achieving success
by balancing individual skills and organisational objectives

Annual Report 2011

مصرف الريان
MASRAF AL RAYAN

Honor is the reward for what we give, not what we receive.

Contents

His Highness
Sheikh Hamad Bin Khalifa Al Thani
Emir of the State of Qatar

His Highness
Sheikh Tamim Bin Hamad Bin Khalifa Al Thani
Heir Apparent of the State of Qatar

Message from the Chairman & Managing Director

On behalf of the members of the Board of Directors of Masraf Al Rayan I am pleased to present the Board of Directors' Report on the financial year ending on 31.12.2011, in which a new Board of Directors was elected to serve for the term 2011– 2013. The new Board of Directors assumed its responsibilities on 28.3.2011, starting its first year by following up on the achievements made during the past five years.

During 2011 Masraf Al Rayan achieved remarkable results, including a net profit of QR 1,408 million, which grew by 16.3% over 2010.

In spite of the European sovereign debts crisis, the worst that the financial markets suffered from during 2011, and one of the reasons behind re-rating the credit standing of some European countries, the GCC markets maintained their relative stability. On top of these is the Qatari market which remained supported by the strong indicators of the Qatari economy and a GDP growth rate of 21% in 2011.

During 2011 Masraf al Rayan achieved remarkable results, including a net profit of QR 1,408 million, which grew by 16.3% over 2010.

Total assets reached QR 55,271 million, increasing by 59.4%; total value of finance activities amounted to QR 34,766 million, increasing by 38.7%; total shareholders' equity reached QR 8,504 million, increasing by 13.3% over the previous year, and the book value of the share stood at QR 11.34.

Regarding the distribution of the Bank's profit for the year 2011, the Bank, as you know, had paid, at the end of the first half of year 2011, after the approval of your respectable assembly, 60 Dirhams against each share from the profits of the first half of the same year on behalf of the shareholders to complete the paid-up capital.

The Board of Directors of Masraf Al Rayan has recommended in its meeting of 29.1.2012 the distribution of an additional 50 Dirhams in cash dividend per share, and thus the total distributions value made during the year 2011 reached QR 1.1 per share.

During the year the Board of Directors of Masraf Al Rayan placed pronounced emphasis on providing its client with innovative products and further improving existing ones. This was evident in the product innovations the Bank brought about in its electronic and phone banking services. The Board of Directors also concentrated on further developing the capability of the Bank's human resources, especially Qatari nationals, with a special focus on identifying visionaries, who can assume leadership positions in the Bank.

In 2011 the Bank maintained a 30.62% Qatarization level, which is by far one of the best in the industry, and continued its corporate social responsibility programs by providing financial and technical support to various sports, charitable and social bodies

In 2011, Masraf Al Rayan opened new branches at Wathnan Mall and Barwa village on Al Wakra road, bringing the total number of branches to 10. This is in addition to a Category C branch in Al Khor, which is dedicated for fund transfers.

Overseas expansion continued to be the main focus of the Bank with Masraf Al Rayan exploring acquisition opportunities in the GCC and Middle Eastern countries, while adopting a prudent policy in line with the current economic and financial conditions. The Board of Directors endorsed a five-year strategy which aims to consolidate the current plans of the Bank, benefit from the economic boom witnessed by the country, engage with the real economy, optimize the utilization of technology to provide top-of-the-line services to its clients, and improve the quality of its services.

On behalf of the Board of Directors of Masraf Al Rayan I take immense pleasure in extending our most profound gratitude to HH Sheikh Hamad Bin Khalifa Al Thani, Emir of the State of Qatar and to HH Sheikh Tamim Bin Hamad Bin Khalifa Al Thani, the Heir Apparent for their far-sighted directives which continue to guide the success of the financial sector. Our sincere thanks are also extended to HE Sheikh Abdullah Bin Saud Al Thani, Governor of Qatar Central Bank and to HE Sheikh Fahad Bin Faisal Al Thani, Deputy Governor of Qatar Central Bank for their valuable contributions towards enhancing the performance of the banking sector and safeguarding the financial stability of the State of Qatar.

I also extend our sincere gratitude to the executive management and employees of Masraf Al Rayan for their unwavering loyalty and commitment towards the ongoing success of the Bank.

I beseech Almighty Allah to bless us with the ability to provide the best services to our esteemed clients and shareholders.

Dr. Hussain Ali Al Abdulla
Chairman and Managing Director

Message from the Group Chief Executive Officer

The growth momentum that we achieved in 2010 continued into 2011, yielding us a remarkable net profit of QR 1.408 billion, an increase of 16.3% over our 2010 figure of QR 1.211 billion. The upward growth trend also had a positive impact on our other key financial indicators. At the end of the year, our total assets had increased by a phenomenal 59.4% to reach QR 55.271 billion, our total shareholders' equity witnessed a 13.3% increase and reached QR 8.504 billion and our Earnings per Share touched QR 11.34.

During the year pronounced emphasis was placed on transforming ourselves as the 'bank for everyone' by enhancing the accessibility of all our product and service delivery channels. We continued to invest in our key infrastructure as well as in our human capabilities with a view towards ensuring that our customers continue to enjoy absolute banking convenience with us. We also added Barwa Village and Wathnan Mall to our branch network and expanded our ATM network to 41 ATMs.

With the ambitious infrastructure expansions plans that the Country has envisaged, especially in the wake of the 2022 FIFA World Cup decision, we are quite optimistic of the future. We aspire to be recognised as a key partner of the Nation's economic prosperity and we intend to draw inspiration from the phenomenal achievements of our previous years and continue moving towards further heights of success.

2011 also saw us make immense progress towards our target of ensuring that our customers enjoy '24x7 total banking' with us by expanding the scope of our e-banking services. One of the key highlights of the year was the launch of the mobile banking application.

We continued to focus on building sustainable and trustworthy relationships with our high net worth clients by offering them key advisory and consultancy services for all their investment and wealth management aspirations. No wonder, we were able to record a phenomenal 150% growth in our private banking portfolio.

At Masraf Al Rayan, we understand the positive impact a motivated and skilled workforce can have on our growth momentum. Hence, we continue to invest in the human capabilities across our entire organization. Our efforts in this regard saw us achieve the ISO 2000:2011 certification in recognition of our industry-leading HR practices, policies and procedures. During the year, we also successfully launched our online HR portal, completely revamped our organizational structure and introduced our employees to a wide range of e-learning initiatives.

The Bank remains truly committed to the Country's aspirations to carve a generation of qualified and experienced nationals who can assume key leadership roles in various socio-economic sectors. This is aptly reflected in the fact that all our operations have now been fine-tuned to be in line with Qatar National Vision 2030. In this regard, it is worth noting our Qatari manpower now occupies an overwhelming 30.62% of our overall manpower strength.

Year 2011 saw our subsidiary – Al Rayan Investment – make phenomenal progress towards establishing ourselves as a trustworthy and reliable investment partner of the Qatari economy. Our footprints, especially in the Qatari, GCC and South East Asian markets, have grown remarkably. This was quite evident in the fact that we were nominated as the advisors of the only private sector M&A transaction undertaken in Qatar and two of the largest real estate developers in Qatar entrusted us with the responsibility of undertaking their public listing in the South East Asian market. During the year we also established our real estate development arm – Al Rayan Partners, which is presently involved in the US$ 8 billion Seef Losail project. The Al Rayan GCC Fund that we launched as the largest Qatar-based fund in the GCC was the fourth best performing fund in the GCC.

We continued to play a major role in the economic development of the State of Qatar by offering tailor-made solutions to some of the key players in the State's economy. Our prime focus has been to partner with government and quasi government entities and support core infrastructure projects and other initiatives in various sectors of the State's economy, such as health care, telecom, sports, utility, real estate, trade, financial service, transportation, energy, petrochemical, media, manufacturing, water, aviation, contracting and others. Today, we can proudly claim that we are the custodians of a very strong and sound business and asset portfolio.

In conclusion, I would like to express our sincere gratitude and appreciation to HH Sheikh Hamad Bin Khalifa Al Thani, Emir of the State of Qatar and HH Sheikh Tamim Bin Hamad Bin Khalifa Al Thani, the Heir Apparent for their inspiring leadership and flawless wisdom. I would also like to thank HE Sheikh Abdullah Bin Saud Al Thani, Governor of Qatar Central Bank for his continued guidance. Thanks and appreciation are also extended to our Board of Directors, Shari'a Board, Senior Management, investors, shareholders, employees and our valuable customers for their continued patronage and unwavering loyalty towards our bank.

Thank You.

Adel Mustafawi
Group Chief Executive Officer

Corporate Governance

2011 has been the second year for the implementation of the Corporate Governance guidelines for the listed companies in the Qatar Exchange.

Leadership in Masraf Al Rayan

Board of Directors

Dr. Hussain Ali Al Abdulla
Chairman and Managing Director

Sheikh Al Hussain Bin Ali Bin Ahmed Al Thani
Deputy Chairman

Sheikh Saleh Ali Abdulrahman Al Rished
Board Member

Mr. Jassem Saif Ahmed Al Sulaiti
Board Member

Sheikh Nasser Bin Hamad Bin Nasser Al Thani
Board Member

Mr. Faisal Abdulwahid Ali Al Hamadi
Board Member

Mr. Turki Mohammed Al Khater
Board Member

Mr. Abdulla Ahmed Al Maleki Al Jahni
Board Member

Mr. Khalaf Sultan Al Dhaheri
Board Member

Corporate Governance has had a positive impact on the relationship between investors and companies, whereby all company information and data has been openly presented, and has been made available on the respective electronic websites of the companies.

Senior Management

Adel Mustafawi
Group Chief Executive Officer

Jamal Darwiche
Chief Operating Officer/Acting GM - Retail Banking

Feizal Ali
Chief Operating Officer - Al Rayan Venture

Mohamed Mursal
General Manager - Financial Controls

Syed Hasan
General Manager - Corporate Banking

Abdulla Al Mulla
General Manager - HR & Admin

Hassan Al Awad
AGM - Information Technology

Hassan Al-Hammadi
AGM - Treasury

Aized Habib
AGM - Corporate Banking

Abdelmonem El Hassan
General Legal Counsel

Majdi Al Fatih Awouda
Chief Internal Auditor

Khalid Fakhroo
Executive Director - Engineering & Real Estate

Zakaria Glaoui
Executive Manager - Private Banking/Branches

Subramaniam Yenamandara
Acting AGM - Operations/Card Centre

Manahil Maki
Executive Manager - Credit Risk

Mahboob Haider
Executive Manager - Mfg. & Trade Relationship

Hussein Hammam
Executive Manager - SME

Mohamed Hussein
Executive Manager
Head of Operations and System Risk

Adel Fadhul
Executive Manager - Trade Finance

Fawzi Siam
Senior Manager - Shari'a Audit

Dareer Mohamed
Compliance Manager

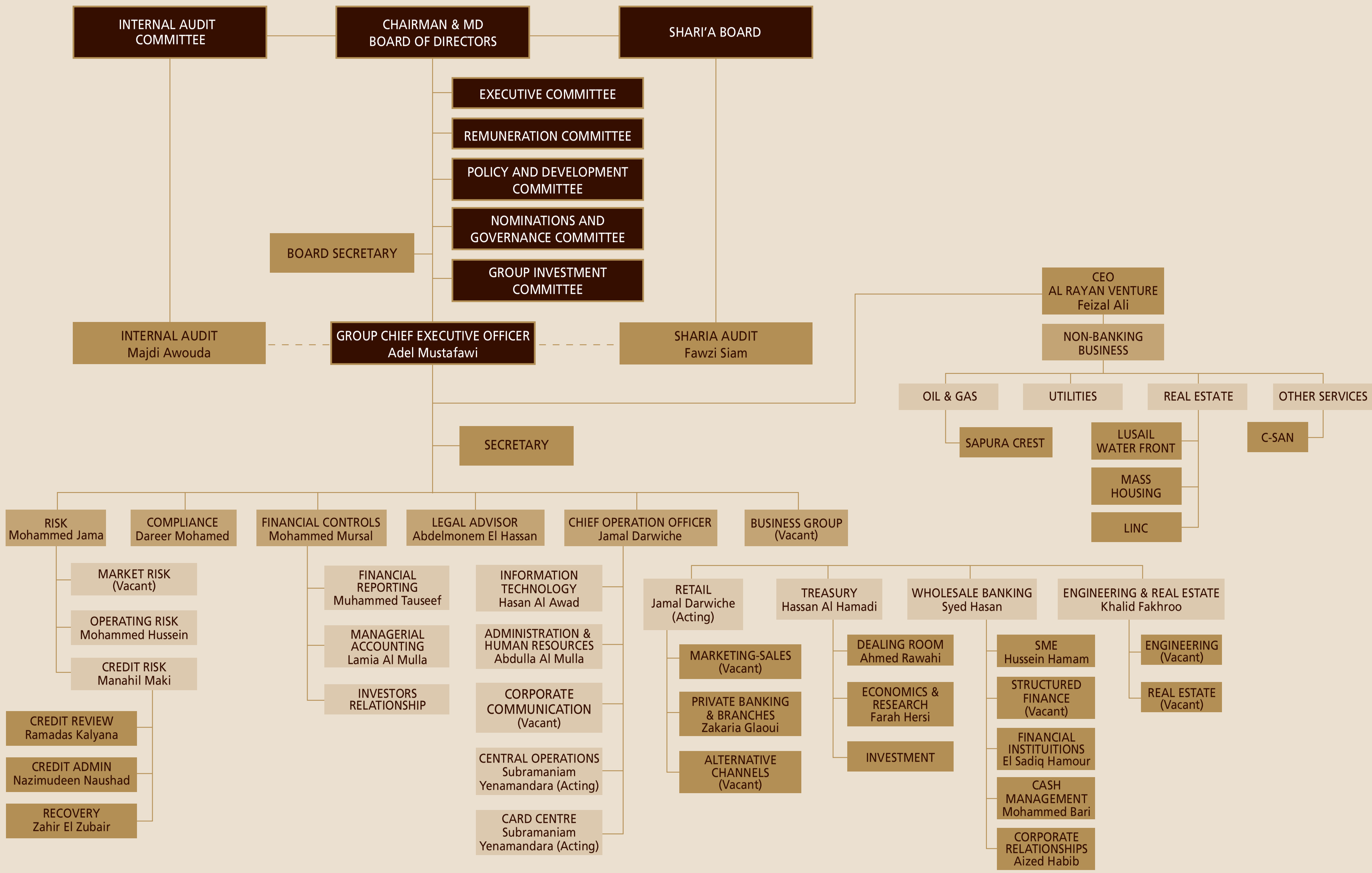
Shari'a Supervisory Board

Sheikh Dr. Waleed Bin Hadi
Chairman of Shari'a Supervisory Board

Sheikh Dr. Abdul Sattar Abu Ghuddah
Member of Shari'a Supervisory Board

Sheikh Dr. Mohammed Othman Tahir Shubeir
Member of Shari'a Supervisory Board

Organizational Chart



Board of Directors' Report on Corporate Governance in Masraf Al Rayan 2011

2011 has been the second year for the implementation of the Corporate Governance guidelines for the listed companies in the Qatar Exchange. This has had a positive impact on the relationship between investors and companies, whereby all company information and data has been openly presented, and has been made available on the respective electronic websites of the companies.

Company practices have taken on an international dimension by following standards of corporate governance set by international bodies. Accordingly, company boards have become more compliant with the set standards and policies.

Company practices have taken on an international dimension by following standards of corporate governance set by international bodies. Accordingly, company boards have become more compliant with the set standards and policies.

With respect to banks and financial institutions listed on QE in Qatar, there have been two sets of corporate governance standards to be followed simultaneously; from Qatar Central Bank and from Qatar Financial Markets Authority.

Masraf Al Rayan is committed to follow these guidelines and has complied as per articles (2) and (3) of the Corporate Governance Guidelines of Companies listed in the Market that are subject to the rules of the Qatar Financial Markets Authority.

Charter of the Board of Directors

The Board of Directors of Masraf Al Rayan has adopted a charter for itself, in which the details of the responsibilities and duties of the Board Members have been set as per the standards set by the Qatar Financial Markets Authority Corporate Governance Guidance for markets subject to its supervision, the Charter has been published on the Bank's electronic website for ease of access by investors and the public.

The Board of Directors

Article 23 of the Articles of Association of Masraf Al Rayan has established that the Board shall be composed of 9 Members, 7 are elected by the General Assembly while the main founders, Qatari Diar Real Estate Investment Company and the General Retirement and Social Insurance Authority (Qatar), each appoints their own representative Member.

Invitations for Board Elections were sent out on January 2, 2011, before the end of the current Board's term. 11 nominees ran for the term 2011-2013; out of which 7 have been elected in the General Assembly Meeting held on March 28, 2011, while the remaining 2 have been appointed by the founders, Qatari Diar Real Estate Investment Company and the General Retirement and Social Insurance Authority (Qatar), as per the Articles of Association.

	Name	Title	Nationality	State	Restricted Shares	Available Shares as on 31/12/2011
1.	**Dr. Hussain Ali Al Abdulla**	Chairman & Managing Director	Qatari	Not Independent Non-Executive	100,000	1,900,000
2.	**Sheikh Al Hussein Bin Ali Bin Ahmed Al Thani**	Vice Chairman	Qatari	Independent Non-Executive	100,000	200,000
3.	**Sheikh Saleh Ali Abdul Rahman Al Rished**	Board Member	Saudi	Independent Non-Executive	100,000	1,879,660
4.	**Mr. Jassim Saif Ahmed Al Sulaiti** Representing Qatar Armed Forces Fund	Board Member	Qatari	Independent Non-Executive	–	60,500
5.	**Sheikh Nasser Bin Hamad Bin Nasser Al Thani**	Board Member	Qatari	Independent Non-Executive	100,000	24,136
6.	**Mr. Faisal AbdulWahid AlHammadi** Representing Qatari Diar Real Estate Investment Company	Board Member	Qatari	Independent Non-Executive	–	9,000
7.	**Mr. Turki Mohammed Al Khater** Representing the General Retirement and Social Insurance Authority (Qatar)	Board Member	Qatari	Independent Non-Executive	–	38,676
8.	**Mr. Abdullah Ahmad Al Maleki**	Board Member	Qatari	Independent Non-Executive	100,000	201,000
9.	**Mr. Khalaf Sultan Al Dhaheri**	Board Member	UAE	Independent Non-Executive	100,000	–

About the Board Members

Dr. Hussain Ali Al Abdulla
Chairman & Managing Director
PhD in Economics

- Executive Board Member
  – Qatar Investment Authority
- Vice Chairman
  – Qatar Holdings
- Acting Chairman – Board of Directors
  – Qatar Exchange
- Board Member
  – Qatar Airways
- Board Member
  – Gulf Investment Company (Kuwait)
- Chairman
  – Al Rayan Investment

Sheikh Al Hussein Bin Ali Bin Ahmed Al Thani
Deputy Chairman – Masraf Al Rayan
Bachelor of Laws

- Chief Executive Officer
  – Qatar Media
- Deputy Chairman
  – Daman Islamic Insurance Company (Beema)
- Chairman
  – Al Husonn Investment Company (Oman)
- Board Member
  – Al Rayan Investment

Sheikh Saleh Ali Abdulrahman Al Rished
Board Member – Masraf Al Rayan
Bachelor of Business Administration
Renowned businessman
in the Kingdom of Saudi Arabia

- Chairman
  – Amlak National Investment Company (KSA)
- Board Member
  – Ithmar Commercial Cooperative Insurance (KSA)
- Board Member
  – International Bank (Bahrain)

Mr. Jassem Saif Ahmed Al Sulaiti
Board Member – Masraf Al Rayan
Bachelor of Mechanical Engineering
– Business Administration

- Brigadier General – Commander of Maintenance Corps
  – Qatar Armed Forces
- Chairman
  – Mowasalat

Sheikh Nasser Bin Hamad Bin Nasser Al Thani
Board Member – Masraf Al Rayan
Masters in Business Administration

- Chairman
  – Al Sailiya Sport Club
- Board Member
  – Al Rayan Investment

Mr. Faisal Abdulwahid Ali Al Hammadi
Board Member – Masraf Al Rayan
Masters of Finance and Certified Financial Analyst (CFA)

- Head of Assets Investments Management
  – Qatar Investment Authority
- Board Member
  – First Finance
- Board Member
  – Al Rayan Investment

Mr. Turki Mohammed Khalid Al Khater
Board Member – Masraf Al Rayan
Representing the General Retirement and Social Insurance Authority (Qatar)
Bachelor of Economics and Social Sciences

- President of General Retirement and Social Insurance Authority (Qatar)

Mr. Abdulla Ahmed Al Maleki Al Jahni
Board Member – Masraf Al Rayan
Bachelor of Economics and Management

Mr. Khalaf Sultan Al Dhaheri
Board Member – Masraf Al Rayan
Master of Business Administration and Certified Accountant

- Deputy Chief Risk Officer
  – Abu Dhabi National Bank (UAE)

The Board is collectively responsible for the supervision of Masraf Al Rayan Management to ensure adherence to the Board Charter and for the approval of strategies and policies that direct the work of Masraf Al Rayan.

Independence of Board Members

The Board of Directors is composed of 8 independent Members, while all 9 Board Members are non executives.

Dr. Hussain Ali Al Abdulla, the Chairman, had been appointed as the Managing Director, and it is to be mentioned that he does not practice any daily executive responsibilities since the Group Chief Executive Officer exercises these responsibilities as head of the Bank's Executive Management. The Managing Director is considered the liaison between the Board of Directors and the Executive Management; accordingly the two positions of Chairman of the Board (Managing Director) and the Chief Executive (General Manager) have been effectively segregated. Moreover, the Chairman is not a Member of any of the Board Committees. The Board Charter segregates these responsibilities in accordance with article 8 of the Qatar Financial Markets Authority Corporate Governance Guidelines.

Board Meetings

The Board of Directors held six meetings during 2011 on the following dates:

First meeting: 25/1/2011

Second meeting: 28/3/2011

Third meeting: 23/5/2011

Fourth meeting: 8/8/2011

Fifth meeting: 17/10/2011

Sixth meeting: 19/12/2011

The Board of Directors carries out its authority and responsibilities in accordance with its Charter and Masraf Al Rayan Articles of Association and Memorandum of Association and in compliance with Qatar Central Bank regulations while observing the Qatar Financial Markets Authority Corporate Governance Guidelines for companies listed in markets under its jurisdiction. The Board is collectively responsible for the supervision of Masraf Al Rayan Management to ensure adherence to the Board Charter and for the approval of strategies and policies that direct the work of Masraf Al Rayan.

Secretary of the Board

Mr. Ghassan Al-Rihawi has been appointed as Secretary of the Board since its inception in 2006. Mr. Al-Rihawi previously held the position of Secretary of the Board of Qatar Chamber of Commerce and Industry (2002-2006) and has administration experience of 31 years in Qatar. The Secretary of the Board, under the supervision of the Chairman, records and coordinates all Board Meetings and their minutes. The Secretary is responsible for the sharing of information between the Board Members, the Board, and other Stakeholders inclusive of Shareholders and Employees.

The Secretary of the Board also ensures quick and efficient access for Board Members to all minutes of meetings, information, documents and records of Masraf Al Rayan. The Secretary is also responsible for providing upon request the Ownership Records, Register of Shareholders, Register of Membership of the Board of Directors, Articles and Memorandum of Association, any other company assets documents and related parties contracts.

Shari'a Supervisory Board

Shari'a Supervisory Board

On August 8, 2011, as per the delegation of the General Assembly of 2011/3/28, and as per Board Resolution 2011/4/11, Masraf Al Rayan Board of Directors approved the new formation of the Shari'a Supervisory Board for the term (2011-2013), accordingly the Shari'a Supervisory Board Members now are:

- Sheikh Dr. Waleed Bin Hadi, Chairman
- Sheikh Dr. Abdul Sattar Abu Ghuddah, Member
- Sheikh Dr. Mohammed Othman Tahir Shubeir, Member

The Shari'a Supervisory Board reviews the contracts and responds to the enquiries, additionally, it sets solutions for the challenges which would appear during the implementation. The Supervisory Board responsibilities also include supervising the bank's operations and assuring its compliance with the regulations and principles of Shari'a. The Shari'a Supervisory Board will submit its report for Masraf Al Rayan financial year 2011 to the General Assembly at its meeting due to be held on March 6, 2012.

Board Committees

The Board of Directors' Committees were formed pursuant to the corporate governance guidelines and had performed their functions as specified in their approved terms of reference until the end of 2011. The Board Committees are as follows:

Executive Committee

- Sheikh Al Hussain Bin Ali Bin Ahmed Al Thani, President
- Sheikh Nasser Bin Hamad Bin Nasser Al Thani, Member
- Mr. Jassim Saif Ahmed Al Sulaiti, Member
- Mr. Faisal AbdulWahid AlHammadi, Member

The Executive Committee is one of the most important Board Committees as it assists the Board in reviewing the activities of Masraf Al Rayan and it plays a major role in studying the issues related to the credit transactions and the bank's activities in order to present the issues that need approval to the Board. The Committee raises recommendations.

Executive Committee Main Responsibilities:

- Review the main duties of the Board
- Discuss matters which fall under the purview of the Board or those that may arise between Board meetings
- Provide reports and recommendations to the Board of Directors and upon request
- Present recommendations and approve financial matters, according to the delegated authorities
- Endorse risk policy
- Recommend approval of the policies and regulations or any amendments or additions
- Approve or recommend country or bank limits and incorporate necessary amendments, if needed

The Committee studied, reviewed and made appropriate decisions on several matters that were referred to it.

The Executive Committee held the following meetings during 2011:

First meeting: 2011/5/23

Second meeting: 2011/8/8

Third meeting: 2011/10/17

Fourth meeting: 2011/12/19

Internal Audit Committee

- Mr. Khalaf Sultan Al Dhaheri, President
- Sheikh Saleh Bin Ali Abdul Rahman Al Rashed, Member
- Mr. Abdullah Ahmed Abdullah Al Maleki, Member
- Mr. Turki Mohammad Al Khater, Member

The majority of the members of this Committee should be independent with an independent member chairing the Committee.

Internal Audit Committee has the following responsibilities:

- Appoint the internal audit staff and adopt a policy for contracting the external auditors.
- Supervise and monitor the independence of the external auditors and their objectivity and discuss with them the nature and scope of the audit and effectiveness in accordance with international auditing standards and international financial reporting standards.
- Overseeing the accuracy and validity of the financial statements and the annual, semi-annual and quarterly reports, review the data and reports in particular with regards to their compliance with accounting, transparency, listing in the market and disclosure standards.
- Coordination with the Board and senior executive management and Chief Financial Officer of the Bank or designate and arrange meetings with the external auditors at least once a year.
- Study any important and unusual issues included or will be included in the financial statements.
- Revision of financial and internal control systems and risk management.
- Discuss the internal controls system with the management and ensure the performance of the management of its duties towards the development of an effective internal controls system.
- Considering the results of the investigations in the internal control issues entrusted to it by the Board of Directors.
- Ensure coordination between the external and internal auditors and verify and supervise the effectiveness of the internal audit.
- Review the accounting and financial policies and procedures of the Bank.
- Review letter of appointment of the external auditor, his work plan and any queries he requested from Senior Management of the bank as well as the responses of the management.
- Ensure prompt response to Board of Directors queries and matters raised by external auditors.
- Developing rules to be approved by the Board of Directors allowing the staff of the bank to report confidentially their concerns regarding any issues that are likely to raise suspicion, and to ensure appropriate arrangements for an independent and fair investigation about these issues while preserving confidentiality and protecting the staff from any retaliation.
- Oversee compliance with the rules of professional conduct.
- Reporting to the Board of Directors on matters provided for in this article.
- Consider any other matters determined by the Board of Directors.

The Audit Committee held the following meetings in 2011:

First meeting: 25/1/2011

Second meeting: 17/10/2011

Third meeting: 19/12/2011

Remuneration and Compensation Committee

- Mr. Turki Mohammad Al Khater, President
- Mr. Abdullah Ahmad Al Maleki, Member
- Mr. Khalaf Sultan Al Dhaheri, Member

The committee has the following responsibilities:

- Determining the remuneration policy at the bank, including the emoluments of the Chairman and all members of the Board and the senior executive management.
- Updating regulations of the rewards and compensation whenever the need arises.
- Proposing remuneration of the members of the Board of Directors and executive management, taking into account the following:
  - The value of awards granted to members of the Board of Directors and executive management in similar financial institutions, local and regional.
  - Profits and achievements of the bank during the financial year and compare them with the results of previous years.
  - Economic and financial conditions during the fiscal year.
- Responsibilities and scope of tasks of the Board members and senior executive management.
- Observing the relevant articles in Masraf Al Rayan Articles of Association that determine the value of the bonuses for the members of the Board of Directors.

- Proposing the bases that determine the annual bonuses for staff.
- Presenting the remuneration policy and principles to shareholders in a general assembly for approval and public announcement.

Policies and Development Committee

- Mr. Faisal AbdulWahid AlHammadi, President
- Mr. Khalaf Sultan Al Dhaheri, Member
- Mr. Jassim Saif Ahmed Al Sulaiti, Member

Objectives:

- To prepare, study, and develop work strategies for Masraf Al Rayan
- To review and develop Masraf Al Rayan goals
- To study, review, and develop Policies for Masraf Al Rayan
- To study, review, and develop Masraf Al Rayan Work Plans and processes
- To review the Budget.

Nominations and Governance Committee

- Mr. Jassim Saif Ahmed Al Sulaiti, President
- Mr. Turki Mohammed Al Khater, Member
- Mr. Abdullah Ahmad Al Maleki, Member

The committee has the following responsibilities:

- Adoption and publication of its terms of reference showing its authority and role.
- Proposing appointment of Board members and the re-nomination for election by the General Assembly.
- Supervise the implementation steps for the call for nominations to the Board, and consider applications received to ensure matching of applicants for membership conditions.
- Determining qualifications for Board membership, including independence.
- Make sure that candidates can give sufficient time to carry out their duties as members of the Board as well as their skills, knowledge and experience and professionalism, technical, academic and personality.
- Consider any conditions or requirements relating to the nomination or election or appointment of Board members from Qatar Central Bank or any other authority.
- Evaluate candidates for senior executive management positions, and submit recommendations to the Board of Directors.
- Perform an annual self-assessment of the Board's performance.
- Follow-up Board Committees' self-assessments.
- Supervise Board structure and composition of its committees.

Group Investment Committee

The Committee was established pursuant to Board of Directors resolution number 4/4/2011 dated August 8th 2011 as follows:

- Mr. Faisal AbdulWahid AlHammadi, President
- Sheikh Nasser Bin Hamad Bin Nasser Al Thani, Member
- Mr. Adel Mustafawi, Member
- Mr. Feizal Ali, Member
- Mr. Nasser Al Abdulla, Member

The Committee has the following responsibilities:

- To prepare, study, and develop investment policies for the Group that includes the broad lines for investment and identification of assets and prohibited investments.
- Review and approve the investment activities of the Group, place limits on single transaction investments or for cumulative annual limit as per Investment Policy
- To supervise the management of the Group's investment portfolio to monitor compliance with Investment Policy
- Review investment portfolio performance by comparing actual vs. expected returns, as well as comparing it to market performance indices approved by the Board, taking into account compliance with policies and directions and risk level.
- Review of periodic analysis and Management Reporting
- To approve investment sector limits

The Corporate Governance Charter aims at providing frame of responsibility and control over the Bank in addition to ensuring the existence of a supervision that is based on respect of values according to the laws and related regulations.

- To approve investment country limits
- To review investment strategies whenever the need arises
- Other duties and responsibilities and having authority as per Board delegation
- Preparing reports and presenting them to the Board to disclose investment decisions which were made, policies, and investments performance
- To carry out any other assignments whenever requested, as per the changes in the policies of the Board or Qatar Central Bank regulations, or Qatar Financial Markets Authority regulations, or as needed as per market developments.
- To approve investment deals according to the set limits by the Committee and to raise recommendations for deals with higher limits to be approved by the Board.
- Invite experts to Committee meetings to provide opinions in the technical areas.

Charter of the Board

The Corporate Governance Charter aims at providing frame of responsibility and control over the Bank in addition to ensuring the existence of a supervision that is based on respect of values according to the laws and related regulations.

Masraf Al Rayan solemnly believes that following this Charter will enhance – in the long run – trust with shareholders, clients and employees and different stakeholders in addition to establishing and supporting Masraf Al Rayan reputation in the money market.

The Board Charter is binding not only on the Board members but on all staff and the Board of Directors is considered responsible for implementing this Charter and applying it by all staff at Masraf Al Rayan.

This Charter was prepared in compliance with the local laws and rules and international standards. The Charter will be revised from time to time considering the guidelines, the acquired experiences, work needs and according to the requirements of Qatari laws and related regulations.

Masraf Al Rayan Board of Directors reviewed an update to the Charter on their December 19, 2011 Meeting but the matter was postponed to be presented again on the January 29, 2012 Meeting. In addition, the Board had also signed a Confidentiality Charter.

Remuneration of the Board of Directors

The Remuneration and Compensation Committee discussed the Board of Directors' bonus and that of the Senior Management and connected it to profit and achievements that the bank had realized during the fiscal year and comparing it with the results of previous years.

The Committee also takes into consideration the economic and financial position during the fiscal year, the responsibilities and scope of duties of the Board Members and the Senior Executive Management must be taken into consideration and that bonuses must be within the permitted level in the Articles of Association and related regulations.

List of Bonus, fees and allowances of Members of the Board of Masraf Al Rayan:

The list of bonuses and allowances and compensations of Board Members is reviewed and updated on an annual basis by the Nominations and Compensation Committee; where the regulatory guidance is included regarding these compensations. The list is then presented to the Board annually for approval.

The list is adopted annually at the Annual General meeting.

The List includes a presentation on the regulations upon which the List was based, the Board of Directors Resolutions in that regard, and the basis on which the bonus for the Board of Directors and Senior Management is based.

Policies

Masraf Al Rayan is committed in its work to follow an adopted group of policies that determine the framework and controls on all activities. These policies are updated and amended through the Policies and Development Committee before approval by the Board.

Masraf Al Rayan follows updated policies and reviewed polices which include:

- Internal Audit Policy
- Investment Policy
- Finance Policy
- Corporate Governance Policy
- Anti Money Laundering and Combating of Financing of Terrorism Policy
- Credit policy
- Personnel Policy
- Whistleblower Protection Policy
- Succession Policy

Credit Limits for Banks and Countries

In compliance with Qatar Central Bank regulations, the Treasury Department recommends setting credit limits for banks that Masraf Al Rayan has business relationships with as well as credit limits for countries, the Board approves these limits in the mid of the year and submit the limits to Qatar Central Bank. Prompted by the prevalent economic conditions and revaluations, especially of Europe, the Board approved on December 19, 2011 emergency changes to the limits of countries and banks.

Internal Controls including Supervising of Financial Matters, Investments, and Risk Management

The staff of the Internal Audit, Compliance, and Risk Management forms the first level of controls that the Management uses to ensure compliance with the regulations of regulatory bodies. These functions report directly whenever necessary to both the senior management and the Board of Directors, as such, the Board has full view on the outcomes of the internal controls. This means monitoring policies and procedures on granting and evaluating risks related to credit, investment, liquidity, market, capital adequacy, concentration, foreign exchange, profit rate, pricing, profitability, budgets, accounting operations, legal, money laundering, insurance on assets, related parties and interests , compliance with laws and regulations, internal and external auditing, evaluation of performance, disclosures to all competent parties.

In addition to monitoring these risks, personnel policies which organize staff appointment and cost and set regulations for incentives and development of their skills and advance their behavior and work ethics and other policies are revised to ensure compliance with the best practices and the requirements of the regulating bodies therein.

The Internal Audit Department reviews the performance of the Risk and Compliance to provide assurance to the Audit Committee of the Board of Directors that these duties are performed efficiently and to report on any matters that needs more attention.

Assessment of the Board and senior Management in the application of internal controls including the number of violation notifications made to the Board (including risk management) and how the Board dealt with these issues

No reports of major violations that needed the intervention of the Board were made, routine matters were resolved by the Compliance and Risk Departments according to the applied policies, and no intervention from the Board was required.

Internal controls and cases which influenced or may influence the company's financial performance

Compliance is the responsibility of the Compliance Manager where he makes continuous and comprehensive reviews and submits reports to the management on compliance violations to take necessary corrective measures. No unusual cases occurred that will influence or may influence the financial performance of Masraf Al Rayan.

External Auditors

The General Assembly of Masraf Al Rayan approved the appointment of the External Auditors Ernst & Young for the financial year ended 2011. This has been presented to the General Assembly after Qatar Central Bank approval in this regard, the year 2011 is the last year for Ernst & Young as external auditors since they would have completed their maximum allowed term of five consecutive years as per Qatar Central Bank regulations. Ernst & Young were contracted due to their application of best practices and their maintaining independence and refraining from entering into conflicts of interest. The External Auditors also attend the General Assembly to present their annual report and respond to inquiries.

Company compliance with rules and conditions governing disclosure and listing on the market

Masraf Al Rayan Board of Directors is committed to the principles of transparency in performing its business with regards to the requirements of disclosure on all that may affect the financial performance of the bank or the movement of its shares' prices. Information of the Board members was provided to Qatar Financial Markets Authority as well as to Qatar Exchange to make known their ownership of shares. The Board Charter identifies the responsibilities of the Board and its committees.

The Board is also keen to provide Qatar Exchange with financial statements and clarifications as set by the Qatar Exchange regulations, in addition, the Board publishes the financial statements once approved by the Board of Directors according to the Commercial Companies Law, Qatar Central Bank regulations, Qatar Exchange rules, and the regulations of Qatar Financial Markets Authority.

Financial statements are published supported with external auditors' report who confirms in his reports that the reports and financial statements of Masraf Al Rayan are issued in conformity to the international accounting and auditing standards and that the external auditor has obtained all the data and information that are necessary to perform the audit.

The financial statements and the External Auditors' reports are published on the Qatar Exchange website and on the local media and some GCC newspapers according to what is stated in the Articles of Association of Masraf Al Rayan and the Commercial Companies Law.

Company Compliance with Internal Control Systems for Risk Identification and Management

The Board of Directors gives special attention to setting internal control systems by clearly determining its responsibilities including its position in the organization chart and its relationship with other departments in a way that would ensure its independence and effectiveness. The Board provides adequate resources and fast and clear reporting lines to the Board of Directors and senior management and provide it with necessary authority to have access to information within the frame of clear and adequate policy and procedures and making annual revisions to these policies. The Board ensures that the duties of the Internal Audit include the audit of activities of the Compliance Manager. In addition to the above, the Executive Management in collaboration and coordination with the Compliance Manager takes the necessary corrective and disciplinary action if any violations are discovered and submit periodical reports to the Board on matters related to the policies and procedures of the compliance to help in improving them.

The Board ensures that the duties of the Internal Audit include the audit of activities of the Compliance Manager.

The Internal Audit Department reviews the performance of the Risk and Compliance to provide assurance to the Audit Committee of the Board of Directors that these duties are performed efficiently and to report on any matters that needs more attention.

Processes applied by the Bank to determine, evaluate and manage risks:

1. Credit Risk Policy

The Bank's Credit Policy Manual is considered the pillar of the Credit Risk Management's function. It includes all procedures and rules that govern and regulate the process of granting financing to customers. This is basically to follow a standardized approach in the process of credit evaluation & management.

The Bank extends credit facilities only after the applicants meet a set of requirements namely, a clearly identified purpose of the requested facility, adequacy of sources of repayment, customer creditworthiness and experience, acceptable risk level as per MAR approved risk level appetite, and sufficient collaterals to protect the Bank's rights.

There is no individual credit delegated authority and the approval of non-salary related credit application has to go through a credit committee in the Bank which consists of the following:

1. Retail Credit Committee for credit facility limits up to QR 15 Million
2. Group Credit Committee for credit facility limits up to QR 150 Million
3. Executive Committee for credit facility limits up to QR 300 Million
4. Board Committee for credit facility limits above QR 300 Million

Accordingly no one has single lending authority for non-personal lending.

2. Credit Risk Division

The Credit Risk Division in Masraf Al Rayan follows a number of procedures to identify, assess, measure and monitor risks associated with any financing by the adopting the following processes:

2.1 Measuring of Credit Risk is made as detailed below:

1. Determining credit types and economic sectors for which the bank extends financing.
2. Establishing a limit cap for group exposure as well as pricing modules.
3. Determining types of collaterals, their mechanism of evaluation, the approved professional agents which conduct the evaluation, its financing to collateral value, and taking precautionary steps to protect the bank against any such risk by obtaining property insurance and periodical evaluation of these collaterals.
4. Placing conditions for approval of credit inclusive of information that must be obtained prior to granting of credit facilities, and granting the delegation to grant credit facilities, and establishing independent review

of credit and conditions for rating of credit and provisioning.

5. Activating the roles of Credit Administration to follow up the completion of all documents and securities as required by the credit committee in order to activate the limits in the system.
6. Specifying the amount of risk which the Bank's Board approves to finance in general.
7. Disclosure of all the information related to the client to the Credit Committee with all transparency so that a well advised credit decision is made.
8. Preparing independent credit recommendations for business units.

2.2 Implementation of sound Measures to determine credit risks:

Granting credit facilities is based on sound measures as detailed below:

1. Assuring that the client request or credit application is signed by a sufficiently authorized delegate.
2. Obtaining complete company records including the authorization for finance.
3. Obtaining sufficient information in order to make a comprehensive evaluation of the client and types of risk underlying the requested facility, as well as to be able to rate the client as per the Bank's internal credit rating system.
4. Knowledge of the customer's reputation, experience, market share (industry share), and purpose of the requested facility.
5. The nature of the current and future risks of the credit applicant, their industry, and sensitivity to the economic developments, and assess the relation between associated risks and profit.
6. Source of repayment and customer's commitment to settle previous debts and type of the acceptable collaterals.
7. Analysis of customer's financial position based on updated audited financials.
8. Establishing credit limit caps for all on & off-balance sheet items, credit limit caps for industry, countries, and establishing credit limit caps based on the customer risk rating.
9. Establishing credit limit caps which can be extended for equity at one obligor level, group level, and inter-related relations level, as well as those with overlapping interests.
10. Utilization of the Qatar Credit Bureau credit information system reports.

2.3 Existence of procedures to handle and follow up credit:

This includes:

1. Existence of a filing system to handle customers' files and update its information and documents.
2. Follow-up the execution of the credit facilities to make sure that everything is complying with the procedures, policies, laws and compliance regulations namely, the client's current financial position, existence of sufficient securities with coverage suitable to the current status of the customer, and the client's utilization of the facilities. This task is made through a portfolio updated report submitted on periodical basis.
3. Internal credit rating of the client which helps in: granting financing and follow up its quality, facility pricing, determining credit portfolio characteristics and credit concentration, determining defaulting accounts and sufficiency of its provisions.
4. Periodic monitoring of any credit development such as early settlement, extension, rescheduling, collateral amendments, or any other changes to conditions.
5. Issuing of periodic reports and advising Business Units and Management as needed.
6. To prepare a Risk Strategy / Credit Risk Administration plan to mitigate unexpected risks.

2.4 Existence of sufficient control on Credit Risks:

Risk monitoring is exercised via the existence of the following:

1. Internal controls to make sure that any exception or deviation in the credit policy or credit procedures and credit limits is reported.
2. A Collection Unit to detect defaulted credit at an early stage through generating a daily past dues report and advise the concerned business unit in order to avoid it in future.
3. Periodic review of the delegation authority of those authorized to sign and the associated documentation.
4. To connect Risk Management with the related Business Units to exchange information on and to establish risk culture based on the Bank's risk strategy.

The Bank conducts a regular periodic review of all the approved credit facilities granted as per its delegation to monitor its portfolio status, exposures, credit concentrations, and sector performance. The Bank also follows up on all credit facilities, increases in limits, and follows up and monitors completion of collateralization, and takes the necessary actions at the appropriate times. Moreover, non-active facilities are reviewed, as well as risk rating based exposures inclusive of all limits granted, and recommendations are made, if any, to the Board.

Credit Risk Administration is an independent unit whose task consists of reviewing credit approval conditions, collaterals, facilities agreements, and all operational matters prior to releasing credit, inclusive of activating the approved limits and issuing periodic reports.

Risk Management activities are ongoing and continually enhanced in line with the Bank's strategy.

Market Risks

The Bank monitors market risks by using the latest banking standards depending on Qatar Central Bank regulations and the principles of Basel II and using the expertise of internationally experienced staff.

The relevant staff monitors several risks linked to the market such as foreign exchange risks, profit rates, pricing, liquidity, general investments, clients' deposits investments, commodities prices, capital adequacy and liquidity

To mitigate these risks, the bank diversifies its activities in different countries, sectors, products and client segments and takes proactive steps to manage these risks.

Masraf Al Rayan issues internal reports on daily, weekly and monthly basis to the management to assist in taking proper decisions and monitor the market risks.

These reports include daily reports such as reports on the market reaction and daily reports on the performance of the Qatar Exchange, a weekly report on the treasury in addition to the monthly report to the Assets and Liabilities Committee (ALCO) which shows the budget position, banking ratios and pressure tests on budget, analyzing gaps in assets and liabilities.

ALCO members are from the senior management and this report is discussed in its monthly meeting where decisions are made and followed up.

To facilitate the work of the Treasury, the Bank implemented the OPICS system in 2010 which is a special treasury automated system, and is one of the most efficient systems used for the purposes of the treasury; it facilitates developing the financial products and solutions in general. On the other side, it assists to a great extent in giving information related to monitoring and mitigating risks.

Masraf Al Rayan Operational Risk

Masraf Al Rayan Operational Risk Methodology and Mitigation framework provides an integrated platform and disciplined approach to identify, assess and evaluate, manage and mitigate, control and communicate, as well report the various risks associated with Bank's activities in the business segments of investments like corporate finance, capital markets and treasury, as well as internal operations (internal controls and systems) and external operations (legal and compliance) and supporting services for bank operations such as information technology (IT) and human resources.

Summary of Operational Risk Methodology

The ORM strategy will focus on Risk team being structured by business group to ensure specialization and efficient coordination between business groups and Risk. The framework starts with MAR strategic goals; this includes Business functions and process, followed by determining the likelihood, consequences and control of the risk. Finally, the risk treatment is applied which is risk mitigation strategies which are in place. This followed by constantly monitoring the risk and treatment and communication with MAR departments.

In addition, the following steps will also be taken:

- All staff is reminded of their responsibility towards risk management.
- All staff report operational risk events as and when they occur.
- Operational risk coordinators in each department work on the reported risk incident dealing with operational risk issues related to their department/s.
- The OP risk coordinators will coordinate with operational risk to ensure efficient and effective implementation.
- Operational risk Framework will be developed for each major process in liaison with the OP risk coordinators through risk assessment, review of internal and external auditors report, brainstorming sessions with Risk, review of reported operational risk events and losses etc.

Masraf Al Rayan issues internal reports on daily, weekly and monthly basis to the management to assist in taking proper decisions and monitor the market risks.

Risk Mitigation

In an effort to encourage better risk management practices, MAR is keenly interested in efforts to better mitigate and manage operational risk. MAR has controls and programs in place to reduce the exposure, frequency, or severity of an event and hence, manage risk exposures. MAR controls are examined to know whether the control is truly reducing risk, or merely transferring exposure from the operational risk area to another business sector.

Operational Risk Department's Achievements 2011 in terms of Information Security:

- Internet banking supervision software
- Completion of assessment of critical information technology infrastructure
- Scanning and inspection of approved points of sales to test penetration as per Visa guidelines
- Periodic training of Bank employees on information security, operational risks, and the business continuity plan.
- Implementation of card fraud monitoring software

Business continuity

- Masraf Al Rayan Business Continuity Documentation completed.
- BCM Training and Awareness completed.
- BCM Testing for all critical departments completed.
- Security committee formed and training completed.
- Al Rayan Investment Business Continuity Plan and testing completed.

Operational Risk Report

Operational risk event is an event resulting from inadequate or failed internal processes, people or system or from external events. For an event to be regarded as a risk it does not have to result in a financial loss. An event would still be categorized as a risk event if it results in a financial gain.

Escalation Procedure

1. On the discovery of an operational risk event the concerned staff is required to report the occurrence of the risk event to their manager.
2. The Manager is required to initiate a review of the event and complete the operational Risk Event Incident Form.
3. The operational Risk Incident Form and the supporting documents should be submitted to Operations Department.
4. Head of Operational Risk shall review the incident and liaise with the Head of concerned Department to ensure that appropriate action plan is put in place to mitigate recurrence of similar events in the future.

Apart from risk reporting escalation from departments, the Operational risk department submits quarterly reports such as Operational risk report, loss data reports and risk register events to Senior Management.

Currently overall strategy of Operational Risk is based on risk avoidance and mitigation and good structure and controls is in place that absorbs and reduces operational risk events.

Masraf Al Rayan is keen on participation in community development through supporting individuals and groups to carry out their role in building a better society.

Amendments to Articles of Association

Qatar Financial Markets Authority guidelines on Corporate Governance for markets under its jurisdiction require some modifications or additions to the Articles of Association of companies in order to be in compliance.

Masraf Al Rayan has undertaken a review of its Articles of Association and they will be presented to the next Extraordinary General Assembly Meeting.

Shareholder Rights

The Board of Directors of Masraf Al Rayan is keen to protect its Shareholders as per what is specified in related rules, regulations, and the Articles of Association; whereas each shareholder's share entitles them to the same rights as another Shareholder with the same amount without bias in the claim to the Bank's assets and in the divided profits as described in the Articles. It also allows shareholders the right to use their voting rights via proxy.

Shareholder Register

The Information Technology Department of the Qatar Exchange maintains records of the shareholders of its listed companies because shareholder information changes instantly with each transaction. Masraf Al Rayan requests the information when needed and on specific dates, especially on the days of the Ordinary and Extraordinary General Assembly Meetings where this information is used to confirm attendance, voting, and distribution of profits.

Accessing Information

Masraf Al Rayan provides its Shareholder information which has been obtained from Qatar Exchange upon request as per the rules, regulations, and related Articles and Corporate Governance guidelines. Similarly, other information is available on the internet on Masraf Al Rayan's electronic website www.alrayan.com for ease of access to the most important information for investors and clients.

Fair Treatment of Shareholders and Voting Rights

The Articles of Association of Masraf Al Rayan state that each Shareholder has the right to attend General Assembly meetings, Shareholders who are minors or interdicted may be represented by proxy via their legal representative or guardian, while entities that are Shareholders may delegate a person as an official legal representative via written delegation in compliance with legal precedents.

Shareholders who attend the General Assembly have the right to discuss the items on the Agenda, direct questions to the External Auditors, and the Board has to respond to the questions of the Shareholders in as much detail as possible that would not expose the Bank to any risks, and if the Investor deems the answer insufficient then they may revert to the General Assembly whose decision is mandatorily executable.

Furthermore, the Articles of Association of Masraf Al Rayan stipulate that each Shareholder has a number of votes that is equivalent to the number of Shares that they have.

Shareholders' Profit Distribution Rights

The distribution of profits is completely based on the financial results achieved by Masraf Al Rayan at the end of each year, in addition to compliance with the rules, regulations, and related guidance especially from Qatar Central Bank with respect to all forms of reserves (legal reserve, risk reserve, fair value reserve) the Board annually assesses different scenarios of which the best chosen and presented to the Ordinary General Assembly Meeting in detail showing the profits earned and their distribution. The General Assembly has the right to accept the recommendation or amend it.

Capital Structure, Shareholder Rights, and Significant Deals

Banks rely mainly in their income on lending to individuals and corporations, and Qatar Central Bank issues regulations on maximum credit limits whether for one deal or for cumulative volume of deals for each one client or one sector.

Other Stakeholders' Rights

The Corporate Governance Policy adopted by Masraf Al Rayan ensures fully respecting all parties to the transactions inclusive of stakeholders. The human resources policy ensures fairness and justice between employees without prejudice to race, gender, or religion. Management annually allocates bonuses to employees reciprocating the profits and their individual efforts using a methodical studied approach.

At the same time, the Whistleblower Protection Policy approved by the Board gives each employee the opportunity to deliver their complaints to Management without fear of reprisal or consequences and fully maintaining their rights. Masraf Al Rayan employees comply with a Code of Conduct that includes the business ethics.

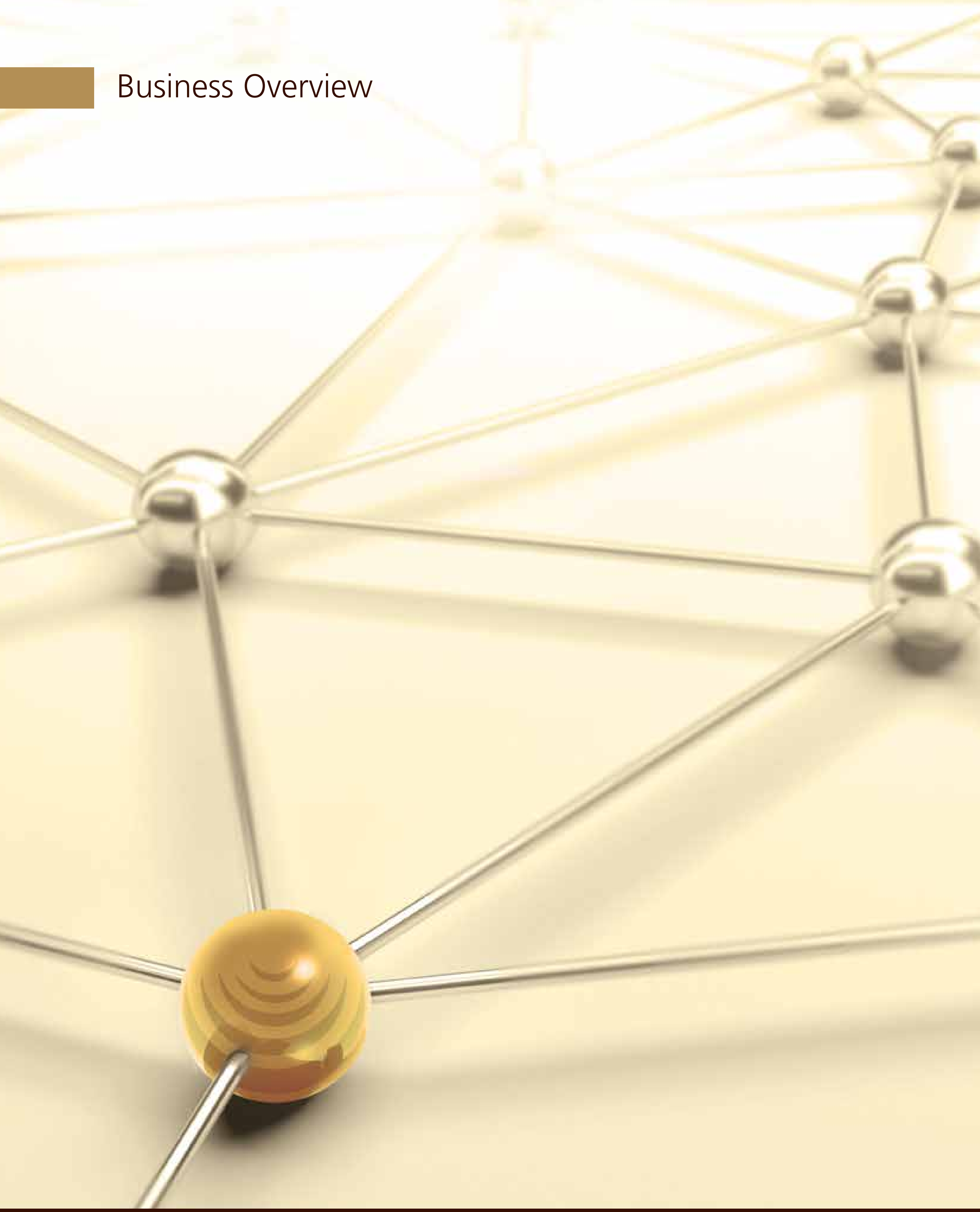
Masraf Al Rayan's Corporate Social Responsibility

Masraf Al Rayan is keen on participation in community development through supporting individuals and groups to carry out their role in building a better society. The Bank is also keen on taking part in public causes that concern the society, protect the environment, and encourage protection of natural resources, healthy practices, supports sports, and charitable endeavors.

Dr. Hussain Ali Al Abdulla
Chairman and Managing Director

An operational risk event is an event resulting from inadequate or failed internal processes, people or system or from external events. For an event to be regarded as a risk it does not have to result in a financial loss. An event would still be categorized as a risk event if it results in a financial gain.

Business Overview



Vision

Masraf Al Rayan strives to become the foremost Islamic Bank the GCC region has ever produced by offering a broad spectrum of Islamic banking products and services, through efficient and reliable channels, to all sectors of the market in which it operates; and to maintain its twin objectives of furnishing a high return on shareholder investment and satisfying its individual customers.

Mission

We are committed to create added value for both shareholders and customers by providing Islamic oriented corporate, retail and investment banking products and services. In doing so, we will:

- Build a well-balanced financial institution across retail, corporate, advisory and asset management services
- Provide market-leading Islamic financial services while holding Shari'a principles at the heart of all our activities
- Focus on product and service innovation, delivered according to international standards
- Fully utilize Masraf Al Rayan's large capital base and diverse shareholder ownership
- Build a strong franchise system, serving both Islamic and non-Islamic customers, first in the GCC and then beyond

Strategy

The bank has already formulated its strategic plans for the future, and set goals to be achieved up to the year 2011.

We plan to:

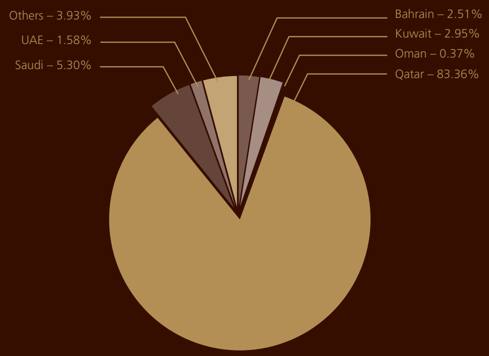
- Develop new Islamic Shari'a-compliant products and add innovative features to prevailing market products
- Become the market leader both inside and outside Qatar through financing, international offerings and expert advisory services
- Build service-delivery and brand-distinction expertise

Our corporate values derive from our strategy, and encompass:

- Leadership at all times and at all levels
- Team spirit
- Market-led, customer-focused
- Professionalism and entrepreneurial spirit
- Honesty, integrity and objectivity in all relationships
- Respect for each other and for the values of the bank

A Summary of MAR Shareholders' Information on December 31, 2011

Nationality	Number of Shareholders	# of Shares	Percentage
Bahrain	30,409	18,808,104	2.51%
Kuwait	34,628	22,158,236	2.95%
Oman	10,483	2,748,885	0.37%
Qatar	68,785	625,235,442	83.36%
Saudi	86,516	39,757,786	5.30%
UAE	28,146	11,821,409	1.58%
Others	3,961	29,470,138	3.93%



Top 10 Shareholders

Name	Client Type	Nationality	Shares
Qatar Holding Company	Government	Qatar	75,000,000
Military Investment Fund	Corporate	Qatar	19,500,644
Special Projects Company LLC	Corporate	Qatar	17,004,136
General Authority for Retirement and Pensions Fund	Government	Qatar	16,272,111
Qatari Diar Real Estate Investment Company	Government	Qatar	14,300,000
Brooq Trading Company	Corporate	Qatar	13,950,000
Qatar Foundation Fund	Government	Qatar	13,400,000
Education & Health Fund	Government	Qatar	13,400,000
Al Watani Fund-3	Corporate	Qatar	13,233,298
Al Watani Fund-4	Corporate	Qatar	12,567,309

Masraf Al Rayan Branch Network

No.	Branch Name	Location
1.	Al-Sadd Branch	Al Sadd Street, Barwa Building, Ground Floor
2.	Masraf Al Rayan Main Branch	Grand Hamad Street, Opposite Qatar Development Bank
3.	Al Shafi Branch	Al-Salam (Al-Shafi) Street, Next to Qtel
4.	City Center Branch	City Center, 1st Floor
5.	Qatar University Branch	Qatar University, Court Food Area
6.	Salwa Road Branch	Salwa Road, Next to Hyundai Showroom
7.	Mall Branch	D-Ring Road, The Mall Complex
8.	C-Ring Road Branch	C-Ring Road, Financial Square
9.	Wathnan Branch	Muaither Street, No. 355, Muaither North, Area No. 53
10.	Barwa Village Branch	SME Branch, Al Wakra Street, Bldg. No. 12, Shop No. 42/44

Retail Banking

Impeccable service, qualified personnel and unique products continue to be the key drivers of our retail banking operations. During the year we continued to build on the momentum we achieved in 2010 and steadily moved towards our key objective of being the 'bank for everyone' by making ourselves more and more accessible to our existing and prospective customers. In this regard, we have adopted 'continual improvement' as the main guiding force of our operations.

Branches, alternative channels and private banking are the three main pillars of our retail banking landscape. Hence pronounced emphasis is placed on achieving inclusive progress and growth across all these three vital components.

We continued to invest in our key infrastructure as well as in our human capabilities with a view towards ensuring that our customers are served with state-of-the-art products and services and continue to enjoy absolute convenience across all our service delivery channels.

During the year we added Barwa Village and Wathnan Mall to our branch network and expanded our ATM network to 41 ATMs thereby further widening the reach of our products and services.

2011 saw us move further closer to our target of ensuring that our customers enjoy the convenience of '24x7 total banking' with us. In this regard, we expanded the scope of our e-banking services, upgraded our call centre offerings and undertook phenomenal improvements in our SMS and telephone banking services.

We also re-launched our Internet banking services by virtually converting one's personal computer into a 24x7 Masraf Al Rayan branch. In this regard, it is worth noting that our award-winning website has contributed many folds towards this transformation. One of the key highlights of the year was the launch of the mobile banking application for all Android, Apple and Blackberry mobile users thereby providing our customers with the convenience of undertaking all their banking transactions through their smart phones whenever they want and from wherever they are.

During 2011 the prime focus of our Private Banking Division was on building sustainable and trustworthy relationships with our high net worth clients by offering them key advisory and consultancy services for all their investment and wealth management aspirations.

Right from our inception we have always aspired to be recognized as a trusted partner by our clientele. The unwavering commitment that we continue to demonstrate in meticulously catering to every miniscule detail of our clients' wealth management needs has today resulted in most of our HNI customers looking upon us as a trusted partner in all their investment decisions.

The year saw us expanding the scope of our product portfolio by fine-tuning existing product propositions, launching new investment programs and introducing specialised VVIP credit cards that precisely match the aspirations and ambitions of our clients.

We constantly endeavour to travel the extra mile for the comfort and convenience of our private banking customers. In addition to hosting them in a well-appointed state-of-the-art private banking lounge that aptly matches the high end lifestyle of our customers, each and every client is exclusively served by a Private Relationship Manager who is accessible 24 hours a day, 7 days a week. The expertise and experience that our team of Private Relationship Managers bring to the table is second to none in this market.

The fact that we were able to record a phenomenal 150% growth in our private banking portfolio speaks volumes about the unique products, personalised service and superior advice that we continue to offer our clients.

During 2012 we intend to further expand our branch and ATM network, upgrade the scope of our product and service offerings, fine-tune the skills of our human capital and invest more diligently in our remote banking technologies. This will go a long way in ensuring that we become widely recognised as the 'bank of choice' for everyone.

During the year we continued to build on the momentum we achieved in 2010 and steadily moved towards our key objective of being the 'bank for everyone' by making ourselves more and more accessible to our existing and prospective customers.

Wholesale Banking Group

Masraf Al Rayan Wholesale Banking Group is a leading provider of Shari'a-compliant products and services to corporate, government and SME clients operating in key sectors of the Qatari and GCC economies. Core to our commitment to deliver a responsible financial solution is our focus on our clients' need. We believe that the best way to build real, sustainable value for our shareholders is to keep the interest of our clients first through a deep understanding of their business risks and opportunities in the context of local, regional and global economies. It is through the expertise and the continuous seamless efforts of Masraf Al Rayan senior management and the corporate banking relationship management team in understanding the business and industry dynamics vis-à-vis the client's needs, we are able to offer tailor-made solutions to our clients and strategic partners, who are among some of the key players contributing to the growth and development of the State of Qatar and the regional economies.

Our strategy has been to steer a sustainable growth. We are committed to support government, quasi government and private sector business entities supporting core infrastructure projects and other initiatives in various sectors of the State of Qatar's real economy, such as health care, telecom, sports, utility, real estate, trade, financial service, transportation, energy, petrochemical, media, manufacturing, water, aviation and contracting etc. Going forward, we will continue to work with our clients in supporting various key state sponsored infrastructure projects while continue to diversify into other economic sectors working together with our treasury, investment (Al Rayan Investment, a 100% owned subsidiary of Masraf Al Rayan) retail, private banking and wealth management teams. It is by investing in the right expertise, we deliver a full range of both cross-border and local banking solutions from cash management and trade to foreign exchange, profit rate hedging, asset management, capital market, structured finance, securitization, corporate finance & equity advisory, placement and acquisition financing solutions.

The Wholesale Banking Group business model is organized along the industry lines drawing upon the strength of the relationship management team with the expertise, knowledge, and deep understanding of the client business and the markets they operate. We take pride in the fact that 50% of the core relationship management team members are Qatari nationals, who under the bank's talent program are being groomed to take up leadership roles in the future.

Seamless execution of a client-focused strategy, strong commitment and dedication to excellence resulted in building a very strong and sound corporate banking business and asset portfolio. The corporate banking team had won several large ticket financing advisory, and structuring mandates that brought prestigious awards for innovative structuring. Going forward, we will continue to strive to deliver the highest level of customer satisfaction through our investment in people, systems, delivery channels and products.

Seamless execution of a client-focused strategy, strong commitment and dedication to excellence resulted in building a very strong and sound corporate banking business and asset portfolio.

Human Resources

At Masraf Al Rayan, we truly believe that human resources are one of the most prized assets of any growth-oriented organization. Hence, our constant focus is on maintaining a work environment that regularly upgrades the skills and capabilities of our employees. In this regard, we continue to invest in the human capabilities across the entire organization by providing our employees with various levels of skill and career development opportunities.

Greater emphasis is placed on establishing an atmosphere that is rewarding, satisfying and productive. Regular evaluation programs, performance-based incentives and a structured promotion system work hand-in-hand with a wide range of human resource development schemes to ensure that our employees perform at their optimum best, at all times. No wonder, the year saw us achieve the ISO 2000:2011 certification in recognition of our industry-leading HR practices, policies and procedures.

During the year, we successfully launched our online HR portal thereby automating each and every HR requirement of our 360 employees. Our employees now enjoy the convenience of undertaking all their HR-related requirements from their desk. What adds more color to this achievement is the fact that the online portal was entirely developed in-house without the assistance of any external entity.

We also revamped our organizational structure by ensuring better transparency and clarity in every line of command. All job descriptions are now clearly defined in both English and Arabic languages and all job positions are now directly linked to the balanced scorecard that is already in place.

Year 2011 saw us introduce our employees to a wide range of e-learning initiatives. This, in addition to saving phenomenal costs to the Company, also provides each and every employee with immediate access to a wealth of knowledge that will constantly fine-tune their skills and capabilities as they move ahead in their career path.

We firmly believe that employee morale plays a key role in one's professional development. In this regard, we ensure that there are ample avenues for social interaction among our employees. These kind of initiatives, apart from boosting employee morale also fosters better levels of camaraderie and team spirit.

During the year our employees were encouraged to play an active role in the national day and sports day celebrations of the Country by partaking in a wide range of activities.

The employee suggestion scheme and employee surveys that we regularly undertake continue to ensure that our employees play a key role in the overall development and progress of the organization.

One of the prime contributing factors to our ongoing success has been the quality of manpower we continue to attract and retain at Masraf Al Rayan. We strive to provide a healthy work environment for our employees by having an interactive mechanism that addresses all their professional or personal issues. An open-door policy has been established at all levels of the organizational hierarchy in order to ensure that both their welfare and their career development are progressing in the right direction.

Qatarization

We are truly committed to the Country's aspirations to carve a generation of qualified and experienced nationals who can assume leadership roles and inspire younger generations to become active participants in the overall socio-economic development of the Nation. In this regard, we have aligned all our operations in line with Qatar National Vision 2030. The fact that our Qatari manpower now occupies an overwhelming 30.62% of our overall manpower strength speaks volumes of our initiatives in this regard.

At Masraf Al Rayan our strategy has always been to identify the right talent, nurture their skills and capabilities and equip them to occupy leadership roles in our organization. Our Qatari employees are regularly provided with on-the-job training opportunities in various disciplines under a wide range of mentors and are constantly offered rewarding career progression paths.

We continue to invest in the human capabilities across the entire organization by providing our employees with various levels of skill and career development opportunities. Greater emphasis is placed on establishing an atmosphere that is rewarding, satisfying and productive.

During the year we revamped the induction program of our Qatari employees in order to ensure that they are well versed with the key employees of all the departments of the organization. This will ensure that they have access to the right people to provide them with the right professional advice. Moreover, each Qatari employee is provided with a personal mentor who oversees his or her career development within our organization.

We also launched Phase 1 of our succession-planning program whereby a clear road map has been laid out for Qatari nationals to take up key positions within the organization.

We continue to maintain mutually beneficial relationships with all the leading universities in the Country as well as the Ministry of Labor and are actively involved in State-sponsored events and conferences like the annual Qatar Career Fair.

We are constantly on the look out for promising potential among our own Qatari human resources, who are encouraged to take up higher studies. Presently we are sponsoring a talented pool of Qatari nationals at various universities.

At Masraf Al Rayan, we are truly committed towards carving a generation of Qatari professionals who are well equipped to guide the future of the industry and the Country to greener pastures.

Ratings and Awards

Within a short period of time, Masraf Al Rayan has established itself as one of the most successful Islamic banks in Qatar. A strong focus on banking fundamentals has resulted in impressive ratings from Moody's, the premier credit rating agency. The first Islamic bank in Qatar to earn these ratings from Moody's, it is an affirmation of the fact that Masraf Al Rayan is cementing its position as one of the most respected Islamic financial institutions in Qatar.

Moody's Investors Service assigned the following ratings (in both local and foreign currency) to Masraf al Rayan:

Bank Financial Strength Rating (BFSR)	D+
Baseline Credit Assessment (BCA)	Ba1
Long-term Issuer Rating	A3/Prime-2
Short-term Issuer Rating	Prime-2
Outlook	Positive

Subsidiary

Al Rayan Investment

In April 2007, Masraf Al Rayan launched its 100% owned subsidiary, Al Rayan Investment, the first Shari'a-compliant financial institution licensed by the Qatar Financial Centre Regulatory Authority. A pioneer in its class, the launch of Al Rayan Investment further highlighted Masraf Al Rayan's status as a progressive force in the financial markets.

Having commenced with a starting capital of US$ 100 million, Al Rayan Investment has grown rapidly and profitably. Business is focused on two areas, Real Estate & Financial Advisory and Asset Management, both targeting institutional and HNW clients.

Vision
The Islamic investment bank of choice.

Mission
Deliver superior financial solutions based on Islamic values.

Values
- Culture
  Invest in people to nurture an environment fostering teamwork to achieve excellence.
- Integrity
  The institution to trust.
- Customer Satisfaction
  Maximize value for our clients by being a trusted adviser, consistently surpassing expectations.
- Ethos
  Adhering to Islamic ethico-legal principles in all aspects of our business.

Function
Al Rayan Investment's range of investment products have been carefully selected and designed to produce excellent risk-adjusted returns while being entirely Shari'a-compliant. Before being offered to clients, all products undergo a rigorous due diligence process to ensure that they meet important risk/return criteria.

Continued Excellence in 2011
During 2011, we continued to build on the momentum achieved in 2010 and made further progress towards establishing ourselves as a trustworthy and reliable investment partner of the Qatari economy.

We made significant progress in linking the real economy with Islamic finance and were instrumental in establishing an investment-banking platform connecting the GCC and Asian markets. The year saw us significantly expand our footprint, especially in the Qatari, GCC and South East Asian markets.

The JVs established in 2010 – SapuraCrest Qatar and Linc Facilities Services MENA – continued to make steady progress with the former making a mark in the oil and gas sector and the latter emerging as a credible entity in facilities management.

During 2011, we were retained as the advisors of the only private sector M&A transaction undertaken in Qatar – the Al Meera acquisition of Giant Stores. We also won mandates for an IPO and a Private Placement. We were also entrusted by two of the largest real estate developers in Qatar with the responsibility of their potential REIT listing in the South East Asian market which speaks volumes about the trust that we have earned in the Qatari market.

The year also saw us establish our real estate development arm – Al Rayan Partners, which is presently involved in the US$ 8 billion Seef Losail project in association with Qatari Diar, one of the largest real estate developers in Qatar.

2011 was a year of phenomenal growth for our Asset Management Group as we recorded a remarkable seven-fold growth in assets. Moreover, the Al Rayan GCC Fund is now the largest mutual fund based in Qatar and in 2011 was the fourth best performing fund versus its peers. Today, we proudly consider ourselves as probably the fastest growing asset manager in the market.

The expertise we gained on the regulatory markets of various economies, the extensive network we have built (especially in the South East Asian and GCC markets) as well as the 'know-how' we acquired in cross border issues, will continue to ensure our clients are the best advised when it comes to investment decisions in those markets.

Shari'a Supervisory Board Report for the year ended December 2011

Masraf Al Rayan Shari'a Supervisory Board has reviewed the contracts introduced, answered the questions of the administration, and contributed in finding solutions for practical difficulties that might appear during implementation.

The Board views that the business conducted is in accordance with the Board Governance, as well as the reviewed financial lists and the profit and loss statements for the financial year 2011 are in compliance with the Islamic Shari'a rules.

Masraf Al Rayan is responsible for applying Shari'a governance. Our responsibility is limited in fatwa and the review of transactions introduced to us through Shari'a Audit within its permissible capabilities.

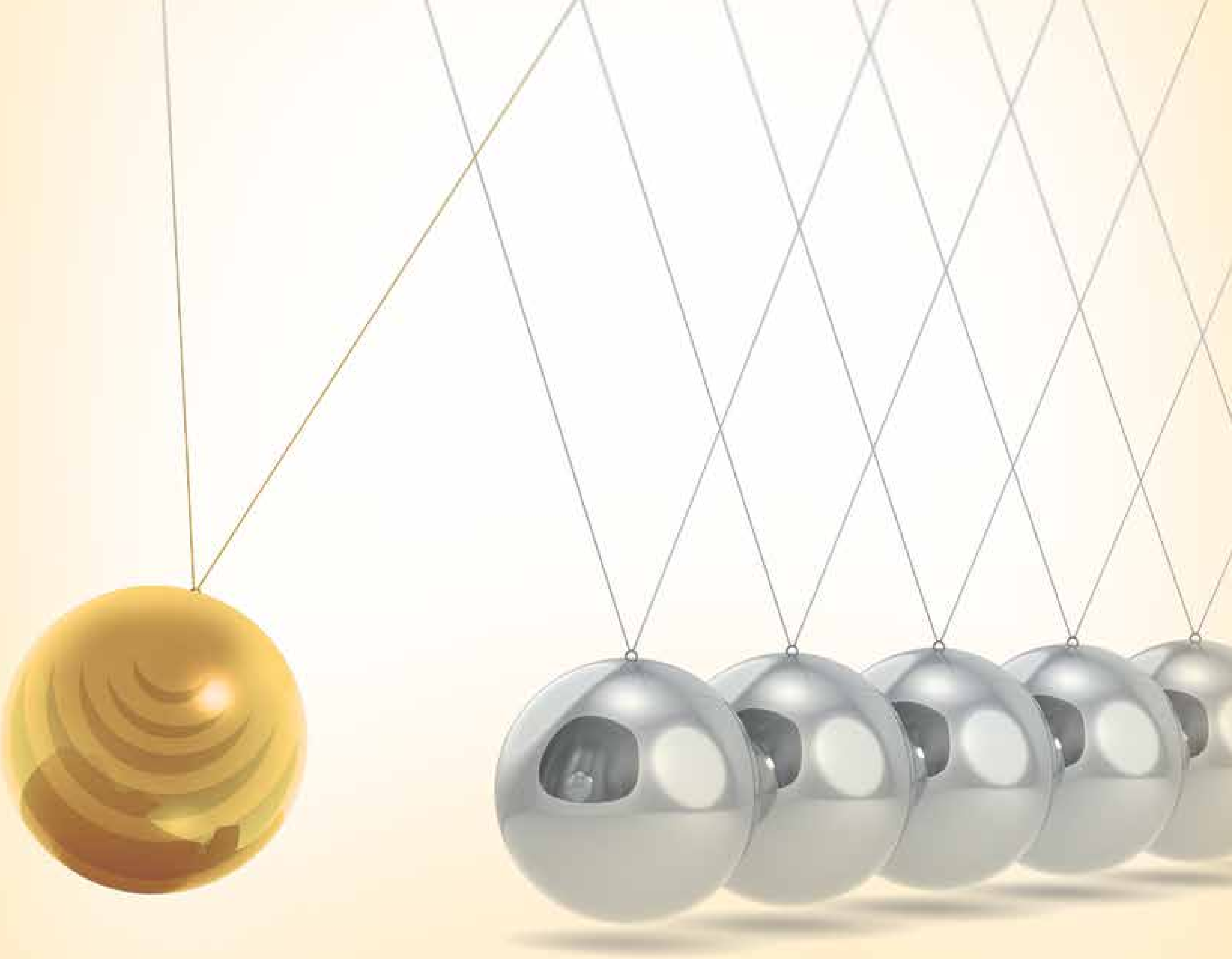
The Board thanks Masraf Al Rayan staff and begs Allah to grant them all the success to serve the Islamic economy, and bless the shareholders' funds and dealers with the Bank, and sustain everyone with faithfulness in action and word.

His Eminence
Sheikh Dr. Waleed Bin Hadi
Chairman of Shari'a Supervisory Board

His Eminence
Sheikh Dr. Abdul Sattar Abu Ghuddah
Member of Shari'a Supervisory Board

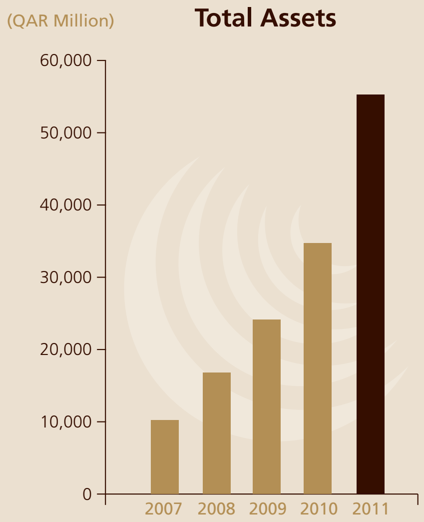
His Eminence
Sheikh Dr. Mohammed Othman Tahir Shubeir
Member of Shari'a Supervisory Board

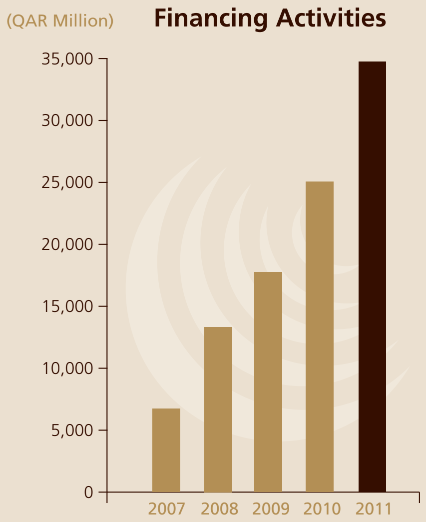
Financial Overview

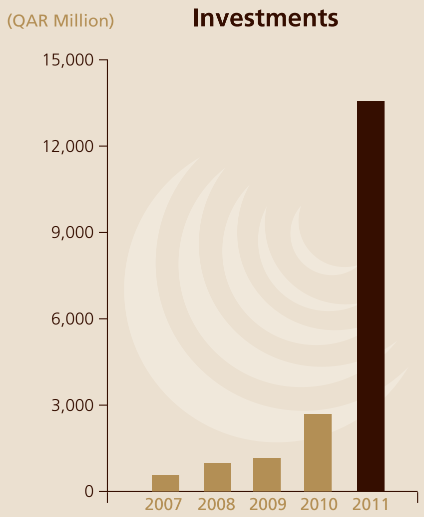


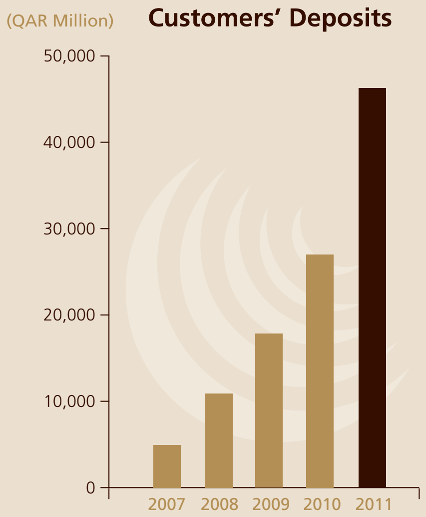
The total assets during the year reached QR 55,271 million, achieving a growth of 59.4%, while the shareholders' equity increased to QR 8,504 million.

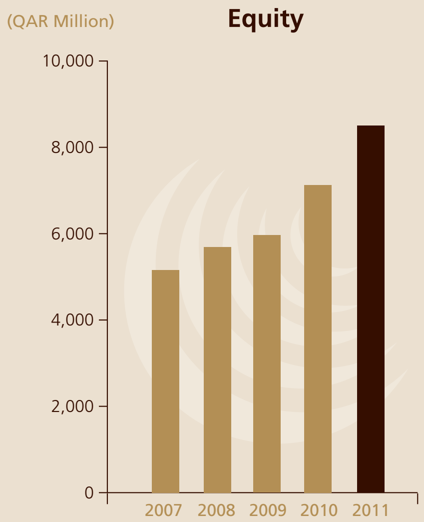
Financial Highlights 2011

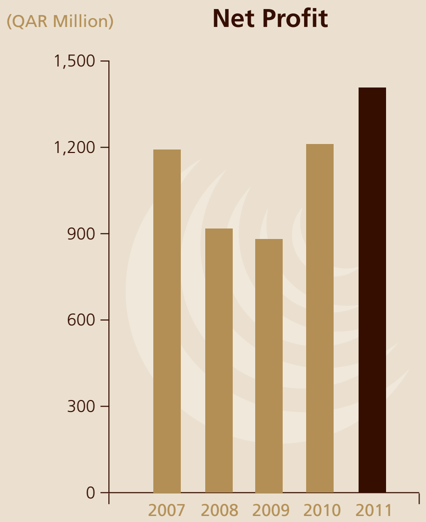












Independent Auditors' Report

to the Shareholders of Masraf Al Rayan (Q.S.C.)

We have audited the accompanying consolidated financial statements of Masraf Al Rayan (Q.S.C) (the "Masraf") and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Consolidated Financial Statements
The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, the Islamic Shari'a Rules and Principles and the applicable provisions of Qatar Central Bank regulations, and for such internal control as Board of Directors' determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, the Islamic Shari'a Rules and Principles as determined by the Shari›a Supervisory Board of the Masraf and the applicable provisions of Qatar Central Bank regulations.

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

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

29 January 2012
Doha, State of Qatar

Consolidated Statement of Financial Position

as at 31 December 2011

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

Dr. Hussain Ali Al Abdulla
Chairman and Managing Director

Adel Mustafawi
Group Chief Executive Officer

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

Consolidated Income Statement

for the year ended 31 December 2011

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2011

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

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

	Share capital QAR '000	Legal reserve QAR '000	Fair value reserve QAR '000	Risk reserve QAR '000	Proposed dividend QAR '000	Retained earnings QAR '000	Total QAR '000
Balance at 1 January 2011	5,073,324	–	6,117	–	1,976,084	70,924	7,126,449
Net changes in fair value reserve	–	–	2,678	–	–	–	2,678
Profit for the year	–	–	–	–	–	1,408,350	1,408,350
Dividend paid towards the uncalled share capital for 2010	1,976,084	–	–	–	(1,976,084)	–	–
Dividend paid towards the uncalled share capital for 2011	449,962	–	–	–	–	(449,962)	–
Issuance of share capital	630	1,036	–	–	–	–	1,666
Transfers to reserves	–	140,835	–	450,000	–	(590,835)	–
Proposed dividend for 2011	–	–	–	–	375,000	(375,000)	–
Social and sports fund appropriation	–	–	–	–	–	(35,209)	(35,209)
Balance at 31 December 2011	**7,500,000**	**141,871**	**8,795**	**450,000**	**375,000**	**28,268**	**8,503,934**
Balance at 1 January 2010	4,124,654	633,382	465	237,953	948,670	16,630	5,961,754
Net changes in fair value reserve	–	–	5,652	–	–	–	5,652
Profit for the year	–	–	–	–	–	1,211,344	1,211,344
Dividend paid towards the uncalled share capital	948,670	–	–	–	(948,670)	–	–
Transfers to retained earnings	–	(633,382)	–	(237,953)	–	871,335	–
Proposed dividend for 2010	–	–	–	–	1,976,084	(1,976,084)	–
Social and sports fund appropriation	–	–	–	–	–	(52,301)	(52,301)
Balance at 31 December 2010	**5,073,324**	**–**	**6,117**	**–**	**1,976,084**	**70,924**	**7,126,449**

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

Notes to the Consolidated Financial Statements

at 31 December 2011

1. LEGAL STATUS AND MAIN ACTIVITIES

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

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

The consolidated financial statements of Masraf Al Rayan Q.S.C. for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 29 January 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

Accounting convention

The consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of financial investments classified as "investments at fair value through equity" and derivative financial instruments.

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

Statement of compliance

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

Basis of consolidation

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

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

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

Loss of Control

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

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

2.2 Changes in accounting policies and disclosures

New and amended standards and interpretations

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

at 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

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

IAS 24 Related Party Transactions (Amendment)

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

IAS 32 Financial Instruments: Presentation (Amendment)

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

Improvements to IFRSs

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

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

IASB Standards and Interpretations issued but not adopted

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies

a) Foreign currency translation

(i) Functional and presentational currency

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

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

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

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

(iii) Group companies

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

b) Financial instruments – initial recognition and subsequent measurement

(i) Date of recognition

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

(ii) Initial measurement of financial instruments

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

c) Financial investments

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

(i) Investments carried at amortised cost

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

(ii) Investments at fair value through income statement

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

Notes to the Consolidated Financial Statements

at 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

c) Financial investments (continued)

(iii) Investment at fair value through equity

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

d) Derecognition of financial assets and financial liabilities

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

– The rights to receive cash flows from the asset have expired.

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

e) Fair values

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

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

– Using recent arm's length market transactions.

– Reference to the current fair value of another instrument that is substantially the same.

– A discounted cash flow analysis or other valuation models.

– For financial instruments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.

– Financial instruments which cannot be measured to fair value using any of the above techniques are carried at cost less impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

f) Recognition of financial transactions

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

g) Equity transaction costs

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

h) Offsetting

Financial assets and financial liabilities should not be set-off unless there is a enforceable or legal right and an actual expectation of set- off and when the Group intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

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

i) Derivative financial instruments

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

j) Distribution of profit between equity of unrestricted investment accountholders and shareholders

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

- A net gain on all items of income and expenses at the year end is the net profit distributable between the shareholders and the equity of unrestricted investment accountholders.
- The share of the unrestricted investment account holders is calculated out from the net profit on the basis of daily balances of their balances after deducting Masraf's Mudaraba percentage agreed upon and declared.
- In case any expense or loss incurred is proved to be resulting from negligence by Masraf due to violation of the directives of Qatar Central Bank or proper banking conventions, the unrestricted investment accountholders shall not be charged with these losses, subject to the discretion of Qatar Central Bank.
- In case the results of Masraf at the year-end are net losses, then Qatar Central Bank, being the authority responsible for determining Masraf's accountability for these losses, shall decide how these shall be treated without violation to the Islamic Shari'a rules.
- Due to pooling of unrestricted investment funds with Masraf funds for the purpose of investment, no priority has been given to either party in the appropriation of profit.

Notes to the Consolidated Financial Statements

at 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

k) Leasing

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

Group as a lessee

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

Group as a lessor

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

l) Revenue recognition

- Income on financing contracts of Murabaha is recognised on time apportionment basis using the declining instalment method. When receivables from financing activities become non-performing and where collectability is doubtful, income is suspended as per the instructions of Qatar Central Bank.
- Ijarah income is recognised on time apportioned basis over the period and the profit rate is determined in advance upon agreement of all parties.
- Income on Mudaraba financing is recognised when the right to receive payment is established or distribution by the Mudarib. In case of losses in Mudaraba, the Group's share of losses is being deducted from its share of Mudarib capital.
- The Group's share as a Mudarib is accrued based on the terms and conditions of the related Mudaraba agreements.
- Income on Istisna'a financing is recognized using the percentage of completion method. The percentage of completion is determined based on the surveys of work performed.
- Income from short-term placements and sukuk investments is recognized on a time-apportioned basis over the period of the contract using the effective profit rate method. The effective profit rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of a financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective profit rate is established on initial recognition of the financial asset and liability and is not revised subsequently.
- Placement fees for arranging a financing between a borrower and investor are recognized as income when the financing has been arranged.
- Income on Musharaka is recognized when the right to receive payment is established or on distribution. In case of losses in Musharaka, the Group's share of losses is recognized to the extent that such losses are being deducted from its share of the capital.
- Income from dividends is recognised when the right to receive the dividend is established.
- Other investments income is recognised on an accrual basis.
- Fees and commission income is recognised when earned.
- Profit is allocated proportionately between equity of unrestricted investment accountholders and shareholders on the basis of the average balances outstanding during the year after deduction of Masraf's share as Mudarib.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

m) Impairment of financial assets

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

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

Financial assets carried at amortised cost

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

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

Equity type investments

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

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

Receivables and balances from financing activities

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

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

Notes to the Consolidated Financial Statements

at 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

n) Impairment of non-financial assets

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

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

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

o) Investment property

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

p) Property, furniture and equipment

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

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

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

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

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

q) Receivables and balances from financing activities

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

Murabaha receivables

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

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

Istisna'a

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

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

Mudaraba

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

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

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

Notes to the Consolidated Financial Statements

at 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

q) Receivables and balances from financing activities (continued)

Musharaka

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

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

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

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

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

r) Facilities repayment negotiation schedule

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

s) Zakat

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

t) Shari'a Supervisory Board

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

u) Earnings prohibited by Shari'a

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

v) Cash and cash equivalents

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

w) Investments in associates

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

w) Investments in associates (continued)

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

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

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

x) Employees end of service benefits and pension fund

- The Group provides for end of service benefits to its expatriate employees in accordance with the Qatar Labour Law. The provision is calculated based on the period of service for each staff at the year end. This provision is included in other provisions under other liabilities.
- The Group also provides for its contribution to the pension fund in accordance with the Retirement and Pension Law No. 24 of 2002 for Qatari and GCC employees, which is included in staff costs under general and administrative expenses.

y) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured. The Group accounts for provisions to be charged to the consolidated income statement for any potential claim or for any expected impairment of assets, taking into consideration the value of the potential claim or expected impairment and its likelihood.

z) Placements with banks and other financial institutions

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

aa) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances.

Financial guarantees are initially recognized in the consolidated financial statements at fair value, being the premium received on the date the guarantee was given, and the initial fair value is amortised over the life of the financial guarantee. Subsequent to initial recognition, the Group's liability under such guarantees are measured at the higher of the amortised amount and the best estimate of the expenditure required to settle any financial obligation arising at the consolidated statement of financial position date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

Any increase in the liability relating to guarantees is taken to the consolidated income statement. The amortisation of the premium received is recognized in the consolidated income statement under commission and fees income.

Notes to the Consolidated Financial Statements

at 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

bb) Investment risk reserve

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

cc) Contingent liabilities

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

dd) Estimation uncertainty

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

(i) Impairment of financial contracts and investments

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

(ii) Useful lives of property, furniture and equipment

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

(iii) Going concern

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

ee) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors as its chief operating decision maker. All transactions between operating segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining operating segment performance.

ff) Income tax

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Standards issued but not yet effective

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

IAS 27 Separate Financial Statements (as revised in 2011)

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

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

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

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements

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

IFRS 9 Financial Instruments: Classification and Measurement

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

IFRS 10 Consolidated Financial Statements

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

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

IFRS 13 Fair Value Measurement

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

Notes to the Consolidated Financial Statements

at 31 December 2011

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

3.1 Financial instruments

Definition and classification

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

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

Risk management and structure

Introduction

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

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

Board of Directors

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

Risk management function

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

Assets and liabilities

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

Internal audit

Risk management processes throughout the Group are audited annually by the Internal Audit Department that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses. Masraf also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk type activities and the module makes use of probabilities derived from historical experience adjusted to reflect the economic environment.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.1 Financial instruments (continued)

Risk management and structure (continued)

Risk measurement and reporting systems (continued)

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

On a monthly basis, detailed reporting of industry, customer and geographic risks take place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis.

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

Risk mitigation

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

Excessive risk concentration

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

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

3.2 Credit risk

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

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or group of customers in specific locations or businesses. It also obtains collaterals, when appropriate. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collaterals obtained are as follows:

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

Management monitors the market value of collaterals.

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

Details of the composition of the receivables and balances from financing activities to customers are set out in Note 6. Also the details of geographical segments are set out in Note 26.

Notes to the Consolidated Financial Statements

at 31 December 2011

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

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

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

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

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

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.2 Risk concentration for maximum exposure by Sector

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

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

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

a) Receivables and balances from financing activities

At 31 December 2011	Neither past due nor impaired QAR '000	Past due but not impaired QAR '000	Impaired QAR '000	Total QAR '000
Risk grading:				
High grade	11,730,898	–	–	11,730,898
Standard grade	23,535,334	825,205	–	24,360,539
Sub-standard	–	–	79,559	79,559
Doubtful	–	–	530	530
Bad debt	–	–	25,980	25,980
Gross	**35,266,232**	**825,205**	**106,069**	**36,197,506**
Less: Deferred profit	–	–	–	(1,344,453)
Less: Allowance for impairment and profit in suspense	–	–	(87,226)	(87,226)
Net	**35,266,232**	**825,205**	**18,843**	**34,765,827**

Notes to the Consolidated Financial Statements

at 31 December 2011

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

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

a) Receivables and balances from financing activities (continued)

At 31 December 2010	Neither past due nor impaired QAR '000	Past due but not impaired QAR '000	Impaired QAR '000	Total QAR '000
Risk grading:				
High grade	11,083,462	–	–	11,083,462
Standard grade	15,141,797	266,373	–	15,408,170
Sub-standard	–	–	354	354
Bad debt	–	–	11,239	11,239
Gross	**26,225,259**	**266,373**	**11,593**	**26,503,225**
Less: Deferred profit	–	–	–	(1,427,603)
Less: Allowance for impairment and profit in suspense	–	(285)	(11,370)	(11,655)
Net	**26,225,259**	**266,088**	**223**	**25,063,967**

It is the Group's policy to maintain accurate and consistent risk ratings across the financing portfolio. This facilitates focused management of the applicable risks and the comparison of financing exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

b) Balances and investments with banks and other financial institutions

Exposures to balances and investments with banks and other financial institutions are all of high grade. There are no past due or impaired balances in the portfolio as at 31 December 2011 (2010: nil).

c) Financial investments

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

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

d) Other receivables

Accrued profit on certain debt type investments are impaired during the year amounting to QAR 3,126 thousand (2010: QAR 1,563 thousand). The remaining exposures are either of high grade or standard grade.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

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

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

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

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

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

Note:

As of 31 December 2011, the Group did not obtain any additional collaterals against the past due but not impaired receivables and balances from financing activities.

f) Impaired receivables and balances from financing activities

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

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

Notes to the Consolidated Financial Statements

at 31 December 2011

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

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

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

Unrated exposures represent financing activities granted to corporations and individuals which do not have external credit rating. Also, the ratings used by the Group are in line with the ratings and definitions published by international rating agencies. The above exposures include financing activities which are neither past due nor impaired amounting to QAR 35,266 million (2010: QAR 26,225 million).

3.3 Market risk

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

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

3.3.1 Profit rate risk

a) Profit rate risk

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.1 Profit rate risk (continued)

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

	Within 3 months QAR '000	3 to12 months QAR '000	1 to 5 years QAR '000	Over 5 years QAR '000	Non-profit sensitive QAR '000	Total QAR '000
At 31 December 2011						
Cash and balances with Qatar Central Bank	–	–	–	–	2,253,317	2,253,317
Balances and investments with banks and other financial institutions	3,477,349	–	–	–	796,760	4,274,109
Receivables and balances from financing activities	23,569,787	5,317,028	3,231,102	2,647,910	–	34,765,827
Financial investments and investment in associates	–	478,629	10,226,733	1,250,000	1,522,171	13,477,533
Investment property and property, furniture and equipment and other assets	–	–	–	–	500,550	500,550
TOTAL ASSETS	**27,047,136**	**5,795,657**	**13,457,835**	**3,897,910**	**5,072,798**	**55,271,336**
Customers' current accounts	–	–	–	–	4,171,358	4,171,358
Other liabilities	–	–	–	–	503,467	503,467
Equity of unrestricted investment accountholders	37,961,155	3,810,186	230,315	–	90,578	42,092,234
Total equity and non-controlling interest	–	–	–	–	8,504,277	8,504,277
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, EQUITY AND NON-CONTROLLING INTEREST	**37,961,155**	**3,810,186**	**230,315**	**–**	**13,269,680**	**55,271,336**
Profit Rate Sensitivity Gap	**(10,914,019)**	**1,985,471**	**13,227,520**	**3,897,910**	**(8,196,882)**	**–**
Cumulative Profit Rate Sensitivity Gap	**(10,914,019)**	**(8,928,548)**	**4,298,972**	**8,196,882**	**–**	**–**

Notes to the Consolidated Financial Statements

at 31 December 2011

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.1 Profit rate risk (continued)

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.1 Profit rate risk (continued)

b) Profit rate sensitivity

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

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

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

Notes to the Consolidated Financial Statements

at 31 December 2011

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.3 Market risk (continued)

3.3.2 Currency risk

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

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

	2011		2010	
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%	(3,343)	+10%	76
GBP	+10%	(17)	+10%	3
Others	+10%	724	+10%	(165)
EUR	-10%	3,343	-10%	(76)
GBP	-10%	17	-10%	(3)
Others	-10%	(724)	-10%	165

The Group manages its currency exposures within limits laid down by the Board of Directors. Limits are laid down for each currency individually and in total at the beginning of the year. The Qatar Riyal is pegged to the US Dollar. Although the Group is not exposed to any currency risk due to the peg, limits are set for US Dollar exposures. All other currency exposures are limited and the Group is not significantly exposed to other currencies exposures.

3.3.3 Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as investments at fair value through equity. A 10 percent increase in the Qatar Exchange index at 31 December 2011 would have increased equity by QAR 1,928 thousand (2010: QAR 1,647 thousand). An equivalent decrease would have resulted in an equivalent but opposite impact.

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4 Liquidity risk

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

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

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

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

	Within one month QAR '000	One to 3 months QAR '000	3 to 12 months QAR '000	1 to 5 Years QAR '000	Over 5 years QAR '000	Total QAR '000
At 31 December 2011						
Customers' current accounts	4,171,358	–	–	–	–	4,171,358
Other liabilities	503,467	–	–	–	–	503,467
Equity of unrestricted investment accountholders	31,756,535	6,326,772	3,851,363	285,081	–	42,219,751
Total Liabilities	**36,431,360**	**6,326,772**	**3,851,363**	**285,081**	**–**	**46,894,576**
Liquidity risk and funding management						
Contingent liabilities	–	–	6,073,580	–	–	6,073,580
Total	**–**	**–**	**6,073,580**	**–**	**–**	**6,073,580**

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

Notes to the Consolidated Financial Statements

at 31 December 2011

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

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

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

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

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

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

Notes to the Consolidated Financial Statements

at 31 December 2011

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

b) Fair value of financial assets and liabilities

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

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

i) Receivables and balances from financing activities

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

ii) Financial investments

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

iii) Equity of unrestricted investment accountholders

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

c) Fair value disclosures

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

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

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

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

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

c) Fair value disclosures (continued)

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

	31 December 2011 QAR '000	Level 1 QAR '000	Level 2 QAR '000	Level 3 QAR '000
Financial assets				
Equity-type financial investments:				
Quoted equities	19,278	19,278	–	–
Unquoted equities	71,607	–	71,607	–
	90,885	**19,278**	**71,607**	**–**
Derivative financial instruments:				
Profit rate swap	3,201	–	3,201	–
Unilateral promise to buy/sell currencies	31,594	–	31,594	–
	34,795	**–**	**34,795**	**–**
Financial liabilities				
Derivative financial instruments:				
Profit rate swap	3,145	–	3,145	–
Unilateral promise to buy/sell currencies	37,624	–	37,624	–
	40,769	**–**	**40,769**	**–**

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

Notes to the Consolidated Financial Statements

at 31 December 2011

3. FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

3.5 Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital. No changes were made in the objectives, policies and processes from the previous year.

The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by Qatar Central Bank.

Capital Adequacy

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

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

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

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

3.6 Operational risk

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

3.7 Other risks

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

Notes to the Consolidated Financial Statements

at 31 December 2011

4. CASH AND BALANCES WITH QATAR CENTRAL BANK

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

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

5. BALANCES AND INVESTMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

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

6. RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES

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

Notes to the Consolidated Financial Statements

at 31 December 2011

6. RECEIVABLES AND BALANCES FROM FINANCING ACTIVITIES (continued)

b) By sector

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

	Murabaha QAR '000	Ijarah QAR '000	Istisna'a QAR '000	Musharaka QAR '000	Mudaraba QAR '000	Others QAR '000	Total 2010 QAR '000
Government institutions	8,294,960	–	–	–	2,205,665	–	10,500,625
Real estate	1,827,838	925,884	–	120,946	–	2,498	2,877,166
Contracting	6,870,898	26,787	–	4,798	–	–	6,902,483
Consumer	191,226	–	–	2,538	–	8,462	202,226
Services	4,223,388	304,028	–	–	–	–	4,527,416
Other	45,260	–	–	20,446	–	–	65,706
	21,453,570	**1,256,699**	**–**	**148,728**	**2,205,665**	**10,960**	**25,075,622**

c) Movement in allowance for impairment and profit in suspense

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

	Individually Impaired QAR '000	Collectively impaired QAR '000	Profit in suspense QAR '000	Total 2011 QAR '000
Balance as at 1 January	9,312	–	2,343	11,655
Charge for the year	23,155	47,711	5,051	75,917
Write off during the year	(346)	–	–	(346)
Balance at 31 December	**32,121**	**47,711**	**7,394**	**87,226**

	Individually Impaired QAR '000	Collectively impaired QAR '000	Profit in suspense QAR '000	Total 2010 QAR '000
Balance as at 1 January	8,487	–	–	8,487
Charge for the year	825	–	2,343	3,168
Balance at 31 December	**9,312**	**–**	**2,343**	**11,655**

7. FINANCIAL INVESTMENTS

	2011		
	At fair value through equity QAR '000	At amortised cost QAR '000	Total QAR '000
Financial investment in:			
Equity type instruments:			
Quoted	19,278	–	19,278
Unquoted	71,607	–	71,607
Total	90,885	–	90,885
Debt-type instruments:			
Quoted	–	693,166	693,166
Unquoted	–	11,262,196	11,262,196
Total	–	11,955,362	11,955,362
Total	**90,885**	**11,955,362**	**12,046,247**

	2010		
	At fair value through equity QAR '000	At amortised cost QAR '000	Total QAR '000
Financial investment in:			
Equity type instruments:			
Quoted	16,470	–	16,470
Unquoted	151,606	–	151,606
Total	168,076	–	168,076
Debt-type instruments:			
Quoted	–	702,643	702,643
Unquoted	–	1,266,200	1,266,200
Total	–	1,968,843	1,968,843
Total	**168,076**	**1,968,843**	**2,136,919**

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

Notes to the Consolidated Financial Statements

at 31 December 2011

7. FINANCIAL INVESTMENTS (continued)

	2011			2010		
	Quoted QAR '000	Unquoted QAR '000	Total QAR '000	Quoted QAR '000	Unquoted QAR '000	Total QAR '000
Debt-type instruments by type						
Local Sukuk in QAR	–	11,250,000	11,250,000	–	1,250,000	1,250,000
Local Sukuk in USD	315,847	–	315,847	310,762	–	310,762
Foreign Sukuk in USD	203,868	12,196	216,064	218,430	16,200	234,630
Foreign Sukuk in AED	173,451	–	173,451	173,451	–	173,451
	693,166	**11,262,196**	**11,955,362**	**702,643**	**1,266,200**	**1,968,843**
Debt-type instruments by nature of income						
Fixed profit rate	29,124	11,262,196	11,291,320	43,686	1,266,200	1,309,886
Floating profit rate	664,042	–	664,042	658,957	–	658,957
	693,166	**11,262,196**	**11,955,362**	**702,643**	**1,266,200**	**1,968,843**

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

8. INVESTMENT PROPERTY

	2011 QAR '000	2010 QAR '000
Balance at 1 January	160,220	68,970
Additions	–	91,250
Net movement resulting from derecognition of a subsidiary	(68,970)	–
Balance at 31 December	**91,250**	**160,220**

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

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

9. INVESTMENT IN ASSOCIATES

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

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

Associates' movement during the year is as follows:

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

Notes to the Consolidated Financial Statements

at 31 December 2011

9. INVESTMENT IN ASSOCIATES (continued)

Notes:

a) The Company was incorporated in Oman on 19 November 2008 with paid up share capital of Omani Riyal 25 million to conduct design services, consultancy services, project management, marketing, advertising, sales and construction for its real estate and clients. During 2011, the Company returned 40% of its share capital to investors.

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

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

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

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

f) The Company, engaged in dealing and arranging investments and credit facilities and managing and advising on investments, was a fully-owned subsidiary as of 31 December 2010. During the year, the Group sold 50% of its investment in the Company. Subsequent to the sale, the investment in the Company has been reclassified as investment in associate. On 5 January 2012, the Company changes its name to Seef Lusail Real Estate Development Company W.L.L.

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

h) The amount represents 50% of the Group's share in results of National Mass Housing, and has been recognized under other liabilities as per Shari'a Board instructions.

i) All investments are not listed.

10. OTHER ASSETS

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

Notes:

(i) Allowance for impairment losses pertain to accrued profit relating to certain debt type investments.

(ii) Other receivables include positive fair value of derivatives amounting to QAR 34,795 thousand.

Notes to the Consolidated Financial Statements

at 31 December 2011

11. PROPERTY, FURNITURE AND EQUIPMENT

	Land & building QAR '000	Leasehold improve-ments QAR '000	Furniture, fixtures and office equipment QAR '000	Computer hardware QAR '000	Work in progress QAR '000	Total QAR '000
As at 31 December 2011						
Cost:						
Balance at 1 January 2011	14,163	48,440	17,541	52,185	7,878	140,207
Additions	–	897	1,723	5,636	950	9,206
Disposals	–	–	–	–	(5,669)	(5,669)
Transfers	–	1,251	189	150	(1,590)	–
Balance at 31 December 2011	**14,163**	**50,588**	**19,453**	**57,971**	**1,569**	**143,744**
Accumulated depreciation:						
Balance at 1 January 2011	1,031	13,667	5,882	32,671	–	53,251
Depreciation for the year	358	4,987	2,752	11,890	–	19,987
Balance at 31 December 2011	**1,389**	**18,654**	**8,634**	**44,561**	–	**73,238**
Net book value:						
At 31 December 2011	**12,774**	**31,934**	**10,819**	**13,410**	**1,569**	**70,506**

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

Notes to the Consolidated Financial Statements

at 31 December 2011

12. OTHER LIABILITIES

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

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

a) Provision for employees end of service benefits

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

13. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

	2011 QAR '000	2010 QAR '000
a) By type		
Saving accounts	936,015	374,986
Call accounts	3,271,947	2,265,384
Time deposits	37,793,694	22,935,908
Profit payable to equity of unrestricted investment accountholders	90,230	147,701
Share in the fair value reserve	348	219
	42,092,234	**25,724,198**

	2011 QAR '000	2010 QAR '000
b) By sector		
Government and governmental institutions	11,897,270	4,646,350
Individuals	2,529,319	1,544,436
Banks	13,195,261	8,134,454
Corporate	14,379,806	11,251,038
Profit payable to equity of unrestricted investment accountholders	90,230	147,701
Share in the fair value reserve	348	219
	42,092,234	**25,724,198**

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

Notes to the Consolidated Financial Statements

at 31 December 2011

14. NON-CONTROLLING INTEREST

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

15. EQUITY

Share capital

	2011 QAR '000	2010 QAR '000
Authorised		
750,000,000 shares at QAR 10 each	**7,500,000**	**7,500,000**

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

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

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

Legal reserve

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

a) In accordance with the Qatar Commercial Companies' Law No. 5 of 2002, share premium equivalent to 164.3% of the paid up share capital was transferred to legal reserve account.

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

c) The General Assembly, in its meeting held on 28 March 2011 and after the approval of Qatar Central Bank and the Ministry of Business and Trade, has resolved to transfer the balance of legal reserve as of 31 December 2009 to retained earnings for the purpose of capitalizing the reserve into the uncalled portion of the share capital.

Notes to the Consolidated Financial Statements

at 31 December 2011

15. EQUITY (continued)

Fair value reserve

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

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

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

Risk reserve

In accordance with Qatar Central Bank regulations, risk reserve has been created to cover contingencies on both the public and private sector financing activities, with a minimum requirement of 1.5% of the total private sector exposure granted by Masraf and its branches inside and outside Qatar after the exclusion of the specific provisions and profit in suspense. The finance provided to/or secured by the Ministry of Finance or finance against cash guarantees are excluded from the gross direct financing, which should be appropriated from share holders profit according to Qatar Central Bank Circular No 87/2008. As of 31 December 2011, an amount of QAR 450,000 thousand has been transferred to the risk reserve.

Also, the General Assembly, in its meeting held on 28 March 2011 and after the approval of Qatar Central Bank, has resolved to transfer the balance of risk reserve as of 31 December 2009 to retained earnings for the purpose of capitalizing the reserve into the uncalled portion of the share capital.

Proposed dividend

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

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

Social and Sports Fund

Pursuant to Law No. 13 of 2008 and further clarifications of the law issued in 2010, the Group made an appropriation of QAR 35.2 million for an amount equivalent to 2.5% of the net profit relating to the year ended 31 December 2011 (2010: QAR 52 million) for the support of sports, cultural and charitable activities.

16. INCOME FROM FINANCING ACTIVITIES

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

17. INCOME FROM INVESTING ACTIVITIES

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

18. NET COMMISSION AND FEES INCOME

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

19. OTHER INCOME

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

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

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

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

Notes to the Consolidated Financial Statements

at 31 December 2011

19. OTHER INCOME (continued)

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

20. GENERAL AND ADMINISTRATIVE EXPENSES

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

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

	2011 QAR '000	2010 QAR '000
Return on equity of unrestricted investment accountholders in the profit before Masraf's Mudaraba income	1,084,385	931,695
Masraf's Mudaraba income	(917,059)	(795,127)
Return on unrestricted investment accountholders	167,326	136,568
Support provided by Masraf	410,927	434,689
Return on investment account holders after Masraf's support	**578,253**	**571,257**

	2011 %	2010 %
Rates of profit allotment:		
More than one year deposits	2.50	4.00
One year deposits	1.54	3.75
Six months deposits	1.10	3.74
Three months deposits	1.02	3.55
Call accounts	0.73	1.56
Saving accounts	0.98	1.80
Saving accounts-millionaire	1.19	2.50

22. BASIC AND DILUTED EARNINGS PER SHARE

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

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

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

	2011 Nos '000	2010 Nos '000
Weighted average number of shares at 1 January	749,937	749,937
Effect of share issuance	4	–
Weighted average number of shares at 31 December	**749,941**	**749,937**

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

23. CASH AND CASH EQUIVALENTS

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

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

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

24. CONTINGENT LIABILITIES AND COMMITMENTS

a) Capital commitments

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

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

b) Contingent liabilities

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

Notes to the Consolidated Financial Statements

at 31 December 2011

24. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

c) Other undertakings and commitments

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

A) Profit rate swap

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

B) Unilateral promise to buy/sell currencies

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

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

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

	Positive fair value QAR '000	Negative fair value QAR '000	Notional amount QAR '000	Within 3 months QAR '000	3 - 12 months QAR '000	1 - 5 years QAR '000
As at 31 December 2010						
Derivatives for customers						
Profit rate swaps	5,554	5,554	2,548,350	–	1,019,340	1,529,010
Unilateral promise to buy/sell currencies	5,591	16,911	10,629,267	10,373,421	255,846	–
	11,145	**22,465**	**13,177,617**	**10,373,421**	**1,275,186**	**1,529,010**

Notes to the Consolidated Financial Statements

at 31 December 2011

25. OPERATING SEGMENTS

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

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

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

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

	Corporate Banking QAR '000	Retail Banking QAR '000	Al Rayan Investment QAR '000	Unallocated QAR '000	Total QAR '000
31 December 2011					
Operating income	2,248,792	125,699	15,678	–	2,390,169
Expenses	(621,869)	(41,672)	(12,219)	(306,059)	(981,819)
Net profit/(loss)	**1,626,923**	**84,027**	**3,459**	**(306,059)**	**1,408,350**
Total assets	**52,489,113**	**2,397,366**	**94,432**	**290,425**	**55,271,336**
Total liabilities and equity of unrestricted investment accountholders	**43,211,836**	**3,260,280**	**14,703**	**280,240**	**46,767,059**

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

Notes to the Consolidated Financial Statements

at 31 December 2011

26. GEOGRAPHICAL SEGMENTS

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

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

27. RELATED PARTY DISCLOSURES

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

Transactions with related parties

a) Consolidated statement of financial position items

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

b) Consolidated income statement items

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

Compensation of key management personnel

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

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