

**Masraf Al Rayan (Q.S.C.)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2007**

## **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 subsidiary (the "Group") which comprises the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the period from 4 January 2006 to 31 December 2007, and a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and in accordance with the Islamic Shari'a Rules and Principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

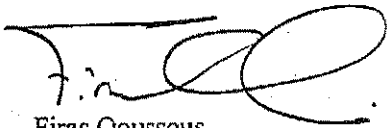
**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS  
OF MASRAF AL RAYAN (Q.S.C.) (continued)**

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007 and its financial performance and its cash flows for the period from 4 January 2006 to 31 December 2007 in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Masraf and Qatar Central Bank regulations.

**Report on other legal and regulatory matters**

We have obtained all the information and explanations which we considered necessary for the purpose of our audit. We further confirm that the financial information included in the Annual Report of the Board of Directors is in agreement with the books and records of the Group and that we are not aware of any contravention by the Masraf of its Articles of Association, the Qatar Commercial Companies Law No. 5 of 2002 and the applicable provisions of Qatar Central Bank regulations and Law No. 33 of 2006 during the financial period that would materially affect its activities or its financial position.



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



Date: 21 January 2008  
Doha  
State of Qatar

# Masraf Al Rayan (Q.S.C.)


## CONSOLIDATED BALANCE SHEET

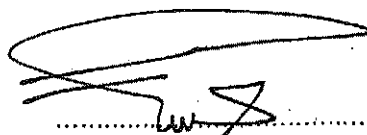
At 31 December 2007

	Notes	31 December 2007 QAR'000
<b>ASSETS</b>		
Cash and balances with Qatar Central Bank	4	456,775
Balances and investments with banks and other financial institutions	5	2,324,288
Receivables and balances from financing activities	6	6,737,837
Financial investments	7	549,796
Investment in associates	8	9,502
Furniture and equipment	9	50,361
Other assets	10	<u>62,911</u>
<b>TOTAL ASSETS</b>		<u><b>10,191,470</b></u>
<b>LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS AND EQUITY</b>		
<b>LIABILITIES</b>		
Customers' current accounts		405,834
Other liabilities	11	<u>89,916</u>
<b>TOTAL LIABILITIES</b>		<u><b>495,750</b></u>
<b>UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS</b>	12	<u><b>4,537,102</b></u>
<b>EQUITY</b>		
Paid up share capital	13	3,749,685
Legal reserve	13	453,612
Fair value reserve	13	1,360
Risk Reserve	13	93,592
Proposed dividend	13	749,938
Retained earnings		<u>110,431</u>
<b>TOTAL EQUITY</b>		<u><b>5,158,618</b></u>
<b>TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>		<u><b>10,191,470</b></u>

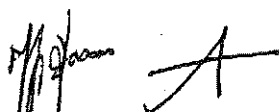
The consolidated financial statements have been approved by the Board of Directors on 21 January 2008 and were signed on their behalf by:

  
 .....  
 Dr. Hussam Ali Al Abdalla  
 Chairman & Managing Director

  
 .....  
 Esam Youssif Janahi  
 Deputy Chairman

  
 .....  
 Adel Mustafawi  
 Chief Executive Officer – Al Rayan

The attached notes 1 to 23 form part of these financial statements





# Masraf Al Rayan (Q.S.C.)

## CONSOLIDATED INCOME STATEMENT

Period Ended 31 December 2007

		4 January 2006 to 31 December 2007 QAR'000
	Notes	
Income from financing activities	14	256,001
Income from investing activities	15	<u>1,181,474</u>
<b>Total income from financing and investing activities</b>		<b>1,437,475</b>
Commission and fees income		85,743
Commission and fees expense		<u>(215)</u>
<b>Net commission and fee income</b>	16	<b>85,528</b>
Gain from foreign exchange operations		<u>23,028</u>
<b>TOTAL OPERATING INCOME</b>		<b>1,546,031</b>
General and administrative expenses	17	(178,642)
Depreciation	9	<u>(5,441)</u>
<b>PROFIT FOR THE PERIOD BEFORE SHARE OF UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS</b>		<b>1,361,948</b>
Less : Share of unrestricted investment accounts holders in the:		
- Net profit	18	(132,622)
- Risk reserve	13	(7,548)
- Investment risk reserve	18	<u>(29,327)</u>
<b>NET PROFIT FOR THE PERIOD DUE TO SHAREHOLDERS</b>		<b><u>1,192,451</u></b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (QAR)</b>	19	<b><u>1.6</u></b>

The attached notes 1 to 23 form part of these financial statements

# Masraf Al Rayan (Q.S.C.)

## CONSOLIDATED CASH FLOW STATEMENT

Period Ended 31 December 2007

	<i>Note</i>	<i>4 January 2006 to 31 December 2007 QAR'000</i>
<b>OPERATING ACTIVITIES</b>		
Profit for the period		1,192,451
Adjustments for:		
Depreciation	9	5,441
Gain on sale of financial investments		(6,350)
Gain on sale of investment in subsidiary	15	<u>(836,400)</u>
Operating profit before changes in operating assets and liabilities		355,142
<b>Net decrease (increase) in assets:</b>		
Cash reserve with Qatar Central Bank	4	(71,201)
Receivables and balances from financing activities	6	(6,737,837)
Other assets	10	(62,911)
<b>Net increase (decrease) in liabilities:</b>		
Customers' current accounts		405,834
Other liabilities		<u>89,916</u>
<b>Net cash used in operating activities</b>		<u>(6,021,057)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of financial investments		(507,815)
Purchase of investments properties		(198,295)
Purchase of furniture and equipment	9	(55,802)
Investment in associates		(9,502)
Proceeds from sale of financial investments		34,958
Proceeds from sale of subsidiary		<u>965,575</u>
<b>Net cash inflow from investing activities</b>		<u>229,119</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of share capital	13	4,005,512
Equity transaction costs	13	(40,705)
Increase in unrestricted investment accounts	12	<u>4,536,993</u>
<b>Net cash inflow from financing activities</b>		<u>8,501,800</u>
Net increase in cash and cash equivalents during the period		2,709,862
Balance of cash and cash equivalents at 4 January 2006		<u>-</u>
<b>Balance of cash and cash equivalents at 31 December 2007</b>	20	<u>2,709,862</u>

The attached notes 1 to 23 form part of these financial statements

# Masraf Al Rayan (Q.S.C.)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Period Ended 31 December 2007

	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
<b>At 4 January 2006</b>	-	-	-	-	-	-	-
Capital subscription with share premium	13 3,749,685	255,827	-	-	-	-	4,005,512
Equity transaction costs deducted from share premium	13 -	(40,705)	-	-	-	-	(40,705)
Net changes in fair value reserve	-	-	1,360	-	-	-	1,360
<b>Total income and expense for the period recognised directly in equity</b>	3,749,685	215,122	1,360	-	-	-	3,966,167
Profit for the period	-	-	-	-	-	1,192,451	1,192,451
<b>Total income and expense for the period</b>	3,749,685	215,122	1,360	-	-	1,192,451	5,158,618
Proposed dividend	13 -	-	-	-	749,938	(749,938)	-
Transfer to reserves	-	238,490	-	93,592	-	(332,082)	-
<b>Balance at 31 December 2007</b>	<b>3,749,685</b>	<b>453,612</b>	<b>1,360</b>	<b>93,592</b>	<b>749,938</b>	<b>110,431</b>	<b>5,158,618</b>

The attached notes 1 to 23 form part of these financial statements

# Masraf Al Rayan (Q.S.C.)

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 1 LEGAL STATUS AND MAIN ACTIVITIES

Masraf Al Rayan (Q.S.C.) ("Masraf") was incorporated as Qatari 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 Economy.

The Masraf is engaged in banking, financing and investing activities in accordance with its Articles of Incorporation, Islamic Shari'a principles and regulations of Qatar Central Bank.

The Masraf owns 100% of the issued share capital of Al Rayan Investment Co LLC ("subsidiary"). Al Rayan Investment was incorporated on 3 April 2007 in Qatar and has an authorized and paid-up share capital of USD 100 millions. The subsidiary will commence operations in 2008.

The Masraf operates through its head office located on Grand Hamad Street in Doha and two local branches, all operating in the State of Qatar. Masraf is listed and its shares are traded in the Doha Securities Market.

The accompanying financial statements is the first financial statements issued for the Masraf since inception on 4 January 2006.

### 2 SIGNIFICANT ACCOUNTING POLICIES

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

#### (a) Change in accounting policies

The following accounting policies have been changed and becoming mandatory for financial year beginning on or after 1 January 2007:

##### **IFRS 7 Financial Instruments: Disclosures**

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements.

##### **IAS 1 Presentation of Financial Statements**

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

#### (b) Basis of preparation and consolidation

The consolidated financial statements are prepared under the historical cost convention, except for the measurement at fair value of financial investments.

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

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



# Masraf Al Rayan (Q.S.C.)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) Basis of preparation and consolidation (continued)

The consolidated financial statements comprise the financial statements of Masraf Al Rayan (Q.S.C) and its subsidiary. A subsidiary is an entity over which Masraf has power to control which is other than fiduciary in nature. The subsidiary has been from the date it was incorporated.

All inter group balances and transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The details of the subsidiary are as follows:

Name of Subsidiary	Country of Incorporation	Share Capital QAR'000	Ownership %
Al Rayan Investment Co LLC	Qatar	364,050	100

#### (c) Foreign currency transactions

Foreign currency transactions during the period are translated at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into Qatari Riyals at the rates of exchange prevailing at the end of the period. Any differences are taken to the income statement as foreign currency exchange gains or losses.

#### (d) Revenue recognition

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

#### (e) Valuation of financial investments

Available-for-sale investments are valued at fair value on an individual basis. Unrealised gains or losses arising from a change in fair value are recognised directly in the fair value reserve which is distributed between shareholders' equity and unrestricted investments accounts, until the investment is sold, collected or otherwise disposed off, or the investment is determined to be impaired, at which time the cumulative gain previously recognised in shareholders' equity and the unrestricted investments accounts is included in the income statement. In cases where objective evidence exists that a specific investment is impaired, the recoverable amount of that investment is determined and any impairment loss is recognised in the income statement under provision for impairment of financial investments.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Fair values**

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

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

- Cost
- Recoverable amount estimated by the portfolio manager
- Reference to the current market value of another instrument which is substantially the same.

**(g) 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 that require delivery of assets within the time frame generally established by regulation or conventions in the market place.

**(h) 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 (Note 14).

**(i) Furniture and equipments**

Furniture and equipments 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 instructions, as follows:

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

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

**(j) Receivables and balances from financing activities**

Receivables and balances from financing activities are stated at their gross principal amounts less amounts received on account of these transactions, provision for impairment and deferred profit relating to future periods.

The specific provision for impairment of financing receivables is estimated upon detailed review thereof by the management in accordance with Qatar Central Bank instructions.

**Murabaha receivables**

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

**Mudaraba**

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(j) Receivables and balances from financing activities (continued)**

**Ijarah assets**

Assets acquired for Ijarah are stated at cost, less accumulated depreciation. Depreciation is provided on the straight line method over the period of the lease. A provision for a doubtful receivable is made if, in the opinion of management, the outstanding rentals net of security, are uncertain of recovery.

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.

**(k) 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 period 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 employees, which is included in staff costs under general and administrative expenses.

**(l) Off balance sheet items**

Funds managed on behalf of customers are included in other contracts and commitments and include:

Restricted investment funds invested on behalf of customers under proxy or Wakala contracts in accordance with the terms and investment products agreed with the customers. Results of such investments are not included in the income statement, but paid directly to the customers when accrued after deducting the Masraf's commission or share of profit, as Mudareb or agent, this is recognised in the income statement.

**(m) Distribution of profit between unrestricted investment accounts holders and the shareholders**

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

- A net gain on all items of income and expenses at the period end is the profit distributable between the shareholders and the unrestricted investment account holders.
- The share of the unrestricted investment account holders is calculated out from the net profit on the basis of daily balances of their deposits after deducting the Masraf's Mudaraba percentage agreed upon and declared.
- In case any expense or loss incurred is proved to be resulting from negligence by the Masraf due to violation of the directives of Qatar Central Bank or proper banking conventions, the unrestricted investment account holders shall not be charged with these losses, subject to the discretion of Qatar Central Bank.
- In case the results of the Masraf at the period end are net losses, then Qatar Central Bank, being the authority responsible for determining the Masraf's accountability for these losses, shall decide how these shall be treated without violation to the Islamic Shari'a rules.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(m) Distribution of profit between unrestricted investment accounts holders and the shareholders (continued)**

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

**(n) Cash and cash equivalents**

Cash and cash equivalents for the purpose of the cash flow statement represent cash on hand, current account with Qatar Central Bank and balances with banks and other financial institutions with an original maturity of three months or less. (Note 21)

**(o) Investments in associates**

Masraf's investments in associates are accounted for under the equity method of accounting. These are entities over which Masraf exercises significant influence which are neither subsidiaries nor joint ventures.

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

**(p) Offsetting**

Offsetting of assets against liabilities and liabilities against assets are not made unless there is a religious or legal right and an actual expectation of set off.

**(q) Estimation uncertainty**

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

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

**(r) Investment risk reserve**

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

**(s) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(t) Impairment of financial assets**

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

Specific provisions for the credit losses are calculated based on the difference between the book value of the financing activities and their recoverable amount.

**u) Contingent liabilities and other commitments**

At the balance sheet date contingent liabilities and other commitments do not represent actual assets or liabilities

**3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT**

**3.1 Financial instruments**

**(a) Definition and classification**

Financial instruments cover all financial assets and liabilities of the Group. Financial assets comprise cash balances and balances with Qatar Central Bank, balances and investments with banks and other financial institutions, financial investments, and receivables from financing activities. Financial liabilities comprise customer current accounts and accounts payable. Financial instruments also include balances due to unrestricted investment accounts holders and contingent liabilities and commitments under off balance sheet items

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.1 Financial instruments (continued)

(b) Fair value of financial instruments

The following table provides a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are carried in the consolidated financial statements. The table does not include the fair values of non-financial asset and non-financial liabilities.

	2007	
	Carrying amount QAR'000	Fair value QAR'000
<b>Financial Assets</b>		
Cash and Balances with Qatar Central Bank	456,775	456,775
Balances and investments with banks and other financial institutions	2,324,288	2,324,288
Receivables and balances from financing activities	6,737,837	6,737,837
Financial investments	549,796	549,796
<b>Financial Liabilities</b>		
Customers' current accounts	405,834	405,834
Unrestricted investments accounts holders	4,537,102	4,537,102

**Financial instruments for which fair value approximates carrying value**

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months), the carrying amounts approximate to their fair value.

**Fixed rate financial instruments**

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market profit rates when they were first recognised with current market rates offered for similar financial instruments.

**3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)**

**3.2 Risk Management**

**a) Risk management framework**

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.

**Risk management structure**

The Board of Directors is ultimately responsible for identifying and controlling risks. However, there are separate independent bodies responsible for managing and monitoring risks.

**Risk management**

The Risk management unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

**Treasury department**

Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

**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.

Information compiled from all businesses 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.

**Internal audit**

Risk management processes throughout the Group are audited annually by the internal audit function, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

(b) 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 manages credit risk by monitoring credit exposures, limiting investment transactions to selected counterparties and continually assessing the creditworthiness of those. The Group, if necessary, takes collateral from the counterparties and in addition, limits the duration of exposures.

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 and other conditions. Concentrations indicate the relative sensitivity of the Group's to developments affecting a particular industry or geographic location. The Group attempts to manage credit risk exposure through diversification of its investments, money markets and lending activities to avoid undue concentration of risks with individuals or groups or customers in specific locations or businesses. The Group manages credit risk through its credit control and monitoring procedures and continually assessing the credit risk of other parties.

Note 6 shows the allocation of receivables and balances from financing activities to the different sectors, while Note 23 sets out the geographical distribution of the Group's assets and liabilities.

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

	<i>Gross maximum exposure 2007 QAR'000</i>
Cash and balances with Qatar Central Bank (excluding cash on hand)	430,890
Balances and investments with banks and other financial institutions	2,324,288
Receivables and balances from financing activities	6,737,837
Financial investments	549,796
Other assets	<u>62,911</u>
<b>Total on balance sheet</b>	<b>10,105,722</b>
Contingent liabilities	<u>578,203</u>
<b>Total off balance sheet</b>	<b><u>578,203</u></b>
<b>Total credit risk exposure</b>	<b><u><u>10,683,925</u></u></b>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

(c) Risk concentration for maximum exposure to credit risk by industry sector

An industry sector analysis of the Group's financial assets, before and after taking into account collateral held or other credit enhancements, is as follows:

	2007	
	<i>Gross Maximum Exposure QAR'000</i>	<i>Net Maximum Exposure QAR'000</i>
Government	469,921	469,921
Government agencies	3,797,518	3,797,518
Industry	5,912	5,912
General trade	65,748	46,543
Services	197,593	192,102
Contractors	21,142	10,153
Real Estate	3,049,305	1,048,823
Consumption	27,652	6,057
Others	62,911	62,911
Banks	2,408,020	2,408,020
Contingent liabilities	<u>578,203</u>	<u>578,203</u>
<b>Total</b>	<u><b>10,683,925</b></u>	<u><b>8,626,163</b></u>

(d) Credit risk exposure for each Internal Risk Rating

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.

Neither past due nor impaired	2007
	<i>QAR'000</i>
<b>Equivalent Grades</b>	
AAA to AA-	3,458,754
A+ to A-	1,192,119
BBB+ to BBB-	800,089
BB+ to B-	-
Below B-	-
Unrated	<u>5,232,963</u>
<b>Total</b>	<u><b>10,683,925</b></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 QR 6,738 million.

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Risk Management (continued)

(e) Market risk

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

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity and the value of individual stocks. The effect on equity due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market Indices	<i>Change in Equity Price 2007 %</i>	<i>Effect on Equity 2007 QAR'000</i>
Doha securities market	+ 10%	1,104
	- 10%	(1,104)

(f) 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.

(g) 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.

(h) 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 off-balance sheet instruments, primarily profit rate swaps. Maturities of assets and liabilities have been determined on the basis of contractual pricing.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

## 3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

## 3.2 Risk Management (continued)

## (h) Profit rate risk (continued)

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

	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	Effective Profit rate
Cash and balances with Qatar Central Bank	-	-	-	-	456,775	456,775	
Balances and investments with banks and other financial institutions	2,316,301	-	-	-	7,987	2,324,288	4.69%
Receivables and balances from financing activities	1,567	3,939,228	94,831	2,702,210	89,673	6,737,836	6.39%
Financial investments	469,625	-	-	-	113,273	559,298	7.15%
Other assets	-	-	-	-	-	113,273	
<b>TOTAL ASSETS</b>	<b>2,787,493</b>	<b>3,939,228</b>	<b>94,831</b>	<b>2,702,210</b>	<b>667,708</b>	<b>10,191,470</b>	
Customers' current accounts	-	-	-	-	405,834	405,834	
Other liabilities	-	-	-	-	89,916	89,916	
Unrestricted investment accounts	4,390,441	85,542	314	-	60,805	4,537,102	5.62%
<b>Total liabilities</b>	<b>4,390,441</b>	<b>85,542</b>	<b>314</b>	<b>-</b>	<b>556,555</b>	<b>5,032,852</b>	
<b>Total shareholders equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,158,618</b>	<b>5,158,618</b>	
<b>TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>	<b>4,390,441</b>	<b>85,542</b>	<b>314</b>	<b>-</b>	<b>5,715,173</b>	<b>10,191,470</b>	
<b>Profit Rate Sensitivity Gap</b>	<b>(1,602,948)</b>	<b>3,853,686</b>	<b>94,517</b>	<b>2,702,210</b>	<b>(5,047,465)</b>	<b>-</b>	
<b>Cumulative Profit Rate Sensitivity Gap</b>	<b>(1,602,948)</b>	<b>2,250,738</b>	<b>2,345,225</b>	<b>5,047,465</b>	<b>-</b>	<b>-</b>	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk Management (continued)

(i) Profit rate sensitivity

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

<i>Currency</i>	<i>Increase in basis points</i>	<i>Sensitivity of net profit QAR'000</i>
QR	10	(79)
USD	10	1,960
EUR	10	3,312

<i>Currency</i>	<i>Decrease in basis points</i>	<i>Sensitivity of net profit QAR'000</i>
QR	10	79
USD	10	(1,960)
EUR	10	(3,312)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk Management (continued)

(l) Liquidity risk

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 liquidable 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.

	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 account	405,834	-	-	-	-	405,834
Other liabilities	89,916	-	-	-	-	89,916
Unrestricted investment accounts holders	4,227,634	223,612	85,542	314	-	4,537,102
<b>Total Liabilities</b>	<b>4,723,384</b>	<b>223,612</b>	<b>85,542</b>	<b>314</b>	<b>-</b>	<b>5,032,852</b>

	On Demand QAR '000	Less than 3 months QAR '000	3 to 12 months QAR '000	1 to 5 years QAR '000	Over 5 years QAR '000	Total QAR '000
Contingent liabilities	578,203	-	-	-	-	578,203
<b>Total</b>	<b>578,203</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>578,203</b>

(k) Liquidity risk and funding management

# Masraf Al Rayan (Q.S.C.)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

#### 3.2 Risk management (continued)

##### (l) Currency risk

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

	<i>Qatar Riyal</i>	<i>US Dollars</i>	<i>Euro</i>	<i>Sterling Pounds</i>	<i>Other currencies</i>	<i>Total</i>
	<i>'000</i>	<i>QAR'000</i>	<i>QAR'000</i>	<i>QAR'000</i>	<i>QAR'000</i>	<i>QAR'000</i>
Assets	1,730,071	3,790,190	3,315,557	1,344,329	11,323	10,191,470
Liabilities, unrestricted investment accounts and equity	<u>(6,746,765)</u>	<u>(2,101,405)</u>	<u>(1,097)</u>	<u>(1,342,019)</u>	<u>(184)</u>	<u>10,191,470</u>
<b>Net currency position</b>	<u><b>(5,016,694)</b></u>	<u><b>1,688,785</b></u>	<u><b>3,314,460</b></u>	<u><b>2,310</b></u>	<u><b>11,139</b></u>	<u><b>-</b></u>

##### (m) Currency risk - effect in change in fair value of currency

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

<i>Currency</i>	<i>Change in Currency Rate in %</i>	<i>Effect on Income statement QAR'000</i>
EUR	+10%	331,446
GBP	+10%	232
Yen	+10%	52
Others	+10%	1,062
EUR	-10%	(331,446)
GBP	-10%	(232)
Yen	-10%	(52)
Others	-10%	(1,062)

3 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

3.2 Risk management (continued)

(n) Capital

The Group maintains an actively managed capital base to cover risks inherent in the business. 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 in supervising the Group. 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.

(o) Capital Adequacy

	<i>31 December 2007 QAR'000</i>
Tier 1 Capital	4,688,697
Tier 2 Capital	<u>101,801</u>
<b>Total capital</b>	<b><u>4,790,498</u></b>
<b>Total risk weighted assets</b>	<b><u>10,257,627</u></b>
Tier 1 Capital ratio	45.70%
Total Capital ratio	46.70%

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

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

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

4 CASH AND BALANCES WITH QATAR CENTRAL BANK

	<i>31 December 2007 QAR'000</i>
Cash on hand	25,885
Cash reserve with Qatar Central Bank	71,201
Current account with Qatar Central Bank	<u>359,689</u>
	<b><u>456,775</u></b>

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

# Masraf Al Rayan (Q.S.C.)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 5 BALANCES AND INVESTMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	<i>31 December 2007 QAR'000</i>
Current accounts	7,987
Deposits with Islamic Banks	<u>2,316,301</u>
	<u>2,324,288</u>

### 6 RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES

	<i>31 December 2007 QAR'000</i>
<b>(a) By Type</b>	
Receivables and balances from financing activities:	
Murabaha	1,174,741
Istesna	40,010
Ijarah	2,485,936
Mudaraba	3,188,419
Others	<u>1,568</u>
Total receivables and balances from financing activities	<u>6,890,674</u>
Deferred profits	<u>(152,837)</u>
Net receivables and balances from financing activities	<u>6,737,837</u>

Masraf did not have any international financing activities as at the balance sheet date.

### (b) By Sector

	<i>Murabaha QAR'000</i>	<i>Istesna QAR'000</i>	<i>Ijara QAR'000</i>	<i>Mudaraba QAR'000</i>	<i>Others QAR'000</i>	<i>Total 31 December 2007 QAR'000</i>
Government	39,031	-	-	-	-	39,031
Government institutions	-	-	1,344,214	2,453,304	-	3,797,518
Real Estate	845,918	40,010	1,137,452	723,749	-	2,747,129
Contracting	21,142	-	-	-	-	21,142
Consumer	26,084	-	-	-	1,568	27,652
Other	242,566	-	4,270	11,366	-	258,202
	<u>1,174,741</u>	<u>40,010</u>	<u>2,485,936</u>	<u>3,188,419</u>	<u>1,568</u>	<u>6,890,674</u>



# Masraf Al Rayan (Q.S.C.)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 6 RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (continued)

#### (c) By beneficiary

	<i>31 December 2007 QAR'000</i>
Retail	27,652
Corporate	240,313
Real estate	<u>6,622,709</u>
	<u>6,890,674</u>

#### (d) Provisions for receivables from financing activities

There were no provisions against receivables from financing activities as of the balance sheet date and all the financing activities were performing.

### 7 FINANCIAL INVESTMENTS

	<i>31 December 2007 QAR'000</i>
<b>Quoted available for sale investments</b>	
Shares	11,051
Sukuk	<u>469,625</u>
	<u>480,676</u>
<b>Unquoted available for sale investments</b>	
Equity shares	<u>69,120</u>
	<u>549,796</u>

Sukuk are carried at cost and there were no indications of impairment.

### 8 INVESTMENT IN ASSOCIATES

Masraf has the following investments in associates:

	<i>Country of incorporation</i>	<i>Ownership percentage</i>	<i>31 December 2007 QAR'000</i>
Pak Qatar Takaful General (a)	Pakistan	20%	3,563
Pak Qatar Takaful Family (b)	Pakistan	20%	<u>5,939</u>
			<u>9,502</u>

(a) The company was incorporated in Pakistan on August 17, 2007 with paid-up share capital of Pak Rupees 300,000,000 to conduct the Sharia compliant Takaful business.

(b) The company was incorporated in Pakistan on August 17, 2007 with paid-up share capital of Pak Rupees 500,000,000 to conduct the Sharia compliant Takaful business.

As at the balance sheet date, the associates were still in the pre-operating stage. Accordingly, the balances in the balance sheet represent the participation costs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

## 9 FURNITURE AND EQUIPMENT

	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 4 January 2006	-	-	-	-	-
Additions during the period	32,470	7,246	13,397	2,689	55,802
Balance at 31 December 2007	32,470	7,246	13,397	2,689	55,802
Accumulated depreciation:					
Balance at 4 January 2006	-	-	-	-	-
Depreciation for the period	1,394	586	3,461	-	5,441
Balance at 31 December 2007	1,394	586	3,461	-	5,441
Net book value:					
At 31 December 2007	31,076	6,660	9,936	2,689	50,361

# Masraf Al Rayan (Q.S.C.)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 10 OTHER ASSETS

	<i>31 December 2007 QAR'000</i>
Accrued profit	31,476
Advances to suppliers	4,836
Prepayments and other receivables	<u>26,599</u>
	<u>62,911</u>

### 11 OTHER LIABILITIES

	<i>31 December 2007 QAR'000</i>
Unearned profit	3,131
Accrued expenses	23,359
Provision for end of service benefits (a)	1,316
Other staff provisions	21,656
Profit payable	19,538
Others	<u>20,916</u>
	<u>89,916</u>

#### (a) Provision for end of service benefits

	<i>31 December 2007 QAR'000</i>
Balance at beginning of the period	-
Provisions for the period	1,326
End of service benefits paid during the period	<u>(10)</u>
Balance at the end of the period	<u>1,316</u>

# Masraf Al Rayan (Q.S.C.)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 12 UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS

	<i>31 December 2007 QAR'000</i>
<b>(a) By type</b>	
Saving accounts	107,988
Call accounts – investment	2,022,040
Time deposits	2,346,113
Share in the fair value reserve	109
Share in the investment risk reserve	29,327
Share in the risk reserve	7,548
Profit payable	<u>23,977</u>
	<u>4,537,102</u>
	<i>31 December 2007 QAR'000</i>
<b>(b) By sector</b>	
Government and Government institutions	2,091,970
Individuals	506,673
Banks	1,663,080
Corporate	214,418
Share in the fair value reserve	109
Share in the investment risk reserve	29,327
Share in the risk reserve	7,548
Profit payable	<u>23,977</u>
	<u>4,537,102</u>

### 13 SHARE CAPITAL

	<i>31 December 2007 QAR'000</i>
<i>Authorised</i>	
750,000,000 shares at QR 10 each	<u>7,500,000</u>
<i>Issued &amp; Paid-up</i>	
749,936,932 shares at QR 5 each	<u>3,749,685</u>

# Masraf Al Rayan (Q.S.C.)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 13 SHARE CAPITAL (continued)

#### Legal reserve

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

	<i>31 December 2007 QAR'000</i>
Share premium on 722,236,932 shares	255,827
Less:	
Transactions costs relating to the issue of share capital	<u>(40,705)</u>
	215,122
Transfer from retained earnings (a)	<u>238,490</u>
	<u>453,612</u>

- (a) According to Qatar Central Bank Law No. 33 of 2006, 10% of the net profit for the period is required to be transferred to legal reserve. However, in accordance with Masraf's Articles of Association, 20% of the net profit for the period has been transferred to the legal reserve until the reserve equals 100% of the paid up share capital.

#### Risk reserve

In accordance with Qatar Central Bank regulations, risk reserve has been created to cover contingencies on the both the public and private sector financing activities, with a minimum requirement of 1.5% of the total exposure granted by the Masraf and its branches inside and outside Qatar after the exclusion of the specific provisions and profit in suspense. The finance provided to/or secured by the Ministry of Finance or finance against cash guarantees excluded from the gross direct finance, which should be allocated between the holders of unrestricted investment accounts and the shareholders.

#### Fair value reserve

This reserve comprises changes in fair value of Available-for-sale investments

	<i>31 December 2007 QAR'000</i>
Balance at the beginning of the period	-
Net unrealised gains on available for sale financial investments	<u>1,469</u>
Net change during the period	1,469
Share of unrestricted investment accounts holders in the fair value reserve	<u>(109)</u>
Balance at the end of the period (shareholders' share)	<u>1,360</u>

Fair value reserve represents unearned profits, being not available for distribution unless realised and charged to the income statement.

# Masraf Al Rayan (Q.S.C.)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 13 SHARE CAPITAL (continued)

#### Proposed dividend

The Board of Directors in its meeting held on 21 January 2008 proposed a dividend amounting to 20% of the issued share capital to be allocated as follows:

- 10% in cash of the paid up share capital (QAR 0.5 per share) amounting to a total value of QAR 374,969 thousand.
- 10% toward the uncalled share capital (QAR 0.5 per share) amounting to QAR 374,969 thousand.

This proposal is subject to the approval of the shareholders annual general assembly.

### 14 INCOME FROM FINANCING ACTIVITIES

	<i>4 January 2006 to 31 December 2007 QAR'000</i>
Income from Murabaha	50,209
Income from Istesna	2,293
Income from Ijarah	80,389
Income from Mudaraba	<u>123,110</u>
Total	<u>256,001</u>

### 15 INCOME FROM INVESTING ACTIVITIES

	<i>4 January 2006 to 31 December 2007 QAR'000</i>
(a) Income from investments with banks and other financial institutions:	<u>317,261</u>
(b) Investment revenues:	
Gain from sale of available for sale investments	27,813
Gain from sale of investment in a company (a)	<u>836,400</u>
Total	<u>1,181,474</u>

#### Note

- a) During the second quarter of 2007, Masraf Al Rayan has established a 75% owned subsidiary (Lusail Waterfront Company), through in kind capital contribution of a land. This land is located in Lusail project and was purchased from a founder shareholder, Qatari Diar Real Estate Investment Company for an amount of QAR 129,175 thousand. Subsequently, Masraf Al Rayan sold 70% of its shareholding in Lusail Waterfront Company to a third party for an amount of QAR 965,575 thousand which resulted in a profit of QAR 836,400 thousand.

# Masraf Al Rayan (Q.S.C.)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 16 NET COMMISSION AND FEES INCOME

	<i>4 January 2006 to 31 December 2007 QAR'000</i>
<b>Commission and fees income</b>	
Commission on financing activities	79,248
Commission on trade finance activities	5,572
Bank charges	592
Masraf's share of restricted investment profits	<u>331</u>
	85,743
Commission and fees expenses	<u>(215)</u>
Net commission and fees income	<u>85,528</u>

### 17 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>4 January 2006 to 31 December 2007 QAR'000</i>
Staff costs	64,673
Sharia Board compensation	1,232
Board of Directors compensation	5,994
Legal, professional and consulting fees	37,853
Advertising expenses	11,121
Rent and maintenance	25,473
Information technology	17,296
Other operating expenses	<u>15,000</u>
	<u>178,642</u>

### 18 SHARE OF UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS IN THE PROFIT

	<i>4 January 2006 to 31 December 2007 QAR'000</i>
Share of unrestricted investment accounts holders in the profit before Masraf's Mudaraba income	295,736
Masraf's Mudaraba income	<u>(134,101)</u>
Share of unrestricted investment account holders	161,635
Support provided by Masraf	314
Investment risk reserve	<u>(29,327)</u>
Share of unrestricted investment account holders after the Masraf's support	<u>132,622</u>

# Masraf Al Rayan (Q.S.C.)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 18 SHARE OF UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS IN THE PROFIT (continued)

Rates of profit allotment:	31 December
	2007
	%
One year deposits	5.37
Six months deposits	5.27
Three months deposits	5.17
Call accounts	4.59
Saving accounts	3.73

### 19 BASIC AND DILUTED EARNINGS PER SHARE

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

	4 January 2006 to 31 December 2007 QAR'000
Profit for the period due to shareholders (QAR)	<u>1,192,451</u>
Weighted average number of shares outstanding during the period (a)	<u>749,824,348</u>
Basic earnings per share (QAR)	<u>1.6</u>

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

	4 January 2006 to 31 December 2007 QAR'000
Shares issued during the period	<u>749,936,932</u>
Weighted average number of shares at end of the period	<u>749,824,348</u>

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



# Masraf Al Rayan (Q.S.C.)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 20 CASH AND CASH EQUIVALENTS

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

	<i>31 December 2007 QAR'000</i>
Cash on hand and balances with Qatar Central Bank excluding cash reserve	385,574
Balances with banks and other financial institutions	<u>2,324,288</u>
	<u>2,709,862</u>

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

### 21 OFF BALANCE SHEET ITEMS

#### (a) Capital commitments

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

	<i>31 December 2007 QAR'000</i>
Payable not later than 1 year	23,991
Payable later than 1 year and not later than 5 years	<u>69,475</u>
	<u>93,466</u>

#### (b) Trade Finance contingent

	<i>31 December 2007 QAR'000</i>
Letter of guarantees	123,527
Letter of credits	<u>454,676</u>
	<u>578,203</u>

#### (c) Other contracts

	<i>31 December 2007 QAR'000</i>
Ijara unutilised limits	399,358
Profit rate swap	50,931
Forward foreign exchange contracts	<u>4,186,844</u>
	<u>4,637,133</u>

# Masraf Al Rayan (Q.S.C.)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2007

### 22 GEOGRAPHICAL SEGMENTATION

	<i>Qatar</i> QAR'000	<i>Other</i> <i>Countries</i> QAR'000	<i>Total</i> QAR'000
Cash and balances with Qatar Central Bank	456,775	-	456,775
Due from banks and other financial institutions	2,324,288	-	2,324,288
Receivables and balances from financing activities	6,737,837	-	6,737,837
Investment Securities	549,796	-	549,796
Investments in associates	-	9,502	9,502
Property and equipment	50,361	-	50,361
Other assets	62,911	-	62,911
<b>TOTAL ASSETS</b>	<b><u>10,181,968</u></b>	<b><u>9,502</u></b>	<b><u>10,191,470</u></b>
Customers' current accounts	405,834	-	405,834
Other liabilities	89,916	-	89,916
Unrestricted investment accounts holders	4,537,102	-	4,537,102
Equity	5,158,618	-	5,158,618
<b>TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS AND EQUITY</b>	<b><u>10,191,470</u></b>	<b><u>-</u></b>	<b><u>10,191,470</u></b>

### 23 RELATED PARTY DISCLOSURES

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

#### Related party transactions

##### (a) Balance Sheet items

	<i>31 December</i> <i>2007</i> QAR'000
<b>Assets</b>	
Ijarah	1,344,214
Mudaraba	<u>2,454,866</u>
	<u>3,799,080</u>
<b>Liabilities</b>	
Unrestricted investment accounts	<u>75,837</u>

23 RELATED PARTY DISCLOSURES (Continued)

(b) Income statement items

	<i>31 December 2007 QAR'000</i>
Fee and commission	21,450
Profit on Ijarah	60,103
Profit on Mudarabha	<u>54,080</u>
	<u>135,633</u>

Technical and feasibility studies fees paid to Gulf Finance House amounting to QR 3,467 thousands. During the period, Masraf purchased investment property amounting to QR 195,415 thousands from a founder shareholder, Qatari Diar Real Estate Investment Company.

(c) Compensation of key management personnel

	<i>31 December 2007 QAR'000</i>
Short term benefits	13,026
End of service benefit	<u>364</u>
	<u>13,390</u>