Masraf Al Rayan (Q.S.C.)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2008

ERNST & YOUNG

P.O. Box 164
3rd Floor, Al-Abdulghani Tower
Airport Road
Doha, State of Qatar
Tel: +974 441 4599
Fax: +974 441 4649
www.ey.com/me

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

Report on Financial Statements

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 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

Board of Directors 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, the applicable provisions of Qatar Central Bank regulations 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 2008 and its financial performance and its cash flows for the year ended 31 December 2008 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 year that would materially affect its activities or its financial position.

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

Date: 4 February 2009
Doha
State of Qatar

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	2008 QAR'000	2007 QAR '000
ASSETS			
Cash and balances with Qatar Central Bank	5	**501,209**	456,775
Balances and investments with banks and other financial institutions	6	**1,285,571**	2,324,288
Receivables and balances from financing activities	7	**13,325,737**	6,737,837
Financial investments	8	**911,861**	549,796
Investment in associates	9	**61,222**	9,502
Property, furniture and equipment	10	**85,263**	50,361
Other assets	11	**598,216**	62,911
TOTAL ASSETS		**16,769,079**	10,191,470
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY			
LIABILITIES			
Customers' current accounts		**413,716**	405,834
Other liabilities	12	**176,993**	89,916
TOTAL LIABILITIES		**590,709**	495,750
UNRESTRICTED INVESTMENT ACCOUNTS	13	**10,484,105**	4,537,102
EQUITY			
Paid up share capital	14	**4,124,654**	3,749,685
Legal reserve	14	**545,316**	453,612
Fair value reserve	14	**(5,064)**	1,360
Risk reserve	14	**199,885**	93,592
Proposed dividend	14	**618,698**	749,938
Retained earnings		**210,776**	110,431
TOTAL EQUITY		**5,694,265**	5,158,618
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY		**16,769,079**	10,191,470

The consolidated financial statements have been approved by the Board of Directors on 4 February 2009 and were signed on their behalf by:

Dr. Hussain Ali Al Abdalla	Esam Youssif Janahi	Adel Mustafawi
Chairman & Managing Director	Deputy Chairman	Chief Executive Officer – Al Rayan

The attached notes 1 to 25 form part of these financial statements

Masraf Al Rayan (Q.S.C.)

CONSOLIDATED INCOME STATEMENT

Year Ended 31 December 2008

	Notes	*1 January 2008 to 31 December 2008 QAR'000*	*4 January 2006 to 31 December 2007 QAR'000*
Income from financing activities	15	**522,666**	256,001
Income from investing activities	16	**805,712**	1,181,474
Total income from financing and investing activities		**1,328,378**	1,437,475
Commission and fees income		**120,219**	85,743
Commission and fees expense		**(19,875)**	(215)
Net commission and fee income	17	**100,344**	85,528
Gain from foreign exchange operations		**717**	23,028
Share of loss of associates		**(903)**	-
TOTAL OPERATING INCOME		**1,428,536**	1,546,031
General and administrative expenses	18	**(170,829)**	(178,642)
Depreciation	10	**(12,862)**	(5,441)
Impairment of other assets	11	**(72,810)**	-
PROFIT FOR THE YEAR BEFORE SHARE OF UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS		**1,172,035**	1,361,948
Less : Share of unrestricted investment accounts holders in the:			
- Net profit	19	**(249,879)**	(132,622)
- Risk reserve	14	**-**	(7,548)
- Investment risk reserve	19	**(5,116)**	(29,327)
NET PROFIT FOR THE YEAR/PERIOD DUE TO SHAREHOLDERS		**917,040**	1,192,451
BASIC AND DILUTED EARNINGS PER SHARE (QAR)	20	**1.22**	1.59

The attached notes 1 to 25 form part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT

Year Ended 31 December 2008

	Notes	*1 January 2008 to 31 December 2008 QAR'000*	*4 January 2006 to 31 December 2007 QAR'000*
OPERATING ACTIVITIES			
Profit for the year / period		**917,040**	1,192,451
Adjustments for:			
Depreciation	10	**12,862**	5,441
Provision for impairment of other assets	11	**72,810**	-
Gain on sale of financial investments		**(130,622)**	(6,350)
Gain on sale of investments	16	**(605,020)**	(836,400)
Share of loss of associates		**903**	-
Operating profit before changes in operating assets and liabilities		**267,973**	355,142
Net decrease (increase) in assets:			
Cash reserve with Qatar Central Bank	5	**(299,919)**	(71,201)
Receivables and balances from financing activities	7	**(6,587,900)**	(6,737,837)
Other assets	11	**(608,115)**	(62,911)
Net increase (decrease) in liabilities:			
Customers' current accounts		**7,882**	405,834
Other liabilities		**87,077**	89,916
Net cash flows used in operating activities		**(7,133,002)**	(6,021,057)
INVESTING ACTIVITIES			
Purchase of property, furniture and equipment	10	**(47,764)**	(55,802)
Purchase of investments		**(84,680)**	(198,295)
Purchase of financial investments		**(452,008)**	(507,815)
Proceeds from sale of financial investments		**210,270**	34,958
Proceeds from sale of investments		**689,701**	965,575
Investment in associates		**(52,623)**	(9,502)
Net cash flows from investing activities		**262,896**	229,119
FINANCING ACTIVITIES			
Proceeds from issue of share capital	14	-	4,005,512
Equity transaction costs	14	-	(40,705)
Payment of cash dividends	14	**(374,969)**	-
Increase in unrestricted investment accounts	13	**5,950,873**	4,536,993
Net cash flow from financing activities		**5,575,904**	8,501,800
Net (decrease)/increase in cash and cash equivalents		**(1,294,202)**	2,709,862
Cash and cash equivalents at the beginning of the year/ period		**2,709,862**	-
Cash and cash equivalents at 31 December	21	**1,415,660**	2,709,862

The attached notes 1 to 25 form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended 31 December 2008

	Notes	*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*
At 1 January 2008		3,749,685	453,612	1,360	93,592	749,938	110,431	5,158,618
Net changes in fair value reserve		-	-	(6,424)	-	-	-	(6,424)
Total income and expense for the year recognised directly in equity		-	-	(6,424)	-	-	-	(6,424)
Profit for the year		-	-	-	-	-	917,040	917,040
Total income and expense for the year		-	-	(6,424)	-	-	917,040	910,616
Dividend paid towards the uncalled share capital	14	374,969	-	-	-	(374,969)	-	-
Payment of cash dividends for 2007	14	-	-	-	-	(374,969)	-	(374,969)
Proposed cash dividends for 2008	14	-	-	-	-	618,698	(618,698)	-
Transfer to reserves		-	91,705	-	106,293	-	(197,997)	-
Balance at 31 December 2008		**4,124,654**	**545,316**	**(5,064)**	**199,885**	**618,698**	**210,776**	**5,694,265**

The attached notes 1 to 25 form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year Ended 31 December 2008

	Notes	*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*
At 4 January 2006		-	-	-	-	-	-	-
Capital subscription with share premium	14	3,749,685	255,827	-	-	-	-	4,005,512
Equity transaction costs deducted from share premium	14	-	(40,705)	-	-	-	-	(40,705)
Net changes in fair value reserve		-	-	1,360	-	-	-	1,360
Total income and expense for the period recognised directly in equity		3,749,685	215,122	1,360	-	-	-	3,966,167
Profit for the period		-	-	-	-	-	1,192,451	1,192,451
Total income and expense for the period		3,749,685	215,122	1,360	-	-	1,192,451	5,158,618
Proposed dividend	14	-	-	-	-	749,938	(749,938)	-
Transfer to reserves		-	238,490	-	93,592	-	(332,082)	-
Balance at 31 December 2007		3,749,685	453,612	1,360	93,592	749,938	110,431	5,158,618

The attached notes 1 to 25 form part of these financial statements

1 LEGAL STATUS AND MAIN ACTIVITIES

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

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.

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

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 authorised and paid up capital of USD 100 millions. The subsidiary commenced operations in January 2008.

The consolidated financial statements of Masraf Al Rayan Q.S.C. for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the Board of Directors on 4 February 2009.

2 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Future changes in accounting policies

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements:

- IFRS 8 Operating Segments:
The IAS Board issued IFRS 8 in November 2006. IFRS 8 replaces IAS 14 segment reporting (IAS 14) upon its effective date.

- Improvements to IFRSs:
In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording.

-IAS 16 Property, Plant and Equipments:
Replaces the term "net selling price" with "Fair value less costs to sell".

-IAS 28 Investment in Associates:
If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the abilities of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.

The application of the above standards and interpretations is not expected to have a material impact on the financial statements of the Group.

(b) Basis of preparation and consolidation

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation and consolidation (continued)

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 (IFRS).

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.

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

The financial statements are stated in Qatari Riyals which is the functional currency. Foreign currency transactions during the year are translated at the rate of exchange prevailing at the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Qatari Riyals at the rates of exchange prevailing at the year end. Any differences are taken to the income statement as 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 collectability is doubtful, income is suspended as per the instructions of Qatar Central Bank.
- Ijarah income is recognised on accrual basis and the profit rate is determined in advance upon agreement of all parties.
- Income on Mudaraba financing is recognised when the right to receive payment is established or distribution by the Mudarib.
- Income from dividends and investment funds are recognised when the right to receive the dividend is established.
- Other investments income is recognised on an accrual basis.
- Fees and commission income is recognised when earned.
- Profit is allocated proportionately between unrestricted investment accounts and shareholders on the basis of the average balances outstanding during the year after deduction of Masraf's share as Mudarib.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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

(f) Fair values

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

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

- Recoverable amount estimated by the portfolio manager
- Cost

(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.

(i) 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 instructions, 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 income statement when incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 years.

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.

Ijarah assets

Assets acquired for Ijarah (leasing) 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 doubtful 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 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 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 contracts and other 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Distribution of profit between unrestricted investment accounts holders and 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 year end is the net profit distributable between the shareholders and the unrestricted investment accounts.

- The share of the unrestricted investment account holders is calculated out from the net profit on the basis of daily balances of their balances after deducting 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 shall not be charged with these losses, subject to the discretion of Qatar Central Bank.

- In case the results of the Masraf at the year 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.

- 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.

(o) Investments in associates

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

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

(p) Offsetting

Offsetting of assets against liabilities and liabilities against assets should not be set-off 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Investment risk reserve

This is the amount appropriated by the 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.

(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.

(t) Impairment of financial assets

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

u) Contingent liabilities and other commitments

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

v) Derecognition of financial assets and financial liabilities

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

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a'pass-through arrangement ; or
- the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

3 SEGMENT INFORMATION

The Group is organised into one main business segment which deals in Islamic banking. Geographically, the Group operates in the State of Qatar, where it has all its assets and performs all its activities.

4 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

4.1 Financial instruments

(a) Definition and classification

The Group financial instruments represent the financial assets and liabilities. 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 customers current accounts and other liabilities. 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 explain the accounting policies used to recognise and measure the major financial instruments and related income and expenses.

(b) Fair value of financial instruments

Based on the methods used to determine the fair value of financial instruments detailed in the notes to the financial statements, the carrying values of financial assets and liabilities are not materially different from their fair values, except for property, furniture and equipment which are stated at cost.

4.2 Risk Management

4.2.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, profit risk, liquidity risk, operating risk and market risk, which include trading and non-trading risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Board of Directors

The Board of Directors is responsible for the risk management methodology and approving strategic plans and risk management principles.

Risk management function

The Risk Management Function is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It is also responsible for monitoring compliance with risk principles, policies and limits, across the Group.

Assets and liabilities

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

4 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

4.1 Risk Management (continued)

4.1.1 Introduction (continued)

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 make 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 utilization 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.

4 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

4.2 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 counter parties.

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 collateral obtained are as follows:

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

Management monitors the market value of 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 7.

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

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

	Gross maximum exposure 2008 QAR'000	*Gross maximum exposure 2007 QAR'000*
Cash and balances with Qatar Central Bank (excluding cash on hand)	**445,779**	430,890
Balances and investments with banks and other financial institutions	**1,285,571**	2,324,288
Receivables and balances from financing activities	**13,325,737**	6,737,837
Financial investments	**911,861**	549,796
Other receivables	**348,690**	-
Total on balance sheet	**16,317,638**	10,042,811
Contingent liabilities	**3,536,816**	578,203
Total off balance sheet	**3,536,816**	578,203
Total credit risk exposure	**19,854,454**	10,621,014

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.

4 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

42 Risk Management (continued)

42.2 Credit risk (continued)

(b) Credit quality per class of financial assets

The table below shows the credit quality by class of financial assets, based on the Group's credit rating system:

	Neither past due nor impaired			
	High grade QAR'000	*Standard grade QAR'000*	*Watch list or impaired grade QAR'000*	*Total QAR'000*
At 31 December 2008				
Cash and balances with Qatar Central Bank	**501,209**	-	-	**501,209**
Balances and investments with banks and other financial institutions	**1,285,571**	-	-	**1,285,571**
Receivables and balances from financing activities				-
- Retail	**53,635**	-	-	**53,635**
- Corporate	**9,960,871**	-	**25,926**	**9,986,797**
- Real estate	**3,271,516**	-	**13,789**	**3,285,305**
Financial investments	**911,861**	-	-	**911,861**
Other receivables	-	**275,880**	**72,810**	**348,690**
	15,984,663	**275,880**	**112,525**	**16,373,068**

	Neither past due nor impaired			
	High grade QAR'000	*Standard grade QAR'000*	*Watch list or impaired grade QAR'000*	*Total QAR'000*
At 31 December 2007				
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		-	-	
- Retail	27,652	-	-	27,652
- Corporate	240,313	-	-	240,313
- Real estate	6,469,872			6,469,872
Financial investments	549,796	-	-	549,796
	10,068,696	-	-	10,068,696

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.

4 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

4.1 Risk Management (continued)

4.1.2 Credit risk (continued)

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

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

	Less than 60 days	*61 to 90 days*	*Total 2008*
	QAR'000	*QAR'000*	*QAR'000*
Receivables and balances from financing activities:			
Retail	-	-	-
Corporate	**3,362**	**1,050**	**4,412**
Real estate	**347**	**358**	**705**
Total	**3,709**	**1,408**	**5,117**

	Less than 60 days	*61 to 90 days*	*Total 2007*
	QAR'000	*QAR'000*	*QAR'000*
Receivables and balances from financing activities:			
Retail	-	-	-
Corporate	-	-	-
Real estate	-	-	-
Total	-	-	-

As of 31 December 2008, the Group did not obtain any additional collaterals against the past due but not impaired receivables and balances from financing activities.

4 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

4.2 Risk Management (continued)

4.2.2 Credit risk (continued)

(d) Concentration analysis

The distribution of assets, liabilities and contingent liabilities by geographic region and industry sector is as follows:

	2008			*2007*		
	Assets QAR'000	***Liabilities and equity QAR'000***	***Contingent liabilities QAR'000***	*Assets QAR'000*	*Liabilities and equity QAR'000*	*Contingent liabilities QAR'000*
By geographic region						
Qatar	**16,364,167**	**16,679,079**	**3,536,816**	10,181,968	10,191,470	578,203
GCC countries	**49,643**	**-**	**-**	-	-	-
Others	**355,269**	**-**	**-**	9,502	-	-
Total	**16,769,079**	**16,679,079**	**3,536,816**	10,191,470	10,191,470	578,203
By industry sector						
Government	**36,777**	**4,813,515**	**2,705**	39,031	1,980,700	-
Government agencies	**8,224,884**	**1,814,929**	**788,368**	3,797,518	113,870	497
Commercial	**1,764,392**	**1,074,182**	**2,311,711**	279,343	474,716	176,770
Real estate	**3,248,528**	**169,939**	**434,032**	2,594,292	-	400,497
Banks	**1,731,350**	**2,119,706**	**-**	2,755,178	1,663,080	-
Consumption	**51,156**	**811,438**	**-**	27,652	640,143	439
Others	**1,711,992**	**5,965,370**	**-**	698,456	5,318,961	-
Total	**16,769,079**	**16,769,079**	**3,536,816**	10,191,470	10,191,470	578,203

4 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

4.2. Risk Management (continued)

4.2.2 Credit risk (continued)

(e) Credit risk exposure for each internal risk rating

Neither past due nor impaired	*2008* ***QAR'000***	*2007* *QAR'000*
Equivalent grades		
AAA to AA-	**6,322,185**	3,458,754
A+ to A-	**229,581**	1,192,119
BBB+ to BBB-	**150,159**	800,089
BB+ to B-	-	-
Below B-	-	-
Unrated	**9,282,737**	4,654,760
Total	**15,984,662**	10,105,722

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 13,286 million.

4.2.3 Market risk

Market risk is the risk that the Group's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates and equity prices. The Group manages its market risks within the framework of limits defined by the Qatar Central Bank. Setting the internal framework for the management of market risks and ensuring compliance with this framework is the responsibility of the committee of policies and procedures in the Group.

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

4.2.4 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.

4 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

4.2 Risk Management (continued)

4.2.5 Other risks

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

4.2.6 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.

4 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

4.2 Risk Management (continued)

4.2.6 Profit rate risk (continued)

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

	Within 3 months QAR'000	*3 to12 months QAR'000*	*1 to 5 years QAR'000*	*Over 5 years QAR'000*	*Non-profit sensitive QAR'000*	*Total QAR'000*
At 31 December 2008						
Cash and balances with Qatar Central Bank	-	-	-	-	501,209	501,209
Balances and investments with banks and other financial institutions	626,532	-	-	-	659,039	1,285,571
Receivables and balances from financing activities	7,436,027	391,550	5,099,903	398,257	-	13,325,737
Financial investments and investment in associates	-	-	-	819,621	153,462	973,083
Other assets	-	-	-	-	683,479	683,479
TOTAL ASSETS	**8,062,559**	**391,550**	**5,099,903**	**1,217,878**	**1,997,189**	**16,769,079**
Customers' current accounts	-	-	-	-	413,716	413,716
Other liabilities	-	-	-	-	176,993	176,993
Unrestricted investment accounts holders	8,731,794	1,647,149	-	11,050	94,112	10,484,105
Total shareholders' equity	-	-	-	-	5,694,265	5,694,265
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS AND EQUITY	**8,731,794**	**1,647,149**	**-**	**11,050**	**6,379,086**	**16,769,079**
Profit Rate Sensitivity Gap	**(669,235)**	**(1,255,599)**	**5,099,903**	**1,206,828**	**(4,381,897)**	**-**
Cumulative Profit Rate Sensitivity Gap	**(669,235)**	**(1,924,834)**	**3,175,069**	**4,381,897**	**-**	**-**

4 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (Continued)

4.2 Risk Management (continued)

4.2.6 Profit rate risk (continued)

At 31 December 2007	*Within 3 months QAR'000*	*3 to12 months QAR'000*	*1 to 5 years QAR'000*	*Over 5 years QAR'000*	*Non-profit sensitive QAR'000*	*Total QAR'000*
Cash and balances with Qatar Central Bank	-	-	-	-	456,775	456,775
Balances and investments with banks and other financial institutions	2,316,301	-	-	-	7,987	2,324,288
Receivables and balances from financing activities	1,567	3,939,228	94,831	2,702,210	-	6,737,836
Financial investments and investment in associates	469,625	-	-	-	89,673	559,298
Other assets	-	-	-	-	113,273	113,273
TOTAL ASSETS	2,787,493	3,939,228	94,831	2,702,210	667,708	10,191,470
Customers' current accounts	-	-	-	-	405,834	405,834
Other liabilities	-	-	-	-	89,916	89,916
Unrestricted investment accounts holders	4,390,441	85,542	314	-	60,805	4,537,102
Total shareholders' equity	-	-	-	-	5,158,618	5,158,618
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS AND EQUITY	4,390,441	85,542	314	-	5,715,173	10,191,470
Profit Rate Sensitivity Gap	(1,602,948)	3,853,686	94,517	2,702,210	(5,047,465)	-
Cumulative Profit Rate Sensitivity Gap	(1,602,948)	2,250,738	2,345,255	5,047,465	-	-

4 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

42 Risk Management (continued)

42.7 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.

	2008		*2007*	
Currency	***Increase in basis points***	***Sensitivity of net profit QAR'000***	*Increase in basis points*	*Sensitivity of net profit QAR'000*
QR	**10**	**3,568**	10	(79)
USD	**10**	**(2,657)**	10	1,960
EUR	**10**	**352**	10	3,312
AED	**10**	**297**	10	-
GBP	**10**	**(7)**	10	-
Currency	***Decrease in basis points***	***Sensitivity of net profit QAR'000***	*Decrease in basis points*	*Sensitivity of net profit QAR'000*
QR	**10**	**(3,568)**	10	79
USD	**10**	**2,657**	10	(1,960)
EUR	**10**	**(352)**	10	(3,312)
AED	**10**	**(297)**	10	-
GBP	**10**	**7**	10	-

4 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

4.2 Risk Management (continued)

4.2.8 Liquidity risk

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 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.

	One month QAR'000	*One to 3 months QAR'000*	*3 to 12 months QAR'000*	*1 to 5 years QAR'000*	*Over 5 years QAR'000*	*Total QAR'000*
At 31 December 2008						
Customers' current account	413,716	-	-	-	-	413,716
Other liabilities	176,993	-	-	-	-	176,993
Unrestricted investment accounts holders	7,721,553	1,104,353	1,647,149	11,050	-	10,484,105
Total Liabilities	**8,312,262**	**1,104,353**	**1,647,149**	**11,050**	**-**	**11,074,814**
Liquidity risk and funding management						
Contingent liabilities	3,536,816	-	-	-	-	3,536,816
Total	**3,536,816**	**-**	**-**	**-**	**-**	**3,536,816**

4 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

4.2 Risk Management (continued)

4.2.8 Liquidity risk (continued)

At 31 December 2007	*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
Total Liabilities	4,723,384	223,612	85,542	314	-	5,032,852

Liquidity risk and funding management

	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
Total	578,203	-	-	-	-	578,203

4 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

4.2 Risk Management (continued)

4.2.8 Liquidity risk (continued)

The maturity profile of the assets and liabilities at 31 December

At 31 December 2008	*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	130,089	-	-	-	371,120	501,209
Balances and investments with banks and other financial institutions	1,285,571	-	-	-	-	1,285,571
Receivables and balances from financing activities	6,529,726	906,301	391,550	5,099,903	398,257	13,325,737
Financial investments and investment in associates	23,120	-	-	-	949,963	973,083
Property , furniture and equipment	-	-	-	-	85,263	85,263
Other assets	-	598,216	-	-	-	598,216
TOTAL ASSETS	**7,968,506**	**1,504,517**	**391,550**	**5,099,903**	**1,804,603**	**16,769,079**
Customers' current accounts	413,716	-	-	-	-	413,716
Other liabilities	-	176,993	-	-	-	176,993
Unrestricted investment accounts holders	7,721,553	1,104,353	1,647,149	11,050	-	10,484,105
Total shareholders' equity	-	-	-	-	5,694,265	5,694,265
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS AND EQUITY	**8,135,269**	**1,281,346**	**1,647,149**	**11,050**	**5,694,265**	**16,769,079**
Liquidity Gap	**(166,763)**	**223,171**	**(1,255,599)**	**5,088,853**	**(3,889,662)**	-

4 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

4.2 Risk Management (continued)

4.2.8 Liquidity risk (continued)

At 31 December 2007	*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	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	1,567	-	3,939,228	94,831	2,702,211	6,737,837
Financial investments and investment in associates	89,673	-	-	-	469,625	559,298
Property , furniture and equipment	-	-	-	-	50,361	50,361
Other assets	-	62,911	-	-	-	62,911
TOTAL ASSETS	2,872,303	62,911	3,939,228	94,831	3,222,197	10,191,470
Customers' current accounts	405,834	-	-	-	-	405,834
Other liabilities	-	89,916	-	-	-	89,916
Unrestricted investment accounts holders	4,227,742	223,504	85,542	314	-	4,537,102
Total shareholders' equity	-	-	-	-	5,158,618	5,158,618
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS AND EQUITY	4,633,576	313,420	85,542	314	5,158,618	10,191,470
Liquidity Gap	(1,761,273)	(250,509)	3,853,686	94,517	(1,936,421)	-

4 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

4.2 Risk management (continued)

4.2.9 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 income statement, with all other variables held constant:

	2008		*2007*	
Currency	***Change in currency rate in %***	***Effect on income statement QAR'000***	*Change in currency rate in %*	*Effect on income statement QAR'000*
EUR	**+10%**	**-**	+10%	331,446
GBP	**+10%**	**34**	+10%	232
Yen	**+10%**	**-**	+10%	52
Others	**+10%**	**36,353**	+10%	1,062
EUR	**-10%**	**-**	-10%	(331,446)
GBP	**-10%**	**(34)**	-10%	(232)
Yen	**-10%**	**-**	-10%	(52)
Others	**-10%**	**(36,353)**	-10%	(1,062)

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 the other currency exposures are limited and the Group is not significantly exposed to the other currencies exposures.

4.2.10 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 period.

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.

4 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

4.2 Risk management (continued)

4.2.11 Capital Adequacy

	2008 QAR'000	*2007 QAR'000*
Tier 1 Capital	**4,876,258**	4,688,697
Tier 2 Capital	**191,060**	101,801
Total capital	**5,067,318**	4,790,498
Total risk weighted assets	**15,309,160**	10,257,627
Tier 1 Capital ratio	**31.85%**	45.71%
Total Capital ratio	**33.09%**	46.70%

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 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%.

5 CASH AND BALANCES WITH QATAR CENTRAL BANK

	2008 QAR'000	*2007 QAR'000*
Cash on hand	**55,430**	25,885
Cash reserve with Qatar Central Bank*	**371,120**	71,201
Current account with Qatar Central Bank	**74,659**	359,689
	501,209	456,775

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

6 BALANCES AND INVESTMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2008 QAR'000	*2007 QAR'000*
Current accounts	**659,039**	7,987
Deposits with Islamic Banks	**626,532**	2,316,301
	1,285,571	2,324,288

7 RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES

	2008 QAR'000	*2007 QAR'000*
(a) By type		
Receivables and balances from financing activities:		
Murabaha	**8,757,371**	1,174,741
Istesna	**-**	40,010
Ijarah	**1,715,903**	2,485,936
Mudaraba	**3,080,900**	3,188,419
Others	**2,479**	1,568
Total receivables and balances from financing activities	**13,556,653**	6,890,674
Deferred profit	**(230,916)**	(152,837)
Net receivables and balances from financing activities	**13,325,737**	6,737,837

(b) By sector

	Murabaha QAR'000	*Istesna QAR'000*	*Ijara QAR'000*	*Mudaraba QAR'000*	*Others QAR'000*	***Total 2008 QAR'000***
Government	36,777	-	-	-	-	**36,777**
Government institutions	5,966,446			2,343,500	-	**8,309,946**
Real estate	1,715,238	-	1,674,620	-	-	**3,389,858**
Contracting	71,223	-	13,488	812	-	**85,523**
Consumer	55,680	-	-	-	2,479	**58,159**
Services	766,894	-	12,703	736,588	-	**1,516,185**
Other	145,113	-	15,092	-	-	**160,205**
	8,757,371	-	1,715,903	3,080,900	2,479	**13,556,653**

	Murabaha QAR'000	*Istesna QAR'000*	*Ijara QAR'000*	*Mudaraba QAR'000*	*Others QAR'000*	*Total 2007 QAR'000*
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
	1,174,741	40,010	2,485,936	3,188,419	1,568	6,890,674

7 RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (continued)

(c) By beneficiary

	2008 QAR'000	*2007 QAR'000*
Government and Government institutions	**8,346,723**	3,836,549
Retail	**58,159**	27,652
Corporate	**1,761,913**	240,313
Real estate	**3,389,858**	2,787,160
	13,556,653	6,890,674

(d) Provisions for impairment of receivables from financing activities

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

8 FINANCIAL INVESTMENTS

(a) Available for sale investments

	2008 QAR'000	*2007 QAR'000*
Quoted equities	**23,120**	11,051
Unquoted equities	**69,120**	69,120
	92,240	80,171

(b) Held to maturity investments

Sukuk	**819,621**	469,625
	911,861	549,796

8 FINANCIAL INVESTMENTS (continued)

	2008			2007		
	Quoted '000 QR	**Unquoted '000 QR**	**Total '000 QR**	Quoted '000 QR	Unquoted '000 QR	Total '000 QR
Held to maturity investments by type						
Local sukuk in USD	**278,362**	**-**	**278,362**	218,430	-	218,430
Foreign sukuk in USD	**225,711**	**18,203**	**243,914**	232,992	18,203	251,195
Foreign sukuk in AED (2)	**297,345**	**-**	**297,345**	-	-	-
	801,418	**18,203**	**819,621**	451,422	18,203	469,625
Held to maturity investments by nature of income						
Fixed profit rate	**-**	**18,203**	**18,203**	-	18,203	18,203
Floating profit rate	**801,418**	**-**	**801,418**	451,422	-	451,422
	801,418	**18,203**	**819,621**	451,422	18,203	469,625

Notes:

1) The fair value of held to maturity investments as at 31 December 2008 amounted to QR 708,743 thousand.

2) The foreign sukuk by AED include Sukuk in amount of QR 148,674 thousand issued by Dubai Electricity Water Authority.

9 INVESTMENT IN ASSOCIATES

The Group's interest in its associate as at 31 December 2008 are as follows:

		Our share					*Carrying value*	
Name	*Country of incorporation*	*Assets*	*Liabilities*	*Operating income (loss)*	*Results*	*%interest held*	*2008*	*2007*
Pak-Qatar General Takaful Limited (A)	Pakistan	2,916	263	(14)	(909)	19.49%	2,629	3,563
Pak-Qatar Family Takaful Limited (B)	Pakistan	5,418	523	196	(1,043)	22.14%	3,950	5,939
National Mass Housing (C)	Oman	-	-	-	-	20%	49,643	-
CI San Trading (D)	Qatar	-	-	-	-	50%	5,000	-
							61,222	9,502

9 **INVESTMENT IN ASSOCIATES (continued)**

A) Pak – Qatar General Trading Limited

	2008 QAR'000	*2007 QAR'000*
Balance at beginning of the year/period	**3,563**	-
Investments acquired during the year/period	**-**	3,563
Less: Shares of loss	**(909)**	-
Exchange differences	**(25)**	-
Balance at the year end	**2,629**	3,563

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

B) Pak-Qatar Family Takaful Limited

Balance at beginning of the year/period	**5,939**	-
Investments acquired during the year/period	**-**	5,939
Less: Shares of loss	**(1,043)**	-
Exchange differences	**(946)**	-
Balance at the year end	**3,950**	5,939

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

C) The Company was incorporated in Oman on 26 June 2008 with paid up share capital of Omani Riyal 5,250,000 to conduct design services, consultancy services, project management, marketing , advertising, sales and construction for its real estate company and individual clients.

D) The Company was incorporated in Qatar on 7 October 2008 with paid up share capital of QR 10,000,000 to conduct sale, purchase, lease and rent properties.

As at the balance sheet date, National Mass Housing and CI San Trading were still in the pre-operating stage. Accordingly, the balances in the balance sheet represent the acquisition costs.

10 PROPERTY, FURNITURE AND EQUIPMENT

	Land & building QAR'000	*Leasehold improvements QAR'000*	*Furniture, fixtures and office equipment QAR'000*	*Computer hardware QAR'000*	*Work in progress QAR'000*	*Total QAR'000*
As at December 2008						
Cost:						
Balance at 1 January 2008	-	32,470	7,246	13,397	2,689	55,802
Additions	14,020	17,207	3,023	12,542	972	47,764
Balance at 31 December 2008	14,020	49,677	10,269	25,939	3,661	103,566
Accumulated depreciation:						
Balance at 1 January 2008	-	1,394	586	3,461	-	5,441
Depreciation for the year	322	4,406	1,427	6,707	-	12,862
Balance at 31 December 2008	322	5,800	2,013	10,168	-	18,303
Net book value:						
At 31 December 2008	**13,698**	**43,877**	**8,256**	**15,771**	**3,661**	**85,263**

10 PROPERTY, FURNITURE AND EQUIPMENT (continued)

	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 December 2007					
Cost:					
Balance at 4 January 2006	-	-	-	-	-
Additions	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

11 OTHER ASSETS

	2008 QAR'000	*2007 QAR'000*
Accrued profit	**42,286**	31,476
Advances to suppliers	**4,765**	4,836
Prepayments and other receivables	**202,475**	26,599
Receivables from sale of investments	**421,500**	-
	671,026	62,911
Less: provision for impairment	**(72,810)**	-
	598,216	62,911

The Group provided an amount of QR 72,810 thousands as a provision of impairment on receivables which represents the 50% from the total outstanding amount due from Financial Cities Development Company from the sale of Group's share in Gulf Tunis Investment Company.

12 OTHER LIABILITIES

	2008 QAR'000	*2007 QAR'000*
Unearned commission	**23,527**	3,131
Accrued expenses	**24,511**	23,359
Provision for employees end of service benefits (a)	**3,484**	1,316
Other staff provisions	**35,674**	21,656
Profit payable	**1,764**	19,538
Others	**88,033**	20,916
	176,993	89,916

(a) Provision for employees end of service benefits

	2008 QAR'000	*2007 QAR'000*
Balance at beginning of the year / period	**1,316**	-
Provisions for the year / period	**2,317**	1,326
End of service benefits paid during the year / period	**(149)**	(10)
Balance at 31 December	**3,484**	1,316

13 UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS

	2008 QAR'000	*2007 QAR'000*
(a) By type		
Saving accounts	**233,566**	107,988
Call accounts	**7,130,204**	2,022,040
Time deposits	**3,026,223**	2,346,113
Profit payable to unrestricted investment accounts holders	**68,499**	23,977
Share in the fair value reserve	**(3,761)**	109
Share in the risk reserve	**-**	7,548
Share in the investment risk reserve (A)	**29,374**	29,327
	10,484,105	4,537,102

	2008 QAR'000	*2007 QAR'000*
(b) By sector		
Government and Government institutions	**6,606,858**	2,091,970
Individuals	**629,780**	506,673
Banks	**2,119,706**	1,663,080
Corporate	**1,033,649**	214,418
Profit payable to unrestricted investment accounts holders	**68,499**	23,977
Share in the fair value reserve	**(3,761)**	109
Share in the risk reserve*	**-**	7,548
Share in the investment risk reserve (A)	**29,374**	29,327
	10,484,105	4,537,102

A) The balance of investment risk reserve include an amount of QR 24,162 thousand represents the share of unrestricted investments accounts holders in the gain on sale of investment which has been disclosed in note 16 (3) and it is not available for distribution only up to the extent received in cash from the sale, in accordance with Qatar Central Bank instructions.

*In accordance with Qatar Central Bank circular no 87/2008, no risk reserve is deducted from the profit of unrestricted investment accounts holders, and the total risk reserve is transferred from shareholders' profit as an appropriation.

14 SHARE CAPITAL

	2008 QAR'000	*2007 QAR'000*
Authorised		
750,000,000 shares at QR 10 each	**7,500,000**	7,500,000
Issued & paid-up		
749,936,932 shares at QR 5.50 each (2007 – QR 5.00)	**4,124,654**	3,749,685

23 GEOGRAPHICAL SEGMENTATION

	Qatar QAR'000	*GCC QAR'000*	*Other Countries QAR'000*	*Total QAR'000*
At 31 December 2008				
Cash and balances with Qatar Central Bank	**501,209**	-	-	**501,209**
Due from banks and other financial institutions	**1,285,571**	-	-	**1,285,571**
Receivables and balances from financing activities	**13,325,737**	-	-	**13,325,737**
Financial investments	**911,861**	-	-	**911,861**
Investment in associates	**5,000**	**49,643**	**6,579**	**61,222**
Property, furniture and equipment	**85,263**	-	-	**85,263**
Other assets	**249,526**	-	**348,690**	**598,216**
TOTAL ASSETS	**16,364,167**	**49,643**	**355,269**	**16,769,079**
Customers' current accounts	**413,716**	-	-	**413,716**
Other liabilities	**176,993**	-	-	**176,993**
Unrestricted investment accounts holders	**10,484,105**	-	-	**10,484,105**
Equity	**5,694,265**	-	-	**5,694,265**
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS AND EQUITY	**16,769,079**	-	-	**16,769,079**

	Qatar QAR'000	*GCC QAR'000*	*Other Countries QAR'000*	*Total QAR'000*
At 31 December 2007				
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
Financial investments	549,796	-	-	549,796
Investment in associates	-	-	9,502	9,502
Property, furniture and equipment	50,361	-	-	50,361
Other assets	62,911	-	-	62,911
TOTAL ASSETS	10,181,968	-	9,502	10,191,470
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
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS AND EQUITY	10,191,470	-	-	10,191,470

24 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

	2008 QAR'000	*2007 QAR'000*
Assets		
Murabaha	**839,553**	-
Ijarah	**661,682**	1,344,214
Mudaraba	**2,343,501**	2,454,866
	3,844,736	3,799,080
Liabilities		
Unrestricted investment accounts holders	**1,728,160**	75,837

(b) Off balance sheet items

Letter of guarantee	**178,612**	788,368

(c) Income statement items

	1 January 2008 to 31 December 2008 QAR'000	*4 January 2006 to 31 December 2007 QAR'000*
Income from investing activities	**127,418**	-
Fee and commission	**56,635**	21,450
Profit on Ijarah	**31,701**	60,103
Profit on Mudaraba	**128,935**	54,080
	344,689	135,633

25 COMPARATIVE INFORMATION

Certain figures of previous period have been reclassified to conform to the presentation for the current year.