

Al Khalij Commercial Bank (Q.S.C)

interim condensed financial statements

30 September 2008
(Unaudited)

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QR. 21523

Report on Review of Interim Condensed Financial Statements

To The Shareholders

Al Khaliji Commercial Bank (Al Khaliji) (Q.S.C.)
Doha – Qatar

Introduction

We have reviewed the accompanying interim condensed financial statements of **Al Khalij Commercial Bank (Al Khaliji) (Q.S.C.)**, which comprise the interim balance sheet as at 30 September 2008, and the related interim statements of income, changes in shareholders' equity and cash flows for the nine month ended 30 September 2008, and selected explanatory notes. Management is responsible for the preparation and fair presentation of these interim condensed financial statements in accordance with **International Accounting Standard - 34 "Interim Financial Reporting"** and Qatar Central Bank regulations. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

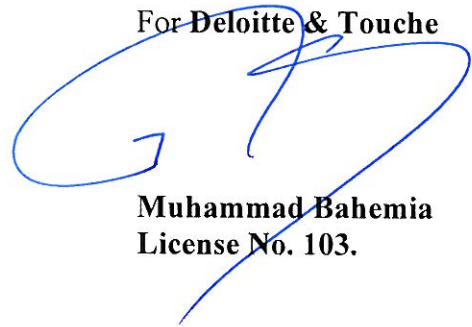
We conducted our review in accordance with **International Standard on Review Engagements 2410**, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for 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 **International Accounting Standard - 34 “Interim Financial Reporting”** and Qatar Central Bank regulations.

**Doha – Qatar
20 October 2008**

For **Deloitte & Touche**

A large, stylized handwritten signature in blue ink, consisting of several loops and a long horizontal stroke at the bottom.

**Muhammad Bahemia
License No. 103.**

Interim Condensed Balance Sheet

At 30 September 2008

	Note	30 December 2008	31 December 2007
ASSETS			
Cash and balances with Qatar Central Bank		84,294	-
Due from banks and financial institutions		395,459	4,197,734
Loans, advances and financing activities	7	4,855,306	769,370
Financial investments	8	2,009,990	-
Intangible assets	9	273,720	59,043
Furniture and equipment	10	124,371	60,203
Other assets		107,110	64,386
TOTAL ASSETS		7,850,250	5,150,736
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Due to banks and financial institutions		2,287,934	500,000
Deposits from customers		962,854	-
Other liabilities		105,636	89,474
Total liabilities		3,356,424	589,474
Shareholders' Equity			
Share capital	11	3,600,000	3,600,000
Legal reserve	12	886,953	886,953
Fair value reserve	13	(88,649)	-
Retained earnings		95,522	74,309
Total Shareholders' Equity		4,493,826	4,561,262
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		7,850,250	5,150,736

The interim condensed financial statements were approved for issue by the Board of Directors and signed on its behalf on 20 October 2008 by:

Tariq Al-Malki
Chairman and Managing Director

David Proctor
Chief Executive Officer

Interim Condensed Income Statement

For the nine month ended 30 September 2008

	Three months ended 30 September		Nine months ended 30 September		From date of incorporation (9 January 2007) to 30 September
	2008	2007	2008	2007 ¹	2008
Net Interest income	66,857	72,244	196,127	128,988	399,483
Net commission income	23,593	650	30,922	650	33,704
Income from Islamic financing	3,180	-	3,180	-	3,180
Other operating income	3,132	-	3,000	-	3,025
Operating income	96,762	72,894	233,229	129,638	439,392
Other income	-	14	-	14	24
Personnel expenses	(38,127)	(18,852)	(115,578)	(25,182)	(168,317)
Depreciation and amortisation	(14,428)	(513)	(23,215)	(853)	(27,410)
General and administrative expenses	(35,647)	(30,888)	(73,223)	(47,734)	(148,167)
Operating expenses	(88,202)	(50,239)	(212,016)	(73,755)	(343,870)
Net income for the period	8,560	22,655	21,213	55,883	95,522
Basic and diluted earnings per share (QAR)	0.01	0.03	0.03	0.12	0.16

¹The period ended 30 September 2007 started on 9 January 2007

Interim Condensed Statement of Changes in Shareholders' Equity

For the nine month ended 30 September 2008

	Share capital	Legal reserve	Fair value reserve	Retained earnings	Total
Capital contribution	3,600,000	-	-	-	3,600,000
Share premium received	-	720,000	-	-	720,000
Excess of establishment reserve over actual establishment expenses ²	-	166,953	-	-	166,953
Net income for the period	-	-	-	55,883	55,883
Balance at 30 September 2007	<u>3,600,000</u>	<u>886,953</u>	<u>-</u>	<u>55,883</u>	<u>4,542,836</u>
Balance at 1 January 2008	3,600,000	886,953	-	74,309	4,561,262
Net change in fair value reserve	-	-	(88,649)	-	(88,649)
Total income and expenses recognised directly in equity	-	-	(88,649)	-	(88,649)
Net income for the period	-	-	-	21,213	21,213
Total recognised income and expenses for the period	-	-	(88,649)	21,213	(67,436)
Balance at 30 September 2008	<u>3,600,000</u>	<u>886,953</u>	<u>(88,649)</u>	<u>95,522</u>	<u>4,493,826</u>

² note 12

Interim Condensed Statement of Cash Flows

For the nine month ended 30 September 2008

	For the nine months ended 30 September		From date of incorporation (9 January 2007) to 30 September
	2008	2007 ³	2008
Cash flows from operating activities – net	(1,322,917)	(489,624)	(1,487,380)
Cash flows from investing activities – net	(2,399,760)	(25,940)	(2,524,541)
Cash flows from financing activities – net	-	4,488,758	4,486,953
Net (decrease)/increase in cash and cash equivalents	(3,722,677)	3,973,194	475,032
Effect of foreign currency fluctuations	2,371	-	2,396
Cash and cash equivalents at beginning of the period	4,197,734	-	-
Cash and cash equivalents at end of the period (note16)	477,428	3,973,194	477,428

³ The period ended 30 September 2007 started on 9 January 2007

Notes to the Interim Condensed Financial Statements

For the nine month ended 30 September 2008

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Al Khalij Commercial Bank (“**al khaliji**”) (Q.S.C.) was incorporated on 9 January 2007 in Qatar as a Qatari Shareholding Company under commercial registration no. 34548. The shares of **al khaliji** are listed on the Doha Securities Market and trading of the shares commenced on 9 August 2007.

al khaliji's principal activities are commercial banking, Islamic banking, financing, and investing services. **al khaliji** operates from its head office located in Doha, and its two local branches.

al khaliji does not have any exposure to sub-prime lending or collateralised debt obligations and has sufficient capital to service its activities.

2. COMPARATIVE FIGURES

al khaliji's memorandum and articles of association states that the first financial period of **al khaliji** will extend from the date of incorporation on 9 January 2007 to 31 December 2008. Accordingly, comparative figures for the period from 9 January 2007 to 30 September 2008 are presented in these interim condensed financial statements where considered appropriate.

Comparative figures were reclassified where necessary to preserve consistency with the current period presentation. These reclassifications did not have any effect on net income or total shareholders' equity of the comparative period.

3. BASIS OF PREPARATION

These interim condensed financial statements were prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*, and in conformity with the applicable provisions of Qatar Central Bank instructions and regulations.

The interim condensed financial statements do not include all of the information and disclosures required for a full set of annual financial statements prepared in accordance with International Financial Reporting Standards. The interim condensed financial statements should be read in conjunction with **al khaliji**'s financial statements for the period ended 31 December 2007. The results of the nine month ended 30 September 2008 are not necessarily indicative of the results that may be expected the year ending 31 December 2008.

The preparation of interim condensed financial information in accordance with IAS 34 requires management to make judgments, estimates and assumptions that might affect the application of policies and the reported amounts of assets, liabilities, contingent assets, and liabilities as of the balance sheet dates, revenues, and expenses for the reported periods. If in the future these estimates and assumptions deviate from the actual circumstances, these estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by **al khaliji** in these interim condensed financial statements are consistent with those applied by **al khaliji** in its financial statements for the period ended 31 December 2007.

- Intangible assets:

al khaliji considers its core banking software and business applications major sources of generating future economic benefits. Accordingly, these software and business applications are carried as intangible assets in the balance sheet.

Core banking software and business applications acquired by **al khaliji** are stated at cost less accumulated amortisation and impairment losses, if any.

Cost includes software purchase price and all costs incurred to acquire and implement the core banking software and business applications.

Amortisation of software and business applications cost is recognised in the income statement on a straight-line basis over the estimated useful lives of the software and business applications from the date it is ready for its intended use. Estimated useful lives range from 3 to 7 years.

5. FLUCTUATIONS OF INCOME

al khaliji is being established to provide a range of banking products and services to target customer segments through various distribution channels.

Revenue and expenses of **al khaliji** are subject to fluctuations, especially during its establishment phase. Various business and functional activities commenced at different stages and grow at different rates.

6. SEGMENT INFORMATION

al khaliji has five business segments in addition to head office. Details of each segments are as follows:

	Premium and Business Banking	Corporate and institutional Banking	Retail Banking	Treasury and Debt Capital Markets	Islamic Banking	Head Office	Total
Three months ended							
30 September 2008							
Net operating income	6,974	65,420	343	20,845	3,180	-	96,762
Net income /(loss)	4,861	62,443	(5,892)	17,155	3,180	(73,187)	8,560
Net assets	(1,096)	95,412	(18,145)	190,346	203,180	4,024,129	4,493,826
Three months ended							
30 September 2007							
Net operating income	-	2,789	-	70,105	-	-	72,894
Net income/(loss)	-	2,789	-	70,105	-	(50,239)	22,655
Net assets	-	526,454	-	3,973,194	-	44,993	4,544,641
Nine months ended							
30 September 2008							
Net operating income	8,470	92,654	343	128,582	3,180	-	233,229
Net income	1,418	85,309	(13,699)	121,392	3,180	(176,387)	21,213
Net assets	(1,096)	95,412	(18,145)	190,346	203,180	4,024,129	4,493,826
From 9 January 2007 to							
30 September 2007							
Net operating income	-	2,789	-	126,849	-	-	129,638
Net income/(loss)	-	2,789	-	126,849	-	(73,755)	55,883
Net assets	-	526,454	-	3,973,194	-	44,993	4,544,641
From 9 January 2007 to							
30 September 2008							
Net operating income	8,470	107,156	343	320,243	3,180	-	439,392
Net income	1,418	99,787	(13,699)	313,052	3,180	(308,216)	95,522
Net assets	(1,096)	95,412	(18,145)	190,346	203,180	4,024,129	4,493,826

7. LOANS, ADVANCES AND FINANCING ACTIVITIES

	30 September 2008	31 December 2007
Conventional banking loans and advances	4,654,726	769,370
Islamic financing activities	200,580	-
	4,855,306	769,370

8. FINANCIAL INVESTMENTS

	30 September 2008	31 December 2007
Available for sale investments	977,990	-
Held to maturity investments	1,032,000	-
	2,009,990	-

9. INTANGIBLE ASSETS

Details of movement of intangible assets are as follows:

Nine months ended 30 September 2008

Net book value at 1 January 2008	59,043
Additions	221,890
Amortization	(7,213)
Net book value at 30 September 2008	273,720

10. FURNITURE AND EQUIPMENT**Period from 9 January 2007 to 30 September 2007**

Net book value at 9 January 2007	-
Additions	64,384
Depreciation	(4,181)
Net book value at 31 December 2007	60,203

Nine months ended 30 September 2008

Net book value at 1 January 2008	60,203
Adjustments	(383)
Additions	80,664
Depreciation	(16,113)
Net book value at 30 September 2008	124,371

11. SHARE CAPITAL

al khaliji's authorised share capital is 720 million shares of QAR 10 each (720 million shares at QAR 10 each: 2007). Issued and paid up capital at 50% of its value are 720 million shares of QAR 5 each (720 million shares at QAR 5 each: 2007).

According to memorandum and articles of association of al khaliji, the call for capital not paid up (50%) shall be made within the period starting after 2 years of ministerial decree of incorporation of al khaliji and ending 5 years after the decree date (the ministerial decree of incorporation date is 8 January 2007).

12. LEGAL RESERVE

In accordance with the Memorandum and Articles of Association of al khaliji 20% of net income for the year is required to be transferred to the legal reserve until the reserve equals of the paid up capital. This reserve is not available for distribution except in circumstances specified in the Qatar Commercial Companies Law No. 5 of 2002 and after Qatar Central Bank approval. Transfer to legal reserve for the first financial period will be made at 31 December 2008 based on the period results.

Share premium of QAR 720 million was transferred to legal reserve in accordance with al khaliji's Memorandum and Articles of Association and Qatar Commercial Companies' Law No. 5 of 2002 for amounts paid in excess of the share value. Shares of founders and initial public offering (432 million shares) were exempted from payment of the share premium.

In accordance with the Memorandum and Articles of Association of al khaliji, shareholders contributed QAR 180 million (QAR 0.25 per share) towards an establishment reserve for costs to establish al khaliji. An amount of QAR 13 million (comprising pre-incorporation income of QAR 32 million less establishment expense of QAR 45 million) was written off against that reserve. The remaining balance of QAR 167 million is reflected under legal reserve in shareholders' equity.

13. FAIR VALUE RESERVE

Fair value reserve comprises the cumulative change in fair value of available for sale financial assets (mark to market) until these assets are derecognised or impaired.

14. OFF BALANCE SHEET ITEMS**a) Contingent liabilities**

	30 September 2008	31 December 2007
Letters of guarantee	1,603,046	244,000
Letters of credit	738,792	-
Undrawn commitments	577,833	244,790
	2,919,671	488,790

b) Other commitments and undertakings:

	30 September 2008	31 December 2007
Capital projects commitments	84,169	24,720
Commitments under operating lease	76,481	86,105
	160,650	110,825

15. TRANSACTIONS WITH RELATED PARTIES**a) Balance sheet items**

	30 September 2008	31 December 2007
Advances to key management personnel	534	552

b) Income Statement items

	Three months ended 30 September		Nine months ended 30 September		From date of incorporation (9 January 2007) to 30 September 2008
	2008	2007	2008	2007 ⁴	2008
Salaries and benefits of key management	5,705	3,077	29,532	6,747	38,584
End of service benefits of key management	1,212	133	1,153	251	2,016
	6,917	3,210	30,685	6,998	40,600

⁴ The period ended 30 September 2007 started on 9 January 2007

16. CASH AND CASH EQUIVALENTS

	30 September 2008	30 September 2007
Cash and balances with Qatar central bank*	81,969	-
Deposits with banks maturing in less than 3 months	395,459	3,973,194
	477,428	3,973,194

* The amount of cash and balances with central bank does not include the amount of QAR 2.3 million (2007: QAR 0) representing the obligatory reserves with Qatar Central Bank.



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