank at least *pari passu* with all other unsecured, unsubordinated and general obligations of QIIB.

The Sale Undertaking

The Sale Undertaking will be executed as a deed on the Issue Date by the Trustee for the Certificateholders in favour of QIIB and will be governed by English law.

Pursuant to the Sale Undertaking and subject to the Issuer being entitled (upon the occurrence of a Tax Event) to redeem the Certificates for tax reasons in accordance with Condition 8.2, QIIB may, by exercising its right under the Sale Undertaking and serving notice on the Issuer no later than 45 days prior to the Dissolution Date, oblige the Issuer to sell all of the Issuer's rights, title, interests, benefits and entitlements in, to and under the Wakala Portfolio on the Tax Redemption Date at the Exercise Price (as defined above).

The Wakala Assets Substitution Undertaking

The Wakala Assets Substitution Undertaking will be executed as a deed the Issue Date by the Trustee for the Certificateholders in favour of the Seller and will be governed by English law.

Pursuant to the Wakala Assets Substitution Undertaking, QIIB may effect the substitution of any existing Wakala Assets with an Eligible Wakala Asset provided that (a) such new wakala assets specified in the substitution notice are of a Value not less than the Value of the relevant substituted wakala assets specified in the substitution notice and (b) no exercise notice or cancellation notice has been delivered under the Sale Undertaking in respect of the Substituted Wakala Assets (as defined in the Wakala Assets Substitution Undertaking) and no Exercise Notice has been delivered under the Purchase Undertaking.

TAXATION

The following is a general description of certain tax considerations relating to the Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Certificates. Prospective purchasers of Certificates should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes of acquiring, holding and disposing of Certificates and receiving payments of profit, principal and/or other amounts under the Certificates. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

QATAR

The following is a general description of certain Qatar income tax considerations relating to the Certificates. It does not purport to be a complete analysis of all income tax considerations relating to the Certificates nor does it address the considerations that are dependent on individual circumstances. Prospective purchasers of Certificates should consult their own tax advisers to determine the income tax consequences for them of acquiring, holding and disposing of the Certificates and receiving distributions, payments of principal, profit and/or other amounts under the Certificates and the consequences of such actions under the Qatar income tax regulations.

This general description of taxation in Qatar is based upon (a) Law No. 21 of the Year 2009 (the **Qatar tax law**); (b) the Executive Regulations; (c) Circular No.2 of 2011; and (d) the published practices that have been adopted and applied by the Taxes Department, each as in effect on the date of this Prospectus. This general description is subject to any subsequent change in Qatar tax law, regulations and practice that may come into force after such date.

Under the Qatar tax law, tax is imposed on income derived from a source in Qatar. Income derived from a source in Qatar includes gross income arising from an activity carried on in Qatar, contracts wholly or partially performed in Qatar and real estate situated in Qatar (including the sale of shares in companies or partnerships, the assets of which consist mainly of real estate situated in Qatar). The gross income of Qatari natural persons resident in Qatar, including their shares in the profits of legal entities, is exempt from Qatar tax as is the capital gains on the disposal of real estate and securities derived by natural persons provided that the real estate and securities so disposed of do not form part of the assets of a taxable activity. Natural or legal persons deemed subject to income tax in Qatar will either pay tax at the standard rate of 10 per cent. on the net taxable income or, the tax will be withheld at source from the gross payment to be made.

A withholding tax applies to certain payments made to "non-residents" (as defined in the Qatar tax law) in respect of activities not connected with a permanent establishment in Qatar. Particularly, the Qatar tax law specifies a withholding tax rate of 7 per cent. on payments of interest. The Executive Regulations which apply to the Qatar tax law provide for certain exemptions to withholding tax on interest payments. These exemptions are: (i) interest on deposits in banks in Qatar; (ii) interest on bonds and securities issued by the State of Qatar and public authorities, establishments, corporations and companies owned wholly or partly by the State of Qatar; (iii) interest on transactions, facilities and loans with banks and financial institutions; and (iv) interest paid by a permanent establishment in Qatar to the head office or to an entity related to the head office outside Qatar.

The Taxes Department has confirmed to QIIB in the Clarification that the provisions of the Qatar tax law and the Executive Regulations apply to profit payments made under Islamic financial instruments (including sukuk and certificates).

The Taxes Department has also confirmed to QIIB in the Clarification that the profit payments received by the Issuer from QIIB, acting in any capacity, under the Purchase Undertaking, the Sale Undertaking, the Management Agreement or the Restricted Mudaraba Agreement will be exempt from withholding tax under (iii) above, on the basis that QIIB qualifies as a "bank and financial institution".

There is no stamp duty, capital gains tax or sales tax applicable in Qatar (however, unless specifically exempt under the Qatar tax law, gains of a capital nature are treated as income and taxed at the same rate as income).

CAYMAN ISLANDS

Under existing Cayman Islands laws, payments on the Certificates will not be subject to taxation in the Cayman Islands and no withholding will be required on the payments to any holder of the Certificates, nor will gains derived from the disposal of the Certificates be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance or gift tax.

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of present legislation. The Issuer has obtained an undertaking dated 8 November 2011 from the Governor-in-Cabinet of the Cayman Islands, pursuant to the Tax Concessions Law (as amended) of the Cayman Islands, that for a period of 20 years from the grant of that undertaking no law which is enacted in the Cayman Islands imposing any tax to be levied on profit, income, gains or appreciation shall apply to the Issuer or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable on or in respect of the shares, debentures or other obligations (which would include the Certificates) of the Issuer or by way of the withholding in whole or part of any relevant payment (as defined in the Tax Concessions Law (as amended)). No capital or stamp duties are levied in the Cayman Islands on the issue or redemption of Certificates. An instrument of transfer in respect of a Certificate may be stampable if executed in or brought to the Cayman Islands. An annual registration fee is payable by the Issuer to the Cayman Islands Registry of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual registration fee is approximately U.S.$731.71. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

EU SAVINGS DIRECTIVE

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income which may include Periodic Distribution Amounts) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending as of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories, including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE

Under the terms and conditions contained in a Subscription Agreement (the **Subscription Agreement**) dated 16 October 2012 between the Issuer, QIIB, HSBC Bank plc, QNB Capital LLC, Standard Chartered Bank (together, the **Joint Lead Managers**), CIMB Bank (L) Limited and Qatar Islamic Bank S.A.Q. (together with the Joint Lead Managers, the **Managers**) the Issuer has agreed to issue U.S.$700,000,000 in aggregate face amount of the Certificates and, subject to certain conditions, the Managers have agreed to subscribe or procure subscribers for the Certificates. The Subscription Agreement provides that the obligations of the Managers to pay for and accept delivery of the Certificates are subject to certain conditions. Pursuant to the Subscription Agreement, the Managers will be paid certain commissions in respect of their services for managing the issue and sale of the Certificates. The Managers will also be reimbursed in respect of certain of their expenses, and each of the Issuer and QIIB has agreed to indemnify the Managers against certain liabilities incurred in connection with the issue of the Certificates.

Selling Restrictions

United States

The Certificates have not been and will not be registered under the Securities Act and, may not be offered or sold within the United States or to or for the account or benefit of, any U.S. person except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Certificates are being offered and sold only outside the United States to persons other than U.S. persons as defined in Regulation S in offshore transactions in reliance on, and in compliance with, Regulation S.

Each Manager has agreed that it has offered and sold, and will offer and sell, the Certificates (a) as part of its distribution at any time and (b) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, only in accordance with Rule 903 of Regulation S.

The foregoing restrictions apply to holders of beneficial interests in the Certificates, as well as holders of the Certificates.

Each Manager has agreed that, at or prior to confirmation of sale of Certificates, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Certificates from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**), and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meaning given to them by Regulation S".

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (**FSMA**)) received by it in connection with the issue or sale of any Certificate in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Certificates in, from or otherwise involving the United Kingdom.

Kingdom of Bahrain

Each Manager has represented and agreed that it has not offered, and will not offer, Certificates to the public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001) of Bahrain) in the Kingdom of Bahrain.

Cayman Islands

Each Manager has represented and agreed that it has not made and will not make any offer or invitation to any member of the public in the Cayman Islands to subscribe for the Certificates.

Malaysia

Each Manager has represented and agreed that:

(a) this Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia (the **CMSA**); and

(b) accordingly, the Certificates have not been and will not be offered or sold, and no invitation to subscribe for or purchase the Certificates has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 (or Section 229(1)(b)), Schedule 7 (or Section 230(1)(b)) and Schedule 8 (or Section 257(3)) of the CSMA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the Securities Commission of Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Managers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

Kingdom of Saudi Arabia

Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a **Saudi Investor**) who acquires Certificates pursuant to an offering should note that the offer of Certificates is an offer to "Sophisticated Investors" (as defined in Article 10 of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the **KSA Regulations**)) for the purposes of Article 9 of the KSA Regulations. Each Manager has represented and agreed that the offer of the Certificates will only be directed at Sophisticated Investors.

The offer of Certificates shall not therefore constitute a "public offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Certificates as a Sophisticated Investor may not offer or sell those Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi Arabian Capital Market Authority and: (a) the Certificates are offered or sold to a Sophisticated Investor; (b) the price to be paid for the Certificates in any one transaction is equal to or exceeds SR 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**). Accordingly, each Manager has represented and agreed that it has not offered or sold and will not offer or sell any Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, nor will it circulate or distribute this Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of the Certificates, whether directly or indirectly, to any person in Singapore other than: (a) to an institutional investor pursuant to Section 274 of the SFA, (b) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Qatar (excluding the Qatar Financial Centre)

Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, any Certificates in Qatar, except (a) in compliance with all applicable laws and regulations of Qatar and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Manager has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

(a) an "Exempt Offer" in accordance with the Markets Rules of the Dubai Financial Services Authority (the **DFSA**); and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

General

Each Manager has agreed that it will, to the best of its knowledge and belief, comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Certificates or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of the Certificates under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuer, the Trustee, the Delegate or any of the other Managers shall have any responsibility therefor.

None of the Issuer, the Trustee, QIIB, the Delegate or any of the Managers represents that the Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale. Persons into whose possession this Prospectus or any Certificates may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Prospectus and the offering and sale of the Certificates.

GENERAL INFORMATION

Authorisation

The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Issuer dated 11 October 2012. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Certificates and the execution and performance of the Transaction Documents to which it is a party. The entry into the Transaction Documents to which it is a party has been duly authorised by a resolution of the Shareholders of QIIB on 1 March 2011 and by a resolution of the Board of Directors of QIIB on 12 September 2012.

Listing

Application has been made to the Irish Stock Exchange for the Certificates to be admitted to listing on the Official List and for such Certificates to be admitted to trading on the Regulated Market. The listing of the Certificates is expected to be granted on or before 18 October 2012.

Documents Available

For so long as any Certificates remain outstanding, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the offices of the Issuer and the Paying Agent in London:

(a) the Transaction Documents;

(b) the Memorandum and Articles of Association of the Issuer;

(c) the Memorandum and Articles of Association of QIIB;

(d) the audited financial statements of QIIB in respect of the financial years ended 31 December 2011 and 31 December 2010 and 2009, in each case together with any audit and review reports prepared in connection therewith;

(e) the most recently published audited annual financial statements of QIIB and the most recently published audited interim financial statements of QIIB (consolidated or non-consolidated as the case may be), in each case together with any audit or review reports, as the case may be, prepared in connection therewith; and

(f) this Prospectus.

Clearing Systems

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The ISIN for the Certificates is XS0843912808. The Common Code for the Certificates is 084391280.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the prospects of the Issuer, in each case, since the date of its incorporation.

There has been no significant change in the financial or trading position of QIIB and its subsidiaries, taken as a whole since 30 June 2012 and there has been no material adverse change in the financial position or prospects of QIIB and its subsidiaries, taken as a whole since 31 December 2011.

Litigation

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

QIIB is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of QIIB.

Auditors

The first financial period of the Issuer ended on 31 December 2011. The Issuer has no subsidiaries. The Issuer is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint any auditors.

The auditors of QIIB are Deloitte and Touche, independent chartered accountants regulated by the Ministry of Business and Trade in Qatar, who have audited QIIB's accounts, without qualification, in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, for the six months ended 30 June 2012 and each of the financial years ended on 31 December 2011 and 31 December 2010. The auditors have no material interest in QIIB.

Expenses

The expenses relating to the admission to trading of the Certificates on the Regulated Market are expected to amount to €5,190.

Managers Transacting with QIIB

Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, QIIB and its affiliates in the ordinary course of business for which they have received, and for which they may in the future receive, fees.

FINANCIAL INFORMATION

The financial information included in this Prospectus has not been prepared in accordance with IFRS and there may be material differences in the financial information had IFRS been applied to the historical financial information. See "*Summary of Significant Differences Between The Financial Accounting Standards Issued By AAOIFI and International Financial Reporting Standards*".

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

INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD
ENDED JUNE 30, 2012
TOGETHER WITH INDEPENDENT
AUDITOR'S REVIEW REPORT

TABLE OF CONTENTS

QR. 99-8

INDEPENDENT AUDITOR'S REVIEW REPORT

To The Board of Directors
Qatar International Islamic Bank (Q.S.C.)
Doha – Qatar

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Qatar International Islamic Bank (Q.S.C.) ("the Bank") as at June 30, 2012, and the related interim condensed statements of income for the three and six months then ended and the changes in shareholders' equity, and cash flows for the six month periods then ended, and certain explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, Qatar Central Bank Regulations, the basis of accounting mentioned in note (2) of the accompanying interim condensed financial statements, and the Bank's undertaking to operate in accordance with Islamic Shari'a rules and principles. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of the interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not presented fairly, in all material respects, in accordance with Note 2 of the accompanying interim condensed financial statements and Qatar Central Bank regulations.

For **Deloitte & Touche**

Doha – Qatar
July 19, 2012

Muhammad Bahemia
License No. 103

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

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2012

	June 30, 2012 (Reviewed)	June 30, 2011 (Reviewed)	December 31, 2011 (Audited)
	QR'000	QR'000	QR'000
ASSETS			
Cash and balances with Qatar Central Bank	**1,152,402**	1,449,421	934,530
Balances and investments with banks and other financial institutions	**5,581,426**	5,626,580	5,734,175
Receivables and balances from financing activities	**11,424,879**	10,122,058	10,588,963
Financial investments	**3,656,395**	3,227,439	4,259,060
Investment in associates	**377,398**	388,594	365,231
Investment properties held for leasing	**234,877**	235,815	236,279
Investment properties held for trading	**746,319**	660,143	639,636
Property and equipment	**182,789**	189,036	185,531
Other assets	**346,748**	274,171	414,221
Total assets	**23,703,233**	22,173,257	23,357,626
LIABILITIES, HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS AND SHAREHOLDERS' EQUITY			
Liabilities			
Current accounts from banks and financial institutions	**77,700**	19,359	15,997
Customers' current accounts	**4,581,361**	3,706,110	3,952,019
Other liabilities	**447,656**	471,328	357,592
Total Liabilities	**5,106,717**	4,196,797	4,325,608
Holders of Unrestricted Investment Accounts	**13,899,969**	13,361,031	14,138,758
Shareholders' Equity			
Share capital	**1,513,687**	1,513,687	1,513,687
Legal reserve	**2,452,360**	2,452,362	2,452,360
Fair value reserve	**100,825**	135,074	107,309
Risk reserve	**167,869**	152,869	167,869
Foreign currency translation reserve	**(11,178)**	(1,866)	(10,651)
Other reserves	**30,862**	40,800	32,896
Proposed cash dividends	**--**	--	529,790
Retained earnings	**442,122**	322,503	100,000
Total Shareholders' Equity	**4,696,547**	4,615,429	4,893,260
Total Liabilities, Holders of Unrestricted Investment Accounts and Shareholders' Equity	**23,703,233**	22,173,257	23,357,626

These interim condensed financial statements were approved by the Board of Directors on July 19, 2012 and signed on its behalf by the following:

………………………………………… ……………………………………

Dr. Khaled Bin Thani Al Thani — Chairman and Managing Director

Abdul Basit Ahmed Al Shaibei — Chief Executive Officer

The attached notes 1 to 7 form part of these interim condensed financial statements

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

INTERIM CONDENSED STATEMENT OF INCOME
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2012

	Three Month Period Ended June 30,		Six Month Period Ended June 30,	
	2012 (Reviewed)	2011 (Reviewed)	**2012 (Reviewed)**	2011 (Reviewed)
	QR.'000	QR.'000	**QR.'000**	QR.'000
Income from financing activities	**188,871**	222,424	**379,004**	419,861
Income from investing activities	**70,215**	44,495	**168,144**	96,584
Total income from financing and investing activities	**259,086**	266,919	**547,148**	516,445
Commission and fee income	**18,797**	25,440	**39,207**	48,858
Commission and fee expense	**(7,447)**	(1,868)	**(9,473)**	(3,582)
Net commission and fee income	**11,350**	23,572	**29,734**	45,276
Gain from foreign exchange operations	**1,864**	2,933	**5,027**	4,517
NET OPERATING INCOME	**272,300**	293,424	**581,909**	566,238
General and administrative expenses	**(32,521)**	(47,874)	**(72,417)**	(82,169)
Depreciation and amortisation	**(3,366)**	(2,896)	**(6,751)**	(5,807)
Impairment of Investments	**(11,653)**	--	**(31,653)**	--
Provision for impairment of financing activities	**--**	(10,000)	**(10,051)**	(15,000)
NET PROFIT FOR THE PERIOD BEFORE SHARE OF PROFIT OF HOLDERS IN UNRESTRICTED INVESTMENT DEPOSITS	**224,760**	232,654	**461,037**	463,262
Less: Share of holders of unrestricted investment accounts in the net profit	**(60,182)**	(69,322)	**(120,949)**	(140,935)
NET PROFIT FOR THE PERIOD DUE TO SHAREHOLDERS	**164,578**	163,332	**340,088**	322,327
BASIC/DILUTED EARNINGS PER SHARE (QR)	**1.09**	1.11	**2.25**	2.19

The attached notes 1 to 7 form part of these interim condensed financial statements

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

INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2012

	Note	Share capital	Legal reserve	Fair value reserve	Risk reserve	Foreign currency reserve	Other reserves	Proposed cash dividends	Retained earnings	Total
		QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000
Balance at January 1, 2012		**1,513,687**	**2,452,360**	**107,309**	**167,869**	**(10,651)**	**32,896**	**529,790**	**100,000**	**4,893,260**
Dividends paid	4	--	--	--	--	--	--	(529,790)	--	(529,790)
Transfer to retained earnings		--	--	--	--	--	(2,034)	--	2,034	--
Net income for the period		--	--	--	--	--	--	--	340,088	340,088
Translation difference		--	--	--	--	(527)	--	--	--	(527)
Net movement in fair value reserve		--	--	(6,484)	--	--	--	--	--	(6,484)
Balance at June 30, 2012		**1,513,687**	**2,452,360**	**100,825**	**167,869**	**(11,178)**	**30,862**	**--**	**442,122**	**4,696,547**

The attached notes 1 to 7 form part of these interim condensed financial statements

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

INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2012

	Note	Share capital	Legal reserve	Fair value reserve	Risk reserve	Foreign currency reserve	Other reserves	Proposed cash dividends	Retained earnings	Total
		QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000
Balance at January 1, 2011		**1,387,546**	**1,651,369**	**66,074**	**152,869**	**(1,866)**	**40,800**	**520,330**	**176**	**3,817,298**
Dividends paid 2010	4	--	--	--	--	--	--	(520,330)	--	(520,330)
Increase of share capital (special issuance *)		126,141	800,993	--	--	--	--	--	--	927,134
Net income for the period		--	--	--	--	--	--	--	322,327	322,327
Net movement in fair value reserve		--	--	69,000	--	--	--	--	--	69,000
Balance at June 30, 2011		**1,513,687**	**2,452,362**	**135,074**	**152,869**	**(1,866)**	**40,800**	**--**	**322,503**	**4,615,429**

On January 17, 2011, the bank received QR. 927,134 thousand representing the final payment of Qatar Investment Authority's contribution in the Bank's share capital (12,614,062 ordinary shares at par value QR. 10 and share premium of QR. 63.5 per share).

The attached notes 1 to 7 form part of these interim condensed financial statements

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

INTERIM CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2012

	Note	Six Months Ended June 30, 2012 (Reviewed)	Six Months Ended June 30, 2011 (Reviewed)	Year ended December 31, 2011 (Audited)
		QR.'000	QR.'000	QR.'000
NET CASH FLOWS FROM OPERATING ACTIVITIES		**335,999**	220,076	76,764
INVESTING ACTIVITIES				
Purchase of financial investments		**(800,004)**	(1,743,497)	(3,199,577)
Purchase of property and equipment		**(2,343)**	(2,426)	(4,308)
Proceeds from investments in associates		**--**	(167,164)	(167,164)
Proceeds from sale of financial investment		**1,399,042**	282,801	633,649
Purchase of investment properties		**(107,106)**	(205,703)	(240,812)
Dividends received from investment in associates		**2,034**	5,436	7,861
NET CASH FLOW FROM (USED IN) INVESTING ACTIVITIES		**491,623**	(1,830,553)	(2,970,351)
FINANCING ACTIVITIES				
Net (decrease) increase in holders of unrestricted investment accounts		**(298,971)**	2,085,721	2,896,312
Dividends paid		**(529,790)**	(520,330)	(520,330)
Increase in share capital		**--**	927,134	927,132
NET CASH FLOW (USED IN) FROM FINANCING ACTIVITIES		**(828,761)**	2,492,525	3,303,114
INCREASE IN CASH AND CASH EQUIVALENTS		**(1,139)**	882,048	409,527
Cash and cash equivalents at the beginning of the period		**5,890,199**	5,480,675	5,480,672
CASH AND CASH EQUIVALENTS - END OF THE PERIOD	**5**	**6,981,703**	6,362,723	5,890,199

The attached notes 1 to 7 form part of these interim condensed financial statements

1 STATUS AND ACTIVITIES

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

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

2 ACCOUNTING POLICIES

These interim condensed financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, Qatar Central Bank regulations and presented in accordance with the International Accounting Standard (IAS) 34 - Interim Financial Reporting. The accounting policies used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2011.

The interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI"). In addition, the results for the six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2012.

3 SEGMENT INFORMATION

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

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

3 SEGMENT INFORMATION (CONTINUED)

June 30, 2012	**Retail Financing**	**Commercial (SME) Financing**	**Corporate Financing**	**Investment and Treasury**	**Total**
Assets					
Balances and investments with banks and other financial institutions	--	--	--	5,581,426	5,581,426
Financial Investments	--	--	--	3,656,395	3,656,395
Investment in Associate	--	--	--	377,398	377,398
Investment Properties	--	--	--	981,196	981,196
Receivables and balances from financial activities	3,421,493	1,333,302	6,654,087	15,997	11,424,879
Net segment assets					22,021,294
Other asset					1,681,939
Total assets					23,703,233
Liabilities and Shareholder Equity					
Customer's and banks' Current accounts	3,200,740	317,541	1,063,080	77,700	4,659,061
Holder's of unrestricted investment accounts	10,531,452	424,384	2,095,854	848,279	13,899,969
Net segment liabilities					18,559,030
Other liabilities					447,656
Shareholders' equity					4,696,547
Total liabilities and equity					23,703,233
Operating revenue	151,087	44,763	252,769	133,290	581,909

3 SEGMENT INFORMATION (CONTINUED)

December 31, 2011	**Retail Financing**	**Commercial (SME) Financing**	**Corporate Financing**	**Investment and Treasury**	**Total**
Assets					
Balances and investments with banks and other financial institutions	--	--	--	5,734,175	5,734,175
Financial Investments	--	--	--	4,259,060	4,259,060
Investment in Associate	--	--	--	365,231	365,231
Investment Properties	--	--	--	875,915	875,915
Receivables and balances from financial activities	3,321,024	1,095,158	6,148,519	24,262	10,588,963
Net segment assets					21,823,344
Other asset					1,534,282
Total assets					23,357,626
Liabilities and Shareholder Equity					
Current accounts from banks and financial institutions	3,299,485	212,170	440,364	15,997	3,968,016
Customers current accounts & URIA	10,756,717	296,329	1,563,120	1,345,364	13,961,530
Net segment liabilities					17,929,546
Other liabilities					534,820
Shareholders' equity					4,893,260
Total liabilities and equity					23,357,626

June 30, 2011:

	Retail Financing	Commercial (SME) Financing	Corporate Financing	Investment and Treasury	Total
Operating revenue	163,929	43,545	259,601	99,163	566,238

4 CASH DIVIDENDS

On March 5, 2012, the Bank's general assembly approved the board of directors recommendation to pay cash dividends for the year 2011 representing 35% of its paid up capital equivalent to QR 3.5 per share (2011: QR 3.75 per share).

5 CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents include cash and balances with Qatar Central Bank, excluding the cash reserve, and due from banks and other financial institutions.

6 CONTINGENT LIABILITIES

	June 30, 2012	December 31, 2011
	(Reviewed)	(Audited)
	QR.'000	QR.'000
(a) Deferred or contingent commitments		
Documentary credits	**401,759**	305,389
Acceptances	**42,741**	39,245
Letters of guarantees	**911,173**	913,115
Collection notes	**13,063**	11,062
	1,368,736	1,268,811
(b) Other contracts and commitments		
Commitments and unused credit limits	**507,230**	67,902
	1,875,966	1,336,713

7 RELATED PARTY TRANSACTIONS

The Bank carries out various transactions in the ordinary course of business with shareholders or with members of the Board of Directors and the companies in which they have significant interests, on terms similar to those carried out with unrelated third parties.

The amount outstanding/transactions during the period/year with members of the Board or the companies in which they have significant interests were as follows:

	June 30, 2012		December 31, 2011	
	Board of directors	**Others**	Board of directors	Others
	QR'000	**QR'000**	QR'000	QR'000
Statement of financial position items:				
Assets				
Murabaha and Musawama	**17,010**	**20,922**	33,989	28,721
Istisna	**--**	**--**	75,948	--
Ijarah	**47,669**	**92,343**	49,828	--
	64,679	**113,265**	159,765	28,721
Liabilities				
Current account balances	**8,995**	**83,956**	5,583	29,883
Unrestricted investment deposits	**86,622**	**388,333**	101,816	285,258
	95,617	**472,289**	107,399	315,141
Off balance sheet items:				
Letter of credits, letter of guarantees and acceptances	**500**	**34,407**	600	6,637
Statement of income items				
Fees and commission income	**3,234**	**5,663**	10,385	1,867
Income from investing activities	**--**	**36,452**	--	--

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

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

INDEX

QR. 99-8

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Qatar International Islamic Bank (Q.S.C) as of December 31, 2011 and of its financial performance and its cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank and Qatar Central Bank regulations.

Report on other legal and regulatory matters

We have obtained all the information and explanations which we considered necessary for the purpose of our audit. We further confirm that the financial information included in the Annual Report of the Board of Directors is in agreement with the books and records of the Bank and that we are not aware of any contraventions by the Bank of its Articles of Association, the Qatar Commercial Companies Law No. 5 of 2002, Qatar Central Bank regulations and Qatar Central Bank Law No.33 of 2006, during the financial year, that would materially affect its activities or its financial position.

For **Deloitte & Touche**

January 22, 2012
Doha – Qatar

Muhammad Bahemia
License No. 103

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

STATEMENT OF FINANCIAL POSITION
As at December 31, 2011

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

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

....	....
Dr. Khalid Bin Thani Al Thani	Abdul Basit Ahmad Abdul Rahman Al Shibi
Chairman and Managing Director	Chief Executive Officer

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

STATEMENT OF INCOME
For the year ended December 31, 2011

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 31, 2011

	Note	*Share capital*	*Legal reserve*	*Fair value reserve*	*Risk reserve*	*Foreign currency translation reserve*	*Other reserves*	*Proposed cash dividends*	*Retained earnings*	*Total*
		QR'000	*QR'000*	*QR'000*	*QR'000*	*QR'000*	*QR'000*	*QR'000*	*QR'000*	*QR'000*
Balance at January 1, 2011		**1,387,546**	**1,651,369**	**66,074**	**152,869**	**(1,866)**	**40,800**	**520,330**	**176**	**3,817,298**
Dividends paid		**-**	**-**	**-**	**-**	**-**	**-**	**(520,330)**	**-**	**(520,330)**
Increase in share capital	**16**	**126,141**	**800,991**	**-**	**-**	**-**	**-**	**-**	**-**	**927,132**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**653,036**	**653,036**
Net fair value movements		**-**	**-**	**41,235**	**-**	**-**	**-**	**-**	**-**	**41,235**
Transfer to risk reserve		**-**	**-**	**-**	**15,000**	**-**	**-**	**-**	**(15.000)**	**-**
Translation differences		**-**	**-**	**-**	**-**	**(8,785)**	**-**	**-**	**-**	**(8,785)**
Net movement in other reserve	**16**	**-**	**-**	**-**	**-**	**-**	**(7,904)**	**-**	**7,904**	**-**
Contribution to social and sport activities support for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(16,326)**	**(16,326)**
Proposed dividends for 2011		**-**	**-**	**-**	**-**	**-**	**-**	**529,790**	**(529,790)**	**-**
Balance at December 31, 2011		**1,513,687**	**2,452,360**	**107,309**	**167,869**	**(10,651)**	**32,896**	**529,790**	**100,000**	**4,893,260**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 31, 2011

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

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
For the year ended December 31, 2011

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

1. LEGAL STATUS AND MAIN ACTIVITIES

Qatar International Islamic Bank (Q.S.C.) ("the Bank") was incorporated under Amiri Decree No. 52 of 1990. The Bank operates through its head office located on Grand Hamad Street in Doha and (15) local branches. The Bank is listed and its shares are traded on the Qatar Exchange.

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

The financial statements have been approved by the Board of Directors on January 22, 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

New and amended accounting standard and framework

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

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

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

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

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

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

Basis of preparation

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Transactions

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

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

Revenue recognition

- Income on financing contracts of Murabaha, Musawama and Istesna are recognised following the accrual basis using the declining instalment method. When receivable from financing activities become non-performing and where collectibility is doubtful, income is suspended as per the instructions of Qatar Central Bank.

- Ijarah income is recognised following the accrual basis and is determined 6 months in advance upon agreement of all parties.

- Income from Musharaka is recognised at the end of the Musharaka.

- Income from dividends and investment funds are recognised when the right to receive the income is established.

- Other investment income is recognised on an accrual basis.

- Fees and commission income is recognised when earned.

- Income on Mudaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib.

- Profit is allocated proportionately between unrestricted investment account holders and the shareholders on the basis of the average balances outstanding during the year, after deduction of the bank Mudaraba share.

Financial Investments

Debt- type instruments

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

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

Investments at fair value through statement of Income

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Investments (Continued)

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

Investments carried at amortised cost
An investment is classified and measured at amortized cost if the following conditions are met:
1. The instrument is managed on a contractual yield basis;
2. The instrument is not held for trading and has not been designated at "fair value through income statement".

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

Equity type instruments

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

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

Investments at fair value through statement of Income

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Investments (Continued)

Investments at fair value through equity

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

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

Fair value

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

Investment properties held for leasing purpose

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

Investment properties held for trading

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

Receivables and balances from financing activities

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

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

Buildings	5.0%
Leasehold improvements	20.0%
Computer software and hardware	33.3%
Furniture, fixtures and office equipment	15.0%
Motor vehicles	20.0%

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

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

Impairment of the Bank's assets

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

Employees' end of service benefits and pension fund

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

Other provisions

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

Off balance sheet items

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Bank complies with the directives of QCB as follows:

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

Cash and cash equivalents

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

Investments in associates

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial guarantees

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

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received at the date the guarantee was given, and the initial fair value is amortized over the life of the financial guarantee. Subsequent to initial recognition, the Bank liability under such guarantees are measured at the higher of the amortized amount and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

Any increase in the liability relating to guarantees is taken to the income statement. The amortization of the premium received is recognized in the income statement under commission and fees income.

Segment reporting

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

Significant accounting judgments and estimates

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

Fair values of financial instruments

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

Impairment losses on financing activities

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of investments

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

3.1 Financial Instruments

(a) Definition and classification

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

Note 2 to the financial statements explains the accounting policies used to recognise and measure financial instruments.

(b) Fair value of financial instruments

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

3.2 Risk management

3.2.1 Introduction

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

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

Risk Management Structure

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

Board of Directors

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

Risk Management Function

The Risk Management Function is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It is also responsible for monitoring compliance with risk principles, policies and limits, across the Bank.

Executive Bank Management

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

Internal audit

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

Risk measurement and reporting systems

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

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

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

On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

Risk measurement and reporting systems (continued)

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

Excessive risk concentration

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

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

3.2.2 Credit risk

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

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

The main types of collaterals obtained are as follows:

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

Management monitors the market value of collateral.

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

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.2 Credit risk (continued)

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

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

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

(b) Credit quality per category of financial assets

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

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

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

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

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

Past due receivables and balances from financing activities to customers less than 90 days are not considered to be impaired. An analysis of past due installment by age, is provided below:

	Less than 60 days 2011	***61 to 90 days 2011***	***Total 2011***
	QR'000	***QR'000***	***QR'000***
Receivables and balances from financing activities:-			
Retail	**33,390**	**--**	**33,390**
Corporate	**42,116**	**--**	**42,116**
Commercial Financing	**74,712**	**22,470**	**97,182**
	150,218	**22,470**	**172,688**

	Less than 60 days 2010	*61 to 90 days 2010*	*Total 2010*
	QR'000	*QR'000*	*QR'000*
Receivables and balances from financing activities:			
Retail	2,383	--	2,383
Corporate	6,451	--	6,451
Commercial Financing	20,519	13,450	33,969
	29,353	13,450	42,803

As of December 31, 2011 the Bank did not obtain any additional collateral against the past due but not impaired receivables and balances from financing activities to customers.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.3 Concentration analysis

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

	2011			2010		
	Assets	*Liabilities and shareholders' equity*	*Contingent liabilities*	*Assets*	*Liabilities and shareholders' equity*	*Contingent liabilities*
	QR'000	*QR'000*	*QR'000*	*QR'000*	*QR'000*	*QR'000*
By geographic region:						
Qatar	**21,993,500**	**23,073,977**	**1,268,811**	16,972,736	17,687,831	1,001,277
GCC countries	**983,537**	**254,902**	**--**	838,939	387,752	--
Others	**380,589**	**28,747**	**--**	367,266	103,358	--
Total	**23,357,626**	**23,357,626**	**1,268,811**	18,178,941	18,178,941	1,001,277
By industry sector:						
Government	**4,197,687**	**1,477,934**	**--**	2,748,904	1,398,225	--
Industry/Manufacturing	**59,431**	**--**	**5,708**	154,519	--	372
Commercial	**627,438**	**--**	**--**	527,812	--	12,465
Real estate	**7,753,208**	**--**	**364,354**	4,976,766	--	189,451
Banks	**6,455,055**	**1,546,564**	**--**	6,007,899	875,688	--
Consumption	**3,696,506**	**14,989,760**	**4,766**	3,247,662	13,105,626	5,174
Other	**568,301**	**5,343,368**	**893,983**	515,379	2,799,402	793,815
Total	**23,357,626**	**23,357,626**	**1,268,811**	18,178,941	18,178,941	1,001,277

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.4 Profit rate risk

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

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

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

		Sensitivity of profit income	
	Change in basis points	*2011*	*2010*
		QR '000	*QR '000*
Change in net income	+/- 25	**+/- 262**	**+/-** 278

3.2.5 Currency risk

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

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

Currency	**Change in currency rate**	**Effect on statement of income**	
		2011	*2010*
	%	**QR'000**	*QR'000*
Euro	+/- 10%	**291**	2,087
Sterling Pounds	+/- 10%	**1,967**	107
Others	+/- 10%	**39,621**	36,636

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.6 Equity price risk

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

The effect on equity, (as a result of a change in the fair value of equity instruments held as equity type instrument at fair value through equity as of December 31, 2011), due to change in equity indices, with all other variables held constant, is as follows:

		Effect on equity	
	Change in equity price	***2011***	*2010*
	%	***QR '000***	*QR '000*
Market indices			
Qatar Exchange	+/- 10%	**2,462**	4,906
New York Stock Exchange	+/- 10%	**523**	393
Luxembourg Exchange	+/- 10%	**9,929**	10,179
London Exchange	+/- 10%	**46,299**	5,054

3.2.7 Liquidity risk

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

In addition, the Bank maintains a mandatory deposit with Qatar Central Bank.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.7 Liquidity risk (continued)

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

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

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.7 Liquidity risk (continued)

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

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.7 Liquidity risk (continued)

Analysis of financial and contingent liabilities by remaining contractual maturities

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

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.7 Liquidity risk (continued)

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

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.7 Liquidity risk (continued)

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

3.2.8 Market risk

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

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

3.2.9 Operating and other risks

Operating risks are the direct or indirect risks arising from failure of information technology systems, databases, individuals or any other risks having impact on operating risks. The Bank mitigates these risks having professional IT personnel that attend all system needs, and independent departments for internal control and risk management. The Bank also seeks to minimize actual or potential losses from operational risk failure through a framework of policies and procedures that identifies, assesses, controls, manages and report those risks.

3.2.10 Other risks

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

3.2.11 Capital Management

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

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

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.11 Capital adequacy

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

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

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

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

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

4. CASH AND BALANCES WITH QATAR CENTRAL BANK

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

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

5. BALANCES AND INVESTMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

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

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

6. RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES

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

6. RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (Continued)

(b) By Sector and Geographic Region.

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

- By Sector

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

- By geographic region

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

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

6. RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (Continued)

(b) By Sector and Geograhic Region

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

- By Sector

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

- By geographic region

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

6. RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (Continued)

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

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

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

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

7. FINANCIAL INVESTMENTS

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

a) Equity type instruments:

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

b) Debt type instruments:

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

By Profit Rate	***2011***	*2010*
Fixed rate securities	**3,995,464**	1,353,727
Variable rate securities	**99,288**	137,660
	4,094,752	1,491,387

By Geography	***2011***	*2010*
State of Qatar	**3,398,845**	1,250,000
Other	**695,907**	241,387
	4,094,752	1,491,387

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

8. INVESTMENT IN ASSOCIATES

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

The Bank has the following investments in associates:

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

8. INVESTMENTS IN ASSOCIATES (Continued)

2011

	Balance at January 1	**Investments during the year**	**Disposals during the year**	**Profit (loss) from associate Company**	**Profit distributions**	**Foreign currency translation**	**Balance at December 31**
Syria International Islamic Bank	**95,148**	**32,414**	**-**	**(758)**	**-**	**(19,300)**	**107,504**
Al Tasheelat Islamic Company W.L.L.	**51,297**	**-**	**-**	**(988)**	**(3,725)**	**-**	**46,584**
Al Moqawil Company W.L.L.	**1,470**	**-**	**-**	**-**	**-**	**-**	**1,470**
Syria Islamic Insurance Company Development	**16,684**	**-**	**-**	**1,306**	**(954)**	**(2,593)**	**14,443**
Mackeen Investment and Real Estate Development Q.C.S.C.	**63,265**	**134,750**	**-**	**397**	**(3,182)**	**-**	**195,230**
	227,864	**167,164**	**-**	**(43)**	**(7,861)**	**(21,893)**	**365,231**

2010

	Balance at January 1	Investments during the year	Disposals during the year	Profit (loss) from associate Company	Profit distributions	Foreign currency translation	Balance at December 31
Syria International Islamic Bank	82,893	--	--	12,321	--	(66)	95,148
Al Tasheelat Islamic Company W.L.L.	35,280	9,800	--	6,217	--	--	51,297
Al Moqawil Company W.L.L.	1,470	--	--	--	--	--	1,470
Syria Islamic Insurance Company	16,696	--	--	--	--	(12)	16,684
Mackeen Investment and Real Estate Development Q.C.S.C.	196,540	--	(134,750)	6,000	(4,525)	--	63,265
First Educational Group	10,500	--	(10,500)	--	--	--	--
	343,379	9,800	(145,250)	24,538	(4,525)	(78)	227,864

9. INVESTMENT PROPERTIES HELD FOR LEASING

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

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

10 INVESTMENT PROPERTIES HELD FOR TRADING

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

11 PROPERTY AND EQUIPMENT

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

11. PROPERTY AND EQUIPMENT (Continued)

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

12. OTHER ASSETS

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

13. OTHER LIABILITIES

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

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

	2011		
Year ended December 31, 2011	***End of service benefit QR'000***	***Other provisions QR'000***	***Total QR'000***
Balance at January 1	**16,155**	**3,622**	**19,777**
Provided during the year	**2,184**	**2**	**2,186**
	18,339	**3,624**	**21,963**
Paid/written off during the year	**(862)**	**(49)**	**(911)**
Balance at December 31	**17,477**	**3,575**	**21,052**

	2010		
Year ended December 31, 2010	*End of service benefit QR'000*	*Other provisions QR'000*	*Total QR'000*
Balance at January 1	14,668	3,781	18,449
Provided during the year	1,885	--	1,885
	16,553	3,781	20,334
Paid/written off during the year	(398)	(159)	(557)
Balance at December 31	16,155	3,622	19,777

15. UNRESTRICTED INVESTMENT ACCOUNTS

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

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

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

16. SHAREHOLDERS' EQUITY

(a) Paid up share capital

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

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

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

16. SHAREHOLDERS' EQUITY (Continued)

(b) Legal reserve

Qatar Central Bank's Law No. 33 of 2006 requires 10% of the net profit for the year to be transferred to legal reserve until the reserve equals 100% of the paid up share capital. This reserve is not available for distribution except in the manner specified in the Qatar Commercial Companies' Law No. 5 of 2002 and subject to the approval of Qatar Central Bank. No amount was transferred from profit to legal reserve in 2011 as the balance of the legal reserve exceeded 100% of the paid up capital.

(c) Other Reserves

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

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

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

d) Contributions to Social and Sport Activities

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

e) Fair value reserve

	Total 2011	*Total 2010*
	QR'000	*QR'000*
Financial Investments:		
Balance at January 1	**8,441**	13,942
Revaluation for the year	**3,482**	(15,859)
Transfer to statement of income on disposal	**(827)**	4,632
Net change during the year	**2,655**	(11,227)
Share of holders of unrestricted investment depositors accounts	**(1,434)**	5,726
As at December 31 (shareholders' share)	**9,662**	8,441
Investments Properties :		
Balance at January 1	**57,633**	40,830
Revaluation for the year	**94,953**	36,770
Transfer to statement of income on disposal	**-**	(2,479)
Net change during the year	**94,953**	34,291
Share of holders of unrestricted investment depositors accounts	**(54,939)**	(17,488)
As at December 31 (shareholders' share)	**97,647**	57,633
Balance at December 31 (shareholders' share)	**107,309**	66,074

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

16. SHAREHOLDERS' EQUITY (Continued)

f) Risk reserve

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

g) Proposed dividend

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

17. INCOME FROM FINANCING ACTIVITIES

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

18. INCOME FROM INVESTING ACTIVITIES

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

19. NET COMMISSION AND FEE INCOME

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

20. GAIN FROM FOREIGN EXCHANGE OPERATIONS

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

21. GENERAL AND ADMINISTRATIVE EXPENSES

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

22. OTHER INCOME

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

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

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

(a) Rates of profit allotment:	***2011***	*2010*
	%	*%*
24 months deposits	**4.19**	5.44
18 months deposits	**2.94**	4.75
One year deposits	**2.25**	3.88
6 months deposits	**2.08**	3.50
3 month deposits	**1.91**	3.19
One month deposits	**1.65**	2.88
Saving accounts	**1.19**	2.00

24. EARNINGS PER SHARE

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

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

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

25. OFF BALANCE SHEET ITEMS

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

The total outstanding commitments and contingent liabilities are as follows:

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

(d) Restricted investment balances

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

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

(d) Legal claims

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

26. CASH AND CASH EQUIVALENTS

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

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

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

27. OPERATING AND GEOGRAPHICAL SEGMENT INFORMATION

(a) Operating segment:

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

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

December 31, 2011	**Retail Financing**	**Commercial (SME) Financing**	**Corporate Financing**	**Investment and Treasury**	**Total**
Assets					
Balances and investments with banks and other financial institutions	--	--	--	**5,734,175**	**5,734,175**
Financial Investments	--	--	--	**4,259,060**	**4,259,060**
Investment in Associate	--	--	--	**365,231**	**365,231**
Investment Properties	--	--	--	**875,915**	**875,915**
Receivables and balances from financial activities	**3,321,024**	**1,095,158**	**6,148,519**	**24,262**	**10,588,963**
Net segment assets	**3,321,024**	**1,095,158**	**6,148,519**	**11,258,643**	**21,823,344**
Other asset					**1,534,282**
Total assets					**23,357,626**
Liabilities and Shareholder Equity					
Customer's and Banks Current accounts	**3,299,485**	**212,170**	**440,364**	**15,997**	**3,968,016**
Customer's And Banks deposits accounts	**10,756,717**	**296,329**	**1,563,120**	**1,345,364**	**13,961,530**
Net segment liabilities	**14,056,202**	**508,499**	**2,003,484**	**1,361,361**	**17,929,546**
Other liabilities					**534,820**
Shareholders equity					**4,893,260**
Total liabilities and equity					**23,357,626**
Operating revenue	**239,026**	**107,190**	**516,855**	**270,850**	**1,133,921**

27. OPERATING AND GEOGRAPHICAL SEGMENT INFORMATION (CONTINUED)

(a) Operating segment (continued):

December 31, 2010	Retail Financing	Commercial (SME) Financing	Corporate Financing	Investment and Treasury	Total
Assets					
Balances and investments with banks and other financial institutions	--	--	--	5,148,012	5,148,012
Financial Investments	--	--	--	1,694,264	1,696,543
Investment in Associate	--	--	--	227,864	227,864
Investment Properties	--	--	--	518,887	518,887
Receivables and balances from financial activities	2,795,724	826,410	5,519,198	36,415	9,177,747
Net segment assets	2,795,724	826,410	5,519,198	7,625,442	16,766,774
Other asset					1,412,167
Total assets					18,178,941
Liabilities and Shareholder Equity					
Customer's and Banks Current accounts	1,890,129	110,000	836,002	100,110	2,936,241
Customer's And Banks deposits accounts	7,539,606	441,984	1,947,984	1,118,912	11,048,486
Net segment liability	9,429,735	551,984	2,783,986	1,219,022	13,984,727
Other liabilites					376,916
Shareholders equity					3,817,298
Total liabilities and equity					18,178,941
Operating revenue	235,621	103,846	496,887	249,027	1,085,381

27. OPERATING AND GEOGRAPHICAL SEGMENT INFORAMTION (Continued)

(a) Geographical Segment

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

27. OPERATING AND GEOGRAPHICAL SEGMENT INFORAMTION (Continued)

(b) Geographical Segment

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

28. RELATED PARTY TRANSACTIONS

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

	2011		*2010*	
	Board of directors QR'000	***Others QR'000***	*Board of directors QR'000*	*Others QR'000*
Balance sheet items				
Assets				
Murabaha and Musawama	**33,989**	**28,721**	194,431	74,930
Istisna	**75,948**	**--**		
Ijarah	**49,828**	**--**	115,460	134,750
	159,765	**28,721**	309,891	209,680
Liabilities				
Current account balances	**5,583**	**29,883**	49,268	82
Unrestricted investment deposits	**101,816**	**285,258**	159,112	91,001
	107,399	**315,141**	208,380	91,083
Off balance sheet items:				
Letter of credits, letter of guarantees and acceptances	**600**	**6,637**	4,987	--
Statement of income items				
Fees and commission income	**10,385**	**1,867**	22,002	3,151
Income from investing activities	**-**	**-**	--	24,358

Compensation of key management personnel

	2011 QR'000	*2010 QR'000*
Salaries and other allowances	**18,572**	13,345
End of service benefit	**430**	367
Contribution to Qatari Pension	**634**	323
Board of directors' remunerations	**8,415**	7,010
	28,051	21,045

29. COMPARATIVE FIGURES

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

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

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2010

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Qatar International Islamic Bank (Q.S.C) (the "Bank") which comprise the statement of financial position as at December 31, 2010 and the statements of income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions "AAOIFI" in accordance with the Islamic Shari'a Rules and Principles and Qatar Central Bank regulations. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Qatar International Islamic Bank (Q.S.C) as of December 31, 2010 and of its financial performance and its cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank and Qatar Central Bank regulations.

Report on other legal and regulatory matters

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

For **Deloitte & Touche**

January 30, 2011

Muhammad Bahemia
License No. 103

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

STATEMENT OF FINANCIAL POSITION
As at December 31, 2010

	Notes	2010 QR'000	2009 QR'000
ASSETS			
Cash and balances with Qatar Central Bank	4	**954,630**	642,377
Balances and investments with banks and other financial institutions	5	**5,148,012**	3,900,502
Receivables and balances from financing activities	6	**9,177,747**	9,070,011
Financial investments	7	**1,694,264**	657,877
Investment in associates	8	**227,864**	343,379
Investment properties held for leasing	9	**74,764**	49,091
Investment properties held for trading	10	**343,044**	304,223
Property and equipment	11	**216,147**	219,946
Other assets	12	**342,469**	333,505
TOTAL ASSETS		**18.178.941**	15.520.911
LIABILITIES, HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current accounts from banks and financial institutions		**100,110**	22,090
Customers' current accounts		**2,836,131**	2,451,729
Other liabilities	13	**227,651**	146,180
TOTAL LIABILITIES		**3,163,892**	2,619,999
HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS	15	**11,197,751**	9,101,563
SHAREHOLDERS' EQUITY			
Share capital	16	**1,387,546**	1,387,546
Legal reserve	16	**1,651,369**	1,651,369
Fair value reserve	16	**66,074**	54,772
Risk reserve	16	**152,869**	126,869
Foreign currency translation reserve		**(1,866)**	(1,790)
Other reserves	16	**40,800**	20,787
Proposed cash dividends	16	**520,330**	529,791
Retained earnings		**176**	30,005
TOTAL SHAREHOLDERS' EQUITY		**3,817,298**	3,799,349
TOTAL LIABILITIES, HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS AND SHAREHOLDERS' EQUITY		**18,178,941**	15,520,911

These financial statements were approved by the Board of Directors on January 30, 2011 and signed on its behalf by the following:-

.... ……………………………………

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

Abdul Basit Ahmad Al Shaibei — Chief Executive Officer

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

STATEMENT OF INCOME
For the year ended December 31, 2010

	Notes	***2010*** ***QR'000***	*2009* *QR'000*
Income from Financing activities	17	**855,020**	782,971
Income from Investing activities	18	**127,638**	86,594
Total income from financing and investing activities		**982,658**	869,565
Commission and fees income		**99,756**	88,131
Commission and fees expense		**(6,208)**	(5,509)
Net commission and fees income	19	**93,548**	82,622
Gain from foreign exchange operations	20	**9,175**	5,753
NET OPERATING INCOME		**1,085,381**	957,940
General and administrative expenses	21	**(153,513)**	(149,175)
Depreciation and amortisation	9,11	**(11,690)**	(10,047)
Impairment of financial investments		**(41,045)**	--
Impairment of receivables and financing activities	6	**(16,064)**	(16,500)
Other income	22	**25,228**	--
NET PROFIT FOR THE YEAR BEFORE SHARE OF HOLDERS OF UNRESTRICTED INVESTMENTS' ACCOUNTS		**888,297**	782,218
Less: Share of holders of unrestricted investment accounts in net profit	23	**(329,470)**	(270,881)
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS		**558,827**	511,337
BASIC/DILUTED EARNINGS PER SHARE (QR)	24	**4.03**	3.89

THE ACCOMPANYING NOTES(1-29) ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 31, 2010

	Note	*Share capital QR'000*	*Legal reserve QR'000*	*Fair value reserve QR'000*	*Risk reserve QR'000*	*Foreign currency translation reserve QR'000*	*Other reserves QR'000*	*Proposed cash dividends QR'000*	*Retained earnings QR'000*	*Total QR'000*
Balance at January 1, 2010		**1,387,546**	**1,651,369**	**54,772**	**126,869**	**(1,790)**	**20,787**	**529,791**	**30,005**	**3,799,349**
Dividends paid		--	--	--	--	--	--	(529,791)	--	(529,791)
Social and sport activities support paid		--	--	--	--	--	--	--	(8,342)	(8,342)
Profit for the year		--	--	--	--	--	--	--	558,827	558,827
Transfers to other reserves	16	--	--	--	--	--	20,013	--	(20,013)	--
Translation difference		--	--	--	--	(76)	--	--	--	(76)
Net fair value movements		--	--	11,302	--	--	--	--	--	11,302
Transfer to risk reserve		--	--	--	26,000	--	--	--	(26,000)	--
Contribution to social and sport activities support for the year		--	--	--	--	--	--	--	(13,971)	(13,971)
Proposed of dividends for 2010		--	--	--	--	--	--	520,330	(520,330)	--
Balance at December 31, 2010		**1,387,546**	**1,651,369**	**66,074**	**152,869**	**(1,866)**	**40,800**	**520,330**	**176**	**3,817,298**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 31, 2010

	Share capital	*Legal reserve*	*Fair value reserve*	*Risk reserve*	*Foreign currency translation reserve*	*Other reserves*	*Proposed cash dividends*	*Retained earnings*	*Total*
	QR'000	*QR'000*	*QR'000*	*QR'000*	*QR'000*	*QR'000*	*QR'000*	*QR'000*	*QR'000*
Balance at January 1, 2009	1,261,408	850,246	(32,041)	114,369	--	13,182	504,562	68,564	2,780,290
Dividends paid	--	--	--	--	--	--	(504,562)	--	(504,562)
Increase in share capital	63,069	400,498	--	--	--	--	--	--	463,567
Proceeds from sale of fractions share	--	127	--	--	--	--	--	--	127
Net fair value movements	--	--	86,813	--	--	--	--	--	86,813
Translation differences	--	--	--	--	(1,790)	--	--	--	(1,790)
Profit for the year	--	--	--	--	--	--	--	511,337	511,337
Transfer to reserves (note 16)	--	--	--	12,500	--	7,605	--	(20,105)	--
Proposed dividends for 2009	--	--	--	--	--	--	529,791	(529,791)	--
Increase in share capital	63,069	400,498	--	--	--	--	--	--	463,567
Balance at December 31, 2009	1,387,546	1,651,369	54,772	126,869	(1,790)	20,787	529,791	30,005	3,799,349

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

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

STATEMENT OF CASH FLOWS
For the year ended December 31, 2010

	Note	**2010** QR'000	2009 QR'000
CASH FROM OPERATING ACTIVITIES			
Profit for the year		**558,827**	511,337
Adjustments for:			
Depreciation and amortisation		**11,688**	10,047
Provision for impairment of receivables and financing activities		**16,064**	16,500
Loss from impairment of financial investments		**41,045**	--
Recovery of loss from valuation of investment properties held for trading		**(2,479)**	--
Share of associates companies profit		**(24,538)**	(10,793)
Gain on sale investment property for trading		**(4,786)**	(943)
Loss/ (gain) on sale of financial investments		**1,890**	(2,828)
Operating profit before changes in operating assets and liabilities		**597,711**	523,320
Cash reserve with Qatar Central Bank		**(170,904)**	(27,410)
Receivables and balances from financing activities		**(123,800)**	(1,863,820)
Other assets		**(289)**	(134,351)
Current accounts from banks and financial institutions		**78,020**	(3,004)
Customers' current accounts		**384,402**	124,862
Other liabilities		**199,487**	273,543
Net cash flows from (used in) operating activities		**964,627**	(1,106,860)
CASH FROM INVESTING ACTIVITIES			
Purchase of financial investments		**(1,479,089)**	(97,213)
Proceeds from repayment and sale of financial investments		**391,863**	461,599
Purchase of investment properties		**(46,436)**	(9,625)
Proceeds from sale of investment properties		**7,000**	--
Dividends received from investment in associates		**4,525**	3,188
Purchase of property and equipment		**(7,391)**	(20,966)
Proceeds from sale of property and equipment		**661**	--
Purchase of investments in associates		**(9,800)**	(61,250)
Proceeds from sale of investment in associate		**10,500**	--
Net cash (used in) from investing activities		**(1,128,167)**	275,733
CASH FROM FINANCING ACTIVITIES			
Net increase in holders of unrestricted investment accounts		**2,082,189**	2,202,469
Proceeds from issuance of shares		**--**	927,134
Proceed from sale shares fractions		**--**	127
Dividends paid		**(529,791)**	(504,562)
Net cash from financing activities		**1,552,398**	2,625,168
Net increase in cash and cash equivalents during the year		**1,388,858**	1,794,041
Balance of cash and cash equivalents at January 1,		**4,091,814**	2,297,773
Balance of cash and cash equivalents at December 31,	25	**5,480,672**	4,091,814

1. LEGAL STATUS AND MAIN ACTIVITIES

Qatar International Islamic Bank (Q.S.C.) ("the Bank") was incorporated under Amiri Decree No. 52 of 1990. The Bank operates through its head office located on Grand Hamad Street in Doha and (14) local branches. The Bank is listed and its shares are traded on the Qatar Exchange.

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

The financial statements have been approved by the Board of Directors on January 30, 2011.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

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

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

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

Foreign Currency Transactions

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

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

Revenue recognition

- Income on financing contracts of Murabaha, Musawama and Istesna are recognised following the accrual basis using the reducing rate method. When receivable from financing activities become non-performing and where collectibility is doubtful, income is suspended as per the instructions of Qatar Central Bank.

- Ijarah income is recognised following the accrual basis and is determined 6 months in advance upon agreement of all parties.

- Income from Musharaka is recognised at the end of the Musharaka.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (continued)

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

Financial Investments

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

Investment held to maturity

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

Fair values

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

- Cost
- Comparison with the current market value of a similar financial instrument

Investment properties held for leasing purpose

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties held for trading

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

Receivables and balances from financing activities

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

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

Property and equipment

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

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

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

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

Cost of software upgrading

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

Impairment of the Bank assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employees' end of service benefits and pension fund

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

Other provisions

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

Off balance sheet items

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

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

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

The Bank complies with the directives of QCB as follows:

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

Cash and cash equivalents

Cash and cash equivalents for the purpose of statement of cash flows represent cash and bank balances maturing within three months and comprise cash, balances with central banks excluding cash reserve and balances with banks and financial institutions (Note 26).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates

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

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

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

Financial guarantee

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, and other banking facilities.

Segment reporting

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

Significant accounting judgments and estimates

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

Fair values of financial instruments

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment losses on financing activities

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

Impairment of equity investments

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

3.1 Financial Instruments

(a) Definition and classification

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

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

(b) Fair value of financial instruments

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management

3.2.1 Introduction

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

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

Risk Management Structure

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

Board of Directors

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

Risk Management Function

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

Bank Management

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

Internal audit

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

Risk measurement and reporting systems

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

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

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

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

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

Excessive risk concentration

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

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

3.2.2 Credit risk

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

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

The main types of collateral obtained are as follows:

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

Management monitors the market value of collateral.

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

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

The geographical distribution of assets, liabilities and commitments on behalf of customers are set out in Note 27.

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

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

	Gross maximum exposure	
	2010	*2009*
	QR'000	*QR'000*
Due from banks and other financial institutions	**5,148,012**	3,900,502
Receivables and balances from financing activities	**9,177,747**	9,070,011
Financial investments	**1,694,264**	657,877
Total	**16.020.023**	13.628.390
Contingent liabilities	**1,001,277**	963,982
Commitments	**395,415**	233,626
Total	**1,396,692**	1,197,608
Total credit risk exposure	**17.416.715**	14.825.998

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.2 Credit risk (continued)

(b) Credit quality per category of financial assets

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

	Neither past due nor impaired	***Watch list or impaired grade***	***Total***
	QR'000	***QR'000***	***QR'000***
At December 31, 2010			
Due from banks and other financial institutions	**5,148,012**	**--**	**5,148,012**
Receivables and balances from financing activities:-			
Retail	**2,998,989**	**125,745**	**3,124,734**
Corporate	**5,819,553**	**233,460**	**6,053,031**
	13,966,554	**359,205**	**14,325,759**
Financial investments	**1,604,133**	**90,131**	**1,694,264**
At December 31, 2010	**16,723,008**	**449,336**	**17,172,344**

	Neither past due nor impaired	*Watch list or impaired grade*	*Total*
	QR'000	*QR'000*	*QR'000*
At December 31, 2009			
Due from banks and other financial institutions	3,900,502	--	3,900,502
Receivables and balances from financing activities			
Retail	2,318,973	105,364	2,424,337
Corporate	6,561,351	84,323	6,645,674
	12,780,826	189,687	12,970,513
Financial investments	636,295	21,582	657,877
At December 31, 2009	13,417,121	211,269	13,628,390

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.2 Credit risk (continued)

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

Past due receivables and balances from financing activities to customers less than 90 days are not considered to be impaired. An analysis of past due an installment, by age, is provided below:

	Less than 60 days 2010	***61 to 90 days 2010***	***Total 2010***
	QR'000	***QR'000***	***QR'000***
Receivables and balances from financing activities:-			
Retail	**2,383**	**--**	**2,383**
Corporate	**6,451**	**--**	**6,451**
Commercial Financing	**20,519**	**13,450**	**33,969**
	29,353	**13,450**	**42,803**

	Less than 60 days 2009	*61 to 90 days 2009*	*Total 2009*
	QR'000	*QR'000*	*QR'000*
Receivables and balances from financing activities to customers:			
Retail	3,053	47	3,100
Corporate	3,241	4,097	7,338
Commercial Financing	6,231	694	6,925
	12,525	4,838	17,363

As of December 31, 2010 the Bank did not obtain any additional collaterals against the past due but not impaired receivables and balances from financing activities to customers.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.3 Concentration analysis

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

	2010	*2009*				
	Assets	***Liabilities and shareholders' equity***	***Contingent liabilities***	*Assets*	*Liabilities and shareholders' equity*	*Contingent liabilities*
	QR'000	***QR'000***	***QR'000***	*QR'000*	*QR'000*	*QR'000*
By geographic region:						
Qatar	**16.972.736**	**17,687,831**	**1,001,277**	14,341,732	15,352,538	897,192
GCC countries	**838,939**	**387,752**	**--**	928,332	162,409	11,040
Others	**367,266**	**103,358**	**--**	277,847	5,964	55,750
Total	**18.178.941**	**18,178,941**	**1,001,277**	15,520,911	15,520,911	963,982
By industry sector:						
Government	**2,748,904**	**1,398,225**	**--**	1,667,369	963,011	--
Industry/Manufacturing	**154,519**	--	**372**	93,308	--	146,139
Commercial	**527,812**	**--**	**12,465**	2,171,964	--	646,165
Real estate	**4,976,766**	**--**	**189,451**	3,203,259	--	--
Banks	**6,007,899**	**875,688**	**--**	4,501,097	1,948,141	--
Consumption	**3,247,662**	**13,105,626**	**5,174**	3,303,467	9,491,109	--
Other	**515,379**	**2,799,941**	**793,815**	580,447	3,118,650	171,678
Total	**18.178.941**	**18.178.941**	**1,001,277**	15,520,911	15,520,911	963,982

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.4 Profit rate risk

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

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

The sensitivity of the statement of income is the effect of the assumed changes in profit rates on the net income for one year, based on the floating rate of financial assets and liabilities held at December 31, 2010.

		Sensitivity of profit income	
	Changes in basis points	***2010***	*2009*
		QR '000	*QR '000*
Change in net income	+/- 25	**278**	3,955

3.2.5 Currency risk

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

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

Currency	**Change in currency rate 2010**	**Effect on statement of income 2010**	Effect on statement of income *2009*
	%	**QR'000**	*QR'000*
Euro	+/- 10%	**2,087**	11,966
Sterling Pounds	+/- 10%	**107**	5,836
Others	+/- 10%	**36,636**	31,991

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.6 Equity price risk

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

The effect on equity, (as a result of a change in the fair value of equity instruments held as available-for-sale investments as of December 31, 2010), due to change in equity indices, with all other variables held constant, is as follows:

	Change in equity price %	***Effect on equity 2010 QR '000***	*Effect on equity 2009 QR '000*
Market indices			
Qatar Exchange Market index	+/-10%	**4,906**	2,500
New York Stock Exchange	+/-10%	**393**	493
London Stock Market index	+/-10%	**5,054**	2,158

3.2.7 Liquidity risk

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

In addition, the Bank maintains a mandatory deposit with Qatar Central Bank.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.7 Liquidity risk (continued)

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

At December 31, 2010	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	QR '000	QR '000	QR '000	QR '000	QR '000	QR '000
ASSETS						
Cash and balances with Qatar Central Bank	954,630		--	--	--	954,630
Due from banks and other financial institutions	4,548,012	600,000	--	--	--	5.148.012
Receivables and balances from financing activities to customers	264,960	718.983	2.740.853	4.281.103	1.171.848	9,177,747
Financial investments	202,877	--	--	185,115	1,306,272	1,694,264
Investment in associates	--	--	--	--	227,864	227,864
Investment properties for trading	--	--	--	--	74,764	74,764
Investment properties for leasing	--	--	--	343,044	--	343,044
Property and equipment	--	--	--	26,565	189,582	216,147
Other assets	18,497	12,007	310,230	1,735	--	342,469
Total assets	5,988,976	1,330,990	3,051,083	4,837,562	2,970,330	18,178,941
LIABILITIES						
Current accounts from banks and financial institutions	100,110	--	--	--	--	100,110
Customers' current accounts	2,836,131	--	--	--	--	2,836,131
Other liabilities	25,378	48,399	77,316	76,558	--	227,651
Unrestricted investment accounts	3,968,783	887,388	3,487,467	2,854,113	--	11,197,751
Shareholders equity	--	52,103	520,506	--	3,244,689	3,817,298
Total liabilities and shareholders' equity	*6,930,402*	987,890	4,085,289	*2,930,671*	3,244,689	*18,178,941*
Net liquidity gap	(941,426)	343,100	(1,034,206)	1,906,891	(274,359)	--

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.7 Liquidity risk (continued)

At December 31, 2009	*Up to 1 month* *QR '000*	*1-3 months* *QR '000*	*3-12 months* *QR '000*	*1-5 years* *QR '000*	*Over 5 years* *QR '000*	*Total* *QR '000*
ASSETS						
Cash and balances with Qatar Central Bank	642,377	--	--	--	--	642,377
Due from banks and other financial institutions	3,727,546	172,956	--	--	--	3,900,52
Receivables and balances from financing activities to customers	233,654	1,262,505	3,317,054	4,256,798	--	9,070,011
Financial investments	249,907	161,909	36,415	144,497	65,149	657,877
Investment in associates	--	--	--	--	343,379	343,379
Investment properties for trading	--	--	--	304,223	--	304,223
Investment properties for leasing	--	--	--	--	49,091	49,091
Property and equipment	--	--	--	29,144	190,802	219,946
Other assets	12,742	41,167	277,848	1,748	--	333,505
Total assets	4,866,226	1,638,537	3,631,317	4,736,410	648,421	15,520,911
LIABILITIES						
Current accounts from banks and financial institutions	22,090	--	--	--	--	22,090
Customers' current accounts	2,451,729	--	--	--	--	2,451,729
Other liabilities	17,746,	97,284	--	12,701	18,449	146,180
Unrestricted investment accounts	4,003,665	834,642	2,709,577	1,553,679	--	9,101,563
Shareholders equity	--	54,772	559,923	--	3,184,654	3,799,349
Total liabilities and shareholders' equity	6,495,230	986,698	3,269,500	1,566,380	3,203,103	15,520,911
Net liquidity gap	(1,629,004)	651,839	361,817	3,170,030	(2,554,682)	--

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.7 Liquidity risk (continued)

Analysis of financial and contingent liabilities by remaining contractual maturities

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

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.7 Liquidity risk (continued)

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

At December 31, 2009	*Up to 1 month*	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*Total*
	QR '000	*QR '000*	*QR '000*	*QR '000*	*QR '000*	*QR '000*
Financial liabilities						
Current accounts from banks and financial institutions	22,090	--	--	--	--	22,090
Customers' current accounts	2,451,729	--	--	--	--	2,451,729
Unrestricted investment accounts	4,003,665	834,642	2,709,577	1,553,679	--	9,101,563
Total	6,477,484	834,642	2,709,577	1,553,679	--	11,575,382
Contingent liabilities and commitments						
Unused credit facilities	--	--	233,626	--	--	233,626
Acceptances	3,424	4,375	--		--	7,799
Letter of guarantees	--	--	--	603,604	--	603,604
Documentary credit	13,551	17,077	10,056	299,616	--	340,300
Collection notes	--	--	12,280	--	--	12,280
Total	16,975	21,452	255,962	903,220	--	1,197,609

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.7 Liquidity risk (continued)

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

3.2.8 Market risk

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

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

3.2.9 Operating and other risks

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

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

3.2.10 Capital Management

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

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

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

3.2.11 Capital adequacy

	2010	*2009*
	QR'000	*QR'000*
Tier 1 capital	**3,002,300**	2,491,390
Tier 2 capital	**107,478**	10,460
Total capital	**3,109,778**	2,501,850
Total risk weighted assets	**12,961,891**	12,613,803
Tier 1 capital ratio	**23.16%**	19.75%
Total capital ratio	**23.99%**	19.83%

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

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

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

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

4. CASH AND BALANCES WITH QATAR CENTRAL BANK

	2010	*2009*
	QR'000	*QR'000*
Cash	**129,252**	114,611
Cash reserve with Qatar Central Bank	**621,969**	451,065
Current account with Qatar Central Bank	**203,409**	76,701
	954,630	642,377

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

5. BALANCES AND INVESTMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2010	*2009*
	QR'000	*QR'000*
Current accounts	**96,536**	63,768
Balances & Investments with Islamic banks	**4,831,079**	3,725,714
Metals and commodities Murabaha balances	**220,397**	111,020
	5,148,012	3,900,502

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

6. RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES

	2010	*2009*
	QR'000	*QR'000*
(a) By Type		
Receivable and balances from international financing activities		
International Murabaha	**36,415**	109,245
Receivables and balances from local financing activities		
Murabaha and Musawama	**7,950,178**	7,808,449
Istesna	**507,450**	535,693
Mudaraba financing	**854**	6,864
Ijarah financing	**3,003,001**	2,569,609
Transactions in progress	**33,588**	92,906
Non-profit financing activities	**118**	426
Total receivables and balances from local financing activities	**11,495,189**	11,013,947
Total receivables and financing activities balances	**11,531,604**	11,123,192
Deferred income	**(1,091,699)**	(930,230)
Specific provision	**(97,897)**	(81,974)
Profit in suspense	**(11,940)**	(10,942)
Advance Payment	**(1,152,321)**	(1,030,035)
	(2,353,857)	(2,053,181)
Net receivables and balances from financing activities	**9,177,747**	9,070,011

6. RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (Continued)

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

- By Sector

At 31 December 2010	*Murabaha and Musawama* QR'000	*Istesna* QR'000	*Mudaraba* QR'000	*Ijarah* QR'000	*Others* QR'000	*Total 2010* QR'000	%
Government	**1,456,864**	**--**	**--**	**--**	**--**	**1,456,864**	**12.6%**
Industry	**147,233**	**--**	**--**	**--**	**7,286**	**154,519**	**1.3%**
Trade	**526,508**	**--**	**--**	**--**	**1,304**	**527,812**	**4.6%**
Contracting	**10,449**	**--**	**--**	**--**	**--**	**10,449**	**0.1%**
Housing	**2,592,483**	**507,450**	**--**	**3,003,001**	**15,704**	**6,118,638**	**53.1%**
Consumer	**3,247,662**	**--**	**--**	**--**	**--**	**3,247,662**	**28.2%**
Other	**5,394**	**--**	**854**	**--**	**9,412**	**52,060**	**0.1%**
	7,986,593	**507,450**	**854**	**3,003,001**	**33,706**	**11,531,604**	**100%**

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

- By geographic region

At 31 December 2010	*Murabaha and Musawama* QR'000	*Istesna* QR'000	*Mudaraba* QR'000	*Ijarah* QR'000	*Others* QR'000	*Total 2010* QR'000	%
Qatar	**7,950,178**	**507,450**	**854**	**3,003,001**	**33,706**	**11,495,189**	**99.7%**
Other GCC countries	**--**	**--**	**--**	**--**	**--**	**--**	**0.0%**
Other countries	**36,415**	**--**	**--**	**--**	**--**	**36,415**	**0.3%**
	7,986,593	**507,450**	**854**	**3,003,001**	**33,706**	**11,531,604**	**100%**

6. RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (Continued)

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

- By Sector

At 31 December 2009	*Murabaha and Musawama* *QR'000*	*Istesna* *QR'000*	*Mudaraba* *QR'000*	*Ijarah* *QR'000*	*Others* *QR'000*	*Total 2009* *QR'000*	%
By Sector							
Government	1,456,827	--	--	--	--	1,456,827	13.10
Industry	76,186	14,218	--	--	2,904	93,308	0.84
Trade	1,909,225	262,518	--	--	221	2,171,964	19.53
Contracting	47,691	--	--	--	--	47,691	0.43
Housing	1,268,404	--	--	1,944,021	--	3,212,425	28.88
Consumer	2,241,662	5,640	--	--	26,147	2,273,449	20.44
Other	917,699	253,317	6,864	625,588	64,060	1,867,528	16.79
	7,917,694	535,693	6,864	2,569,609	93,332	11,123,192	100

At 31 December 2009	*Murabaha and Musawama* *QR'000*	*Istesna* *QR'000*	*Mudaraba* *QR'000*	*Ijarah* *QR'000*	*Others* *QR'000*	*Total 2009* *QR'000*	%
- By geographic region							
Qatar	7,808,449	535,693	6,864	2,569,609	93,332	11,013,947	98.69
Other GCC countries	72,830	--	--	--	--	72,830	0.98
Other countries	36,415	--	--	--	--	36,415	0.33
	7,917,694	535,693	6,864	2,569,609	93,332	11,123,192	100

6. RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (Continued)

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

	2010			*2009*		
	Specific QR'000	***Profit in suspense QR'000***	***Total QR'000***	*Specific QR'000*	*Profit in suspense QR'000*	*Total QR'000*
Balance at 1 January	**81,974**	**10,942**	**92,916**	67,737	8,293	76,030
Net additional provision during the year	**16,064**	**998**	**17,062**	16,500	2,649	19,149
New provision during the year	**16,064**	**4,598**	**20,662**	16,500	3,934	20,434
Provisions recovered during the year	**--**	**(3,600)**	**(3,600)**	--	(1,285)	(1,285)
Provision write off during the year	**(141)**	**--**	**(141)**	(2,263)	--	(2,263)
Provision balance at the year end	**97,897**	**11,940**	**109,837**	81,974	10,942	92,916

Non performing receivables at the end of 2010 amounted to QR. 359.2 million representing 3.1% of the total receivables and balances from financing activities (2009: 158.8 million representing 1.6% of the total receivables and balances from financing activities).

The total fair value of collaterals held by the bank relating to receivables from financing activities which is considered as individually impaired as on December 31, 2010 amounted to QR. 363,568 thousand (2009: QR. 63,107 thousand).

7. FINANCIAL INVESTMENTS

	2010	2009
	QR'000	QR'000
Available for sale investments (a)	**238,746**	260,997
Held to maturity investments (b)	**1,455,518**	396,880
	1,694,264	657,877

a) Available for sale investments:

	2010			2009		
	Quoted QR'000	***Unquoted QR'000***	***Total QR'000***	*Quoted QR'000*	*Unquoted QR'000*	*Total QR'000*
Equity securities	**67,661**	**120,437**	**188,098**	51,512	192,785	244,297
Other Sukuks	**35,869**	**--**	**35,869**	--	--	--
Mutual fund units	**--**	**17,058**	**17,058**	--	18,979	18,979
	103,530	**137,495**	**241,025**	51,512	211,764	263,276
Provisions for losses	**--**	**(2,279)**	**(2,279)**	--	(2,279)	(2,279)
	103,530	**135,216**	**238,746**	51,512	209,485	260,997

Available for sale equity securities include quoted shares in one local company with a fair market value of QR 21,139 thousands (2009: QR 24,429 thousands) restricted shares , since the bank is a founder member.

b) Held to maturity investments:

	2010			2009		
By Issuer :	***Quoted QR'000***	***Unquoted QR'000***	***Total QR'000***	*Quoted QR'000*	*Unquoted QR'000*	*Total QR'000*
State of Qatar Sukuks	**--**	**1,250,000**	**1,250,000**	--	150,821	150,821
Other Sukuks	**--**	**205,518**	**205,518**	--	246,059	246,059
	--	**1,455,518**	**1,455,518**	--	396,880	396,880
By Profit Rate						
Fixed rate securities	**--**	**1,353,727**	**1,353,727**	--	93,879	93,879
Variable rate securities	**--**	**101,791**	**101,791**	--	303,001	303,001
	--	**1,455,518**	**1,455,518**	--	396,880	396,880

8. INVESTMENTS IN ASSOCIATES

	2010	2009
	QR'000	QR'000
Balance at 1 January	**343,379**	265,814
Investments during the year	**9,800**	71,750
Disposals during the year	**(145,250)**	--
Profit from associate companies	**24,538**	10,793
Foreign currency translation adjustments	**(78)**	(1,790)
Profit distributions	**(4,525)**	(3,188)
	227,864	343,379

8. INVESTMENTS IN ASSOCIATES (Continued)

The Bank has the following investments in associates:

	Activity	*Country of incorporation*	*Ownership percentage*	***2010***	*2009*
				QR'000	*QR'000*
Syria International Islamic Bank	**Banking**	**Syria**	**20%**	**95,148**	82,893
Al Tashelat Islamic Company W.L.L.	**Financing**	**Qatar**	**49%**	**51,297**	35,280
Al Moqawil Company W.L.L.	**Contracting**	**Qatar**	**49%**	**1,470**	1,470
Syria Islamic Insurance Company	**Insurance**	**Syria**	**20%**	**16,684**	16,696
Mackeen Investment and Real Estate Development Q.C.S.C. (*)	**Real Estate**	**Qatar**	**49%**	**63,265**	196,540
First Educational Group (**)	**Education**	**Qatar**	**10%**	**--**	10,500
				227,864	343,379

(*) During the year, the bank return back the amounts were paid during the previous period against the company share capital increase amounted QAR 134,750 K.

(**) During the year, First Educational Group has liquidated and the bank received the original investment amount.

8. INVESTMENTS IN ASSOCIATES (Continued)

2010

	Balance at January 1	**Investments during the year**	**Disposals during the year**	**Profit from associate Company**	**Profit distributions**	**Foreign currency translation**	**Balance at December 31**
Syria International Islamic Bank	**82,893**	**--**	**--**	**12,321**	**--**	**(66)**	**95,148**
Al Tasheelat Islamic Company W.L.L.	**35,280**	**9,800**	**--**	**6,217**	**--**	**--**	**51,297**
Al Maqawil Company W.L.L.	**1,470**	**--**	**--**	**--**	**--**	**--**	**1,470**
Syria Islamic Insurance Company	**16,696**	**--**	**--**	**--**	**--**	**(12)**	**16,684**
Mackeen Investment and Real Estate Development P.Q.S.C.	**196,540**	**--**	**(134,750)**	**6,000**	**(4,525)**	**--**	**63,265**
First Educational Group	**10,500**	**--**	**(10,500)**	**--**	**--**	**--**	**--**
	343,379	**9,800**	**(145,250)**	**24,538**	**(4,525)**	**(78)**	**227,864**

2009

	Balance at January 1	Investments during the year	Disposals during the year	Profit from associate Company	Profit distributions	Foreign currency translation	Balance at December 31
Syria International Islamic Bank	80,915	--	--	4,610	--	(2,632)	82,893
Al Tasheelat Islamic Company W.L.L.	35,280	--	--	--	--	--	35,280
Al Maqawil Company W.L.L.	1,470	--	--	--	--	--	1,470
Syria Islamic Insurance Company	15,854	--	--	--	--	842	16,696
Mackeen Investment and Real Estate Development Q.C.S.C.	132,295	61,250	--	6,183	(3,188)	--	196,540
First Educational Group	--	10,500	--	--	--	--	10,500
	265,814	71,750	--	10,793	(3,188)	(1,790)	343,379

9. INVESTMENT PROPERTIES HELD FOR LEASING

	Land	***Buildings***	***Properties under construction***	***Total 2010***	*Total 2009*
	QR'000	***QR'000***	***QR'000***	***QR'000***	*QR'000*
Cost:					
Balance as at January 1	**5,613**	**8,825**	**38,138**	**52,576**	14,438
Additions during the year	**11,785**	**9,935**	**6,842**	**28,562**	38,138
Disposals during the year	**(841)**	**(2,367)**	**--**	**(3,208)**	--
Balance as at December 31	**16,557**	**16,393**	**44,980**	**77,930**	52,576
Accumulated depreciation:					
Balance as at 1 January	**--**	**3,485**	**--**	**3,485**	3,041
Depreciation for the year	**--**	**687**	**--**	**687**	444
Disposals during the year	**--**	**(1,006)**	**--**	**(1,006)**	--
Balance as at December 31	**--**	**3,166**	**--**	**3,166**	3,485
Net book value as at December 31	**16,557**	**13,227**	**44,980**	**74,764**	49,091

Fair value of investment properties (land and buildings) for leasing purposes amounted QR. 71 million as at December 31, 2010 (2009: 69 million).

10 INVESTMENT PROPERTIES HELD FOR TRADING

	2010	*2009*
	QR'000	*QR'000*
Balance as at January 1	**304,223**	260,415
Additions during the year	**36,342**	--
Net change in fair value	**2,479**	43,808
	343,044	304,223

11 PROPERTY AND EQUIPMENT

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

11. PROPERTY AND EQUIPMENT (Continued)

At December 31, 2009	*Land* *QR'000*	*Buildings* *QR'000*	*Leasehold improvements* *QR'000*	*Computer hardwares and softwares* *QR'000*	*Furnitures, fixtures and office equipment* *QR'000*	*Vehicles* *QR'000*	*Total* *QR'000*
Cost:							
Balance as at January 1	201,660	25,205	18,684	41,792	11,620	1,472	300,433
Additions during the year	562	--	13,928	4,008	1,948	520	20,966
Disposals during the year	(26,587)	--	--	(94)	--	(158)	(26,839)
Balance as at December 31	175,635	25,205	32,612	45,706	13,568	1,834	294,560
Accumulated depreciation:							
Balance as at January 1	--	8,779	11,884	34,762	9,036	802	65,263
Depreciation for the year	--	1,260	3,260	3,979	795	309	9,603
Disposals	--	--	--	(94)	--	(158)	(252)
Balance as at December 31	--	10,039	15,144	38,647	9,831	953	74,614
Net book values:							
At December 31, 2009	175,635	15,166	17,468	7,059	3,737	881	219,946

12. OTHER ASSETS

	2010	*2009*
	QR'000	*QR'000*
Clearing and local ATMs	**18,497**	12,743
Accrued revenues	**196,405**	187,730
Properties under construction(*)	**101,079**	29,850
Prepaid expenses	**12,746**	30,044
Cheques under collection	**129**	13,667
Furniture allowance	**1,735**	1,748
Others	**11,878**	57,723
	342,469	333,505

(*) This amount represents the payments towards the construction ongoing for the new bank tower at Aldafna area.

13. OTHER LIABILITIES

	2010	*2009*
	QR'000	*QR'000*
Cash insurance	**60,632**	19,203
Accrued expenses	**25,377**	29,272
Clearing accounts	**77,316**	61,980
Accepted cheques and remittances	**48,399**	6,653
Other provisions (Notes 14)	**3,622**	3,781
Dividends payable	**6,413**	6,544
Employees' end of service benefits (Note 14)	**16,155**	14,668
Contribution to support social and sport activities	**13,971**	--
Other creditors and others	**5,766**	4,079
	227,651	146,180

14. EMPLOYEES END OF SERVICE BENEFITS AND OTHER PROVISIONS

	2010		
Year ended December 31, 2010	***End of service benefit QR'000***	***Other provisions QR'000***	***Total QR'000***
Balance at January 1	**14,668**	**3,781**	**18,449**
Provided during the year	**1,885**	**--**	**1,885**
	16,553	**3,781**	**20,334**
Paid/written off during the year	**(398)**	**(159)**	**(557)**
Balance at December 31	**16,155**	**3,622**	**19,777**

	2009		
Year ended December 31, 2009	*End of service benefit QR'000*	*Other provisions QR'000*	*Total QR'000*
Balance at January 1	13,581	3,949	17,530
Provided during the year	1,685	--	1,685
	15,266	3,949	19,215
Paid/written off during the year	(598)	(168)	(766)
Balance at December 31	14,668	3,781	18,449

15. UNRESTRICTED INVESTMENT ACCOUNTS

	2010	*2009*
	QR'000	*QR'000*
(a) By type		
Saving accounts	**2,833,180**	2,176,137
Time accounts	**8,215,600**	6,799,263
Share in fair value reserve	**68,771**	54,772
Unpaid share in profit	**80,200**	71,391
	11,197,751	9,101,563

Unrestricted investment accounts include QR 208 million as lien against financing activities (2009: QR 205 million).

	2010	*2009*
	QR'000	*QR'000*
(b) By sector		
Government and Government institutions	**539,711**	362,781
Individuals	**7,488,885**	5,486,384
Corporate	**2,244,605**	1,200,184
Financial institutions	**775,579**	1,926,051
Share in fair value reserve	**68,771**	54,772
Unpaid share in profit	**80,200**	71,391
	11,197,751	9,101,563

16. SHAREHOLDERS' EQUITY

(a) Paid up share capital

	Number of shares (000)	*Number of shares (000)*
Issued and fully paid		
At January 1,	**138,754**	126,140
Additional shares issued	**--**	12,614
At December 31,	**138,754**	138,754

Issued and fully paid capital of QR 1,387,546 thousands comprises 138.8 million shares of nominal value of QR 10 each (2009: QR 1,387,540 thousands comprising 138.8 million shares of QR 10 each).

Qatar Investment Authority holds 12,614 thousand ordinary shares which represents 9.1% of the Bank ordinary shares at 31 December 2010.

On January 17, 2011, the Bank received QR. 927,134 thousand representing the final payment of Qatar Investment Authority's contribution in the Bank's share capital (12,614,062 ordinary shares at par value QR. 10 and share premium of QR. 72.5 per share). The formal increase in the Bank's paid up capital will take place in 2011 after the Bank's Annual General Assembly Meeting. These shares are not entitled to profit distribution related to year 2010.

(b) Legal reserve

Qatar Central Bank's Law No. 33 of 2006 requires 10% of the net profit for the year to be transferred to legal reserve until the reserve equals 100% of the paid up share capital. This reserve is not available for distribution except in the manner specified in the Qatar Commercial Companies' Law No. 5 of 2002 and subject to the approval of Qatar Central Bank. No amount was transferred from profit to legal reserve in 2010 as the balance of the legal reserve exceeded 100% of the paid up capital.

16. SHAREHOLDERS' EQUITY (Continued)

(c) Other Reserves

Other reserves include the undistributed share of associates profit

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

	2010	*2009*
	QR'000	*QR'000*
Undistributed share of Associates profit		
Balance at 1 January	**20,787**	13,182
Less : Dividend received from associates	**(4,525)**	(3,188)
Add : Share of result of associates for the year	**24,538**	10,793
Transfer to other reserves	**20,013**	7,605
Balance at December 31	**40,800**	20,787

d) Contributions to Social and Support Activities

Pursuant to Law No. 13 of 2008 and further clarification of the Law issue in 2010, the Bank made an appropriation of QR. 13,971 thousand from retained earnings for its contribution to the social and sport activities. This amount represents 2.5% of the net profit for the year ended 2010 (2009: QR 8,342 thousand).

e) Fair value reserve

	Total 2010	*Total 2009*
	QR'000	*QR'000*
Available-for-sale investments		
Balance at January 1	**13,942**	(50,974)
Revaluation for the year	**(15,859)**	129,830
Transfer to statement of income on disposal	**4,632**	--
Net change during the year	**(11,227)**	129,830
Share of holders of unrestricted investment depositors accounts	**5,726**	(64,914)
As at December 31 (shareholders' share)	**8,441**	13,942
Investments Properties		
Balance at January 1	**40,830**	18,933
Revaluation for the year	**36,770**	43,794
Transfer to statement of income on disposal	**(2,479)**	--
Net change during the year	**34,291**	43,794
Share of holders of unrestricted investment depositors accounts	**(17,488)**	(21,897)
As at December 31 (shareholders' share)	**57,633**	40,830
Balance at December 31 (shareholders' share)	**66,074**	54,772

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

16. SHAREHOLDERS' EQUITY (Continued)

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

g) Proposed dividend
The Board of Directors in its meeting held on January 30, 2011 have proposed to pay a cash dividend of 37.5 % of its paid up capital equivalent to QR. 3.75 per each share (2009: 40%).

17. INCOME FROM FINANCING ACTIVITIES

	2010	*2009*
	QR'000	*QR'000*
Murabaha and Musawama	**641,663**	543,038
Istesna	**40,544**	55,848
Mudaraba	**5,962**	37,785
Ijarah Muntahia Bittamleek	**166,576**	145,357
Musharakat	**275**	943
	855,020	782,971

18. INCOME FROM INVESTING ACTIVITIES

	2010	*2009*
	QR'000	*QR'000*
(a) Income from investments with banks and financial institutions:		
Income from investment deposits with banks and financial institutions	**32,199**	26,064
Income from Murabaha in metals and commodities	**551**	9,359
	32,750	35,423
(b) Investment revenues:		
Available for sale investments	**63,167**	32,493
Investment properties held for leasing	**4,287**	4,114
Investment in associates	**24,538**	10,793
	91,992	47,400
c) Gain on sale of investments:		
Available for sale investments	**(1,890)**	2,828
Investment properties held for trading	**4,786**	943
	2,896	3,771
	127,638	86,594

19. NET COMMISSION AND FEE INCOME

	2010 QR'000	2009 QR'000
Commission and fees income		
Commission on local financing	**56,058**	48,943
Commission on L/C's and guarantees	**9,770**	9,662
Bank charges	**33,919**	29,518
Bank's share of restricted investment profits	**9**	8
	99,756	88,131
Commission and fees expenses	**(6,208)**	(5,509)
	93,548	82,622

20. GAIN FROM FOREIGN EXCHANGE OPERATIONS

	2010 QR'000	2009 QR'000
Exchange transactions gain	**5,973**	4,635
Gain on revaluation of monetary assets and liabilities	**3,202**	1,118
	9,175	5,753

21. GENERAL AND ADMINISTRATIVE EXPENSES

	2010 QR'000	2009 QR'000
Salaries, allowances and other benefits	**84,885**	77,507
Advertising and promotion	**8,237**	13,536
Rent	**9,450**	10,037
Telephone, telex and post	**6,328**	5,248
Fees and subscriptions	**3,003**	2,666
Computer and ATMs expenses	**5,848**	4,605
End of service benefits	**1,885**	1,685
Managing Director's and Shari'a Committee remuneration	**5,730**	4,763
Business travelling expenses	**1,629**	1,867
Maintenance and cleaning expenses	**2,312**	1,844
Credit cards expenses	**6,063**	5,127
Insurance	**1,124**	1,442
Stationery and printing	**1,113**	1,110
Professional fees	**1,967**	1,340
Donations	**523**	3,730
Water and electricity	**906**	884
Security services expenses	**907**	645
Bank contribution to the pension fund	**370**	821
Hospitality expenses	**1,068**	1,124
Training courses	**900**	805
Investment expenses	**1,056**	694
Board of Directors' remuneration	**7,010**	6,664
Miscellaneous expenses	**1,199**	1,031
	153,513	149,175

22. OTHER INCOME

The Bank paid cash dividends to the Qatar Investment Authority in its capacity as a shareholder of 5% of the Bank's share capital. On April 22, 2010, the Qatar Investment Authority paid to the Bank an amount of QR. 22,258,124 equivalent to the dividends received. The Bank recorded this amount under other income as government assistance towards the Qatari government plan to support national banks.

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

	2010	*2009*
	QR'000	*QR'000*
Share in the net profit before Bank's Mudaraba income	**454,200**	374,589
Bank's Mudaraba income	**(273,896)**	(232,727)
Share after Bank's Mudaraba income	**180,304**	141,862
Support provided by the Bank	**149,166**	129,019
Final share after contribution	**329,470**	270,881

(a) Rates of profit allotment:	***2010***	*2009*
	%	*%*
24 months deposits	**5.44**	6.75
18 months deposits	**4.75**	6.25
One year deposits	**3.88**	5.25
Six months deposits	**3.5**	4
3 months deposits	**3.19**	3.5
One month deposits	**2.88**	3
Saving accounts	**2.0**	2.1

24. EARNINGS PER SHARE

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

	2010	*2009*
Net profit for the year due to shareholders (QR'000)	**558,827**	511,337
Weighted average number of shares outstanding during the year (thousands) (i)	**138,754**	131,292
Basic and diluted earnings per share (QR)	**4.03**	3.89

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

25. OFF BALANCE SHEET ITEMS

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

The total outstanding commitments and contingent liabilities are as follows:

	2010	*2009*
	QR'000	*QR'000*
(a) Deferred or contingent commitments		
Acceptances	**19,663**	7,799
Letters of guarantees	**681,054**	603,604
Documentary credits	**290,928**	340,300
Collection notes	**9,632**	12,280
	1,001,277	963,983
(b) Other contracts and commitments		
Commitments and unused credit limits	**395,415**	233,626
Restricted investment balances (Note c)	**12,659**	12,790
	408,074	246,416
TOTAL	**1,409,351**	1,210,399

(c) Restricted investment balances

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

	2010			*2009*		
	Balance QR'000	***Average distributed profit***	***Bank's share QR'000***	*Balance QR'000*	*Average distributed profit*	*Bank's share QR'000*
Metals and commodities	**12,659**	**0.65%**	**1,907**	12,790	0.85%	1,776

(d) Legal claims

Certain customers of the Bank have raised legal actions against the Bank claiming amounts totalling QR 10,558 thousand (2009: 4,267 thousand). Furthermore, the Bank has raised counter action against some of those customers as of December 31, 2010.

26. CASH AND CASH EQUIVALENTS

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

	2010	2009
	QR'000	*QR'000*
Cash and balances with Qatar Central Bank excluding Cash reserve	**332,660**	191,312
Cash with banks and other financial institutions	**5,148,012**	3,900,502
	5,480,672	4,091,814

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

27. OPERATING AND GEOGRAPHICAL SEGMENTAL INFORMATION

(a) Operating segment:

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

- Financing activities comprising Murabaha, Musawama, Mudaraba, Musharaka and Ijarah.
- Investing activities comprising the bank investments in Financial Investments, Investments Properties, Investments in Associates and other investments).

	Financing Activities	**Investing Activities**	**Others**	**Total**
At December 31, 2010				
Operating Revenue	**855,020**	**127,638**	**134,159**	**1,116,817**
Expenses	**104,591**	**90,202**	**33,727**	**228,520**
Net Profit	**750,430**	**37,436**	**100,431**	**888,297**
Total Assets	**9,177,747**	**7,487,948**	**1,513,246**	**18,178,941**
At December 31, 2009				
Operating Revenue	782,971	86,594	93,884	963,449
Expenses	120,909	40,341	19,981	181,231
Net Profit	662,062	46,253	73,903	782,218
Total Assets	9,070,011	5,255,072	1,195,828	15,520,911

27. OPERATING AND GEOGRAPHICAL SEGMENTAL INFORAMTION (Continued)

(b) Geographical Segment

	Qatar	*GCC States*	*Europe*	*North America*	*Other Countries*	*Total*
	QR'000	*QR'000*	*QR'000*	*QR'000*	*QR'000*	*QR'000*
As at December 31, 2010						
Cash and balances with Qatar Central Bank	**954,630**	**--**	**--**	**--**	**--**	**954,630**
Cash at banks and financial institutions	**4,712,959**	**353,460**	**60,980**	**17,765**	**2,848**	**5,148,012**
Receivables and balances from financing activities	**10,293,653**	**--**	**--**	**--**	**36,415**	**9,177,747**
Financial investments	**1,419,016**	**165,456**	**64,753**	**3,926**	**41,113**	**1,694,264**
Investment in associates	**116,032**	**--**	**--**	**--**	**111,832**	**227,864**
Investment properties for leasing	**74,764**	**--**	**--**	**--**	**--**	**74,764**
Investment properties for trading	**-**	**343,044**	**--**	**--**	**--**	**343,044**
Property and equipment	**216,147**	**--**	**--**	**--**	**--**	**216,147**
Other assets	**342,469**	**--**	**--**	**--**	**--**	**342,469**
TOTAL ASSETS	**18,129,670**	**861,960**	**125,733**	**21,691**	**192,208**	**18,178,941**
Customers' and banks' current accounts and financial institution balances	**2,847,056**	**80,753**	**400**	**--**	**8,032**	**2,936,241**
Other liabilities	**227,651**	**--**	**--**	**--**	**--**	**227,651**
Holders of unrestricted investment accounts	**10,795,827**	**307,000**	**4,924**	**--**	**90,000**	**11,197,751**
Shareholders' equity	**3,817,298**	**--**	**--**	**--**	**--**	**3,817,298**
TOTAL LIABILITIES , HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS AND SHAREHOLDERS' EQUITY	**17,687,832**	**387,753**	**5,324**	**--**	**98,032**	**18,178,941**

27. OPERATING AND GEOGRAPHICAL SEGMENTAL INFORAMTION (Continued)

(b) Geographical Segment

	Qatar	*GCC States*	*Europe*	*North America*	*Other Countries*	*Total*
	QR'000	*QR'000*	*QR'000*	*QR'000*	*QR'000*	*QR'000*
As at December 31, 2009						
Cash and balances with Qatar Central Bank	642,377	--	--	--	--	642,377
Cash at banks and financial institutions	3,585,139	241,770	56,414	5,663	11,516	3,900,502
Receivables and balances from financing activities	9,990,801	72,830	--	-	36,415	9,070,011
Financial investments	280,118	209,920	69,786	36,415	61,638	657,877
Investment in associates	243,790	99,589	--	--	--	343,379
Investment properties for leasing	49,091	--	--	--	--	49,091
Investment properties for trading	--	304,223	--	--	--	304,223
Property and equipment	219,946	--	--	--	--	219,946
Other assets	333,505	--	--	--	--	333,505
TOTAL ASSETS	15,344,767	928,332	126,200	42,078	109,569	15,520,911
Customers' and banks' current accounts and financial institution balances	2,466,812	1,043	2,906	1,669	1,389	2,473,819
Other liabilities	146,180	--	--	--	--	146,180
Holders of unrestricted investment accounts	8,940,197	161,366	--	--	--	9,101,563
Shareholders' equity	3,799,349	--	--	--	--	3,799,349
TOTAL LIABILITIES , HOLDERS OF UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY	15,352,538	162,409	2,906	1,669	1,389	15,520,911

28. RELATED PARTY TRANSACTIONS

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

	2010		*2009*	
	Board of directors QR'000	***Others QR'000***	*Board of directors QR'000*	*Others QR'000*
Balance sheet items				
Assets				
Murabaha and Musawama	**194,431**	**74,930**	107,074	4,995
Ijarah	**115,460**	**134,750**	195,294	--
	309,891	**209,680**	302,368	4,995
Liabilities				
Current account balances	**49,268**	**82**	20,908	1,036
Unrestricted investment deposits	**159,112**	**91,001**	42,512	1,085
	208,380	**91,083**	63,420	2,121
Off balance sheet items:				
Letter of credits, letter of guarantees and acceptances	**4,987**	**--**	291,370	112
Statement of income items				
Fees and commission income	**22,002**	**3,151**	21,166	350
Income from investing activities	**--**	**24,358**	--	10,793

Compensation of key management personnel

	2010 QR'000	*2009 QR'000*
Salaries and other allowances	**13,345**	18,647
End of service benefit	**367**	339
Contribution to Qatari Pension	**323**	323
Board of directors' remunerations	**7,010**	6,664
	21,045	25,973

29. COMPARATIVE FIGURES

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

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN THE FINANCIAL ACCOUNTING STANDARDS ISSUED BY AAOIFI AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Financial Statements have been prepared under the historical cost basis and in accordance with the Financial Accounting Standards (**FAS**) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (**AAOIFI**), International Financial Reporting Standards (**IFRS**) where no AAOIFI standards and guidance exist and the relevant laws and instructions issued by the QCB and the provisions of the Qatar Commercial Companies Law.

AAOIFI FAS differs from IFRS in certain significant respects. Accordingly, QIIB has prepared as of the date of this Prospectus a narrative summary of the significant differences between FAS as applied by QIIB in the Financial Statements described above and IFRS in so far as they relate to the significant accounting policies adopted by QIIB.

Deloitte & Touche has not performed any audit, review or other procedures in respect of the summary of differences described below.

QIIB has not performed a reconciliation of its Financial Statements to IFRS, has not quantified such differences nor does QIIB undertake to identify all such differences. Had QIIB undertaken any such quantification or reconciliation, other accounting and disclosure differences may have come to QIIB's attention that are not identified below.

The differences discussed below relate to the significant differences that impact amounts recorded in the Financial Statements rather than differences in presentation or disclosure.

1. Unrestricted Investment Accounts (URIA)

QIIB accepts funds from its retail and commercial clients (depositors) in the form of Mudaraba and Wakala Unrestricted Investment Accounts (**URIA**) deposits which are funds managed on the client's behalf.

In accordance with AAOIFI – FAS 1, URIA are disclosed and presented in the statement of financial position as a separate line item between liabilities and shareholders' equity. Under IFRS, URIA would be presented on the face of the statement of financial position as a liability.

2. Foreign currency transactions

In accordance with the accounting policy of QIIB, assets and liabilities denominated in foreign currencies are translated into Qatari Riyals at the rates prevailing at the date of the relevant statement of financial position. The resulting exchange gains and losses are recorded in the statement of income.

In accordance with paragraph 28 of IAS 21 'The effects of Changes in Foreign Exchange Rates', monetary items denominated in foreign currency are translated at each date of the relevant statement of financial position and the resulting exchange gain/loss is recorded in the statement of income. However, in accordance with paragraph 30 of IAS 21, non-monetary items are only translated if they are measured at fair value in foreign currency. In such cases, the exchange difference is determined by translating the non-monetary item using the exchange rates prevailing at the date when the fair value was determined. The resulting exchange differences are recognised as follows:

(a) when a fair value gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss shall be recognised in other comprehensive income; and

(b) when a fair value gain or loss on a non-monetary item is recognised in the statement of income, any exchange component of that gain or loss shall be recognised in the statement of income.

QIIB has not distinguished between monetary and non-monetary items for the purpose of separate treatment of resulting exchange gains and losses upon translation at the date of the relevant statement of financial position. Accordingly, QIIB records all the exchange differences in the statement of income. If QIIB were reporting under IFRS, it would be required to separate the exchange differences on monetary items from non-monetary items and record them in accordance with the IFRS guidance discussed above.

3. Investment in Sukuk, Shares and similar instruments

As of 1 January 2011, QIIB has classified investments in sukuk, equity shares and similar instruments as debt-type or equity-type investments in accordance with FAS 25.

Investments in debt-type instruments are further classified as investments carried at amortised cost and at fair value through the income statement on an individual basis depending on QIIB's intention with respect to the investment at the inception of the transaction.

Investments in equity-type instruments are further classified as investments carried at fair value through the income statement and through shareholders' equity (fair value reserve) on an individual basis depending on QIIB's intention with respect to the investment at the inception of the transaction.

Unrealised gains or losses arising from a change in the fair value which are recognised directly in the fair value reserve are distributed between shareholders' equity and the unrestricted investment deposit accounts until the investment is sold, collected or otherwise disposed of or the investment is determined to be impaired. In other words, the fair value reserves attributable to shareholders are recognised under statement of changes in shareholders' equity, and the fair value reserves attributable to unrestricted investment accounts are included in the balance for unrestricted investment accounts as disclosed in Note 15 to the Financial Statements for the year ended 31 December 2011.

Under IFRS, paragraph 9 of IAS 39: ‘Financial Instruments – Recognition and Measurement', financial instruments, which would include investments in sukuk, equity shares and similar instruments, are classified into four categories: (i) financial asset/liability measured at fair value through profit or loss; (ii) held-to-maturity investments; (iii) loans and receivables; and (iv) available-for-sale financial assets.

Held-to-maturity investments and loans and receivables are measured at amortised cost. Available-for-sale instruments are measured at fair value, with unrealised gains or losses arising from a change in the fair value being recognised directly in the fair value reserve in the same manner as described above for FAS 25.

The differing classifications between the standards may result in the application of inconsistent bases of measurement for the same type of investments. At the initial application of FAS 25 (as of 1 January 2011), the bases of measurement applied by QIIB were consistent between the former application of IAS 39 and FAS 25.

ISSUER AND TRUSTEE

QIIB Sukuk Funding Limited
Intertrust SPV (Cayman) Limited
87 Mary Street
George Town
Grand Cayman
KY1-9002
Cayman Islands

MANAGING AGENT, MUDARIB AND OBLIGOR

Qatar International Islamic Bank (Q.S.C.)
Grand Hamad Street
PO Box 664
Doha
Qatar

DELEGATE

Citicorp Trustee Company Limited
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

PRINCIPAL PAYING AGENT

Citibank, N.A.
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

REGISTER, PAYING AGENT TRANSFER AGENT

Citigroup Global Markets Deutschland AG
Reuterweg 16
60323 Frankfurt
Germany

AUDITORS TO QIIB

Deloitte & Touche
Al Ahli Bank Building
P.O.Box 431Doha
Qatar

LEGAL ADVISERS

To the Issuer as to Cayman Islands law
Walkers (Dubai) LLP
Fifth Floor
The Exchange Building
Dubai International Financial Centre
PO Box 506513
Dubai, United Arab Emirates

To QIIB

As to English law
SNR Denton UK LLP
One Fleet Place
London
EC4M 7WS
United Kingdom

As to Qatari law
SNR Denton & Co
Suite 1500, Al Fardan Office Tower
61 A1 Funding Street West Bay
PO Box 64057 Doha
Qatar

To the Joint Lead Managers

As to English law
Allen & Overy LLP
Level 2, The Gate Village Building GV08
Dubai International Financial Centre
PO Box 506678
Dubai
United Arab Emirates

As to Qatari law
Allen & Overy LLP
Level 23, Tornado Tower
Al Funduq Street
West Bay
PO Box 24205 Doha
Qatar

To the Delegate

As to English law
Allen & Overy LLP
One Bishops Square
London E1 6AD
United Kingdom

As to Qatari law
Allen & Overy LLP
Level 23, Tornado Tower
Al Funduq Street
West Bay
PO Box 24205 Doha
Qatar

printed by **eprint*financial*.com**
tel: + 44 (0) 20 7613 1800   document number 4467