Masraf Al Rayan (Q.S.C.)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

ERNST & YOUNG

P.O. Box 164
3rd Floor, Al-Abdulghani Tower
Airport Road
Doha, State of Qatar
Tel: +974 445 74111 / 444 14599
Fax: +974 444 14649
www.ey.com/me

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MASRAF AL RAYAN (Q.S.C.)

We have audited the accompanying consolidated financial statements of Masraf Al Rayan (Q.S.C) (the "Masraf") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2010, consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

The management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, the applicable provisions of Qatar Central Bank regulations and the Islamic Shari'a Rules and Principles, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MASRAF AL RAYAN (Q.S.C.) (CONTINUED)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Masraf 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 Group and that we are not aware of any contravention by the Masraf of its Articles of Association, the Qatar Commercial Companies Law No. 5 of 2002, the applicable provisions of Qatar Central Bank regulations and Law No 33 of 2006 during the financial year that would materially affect its activities or its financial position.

Firas Qoussous
of Ernst & Young
Auditor's Registration No. 236

ERNST & YOUNG
Doha
محاسبون قانونيون
الدوحة
ارنست ويونغ

Date: 25 January 2011
Doha
State of Qatar

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	*2010* *QAR'000*	*2009* *QAR '000*
ASSETS			
Cash and balances with Qatar Central Bank	4	**1,481,785**	716,080
Balances and investments with banks and other financial institutions	5	**4,988,930**	4,256,684
Receivables and balances from financing activities	6	**25,063,967**	17,750,462
Financial investments	7	**2,136,919**	945,406
Investment property	8	**160,220**	-
Investment in associates	9	**386,494**	211,931
Property, furniture and equipment	10	**86,956**	82,675
Other assets	11	**378,100**	160,563
TOTAL ASSETS		**34,683,371**	24,123,801
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
LIABILITIES			
Customers' current accounts		**1,292,350**	1,470,060
Other liabilities	12	**540,031**	331,010
TOTAL LIABILITIES		**1,832,381**	1,801,070
UNRESTRICTED INVESTMENT ACCOUNTS	13	**25,724,198**	16,360,977
EQUITY			
Attributable to shareholders of the parent			
Paid up share capital	14	**5,073,324**	4,124,654
Legal reserve	14	**-**	633,382
Fair value reserve	14	**6,117**	465
Risk reserve	14	**-**	237,953
Proposed dividend	14	**1,976,084**	948,670
Retained earnings		**70,924**	16,630
		7,126,449	5,961,754
Non-controlling interest	15	**343**	-
TOTAL EQUITY		**7,126,792**	5,961,754
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		**34,683,371**	24,123,801

Dr. Hussain Ali Al Abdalla
Chairman & Managing Director

Adel Mustafawi
Chief Executive Officer

The attached notes 1 to 27 form an integral part of these financial statements

CONSOLIDATED INCOME STATEMENT
Year Ended 31 December 2010

	Notes	*2010* *QAR'000*	*2009* *QAR'000*
Income from financing activities	16	**1,618,272**	1,082,571
Income from investing activities	17	**86,690**	67,496
Total income from financing and investing activities		**1,704,962**	1,150,067
Commission and fees income		**111,057**	196,165
Commission and fees expense		**(15,839)**	(1,675)
Net commission and fee income	18	**95,218**	194,490
Gain from foreign exchange operations		**37,262**	27,986
Other income	19	**103,178**	195,598
Share of results of associates		**(1,789)**	(167)
TOTAL OPERATING INCOME		**1,938,831**	1,567,974
General and administrative expenses	20	**(217,311)**	(190,456)
Depreciation	10	**(19,848)**	(15,238)
Impairment losses on receivables from financing activities	6	**(1,477)**	(8,512)
Impairment losses on financial investments	7	**(7,281)**	-
Impairment losses on other assets	11	**(1,563)**	(36,405)
Recoveries of impairment losses on other assets	11	**91,250**	-
PROFIT FOR THE YEAR BEFORE SHARE OF UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS		**1,782,601**	1,317,363
Less : Share of unrestricted investment accounts holders in the:			
- Net profit	21	**(571,257)**	(436,705)
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		**1,211,344**	880,658
BASIC/DILUTED EARNINGS PER SHARE (QAR)	22	**1.615**	1.174

The attached notes 1 to 27 form an integral part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT
Year Ended 31 December 2010

	Notes	2010 QAR'000	2009 QAR'000
OPERATING ACTIVITIES			
Profit for the year		**1,211,344**	880,658
Adjustments for:			
Depreciation	10	**19,848**	15,238
Impairment losses on receivables from financing activities		**1,477**	8,512
Impairment losses on financial investments	7	**7,281**	-
Impairment losses on other assets	11	**1,563**	36,405
Recovery of impairment losses on other assets	11	**(91,250)**	-
Gain on sale of property, furniture and equipment		-	(239)
Share of results of associates and foreign exchange loss	9	**1,789**	736
Operating profit before changes in operating assets and liabilities		**1,152,052**	941,310
Net decrease (increase) in assets:			
Cash reserve with Qatar Central Bank	4	**(539,074)**	7,507
Receivables and balances from financing activities		**(7,314,982)**	(4,433,237)
Other assets		**(219,100)**	401,248
Net increase (decrease) in liabilities:			
Customers' current accounts		**(177,710)**	1,056,344
Other liabilities		**156,720**	154,017
Net cash flows used in operating activities		**(6,942,094)**	(1,872,811)
INVESTING ACTIVITIES			
Purchase of property, furniture and equipment	10	**(24,129)**	(23,788)
Purchase of financial investments		**(1,395,611)**	(63,323)
Proceeds from sale of financial investments		**139,548**	39,081
Proceeds from sale of property and furniture and equipment		-	11,377
Investment in associates	9	**(182,196)**	(151,445)
Net cash flows used in investing activities		**(1,462,388)**	(188,098)
FINANCING ACTIVITIES			
Payment of cash dividends		-	(618,698)
Increase in unrestricted investment accounts	13	**9,363,016**	5,873,098
Net movement in non-controlling interest	15	**343**	-
Net cash flow from financing activities		**9,363,359**	5,254,400
Net increase in cash and cash equivalents		**958,877**	3,193,491
Cash and cash equivalents at 1 January		**4,609,151**	1,415,660
Cash and cash equivalents at 31 December	23	**5,568,028**	4,609,151

The attached notes 1 to 27 form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended 31 December 2010

	Share capital QAR'000	*Legal reserve QAR'000*	*Fair value reserve QAR'000*	*Risk reserve QAR'000*	*Proposed dividend QAR'000*	*Retained earnings QAR'000*	*Equity attributable to equity holders of parent QAR'000*	*Non-controlling interest QAR'000*	*Total QAR'000*
At 1 January 2009	4,124,654	545,316	(5,064)	199,885	618,698	210,776	5,694,265	-	5,694,265
Net changes in fair value reserve	-	-	5,529	-	-	-	5,529	-	5,529
Profit for the year	-	-	-	-	-	880,658	880,658	-	880,658
Payment of cash dividends for 2008	-	-	-	-	(618,698)	-	(618,698)	-	(618,698)
Transfer to reserves	-	88,066	-	38,068	-	(126,134)	-	-	-
Proposed dividend for 2009	-	-	-	-	948,670	(948,670)	-	-	-
Balance at 31 December 2009	4,124,654	633,382	465	237,953	948,670	16,630	5,961,754	-	5,961,754
Net changes in fair value reserve	-	-	5,652	-	-	-	5,652	-	5,652
Profit for the year	-	-	-	-	-	1,211,344	1,211,344	-	1,211,344
Dividend paid towards the uncalled share capital	948,670	-	-	-	(948,670)	-	-	-	-
Transfer to retained earnings	-	(633,382)	-	(237,953)	-	871,335	-	-	-
Proposed dividend for 2010	-	-	-	-	1,976,084	(1,976,084)	-	-	-
Social and sports fund appropriation	-	-	-	-	-	(52,301)	(52,301)	-	(52,301)
Movement in non-controlling interest	-	-	-	-	-	-	-	343	343
Balance at 31 December 2010	**5,073,324**	**-**	**6,117**	**-**	**1,976,084**	**70,924**	**7,126,449**	**343**	**7,126,792**

The attached notes 1 to 27 form an integral part of these financial statements

1 LEGAL STATUS AND MAIN ACTIVITIES

Masraf Al Rayan (Q.S.C.) ("Masraf") was incorporated as Qatari Public Shareholding Company under Article 68 of Qatar Commercial Companies' Law No. 5 of 2002, under decision No. 11 of 2006 dated 4 January 2006 of the Minister of Business and Trade.

Masraf and its subsidiaries (together referred to as "the Group") is engaged in banking, financing, investing and brokerage activities in accordance with its Articles of Incorporation, Islamic Shari'a principles and regulations of Qatar Central Bank and operates through its head office and local branches, all operating in the State of Qatar. The Masraf is listed and its shares are traded in the Qatar Exchange.

The consolidated financial statements of Masraf Al Rayan Q.S.C. for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Board of Directors on 25 January 2011.

2 SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of available for sale investments and derivative financial instruments.

The consolidated financial statements are stated in Qatari Riyals and all values are rounded to the nearest QAR thousand except when otherwise indicated.

Statement of compliance
The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Qatar Commercial Companies Law No.5 of 2002 and relevant laws and instructions issued by Qatar Central Bank. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, the Group applies the relevant International Financial Reporting Standards (IFRS).

Basis of consolidation
The consolidated financial statements comprise the financial statements of Masraf and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting year as Masraf, using consistent accounting policies.

All intra-group balances and transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

The consolidated financial statements of the Group include the financial statements of Masraf and its fully-owned subsidiaries listed below:

Name of subsidiaries	Country of incorporation	Share Capital
Al Rayan Investment LLC	Qatar	USD 100,000,000
Al Rayan Financial Brokerage	Qatar	QAR 5,000,000
Lusail Waterfront Real Esatate Co.	Qatar	QAR 200,000

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year. Amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

IFRS 3	*Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009, including consequential amendments to IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
IAS 39	*Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009
IFRIC 17	*Distributions of Non-cash Assets to Owners* effective 1 July 2009

2.3 Summary of significant accounting policies

(a) Foreign currency translation

(i) *Functional and presentation currency*
The consolidated financial statements are presented in Qatari Riyals, which is the Group's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(ii) *Transactions and balances*
Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to the consolidated income statement as foreign currency exchange gains or losses.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(iii) *Group companies*
As at the reporting date, the assets and liabilities of subsidiaries are translated into the Group's presentation currency at the rate of exchange ruling at the statement of financial position date, and their income statements are translated at the weighted average exchange rates for the year.

(b) Financial instruments – initial recognition and subsequent measurement

(i) *Date of recognition*
All financial assets and liabilities are initially recognized on the trade date, i.e., the date that Group becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(b) Financial instruments – initial recognition and subsequent measurement (continued)

(ii) *Initial measurement of financial instruments*
The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs.

(iii) *Available-for-sale 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 are recognised directly in the fair value reserve which is distributed between shareholders' equity and unrestricted investments accounts, until the investment is sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain previously recognised in shareholders' equity and the unrestricted investments accounts is included in the consolidated income statement. In cases where objective evidence exists that a specific investment is impaired, the recoverable amount of that investment is determined and any impairment loss is recognised in the consolidated income statement under impairment losses of financial investments.

(iv) *Held-to-maturity investments*
Held to maturity investments are measured at amortised cost less impairment losses. 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 consolidated income statement as impairment losses on financial investments.

(c) Derecognition of financial assets and financial liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a'pass-through arrangement ; or

- the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(d) Fair values

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the statement of financial position date.

For investments where there is no quoted market price, an estimate of the fair value is determined by one of the following methods:

- Recoverable amount estimated by the portfolio manager
- Cost

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Group's best estimate of the most appropriate model assumptions.

(e) Recognition of financial transactions

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

(f) Equity transaction costs

Equity transaction costs are accounted for as a deduction from share premium. These costs include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers. The equity transaction costs are accounted for as a deduction from share premium to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

(g) Offsetting

Financial assets and financial liabilities should not be set-off unless there is a enforceable or legal right and an actual expectation of set- off.

(h) Derivative financial instruments

The Group enters into certain Islamic derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies and profit rate swaps. The Group also sells these derivatives to customers in order to enable them to transfer, modify or reduce current and future risks. Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

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

The Group complies with the directives of Qatar Central Bank as follows:

- A net gain on all items of income and expenses at the year end is the net profit distributable between the shareholders and the unrestricted investment accounts.

- The share of the unrestricted investment account holders is calculated out from the net profit on the basis of daily balances of their balances after deducting Masraf's Mudaraba percentage agreed upon and declared.

- In case any expense or loss incurred is proved to be resulting from negligence by Masraf due to violation of the directives of Qatar Central Bank or proper banking conventions, the unrestricted investment account shall not be charged with these losses, subject to the discretion of Qatar Central Bank.

- In case the results of Masraf at the year-end are net losses, then Qatar Central Bank, being the authority responsible for determining Masraf's accountability for these losses, shall decide how these shall be treated without violation to the Islamic Shari'a rules.

- Due to pooling of unrestricted investment funds with Masraf funds for the purpose of investment, no priority has been given to either party in the appropriation of profit.

(j) Leasing

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item are operating leases. Operating lease payments are recognized as an expense in the consolidated income statement on a straight line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(k) Revenue recognition

- Income on financing contracts of Murabaha and Istesna are recognised on time apportionment basis using the declining instalment method. When receivables from financing activities become non-performing and where collectability is doubtful, income is suspended as per the instructions of Qatar Central Bank.
- Ijarah income is recognised on accrual basis and the profit rate is determined in advance upon agreement of all parties.
- Income on Mudaraba financing is recognised when the right to receive payment is established or distribution by the Mudarib.
- Income from dividends and investment funds are recognised when the right to receive the dividend is established.
- Other investments income is recognised on an accrual basis.
- Fees and commission income is recognised when earned.
- Profit is allocated proportionately between unrestricted investment accounts and shareholders on the basis of the average balances outstanding during the year after deduction of Masraf's share as Mudarib.

(l) Impairment of financial assets

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

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of financing activity covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(m) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(n) Investment property

Investment property comprises completed property and property under construction or re-development held to earn rentals or for capital appreciation or both.

Investment property is measured at cost including transaction costs. Transaction costs include transfer taxes, professional fees or legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in the consolidated income statement in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period financial statements.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

(o) Property, furniture and equipment

Property, furniture and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. The cost of these assets is depreciated using the straight-line method over the estimated useful lives of the assets as per Qatar Central Bank regulations, as follows:

Computer software and hardware	3 years
Furniture, fixtures and office equipment	6-7 years
Leasehold Improvements	10 years
Buildings	20 years

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income/expenses in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(p) 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 profit relating to future years.

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

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

Receivables from financing activities are written off, in events where all collection attempts have proved useless, against the provision. Proceeds from receivables from financing activities that have been previously written off are recognised in the provision.

For purchase order Murabaha transactions, the principle of committing the purchase order is applied in accordance with Qatar Central Bank instructions, similarly for Ijarah transactions ending with ownership (Ijarah Muntahia Bittamleek), the principle of committing the landlord and leaseholder is applied.

(q) Cash and cash equivalents

Cash and cash equivalents for the purpose of the cash flow statement represent cash on hand, current account with Qatar Central Bank and balances with banks and other financial institutions with an original maturity of three months or less.

(r) Investments in associates

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

Under the equity method, the investment in the associates is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of Masraf's interest in the associate.

The consolidated income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on the Group's investment in its associates. The Group determines at the end of the reporting period whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(s) Employees end of service benefits and pension fund

- The Group provides for end of service benefits to its expatriate employees in accordance with the Qatar Labour Law. The provision is calculated based on the period of service for each staff at the year end. This provision is included in other provisions under other liabilities.

- The Group also provides for its contribution to the pension fund in accordance with the Retirement and Pension Law No. 24 of 2002 for Qatari and GCC employees, which is included in staff costs under general and administrative expenses.

(t) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

(u) Financial guarantees

In the ordinary course of business, the Group 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 on the date the guarantee was given, and the initial fair value is amortised over the life of the financial guarantee. Subsequent to initial recognition, the Group's liability under such guarantees are measured at the higher of the amortised amount and the best estimate of the expenditure required to settle any financial obligation arising at the statement of financial position 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 consolidated income statement. The amortisation of the premium received is recognized in the consolidated income statement under commission and fees income.

(v) Investment risk reserve

This is the amount appropriated by Masraf out of the income of investment account holders, after allocating the mudarib share, in order to maintain against future losses for investment account holders.

(w) Contingent liabilities

Contingent liabilities include Group's obligations with respect to unilateral promise to buy/sell currencies, profit rate swaps and others. These do not constitute actual assets or liabilities at the statement of financial position date except for assets and obligations relating to fair value gains or losses on these derivative financial instruments.

(x) Estimation uncertainty

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(y) 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 Group has determined the Board of Directors of Masraf as its chief operating decision maker. All transactions between operating segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining operating segment performance.

2.4 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. The listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective.

IAS 24 Related Party Disclosures (Amendment)
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the International Accounting Standards Board's (IASB) work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address impairment and hedge accounting. The completion of this project is expected in mid 2011. The adoption of the first phase of IAS 9 will primarily have an effect on the classification and measurement of the Group's financial assets. The Group is currently assessing the impact of adopting IFRS 9, however, as the impact of the adoption depends on the assets held by the Group at the date of the adoption, it is not practicable to quantify the effect.

Improvements to IFRSs (issued in May 2010)
The IASB issued improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments are listed below:

IFRS 3	*Business Combinations*
IFRS 7	*Financial Instruments: Disclosures*
IAS 1	*Presentation of Financial Statements*
IAS 27	*Consolidated and Separate Financial Statements*

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

3.1 Financial instruments

Definition and classification

The Group's financial instruments represent the financial assets and liabilities. Financial assets comprise balances with Qatar Central Bank, balances and investments with banks and other financial institutions, receivables from financing activities, certain financial investments, derivative financial assets and certain other assets. Financial liabilities comprise customers' current accounts, derivative financial liabilities and certain other liabilities. Financial instruments also include balances due to unrestricted investment accounts holders and contingent liabilities and commitments under "off financial position 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.

Risk management and structure

Introduction
Risk is inherent in the Group'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 Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, profit risk, liquidity risk, operating risk and market risk, which include trading and non-trading 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 Group's strategic planning process.

Board of Directors
The Board of Directors is responsible for the risk management methodology and approving 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 Group.

Assets and liabilities
The Group's management is responsible for managing the Group's assets and liabilities and the overall financial structure and also responsible for the Group's credit and liquidity risk.

Internal audit
Risk management processes throughout the Group are audited annually by the Internal Audit Department that examines both the adequacy of the procedures and the Group'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 Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses. Masraf also runs worse 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 Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk type activities and the module makes use of probabilities derived from historical experience adjusted to reflect the economic environment.

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.1 Financial instruments (continued)

Risk Management and structure (continued)

Risk measurement and reporting systems (continued)
Information compiled from all business departments is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, risk unit, and the head of each business division.

On a monthly basis, detailed reporting of industry, customer and geographic risks take 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 Group on the utilisation of market limits, analysis of propriety investments and liquidity, plus any other risk developments.

Risk mitigation
As a part of overall risk management, the Group uses swap deals and other instruments to manage exposures from changes in profit rates, foreign currencies, equity risks, credit risks and exposures arising from forecast transactions.

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

In order to avoid excessive concentrations of risk, the Group'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 Credit risk

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

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

Management monitors the market value of collaterals.

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

The Group 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.

3.2.1 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 QAR'000	*Gross maximum exposure 2009 QAR'000*
Balances and investments with banks and other financial institutions	**4,988,930**	4,256,684
Receivables and balances from financing activities	**25,063,967**	17,750,462
Financial investments	**1,968,843**	865,672
Other receivables	**340,516**	37,712
Total statement of financial position items	**32,362,256**	22,910,530
Letters of guarantee	**4,786,953**	3,763,973
Letters of credit	**795,524**	711,638
Total contingent liabilities items	**5,582,477**	4,475,611
Total credit risk exposure	**37,944,733**	27,386,141

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

Total maximum exposure net of collaterals is QAR 28,566 million (2009: QAR 22,135 million). The main types of collaterals obtained are cash 1% (2009: 4%), mortgages 59% (2009: 13%), government guarantees 23% (2009: 44%) and other eligible securities 17% (2009: 39%) of the total collateral.

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.2 Risk concentration for maximum exposure by Sector

An industry sector analysis of the Group's maximum exposure to credit risk for the components of the statement of financial position is shown below. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2010 QAR'000	*Gross maximum exposure 2009 QAR'000*
Statement of financial position		
Government	**-**	33,084
Government institutions	**10,500,625**	7,560,133
Real-estate	**2,877,166**	8,565,595
Contracting	**6,902,483**	423,210
Consumer	**201,507**	221,883
Services	**9,505,410**	4,955,261
Others	**2,375,065**	1,151,364
Total statement of financial position	**32,362,256**	22,910,530
Contingent liabilities		
Government and government institutions	**629,242**	-
Commercial and others	**4,953,235**	4,475,611
Total contingent liabilities	**5,582,477**	4,475,611
Total	**37,944,733**	27,386,141

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Credit quality of financial assets with credit risk exposure by class

(a) Receivables and balances from financing activities

At 31 December 2010	*Neither past due nor impaired QAR'000*	*Past due but not impaired QAR'000*	*Impaired QAR'000*	***Total QAR'000***
Risk grading:				
High grade	**11,083,462**	-	-	**11,083,462**
Standard grade	**13,714,194**	**266,373**	-	**13,980,567**
Sub-standard	-	-	**354**	**354**
Bad debt	-	-	**11,239**	**11,239**
Gross	**24,797,656**	**266,373**	**11,593**	**25,075,622**
Less: Allowance for impairment	-	**(285)**	**(11,370)**	**(11,655)**
Net	**24,797,656**	**266,088**	**223**	**25,063,967**

At 31 December 2009	*Neither past due nor impaired QAR'000*	*Past due but not impaired QAR'000*	*Impaired QAR'000*	*Total QAR'000*
Risk grading:				
High grade	17,459,342	-	-	17,459,342
Standard grade	-	288,376	-	288,376
Sub-standard	-	-	21	21
Bad debt	-	-	11,210	11,210
Gross	17,459,342	288,376	11,231	17,758,949
Less: Allowance for impairment	-	-	(8,487)	(8,487)
Net	**17,459,342**	**288,376**	**2,744**	**17,750,462**

It is the Group's policy to maintain accurate and consistent risk ratings across the financing portfolio. This facilitates focused management of the applicable risks and the comparison of financing 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 tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Credit quality of financial assets with credit risk exposure by class (continued)

(b) Balances and investments with banks and other financial institutions

Exposures to balances and investments with banks and other financial institutions are all of High grade. There are no past due or impaired balances in the portfolio as at 31 December 2010 (2009: nil).

(c) Financial investments

Certain held to maturity investments amounting to QAR 7,281 thousand (2009: nil) are impaired during the year.

	2010 ***QAR'000***	*2009* *QAR'000*
Held to maturity investments	**1,976,124**	865,672
Less: Allowance for impairment	**(7,281)**	-
	1,968,843	865,672

(d) Other receivables

Accrued profit on certain held to maturity investments are impaired during the year amounting to QAR 1,563 thousand (2009: nil). The remaining exposures are either of high grade or standard grade.

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

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

	Less than 60 days QAR'000	***61 to 90 days QAR'000***	***Total 2010 QAR'000***
Receivables and balances from financing activities:			
Retail	**7,173**	**375**	**7,548**
Corporate	**110,067**	**505**	**110,572**
Real estate	**126,982**	**21,271**	**148,253**
Total	**244,222**	**22,151**	**266,373**

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Credit quality of financial assets with credit risk exposure by class (continued)

	Less than 60 days QAR'000	*61 to 90 days QAR'000*	*Total 2009 QAR'000*
Receivables and balances from financing activities:			
Retail	21,979	75	22,054
Corporate	197,614	1,020	198,634
Real estate	67,688	-	67,688
Total	287,281	1,095	288,376

Note:

The past due but not impaired receivables and balances from financing activities as of 31 December 2009 have been restated to recognize the full outstanding balance within each past due category. Previously, the table showed only the amount overdue as of 31 December 2009.

As of 31 December 2010, the Group did not obtain any additional collaterals against the past due but not impaired receivables and balances from financing activities.

(f) Impaired receivables and balances from financing activities

The details of the gross amount of impaired receivables by type is as follows:

	2010 QAR'000	*2009 QAR'000*
Receivables and balances from financing activities:		
Retail	**717**	480
Corporate	**10,876**	10,751
Total	**11,593**	11,231

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Credit quality of financial assets with credit risk exposure by internal risk rating

Neither past due nor impaired	*2010* *QAR'000*	*2009* *QAR'000*
Equivalent grades		
AAA to AA-	**1,981,839**	351,191
A+ to A-	**568,642**	3,765,029
BBB to BBB-	**3,129,650**	70
Unrated	**32,264,602**	23,269,851
Total	**37,944,733**	27,386,141

Unrated exposures represent financing activities granted to corporations and individuals which do not have external credit rating. Also, the ratings used by the Group are in line with the ratings and definitions published by international rating agencies. The above exposures include financing activities which are neither past due nor impaired amounting to QAR 24,798 million (2009: QAR 17,459 million).

3.3 Market risk

Market risk is the risk that the Group'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 Group 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 committee of policies and procedures in the Group.

Assets and liabilities profit rate gaps are reviewed on a regular basis which is used to reduce the profit rate gaps to within the limits established by the Board. The Group manages its exposure to currency exchange rate fluctuations to within the levels defined by the Board of Directors, which sets limits on currency position exposures. Positions are monitored on an ongoing basis.

3.3.1 Profit rate risk

(a) Profit rate risk

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

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.1 Profit rate risk

The following tables summarise the repricing profile of the Group's assets, liabilities and contingent liability exposures.

	Within 3 months QAR'000	*3 to12 months QAR'000*	*1 to 5 years QAR'000*	*Over 5 years QAR'000*	*Non-profit sensitive QAR'000*	*Total QAR'000*
At 31 December 2010						
Cash and balances with Qatar Central Bank	-	-	-	-	1,481,785	1,481,785
Balances and investments with banks and other financial institutions	4,860,010	-	-	-	128,920	4,988,930
Receivables and balances from financing activities	11,923,868	6,169,655	5,957,156	1,013,288	-	25,063,967
Financial investments and investment in associates	96,196	43,686	1,215,253	850,754	317,524	2,523,413
Investment property, property, furniture and equipment and other assets	-	-	-	-	625,276	625,276
TOTAL ASSETS	**16,880,074**	**6,213,341**	**7,172,409**	**1,864,042**	**2,553,505**	**34,683,371**
Customers' current accounts	-	-	-	-	1,292,350	1,292,350
Other liabilities	-	-	-	-	540,031	540,031
Unrestricted investment accounts holders	22,836,474	2,729,557	10,247	-	147,920	25,724,198
Total equity	-	-	-	-	7,126,792	7,126,792
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS AND EQUITY	**22,836,474**	**2,729,557**	**10,247**	**-**	**9,107,093**	**34,683,371**
Profit Rate Sensitivity Gap	**(5,956,400)**	**3,483,784**	**7,162,162**	**1,864,042**	**(6,553,588)**	**-**
Cumulative Profit Rate Sensitivity Gap	**(5,956,400)**	**(2,472,616)**	**4,689,546**	**6,553,588**	**-**	**-**

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.1 Profit rate risk (continued)

At 31 December 2009	*Within 3 months QAR'000*	*3 to12 months QAR'000*	*1 to 5 years QAR'000*	*Over 5 years QAR'000*	*Non-profit sensitive QAR'000*	*Total QAR'000*
Cash and balances with Qatar Central Bank	-	-	-	-	716,080	716,080
Balances and investments with banks and other financial institutions	4,251,818	-	-	-	4,866	4,256,684
Receivables and balances from financing activities	4,772,672	8,327,609	4,150,021	500,160	-	17,750,462
Financial investments and investment in associates	123,894	-	-	743,783	289,660	1,157,337
Property, furniture and equipment and other assets	-	-	-	-	243,238	243,238
TOTAL ASSETS	9,148,384	8,327,609	4,150,021	1,243,943	1,253,844	24,123,801
Customers' current accounts	-	-	-	-	1,470,060	1,470,060
Other liabilities	-	-	-	-	331,010	331,010
Unrestricted investment accounts holders	15,787,212	456,619	80,410	-	36,736	16,360,977
Total shareholders' equity	-	-	-	-	5,961,754	5,961,754
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS AND EQUITY	15,787,212	456,619	80,410	-	7,799,560	24,123,801
Profit Rate Sensitivity Gap	(6,638,828)	7,870,990	4,069,611	1,243,943	(6,545,716)	-
Cumulative Profit Rate Sensitivity Gap	(6,638,828)	1,232,162	5,301,773	6,545,716	-	-

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.1 Profit rate risk (continued)

(b) Profit rate sensitivity

The following table demonstrates the profit rate sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Group's consolidated income statement. The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates on the income generated for one year, based on the floating rate non-trading financial assets and financial liabilities. The sensitivity of equity is calculated by revaluing fixed rate available for sale financial assets. The sensitivity of equity is analysed by maturity of the asset. Total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

	2010		*2009*	
Currency	***Increase in basis points***	***Sensitivity of net profit QAR'000***	*Increase in basis points*	*Sensitivity of net profit QAR'000*
QAR	**10**	**2,691**	10	5,540
USD	**10**	**2,839**	10	(547)
EUR	**10**	**2,290**	10	(348)
AED	**10**	**173**	10	297
GBP	**10**	**(134)**	10	15
Currency	***Decrease in basis points***	***Sensitivity of net profit QAR'000***	*Decrease in basis points*	*Sensitivity of net profit QAR'000*
QAR	**10**	**(2,691)**	10	(5,540)
USD	**10**	**(2,839)**	10	547
EUR	**10**	**(2,290)**	10	348
AED	**10**	**(173)**	10	(297)
GBP	**10**	**134**	10	(15)

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.2 Currency risk

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

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

	2010		*2009*	
Currency	***Change in currency rate in %***	***Effect on income statement QAR'000***	*Change in currency rate in %*	*Effect on income statement QAR'000*
EUR	**+10%**	**76**	+10%	260
GBP	**+10%**	**3**	+10%	(29)
Others	**+10%**	**(165)**	+10%	722
EUR	**-10%**	**(76)**	-10%	(260)
GBP	**-10%**	**(3)**	-10%	29
Others	**-10%**	**165**	-10%	(722)

The Group 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 the year. The Qatar Riyal is pegged to the US Dollar. Although the Group 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 Group is not significantly exposed to other currencies exposures.

3.3.3 Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as available-for-sale. A 10 per cent increase in the Qatar Exchange index at 31 December 2010 would have increased equity by QAR 1,647 thousand (2009: QAR 1,061 thousand). An equivalent decrease would have resulted in an equivalent but opposite impact.

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4 Liquidity risk

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

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

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay.

The Group maintains a portfolio of highly marketable and diverse assets readily liquefiable in the event of an unforeseen interruption to cash flow. The Group maintains statutory reserves with Qatar Central Bank. Liquidity is assessed and managed using a variety of stressed scenarios applicable to the Group.

	Within one month QAR'000	*One to 3 months QAR'000*	*3 to 12 months QAR'000*	*1 to 5 Years QAR'000*	*Over 5 years QAR'000*	*Total QAR'000*
At 31 December 2010						
Customers' current account	1,292,350	-	-	-	-	1,292,350
Other liabilities	540,031	-	-	-	-	540,031
Unrestricted investment accounts holders	16,059,065	6,973,373	2,774,889	10,817	-	25,818,144
Total Liabilities	**17,891,446**	**6,973,373**	**2,774,889**	**10,817**	**-**	**27,650,525**
Liquidity risk and funding management						
Contingent liabilities	**5,582,477**	-	-	-	-	**5,582,477**
Total	**5,582,477**	-	-	-	-	**5,582,477**

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

	One month QAR'000	*One to 3 months QAR'000*	*3 to 12 months QAR'000*	*1 to 5 Years QAR'000*	*Over 5 years QAR'000*	*Total QAR'000*
At 31 December 2009						
Customers' current account	1,470,060	-	-	-	-	1,470,060
Other liabilities	-	331,010	-	-	-	331,010
Unrestricted investment accounts holders	14,047,971	1,802,591	470,123	85,638	-	16,406,323
Total Liabilities	15,518,031	2,133,601	470,123	85,638	-	18,207,393
Liquidity risk and funding management						
Contingent liabilities	4,475,611	-	-	-	-	4,475,611
Total	4,475,611	-	-	-	-	4,475,611

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

The maturity profile of the assets and liabilities at 31 December:

At 31 December 2010	*Up to One month QAR'000*	*1-3 months QAR'000*	*3-12 months QAR'000*	*1-5 years QAR'000*	*Over 5 years QAR'000*	*Total QAR'000*
Cash and balances with Qatar Central Bank	1,481,785	-	-	-	-	1,481,785
Balances and investments with banks and other financial institutions	4,688,930	300,000	-	-	-	4,988,930
Receivables and balances from financing activities	7,270,147	4,653,721	6,169,655	5,957,156	1,013,288	25,063,967
Financial investments and investment in associates	96,196	-	43,686	1,215,253	1,168,278	2,523,413
Investment property and property, furniture and equipment	-	-	-	-	247,176	247,176
Other assets	378,100	-	-	-	-	378,100
TOTAL ASSETS	**13,915,158**	**4,953,721**	**6,213,341**	**7,172,409**	**2,428,742**	**34,587,175**
Customers' current accounts	1,292,350	-	-	-	-	1,292,350
Other liabilities	540,031	-	-	-	-	540,031
Unrestricted investment accounts holders	16,040,170	6,944,224	2,729,557	10,247	-	25,724,198
Total equity	-	-	-	-	7,126,792	7,126,792
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS AND EQUITY	**17,872,551**	**6,944,224**	**2,729,557**	**10,247**	**7,126,792**	**34,683,371**
Liquidity Gap	**(3,957,393)**	**(1,990,503)**	**3,483,784**	**7,162,162**	**(4,698,050)**	**-**

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

At 31 December 2009	*Up to One month QAR'000*	*1-3 months QAR'000*	*3-12 months QAR'000*	*1-5 years QAR'000*	*Over 5 years QAR'000*	*Total QAR'000*
Cash and balances with Qatar Central Bank	352,467	-	-	-	363,613	716,080
Balances and investments with banks and other financial institutions	4,256,684	-	-	-	-	4,256,684
Receivables and balances from financing activities	3,430,307	1,342,365	8,327,609	4,150,021	500,160	17,750,462
Financial investments and investment in associates	8,609	123,894	-	-	1,024,834	1,157,337
Property, furniture and equipment	-	-	-	-	82,675	82,675
Other assets	-	160,563	-	-	-	160,563
TOTAL ASSETS	8,048,067	1,626,822	8,327,609	4,150,021	1,971,282	24,123,801
Customers' current accounts	1,470,060	-	-	-	-	1,470,060
Other liabilities	-	331,010	-	-	-	331,010
Unrestricted investment accounts holders	14,037,795	1,786,153	456,619	80,410	-	16,360,977
Total equity	-	-	-	-	5,961,754	5,961,754
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS AND EQUITY	15,507,855	2,117,163	456,619	80,410	5,961,754	24,123,801
Liquidity Gap	(7,459,788)	(490,341)	7,870,990	4,069,611	(3,990,472)	-

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

(b) Fair value of financial assets and liabilities

Based on the methods used to determine the fair value of financial instruments explained in note 2, following are the financial assets and liabilities:

	Carrying value		*Fair value*	
Financial assets	***2010***	*2009*	***2010***	*2009*
	QAR'000	*QAR'000*	***QAR'000***	*QAR'000*
Balances with Central Bank excluding cash	**1,358,033**	642,139	**1,358,033**	642,139
Balances and investments with banks and other financial institutions	**4,988,930**	4,256,684	**4,988,930**	4,256,684
Receivables and balances from financing activities	**25,063,967**	17,750,462	**25,063,967**	17,750,462
Financial investments	**2,136,919**	945,406	**2,091,054**	801,291
Financial liabilities				
Customers' current accounts	**1,292,350**	1,470,060	**1,292,350**	1,470,060
Unrestricted investment accounts	**25,724,198**	16,360,977	**25,724,198**	16,360,977

i) Receivables and balances from financing activities

Receivables and balances from financing activities are net of allowance for impairment. The estimated fair value of receivables and balances from financing activities is not significantly different from its carrying value, as a significant portion of the portfolio is subject to frequent re-pricing in line with market rates.

ii) Financial investments

Financial investments includes held to maturity and available for sale investments. Available for sale investments are measured at fair value. Fair value for held-to-maturity investment is primarily based on market prices, where ever market price is not available, the Group establishes the fair value using valuation techniques that includes discounted cash flow analysis, recent arms length transactions and other valuation techniques commonly used by market participants. The fair values of held to maturity investments are stated in note 7.

iii) Unrestricted investment accounts

The estimated fair value of unrestricted investment accounts not different from the carrying values on the financial position date, as almost the total portfolio maturity is of very short duration and is re-priced at market profit rates.

(c) Fair value disclosures

The Group uses the following hierarchy for determining and disclosing the fair value of financial investments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

(c) Fair value disclosures (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	31 December 2010 QAR'000	*Level 1 QAR'000*	*Level 2 QAR'000*	*Level 3 QAR'000*
Financial assets				
Financial investments available-for-sale:				
Quoted equities	16,470	16,470	-	-
Unquoted equities	151,606	-	151,606	-
	168,076	**16,470**	**151,606**	-
Derivative financial instruments:				
Profit rate swap	**5,554**	-	**5,554**	-
Unilateral promise to buy/sell currencies	**5,591**	-	**5,591**	-
	11,145	-	**11,145**	-
Financial liabilities				
Derivative financial instruments:				
Profit rate swap	5,554	-	5,554	-
Unilateral promise to buy/sell currencies	16,911	-	16,911	-
	22,465	-	**22,465**	-

	31 December 2009 QAR'000	*Level 1 QAR'000*	*Level 2 QAR'000*	*Level 3 QAR'000*
Financial assets				
Financial investments available-for-sale:				
Quoted equities	10,614	10,614	-	-
Unquoted equities	69,120	-	69,120	-
	79,734	**10,614**	**69,120**	-
Derivative financial instruments:				
Profit rate swap	11,615	-	11,615	-
Unilateral promise to buy/sell currencies	10,254	-	10,254	-
	21,869	-	**21,869**	-
Financial liabilities				
Derivative financial instruments:				
Profit rate swap	**11,615**	-	**11,615**	-

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.5 Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group 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 Group 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 Group'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.

Capital Adequacy

	2010	*2009*
	QAR'000	*QAR'000*
Tier 1 Capital	**6,401,414**	5,639,004
Tier 2 Capital	**26,426**	157,695
Total capital	**6,427,840**	5,796,699
Total risk weighted assets	**33,452,538**	23,425,919
Tier 1 Capital ratio	**19.14%**	24.07%
Total Capital ratio	**19.21%**	24.74%

Tier 1 capital includes paid up share capital, legal reserve, other reserves and retained earnings after excluding proposed dividend.

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

The minimum accepted capital adequacy ratio determined by Qatar Central Bank is 10% whilst the minimum determined by Basel Committee is 8%.

3.6 Operational risk

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

3.7 Other risks

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

4 CASH AND BALANCES WITH QATAR CENTRAL BANK

	2010 *QAR'000*	*2009* *QAR'000*
Cash on hand	**123,752**	73,941
Cash reserve with Qatar Central Bank *	**902,687**	363,613
Current account with Qatar Central Bank	**455,346**	278,526
	1,481,785	716,080

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

5 BALANCES AND INVESTMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2010 *QAR'000*	*2009* *QAR'000*
Current accounts	**128,920**	4,866
Deposits with Islamic Banks	**4,860,010**	4,251,818
	4,988,930	4,256,684

6 RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES

	2010 *QAR'000*	*2009* *QAR'000*
(a) By type		
Receivables and balances from financing activities:		
Murabaha	**22,881,173**	14,555,499
Mudaraba	**2,205,665**	2,390,750
Ijarah	**1,256,699**	1,954,088
Musharaka	**148,728**	269,371
Others	**10,960**	4,371
Total receivables and balances from financing activities	**26,503,225**	19,174,079
Deferred profit	**(1,427,603)**	(1,415,130)
Allowance for impairment (c)	**(11,655)**	(8,487)
Net receivables and balances from financing activities	**25,063,967**	17,750,462

6 RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (continued)

(b) By sector

	Murabaha QAR'000	*Mudaraba QAR'000*	*Ijarah QAR'000*	*Musharaka QAR'000*	*Others QAR'000*	***Total 2010 QAR'000***
Government institutions	8,294,960	2,205,665	-	-	-	**10,500,625**
Real estate	1,827,838	-	925,884	120,946	2,498	**2,877,166**
Contracting	6,870,898	-	26,787	4,798	-	**6,902,483**
Consumer	191,226	-	-	2,538	8,462	**202,226**
Services	4,223,388	-	304,028	-	-	**4,527,416**
Other	45,259	-	-	20,447	-	**65,706**
	21,453,569	2,205,665	1,256,699	148,729	10,960	**25,075,622**

	Murabaha QAR'000	*Mudaraba QAR'000*	*Ijarah QAR'000*	*Musharaka QAR'000*	*Others QAR'000*	*Total 2009 QAR'000*
Government	33,084	-	-	-	-	33,084
Government institutions	5,169,383	2,390,750	-	-	-	7,560,133
Real estate	6,590,222	-	1,759,511	215,862	-	8,565,595
Contracting	407,778	-	-	23,919	-	431,697
Consumer	114,022	-	107,861	-	-	221,883
Services	623,500	-	75,077	-	-	698,577
Other	202,359	-	11,639	29,589	4,393	247,980
	13,140,348	2,390,750	1,954,088	269,370	4,393	17,758,949

6 RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (continued)

(c) Movement in allowance for impairment

The total non-performing receivables and balances from financing activities at 31 December 2010 amounted to QAR 11,593 representing 0.05% of the gross receivables and balances from financing activities (2009: QAR 11,231 thousand, representing 0.06% of the gross receivables and balances from financing activities).

	2010 ***QAR'000***	*2009* *QAR'000*
Balance as at 1 January	**8,487**	-
Allowance for individually impairment made during the year*	**3,168**	8,512
Write off during the year	**-**	(25)
Balance at 31 December	**11,655**	8,487

* This includes net profit suspended during the year of QAR 2,343 thousand.

7 FINANCIAL INVESTMENTS

(a) Available for sale investments

	2010 ***QAR'000***	*2009* *QAR'000*
Quoted equities	**16,470**	10,614
Unquoted equities	**151,606**	69,120
	168,076	79,734
(b) Held to maturity investments		
Sukuk	**1,968,843**	865,672
	2,136,919	945,406

Held to maturity investments are net of allowance for impairment losses of QAR 7,281 thousand (2009: nil) booked during the year.

7 FINANCIAL INVESTMENTS (continued)

	2010			2009		
	Quoted QAR '000	***Unquoted QAR '000***	***Total QAR '000***	*Quoted QAR'000*	*Unquoted QAR'000*	*Total QAR'000*
Held to maturity investments by type						
Local Sukuk in QAR	**-**	**1,250,000**	**1,250,000**	-	-	-
Local Sukuk in USD	**310,762**	**-**	**310,762**	324,414	-	324,414
Foreign Sukuk in USD	**218,430**	**16,200**	**234,630**	225,711	18,203	243,914
Foreign Sukuk in AED	**173,451**	**-**	**173,451**	297,344	-	297,344
	702,643	**1,266,200**	**1,968,843**	847,469	18,203	865,672
Held to maturity investments by nature of income						
Fixed profit rate	**1,293,686**	**16,200**	**1,309,886**	50,967	18,203	69,170
Floating profit rate	**658,957**	**-**	**658,957**	796,502	-	796,502
	1,952,643	**16,200**	**1,968,843**	847,469	18,203	865,672

Note:

The fair value of held to maturity investments as at 31 December 2010 amounted to QAR 1,923 million (2009: QAR 722 million).

8 INVESTMENT PROPERTY

Investment property pertains to freehold land and is carried at cost, which is also the fair value as at 31 December 2010.

	2010 *QAR'000*	*2009* *QAR'000*
Balance at 1 January	-	-
Transferred from available for sale investments	**68,970**	-
Additions	**91,250**	-
Balance at 31 December	**160,220**	-

9 INVESTMENT IN ASSOCIATES

The Group's interest in its associates as at 31 December is as follows:

Name	*Country of incorporation*	*% interest held*		*Group share*				*Carrying value*	
		2010	*2009*	*Assets*	*Liabilities*	*Operating income (loss)*	*Results*	***2010*** ***QAR'000***	*2009* *QAR'000*
Pak-Qatar General Takaful Limited (A)	Pakistan	19.49	19.49	-	-	-	-	-	2,329
Pak-Qatar Family Takaful Limited (A)	Pakistan	18.76	22.14	-	-	-	-	-	3,515
National Mass Housing (B)	Oman	20.00	20.00	48,473	175	721	(1,344)	**48,298**	49,642
CI San Trading (C)	Qatar	50.00	50.00	5,000	-	-	-	**5,000**	5,000
Kirnaf Investment and Installment Company (D)	Saudi Arabia	48.00	48.00	300,984	10,188	(3,983)	(445)	**290,796**	151,445
Daman Insurance – Beema (E)	Qatar	20.00	-	40,400	-	-	-	**40,400**	-
Linc Facility Services (F)	Qatar	33.33	-	2,000	-	-	-	**2,000**	-
								386,494	211,931

9 INVESTMENT IN ASSOCIATES (continued)

Associates' movement during the year is as follows:

	2010 ***QAR'000***	*2009* *QAR'000*
Balance at 1 January	**211,931**	61,222
Investments acquired during the year	**182,196**	151,445
Share in associates' results	**(1,789)**	(167)
Associates reclassified to financial investments – available-for-sale	**(5,844)**	-
Exchange differences	**-**	(569)
Balance at 31 December	**386,494**	211,931

Notes:

A) During the year, these associates were reclassified to available-for-sale investments due to absence of significant influence.

B) The Company was incorporated in Oman on 19 November 2008 with paid up share capital of Omani Riyal 5,250,000 to conduct design services, consultancy services, project management, marketing, advertising, sales and construction for its real estate and individual clients.

C) The Company was incorporated in Qatar on 7 October 2008 with paid up share capital of QAR 10 million to conduct sale, purchase, lease and rent of properties.

D) The Company was incorporated in Kingdom of Saudi Arabia on 5 April 2009 with paid up share capital of Saudi Riyal 510 million to conduct leasing business.

E) The Company was incorporated in Qatar on 18 October 2009 with paid up share capital of QAR 200 million and is engaged in insurance activities.

F) The Company was incorporated in Qatar on 8 November 2010 with paid up share capital of QAR 6 million and is engaged in facility management.

G) As at reporting date, CI San Trading, Daman Insurance – Beema and Linc Facility Services are still in the pre-operating stage. Accordingly, the investment balances represent the acquisition cost.

H) All investments are not listed.

10 PROPERTY, FURNITURE AND EQUIPMENT

	Land & building QAR'000	*Leasehold improvements QAR'000*	*Furniture, fixtures and office equipment QAR'000*	*Computer hardware QAR'000*	*Work in progress QAR'000*	*Total QAR'000*
As at 31 December 2010						
Cost:						
Balance at 1 January 2010	14,154	43,927	12,229	42,094	3,674	116,078
Additions	9	4,513	5,312	10,091	4,204	24,129
Balance at 31 December 2010	14,163	48,440	17,541	52,185	7,878	140,207
Accumulated depreciation:						
Balance at 1 January 2010	673	8,962	3,539	20,229	-	33,403
Depreciation for the year	358	4,705	2,343	12,442	-	19,848
Balance at 31 December 2010	1,031	13,667	5,882	32,671	-	53,251
Net book value:						
At 31 December 2010	**13,132**	**34,773**	**11,659**	**19,514**	**7,878**	**86,956**

10 PROPERTY, FURNITURE AND EQUIPMENT (continued)

	Land & building QAR'000	*Leasehold improvements QAR'000*	*Furniture, fixtures and office equipment QAR'000*	*Computer hardware QAR'000*	*Work in progress QAR'000*	*Total QAR'000*
As at 31 December 2009						
Cost:						
Balance at 1 January 2009	14,020	49,677	10,269	25,939	3,661	103,566
Additions	134	3,341	3,975	16,325	13	23,788
Disposals	-	(9,091)	(2,015)	(170)	-	(11,276)
Balance at 31 December 2009	14,154	43,927	12,229	42,094	3,674	116,078
Accumulated depreciation:						
Balance at 1 January 2009	322	5,800	2,013	10,168	-	18,303
Depreciation for the year	351	3,230	1,596	10,061	-	15,238
Disposals	-	(68)	(70)	-	-	(138)
Balance at 31 December 2009	673	8,962	3,539	20,229	-	33,403
Net book value:						
At 31 December 2009	13,481	34,965	8,690	21,865	3,674	82,675

11 OTHER ASSETS

	2010 QAR'000	2009 QAR'000
Prepayments and other receivables	**329,976**	96,811
Accrued profit	**42,182**	41,463
Advances to suppliers	**7,505**	6,446
Receivables from sale of investments	-	125,058
	379,663	269,778
Less: provision for impairment	**(1,563)**	(109,215)
	378,100	160,563

Notes:

(i) In 2009, the Group provided an amount of QAR 109,215 thousand as provision for impairment on receivables due from Financial Cities Development Company for the sale of the Group's share in Gulf Tunis Investment Company. The receivables have been partially recovered in 2010 and the remaining balance was written off.

(ii) During 2010, the Group provided an amount of QAR 1,563 thousand as provision for impairment on accrued profit relating to certain held to maturity investments.

(iii) Other receivables include positive fair value of derivatives amounting to QAR 11,145 thousand.

12 OTHER LIABILITIES

	2010 QAR'000	2009 QAR'000
Escrow accounts	**173,049**	91,013
Unearned commission	**126,702**	65,457
Dividend payable	**71,563**	76,054
Social and sports fund	**34,526**	-
Other staff provisions	**31,055**	36,909
Accrued expenses	**9,222**	7,334
Provision for employees end of service benefits (a)	**8,825**	5,796
Others	**85,089**	48,447
	540,031	331,010

Other liabilities include negative fair value of derivatives amounting to QAR 22,465 thousand.

(a) Provision for employees end of service benefits

	2010 QAR'000	2009 QAR'000
Balance at 1 January	**5,796**	3,484
Provisions for the year	**4,252**	2,557
End of service benefits paid during the year	**(1,223)**	(245)
Balance at 31 December	**8,825**	5,796

13 UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS

	2010 *QAR'000*	*2009* *QAR'000*
(a) By type		
Saving accounts	**374,986**	283,793
Call accounts	**2,265,384**	8,879,743
Time deposits	**22,935,908**	7,102,410
Profit payable to unrestricted investment accounts holders	**147,701**	70,643
Share in the fair value reserve	**219**	14
Share in the investment risk reserve (A)	**-**	24,374
	25,724,198	16,360,977

	2010 *QAR'000*	*2009* *QAR'000*
(b) By sector		
Government and governmental institutions	**4,646,350**	4,378,328
Individuals	**1,544,436**	922,792
Banks	**8,134,454**	8,246,470
Corporate	**11,251,038**	2,718,356
Profit payable to unrestricted investment accounts holders	**147,701**	70,643
Share in the fair value reserve	**219**	14
Share in the investment risk reserve (A)	**-**	24,374
	25,724,198	16,360,977

A) In 2009, the balance of investment risk reserve includes an amount of QAR 1,661 thousand, representing the share of unrestricted investments accounts holders in the gain on sale of investment in 2008, which is not available for distribution up to the extent received in cash from the sale, in accordance with Qatar Central Bank instructions.

Also, in accordance with Qatar Central Bank circular No. 87/2009, no risk reserve is deducted from the profit of unrestricted investment accounts holders and the total risk reserve is transferred from the shareholders' profit as an appropriation.

14 EQUITY

Paid up share capital

	2010 *QAR'000*	*2009* *QAR'000*
Authorised		
750,000,000 shares at QAR 10 each	**7,500,000**	7,500,000

Issued & paid-up	***No. of shares***	***Amount*** ***QAR'000***
At 1 January 2010	749,936,932	4,124,654
Dividend towards uncalled share capital (at QAR 1.265 per share)	-	948,670
At 31 December 2010	**749,936,932**	**5,073,324**

14 EQUITY (continued)

Legal reserve
In accordance with the Qatar Commercial Companies' Law No. 5 of 2002, share premium equivalent to 7.08% of the paid up share capital was transferred to legal reserve account. Share premium on 27,700,000 shares of main founders were exempted from payment of share premium.

	2010	*2009*
	QAR'000	*QAR'000*
Balance at 1 January	**633,382**	545,316
Transfer from retained earnings (a)	**-**	88,066
Transfer to retained earnings (b)	**(633,382)**	-
Balance at 31 December	**-**	633,382

(a) According to Qatar Central Bank Law No. 33 of 2006, 10% of the profit for the year is required to be transferred to the legal reserve until the reserve equals 100% of paid up capital.

(b) The Board of Directors, in its meeting held on 25 January 2011 and after the approval of Qatar Central Bank, has resolved to transfer the balance of legal reserve as of 31 December 2009 to retained earnings for the purpose of capitalizing the reserve into the uncalled portion of the share capital, subject to the approval of the Ministry of Business and Trade.

Fair value reserve
This reserve comprises changes in fair value of available-for-sale investments.

	2010	*2009*
	QAR'000	*QAR'000*
Balance at the beginning of the year	**465**	(5,064)
Net unrealised gains on available for sale financial investments	**5,871**	5,543
Net change during the year	**6,336**	479
Share of unrestricted investment accounts holders in the fair value reserve	**(219)**	(14)
Balance at the end of the year (shareholders' share)	**6,117**	465

Fair value reserve represents unearned gains/ (losses), being not available for distribution unless realised and charged to the consolidated income statement.

Risk reserve
In accordance with Qatar Central Bank regulations, risk reserve has been created to cover contingencies on both the public and private sector financing activities, with a minimum requirement of 1.5% of the total private sector exposure granted by Masraf and its branches inside and outside Qatar after the exclusion of the specific provisions and profit in suspense. The finance provided to/or secured by the Ministry of Finance or finance against cash guarantees excluded from the gross direct finance, which should be appropriated from share holders profit according to Qatar Central Bank Circular No 87/2009.

Also, the Board of Directors, in its meeting held on 25 January 2011 and after the approval of Qatar Central Bank, has resolved to transfer the balance of risk reserve as of 31 December 2009 to retained earnings for the purpose of capitalizing the reserve into the uncalled portion of the share capital.

Proposed dividend
The Board of Directors in its meeting held on 25 January 2011 proposed a dividend of 38.95% (2009: 23%) of the paid up share capital towards the uncalled share capital (QAR 2.635 per share, 2009: QAR 1.265 per share) amounting to QAR 1,976,084 thousand (2009: QAR 948,670 thousand). The proposed dividend includes an amount of QAR 633,382 thousand and QAR 237,953 thousand that was transferred from the legal reserve and risk reserve respectively.

This proposal is subject to the approval of the shareholders' annual general assembly and the regulators in the State of Qatar.

14 EQUITY (continued)

Retained earnings
Retained earnings include an amount of QAR 14,182 thousand which represents the shareholders share in the gain on sale of investment in 2008 and it is not available for distribution up to the extent received in cash from the sale in accordance with Qatar Central Bank instructions.

Social and Sports Fund
Pursuant to Law No. 13 of 2008 and further clarifications of the law issued in 2010, the Group made an appropriation of QAR 52.3 million for an amount equivalent to 2.5% of the net profit relating to the years ended 31 December 2010 and 2009 for the support of sports, cultural and charitable activities.

15 NON-CONTROLLING INTEREST

This represents the Group's non-controlling interest in Sapura Crest amounting to 49% of the share capital. Sapura Crest is 51% owned by Al Rayan Investment LLC, a wholly-owned subsidiary of Masraf.

16 INCOME FROM FINANCING ACTIVITIES

	2010	*2009*
	QAR'000	*QAR'000*
Income from Murabaha	**1,419,926**	853,904
Income from Istesna	**479**	-
Income from Ijarah	**109,306**	98,270
Income from Mudaraba	**73,428**	113,140
Income from Musharaka	**15,133**	17,257
Total	**1,618,272**	1,082,571

17 INCOME FROM INVESTING ACTIVITIES

	2010	*2009*
	QAR'000	*QAR'000*
(a) Income from investments with banks and other financial institutions:	**17,252**	33,963
(b) Investments revenues:		
Dividend income	**531**	3,007
Income from held to maturity investments	**68,907**	30,526
Total	**86,690**	67,496

18 NET COMMISSION AND FEES INCOME

	2010 QAR'000	*2009 QAR'000*
Commission and fees income		
Commission on financing activities	**60,464**	102,564
Commission on trade finance activities	**31,929**	26,916
Commission on banking services	**18,664**	66,685
	111,057	196,165
Commission and fees expenses	**(15,839)**	(1,675)
	95,218	194,490

19 OTHER INCOME

	2010 QAR'000	*2009 QAR'000*
Income from QIA (a)	**94,875**	190,709
Rent income	**2,696**	4,282
Miscellaneous	**5,607**	607
	103,178	195,598

(a) During 2010, the Group received an amount of QAR 94,875 thousand from QIA representing compensation for the dividend paid on behalf of QIA towards the uncalled share capital.

(In 2009: pursuant to the implementation of the directives of the Government of the State of Qatar to subscribe in the equity shares of the national banks and due to the inability of Masraf to issue new shares as its existing shares were partially paid, Qatar Investment Authority (QIA) agreed to acquire 10% of the existing shares of Masraf through the Qatar Exchange and pay Masraf the price differential between the closing price of Masraf's share on the Qatar Exchange on 12 October 2008 and the price at which the shares were actually acquired by QIA from existing shares on Qatar Exchange in 2009. The balance represents the amount received for the shares that were purchased during the year).

20 GENERAL AND ADMINISTRATIVE EXPENSES

	2010 QAR'000	*2009 QAR'000*
Staff costs	**132,654**	122,576
Rent and maintenance	**31,988**	25,559
Advertising expenses	**15,166**	16,600
Legal, professional and consulting fees	**12,204**	6,384
Board of Directors remuneration	**10,422**	9,722
Information technology	**4,443**	3,268
Sharia Board compensation	**1,063**	699
Other operating expenses	**9,371**	5,648
	217,311	190,456

21 SHARE OF UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS IN THE NET PROFIT

	2010 *QAR'000*	*2009* *QAR'000*
Share of unrestricted investment accounts holders in the profit before Masraf's Mudaraba income	**931,695**	712,021
Masraf's Mudaraba income	**(795,127)**	(573,343)
Share of unrestricted investment account holders	**136,568**	138,678
Support provided by Masraf	**434,689**	303,027
Investment risk reserve utilised during the year	-	(5,000)
Share of unrestricted investment account holders after Masraf's support	**571,257**	436,705

Rates of profit allotment:	*2010* %	*2009* %
More than one year deposits	**4.00**	5.56
One year deposits	**3.75**	5.32
Six months deposits	**3.74**	5.21
Three months deposits	**3.55**	4.96
Call accounts	**1.56**	4.00
Saving accounts	**1.80**	3.08
Saving accounts-millionaire	**2.50**	3.31

22 BASIC AND DILUTED EARNINGS PER SHARE

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

	2010 *QAR'000*	*2009* *QAR'000*
Profit for the year due to shareholders (QAR '000)	**1,211,344**	880,658
Weighted average number of shares outstanding during the year (thousand) (a)	**749,937**	749,937
Basic earnings per share (QAR)	**1.615**	1.174

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

	2010 *Nos'000*	*2009* *Nos'000*
Weighted average number of shares at 31 December	**749,937**	749,937

There were no potentially dilutive shares outstanding at any time during the year. Therefore, the diluted earnings per share are equal to the basic earnings per share.

23 CASH AND CASH EQUIVALENTS

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

	2010 QAR'000	2009 QAR'000
Cash on hand and balances with Qatar Central Bank excluding cash reserve	**579,098**	352,467
Balances with banks and other financial institutions	**4,988,930**	4,256,684
	5,568,028	4,609,151

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

24 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Capital commitments

Masraf has long-term lease agreements for its office premises. The future aggregate minimum lease payments under these rent agreements are as follows:

	2010 QAR'000	2009 QAR'000
Payable not later than 1 year	**21,400**	20,118
Payable later than 1 year and not later than 5 years	**13,980**	19,996
	35,380	40,114

(b) Contingent liabilities

	2010 QAR'000	2009 QAR'000
Letters of guarantee	**4,786,953**	3,763,973
Letters of credit	**795,524**	711,638
	5,582,477	4,475,611

(c) Other undertakings and commitments

	2010 QAR'000	2009 QAR'000
Ijara unutilised limits	**744,473**	1,048,334
Profit rate swap (A)	**2,548,350**	2,562,240
Unilateral promise to buy/sell currencies (B)	**10,629,267**	10,022,683
	13,922,090	13,633,257

(A) Profit rate swap

Swaps are commitments to exchange one set of cash flows for another. In the case of profit rate swaps, counterparties generally exchange fixed and floating profit payments in a single currency without exchanging principal. In the case of currency swaps, fixed profit payments and principal are exchanged in different currencies.

24 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

(B) Unilateral promise to buy/sell currencies

Unilateral promises to buy/sell currencies are promises to either buy or sell a specified currency at a specific price and date in the future. The actual transactions are executed on the promise dates, by exchanging the purchase/sale offers and acceptances between the relevant parties.

The table below shows the positive and negative fair values of derivative financial instruments together with the notional amounts analysed by the term to maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year-end, do not necessarily reflect the amounts of future cash flows involved and the credit and market risk, which can be identified from the derivatives fair value.

Figures in QAR'000

	Positive fair value	*Negative fair value*	*Notional Amount*	*Within three months*	*3 - 12 months*	*1 - 5 years*
As at 31 December 2010						
Derivatives for customers						
Profit rate swaps	5,554	5,554	2,548,350	-	1,019,340	1,529,010
Unilateral promise to buy/sell currencies	5,591	16,911	10,629,267	10,373,421	255,846	-
	11,145	**22,465**	**13,177,617**	**10,373,421**	**1,275,186**	**1,529,010**

Figures in QAR'000

	Positive fair value	*Negative fair value*	*Notional Amount*	*Within three months*	*3 - 12 months*	*1 - 5 years*
As at 31 December 2009						
Derivatives for customers						
Profit rate swaps	11,615	11,615	2,562,240	-	-	2,562,240
Unilateral promise to buy/sell currencies	10,254	-	10,022,683	8,339,765	1,682,918	-
	21,869	11,615	12,584,923	8,339,765	1,682,918	2,562,240

25 OPERATING SEGMENTS

For management purposes, the Group is divided into three operating segments which are as follows:

- Corporate Banking provides an extensive range of Islamic funded and non-funded credit facilities, deposit services, investment advisory, currency exchange facilities, profit rate swaps, financing syndication and and other services to Corporate, Commercial and Multinational Customers.
- Retail Banking provides investment accounts services, credit card and Islamic financing to retail and individual customers.
- Al Rayan Investment has two distinct functions. Firstly, the management of Masraf Al Rayan's portfolio of listed and private equities and funds, strategic investments, income producing instruments such as sukuks and real estate investments. Secondly, the development and operation of Masraf Al Rayan's investment products, asset management and investment placement business.

Unallocated assets, liabilities and revenues are related to some central functions and non core business operations, like common property & equipments, cash functions, development projects related payables etc.

25 OPERATING SEGMENTS (continued)

The performance of the Group's main segments can be illustrated below:

31 December 2010	**Corporate Banking**	**Retail Banking**	**Al Rayan Investment**	**Unallocated**	**Total**
	QAR'000	*QAR'000*	*QAR'000*	*QAR'000*	*QAR'000*
Operating income	**1,894,977**	**118,785**	**16,319**	**-**	**2,030,081**
Expenses	**(527,605)**	**(45,131)**	**(9,590)**	**(236,411)**	**(818,737)**
Net profit / (loss)	**1,367,372**	**73,654**	**6,729**	**(236,411)**	**1,211,344**
Total Assets	**32,729,654**	**1,347,778**	**83,108**	**522,831**	**34,683,371**
Total liabilities and unrestricted investment account	**25,438,527**	**1,872,634**	**12,353**	**233,065**	**27,556,579**

31 December 2009	Corporate Banking	Retail Banking	Al Rayan Investment	Unallocated	Total
	QAR'000	*QAR'000*	*QAR'000*	*QAR'000*	*QAR'000*
Operating income	1,456,242	79,146	32,586	-	1,567,974
Expenses	(446,180)	(35,442)	(8,934)	(196,760)	(687,316)
Net profit / (loss)	1,010,062	43,704	23,652	(196,760)	880,658
Total Assets	21,988,541	1,139,525	73,257	922,478	24,123,801
Total liabilities and unrestricted investment account	16,370,994	1,148,021	98	642,934	18,162,047

26 GEOGRAPHICAL SEGMENTS

	Qatar QAR'000	*GCC QAR'000*	*Other Countries QAR'000*	*Total QAR'000*
At 31 December 2010				
Cash and balances with Qatar Central Bank	**1,481,785**	**-**	**-**	**1,481,785**
Due from banks and other financial institutions	**3,640,389**	**1,057,301**	**291,240**	**4,988,930**
Receivables and balances from financing activities	**23,711,961**	**-**	**1,352,006**	**25,063,967**
Financial investments	**1,466,722**	**399,162**	**271,035**	**2,136,919**
Investment property	**160,220**	**-**	**-**	**160,220**
Investment in associates	**41,597**	**339,094**	**5,803**	**386,494**
Property, furniture and equipment	**86,956**	**-**	**-**	**86,956**
Other assets	**378,100**	**-**	**-**	**378,100**
TOTAL ASSETS	30,967,730	1,795,557	1,920,084	34,683,371
Customers' current accounts	**1,246,997**	**2,681**	**42,672**	**1,292,350**
Other liabilities	**540,031**	**-**	**-**	**540,031**
Unrestricted investment accounts	**23,862,173**	**1,255,759**	**606,266**	**25,724,198**
Equity	7,126,792	**-**	**-**	7,126,792
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS AND EQUITY	32,775,993	1,258,440	648,938	34,683,371

26 GEOGRAPHICAL SEGMENTS (continued)

	Qatar QAR'000	*GCC QAR'000*	*Other Countries QAR'000*	*Total QAR'000*
At 31 December 2009				
Cash and balances with Qatar Central Bank	716,080	-	-	716,080
Due from banks and other financial institutions	4,251,819	1,370	3,495	4,256,684
Receivables and balances from financing activities	15,280,400	-	2,470,062	17,750,462
Financial investments	404,147	541,259	-	945,406
Investment in associates	5,000	201,088	5,843	211,931
Property, furniture and equipment	82,675	-	-	82,675
Other assets	160,563	-	-	160,563
TOTAL ASSETS	20,900,684	743,717	2,479,400	24,123,801
Customers' current accounts	1,393,854	3,730	72,476	1,470,060
Other liabilities	331,010	-	-	331,010
Unrestricted investment accounts	14,003,195	2,191,388	166,394	16,360,977
Equity	5,961,754	-	-	5,961,754
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS AND EQUITY	21,689,813	2,195,118	238,870	24,123,801

27 RELATED PARTY DISCLOSURES

These include various transactions with Board Members and Executive Management or with the companies which held significant interests or any other parties having significant influence on the financial or operational decisions of Masraf. As at the statement of financial position date, such significant accounts include:

Transactions with related parties

(a) Statement of financial position items

	2010 QAR'000	*2009 QAR'000*
Assets		
Murabaha	**4,482,693**	4,292,326
Liabilities		
Current account	**216**	-
Unrestricted investment accounts holders	**1,423,201**	1,650,366
	1,423,417	1,650,366

27 RELATED PARTY DISCLOSURES (continued)

Transactions with related parties (continued)

(c) Income statement items

	2010	*2009*
	QAR'000	*QAR'000*
Income from financing activities	**298,795**	258,461
Commission and fees income	**-**	5,646
Gain from foreign exchange operations	**187,674**	7,067
	486,469	271,174
Profit paid on unrestricted investment accounts	**63,187**	63,348

Compensation of key management personnel
The remuneration of directors and other members of key management during the year were as follows:

	2010	*2009*
	QAR'000	*QAR'000*
Remuneration to Board of Directors including meeting allowances	**10,422**	9,722
Salaries and other benefits	**4,930**	4,093