

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

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**30 SEPTEMBER 2007**

## **REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF MASRAF AL RAYAN (Q.S.C.)**

### **Introduction**

We have reviewed the accompanying interim condensed consolidated financial statements of Masraf Al Rayan (Q.S.C.) ("Masraf") and its subsidiaries (together referred to as the "Group") as at 30 September 2007, comprising of the condensed consolidated balance sheet as at 30 September 2007 and the related interim consolidated income statements, for the three month period ended as at 30 September 2007 and the period from 4 January 2006 to 30 September 2007 and consolidated cash flow statements and consolidated statements of changes in shareholders' equity for the period from 4 January 2006 to 30 September 2007 and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, International Financial Reporting Standard "IAS 34 Interim Financial Reporting" ("IAS 34"), Qatar Central Bank regulations and Masraf's undertaking to operate in accordance with Islamic Shari'a rules and principles. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consist of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions, IAS 34 and Qatar Central Bank regulations.

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

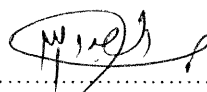
Date:  
Doha


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


## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2007

	<i>30 September</i>	<i>31 December</i>
	<i>2007</i>	<i>2006</i>
	<i>QR'000</i>	<i>QR'000</i>
<i>Notes</i>	<i>(Reviewed)</i>	<i>(Reviewed)</i>
<b>ASSETS</b>		
Cash on hand and balances with Qatar Central Bank	85,992	25,165
Balances and investments with banks and other financial institutions	2,287,900	3,953,411
Receivables and balances from financing activities	6,381,348	186,540
Investment securities	464,398	139,559
Investment properties	68,970	-
Property and equipment	41,520	9,601
Other assets	94,337	10,060
<b>TOTAL ASSETS</b>	<b><u>9,424,465</u></b>	<b><u>4,324,336</u></b>
<b>LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>		
<b>LIABILITIES</b>		
Customers' current accounts	333,690	22,942
Accounts Payable	15,991	723
Other Liabilities	62,016	21,901
<b>TOTAL LIABILITIES</b>	<b><u>411,697</u></b>	<b><u>45,566</u></b>
<b>UNRESTRICTED INVESTMENT ACCOUNTS</b>	<b><u>3,885,933</u></b>	<b><u>200,187</u></b>
<b>EQUITY</b>		
Paid up share capital	4 3,749,685	3,749,685
Legal reserve	4 215,122	215,172
Fair value reserve	176	908
Risk Reserve	4 16,217	2,203
Retained earnings	1,145,635	110,615
<b>TOTAL EQUITY</b>	<b><u>5,126,835</u></b>	<b><u>4,078,583</u></b>
<b>TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNTS AND EQUITY</b>	<b><u>9,424,465</u></b>	<b><u>4,324,336</u></b>

  
 Dr. Hussain Ali Al Abdalla  
 Chairman & Managing Director

  
 Esam Youssif Janahi  
 Deputy Chairman

  
 Adel Mustafawi  
 Chief Executive Officer – Al Rayan

The attached notes 1 to 6 form part of these interim condensed consolidated financial statements

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

## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

At 30 September 2007

	<i>1 July to 30 September 2007 QR'000 (Reviewed)</i>	<i>1 January to 30 September 2007 QR'000 (Reviewed)</i>	<i>4 January 2006 to 30 September 2007 QR'000 (Reviewed)</i>
Income from financing activities	85,923	152,568	154,819
Income from investing activities	<u>329,281</u>	<u>971,933</u>	<u>1,148,501</u>
<b>Total income from financing and investing activities</b>	<b><u>415,204</u></b>	<b><u>1,124,501</u></b>	<b><u>1,303,320</u></b>
Commission and fee income	22,335	50,851	50,962
Commission and fee expense	<u>-</u>	<u>(86)</u>	<u>(102)</u>
<b>Net commission and fee income</b>	<b>22,335</b>	<b>50,765</b>	<b>50,860</b>
Gain on foreign exchange	<u>13,239</u>	<u>17,526</u>	<u>17,468</u>
<b>TOTAL OPERATING INCOME</b>	<b>450,778</b>	<b>1,192,792</b>	<b>1,371,648</b>
General and administrative expenses	(23,328)	(57,478)	(122,303)
Depreciation	<u>(1,406)</u>	<u>(3,123)</u>	<u>(3,485)</u>
<b>PROFIT FOR THE PERIOD BEFORE SHARE OF UNRESTRICTED INVESTMENT ACCOUNTS HOLDERS</b>	<b>426,044</b>	<b>1,132,191</b>	<b>1,245,860</b>
Share of unrestricted investment accounts holders in the:			
- Net profit	(42,079)	(80,141)	(80,864)
- Risk reserve	<u>(1,440)</u>	<u>(3,016)</u>	<u>(3,144)</u>
<b>NET PROFIT FOR THE PERIOD DUE TO SHAREHOLDERS</b>	<b><u>382,525</u></b>	<b><u>1,049,034</u></b>	<b><u>1,161,852</u></b>
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	<b><u>0.51</u></b>	<b><u>1.40</u></b>	<b><u>1.55</u></b>

The attached notes 1 to 6 form part of these interim condensed consolidated financial statements

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

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Period Ended 30 September 2007

	<i>4 January 2006 to 30 September 2007 QR'000 (Reviewed)</i>
<b>OPERATING ACTIVITIES</b>	
Profit for the period	1,161,852
Adjustments for:	
Depreciation	3,485
Gain on sale of investment securities	(6,350)
Gain on sale investment properties	<u>(836,400)</u>
Operating profit before changes in operating assets and liabilities	322,587
<b>Net decrease (increase) in assets:</b>	
Cash reserve with Qatar Central Bank	(52,237)
Receivables and balances from financing activities	(6,381,348)
Other assets	(94,337)
<b>Net increase (decrease) in liabilities:</b>	
Customers' current accounts	333,445
Accounts payable and other liabilities	<u>78,007</u>
<b>Net cash used in operating activities</b>	<u>(5,793,883)</u>
<b>INVESTING ACTIVITIES</b>	
Purchase of financial investments	(492,830)
Purchase of investment property	(198,145)
Purchase of property and equipment	(45,005)
Proceeds from sale of investment securities	34,958
Proceeds from sale of investment properties	<u>965,575</u>
<b>Net cash used in investing activities</b>	<u>264,553</u>
<b>FINANCING ACTIVITIES</b>	
Proceeds from issue of share capital	4,005,512
Equity transaction costs	(40,705)
Net increase in unrestricted investment accounts	<u>3,886,178</u>
<b>Net cash from financing activities</b>	<u>7,850,985</u>
Net increase in cash and cash equivalents during the period	2,321,655
Balance of cash and cash equivalents at 4 January 2006	<u>-</u>
<b>Balance of cash and cash equivalents at 30 September</b>	<u><u>2,321,655</u></u>

The attached notes 1 to 6 form part of these interim condensed consolidated financial statements

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

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Period Ended 30 September 2007

	Share capital QR '000	Legal Reserve QR '000	Fair value reserve QR '000	Risk reserve QR '000	Retained earnings QR '000	Total QR '000
<b>Balance at 4 January 2006</b>	-	-	-	-	-	-
Capital contribution	4 3,749,685	255,827	-	-	-	4,005,512
Equity transaction costs recognised directly in equity	4 -	(40,705)	-	-	-	(40,705)
Net changes in fair value reserve	-	-	176	-	-	176
Total income and expense for the period recognised directly in equity Profit for the period	3,749,685	215,122	176	-	-	3,964,983
	-	-	-	-	1,161,852	1,161,852
Total income and expense for the period	3,749,685	215,122	176	-	1,161,85	5,126,835
Transfers to risk reserve	-	-	-	16,217	(16,217)	-
<b>Balance at 30 September 2007</b>	<b>3,749,685</b>	<b>215,122</b>	<b>176</b>	<b>16,217</b>	<b>1,145,635</b>	<b>5,126,835</b>

The attached notes 1 to 6 form part of these interim condensed consolidated financial statements

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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2007

### 1. LEGAL STATUS AND MAIN ACTIVITIES

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

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

### 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed consolidated financial statements of Masraf are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the International Accounting Standards (IAS 34) - Interim Financial Reporting.

The interim condensed consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements have been consistently applied, except for the adoption of the new interpretation, noted below. Adoption of this interpretation did not have any effect on the financial position or performance of the Group.

#### IFRIC 10 Interim Financial Reporting and Impairment

The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

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

#### (a) Basis of preparation

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available-for-sale investments and investment properties, Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards, where relevant, in accordance with relevant laws and instructions issued by of Qatar Central Bank.

The consolidated financial statements comprise the financial statements of Masraf Al Rayan (Q.S.C) and its subsidiaries. All intergroup balances and transactions have been eliminated in full. The details of the subsidiary are as follows:

Name of Subsidiary	Country of Incorporation	Share Capital QAR'000	Ownership %
Al Rayan Investment LLC	Qatar	364,050	100
Lusail Waterfront Real Estate Co WLL	Qatar	150	75

#### (b) Foreign currency transactions

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

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**(c) Revenue recognition**

- Income on financing contracts of Murabaha, Istesna and Mudaraba are recognised on accrual basis using the reducing balance method. When receivables from financing activities become non-performing and where collection is doubtful, income is suspended as per the instructions of Qatar Central Bank.
- Ijarah income is recognised on accrual basis and is determined in advance upon agreement of all parties.
- Income from dividends and investment funds is recognised when declared by the investees.
- Other investments income is recognised on an accrual basis.
- Fees and commission income is recognised when earned.

**(d) Valuation of financial investments**

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

**(e) Investment properties**

Land and buildings are considered as investment properties only when they are being held to earn rentals or for capital appreciation or both.

Investment properties are measured initially at cost, including transaction costs that are directly attributable to the asset. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

The fair value of investment properties is based on valuations carried out by the external independent valuers.

Any fair valuation surplus is credited to the "investment properties fair valuation reserve" included in the equity section of the balance sheet, except to the extent that it reverses a fair valuation decrease of the same asset previously recognised in income statement, in which case the increase is recognised in income statement. A fair valuation deficit is recognised in income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset fair valuation reserve.

Investment properties are derecognised when either they have been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property after offsetting cumulative surplus previously reported in equity for that asset are recognised in the income statement in the year of retirement or disposal.



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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2007

### 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

#### (f) Fair values

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

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

- Cost
- Recoverable amount estimated by the portfolio manager

#### (g) Recognition of financial transactions

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

#### (h) Transaction costs of equity transactions

Transaction costs of an equity transaction are accounted for as a deduction from legal reserve. These costs include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers. The transaction costs of an equity transaction are accounted for as a deduction from legal reserve to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided (Note 4).

#### (i) Property and equipments

Property and equipments are stated at cost net of accumulated depreciation. The cost of these assets is depreciated using the straight-line method over the estimated useful lives of the assets as per QCB instructions, as follows:

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

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

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

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

For purchase order Murabaha transactions, the principle of committing the purchase order is applied in accordance with QCB instructions.

#### (k) Employees end of service benefits and pension fund

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

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**(l) Off balance sheet items**

Funds managed by Masraf on behalf of clients are included in other contracts and commitments and include:

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

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

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

- A net gain on all items of income and expenses at the year end is the net profit distributable between the shareholders and the holders of unrestricted investment deposits.
- The share of the holders of unrestricted investment deposits is calculated out from the net profit on the basis of daily balances of their deposits after deducting the Bank'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 depositors shall not be charged with these losses, subject to the discretion of Qatar Central Bank.
- In case that results of Masraf at the period end are net losses, then Qatar Central Bank, being the authority responsible for determining the Bank's accountability for these losses, shall decide how these shall be treated without violation to the Islamic Shari'a rules.
- Due to amalgamation 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.

**(n) Cash and cash equivalents**

Cash and cash equivalents for the purpose of the cash flow statement represent cash and cash balances with an original maturity of three months or less and comprise cash, balances with central banks excluding cash reserve and balances with banks and financial institutions.

**3 SEGMENT INFORMATION**

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

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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2007

### 4 SHARE CAPITAL

	<i>30 September 2007 QR'000 (Reviewed)</i>	<i>31 December 2006 QR'000 (Reviewed)</i>
<i>Authorised</i>		
750,000,000 shares of QAR 10 each	<u>7,500,000</u>	<u>7,500,000</u>
<i>Issued &amp; Paid-up</i>		
749,936,932 shares of QAR 5 each	<u>3,749,685</u>	<u>3,749,685</u>

### 4 SHARE CAPITAL (Continued)

#### Legal reserve

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

	<i>30 September 2007 QR'000 (Reviewed)</i>	<i>31 December 2006 QR'000 (Reviewed)</i>
Share premium on 722,236,932 shares	255,827	255,827
Less:		
Transactions costs relating to the issue of share capital	<u>(40,705)</u>	<u>(40,655)</u>
	<u>215,122</u>	<u>215,172</u>

Further, in accordance with its Articles of Association, 20% of profit for the period shall be taken to the legal reserve until the reserve equals 100% of the capital. No transfer has been made for the period ended 30 September 2007 as Masraf will transfer the required amount by 31 December 2007.

#### Risk reserve

In accordance with Qatar Central Bank regulations, risk reserve has been created to cover contingencies on the private sector financing activities, with a minimum requirement of 1.25% of the total private sector exposure granted by Masraf and its branches which should be allocated between the holders of unrestricted investment accounts and the shareholders. For the period ended 30 September 2007, the share of holders of unrestricted investment accounts was charged to the income statement.

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

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS At 30 September 2007

### 5 COMMITMENTS

#### (a) Operating lease commitments

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

	<i>30 September 2007 QR'000 (Reviewed)</i>
Payable not later than 1 year	18,608
Payable later than 1 year and not later than 5 years	<u>53,440</u>
	<u>72,048</u>

#### (b) Deferred or contingent commitments

Letter of guarantees	91,372
Letter of credit	<u>401,609</u>
	<u>492,981</u>

#### (c) Other contracts & commitments

	<i>30 September 2007 QR'000 (Reviewed)</i>
Ijara unused limits	66,602
Istesna commitments	40
Profit Rate Swap	51,643
Restricted investments balances	<u>24,000</u>
	<u>142,285</u>

### 6 RELATED PARTY DISCLOSURES

Related parties represent major shareholders, directors and key management personnel of the Masraf, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Masraf's management.

#### Related party transactions

##### (a) Balance Sheet items

	<i>30 September 2007 QR'000 (Reviewed)</i>
<b>Assets</b>	
Ijarah	1,376,658
Mudaraba	<u>2,374,110</u>
	<u>3,750,768</u>
<b>Liabilities</b>	
Unrestricted investment deposit	<u>263,540</u>

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
At 30 September 2007

## 6 RELATED PARTY DISCLOSURES (continued)

### (b) Income statement elements

	<i>30 September 2007 QR'000 (Reviewed)</i>
Fee and commission	21,798
Profit on Ijarah	43,492
Profit on Mudarabha	<u>22,430</u>
	<u>87,720</u>

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