

Masraf Al Rayan (Q.S.C.)
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

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 (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors 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 Islamic Shari'a Rules and Principles and the applicable provisions of Qatar Central Bank regulations, and for such internal control as Board of Directors' 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 the 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 consolidated 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 the Board of Directors', 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.

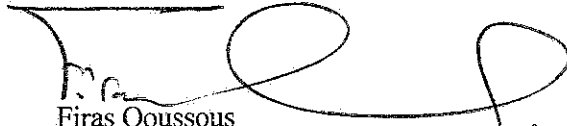
**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
OF MASRAF AL RAYAN (Q.S.C.) (CONTINUED)**

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, 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 the applicable provisions of 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 have materially affected its activities or its financial position.



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



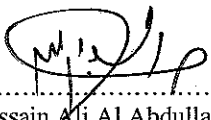
Date: 29 January 2012
Doha
State of Qatar

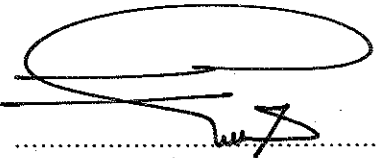
Masraf Al Rayan (Q.S.C.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

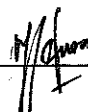
As at 31 December 2011

	Notes	2011 QAR'000	2010 QAR '000
ASSETS			
Cash and balances with Qatar Central Bank	4	2,253,317	1,481,785
Balances and investments with banks and other financial institutions	5	4,274,109	4,988,930
Receivables and balances from financing activities	6	34,765,827	25,063,967
Financial investments	7	12,046,247	2,136,919
Investment property	8	91,250	160,220
Investment in associates	9	1,431,286	386,494
Other assets	10	338,794	378,100
Property, furniture and equipment	11	<u>70,506</u>	<u>86,956</u>
TOTAL ASSETS		<u>55,271,336</u>	<u>34,683,371</u>
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACQUANTHOLDERS, NON-CONTROLLING INTEREST AND SHAREHOLDERS' EQUITY			
Liabilities			
Customers' current accounts		4,171,358	1,292,350
Other liabilities	12	<u>503,467</u>	<u>540,031</u>
TOTAL LIABILITIES		<u>4,674,825</u>	<u>1,832,381</u>
EQUITY OF UNRESTRICTED INVESTMENT ACQUANTHOLDERS	13	<u>42,092,234</u>	<u>25,724,198</u>
Non-controlling interest	14	<u>343</u>	<u>343</u>
SHAREHOLDERS' EQUITY			
Share capital	15	7,500,000	5,073,324
Legal reserve	15	141,871	-
Fair value reserve	15	8,795	6,117
Risk reserve	15	450,000	-
Proposed dividend	15	375,000	1,976,084
Retained earnings		<u>28,268</u>	<u>70,924</u>
TOTAL SHAREHOLDERS' EQUITY		<u>8,503,934</u>	<u>7,126,449</u>
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACQUANTHOLDERS, NON-CONTROLLING INTEREST AND SHAREHOLDERS' EQUITY		<u>55,271,336</u>	<u>34,683,371</u>

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 Dr. Hussain Ali Al Abdulla
 Chairman and Managing Director

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 Adel Mustafawi
 Group Chief Executive Officer

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



Masraf Al Rayan (Q.S.C.)

CONSOLIDATED INCOME STATEMENT

For the year Ended 31 December 2011

	Notes	2011 QAR'000	2010 QAR'000
Income from financing activities	16	1,282,934	1,618,272
Income from investing activities	17	606,895	86,690
Total income from financing and investing activities		1,889,829	1,704,962
Commission and fees income		247,898	111,057
Commission and fees expense		(1,765)	(15,839)
Net commission and fees income	18	246,133	95,218
Gain from foreign exchange operations		39,804	37,262
Other income	19	199,554	103,178
Share of results of associates	9	14,849	(1,789)
TOTAL OPERATING INCOME		2,390,169	1,938,831
General and administrative expenses	20	(295,328)	(217,311)
Depreciation	11	(19,987)	(19,848)
Impairment losses on receivables from financing activities	6	(70,866)	(1,477)
Impairment losses on financial investments		(14,562)	(7,281)
Impairment losses on other assets		(1,563)	(1,563)
Recoveries of impairment losses on other assets		-	91,250
PROFIT FOR THE YEAR BEFORE RETURN ON EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS		1,987,863	1,782,601
Less: Return on equity of unrestricted investment accountholders	21	(578,253)	(571,257)
PROFIT FOR THE YEAR BEFORE INCOME TAXES		1,409,610	1,211,344
Income tax expense		(1,260)	-
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		1,408,350	1,211,344
BASIC AND DILUTED EARNINGS PER SHARE (QAR)	22	1.878	1.615

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

Masraf Al Rayan (Q.S.C.)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year Ended 31 December 2011

	<i>Notes</i>	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
OPERATING ACTIVITIES			
Profit for the year		1,408,350	1,211,344
Adjustments for:			
Depreciation	11	19,987	19,848
Gain on disposal of subsidiary	19	(171,863)	-
Amortisation of discount on financial investments		(18,736)	-
Impairment losses on receivables from financing activities		70,866	1,477
Impairment losses on financial investments	7	14,562	7,281
Impairment losses on other assets		1,563	1,563
Recovery of impairment losses on other assets		-	(91,250)
Share of results of associates	9	(14,849)	1,789
Operating profit before changes in operating assets and liabilities		<u>1,309,880</u>	<u>1,152,052</u>
Net decrease (increase) in assets:			
Cash reserve with Qatar Central Bank		(604,813)	(539,074)
Receivables and balances from financing activities		(9,772,726)	(7,314,982)
Other assets		43,412	(219,100)
Net increase (decrease) in liabilities:			
Customers' current accounts		2,879,008	(177,710)
Other liabilities		(72,390)	156,720
Net cash used in operating activities		<u>(6,217,629)</u>	<u>(6,942,094)</u>
INVESTING ACTIVITIES			
Purchase of property, furniture and equipment	11	(9,206)	(24,129)
Purchase of financial investments		(10,000,000)	(1,395,611)
Purchase of investment property		(2,027,706)	-
Proceeds from sale and redemption of financial investments		97,653	139,548
Proceeds from disposal of subsidiary	19	1,220,301	-
Investment in associates	9	-	(182,196)
Return of capital of associate company	9	18,912	-
Net cash used in investing activities		<u>(10,700,046)</u>	<u>(1,462,388)</u>
FINANCING ACTIVITIES			
Issuance of share capital	15	1,666	-
Increase in equity of unrestricted investment accountholders	13	16,367,907	9,363,016
Net movement in non-controlling interest	14	-	343
Net cash from financing activities		<u>16,369,573</u>	<u>9,363,359</u>
Net (decrease) increase in cash and cash equivalents		(548,102)	958,877
Cash and cash equivalents at 1 January		<u>5,568,028</u>	<u>4,609,151</u>
Cash and cash equivalents at 31 December	23	<u>5,019,926</u>	<u>5,568,028</u>

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

Masraf Al Rayan (Q.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year Ended 31 December 2011

	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	Total QAR '000
Balance at 1 January 2011	5,073,324	-	6,117	-	1,976,084	70,924	7,126,449
Net changes in fair value reserve	-	-	2,678	-	-	-	2,678
Profit for the year	-	-	-	-	-	1,408,350	1,408,350
Dividend paid towards the uncalled share capital for 2010	1,976,084	-	-	-	(1,976,084)	-	-
Dividend paid towards the uncalled share capital for 2011	449,962	-	-	-	-	(449,962)	-
Issuance of share capital	630	1,036	-	-	-	-	1,666
Transfers to reserves	-	140,835	-	450,000	-	(590,835)	-
Proposed dividend for 2011	-	-	-	-	375,000	(375,000)	-
Social and sports fund appropriation	-	-	-	-	-	(35,209)	(35,209)
Balance at 31 December 2011	7,500,000	141,871	8,795	450,000	375,000	28,268	8,503,934
Balance at 1 January 2010	4,124,654	633,382	465	237,953	948,670	16,630	5,961,754
Net changes in fair value reserve	-	-	5,652	-	-	-	5,652
Profit for the year	-	-	-	-	-	1,211,344	1,211,344
Dividend paid towards the uncalled share capital	948,670	-	-	-	(948,670)	-	-
Transfers 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)
Balance at 31 December 2010	5,073,324	-	6,117	-	1,976,084	70,924	7,126,449

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

Masraf Al Rayan (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

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 located at Grand Hamad Steet, Doha, 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 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 29 January 2012.

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

Accounting convention

The consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of financial investments classified as "investments at fair value through equity" 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 of the Group for the year ended 31 December 2011 have been prepared in accordance with the Financial Accounting Standards ("FASs") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the applicable provisions of the Qatar Commercial Companies Law No. 5 of 2002, Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board and relevant laws and instructions issued by Qatar Central Bank. For matters for which no AAOIFI standards exist, the Group applies the relevant International Financial Reporting Standards ("IFRSs").

Basis of consolidation

The consolidated financial statements comprise the financial statements of Masraf Al Rayan (Q.S.C) and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting year as Masraf Al Rayan, 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.

Masraf Al Rayan (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

<i>Name of subsidiaries</i>	<i>Country of incorporation</i>	<i>Share capital</i>	<i>Principal business activity</i>	<i>Effective percentage of ownership</i>
Al Rayan Investment LLC	Qatar	USD 100,000,000	Investment Banking	100%
Al Rayan Financial Brokerage	Qatar	QAR 50,000,000	Financial Brokerage	100%
Sapura Crest*	Qatar	QAR 700,000	Oil and Gas Services	51%
Al Rayan Partners (formerly "Qatar Real Estate Development")*	Qatar	QAR 10,000,000	Real Estate Consulting	100%

* subsidiaries of Al Rayan Investment L.L.C.

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 in the consolidated statement of financial position, separately from parent shareholders' equity.

Loss of Control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non controlling interests and other components of equity related to the subsidiary.

Any surplus or deficit arising on the loss of control is recognized in statement of income. If the Group retains any interests in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. The details of the disposal of the subsidiary are disclosed in Note 19 (a).

2.2 Changes in accounting policies and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amendments to accounting standards and framework effective as of 1 January 2011:

During 2010, AAOIFI amended its conceptual framework and issued new Financial Accounting Standard (FAS 25) "Investment in sukuk, shares and similar instruments", which are effective as of 1 January 2011.

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

The amended conceptual framework provides the basis for the financial accounting standards issued by AAOIFI. The amended framework introduces the concept of substance and form compared to the concept of form over substance. The framework states that it is necessary that information, transaction and other events are accounted for and presented in accordance with its substance and economic reality as well as the legal form.

The adoption of this standard did not have any impact on the accounting policies, financial position or performance of the Group.

Financial accounting standard (FAS 25) "Investment in sukuk, shares and similar instruments".

The Group has adopted FAS 25 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in sukuk, shares and similar investments that exhibit characteristics of debt and equity instruments made by the Islamic financial institutions.

The adoption of FAS 25 had an effect on the classification and measurement of the Group's financial assets. As a result of the application of this new standard, the classification of the investment portfolio was revisited and changes if any, were made in these classification in line with FAS 25.

Masraf Al Rayan (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

The adoption of this standard did not have any material impact on the financial position or performance of the Group.

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- *IFRS 3 Business Combinations*: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 2011. The Group, however, adopted these as of 1 January 2011 and changed its accounting policy accordingly as the amendment was issued to eliminate unintended consequences that may arise from the adoption of IFRS 3.
- *IFRS 7 Financial Instruments — Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

IASB Standards and Interpretations issued but not adopted

The following IASB standards have been issued but are not yet mandatory, and have not been early adopted by the Group:

<i>Standard/ Interpretation</i>	<i>Content</i>	<i>Effective date</i>
IFRS 9	Financial Instruments: Classification & Measurement (Part 1)	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013

The Group is considering the implications of the above standards, the impact on the Group and the timing of its adoption by the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies

(a) Foreign currency translation

(i) Functional and presentational currency

The consolidated financial statements are presented in Qatari Riyals, which is the Group's functional and presentational 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.

(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.

(c) Financial investments

Financial Investments comprise of investment at fair value through income statement, investments carried at amortised cost and investment at fair value through equity. All investments excluding investment carried at fair value through income statement are initially recognized at cost, being the fair value of the consideration given including transactions costs associated with the investment.

(i) Investments carried at amortised cost

Investments which have fixed or determinable payments that the Group has both the intention and ability to hold to maturity are classified as "*Investments carried at amortised cost*". Such investments are initially recognised and subsequently carried at cost, less impairment in value. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is derecognised or impaired.

(ii) Investments at fair value through income statement

These are initially recognised at cost, being the fair value of the consideration given and are subsequently re-measured at fair value. All related realised and unrealised gains or losses are reported in the consolidated statement of income.

Masraf Al Rayan (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(c) Financial investments (continued)

(iii) *Investment at fair value through equity*

These are initially recognised at cost, being the fair value of the consideration given and transaction costs. After initial recognition, investments that are classified as “investment at fair value through equity” are re-measured at fair value on individual basis. Unrealised gains or losses arising from a change in the fair value are recognised in the fair value reserve with the separation between shareholders’ rights and equity of unrestricted investment account holders’ rights, until it is sold, at which time the cumulative gain or loss previously recognised in shareholders’ equity and equity of unrestricted investment account holders is included in the consolidated statement of income.

(d) 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 when:

- 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; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group 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 or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

(e) Fair values

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm’s length market transactions.
- Reference to the current fair value of another instrument that is substantially the same.
- A discounted cash flow analysis or other valuation models.
- For financial instruments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.
- Financial instruments which cannot be measured to fair value using any of the above techniques are carried at cost less impairment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(f) 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.

(g) 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.

(h) 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 and when the Group intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

The Group is party to a number of arrangements, including master netting agreements, which give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts on net basis, the respective assets and liabilities are presented on a gross basis.

(i) 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.

(j) Distribution of profit between equity of unrestricted investment accountholders 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 equity of unrestricted investment accountholders.
- 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 accountholders 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(k) 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 recognised over the lease term on the same basis as rental income.

(l) Revenue recognition

- Income on financing contracts of Murabaha is 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 time apportioned basis over the period 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. In case of losses in Mudaraba, the Group's share of losses is being deducted from its share of Mudarib capital.
- The Group's share as a Mudarib is accrued based on the terms and conditions of the related Mudaraba agreements.
- Income on Istisna'a financing is recognized using the percentage of completion method. The percentage of completion is determined based on the surveys of work performed.
- Income from short-term placements and sukuk investments is recognized on a time-apportioned basis over the period of the contract using the effective profit rate method. The effective profit rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of a financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective profit rate is established on initial recognition of the financial asset and liability and is not revised subsequently.
- Placement fees for arranging a financing between a borrower and investor are recognized as income when the financing has been arranged.
- Income on Musharaka is recognized when the right to receive payment is established or on distribution. In case of losses in Musharaka, the Group's share of losses is recognized to the extent that such losses are being deducted from its share of the capital.
- Income from dividends is 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(l) Revenue recognition (continued)

- Profit is allocated proportionately between equity of unrestricted investment accountholders and shareholders on the basis of the average balances outstanding during the year after deduction of Masraf's share as Mudarib.

(m) Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. 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, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Equity type investments

For equity financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity type investments, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is removed from the consolidated statement of financial position and recognised in the consolidated income statement.

Receivables and balances from financing activities

The Group reviews its individually significant financing activities at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(m) Impairment of financial assets (continued)

Receivables and balances from financing activities (continued)

Financing activities that have been assessed individually and found not impaired and all individually insignificant financing activities are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from financing activities portfolio (such as level of arrears, credit utilisation, collaterals ratios), and adjustments to the effect of concentrations of risks and economics data.

(n) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

(o) 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(o) Investment property (continued)

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.

(p) 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.

(q) 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, suspended profit 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.

The Group arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the Murabeh over the agreed period.

Istisna'a

Istisna'a is an agreement between the Group and a customer whereby the Group sells to the customer an asset which is either manufactured or acquired by the purchaser on behalf of the Group according to agreed upon specifications for an agreed upon price.

Istisna'a contracts represent the disbursements made as of the reporting date against the assets acquired for Istisna'a projects plus income recognised, less repayments received.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(q) Receivables and balances from financing activities (continued)

Mudaraba

Mudaraba is stated at the fair value of consideration given less any impairment.

Mudaraba is a form of partnership between work and capital in which the Group contributes capital. Mudaraba capital provided by the Group at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of assets results in difference between fair value and book value, such difference is recognized in the consolidation income statement.

In case Mudaraba capital is lost or damaged prior to the inception of work without misconduct or negligence on the part of Mudarib, then such losses are deducted from Mudaraba capital and are treated as loss to the Group. In case of termination or liquidation, unpaid portion by Mudarib is recognized as receivable due from Mudarib.

Musharaka

Musharaka is stated at the fair value of consideration given less any impairment.

Musharaka is a form of capital partnership. These are stated at the fair value of consideration given less any impairment. Musharaka capital provided by the Group at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of assets results in difference between fair value and book value, such difference is recognized consolidation statement of income.

The provision for impairment of due from financing activities which represent an estimated amount for impairment in financing portfolio through a detailed review by management in accordance with Qatar Central Bank's instructions.

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.

(r) Facilities repayment negotiation schedule

Facilities whose terms have been renegotiated are subject to collective impairment assessment of value entirely or individually are no longer considered past due, but are treated as new facilities. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

(s) Zakat

The responsibility of payment of Zakat is on individual shareholders of the Group, equity of unrestricted investments account holders and the other account holders.

(t) Shari'a Supervisory Board

The Group's activities are subject to the supervision of a Shari'a supervisory board consisting of three members appointed by the general assembly of shareholders.

(u) Earnings prohibited by Shari'a

The Group is committed to avoid recognizing any income generated from non-Islamic source. Consequently, all non-Islamic income is credited to a charity account and the Group uses these funds for various social welfare activities.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(v) Cash and cash equivalents

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

(w) Investments in associates

Group investments in associates are accounted for under the equity method of accounting. These are entities over which the Group exercises significant influence but not control and which are neither subsidiaries nor joint ventures. Significant influence is presumed to exist if the Group holds, directly or indirectly through its subsidiaries, 20% or more of the voting rights in an entity, unless it can be clearly demonstrated otherwise.

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 the Group'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 consolidated 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.

(x) 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.

(y) 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. The Group accounts for provisions to be charged to the consolidated income statement for any potential claim or for any expected impairment of assets, taking into consideration the value of the potential claim or expected impairment and its likelihood.

(z) Placements with banks and other financial institutions

Placements with banks and other financial institutions are stated at amortised cost net of any amounts written off and provision for impairment.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(aa) 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 consolidated 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 consolidated 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.

(bb) 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.

(cc) Contingent liabilities

Contingent liabilities include guarantees, letters of credit, 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 consolidated statement of financial position date except for assets and obligations relating to fair value gains or losses on these derivative financial instruments.

(dd) 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:

(i) *Impairment of financial contracts and investments*

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.

(ii) *Useful lives of property, furniture and equipment*

The Group's management determines the estimated useful lives of its property, furniture and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset, physical wear and tear, technical or commercial obsolescence.

(iii) *Going concern*

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

(ee) 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 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.

(ff) Income tax

Taxes are calculated based on tax laws and regulations. A tax provision is made based on an evaluation of the expected tax liability. The Group operates its activities inside Qatar and not subject to tax, except Al Rayan Investment whose profits are subject to tax as per Qatar Financial Center Authority regulations.

2.4 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 27 *Separate Financial Statements* (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 *Financial Instruments: Disclosures* — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's consolidated financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective (continued)

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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 equity of unrestricted investment accountholders and contingent liabilities and commitments under "off financial position items".

Note 2 to the consolidated 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.

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.1 Financial instruments (continued)

Risk Management and structure (continued)

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.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

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, vehicles and securities.

Management monitors the market value of collaterals.

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. Also the details of geographical segments are set out in Note 26.

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

	<i>Gross maximum exposure 2011 QAR'000</i>	<i>Gross maximum exposure 2010 QAR'000</i>
Balances and investments with banks and other financial institutions	4,274,109	4,988,930
Receivables and balances from financing activities	34,765,827	25,063,967
Financial investments	11,955,362	1,968,843
Other receivables	263,979	340,516
Total statement of financial position items	51,259,277	32,362,256
Letters of guarantee	3,974,575	4,786,953
Letters of credit	2,099,005	795,524
Total contingent liabilities items	6,073,580	5,582,477
Total credit risk exposure	57,332,857	37,944,733

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

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

Total maximum exposure net of collaterals is QAR 44,229 million, of which QAR 14,657 million are financing provided to the Government and its related entities (2010: QAR 28,566 million, of which QAR 10,501 million are financing provided to the Government and its related entities). The main types of collaterals obtained are cash 1% (2010: 1%), mortgages 61% (2010: 59%), government guarantees 1% (2010: 23%) and other eligible securities 37% (2010: 17%) of the total collateral.

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 consolidated 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.

	<i>Gross maximum exposure 2011 QAR'000</i>	<i>Gross maximum exposure 2010 QAR'000</i>
Statement of financial position		
Government	14,582,052	1,250,000
Government institutions	11,324,702	10,500,625
Real estate	12,272,606	2,877,166
Contracting	2,371,065	6,902,483
Consumer	982,728	201,507
Services	7,858,422	9,505,410
Others	1,867,702	1,125,065
Total statement of financial position	51,259,277	32,362,256
Contingent liabilities		
Government and government institutions	389,356	629,242
Commercial and others	5,684,224	4,953,235
Total contingent liabilities	6,073,580	5,582,477
Total	57,332,857	37,944,733

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

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

<u>At 31 December 2011</u>	<i>Neither past due nor impaired QAR'000</i>	<i>Past due but not impaired QAR'000</i>	<i>Impaired QAR'000</i>	<i>Total QAR'000</i>
Risk grading:				
High grade	11,730,898	-	-	11,730,898
Standard grade	23,535,334	825,205	-	24,360,539
Sub-standard	-	-	79,559	79,559
Doubtful	-	-	530	530
Bad debt	-	-	25,980	25,980
Gross	35,266,232	825,205	106,069	36,197,506
Less: Deferred profit	-	-	-	(1,344,453)
Less: Allowance for impairment and profit in suspense	-	-	(87,226)	(87,226)
Net	35,266,232	825,205	18,843	34,765,827
<u>At 31 December 2010</u>	<i>Neither past due nor impaired QAR'000</i>	<i>Past due but not impaired QAR'000</i>	<i>Impaired QAR'000</i>	<i>Total QAR'000</i>
Risk grading:				
High grade	11,083,462	-	-	11,083,462
Standard grade	15,141,797	266,373	-	15,408,170
Sub-standard	-	-	354	354
Bad debt	-	-	11,239	11,239
Gross	26,225,259	266,373	11,593	26,503,225
Less: Deferred profit	-	-	-	(1,427,603)
Less: Allowance for impairment and profit in suspense	-	(285)	(11,370)	(11,655)
Net	26,225,259	266,088	223	25,063,967

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.

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At 31 December 2011

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 2011 (2010: nil).

(c) Financial investments

Certain debt-type investments amounting to QAR 21,843 thousand (2010: QAR 7,281 thousand) are impaired. The details are disclosed in Note 7.

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Debt-type investments	11,977,205	1,976,124
Less: allowance for impairment	<u>(21,843)</u>	<u>(7,281)</u>
	<u><u>11,955,362</u></u>	<u><u>1,968,843</u></u>

(d) Other receivables

Accrued profit on certain debt type investments are impaired during the year amounting to QAR 3,126 thousand (2010: QAR 1,563 thousand). 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:

	<i>Less than</i> <i>60 days</i> <i>QAR'000</i>	<i>61 to 90</i> <i>days</i> <i>QAR'000</i>	<i>Total</i> <i>2011</i> <i>QAR'000</i>
Receivables and balances from financing activities:			
Retail	26,692	2,037	28,729
Corporate	245,677	227,649	473,326
Real estate	<u>193,691</u>	<u>129,459</u>	<u>323,150</u>
	<u><u>466,060</u></u>	<u><u>359,145</u></u>	<u><u>825,205</u></u>

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At 31 December 2011

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)

	<i>Less than 60 days QAR'000</i>	<i>61 to 90 days QAR'000</i>	<i>Total 2010 QAR'000</i>
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
	<u>244,222</u>	<u>22,151</u>	<u>266,373</u>

Note:

As of 31 December 2011, 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:

	<i>2011 QAR'000</i>	<i>2010 QAR'000</i>
Receivables and balances from financing activities:		
Retail	902	717
Corporate	105,167	10,876
	<u>106,069</u>	<u>11,593</u>

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

	<i>2011 QAR'000</i>	<i>2010 QAR'000</i>
Equivalent grades		
AAA to AA-	12,027,709	1,981,839
A+ to A-	2,682,431	568,642
BBB to BBB-	9,700	3,129,650
Unrated	42,613,017	32,264,602
	<u>57,332,857</u>	<u>37,944,733</u>

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 35,266 million (2010: QAR 26,225 million).

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At 31 December 2011

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

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.

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.

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3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.1 Profit rate risk

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

At 31 December 2011

	Within 3 months QAR'000	3 to 12 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	-	-	-	-	2,253,317	2,253,317
Balances and investments with banks and other financial institutions	3,477,349	-	-	-	796,760	4,274,109
Receivables and balances from financing activities	23,569,787	5,317,028	3,231,102	2,647,910	-	34,765,827
Financial investments and investment in associates	-	478,629	10,226,733	1,250,000	1,522,171	13,477,533
Investment property and property, furniture and equipment and other assets	-	-	-	-	500,550	500,550
TOTAL ASSETS	27,047,136	5,795,657	13,457,835	3,897,910	5,072,798	55,271,336
Customers' current accounts	-	-	-	-	4,171,358	4,171,358
Other liabilities	-	-	-	-	503,467	503,467
Equity of unrestricted investment accountholders	37,961,155	3,810,186	230,315	-	90,578	42,092,234
Total equity and non-controlling interest	-	-	-	-	8,504,277	8,504,277
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, EQUITY AND NON-CONTROLLING INTEREST	37,961,155	3,810,186	230,315	-	13,269,680	55,271,336
Profit Rate Sensitivity Gap	(10,914,019)	1,985,471	13,227,520	3,897,910	(8,196,882)	-
Cumulative Profit Rate Sensitivity Gap	(10,914,019)	(8,928,548)	4,298,972	8,196,882	-	-

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At 31 December 2011

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.1 Profit rate risk (continued)

At 31 December 2010

	Within 3 months QAR '000	3 to 12 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	-	-	-	-	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 and 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
Equity of unrestricted investment accountholders	22,836,474	2,729,557	10,247	-	147,920	25,724,198
Total equity and non-controlling interest	-	-	-	-	7,126,792	7,126,792
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, EQUITY AND NON-CONTROLLING INTEREST	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	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

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 financial assets through equity. 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.

Currency	2011		2010	
	Increase in basis points	Sensitivity of net profit QAR'000	Increase in basis points	Sensitivity of net profit QAR'000
QAR	10	(7,463)	10	2,691
USD	10	(2,666)	10	2,839
EUR	10	88	10	2,290
AED	10	(136)	10	173
GBP	10	14	10	(134)
CHF	10	85	10	-

Currency	2011		2010	
	Decrease in basis points	Sensitivity of net profit QAR'000	Decrease in basis points	Sensitivity of net profit QAR'000
QAR	10	7,463	10	(2,691)
USD	10	2,666	10	(2,839)
EUR	10	(88)	10	(2,290)
AED	10	136	10	(173)
GBP	10	(14)	10	134
CHF	10	(85)	10	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

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:

<i>Currency</i>	<i>2011</i>		<i>2010</i>	
	<i>Change in currency rate in %</i>	<i>Effect on income statement QAR'000</i>	<i>Change in currency rate in %</i>	<i>Effect on income statement QAR'000</i>
EUR	+10%	(3,343)	+10%	76
GBP	+10%	(17)	+10%	3
Others	+10%	724	+10%	(165)
EUR	-10%	3,343	-10%	(76)
GBP	-10%	17	-10%	(3)
Others	-10%	(724)	-10%	165

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 investments at fair value through equity. A 10 percent increase in the Qatar Exchange index at 31 December 2011 would have increased equity by QAR 1,928 thousand (2010: QAR 1,647 thousand). An equivalent decrease would have resulted in an equivalent but opposite impact.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

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 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.

At 31 December 2011

	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
Customers' current accounts	4,171,358	-	-	-	-	4,171,358
Other liabilities	503,467	-	-	-	-	503,467
Equity of unrestricted investment accountholders	31,756,535	6,326,772	3,851,363	285,081	-	42,219,751
Total Liabilities	36,431,360	6,326,772	3,851,363	285,081	-	46,894,576
Liquidity risk and funding management						
Contingent liabilities	-	-	6,073,580	-	-	6,073,580
Total	-	-	6,073,580	-	-	6,073,580

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At 31 December 2011

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

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

At 31 December 2010

	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
Customers' current accounts	1,292,350	-	-	-	-	1,292,350
Other liabilities	540,031	-	-	-	-	540,031
Equity of unrestricted investment accountholders	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

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At 31 December 2011

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

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

The maturity profile of the financial position items at 31 December:

At 31 December 2011	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	2,253,317	-	-	-	-	2,253,317
Balances and investments with banks and other financial institutions	4,274,109	-	-	-	-	4,274,109
Receivables and balances from financing activities	17,445,078	6,124,709	5,317,028	3,231,102	2,647,910	34,765,827
Financial investments and investment in associates	24,747	-	478,629	10,292,871	2,681,286	13,477,533
Investment property and property, furniture and equipment	-	-	-	-	161,756	161,756
Other assets	338,794	-	-	-	-	338,794
TOTAL ASSETS	24,336,045	6,124,709	5,795,657	13,523,973	5,490,952	55,271,336
Customers' current accounts	4,171,358	-	-	-	-	4,171,358
Other liabilities	503,467	-	-	-	-	503,467
Equity of unrestricted investment accountholders	31,741,655	6,310,078	3,810,186	230,315	-	42,092,234
Total equity and non-controlling interest	-	375,000	-	-	8,129,277	8,504,277
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, EQUITY AND NON-CONTROLLING INTEREST	36,416,480	6,685,078	3,810,186	230,315	8,129,277	55,271,336
Liquidity Gap	(12,080,435)	(560,369)	1,985,471	13,293,658	(2,638,325)	-

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At 31 December 2011

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

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

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	34,683,371
Customers' current accounts	1,292,350	-	-	-	-	1,292,350
Other liabilities	540,031	-	-	-	-	540,031
Equity of unrestricted investment accountholders	16,040,170	6,944,224	2,729,557	10,247	-	25,724,198
Total equity and non-controlling interest	-	-	-	-	7,126,792	7,126,792
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, EQUITY AND NON-CONTROLLING INTEREST	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)	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

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:

Financial assets	Carrying value		Fair value	
	2011 QAR'000	2010 QAR'000	2011 QAR'000	2010 QAR'000
Balances with Central Bank excluding cash	2,096,428	1,358,033	2,096,428	1,358,033
Balances and investments with banks and other financial institutions	4,274,109	4,988,930	4,274,109	4,988,930
Receivables and balances from financing activities	34,765,827	25,063,967	34,765,827	25,063,967
Financial investments	12,046,247	2,136,919	12,045,191	2,091,054
Financial liabilities				
Customers' current accounts	4,171,358	1,292,350	4,171,358	1,292,350
Equity of investment accountholders	42,092,234	25,724,198	42,092,234	25,724,198

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 include debt type investments and equity type investments. Equity type investments are measured at fair value. Fair value for debt type 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 debt type investments are stated in note 7.

iii) Equity of unrestricted investment accountholders

The estimated fair value of equity of unrestricted investment accountholders is 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.

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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:

	<i>31 December 2011</i> <i>QAR'000</i>	<i>Level 1</i> <i>QAR'000</i>	<i>Level 2</i> <i>QAR'000</i>	<i>Level 3</i> <i>QAR'000</i>
Financial assets				
Equity-type financial investments:				
Quoted equities	19,278	19,278	-	-
Unquoted equities	71,607	-	71,607	-
	<u>90,885</u>	<u>19,278</u>	<u>71,607</u>	<u>-</u>
Derivative financial instruments:				
Profit rate swap	3,201	-	3,201	-
Unilateral promise to buy/sell currencies	31,594	-	31,594	-
	<u>34,795</u>	<u>-</u>	<u>34,795</u>	<u>-</u>
Financial liabilities				
Derivative financial instruments:				
Profit rate swap	3,145	-	3,145	-
Unilateral promise to buy/sell currencies	37,624	-	37,624	-
	<u>40,769</u>	<u>-</u>	<u>40,769</u>	<u>-</u>
	<i>31 December 2010</i> <i>QAR'000</i>	<i>Level 1</i> <i>QAR'000</i>	<i>Level 2</i> <i>QAR'000</i>	<i>Level 3</i> <i>QAR'000</i>
Financial assets				
Equity-type financial investments:				
Quoted equities	16,470	16,470	-	-
Unquoted equities	151,606	-	151,606	-
	<u>168,076</u>	<u>16,470</u>	<u>151,606</u>	<u>-</u>
Derivative financial instruments:				
Profit rate swap	5,554	-	5,554	-
Unilateral promise to buy/sell currencies	5,591	-	5,591	-
	<u>11,145</u>	<u>-</u>	<u>11,145</u>	<u>-</u>
Financial liabilities				
Derivative financial instruments:				
Profit rate swap	5,554	-	5,554	-
Unilateral promise to buy/sell currencies	16,911	-	16,911	-
	<u>22,465</u>	<u>-</u>	<u>22,465</u>	<u>-</u>

Masraf Al Rayan (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

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

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Tier 1 Capital	7,497,326	6,401,414
Tier 2 Capital	<u>270,933</u>	<u>26,426</u>
Total capital	<u>7,768,259</u>	<u>6,427,840</u>
Total risk weighted assets	<u>35,183,100</u>	<u>33,452,538</u>
Tier 1 Capital ratio	21.31%	19.14%
Total Capital ratio	22.07%	19.21%

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

4 CASH AND BALANCES WITH QATAR CENTRAL BANK

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Cash on hand	156,889	123,752
Cash reserve with Qatar Central Bank *	1,507,500	902,687
Current account with Qatar Central Bank	588,928	455,346
	<u>2,253,317</u>	<u>1,481,785</u>

* 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

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Current accounts	796,760	128,920
Deposits with Islamic Banks	3,477,349	4,860,010
	<u>4,274,109</u>	<u>4,988,930</u>

6 RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
(a) By type		
Receivables and balances from financing activities:		
Murabaha	33,984,584	22,881,173
Ijarah	1,691,744	1,256,699
Istisna'a	351,598	-
Musharaka	69,000	148,728
Mudaraba	-	2,205,665
Others	100,580	10,960
Total receivables and balances from financing activities	<u>36,197,506</u>	<u>26,503,225</u>
Deferred profit	(1,344,453)	(1,427,603)
Allowance for impairment and profit in suspense (note c)	<u>(87,226)</u>	<u>(11,655)</u>
Net receivables and balances from financing activities	<u>34,765,827</u>	<u>25,063,967</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

6 RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (continued)

(b) By sector

	<i>Murabaha</i> <i>QAR'000</i>	<i>Ijarah</i> <i>QAR'000</i>	<i>Istisna'a</i> <i>QAR'000</i>	<i>Musharaka</i> <i>QAR'000</i>	<i>Mudaraba</i> <i>QAR'000</i>	<i>Others</i> <i>QAR'000</i>	<i>Total</i> <i>2011</i> <i>QAR'000</i>
Government	3,332,053	-	-	-	-	-	3,332,053
Government institutions	11,324,702	-	-	-	-	-	11,324,702
Real estate	10,178,457	1,561,026	14,202	48,160	-	-	11,801,845
Contracting	2,366,586	1,794	-	18,347	-	-	2,386,727
Consumer	967,893	1,208	-	-	-	14,523	983,624
Services	3,224,880	114,290	10,422	-	-	86,057	3,435,649
Other	1,245,560	13,426	326,974	2,493	-	-	1,588,453
	<u>32,640,131</u>	<u>1,691,744</u>	<u>351,598</u>	<u>69,000</u>	<u>-</u>	<u>100,580</u>	<u>34,853,053</u>

	<i>Murabaha</i> <i>QAR'000</i>	<i>Ijarah</i> <i>QAR'000</i>	<i>Istisna'a</i> <i>QAR'000</i>	<i>Musharaka</i> <i>QAR'000</i>	<i>Mudaraba</i> <i>QAR'000</i>	<i>Others</i> <i>QAR'000</i>	<i>Total</i> <i>2010</i> <i>QAR'000</i>
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	45,260	-	-	20,446	-	-	65,706
	<u>21,453,570</u>	<u>1,256,699</u>	<u>-</u>	<u>148,728</u>	<u>2,205,665</u>	<u>10,960</u>	<u>25,075,622</u>

(c) Movement in allowance for impairment and profit in suspense

The total non-performing receivables and balances from financing activities at 31 December 2011 amounted to QAR 106,069 thousand representing 0.30% of the gross receivables and balances from financing activities (2010: QAR 11,593 thousand, representing 0.05% of the gross receivables and balances from financing activities).

	<i>Individually Impaired</i> <i>QAR'000</i>	<i>Collectively impaired</i> <i>QAR'000</i>	<i>Profit in suspense</i> <i>QAR'000</i>	<i>Total</i> <i>2011</i> <i>QAR'000</i>
Balance as at 1 January	9,312	-	2,343	11,655
Charge for the year	23,155	47,711	5,051	75,917
Write off during the year	(346)	-	-	(346)
Balance at 31 December	<u>32,121</u>	<u>47,711</u>	<u>7,394</u>	<u>87,226</u>
	<i>Individually Impaired</i> <i>QAR'000</i>	<i>Collectively impaired</i> <i>QAR'000</i>	<i>Profit in suspense</i> <i>QAR'000</i>	<i>Total</i> <i>2010</i> <i>QAR'000</i>
Balance as at 1 January	8,487	-	-	8,487
Charge for the year	825	-	2,343	3,168
Balance at 31 December	<u>9,312</u>	<u>-</u>	<u>2,343</u>	<u>11,655</u>

Masraf Al Rayan (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

7 FINANCIAL INVESTMENTS

	<i>2011</i>		
	<i>At fair value through equity QAR 000'</i>	<i>At amortised cost QAR 000'</i>	<i>Total QAR 000'</i>
Financial investment in:			
Equity type instruments:			
Quoted	19,278	-	19,278
Unquoted	71,607	-	71,607
Total	<u>90,885</u>	<u>-</u>	<u>90,885</u>
Debt-type instruments:			
Quoted	-	693,166	693,166
Unquoted	-	11,262,196	11,262,196
Total	<u>-</u>	<u>11,955,362</u>	<u>11,955,362</u>
Total	<u>90,885</u>	<u>11,955,362</u>	<u>12,046,247</u>
	<i>2010</i>		
	<i>At fair value through equity QAR 000'</i>	<i>At amortised cost QAR 000'</i>	<i>Total QAR 000'</i>
Financial investment in:			
Equity type instruments:			
Quoted	16,470	-	16,470
Unquoted	151,606	-	151,606
Total	168,076	-	168,076
Debt-type instruments:			
Quoted	-	702,643	702,643
Unquoted	-	1,266,200	1,266,200
Total	<u>-</u>	<u>1,968,843</u>	<u>1,968,843</u>
Total	<u>168,076</u>	<u>1,968,843</u>	<u>2,136,919</u>

Quoted debt-type instruments are net of allowance for impairment losses of QAR 21,843 thousand (2010: QAR 7,281 thousand).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

7 FINANCIAL INVESTMENTS (continued)

	2011		2010		Total QAR '000
	Quoted QAR '000	Unquoted QAR '000	Quoted QAR '000	Unquoted QAR '000	
Debt-type instruments by type					
Local Sukuk in QAR	-	11,250,000	-	1,250,000	1,250,000
Local Sukuk in USD	315,847	-	310,762	-	310,762
Foreign Sukuk in USD	203,868	12,196	218,430	16,200	234,630
Foreign Sukuk in AED	173,451	-	173,451	-	173,451
	<u>693,166</u>	<u>11,262,196</u>	<u>702,643</u>	<u>1,266,200</u>	<u>1,968,843</u>
Debt-type instruments by nature of income					
Fixed profit rate	29,124	11,262,196	43,686	1,266,200	1,309,886
Floating profit rate	664,042	-	658,957	-	658,957
	<u>693,166</u>	<u>11,262,196</u>	<u>702,643</u>	<u>1,266,200</u>	<u>1,968,843</u>

Note:

The fair value of debt-type instruments as at 31 December 2011 amounted to QAR 11,954 million (2010: QAR 1,923 million).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

8 INVESTMENT PROPERTY

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Balance at 1 January	160,220	68,970
Additions	-	91,250
Net movement resulting from derecognition of a subsidiary	<u>(68,970)</u>	<u>-</u>
Balance at 31 December	<u>91,250</u>	<u>160,220</u>

Investment property pertains to freehold land and is carried at cost. The fair value of the investment property as at 31 December 2011 amounted to QAR 95 million (2010: QAR 160 million).

The valuations were performed by DTZ, an accredited independent valuer with a recognised and relevant professional qualification and recent experience of the location and category of the investment property being valued.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2011

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's share as of 31 December 2011			Carrying value		
		2011	2010	Assets	Liabilities	Operating income	Results	2011	2010
								QAR'000	QAR'000
National Mass Housing (A)	Oman	20.00	20.00	30,422	202	1,009	417	30,220	48,298
CI San Trading (B)	Qatar	50.00	50.00	5,000	-	-	-	5,000	5,000
Kimaf Investment and Installment Company (C)	Saudi Arabia	48.00	48.00	332,046	26,818	13,865	14,432	305,228	290,796
Daman Insurance – Beema (D)	Qatar	20.00	20.00	40,400	-	-	-	40,400	40,400
Linc Facility Services (E)	Qatar	33.33	33.33	2,000	-	-	-	2,000	2,000
Lusail Waterfront Real Estate Company (F)	Qatar	50.00	100.00	1,048,438	-	-	-	1,048,438	-
								<u>1,431,286</u>	<u>386,494</u>

Masraf Al Rayan (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

9 INVESTMENT IN ASSOCIATES (continued)

Associates' movement during the year is as follows:

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Balance at 1 January	386,494	211,931
Investments acquired during the year	-	182,196
Share in associates' results	14,849	(1,789)
Share in non-Shari'a results of associate (H)	417	-
Return of associates' capital	(18,912)	-
Associate reclassified from investment in subsidiaries (F) (Note 19/a)	1,048,438	-
Associates reclassified to equity-type investments	-	(5,844)
	<u>1,431,286</u>	<u>386,494</u>
Balance at 31 December	<u>1,431,286</u>	<u>386,494</u>

Notes:

- A) The Company was incorporated in Oman on 19 November 2008 with paid up share capital of Omani Riyal 25 million to conduct design services, consultancy services, project management, marketing, advertising, sales and construction for its real estate and clients. During 2011, the Company returned 40% of its share capital to investors.
- B) 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.
- C) The Company was incorporated in the Kingdom of Saudi Arabia on 5 April 2009 with paid up share capital of Saudi Riyal 510 million to conduct leasing business.
- D) 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.
- E) 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.
- F) The Company, engaged in dealing and arranging investments and credit facilities and managing and advising on investments, was a fully-owned subsidiary as of 31 December 2010. During the year, the Group sold 50% of its investment in the Company. Subsequent to the sale, the investment in the Company has been reclassified as investment in associate. On 5 January 2012, the Company changes its name to Seef Lusail Real Estate Development Company W.L.L.
- G) As at reporting date, CI San Trading and Linc Facility Services are still in the pre-operating stage. Accordingly, the investment balances represent the acquisition cost.
- H) The amount represents 50% of the Group's share in results of National Mass Housing, and has been recognized under other liabilities as per Shari'a Board instructions.
- I) All investments are not listed.

Masraf Al Rayan (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

10 OTHER ASSETS

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Accrued profit	267,105	42,182
Prepayments and other receivables	65,163	329,976
Advances to suppliers	<u>9,652</u>	<u>7,505</u>
	341,920	379,663
Less: Allowance for impairment	<u>(3,126)</u>	<u>(1,563)</u>
	<u>338,794</u>	<u>378,100</u>

Notes:

- (i) Allowance for impairment losses pertain to accrued profit relating to certain debt type investments.
- (ii) Other receivables include positive fair value of derivatives amounting to QAR 34,795 thousand.

Masraf Al Rayan (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

11 PROPERTY, FURNITURE AND EQUIPMENT

As at 31 December 2011

	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
Cost:						
Balance at 1 January 2011	14,163	48,440	17,541	52,185	7,878	140,207
Additions	-	897	1,723	5,636	950	9,206
Disposals	-	-	-	-	(5,669)	(5,669)
Transfers	-	1,251	189	150	(1,590)	-
Balance at 31 December 2011	14,163	50,588	19,453	57,971	1,569	143,744
Accumulated depreciation:						
Balance at 1 January 2011	1,031	13,667	5,882	32,671	-	53,251
Depreciation for the year	358	4,987	2,752	11,890	-	19,987
Balance at 31 December 2011	1,389	18,654	8,634	44,561	-	73,238
Net book value:						
At 31 December 2011	12,774	31,934	10,819	13,410	1,569	70,506

Masraf Al Rayan (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

11 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 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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

12 OTHER LIABILITIES

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Unearned commission	207,713	126,702
Dividend payable	70,984	71,563
Other staff provisions	61,154	31,055
Accrued expenses	27,244	9,222
Escrow accounts	25,571	173,049
Social and sports fund	15,200	34,526
Provision for employees end of service benefits (a)	12,582	8,825
Others	83,019	85,089
	<u>503,467</u>	<u>540,031</u>

Other liabilities include negative fair value of derivatives amounting to QAR 40,769 thousand.

(a) Provision for employees end of service benefits

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Balance at 1 January	8,825	5,796
Provisions for the year	4,549	4,252
End of service benefits paid during the year	(792)	(1,223)
Balance at 31 December	<u>12,582</u>	<u>8,825</u>

13 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
(a) By type		
Saving accounts	936,015	374,986
Call accounts	3,271,947	2,265,384
Time deposits	37,793,694	22,935,908
Profit payable to equity of unrestricted investment accountholders	90,230	147,701
Share in the fair value reserve	348	219
	<u>42,092,234</u>	<u>25,724,198</u>
	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
(b) By sector		
Government and governmental institutions	11,897,270	4,646,350
Individuals	2,529,319	1,544,436
Banks	13,195,261	8,134,454
Corporate	14,379,806	11,251,038
Profit payable to equity of unrestricted investment accountholders	90,230	147,701
Share in the fair value reserve	348	219
	<u>42,092,234</u>	<u>25,724,198</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

13 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS (continued)

In accordance with Qatar Central Bank circular No. 87/2008, no risk reserve is deducted from the profit related to the equity of unrestricted investment accountholders and the total risk reserve is transferred from the shareholders' profit as an appropriation.

14 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.

15 EQUITY

Share capital

		<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
<i>Authorised</i>			
750,000,000 shares at QAR 10 each		<u>7,500,000</u>	<u>7,500,000</u>
<i>Issued & paid-up</i>	<i>No.</i> <i>of shares</i>	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
At 1 January	749,936,932	5,073,324	4,124,654
Dividends towards uncalled share capital for 2009	-	-	948,670
Dividend towards uncalled share capital for 2010 (at QAR 2.635 per share)	-	1,976,084	-
Dividend towards uncalled share capital during 2011 (at QAR 0.6 per share)	-	449,962	-
Issue of new share capital	<u>63,068</u>	<u>630</u>	<u>-</u>
	<u>750,000,000</u>	<u>7,500,000</u>	<u>5,073,324</u>

On 23 May 2011, the Board of Directors based on the approval of the General Assembly meeting on 28 March 2011 approved a dividend of 6% of the par value of issued capital towards the uncalled share capital (QAR 0.6 per share) amounting to QAR 449,962 thousand.

Also during the year, Masraf issued 63,068 shares, which represent the fractional shares resulted from the initial IPO process. The fractional shares were sold through Qatar Exchange in accordance with article No. 8 of Masraf's Articles of Association.

Legal reserve

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Balance at 1 January	-	633,382
Share premium on the new issued shares (a)	1,036	-
Transfer from retained earnings (b)	140,835	-
Transfer to retained earnings (c)	<u>-</u>	<u>(633,382)</u>
Balance at 31 December	<u>141,871</u>	<u>-</u>

Masraf Al Rayan (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

15 EQUITY (continued)

Legal reserve (continued)

- (a) In accordance with the Qatar Commercial Companies' Law No. 5 of 2002, share premium equivalent to 164.3% of the paid up share capital was transferred to legal reserve account.
- (b) 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.
- (c) The General Assembly, in its meeting held on 28 March 2011 and after the approval of Qatar Central Bank and the Ministry of Business and Trade, 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.

Fair value reserve

This reserve comprises changes in fair value of equity investments at fair value through equity.

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Balance at the 1 January	6,117	465
Net unrealised gains	<u>3,026</u>	<u>5,871</u>
Net change during the year	9,143	6,336
Share of equity of unrestricted investment accountholders in the fair value reserve	<u>(348)</u>	<u>(219)</u>
Balance at 31 December (shareholders' share)	<u>8,795</u>	<u>6,117</u>

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 are excluded from the gross direct financing, which should be appropriated from share holders profit according to Qatar Central Bank Circular No 87/2008. As of 31 December 2011, an amount of QAR 450,000 thousand has been transferred to the risk reserve.

Also, the General Assembly, in its meeting held on 28 March 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 29 January 2012 proposed a cash dividend of 5% (2010: 38.95% of the paid up share capital towards the uncalled share capital) of the share capital amounting to QAR 375,000 thousand (2010: QAR 1,976,084 thousand).

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

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15 EQUITY (continued)

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 35.2 million for an amount equivalent to 2.5% of the net profit relating to the year ended 31 December 2011 (2010: QAR 52 million) for the support of sports, cultural and charitable activities.

16 INCOME FROM FINANCING ACTIVITIES

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Income from Murabaha	1,104,807	1,419,926
Income from Istisna'a	970	479
Income from Ijarah	117,256	109,306
Income from Mudaraba	49,074	73,428
Income from Musharaka	10,827	15,133
	<u>1,282,934</u>	<u>1,618,272</u>

17 INCOME FROM INVESTING ACTIVITIES

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
(a) Income from investments with banks and other financial institutions:	<u>8,584</u>	<u>17,252</u>
(b) Investments revenues:		
Dividend income	749	531
Income from debt-type financial investments	<u>597,562</u>	<u>68,907</u>
	<u>606,895</u>	<u>86,690</u>

18 NET COMMISSION AND FEES INCOME

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Commission and fees income		
Commission on financing activities	205,338	60,464
Commission on trade finance activities	33,280	31,929
Commission on banking services	<u>9,280</u>	<u>18,664</u>
	247,898	111,057
Commission and fees expenses	<u>(1,765)</u>	<u>(15,839)</u>
	<u>246,133</u>	<u>95,218</u>

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19 OTHER INCOME

	2011 QAR'000	2010 QAR'000
Net gain on disposal of a subsidiary (a)	171,863	-
Income from Qatar Investments Authority (b)	-	94,875
Rental at income	2,191	2,696
Miscellaneous	25,500	5,607
	<u>199,554</u>	<u>103,178</u>

- (a) During the year, the Group sold 50% of its investment in a subsidiary, Lusail Waterfront Real Estate Company, for an amount of QAR 1,220 million which resulted in a gain of QAR 171,863 thousand recorded under other income in the consolidated statement of income. Subsequent to the sale, the investment in Lusail Waterfront Real Estate Company has been reclassified as investment in associate.

The details of the carrying amounts of the subsidiary disposed of during the year at the date of the transaction and resulting gain on sale are summarised in the following:

	QAR '000
<i>Assets</i>	
Investment properties	2,096,670
Bank balances	200
	<u>2,096,870</u>
<i>Carrying value of net assets of the subsidiary sold</i>	1,048,435
Consideration received for the 50% sold	<u>1,220,298</u>
Net gain recognised from the sale of 50% of the subsidiary	<u>171,863</u>

- (b) In 2010, the Group received an amount of QAR 94,875 thousand from Qatar Investment Authority ("QIA") representing compensation for the dividend paid by the Group on behalf of QIA towards the uncalled share capital.

20 GENERAL AND ADMINISTRATIVE EXPENSES

	2011 QAR'000	2010 QAR'000
Staff costs	194,342	132,654
Rent and maintenance	34,490	31,988
Advertising expenses	20,610	15,166
Legal, professional and consulting fees	12,728	12,204
Board of Directors remuneration	11,726	10,422
Information technology	5,448	4,443
Shari'a Board compensation	1,224	1,063
Other operating expenses	14,760	9,371
	<u>295,328</u>	<u>217,311</u>

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21 SHARE OF EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS IN THE NET PROFIT

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Return on equity of unrestricted investment accountholders in the profit before Masraf's Mudaraba income	1,084,385	931,695
Masraf's Mudaraba income	<u>(917,059)</u>	<u>(795,127)</u>
Return on unrestricted investment accountholders	167,326	136,568
Support provided by Masraf	<u>410,927</u>	<u>434,689</u>
Return on investment account holders after Masraf's support	<u>578,253</u>	<u>571,257</u>
Rates of profit allotment:	<i>2011</i> %	<i>2010</i> %
More than one year deposits	2.50	4.00
One year deposits	1.54	3.75
Six months deposits	1.10	3.74
Three months deposits	1.02	3.55
Call accounts	0.73	1.56
Saving accounts	0.98	1.80
Saving accounts-millionaire	1.19	2.50

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.

	<i>2011</i>	<i>2010</i>
Profit for the year due to shareholders (QAR '000)	<u>1,408,350</u>	<u>1,211,344</u>
Weighted average number of shares outstanding during the year (thousand) (a)	<u>749,941</u>	<u>749,937</u>
Basic earnings per share (QAR)	<u>1.878</u>	<u>1.615</u>

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

	<i>2011</i> <i>Nos'000</i>	<i>2010</i> <i>Nos'000</i>
Weighted average number of shares at 1 January	749,937	749,937
Effect of share issuance	<u>4</u>	<u>-</u>
Weighted average number of shares at 31 December	<u>749,941</u>	<u>749,937</u>

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.

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23 CASH AND CASH EQUIVALENTS

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

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Cash on hand and balances with Qatar Central Bank excluding cash reserve	745,817	579,098
Balances with banks and other financial institutions	<u>4,274,109</u>	<u>4,988,930</u>
	<u>5,019,926</u>	<u>5,568,028</u>

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

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

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Payable not later than 1 year	24,656	21,400
Payable later than 1 year and not later than 5 years	<u>51,919</u>	<u>13,980</u>
	<u>76,575</u>	<u>35,380</u>

(b) Contingent liabilities

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Letters of guarantee	3,974,575	4,786,953
Letters of credit	<u>2,099,005</u>	<u>795,524</u>
	<u>6,073,580</u>	<u>5,582,477</u>

(c) Other undertakings and commitments

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Ijara unutilised limits	3,899,753	744,473
Profit rate swap (A)	1,529,010	2,548,350
Unilateral promise to buy/sell currencies (B)	<u>6,845,794</u>	<u>10,629,267</u>
	<u>12,274,557</u>	<u>13,922,090</u>

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24 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

(c) Other undertakings and commitments (continued)

(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.

(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.

	<i>Positive fair value QAR'000</i>	<i>Negative fair value QAR'000</i>	<i>Notional amount QAR'000</i>	<i>Within three months QAR'000</i>	<i>3 - 12 months QAR'000</i>	<i>1 - 5 years QAR'000</i>
As at 31 December 2011						
Derivatives for customers						
Profit rate swaps	3,201	3,145	1,529,010	-	-	1,529,010
Unilateral promise to buy/sell currencies	31,594	37,624	6,845,794	6,490,573	355,221	-
	34,795	40,769	8,374,804	6,490,573	355,221	1,529,010
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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 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 sukuku 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.

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

	<i>Corporate Banking</i>	<i>Retail Banking</i>	<i>Al Rayan Investment</i>	<i>Unallocated</i>	<i>Total</i>
	<i>QAR'000</i>	<i>QAR'000</i>	<i>QAR'000</i>	<i>QAR'000</i>	<i>QAR'000</i>
31 December 2011					
Operating income	2,248,792	125,699	15,678	-	2,390,169
Expenses	(621,869)	(41,672)	(12,219)	(306,059)	(981,819)
Net profit / (loss)	<u>1,626,923</u>	<u>84,027</u>	<u>3,459</u>	<u>(306,059)</u>	<u>1,408,350</u>
Total assets	<u>52,489,113</u>	<u>2,397,366</u>	<u>94,432</u>	<u>290,425</u>	<u>55,271,336</u>
Total liabilities and equity of unrestricted investment accountholders	<u>43,211,836</u>	<u>3,260,280</u>	<u>14,703</u>	<u>280,240</u>	<u>46,767,059</u>
31 December 2010					
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)	<u>1,367,372</u>	<u>73,654</u>	<u>6,729</u>	<u>(236,411)</u>	<u>1,211,344</u>
Total Assets	<u>32,729,654</u>	<u>1,347,778</u>	<u>83,108</u>	<u>522,831</u>	<u>34,683,371</u>
Total liabilities and equity of unrestricted investment accountholders	<u>25,438,527</u>	<u>1,872,634</u>	<u>12,353</u>	<u>233,065</u>	<u>27,556,579</u>

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26 GEOGRAPHICAL SEGMENTS

	<i>Qatar</i> <i>QAR'000</i>	<i>GCC</i> <i>QAR'000</i>	<i>Other</i> <i>Countries</i> <i>QAR'000</i>	<i>Total</i> <i>QAR'000</i>
At 31 December 2011				
Cash and balances with Qatar Central Bank	2,253,317	-	-	2,253,317
Due from banks and other financial institutions	2,160,781	1,312,903	800,425	4,274,109
Receivables and balances from financing activities	34,686,238	-	79,589	34,765,827
Financial investments	11,447,396	399,162	199,689	12,046,247
Investment property	91,250	-	-	91,250
Investment in associates	1,095,838	335,448	-	1,431,286
Property, furniture and equipment	70,506	-	-	70,506
Other assets	338,794	-	-	338,794
TOTAL ASSETS	52,144,120	2,047,513	1,079,703	55,271,336
Customers' current accounts	4,168,059	1,663	1,636	4,171,358
Other liabilities	503,467	-	-	503,467
Equity of unrestricted investment accountholders	36,566,004	4,086,905	1,439,325	42,092,234
Equity and non-controlling interests	8,504,277	-	-	8,504,277
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, EQUITY AND NON-CONTROLLING INTEREST	49,741,807	4,088,568	1,440,961	55,271,336
	<i>Qatar</i> <i>QAR'000</i>	<i>GCC</i> <i>QAR'000</i>	<i>Other</i> <i>Countries</i> <i>QAR'000</i>	<i>Total</i> <i>QAR'000</i>
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
Equity of unrestricted investment accountholders	23,862,173	1,255,759	606,266	25,724,198
Equity and non-controlling interest	7,126,792	-	-	7,126,792
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, EQUITY AND NON-CONTROLLING INTEREST	32,775,993	1,258,440	648,938	34,683,371

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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 the Group. As at the statement of financial position date, such significant accounts include:

Transactions with related parties

(a) Consolidated statement of financial position items

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Assets		
Murabaha	<u>4,263,648</u>	<u>4,482,693</u>
Liabilities		
Current account	210	216
Equity of unrestricted investment accountholders	<u>3,094</u>	<u>1,423,201</u>
	<u>3,304</u>	<u>1,423,417</u>

(c) Consolidated income statement items

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Income from financing activities	274,813	298,795
Gain from foreign exchange operations	<u>34,352</u>	<u>187,674</u>
	<u>309,165</u>	<u>486,469</u>
Return on equity of investment accountholders	<u>23,142</u>	<u>63,187</u>

Compensation of key management personnel

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

	<i>2011</i> <i>QAR'000</i>	<i>2010</i> <i>QAR'000</i>
Remuneration to Board of Directors including meeting allowances	<u>11,726</u>	<u>10,422</u>
Salaries and other benefits	<u>5,591</u>	<u>4,930</u>