AL KHALIJI

ANNUAL REPORT
2008

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OUR BOARD OF DIRECTORS

MR. TARIQ AL MALKI

Chairman and Managing Director

Our Chairman, Tariq Al Malki, is widely regarded as one of Qatar's successful business figures. Not only has he enjoyed a long and successful career in corporate management and banking, Tariq has also proved himself as an entrepreneur. His success has led to his appointment in various senior executive positions in some of Qatar's most strategically important institutions.

Having graduated in the US as a Bachelor of Business Administration from St Martins College, Olympia, Washington, Tariq joined Qatar Fertilizer Company (QAFCO). He soon took responsibility for the company's marketing and commercial business. Through nine years of service at QAFCO, he has achieved remarkable success which has put him on a fast track at the company. Afterwards Tariq started to look for a new challenge and joined Qatar National Bank as a manager in its corporate banking division.

From1997 to 2003, he handled various functions and was quickly promoted to occupy the position of Assistant General Manager Corporate Banking over four years of time.
In 2003, Tariq left QNB to work on his own ventures – though he was soon drawn back into boardroom life and financial advisory roles.

In addition to his post as Chairman of al khaliji, Tariq holds the following positions:

- Financial Advisor to the Prime Minister and Foreign Minister, Sheikh Hamad bin Jassim bin Jabor Al-Thani
- Board member, Qatar Investment Authority (QIA), a Government owned investment body
- Board member, Qatar Financial Markets Authority, the securities regulatory authority
- Board member, Qatari Diar, a QIA-backed real estate investment and development company.

MR. ABDULLAH BIN NASSER AL MISNAD

Mr. Abdullah Bin Nasser Al Misnad graduated in 1986 with a Bachelors Degree in Aeronautics Science from the United Kingdom, after which he joined his family company, one of the oldest companies in the private sector founded in the 1950's. The Al Misnad Holding Company owns and manages several companies with diverse business activities that play its full part in promoting economic growth and development of the State of Qatar.

The following are some of the titles held by Mr. Abdulla Al Misnad:

- Al Misnad Holding Company, Chairman & Managing Director
- Qatar Financial Market Authority, Boar Member
- Qatari Businessmen Association, Board Member
- Gulf Holding Company, Chairman and Managing Director
- Al Khalij Commercial Bank, Vice Chairman
- Malumatia, Vice Chairman
- Qatari Investment Company, Chairman
- The Investor, Chairman
- Qatari Investors Group (QIG), Chairman
- QIG Industry, Chairman
- QIG Project Development, Chairman
- QIG Marine Services, Chairman
- QIG Aviation Services, Chairman
- QIG Technology, Chairman
- QIG Trading, Chairman
- QIG Global, Chairman

MR. MOHAMMED JASSEM AL SAGER

Mohammed is a Kuwaiti national and a member of one of the most important merchant families in the Gulf. An active politician and businessman, Mohammed has been a member of the Kuwaiti parliament since 1999 and served on many committees before becoming Speaker in 2005.

Mohammed was educated in the US, and holds a BA in Economics from Whittier College, California. Among his many business successes, he founded the Dana Real Estate Co. in 1981, the Al-Mal Investment Co. in 1997 and the Kuwaiti newspaper Al Jareeda in 2007.

The Al-Sager family is a major shareholder in the National Bank of Kuwait and owns 20% of the Al-Qabas newspaper, along with other holdings in banking and industry both in Kuwait and throughout the Gulf.

MR. ABDULSALAM AL MURSHIDI

Abdulsalam is an Omani national and a prominent figure in Muscat's business and academic community.

Educated in both the US and the U.K., he took a BSc in Geophysics in Arizona, before earning a distinction in his MSc from the University of Aberdeen, Scotland.

He is CEO of the Oman Investment Corporation (SAOC) and chairs the boards of Gulf Energy, Sino-Gulf, Integrated Petroleum Services and V2 Trenching. He is vice-chairman of Omania E-Commerce. Alongside his business interests, Abdulsalam is Vice Chairman of Muscat College, a private college established in 2001.

MR. SALAH SALEH ASHEER

Salah is a Bahraini national with a professional track record in business, banking and Government.

Educated in both Bahrain, where he took a BSc in Accounting and in the US, where he became a Certified Accountant, Salah is CEO of both the Premier Group and the Awal Group (the Group), a business with interests in hospitality, real estate and entertainment.
Prior to joining the Group, Salah worked for eight years with Taib Bank, where he became General Manager of its brokerage arm, Taib Securities. He also has four years experience of working in Bahrain's Ministry of Finance in the Audit Directorate.

MR. MOHAMMED BIN KHALED AL MANA

Mohammed is a Qatari national and an active member of the business, academic and tourism industries. Mohammed is a Vice Chairman of Salam Bounian, board member of Salam International. His many senior appointments have included the presidency of both Qatar Chamber of Commerce and Industry and the Gulf Tourism Committee.

Educated in the US, Mohammed took a degree in Financial Management at Indiana State University. His business interests also include Al Mana & Partners, established in 1959, Qatar Cleaning Co., established in 1979 and Al Mana Engineering & Contracting Company, established in 1960. His public service work also saw him serve for three years as a board member of the Supreme Education Council of Qatar until 2006.

MR. DOUGLAS DOWIE

Douglas is one of the Directors of the National Bank of Dubai. A career banker of immense experience, Douglas is also a fluent Arabic speaker and serves on the Finance & Audit Committee of the Dubai Financial Services Authority (DFSA). He began his overseas career with what is now Standard Chartered Bank in Aden in 1963, followed by various postings around the Middle East including Lebanon (where he studied Arabic) and Qatar.

He retired from Standard Chartered as CEO of its Indonesian operations before joining NBD as its CEO in 1999. He has a wide array of directorships of the bank and global responsibility for the bank's affairs reporting to the board.

MESSAGE FROM OUR CHAIRMAN

TARIQ AL MALKI
Chairman and Managing Director

I am pleased to present you the al khaliji annual report for 2008. It was an exciting year for us, one defined by exceptional growth in every department and many exciting new challenges.
As our name says, we are "from the gulf." This is our starting point. It is the beginning. From here we fixed a destination and set a course. We began a journey throughout the Gulf and beyond – a journey to move banking into the next generation. We have planned for this journey and chosen our path carefully.

We also made some important steps on our journey in 2008 and I am excited to share them with you in this report. I believe the progress we made and the goals we achieved are showing the market we are strong, secure, and capable of delivering on our promises.

al khaliji has set itself apart in many ways in 2008. Specifically, I look to the exciting growth we saw in our retail banking sector, the unprecedented scope of business our corporate banking team transacted throughout the region, and the impact our acquisition of BLC Bank (France) S.A. will have on our current and future operations in Qatar, the United Arab Emirates, and France. We have also distinguished ourselves this year by our rapidly growing team of experienced and dedicated international banking professionals, the gains we experienced in our Islamic banking sector, and the recruitment and training programmes we began implementing for our national staff.

What we accomplished last year was impressive by itself. However, when I consider it within the context of the current upheaval in worldwide financial markets, I am even more proud of what we accomplished.
Without question, what is happening to the world's financial and real estate markets is causing people to examine very closely how their banks are responding to this urgent situation. Personally, I welcome such scrutiny and believe it is both necessary and well deserved.

Journeys are never without their challenges and al khaliji is moving forward well-prepared to meet these challenges for three keys reasons: the strength of our vision, the depth of our team, and the flexibility of our position.

First, our vision is to build a next generation bank. To us, this means creating an entirely new banking experience – an enjoyable banking experience for both staff and customers. During uncertain financial times, conversations must keep happening. This is how trust and confidence are built and maintained. Tough questions need to be asked. Customers want easy access to their bank, and they want easy access to their banker. Customers have to know their bank is listening to them. Answers that come in buzz words and bank-speak will not suffice. Such answers have no place in the al khaliji vision. Nor do bankers who give them.

Second, the depth of our staff is unlike any other in the local market and we want to stay in conversation with you. al khaliji is not afraid of tough questions. Our leadership team has been through difficult times before. This is why they came to al khaliji – to build something strong enough to withstand a vigorous journey. They brought their wisdom, experience, enthusiasm, and best practices to al khaliji to create a place where imaginations could be released to create solutions. Solutions that come from the flexibility and freedom only a new bank like al khaliji can offer.

Third, I believe al khaliji is particularly well positioned to meet new challenges because of the flexibility and maneuverability our strong capital reserves give us. We are a young bank and have chosen to travel light.
Our financial capital is not locked into depreciating equity markets. We are not carrying a heavy burden of debt. al khaliji is not bearing the legacy of systems, people, and policies that do not share a vision for next generation banking. For a bank, this is a unique position to be in and provides our customers with an important cushion of security when they hear of other banks failing.

I believe al khaliji succeeded in 2008 by being different for a reason. This reason is that people are ready to finally enjoy banking, and now more than ever, they need to know their bank can be trusted, its vision is strong, its staff is experienced, and its position is flexible enough to offer products and services that meet their particular needs. As I've said before, why else start a new bank?

Moving ahead, I will add this simple formula to our competitive advantage: smart people using smart technology.

I believe success happens when smart people who are used to working in fluid settings and situations have smart technology, also designed for working in fluid settings and situations, at their disposal. It all adds up – the right time, the right place, and the right people doing the right thing. I know this formula works because I see it working every day at al khaliji.

Last year was an excellent year for al khaliji and I am convinced 2009 will be the same. Naturally, we are monitoring very carefully what is happening in financial markets locally and around the world. It is our business and responsibility to do so. Our livelihoods and those of our customers depend on it.

Through it all, I believe the khaliji journey is unique in the banking industry – no other place, no other group of people, no other vision, no other strategy, and no other amount of capital. It all speaks to one word: capability.

A journey is not static. It is about movement forward. In the same way, al khaliji must continue to moving forward with the changing markets rather than reacting to them or simply waiting for the markets to correct themselves.
I believe our customers see value in such journey as much as we do and understand that fast-forwarding to a destination is not an option.
Has that destination changed? No – we are still firmly focused on building a next generation bank.

Throughout this report you can read about the milestones we achieved along our journey in 2008 and the people who made it possible. To our customers, thank you for your decision to bank with al khaliji and thank you for your confidence in our vision.

MESSAGE FROM OUR CHIEF EXECUTIVE OFFICER

DAVID PROCTOR
Chief Executive Officer

This document marks the completion of al khaliji's first full accounting period for the period from 9th January 2007 to 31st December 2008. We have a lot to report and discuss.
When we started our journey to build a next generation bank, the world economy was growing rapidly, and to be described as a "banker" was a sign of respect.

Just two years later, the economic environment looks very different. Many parts of the USA, Europe and Asia are in recession, the global banking industry is undergoing a wrenching and fundamental change, and bankers are viewed with deep suspicion.
How has al khaliji reacted? Positively and swiftly!

Firstly, we took appropriate risk management action. At no time have we invested surplus funds in the equity markets, so have not suffered any equity related investment losses. We also increased our liquidity ratios and tightened our risk criteria while being careful to continue lending and supporting our customers during difficult times.
These actions, combined with our very high capital adequacy ratio, means the bank has a solid foundation for future growth.

Secondly, we took the opportunity to complete the acquisition of BLC (France) S.A. thereby adding a European-wide banking license and branches in Paris, Abu Dhabi, Dubai, Sharjah and Ras Al Khaimah to our network.

Thirdly, we've updated our strategy to reflect our view of the likely outcome from the fundamental changes taking place across the banking industry.
This encapsulates why we believe al khaliji has a lot to gain from current events. We are not constrained by lending decisions made when the global economy was expected to grow, nor are we hampered by legacy systems, processes or culture.

As a result, we are well positioned to continue our original path – building a new model bank suited to the future banking and regulatory environment, not the old one.
What will this new order look like?
We expect tighter banking regulations, higher capital adequacy ratios, and more disclosure requirements. Banks will focus on the basics – taking deposits and making loans. Service quality will be key, and we're looking forward to a busy 2009 as we launch new branches, products and services.
In the interim, as we successfully complete this first stage of our journey, I'd like to thank all al khaliji staff for their exceptional commitment, teamwork and dedication, and record my appreciation for the unwavering support and encouragement of the Chairman, Board and our shareholders..

MILESTONE ON THE AL KHALIJI JOURNEY IN 2008

al khaliji has set its sights on a course of continual growth and improvement. Our vision of next generation banking is not a fixed point. As technology improves and standards change, so do our goals. That is why we believe our story – the al khaliji story – is as much about the journey as it is the destination. Milestones are meant to serve as passage markers along such a journey. Each important step we take serves as a milestone to our customers, our staff, and our shareholders of the progress we are making in our shared journey.

Q-Staff

Q1 (260 staff)

- al khaliji contributes $75 million as one of the mandated lead arrangers in $700 million financing deal for Barwa Real Estate Company
- al khaliji announces our financials for the period 9 January, 2007 (date of incorporation) until 31 December 2007
- We participate as an endorsement partner in the 2nd GCC Regulators' Summit in Bahrain

Q2 (317 staff)

- al khaliji announces our Q1 2008 Interim Condensed Financial Statements
- 180 of al khaliji staff undergo IT Security Awareness Training
- al khaliji and the Qatar Financial Centre (QFC) Authority enter a partnership with Dun & Bradstreet (D&B), the world's premier financial data and business information provider, to develop Qatar's first Business Optimism Index
- al khaliji receives QCB approval to open Islamic banking branches in Qatar and we are joint lead manager for AED 600mln Sukuk issue for Almana Group
- We meet global investors in New York as part of a Qatar Investor Forum with the Doha Securities Market
- Tariq Al Malki, al khaliji Chairman, presents the keynote address to an audience of international investors at the Qatar Investors Window 2008 in Doha
- al khaliji launches retail banking operations in Qatar and reveals itself as the brand behind the "Orange Sightings" campaign
- We open our first retail banking site in Doha, the al khaliji Q-Post Centre in West Bay

Q3 (394 staff)

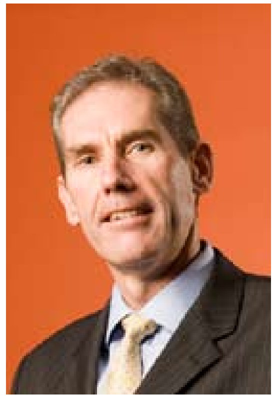
- al khaliji receives a license to establish an office in the Dubai International Financial Centre. This office becomes the base for al khaliji services LTD, our new subsidiary that handles our UAE operations
- Dun & Bradstreet releases the first edition of the D&B Business Optimism Index for Qatar. The index, measuring Third Quarter of 2008 reveals a positive business outlook amongst Qatari business community
- We announce our interim results for the six months ending 30 June 2008, demonstrating sustained investment for growth in the bank across its regional businesses
- We continue to deliver on our regional corporate banking strategy by helping to arrange more than US$6 billion of financing for two of the region's best known conglomerates – contributing US $100 million for Dubai World and US$ 70 million for Orascom Telecom Iraq Corp
- al khaliji opens its second retail site, a full service branch on Doha's C-Ring Road. This branch includes a dedicated Premium area for high net worth individuals
- Three off-site ATMs now open in major Doha shopping malls
- A state-of-the-art multi-language contact centre opens to provide 24-hour telephone and e-mail support to our customers
- We introduce 'fusion': Qatar's first interest paying current account
- We introduce the next generation of hygienic, eco-friendly, secure ATMs to Qatar
- a khaliji assists Dubai Group to close US$ 1.5 billion syndicated commodity Marabaha facility
- al khaliji and Standard Chartered Bank book runners of QR 1.04 billion loan facility for Medina Centrale Company S.T.C.
- We participate as a senior lender to assist Citibank Qatar to arrange US $850 facility for Al Faisal Holding Company
- We co-arrange the financing of QR 653 million for a part of the Engineering Procurement Installation & Construction for the Joint Venture Consolidated Contractors Group S.A.L. (Offshore) (CCC) and Teyseer Contracting Co. WLL (TCC)
- We launch a Qatari Riyal fixed deposit account to provide customers both protection and high interest rates
- Dun & Bradstreet, in association with al khaliji and the Qatar Financial Centre, releases Q4 Business Optimism Index, reporting that sales are expected to rise, investment in business expansion remains a priority, and that signs indicate prices easing

Q4 (520 staff)

- al khaliji is selected as Selling Agent of Kuwaiti Markaz investment funds
- We announce Q3 financial results. Nine months operating income increases 80% from same period in 2007; 300% increases in loans, advances and financing activities; and 64% increase in net income for the quarter
- We enter Doha Security Market 20 Index, effective January 1, 2009
- al khaliji acquires BLC Bank (France) S.A. by purchasing entire share capital of this Paris-based bank. The transaction includes an EU-wide banking license, one Paris branch, and four branches in the UAE. The transaction is worth US$ 250 million and we become the largest wholly owned UAE branch network of any Qatari bank
- al khaliji Board of Directors meets and recommends issuance of up to 20% new shares to the Qatar Investment Authority
- al khaliji Board of Directors recommends re-branding of BLC (France) S.A. to al khaliji (France) S.A. and the investment of US$100 million in al khaliji (France) S.A. to accelerate its growth ambitions

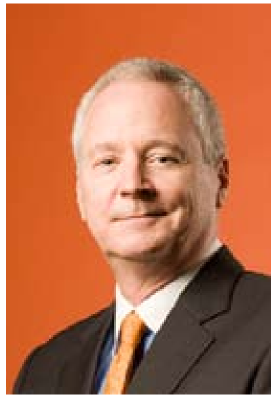
OUR PROFILE

Our Managing Executive Team



Rob McCall
Managing Executive,
Corporate & Institutional Banking

Andrew Liew
Managing Executive,
Retail



Steve Reece
Managing Executive,
Risk

Wendy Fagan
Managing Executive,
Human Resources

Christian De Beer
Managing Executive,
Finance

Steve Shipley
Managing Executive,
Systems & Service Delivery

Our Talent Programme

The al khaliji journey is dynamic, fast-paced, and never boring. Who you bring along with you on that journey can mean the difference between success and failure. This has been especially true in 2008 within the Human Resources Function. al khaliji is one of the fastest growing banks in the region and it takes skilled people to manage that growth. This year we once again successfully recruited a record number of professionals from around the world to join our team and have already reaped the benefits of their diverse skills and experiences. We are focused on finding the best, not the rest – and it shows!

Through the acquisition of BLC (France) S.A near the end of 2008, we welcomed over 130 staff in France and the United Arab Emirates to the al khaliji family. This is an exciting development in the al khaliji journey and brings our total number of team members to over 500 people from 38 countries.

We are particularly proud of the increase in our Qatari national talent in 2008. More and more home-grown professionals are seeing al khaliji as an employer of choice and are choosing to develop their careers with us.

At 22% of our entire team, Qataris are now the largest nationality represented at al khaliji. Our national employees are naturally proud of their country and culture and excited to share it with their colleagues from abroad.

The diversity of our backgrounds creates a unique tapestry of skills and perspectives that adds important value to the al khaliji experience – an experience of respect, empowerment, and voice. We leave politics, bias, and egos at the door. There is no time or place for any of that on a next generation team.

A next generation team is focused on getting the job done – boldly, swiftly, and reliably. A next generation team is the right people at the right place doing the right job. This is the al khaliji difference and new recruits notice it immediately. We believe our customers do too.

Developing National Talent

al khaliji is fully committed to developing national talent in every community and country where we work. Being a next generation bank means strategically recruiting and training leaders capable of moving the bank forward in the years to come. al khaliji is undertaking several programmes to develop the outstanding talent found right here at home.

- Injaz is a local non-profit organisation providing basic business and life skills training programmes to high school students in Qatar.

- Volunteers are partnering with Injaz to teach leadership and career management to over 100 young people.

- The Institute of Administration & Development is working with al khaliji's selected high school graduates to provide participants with three months of training in business and administration skills. Once they complete the course successfully, they are transitioned into our retail business where they receive further on the job, computer-based, classroom, and external based learning.

- The al khaliji Cadetship Programme is an opportunity for high school graduates to join al khaliji directly from school and join the business in an entry-level role. Four days a week they are allocated to various parts of the bank, while the remaining day of the week they will join a local secondary education programme.

- al khaliji also sponsors a number of talented, newly hired national employees as they pursue a degree or diploma from a local university. We provide them full support and build a relationship with them over their three years of study. During the summer breaks they work as interns in the bank and upon completion of their studies they can choose to join as a general recruit, or they can apply to join our in-house graduate programme.

- The al khaliji Mentoring Programme utilizes seasoned employees to mentor junior team members in a wide variety of banking and leadership skills over a one year period. The Human Resources Department works closely with everyone involved to determine ideal mentoring partnerships that will yield maximum benefits and learning opportunities.

- Our Graduate Programme is an intensive two-year learning experience exclusively designed to prepare al khaliji's future leaders. Participants are offered a combination of job rotations, tailored internal and external learning opportunities, international postings, networking, and attractive salary and benefits packages – all prepared to immerse the region's brightest talent in the al khaliji leadership experience.

Our national staff play an important role in recruiting potential employees to the al khaliji team. Word of mouth and personal recommendations are a powerful recruiting tool and we encourage our staff to take on this role. National team members also play an important part at the interview stage as they carefully help us find the very best talent in the region. As al khaliji expands its operations into France and the United Arab Emirates, many of our national staff will also have the opportunity to gain valuable international banking experience outside their own countries.

The national employees within the United Arab Emirates will also be invited to join the many programmes we have just mentioned as we commence the al khaliji operations within this region.

Our Team, their thoughts

al khaliji staff talk about what they love about working at al khaliji, how they incorporate our values, and what next generation banking means to them.

“I love building al khaliji. As the bank is very young, day to day work in building the bank gives me valuable experience that can’t be bought. Even when the amount of work gets too much, staying cool means that I am in control, and able to get the work done in meeting datelines. To me, next generation banking mean the ability to exceed customer expectation and able to be flexible and provide alternative options in responding to customer needs.”

Rashidah Sharip | Senior Specialist | Finance

“Being a member of the al khaliji family gives me the chance to experience each and every single step that occurs while creating a bank from scratch. This is a very unique experience that I was longing for and growing with the bank was the main reason for me leaving my home country and joining al khaliji.
I have always been cool, bold and united but I turned to be a very swift person in life after facing a huge number of customers in the branch during our Ramadan promotion. It forced me to act fast and be able to accomplish my work immediately. Next generation banking means new and different services, fresh colors and cool design, improved systems, and fast delivery.”

Eliane Atmeh | Senior Associate | Retail

“The thing I enjoy most about working at al khaliji is its values. They are totally different from other organization’s values. I try to incorporate the al khaliji values by promoting our brand using fresh ideas.”

Hazem Youssef | Principal | Retail

“I enjoy the working environment at al khaliji and it makes me feel that this is my second home. At work I do my best to enforce all al khaliji values and I shine by being united with my colleagues in the department, as we work together like a winning team successfully completing important projects. To me, next generation banking means creative banking solutions and a unique customer experience.”

Khalefa Al-Mesalam | Senior Specialist | Service Delivery

“The al khaliji values and staff are what I enjoy most about working here. To me, next generation banking means the best technology, communication skills, customer methods, and community interaction.

Mohamad Al Kuwari | PrincipalHuman | Resources

The people at al khaliji make you feel that you are part of the family. They are always cool and reliable to work with. As I deal directly with the media, I try my best to make them feel that they are part of the family too. I try to keep them involved with our activities and treat them in cool way. Next generation banking means to be have solid human platform and base with the new technology that help to build the bank

Maitha Al-Qader | Principal | Corporate Affairs

“I love everyone in al khaliji, coming to a place and spending most of your day with people you love is wonderful. I love our values and I love that because of the 30 different nationalities you get to learn everyday something new in addition to the lovely experience in a new bank.”
Rawan Sadideen | Senior Associate | Systems

“What I enjoy most about being at al khaliji is working in supportive and united environment. Next generation banking for me is when I fully control my money anywhere, anytime with no queue – the same as having it in my pocket. “

Samah Chahine | Retail Banking

“I love that the management here appreciates the work I do here on a daily basis. We are united in the bank and support each other and work as one team to provide the best customer service possible for the team. “

Zahirah Ansari | Senior Specialist | Premium/Business

BUSINESS REVIEW

Corporate & Institutional Banking

al khalij's corporate and institutional banking sector achieved strong growth in 2008. Our participation in over two dozen high profile and high value transactions in the region have established benchmarks of risk capacity, bold solutions, financial and intellectual capital, customer service, and fast delivery timelines.
al khaliji's leadership capacity in corporate banking has already begun to earn us industry recognition. In August we received an award for our role in structuring the largest ever multi-currency syndicated commodity Murabaha transaction in the United Arab Emirates. Our role in this deal, worth US $1.5 billion, showcased the maturity and depth of the al khaliji team.

Earlier in the year, al khaliji took a role in another high profile transaction, acting as Joint Lead Manager in a sukuk issue for Qatar's Almana Group. The AED 600 million issues is one of the first non-USD corporate sukuks issued from Qatar.

Institutionally, al khaliji continues to make gains as well. We are now in a formal institutional relationship with over 150 banks from 18 of this region's strongest trading partner countries. Our brand equity is growing in these strategic relationships through the strength of al khaliji's capital base, shareholders, roll-out system, and management experience. All of these combine to help accelerate business efficiency for our customers doing business in this region and beyond.

Transparency, reliability, authenticity, and professionalism will continue to define al khaliji's relationships and transactions with each of our valued corporate and institutional banking clients.

Consumer Banking

1. Retail Banking

al khaliji is a brand that lives its values, rather than allowing them to develop by default. This was especially true with our retail banking launch in 2008 as values such as bold, cool, and reliable were experiences our customers came to expect from al khaliji.

We commenced retail banking operations in Qatar in June, 2008 with the opening of the al khaliji Q-Post Centre in Doha's exclusive West Bay area. This was followed by the opening of our first full service retail branch a few weeks later on Doha's C-Ring Road. This branch includes a dedicated Premium Banking area for our high net worth clients.

al khaliji also introduced eco-friendly automatic teller machines to Qatar during the year. These next generation machines are designed for maximum savings on energy consumption, kept clean by means of biodegradable cleaning technology, equipped with additional security measures, and offer customers a comprehensive view of their transactions while providing live financial news on wide screens.

Access and convenience are "must-haves" when it comes to banking, and al khaliji took them to a new level this year. Firstly, our new customer care contact center "al khaliji answers" is open every day around the clock answering customer phone inquiries and e-mails in multiple languages. Secondly, al khaliji has a fleet of specially branded Toyota FJ Cruises called " al khaliji on the go" available to bring our customers to a branch of their choice or our banking service experts directly to the customer's home or office. Banking has never been more convenient in Qatar with the arrival of al khaliji's retail bank.

The Retail bank has achieved many important milestones in 2008. Each milestone brings added value to our journey and creates another level of simplicity, comfort, and security to our customers' banking experience.

2. Premium Banking

Premium Banking at al khaliji took a big step forward in 2008 with the opening of our first Premium Lounge in Doha. As part of our flagship branch on C-Ring Road, this exclusive and private lounge was elegantly designed to offer our Premium customers the finest in service, discretion, ambience, and comfort during their visit to al khaliji.

Relationship and reliability are at the core of our Premium Banking services at al khaliji. Our relationships are built on trust, and our reliability is grounded in our promise to always do what we say we will do.

One way we put these values into practice is through the training and certification each of our Premium Banking team members receives on the products and services we offer. This attention to detail allows us to breakthrough banking jargon for our customers, explain the value each product or service can offer, and then allow our customers to make confident and informed decisions on which options are best for the future of their financial portfolio.
al khaliji's expansion into France and the United Arab Emirates in 2008 is another exciting stage of growth for our Premium Banking services. Many of our Premium customers already do business in these countries and our presence there will give us another opportunity to demonstrate the value of al khaliji's commitment to relationship and reliability.

3. Business Banking

Small & medium enterprises ('SMEs') are at the forefront of a diversified & strong economy. At al khaliji, our aim is to truly partner with our clients and provide them the support they need to grow.
We commenced our Business Banking operations to serve SMEs with the launch of the Consumer bank in June, 2008. To meet the needs of the local business community, we have developed and launched a number of market leading products. One example of this is our commercial vehicle finance package, aimed at providing businesses with the means to expand their heavy equipment or commercial vehicle portfolio at a competitive rate with minimal fuss. We will continually bring new products and services to market and set new standards in service and innovation. With the acquisition of BLC Bank in the UAE and France, we have a significant opportunity to expand and extend our Business Banking footprint. **The journey continues.**

Risk Factors

2008 was a year of significant change and upheaval in financial markets throughout the world. al khaliji continues to watch these developments very carefully, and while naturally concerned about the new realities facing banks and their customers, we are confident in our ability to face the upcoming challenges.

Our confidence comes from a proactive response to risk – this year or any year. We continually ask ourselves if we are staying true to the strategy we set for ourselves to create a next generation bank. As a next generation bank, we are building a bank based on forward thinking values. And it is through the lens of these values that we view our approach to risk.

To some, fluctuating markets and uncertain financial markets are the proverbial perfect storm and should be avoided at all cost. To others, such a scenario is an opportunity for great success. No matter the view, al khaliji's approach to risk is the same: careful, steady, and confident. Risk is a natural part of banking and we are prepared for it.

The al khaliji team is not a newcomer to risk. Our breadth of talent in this area is time-tested and comparable to the best in the region. Experience counts in every sector of banking, but during difficult times, we know our customers are looking to us for solutions and assurance more than ever. Our response comes from the right people, with the right experience, with the right plan – all of which defines the crucial gap

The al khaliji team is not a newcomer to risk. Our breadth of talent in this area is time-tested and comparable to the best in the region. Experience counts in every sector of banking, but during difficult times, we know our customers are looking to us for solutions and assurance more than ever. Our response comes from the right people, with the right experience, with the right plan – all of which defines the crucial gap between success and failure for our customers. Our customers have trusted us with their resources and we take that responsibility very seriously.

We recognize that values based on jargon and buzz words will be unable to sustain a bank and its commitment to stakeholders as they navigate through confusing markets and uncertain financial times. Our customers need more than that – they need us to speak in their language and not in the language of a bank. Understanding risk is important. Successfully navigating it requires an experienced team that has dealt with financial crises before and has the ability to put in place the proper controls.

al khaliji acknowledges certain risk factors that could affect future results. The factors discussed below should not be considered to cover all potential risks.

Risk Management

Risk management & responsibilities

Risk Management is primarily responsible for the effective management of the following risks:

- Credit risk
- Market risk
- Operational risk
- Liquidity risk

These risks are managed by a risk team of highly experienced global professionals, using a set of Basel II compliant and international standard policies and instructions, and world class al khaliji technology.

Credit risk

We manage our credit risk exposure by diversifying our lending activities. This means we avoid concentrating risk with individuals, groups, or customers in specific locations or businesses. We also have a strong credit approval process and robust risk control limits and monitoring procedures. al khaliji uses the same stringent credit risk procedures for assessing counterparty risk in derivative and foreign exchange transactions as it does for traditional lending products.

Market risk

The four standard market risk factors concern movements in interest rates, equity prices, currency, and commodity prices. We measure and manage all this by establishing limits on our level of exposure to these risks. This year will continue to bring additional difficulties in the global markets that are likely to increase both credit and market risks for the local banking sector stemming from the systemic contraction in both liquidity and the availability of credit. Our risk control procedures mean we are aware of these possibilities and able to plan for them.

Operational risk

We have put in place a comprehensive set of policies and instructions to control and manage operational risks that range from technology to business processes, infrastructure, and personnel. In addition, our independent internal audit function identifies, assesses, and submits reports on these risks.

al khaliji also monitors and manages any regulatory, legal, and reputational risks. The first, we control through our compliance policies and instructions. Legal risk is managed through the effective use of internal and external legal advisers. Finally, reputational risk is controlled through appropriate guidelines and policies, and the regular examination of issues that may have reputational repercussions for al khaliji.

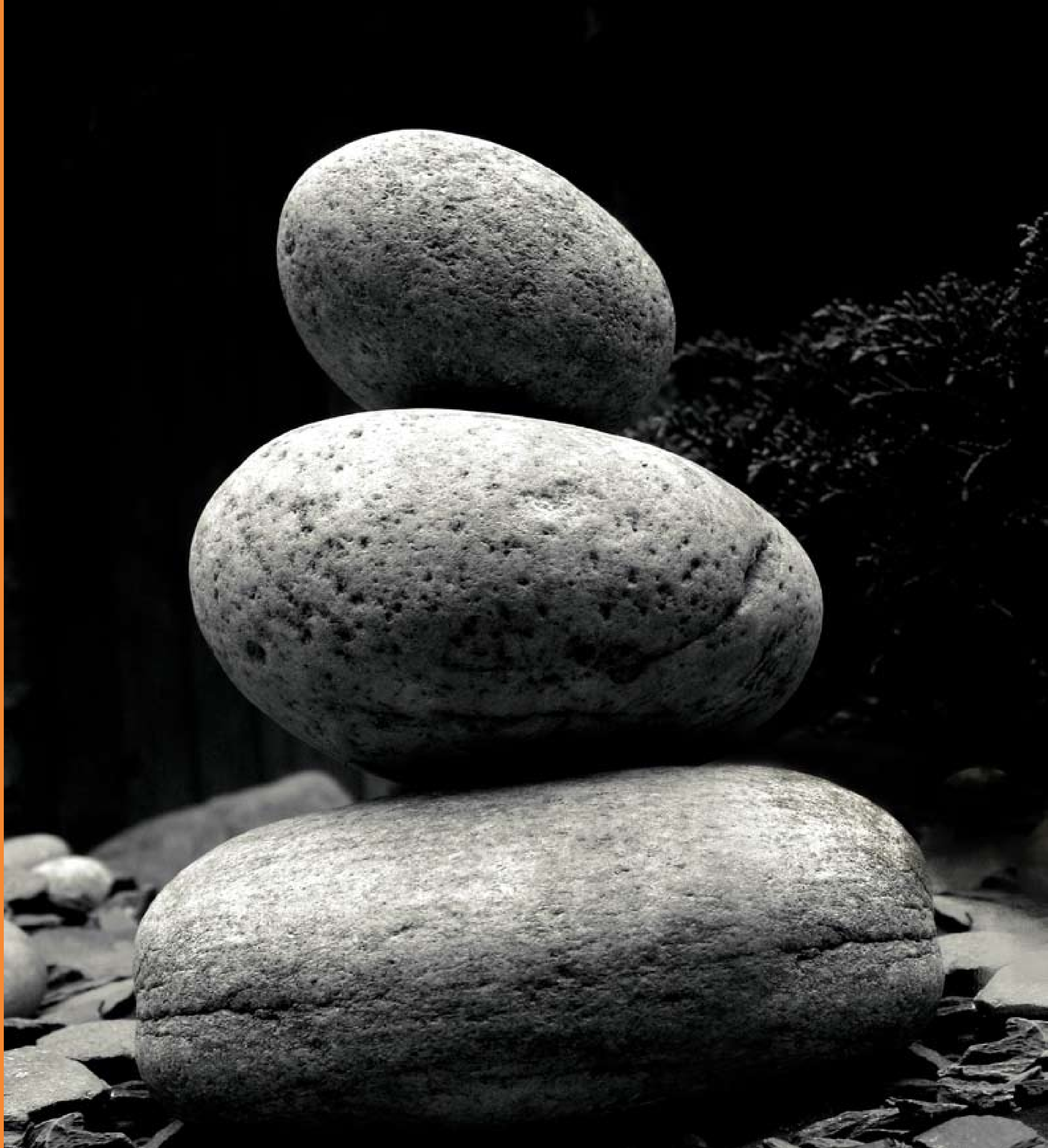
Liquidity risk

The risk that a bank will not be able to meet its net funding requirements is an issue of heightened concerns as the US sub-prime mortgage crisis has created a global liquidity shortage. Regional banks and other institutions have so far revealed little exposure to sectors with high market and credit risks, but unknowns remain and can create a liquidity risk in the region in the future. Our risk control procedures will take account of this additional exposure.

Capital adequacy

al khaliji maintains an actively managed capital base to cover the risks inherent in the business. The adequacy of al khaliji's capital is monitored using among other measures, the rules and ratios established by the Basel committee on banking supervision and adopted by the Qatar Central Bank.

The primary capital management objectives of al khaliji are to ensure al khaliji complies with externally imposed capital requirements, that al khaliji maintains healthy credit and capital ratios to support its business and to maximize shareholders value. al khaliji manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.



GOVERNANCE

Corporate Governance Principles

At al khaliji we view corporate governance as more than "legal speak" for how our bank is structured or a statement of agreement to industry regulations. To us, good governance equates with transparency and sustainability and defines who we are and how we operate. On the al khaliji journey, we consider corporate governance as rules for the road.

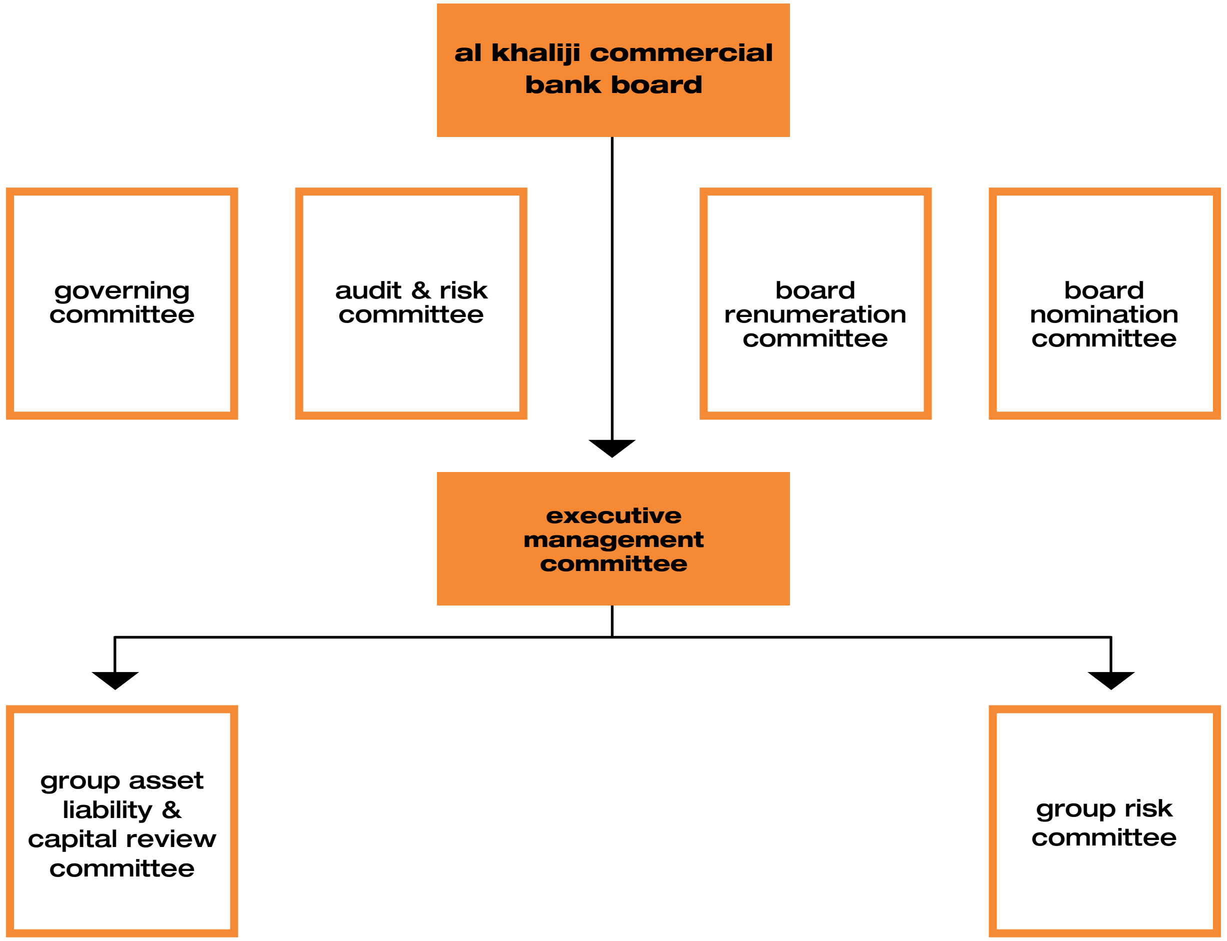
As a next generation bank, al khaliji is doing the unexpected. We have been given a remarkable opportunity to build something new from the ground up. As bankers, we are literally building the kind of bank we always dreamed of building.

Is it exciting? Absolutely. It is also an enormous responsibility to get it right. This is why al khaliji is making sure to set in place a strong foundation of sound governance – policies and best practices that will carry us forward, rather than hold us back. Moving a bank forward requires sustainability and strategic corporate governance gives us a foundation on which we can create a sustainable competitive advantage.

Governance of the al khaliji group ensures adequate corporate governance with Board oversight over the risks inherent in the business. It focuses on the responsibilities of the Board of Directors and the executive management, the independence of the Board's committees, separation of duties and responsibilities of the Board of Directors and those of executive management, the independence of the internal auditing, cooperation with supervisory authorities and external auditing and the assurance of the transparency of information.

Al khaliji's corporate governance structure is in accordance with the international best practices founded on OECD principles and Basel II banking regulations. In addition to the full Board of Directors, al khaliji has established four Board committees; audit and risk committee, governing committee, remuneration committee, and nomination committee. These committees have terms of reference which have been approved by the Board of al khaliji. Each of the committees is attended by the relevant board members who have the requisite skills, experience and technical knowledge to perform their roles.

Governance of the al khaliji group is exercised through the following board and committee structure.



Our Shareholders

al khaliji is determined to enable the company's shareholders to realize the full long-term value of their investment and to provide for fair and equal treatment for shareholders in all events.

Under al khaliji corporate governance strategy, our shareholders participate in due manner in the bank's activities and have explicit rights including participating in the general assembly meetings, electing the board members, appointing external auditors, making decisions on the clearance of the Board members, asking questions, being treated equally within their respective class of shareholders, being protected as minority shareholders, voting in the general assemblies, and consulting freely with other shareholders concerning their basic shareholders rights, and deliberating and approving on the key corporate governance issues, the financial statements, the report of the external auditors and the risk policy of the bank.

The al khaliji shareholder receives information in due time on voting process, control rights of certain classes of shareholders, measures granting fair and transparent prices in contracts made within scope of majority controlled transactions, remuneration policy regarding the Board members, management of conflict of interests.

Our Board of Directors

The al khaliji Board has the ultimate responsibility for the business strategy, operations, quality and integrity of accounting, auditing, internal control and financial soundness. The Board of Directors is responsible for ensuring the company's prosperity by collectively directing the company's affairs, whilst meeting the appropriate interests of its shareholders and stakeholders.

In addition to business and financial issues, our Board of Directors deal with challenges and issues relating to corporate governance, corporate social responsibility, and corporate ethics.

The role of the Board includes establishing the vision, mission and values to guide the current operations and future development of the company, determining company policies, setting strategy and structure, delegating authority to management, exercising accountability to shareholders and being responsible to relevant stakeholders, communicating with senior management and ensuring that internal controls are effective.

Furthermore, the Board adopts a policy regarding the management of conflicts of interest and implements appropriate standards and mechanisms to avoid or at least limit conflicts of interest.

Accountability & Audit

Audit and Risk Committee

The Audit and Risk Committee assists the Board to execute its statutory and fiduciary responsibilities for the oversight of al khaliji's internal audit, external audit, risk management and compliance activities, and for reinforcing internal and external audit activities. Both the Group Head of Internal Audit and the Group Head of Risk Management report to the committee. This committee is chaired by an independent Director.

The committee's principal charter calls for it to:

- review the adequacy and effectiveness of al khaliji's controls in respect of financial accounting and reporting;
- ensure the independence and effectiveness of al khaliji's internal audit function;
- oversee the selection and compensation of al khaliji's external auditor for appointment and approval at each Annual General Meeting and ensure the external auditor's independence;
- review the adequacy and effectiveness of al khaliji's risk management policies and methodologies; and
- oversee al khaliji's compliance with all applicable laws and regulations

Internal Control Review

Internal controls are formulated to ensure optimal operational efficiencies and to safeguard the Bank's assets.

The Board attaches great importance to maintaining a strong control environment and the scope covers all controls, including financial, operational, compliance and risk management.

Day-to-day responsibility for internal control rests with management which includes putting in place policies and procedures, and processes for identifying, evaluating and managing risks faced by the Bank.

Internal Audit

The vision of the Group Internal Audit function is to be an outstanding performance focused team with a passion for excellence, adding value and facilitating change through dynamic people who learn and develop as future leaders in al khaliji.

The Group Internal Audit function is currently made up of a team of qualified and experienced professionals. The team leverages talents across the board and integrates competencies and knowledge by encouraging auditors to work on cross functional audits, an approach that also greatly benefits management.

The Group Head of Internal Audit reports to the Board Audit and Risk Committee. He meets with the committee at their meetings held during the year, and also holds regular sessions with the Chairman & the Managing Director, and presents summary audit reports at those meetings.

The Group Head of Internal Audit directs a broad comprehensive program of internal auditing. As part of its plan, the audit function independently reviews the adequacy and effectiveness of the internal control system. This review includes an assessment of the risks and controls in each operating unit and process, and significant matters arising there from are reported to the executive management and to the Audit & Risk Committee.

Since the formative stage of the Bank in early 2007, the internal audit function has made significant progress, repositioned itself to meet the growing challenges of a new institution. We have now a versatile audit function that supports the Bank in strengthening its infrastructure and meet its strategic objectives.

The audit function uses an advanced technology system, in which working papers are compiled in accordance with the Institute of Internal Auditors Standards and Practices. The audit team is in the process of implementing a Web-based tool to provide more fluid access in a timely manner to all relevant internal audit information, including issues and follow-ups from audit assignments.

Transforming to world-class

The journey to becoming best in breed began with the first step of developing a mission for the Group Internal Audit function. According to its charter, the mission is to provide the board, executive committee and other key stakeholders with a high-quality, cost-effective and value-added assurance and consulting service to help the Bank meet its objectives.
The focus of this mission was further sharpened through three distinct facets: customer, infrastructure and people.

Customers

- Deliver accurate, timely and fairly constructed audit reports
- Provide expertise in governance, risk assessment and in internal controls
- Maintain Group Internal Audit's reputation as a credible provider of objective audit services

Infrastructure

- Construct and deliver a dynamic risk-based audit plan
- Apply rigorous quality control
- Maintain availability of audit skills
- Foster a thorough and up-to-date understanding of business objectives and plans
- Optimize resource utilization and structure
- Use efficient and effective tools and methods
- Build strong relationships with the Audit and Risk Committee and the external auditors
- Communicate well and maintain strong customer relationships

People

- Attract the best people
- Provide a focused training and development curriculum
- Ensure people are well motivated
- Ensure they are empowered

Audit scope and methodology

The scope of audit engagements is aligned with the primary risks of the Bank. The team evaluates the adequacy and effectiveness of the control environment encompassing governance, operations and information systems to effectively mitigate key risks.

The services provided by the team are broadly categorized into the two following groups:

Assurance services: This encompasses risk and control reviews focused on the management and mitigation of key risks within an operational or financial process. These reviews provide assurance that risks are being effectively and efficiently mitigated. Risk and control reviews typically focus on process, compliance with policies, standards & regulations, due diligence reviews and fraud. investigations.

Advisory services: These reviews focus on the assessment of projects or operational processes against best practices and international standards.

We use risk-based auditing methodologies to develop and implement an audit plan. After each annual audit plan is created, the team focuses on individual audit programs. We examine the impact for the area we are auditing and for the Bank as a whole.

Our audit universe includes all risks and operating units, and we produce a standard, documented annual audit plan. Final deliverables include a risk rating between high, medium and low in terms of potential impact on the Bank. This enables us to produce a succinct and meaningful audit opinion for the Audit and Risk Committee.

Strategic goals

The team is focused on becoming more strongly oriented and aligned with the Group's business strategy. We will consult with functional heads and Risk management, as well as other stakeholders, to determine the areas to focus on in the next 12-month and three year time frames.

Performance Measurements

Performance standards for the Internal Audit function are grouped into three areas:

- Review management and work performance
- Audit effectiveness and service delivery
- Talent management and competency development

These areas are built into a Web based 360-degree stakeholder feedback effort in which feedback is solicited and ranked for all audit assignments.

This fosters the Internal Audit Function's culture of continuous improvement aligned to next generation banking.

Compliance

Compliance is an independent function, with a formal status within the bank ,that identifies, assesses, advises on, monitors and reports on the bank's compliance risk (which is defined as the risk of legal or regulatory sanctions, financial loss, or loss to reputation the bank may suffer as a result of failure to comply with applicable laws, regulations, codes of Ethics & conduct and standards of good practice, which are principally relevant to the business activities of the bank).

al khaliji has adopted international best practice & risk based approach for compliance monitoring which involves Compliance Risk Assessment at various business groups/operations units of the Bank, leading to the development of a compliance index to assess the level of compliance risk. This ensures that the overall intensity of the compliance monitoring plan is proportionate to the compliance risk that each area poses to the Bank.

Independent Auditor’s Report 03

al khaliji

eeping in touch with our
values in ever-changing times

To The Shareholders
Al Khalij Commercial Bank (al khaliji) (Q.S.C)
Doha – Qatar

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Al Khalij Commercial Bank (al khaliji) Q.S.C. (the “Bank”), and its subsidiaries (together the “Group”) which comprise the consolidated balance sheet as at December 31, 2008 and the consolidated statements of income, changes in shareholders’ equity and cash flows for the period from January 9, 2007 (Date of Inception) to December 31, 2008, and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and Qatar Central Bank Regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 control 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 Bank’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 give a true and fair view of the financial position of the Group as of December 31, 2008 and of its financial performance and its cash flows for the period from January 9, 2007 (Date of Inception) to December 31, 2008 in accordance with International Financial Reporting Standards and Qatar Central Bank regulations.

Report on other Legal and Regulatory Requirements

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 Group of its Articles of Association, the Qatar Commercial Companies Law No. 5 of 2002 and Qatar Central Bank regulations and Decree Law No. 33 of 2006 during the financial year that would materially affect its activities or its financial position.

For Deloitte & Touche

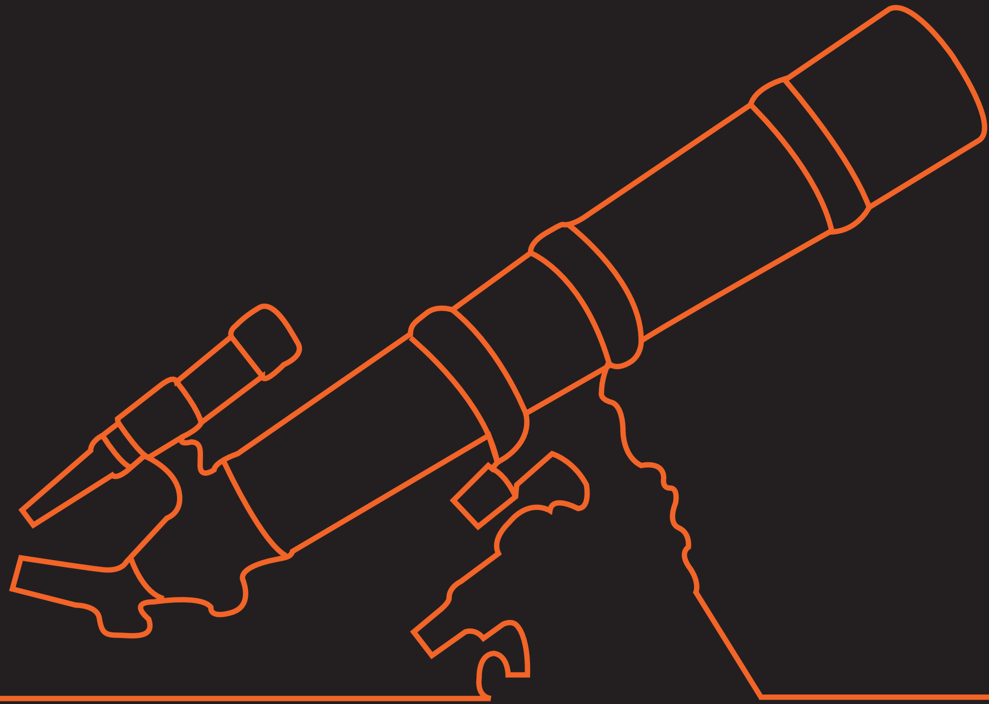
Doha – Qatar
February 26, 2009

Muhammad Bahemia
License No. 103

06

al khaliji

aving the foresight to
invest in the future



Al Khalij Commercial Bank (al khaliji) (Q.S.C.)

Consolidated Balance Sheet

As at 31 December 2008

	Notes	31 December 2008 QAR'000
Assets		
Cash and balances at central banks	4	1,029,622
Due from banks and financial institutions	5	2,200,708
Loans and advances to customers	6	6,980,053
Available-for-sale financial investments	7	1,016,283
Intangible assets	8	951,616
Property and equipment	9	147,407
Other assets	10	174,826
Total assets		**12,500,515**
Liabilities		
Due to central banks		42,837
Due to banks and financial institutions	11	2,391,626
Customer deposits	12	4,673,858
Subordinated debt	13	127,555
Other liabilities	14	718,667
Total liabilities		7,954,543
Shareholders' equity	15	
Share capital		3,600,000
Statutory reserves		907,669
Risk reserve		17,450
Fair value reserve		(60,649)
Foreign currency translation reserve		16,090
Retained earnings		65,412
Total shareholders' equity		4,545,972
Total liabilities and shareholders' equity		**12,500,515**

The consolidated financial statements have been approved by the Board of Directors on 25 February 2009, and signed on its behalf by:

Signature

Sheikh Hamad Bin Faisal Al-Thani
Chairman

Signature

Abdullah Bin Nasser Al-Misnad
Vice Chairman

The accompanying notes 1 to 28 set out on pages 18 to 64 form an integral part of the consolidated financial statements.

Consolidated Statement of Income 09

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achieving new milestones
through innovation and service

Al Khalij Commercial Bank (al khaliji) (Q.S.C.)

Consolidated Statement of Income

For the period ended 31 December 2008

	Notes	09 January 2007 to 31 December 2008 QAR'000
Interest income		567,944
Interest expense		(103,251)
Net interest income	18	**464,693**
Fee and commission income		64,367
Fee and commission expense		(546)
Net fee and commission income	19	**63,821**
Net income from foreign currency transactions	20	6,248
Other operating income		16,514
Net operating income		**551,276**
Administration and general expenses	21	(397,040)
Depreciation of property and equipment	9	(28,663)
Amortisation of intangible assets	8	(17,181)
Provisions for impairment of loans and advances		(3,546)
Net profit before taxes		104,846
Income tax expense	22	(1,268)
Net profit for the period		**103,578**
		QAR
Earnings per share		
Basic and diluted earnings per share	23	0.16

The accompanying notes 1 to 28 set out on pages 18 to 64 form an integral part of the consolidated financial statements.

al khaliji

listening to our customers' needs and rising to meet them

Al Khalij Commercial Bank (al khaliji) (Q.S.C);

Consolidated Statement of Changes in Shareholders' Equity

For the period ended 31 December 2008

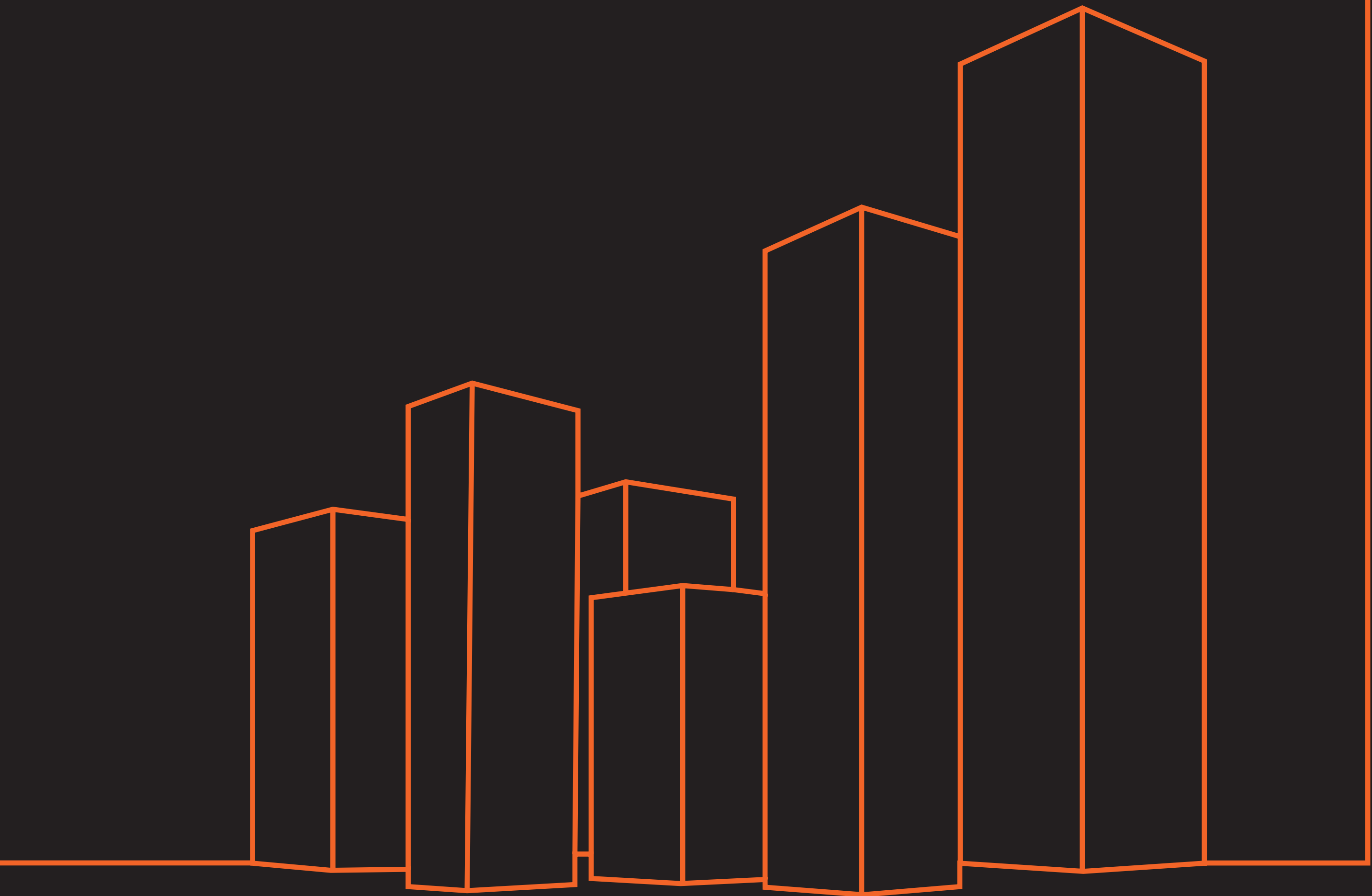
	Share Capital QAR'000	Statutory Reserve QAR'000	Risk Reserve QAR'000	Fair Value Reserve QAR'000	Foreign Currency Translation Reserve QAR'000	Retained Earnings QAR'000	Total QAR'000
Capital contribution	3,600,000	-	-	-	-	-	3,600,000
Premium on issuance of capital	-	720,000	-	-	-	-	720,000
Excess of establishment reserve received over establishment expenses incurred	-	166,953	-	-	-	-	166,953
Net movement in Fair Value Reserve	-	-	-	(60,649)	-	-	(60,649)
Net movement in Foreign Currency Translation Reserve	-	-	-	-	16,090	-	16,090
Net movement in reserves recognised directly in equity	-	-	-	(60,649)	16,090	-	(44,559)
Profit for the period	-	-	-	-	-	103,578	103,578
Total recognised income and expenses for the period	-	-	-	(60,649)	16,090	103,578	59,019
Transfer to Risk Reserve	-	-	17,450	-	-	(17,450)	-
Transfer to Statutory Reserve	-	20,716	-	-	-	(20,716)	-
Balance at 31 December 2008	3,600,000	907,669	17,450	(60,649)	16,090	65,412	4,545,972

The accompanying notes 1 to 28 set out on pages 18 to 64 form an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flow Statement 13

al khaliji

increasing confidence by banking on our strengths



Al Khalij Commercial Bank (al khaliji) (Q.S.C)

Consolidated Cash Flows Statement

For the period ended 31 December 2008

	Notes	09 January 2007 to 31 December 2008 QAR'000
Cash flow from operating activities:		
Reconciliation of profit before tax to net cash flows from operating activities:		
Net profit for the period before tax		104,846
Adjustment for non-cash items:		
• Allowance for impairment	6	3,546
• Depreciation, and amortisation of property, equipment and intangible assets	8, 9	45,844
• Other provisions	14	9,922
• Amortisation of discount on financial investments		(5,088)
Changes in operating assets and liabilities:		
• Net increase in regulatory reserves with central banks		(116,676)
• Net increase in loans and advances to banks and customers		(6,397,504)
• Net increase in deposits		2,675,329
• Net increase in due to banks and financial institutions		2,060,009
• Net increase in other assets		(158,653)
• Net increase in other liabilities		667,270
Net cash used in operating activities		**(1,111,155)**
Cash flow from investment activities		
Purchase of available-for-sale financial investments	7	(1,065,296)
Purchase of intangible assets	8	(286,500)
Purchase of property and equipment	9	(165,940)
Proceeds from property and equipment	9	51
Acquisitions of subsidiaries net of cash acquired	26	(397,135)
Net cash used in investing activities		**(1,914,820)**

	Notes	09 January 2007 to 31 December 2008 QAR'000
Cash Flow from financing activities		
Issue of shares		4,486,953
Net cash from financing activities		4,486,953
Exchange gains on foreign currency cash and cash equivalents		21,855
Net increase in cash and cash equivalents		1,482,833
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of period	25	1,482,833

The accompanying notes 1 to 28 set out on pages 18 to 64 form an integral part of the consolidated financial statements.

al khaliji

joining hands and fostering ties across borders

Notes to the Consolidated Financial Statements for the period ended 31 December 2008

1 Incorporation and Principal Activities

Al Khalij Commercial Bank (Q.S.C.) ("**al khaliji**") was incorporated on 9 January 2007 as a Qatari Shareholding Company under Commercial Registration No. 34548, with its registered office in Doha. The shares of al khaliji are listed on the Doha Securities Market and trading of the shares commenced on 9 August 2007.

During the period **al khaliji** acquired BLC Bank (France) S.A, a commercial bank operating in France and the United Arab Emirates. **al khaliji** also established a consulting company, "al khaliji Services Limited" in the United Arab Emirates, operating under Dubai International Financial Centre regulations.

al khaliji and its subsidiaries (the "Group") operate from its head office and two branches in Doha, Qatar, one branch in Paris, France and four branches in the United Arab Emirates.

2 Significant Accounting Policies

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

2.1
Compliance with International Financial Reporting Standards

The consolidated financial statements of the Group, have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Accounting Standards Board (IASB), and the Qatar Central Bank regulations.

2.2
Future Accounting Developments

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

- Amendments to IFRS 1 - First Time Adoptions of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial, effective 1 January 2009
- Amendments to IFRS2 - Share-based Payment, effective 1 January 2009
- Amendments to IFRS 7 - Financial Instruments: Disclosures, effective 1 January 2009
- Amendments to IFRS 8 - Operating Segments, effective 1 January 2009
- Amendments to IAS 1 - Presentation of Financial Statements, effective 1 January 2009
- Amendments to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, effective 1 January 2009
- Amendments to IAS 10 - Events After the Reporting Period, 1 January 2009
- Amendments to IAS 16 - Property, Plant and Equipment, 1 January 2009
- Amendments to IAS 18 - Revenue, effective 1 January 2009
- Amendments to IAS 19 - Employees Benefits, 1 January 2009
- Amendments to IAS 27 - Consolidated and Separate Financial Statements, effective 1 January 2009
- Amendments to IAS 36 - Impairment of Assets, effective 1 January 2009

- Amendments to IAS 23 - Borrowing Cost, effective 1 January 2009
- Amendments to IAS 32 - Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements, effective 1 January 2009
- Amendment to IAS 39 - Financial Instruments: Recognition and Measurement, effective 1 July 2009
- IFRIC 13 - Customer Loyalty Programmes, effective 1 July 2009
- IFRIC 15 - Agreements for the Construction of Real Estate, effective 1 January 2009
- IFRIC 16 - Hedges of a Net Investment in a Foreign Operation, effective 1 January 2009

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

2.3
Basis of Preparation

The consolidated and individual financial statements have been prepared under the historical cost convention, with exception for derivative financial instruments and available-for-sale financial assets that are measured at their fair values.

2.4
Reporting Period

According to **al khaliji's** article of association the first reporting period will extend from the date of incorporation (9 January 2007) to the end of the subsequent year. Accordingly, these financial statements cover the period from 9 January 2007 to 31 December 2008. The following reporting periods will comprise of twelve months ending 31 December each year.

2.5
Consolidation

The consolidated financial statements combine the financial statements of **al khaliji** and its subsidiaries as at and for the period ended 31 December 2008. The details of the subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Currency	Share capital	Acquired	Ownership	Principal activities
BLC France	France	EUR	34,000,000	2008	100%	Banking
al khaliji Services Ltd	United Arab Emirates	USD	50,000	2008	100%	Consulting

Subsidiaries are consolidated in the Group financial statements commencing on the date control is obtained until the date control ceases. Control is achieved where the Group has the power, directly or indirectly, to govern the financial and operating policies of such entities so as to obtain benefits from its activities.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities and contingent liabilities incurred or assumed. The excess of the cost of an acquisition over the Group's share of the fair value of the identifiable net assets acquired is recorded as goodwill. Details of the acquisition of the subsidiary are given in Note 26.

The financial statements of the Group have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intra-group transactions, balances, income and expenses, and profits and losses are eliminated on consolidation.

2.6
Foreign Currency Translation
2.6.1 Functional and Presentation Currency
Items included in the financial statements of each of the Group's companies are measured using the currency of the primary economic environment in which that entity operates (the functional currency).

The consolidated financial statements are presented in Qatari Riyals (QAR), which is the functional and presentation currency of the holding company. Except as indicated all amounts are rounded to the nearest thousand Qatari Riyals.

2.6.2 Transactions and Balances
Foreign currency transactions are translated into the appropriate functional currency using the spot exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the statement of income.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Exchange gains and losses resulting therefrom are taken to the statement of income.

2.6.3 Group Companies
For the purposes of translation into the presentational currency, assets, liabilities and equity of foreign operations are translated at the closing rate at the reporting date, and items of income and expense are translated into Qatari Riyals at the rates prevailing on the dates of the transactions, or average rates of exchange where these approximate actual rates.

The exchange differences arising on the translation of a foreign operation are included in foreign currency translation reserves within shareholders' equity and included in the profit or loss on disposal or partial disposal of the operation.

2.7
Revenue Recognition
2.7.1 Interest
The Group recognises interest income and interest expense in the statement of income for all interest bearing financial instruments classified as available-for-sale or loans and receivables using the effective interest method.

The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

When calculating effective interest, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes fees, including those for early redemption, to the extent that they can be measured and are considered to be an integral part of the effective interest rate. Where it is not possible to otherwise estimate reliably the cash flows or the expected life of a financial instrument, effective interest is calculated by reference to the payments or receipts specified in the contract, and the full contractual term.

Interest income on non-performing loans and advances is suspended when realisation of such interest or the principal amount becomes doubtful.

2.7.2 Fees and Commissions

Fees and commission income and expense are recognised in the statement of income on an accrual basis as the related service is provided except those that are integral to the effective interest rate calculations.

Fees and commission recognised in the statement of income include service fees, agency and management fees, transaction fees, guarantee fees, letter of credit fees, placement fees and non-utilisation fees. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

Fees and commission included in the effective interest rate calculation are those that are incremental and directly attributable to the origination of the product and which are integral to the yield of the product. These include arrangement fees, incentives such as cash backs, intermediary fees and commissions.

2.8 Financial Instruments

Financial assets and liabilities carried on the balance sheet comprise of cash and balances with central banks, due from banks and financial institutions, loans and advances to customers, available-for-sale financial investments, due to central banks, banks and financial institutions, customer deposits, subordinated debt, and derivative financial instruments. The Group initially recognises financial assets and liabilities when it becomes a party to the contractual provisions of the instrument.

2.8.1 General

The Group classifies its financial assets in the following categories:

- loans and receivables
- available-for-sale financial assets

Financial liabilities are classified in the following categories:

- financial liabilities at fair value through profit or loss; and
- financial liabilities at amortised cost.

The Group initially recognises financial assets and liabilities upon origination, when it becomes a party to the contractual provisions of the instrument.

Management determines the classification of its financial instruments at initial recognition.

2.8.2 Financial Assets

2.8.2.1 Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available-for-sale.

Loans and advances are initially recognised at the draw down date at the fair value. Loans and advances are subsequently carried at amortised cost using the effective interest method less provisions for impairment.

The fair value of loans and advances to customers is measured at the draw down date and calculated by discounting anticipated cash flows, including interest, at a current market rate of interest. The fair value of floating rate loans and advances and overnight deposits is considered by the Group to be equal to the carrying value as these loans and advances are accounted for at current interest. The fair value of fixed interest bearing accounts is based on cash flows discounted using current money market interest rates for debts with similar maturity and credit risk characteristics.

Loans and advances that are performing in accordance with the underlying contract are classified as neither past due nor impaired. If a customer fails to make a payment that is contractually due the loan is classified as past due. If subsequently all contractually due payments are made the loan reverts to its neither past due nor impaired status. Loans and advances that are past due or impaired may have the terms and conditions renegotiated. Loans and advances are classified as renegotiated if they fulfil the definition of a troubled debt restructuring. When the renegotiated contract becomes effective, the loan is subsequently classified as past due, impaired or neither past due nor impaired according to its performance under the renegotiated terms.

2.8.2.2 Available-for-sale Financial Investments
Available-for-sale financial investments are non derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

They are initially recognised at fair value plus directly related incremental transaction costs and are subsequently carried on the balance sheet at fair value. Unrealised gains or losses arise from changes in the fair values and are recognised directly in equity in the fair value reserve, except for impairment losses or foreign exchange gains or losses related to debt securities, which are recognised immediately in the statement of income in impairment on investment securities or other operating income respectively. On sale or maturity, previously unrealised gains and losses are recognised in other operating income.

The fair value of investment securities trading in active markets is based on market prices or broker/dealer valuations. Where quoted prices on instruments are not readily and regularly available from a recognised broker, dealer or pricing service, or available prices do not represent regular transactions in the market, the fair value is estimated. These estimates use quoted market prices for securities with similar credit, maturity and yield characteristics or similar valuation models.

The Group uses settlement date accounting when recording the purchase and sale of financial investments.

2.8.3 Derivatives Financial Instruments
Derivatives are initially recognised 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 and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2.8.4 Offsetting
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.8.5 Impairment of Financial Assets
The Group assesses at each balance sheet date whether there is objective evidence that loans and advances or available-for-sale financial investments are impaired.

Financial assets are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

2.8.5.1 Assets Carried at Amortised Cost
For loans and receivables the Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan and receivable, whether significant or not, it includes the asset in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables 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.

The amount of any impairment is calculated by comparing the present value of estimated future cash flows discounted at the asset's original effective interest rate with the carrying amount. The present value of estimated cash flows recoverable is determined after taking into account any security held. If impaired, the carrying value is adjusted and the difference is recognised in the statement of income.

For the purposes of a collective evaluation of impairment, loans and receivables are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of loans and receivables that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The estimation involved in these impairment assessments is considered a critical accounting estimate (see note 2.19).

When a loan is uncollectable, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of income.

2.8.5.2 Available-for-sale Financial Assets
In the case of available-for-sale financial investments, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised directly in equity is removed from equity and recognised in the statement of income. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as all other financial assets. Reversals of impairment of debt instruments are recognised in the statement of income. Reversals of impairment of equity shares are not recognised in the statement of income, increases in the fair value of equity shares after impairment are recognised directly in equity.

2.8.6 Repurchase Agreements
Debt securities sold subject to repurchase agreements ("repos") are retained on the balance sheet as available-for-sale financial investments. The funds received under these agreements are included within deposits due to banks and other financial institutions, at amortised cost.

The difference between sale and repurchase prices is reflected within interest expense in the statement of income over the lives of the transactions, using the effective interest method.

2.8.7 De-recognition of Financial Instruments
The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

2.9
Property and Equipment
Property and equipment is stated at cost less accumulated depreciation and provisions for impairment, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the assets.

Depreciation is provided on the depreciable amount of items of property and equipment on a straight-line basis over their estimated useful economic lives. The depreciable amount is all costs incurred to bring the asset to the working condition for its intended use.

The estimated useful lives for the current period are as follows:

Leasehold improvements	5 years
Furniture and equipment	3 to 5 years
Motor vehicles	3 years

The useful lives, methods and the residual values underlying the calculation of depreciation of items of property and equipment are reviewed at each reporting date to take account of any change in circumstances.

When deciding on useful lives and methods, the principal factors the Group takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of the assets. When reviewing residual values, the Group estimates the amount that it would currently obtain for the disposal of the asset after deducting the estimated cost of disposal if the asset was already of the age and condition expected at the end of its useful economic life.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of income.

2.10 Intangible Assets

2.10.1 Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries.

Goodwill on the acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For impairment purposes goodwill is allocated to the lowest components of the business that is expected to benefit from synergies of the combination and at which management monitors goodwill ("cash generating unit"). Each cash generating unit represents a grouping of assets no higher than a primary business or reporting segment.

2.10.2 Computer Software

Costs associated with the development of software for internal use are capitalised if the software is technically feasible and the Group has both the intent and sufficient resources to complete the development. Costs are only capitalised if the asset can be reliably measured and will generate future economic benefits to the Group either through sale or use.

Only costs that are directly attributable to bringing the software into working condition for its intended use are capitalised. These costs include all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in a manner intended by management. Other development expenditure is recognised in the statement of income as an expense as incurred.

Capitalised development expenditure and purchased software is stated at cost less accumulated amortisation and impairment losses. Once the software is ready for use, the capitalised costs are amortised over their expected lives, generally between three to seven years. Capitalised software is assessed for impairment where there is an indication of impairment. Where impairment exists, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss recognised in the statement of income. The amortisation charge for the asset is then adjusted to reflect the asset's revised carrying amount.

Subsequent expenditure is only capitalised when it increases the future economic benefits embodied in the specific asset to which it relates.

2.11
Impairment of Property and Equipment, and Intangible Assets

At each balance sheet date, or more frequently where events or changes in circumstances dictate, property and equipment, and intangible assets, are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. Goodwill is subject to an impairment review as at the balance sheet date for each reporting period. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount; the recoverable amount being the higher of the asset's/the cash-generating unit's net selling price and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arms-length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

The carrying values of property, equipment and goodwill are written down by the amount of any impairment and this loss is recognised in the statement of income in the period in which it occurs. A previously recognised impairment loss relating to property and equipment, or intangible assets may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount. The carrying amount of the property and equipment, or intangible assets will only be increased up to the amount that it would have been had the original impairment not been recognised. Impairment losses on goodwill are not reversed. For the purpose of conducting impairment reviews, cash-generating units are the lowest level at which management monitors the return on investment on assets.

2.12
Financial Guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee was given, being the premium received. Other than where the fair value option is applied, subsequent to initial recognition, the group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the statement of income any fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date.

Any increase in the liability relating to guarantees is taken to the statement of income. Any liability remaining is recognised in the statement of income when the guarantee is discharged, cancelled or expires.

2.13
Employees End of Service Benefits and Pension Fund

The Group provides for end of service benefits payable to its employees, based on the individual's period of service at the balance sheet date in accordance with the employment policy of the Group and the provisions in Qatar Labour Law.
The expected costs of these benefits are accrued over the period of employment, and included as part of other liabilities in the balance sheet. With respect to Qatari employees, the Group provides for its contribution to the Qatar Pension Fund in accordance with the Retirement and Pension Law No. 24 of 2002., and includes the resulting charge within the personnel cost in the statement of income. The Group's obligations are limited to these contributions.

Short-term employee benefits, such as salaries, paid absences, and other benefits, are accounted for on an accruals basis over the period which employees have provided services. Bonuses are recognised to the extent that the Group has a present obligation to its employees that can be measured reliably.

All expenses related to employee benefits are recognised in the statement of income in staff costs, which is included within operating expenses.

2.14
Share-based Payments

The Group engages in cash settled share-based payment transactions in respect of services received from certain of its employees. The fair value of the services received is measured by reference to the fair value of the awards granted on the date of the grant. The cost of the employee services received in respect of the awards granted is recognised in the statement of income over the period that the services are received, which is the vesting period. The fair value of the awards granted is determined using option pricing models.

2.15
Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

2.16
Taxes, Including Deferred Taxes

Income tax payable on taxable profits ("current tax") is recognised as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

2.17
Segment Reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment) that is subject to risks and rewards that are different from other products or services, or providing products or services within a particular economic environment (geographical segment), that is subject to risks and rewards that are different to those components operating in other segments.

2.18
Cash and Cash Equivalents

For the purposes of the cash flow statement, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

Mandatory cash reserves with central banks are not available for operational purposes and not included as part of cash and cash equivalents. Repurchase agreements are not considered to be part of cash equivalents.

2.19
Significant Accounting Judgements and Estimates

The preparation of the consolidated financial statements necessarily requires the exercise of judgement in the application of the accounting policies, and to make certain estimates where uncertainty exists.

These judgements and estimates are reviewed on an ongoing basis, and evaluated based on historical experience and other factors, including expectation for future events that are considered reasonable and possible under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The principle critical accounting judgements and estimates made by the Group that have a material financial impact on the financial statements are as follows:

2.19.1 Fair Values of Financial Investments

The fair value of financial assets traded in an organised financial market is determined by reference to quoted market bid prices at the close of business at the balance sheet date. Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, the Group uses valuation techniques. These valuation techniques include using recent arm's length transactions, reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants.

2.19.2 Impairment Losses on Loans and Advances

The Group reviews its loan portfolios at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income. Impairment loss calculations involve the estimation of future cash flows of loans and advances based on observable data at the balance sheet date and historical loss experience for assets with similar credit risk characteristics.

These calculations are undertaken on a portfolio basis other than in respect of significant balances, relating principally to larger corporate customers, which are assessed individually. In determining the level of allowance required, management considers the past due instalments on the loans and the estimated amount and timing of future cash flows. Such estimates are necessarily based on the assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to the allowance.

In calculating individual impairment provisions the Group takes account of a number of relevant considerations including historical experience, future prospects of the customer, value of collateral held and reliability of information.

2.19.3 Impairment of Available-For-Sale Investments

The Group has considered the fall in fair values of investments classified as available-for-sale to ascertain whether any impairment has occurred. Impairment is recognised when there is objective evidence that a specific financial asset is impaired. Evidence may include a debt issuer failing to make an interest or principal repayment or breaching a covenant within the security's terms and conditions or a significant or prolonged decline in the fair value of an equity instrument below its cost. Except when a default event has occurred, the determination of whether or not objective evidence of impairment is present requires the exercise of critical accounting judgement by the Group.

2.19.4 Effective Interest Rate

As described in the accounting policy for effective interest rate, the Group uses statistical and mathematical models to calculate the effective yield for loans and advances for which the actual maturity or repayment profile may differ from the contractual repayment profile. The Group applies judgement when determining the expected life of these loans. The underlying products usually allow the customer to make early repayment before the contractual maturity date. In estimating the expected life of the loan, the Group takes into account a number of relevant considerations when the asset is initially recognised to estimate the cash flows from early redemptions including the type of product, previous experience of customer behaviour, credit scoring of the customer and anticipated future market conditions.

For loans and advances where the contractual and expected repayment profiles are expected to be the same, the effective yield is based on the contractual maturity.

3 Financial Instruments and Related Risk Management

3.1 Financial Instruments

3.1.1 Definition and Classification

Financial instruments represent all the financial assets and liabilities of the Group. Note 2 describes the accounting policies applied by the Group in respect of the recognition and measurement of the key financial instruments and their related income and expense.

3.1.2 Fair Value of Financial Instruments

3.1.2.1 Floating Rate Financial Instruments
For financial assets and liabilities that are liquid or a maturity less than three months, or repriced frequently the carrying amounts approximate the fair value of these assets and liabilities.

3.1.2.2 Fixed Rate Financial Instruments:
For financial assets and liabilities with fixed rate of interest/profit carried at amortised cost, the fair value is estimated by comparing market rates when they were first recognised with current market rates offered for similar financial instruments. For financial instruments maturing within three months, the carrying amounts approximate their fair value.

The group currently does not have significant exposure to fixed rate assets and liabilities and consider the fair value of these assets and liabilities are not materially different from the carrying amounts

3.2
Financial Instruments and Related Risk Management

The identification, measurement and management of risk are a strategic priority for the Group. The overall responsibility for ensuring a robust risk management infrastructure rests with the Board of Directors. The Group has established a risk management framework covering accountability, oversight, measurement and reporting to maintain relevant standards.

The Risk governance structure at **al khaliji** consists of five layers comprising of the Board of Directors, Board Committees, Senior Management Committees, the Risk function, and the business units:

Level 1: Board of Directors
Level 2: Board Committees
- Audit and Risk Committee

Level 3: Senior Management Committees
- Group Risk Committee
- Group Asset, Liability and Capital Committee

Level 4: Risk Function
- Units for Corporate Credit, Retail/Premium Business, Market and Operational Risks

Level 5: Business Units
- Risk awareness culture, Desktop level procedures, systems and controls

Internal audit provides a third line of defence as it provides independent reviews, and reports to Audit and Risk Committee

The Group has exposure to the following key risks from the use of financial instruments:

- Credit risk, defined as the risk of loss which occurs if a customer or counterparty does not fulfill its payment obligations
- Market risk is the risk arising from changes in market values of financial instruments due to changes in interest rates, foreign exchange rates.
- Liquidity risk is the risk that the Group is not able to generate sufficient cash to meet its obligations and fund its activities in a timely and cost-effective manner
- Operational risk is the risk of possible loss due to inadequate performance from people, processes or technology, or loss caused by an external event.

These risks occur as a part of normal business activities and are identified, monitored and managed through a framework of controls. These controls include transaction analysis and suitability, risk ratings, risk limits, approval authorities and periodic reporting. Risks are reviewed on a transaction as well as portfolio basis by senior management, relevant committees and the Board of Directors. The risk management process encompasses all businesses and functions through an organization-wide culture of ‘risk awareness’.

The Group remains cognizant of the market environment and calibrates its risk appetite and risk controls in light of changing conditions.

3.3
Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group’s loans and advances to customers and other banks and available-for-sale financial investments.

The Group manages its credit risk exposure by diversifying its lending activities. This means avoiding concentration with individuals, groups, or customers in specific locations or businesses. The Group also have a strong credit approval process and robust risk control limits and monitoring procedures.

The Group manages, limits and controls concentrations of credit risk wherever they are identified, with specific emphasis to individual counterparties and groups, and to industries and countries.

The Group controls and mitigates its exposure to credit risk through collateral, by taking security for funds advanced, and uses approved guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

3.3.1 Credit Exposure

The table below provides the maximum exposure to credit risk for all balance sheet and off-balance sheet items where credit risk exposures exist. This maximum exposure depicts the gross amount before considering the effect of collateral, master netting agreements or other mitigation, and includes, if any, interest in suspense:

	31 December 2008 QAR'000
Credit exposure relating to on-balance sheet items:	
Due from banks and other financial institutions	
• money on call and short notice	126,243
• balances with central banks	987,738
• balances with other banks and financial institutions	2,074,465
Loans and advances to customers	6,980,053
Derivative financial instruments	32,005
Available-for-sale financial investments	
• listed debt securities	883,338
• unlisted debt securities	132,945
Total on-balance credit exposure	11,216,787
Credit exposure relating to off-balance sheet items:	
Financial guarantees	2,884,525
Letters of credit and acceptances	152,215
Unutilised credit facilities	1,687,706
Total off-balance sheet credit exposure	4,724,446
Total credit exposure	**15,941,233**

As illustrated above, 44% of the total maximum exposures relates to loans and advances to customers, 20% to due from banks and other financial institutions and 6% to available-for-sale financial investments. The Group does not have any exposure to sub-prime lending or collateralised debt.

3.3.2 Quality of Credit Exposure

31 December 2008	Customer loans QAR'000	Due from banks QAR'000	Available-for-sale financial investments QAR'000	Derivative financial instruments QAR'000
Neither past due nor impaired	6,924,811	3,188,813	1,016,283	32,005
Past due but not impaired	52,137	-	-	-
Impaired[1]	33,686	-	-	-
Total	7,010,634	3,188,813	1,016,283	32,005
Allowance for impairment	(30,581)	(367)	-	-
Net exposure	6,980,053	3,188,446	1,016,283	32,005

([1] Impaired loans are net of interest in suspense)

3.3.2.1 Loans and Advances to Customers

The table above provides an analysis of loans and advances to customers that are due to the Group. Loans and advances are considered past due where a specific expiry date is in place or regular instalments are required and such payments have not been received by the Group. A loan payable on demand is treated as overdue where a demand for repayment has been served but the repayment has not been made in accordance with demand requirements.

(i) Loans and advances neither past due nor impaired

The table below presents an analysis of the risk rating/credit quality of customer advances that are neither past due nor impaired (performing) advances:

31 December 2008	Satisfactory risk QAR'000	Viable but monitoring/ special monitoring QAR'000	Total QAR'000	Fair value of collateral QAR'000
Consumer	929,018	6,642	935,660	743,370
Wholesale	5,939,237	49,914	5,989,151	1,200,975
Total	6,868,255	56,556	6,924,811	1,944,345

(ii) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

31 December 2008	Past due up to 30 days QAR'000	Past due 30-60 days QAR'000	Past due 60-90 days QAR'000	Past due longer than 90 days QAR'000	Total QAR'000	Fair value of collateral QAR'000
Consumer	4,143	45,230	-	51	49,424	76,121
Wholesale	2,254	-	459	-	2,713	1,949
Total	6,397	45,230	459	51	52,137	78,070

(iii) Impaired loans

The breakdown of the individually impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

31 December 2008	Gross amount QAR'000	Fair value of collateral QAR'000
Consumer	7,443	7,653
Wholesale	26,243	-
Total	33,686	7,653

(iv) Collateral

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees.

Estimates of the fair value of collateral are based on the value of collateral assessed at inception of the borrowing, using valuation techniques commonly used for the corresponding assets. No collateral is generally held over loans and advances to banks or against financial investments, and no such collateral was held at 31 December 2008.

3.3.2.2 Financial Assets other than Advances

The table below provides the credit quality of financial assets other than loans and advances from customers that are neither past due nor impaired, based on internal credit ratings:

31 December 2008	Due from other banks QAR'000	Derivative financial instruments QAR'000	Available-for-sale financial investments QAR'000	Total QAR'000
AA- to AA+	1,598,267	-	172,953	1,771,220
A- to A+	1,075,220	-	664,112	1,739,332
Lower than A-	221,022	32,005	52,357	305,384
Unrated	293,937	-	126,861	420,798
Total	3,188,446	32,005	1,016,283	4,236,734

3.3.3 Concentration of Risk of Financial Assets with Credit Exposure

3.3.3.1 Geographical Sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by geographical region as at 31 December 2008. For this table, the Group has allocated exposures to regions based on the country of domicile of counterparties.

31 December 2008	Qatar QAR'000	Other GCC QAR'000	Europe QAR'000	Canada and U.S. QAR'000	Other QAR'000	Total QAR'000
Due from banks and financial institutions	1,494,866	979,472	608,474	91,117	14,517	3,188,446
Loans and advances to customers	4,739,269	1,809,620	146,738	-	284,426	6,980,053
Derivative financial instruments	32,005	-	-	-	-	32,005
Available-for-sale financial investments	-	126,850	46,185	843,248	-	1,016,283
Net exposure	6,266,140	2,915,942	801,397	934,365	298,943	11,216,787

3.3.3.2 Industry

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties.

31 December 2008	Due from banks QAR'000	Loans and advances QAR'000	Derivative financial instruments QAR'000	Available-for-sale financial investment QAR'000	Total 2008 QAR'000
Real Estate	-	1,877,278	-	-	1,877,278
Commercial	-	1,558,462	-	-	1,558,462
Services and Financial institutions	3,188,813	730,676	-	883,338	4,802,827
Contracting	-	293,647	-	-	293,647
Industry	-	63,683	-	-	63,683
Consumption	-	125,154	-	-	125,154
Other	-	2,361,734	32,005	132,945	2,526,684
Total	3,188,813	7,010,634	32,005	1,016,283	11,247,735
Allowance for impairment	(367)	(30,582)	-	-	(30,948)
Net exposure	3,188,446	6,980,053	32,005	1,016,283	11,216,787

3.4

Market Risk

Market risk is the risk arising from changes in the value of financial instruments due to changes in interest rates, foreign exchange rates, as well as equity and commodity prices.

Market risk management ensures that risk exposures from the generic risk factors do not exceed the risk appetite of the Group, as articulated in the risk limits, policies and product programs. These controls define permissible conduct, and also specify the types of financial instruments which the Group can acquire as part of its trading and investment activities.

3.4.1 Interest Rate Risk

The principle risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. The Group Asset, Liability and Capital Committee is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary the Group's interest rate gap position on non-trading portfolios is as follows:

(For the purpose of preparing the below table the shorter of maturity or repricing periods was used)

31 December 2008	Within 3 months QAR'000	3 months to 1 year QAR'000	1 to 5 years QAR'000	More than 5 years QAR'000	Non-interest bearing QAR'000	Total QAR'000	Effective interest rate QAR'000
Cash and balances at central banks	755,692	-	-	-	273,930	1,029,622	1.20%
Due from banks and financial institutions	2,151,663	14,595	-	-	34,450	2,200,708	1.80%
Loans and advances to customers	5,222,714	1,066,582	599,362	90,846	549	6,980,053	6.81%
Available-for-sale financial investments	1,010,199	-	6,084	-	-	1,016,283	3.59%
Other assets	63,049	-	-	-	1,210,800	1,273,849	-
Total assets	9,203,317	1,081,177	605,446	90,846	1,519,729	12,500,515	
Deposits from banks	2,383,363	1,786	-	-	49,314	2,434,463	1.52%
Customer deposits	3,813,641	272,724	622	-	586,871	4,673,858	4.51%
Subordinated liabilities	-	127,555	-	-	-	127,555	-
Other liabilities	37,083	-	-	-	681,584	718,667	-
Shareholders' equity	-	-	-	-	4,545,972	4,545,972	-
Total liabilities and shareholders' equity	6,234,087	402,065	622	-	5,863,741	12,500,515	
Balance sheet interest rate repricing gap	2,969,230	679,112	604,824	90,846	(4,344,012)	-	
Cumulative interest rate repricing gap	2,969,230	3,648,342	4,253,166	4,344,012	-	-	

3.4.1.1 Net Interest Income Sensitivity
Assuming that the financing and size of the interest sensitive assets/liability remain the same, the Group will make a profit of approximately QAR. 4.1 million with the increase of 10 basis points in interest rate. In case the interest rate declines by 10 basis points the Group profits will decrease by the same amount.

The principle driver of interest rate risk is re-pricing mismatch. Certain behavioural re-pricing assumptions – for example, prepayment rates – also affect interest rate risk. However, at present the Group asset and liability portfolio do not have a material exposure to prepayment risk.

The measure, however, is simplified in that it assumes all interest rates, for all currencies and maturities, move at the same time and by the same amount. Also, it does not incorporate the impact of management actions that, in the event of an adverse rate movement, could reduce the impact on net interest income.

3.4.2 Foreign Exchange Risk
The Group takes on exposures to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group has a set of limits on the level of currency exposure, which are monitored continually. The Group had the following significant net exposures:

Concentrations of currency risk, both on and off-balance sheet financial instruments

31 December 2008	QAR QAR'000	EUR QAR'000	USD QAR'000	AED QAR'000	Other QAR'000	Total QAR'000
Balance sheet items:						
Assets	5,621,732	686,153	4,781,131	1,288,930	122,569	12,500,515
Liabilities and shareholders' equity	5,709,523	714,182	4,760,711	1,188,368	127,731	12,500,515
Balance sheet currency exposure	(87,791)	(28,029)	20,420	100,562	(5,162)	-
Off-balance sheet items:						
Contingent liabilities	1,797,884	126,338	1,202,376	1,582,659	15,189	4,724,446
Other commitments	126,059	480,957	5,758	-	-	612,774
Off-balance sheet currency exposure	1,923,943	607,295	1,208,134	1,582,659	15,189	5,337,220

Foreign currency sensitivity analysis

The following table illustrates the Group's sensitivity to a reasonably possible change of the relevant foreign currencies against the Qatari Riyals.

31 December 2008		QAR'000
Euro	+/-3%	(841)
Other currencies	+/-3%	(37)

The Qatari Riyals and the United Arab Emirate Dirham (AED) are both officially pegged against the US Dollar (USD). No sensitivity analysis has been calculated for exposures to USD and AED as these exposures are not considered subject to fluctuation.

3.5
Liquidity Risk

Liquidity risk arises when the Group is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn, in particular, its failure to meet obligations to repay depositors and fulfil commitments to lend.

The aim of liquidity management is to honour the payment obligations and to minimize the costs of funding of the Group's activities.

Liquidity management is divided with respect to maturity into following two categories:

- Operational liquidity: day-to-day management of cash and the Group's accounts with other banks.
- Medium-term and long-term liquidity: to manage expected cash flows generated by on- and off-balance sheet items and to provide sufficient funds for the Group's business activities.

Two categories of tools are used to measure liquidity risk, the liquidity ratio approach and expected cash-flow approach. Both aim to quantify the current and expected gap between cash inflows (from new funding or asset maturities/sales) and outflows (funding maturities/withdrawals and new assets). Cognizance is taken of the difference between nominal and actuarial or expected maturities of assets and liabilities.

The table below illustrates the maturity profile of the Group's financial assets and liabilities based on contractual maturities. The contractual maturities of assets and liabilities have been determined based on the remaining period at the balance sheet date to the contractual maturity date and do not take account of the Group's deposit retention history.

3.5.1 Balance Sheet Items

31 December 2008	Up to 1 month QAR'000	1 to 3 months QAR'000	3 to 12 months QAR'000	1 to 5 years QAR'000	More than 5 years QAR'000	Total QAR'000
Assets						
Cash and balances with central Banks	899,998	-	-	-	129,624	1,029,622
Due from banks and financial institutions	2,137,642	48,471	14,595	-	-	2,200,708
Loans and advances	2,086,087	1,763,802	946,527	1,858,940	324,697	6,980,053
Financial Investments	10	-	-	1,016,273	-	1,016,283
Other assets	94,741	41,961	11,190	26,934	-	174,826
Total assets	5,218,478	1,854,234	972,312	2,902,147	454,321	11,401,492
Liabilities						
Deposits from banks	1,841,268	591,409	1,786	-	-	2,434,463
Customer accounts	3,532,646	867,848	272,742	622	-	4,673,858
Other liabilities	27,697	50,877	551,943	23,548	64,602	718,667
Subordinated loan	127,555	-	-	-	-	127,555
Total liabilities	5,529,166	1,510,134	826,471	24,170	64,602	7,954,543
Balance sheet maturity gap	(310,688)	344,100	145,841	2,877,977	389,719	3,446,949

3.5.2 Off-Balance Sheet Items

The table below summarises the maturity profile of the Group's off-balance sheet financial instruments based on the earliest contractual maturity date:

31 December 2008	No later than 1 year QAR'000	1 to 5 years QAR'000	More than 5 years QAR'000	Total QAR'000
Loan commitments	1,668,853	18,853	-	1,687,706
Other financial facilities	2,349,123	666,030	21,587	3,036,740
Contingent liabilities	4,017,976	684,883	21,587	4,724,446
Other commitments	554,597	58,177	-	612,774
Total off-balance sheet items	4,572,573	743,060	21,587	5,337,220

3.6
Operational Risk:

The Group manages and undertakes to minimise operational losses as follows:

- Identify and assess the operational risk inherent in all material products, activities, processes and systems, and ensure that before new products, activities, processes and systems are introduced or undertaken, the inherent operational risk in them is subject to adequate assessment procedures.
- Implement a process to monitor operational risk profiles and material exposures to losses on a regular basis.
- Establish and implement policies, processes and procedures to mitigate and/or control material operational risks. Periodically review organizational risk limitation and control strategy and adjust its operational risk profile using appropriate strategies in the context of the Group's overall risk appetite and profile.
- Ensure contingency and business continuity plans are in place to ensure the Group's ability to operate on an ongoing basis and to limit losses in the event of severe business interruption, disruption or loss.

3.7
Capital Strength

The Group maintains a strong capital base to support the development of its business and to meet its regulatory capital requirements at all times. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.

The QCB supervises the Group on a consolidated basis and, as such, receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. Individual banking subsidiaries are directly regulated by their local supervisors, who set their capital adequacy requirements.

The table below summarises the composition of regulatory capital and the ratios of the Group as at 31 December 2008. The individual entities in the Group and the Group complied with the externally imposed capital requirements to which they are subject:

	31 December 2008 QAR'000
Tier 1 capital	3,890,784
Tier 2 capital	100,446
Total regulatory capital	3,991,230
Risk weighted assets	13,207,145
Tier 1 capital adequacy ratio	29.5%
Total capital adequacy ratio	30.2%

Tier 1 capital includes issued paid-up capital, statutory reserves, retained earnings including the profit for the reporting period, adjusted for goodwill. Tier 2 capital includes risk reserve (limited to 1.25% of risk weighted assets), fair value reserves and foreign currency translations reserve (limited to 45% if positive, 100% if negative), and subordinated debt (limited to 50% of Tier 1 capital).

The minimum required capital adequacy ratio is 10% as determined by the QCB.

4 Cash and Balances with Central Banks

	31 December 2008 QAR'000
Cash	41,884
Balances with central banks other than mandatory cash reserves	168,183
Cash and balances with central bank included in cash and cash equivalents	210,067
Deposits	588,916
Mandatory cash reserves with central banks	230,639
Cash and balances with central banks	1,029,622

5 Due from Banks and Financial Institutions

	31 December 2008 QAR'000
Demand accounts	126,243
Deposits	1,146,523
Balances with banks included in cash and cash equivalents	1,272,766
Long term deposits	402,707
Loans and advances to banks	525,602
Less: Allowance for impairment	(367)
Total due from banks and financial institutions	2,200,708

Movement in allowances for impairments

	31 December 2008 QAR'000
Balance at beginning of the period	-
Acquired in business combination	367
Balance at the end of the period	367

6 Loans and Advances to Customers

6.1

By Type

	31 December 2008 QAR'000
Loans	6,469,789
Overdrafts	473,609
Discounted notes	67,236
Gross loans and advances	7,010,634
Allowance for impairment	(30,581)
Total net loans and advances to customers	6,980,053

6.2 By Sector

	31 December 2008 QAR'000
Real Estate	1,877,278
Commercial	1,588,462
Services and Financial institutions	730,676
Contracting	293,647
Industry	63,683
Consumption	125,154
Other	2,361,734
Total	7,010,634
Allowance for impairment	(30,581)
Net exposure	6,980,053

6.3 Movement in Allowance for Impairment

	31 December 2008 QAR'000
Acquired in business combination	29,955
New impairment during the period	4,609
Recoveries during the period	(1,063)
Amounts written off	(3,754)
Foreign exchange translation differences	834
At end of period	30,581

7 Available-for-sale Financial Investments

	31 December 2008		
	Listed	Unlisted	Total
	QAR'000	QAR'00	QAR'000
Non-government debt securities	883,338	132,945	1,016,283
Total Available-for-sale financial investments	883,338	132,945	1,016,283

8 Intangible assets

	31 December 2008 QAR'000
Goodwill and other intangible assets	682,297
Software	269,319
Total intangible assets	951,616

8.1 Goodwill and other intangible assets

The Group acquired all the shares of BLC Bank (France) S.A, resulting in intangible assets amounting to QAR 682 million, being recognised (See Note 26). Due to the recent date of acquisition, the Group has not yet finalised the Purchase Price Allocation to identify separately the intangible assets and goodwill of the acquisition. This will be finalised in due course, within the stipulated timeframe.

8.2 Computer Software

	31 December 2008 QAR'000
Cost:	
At beginning of the period	-
Additions	286,500
Total cost	286,500
Accumulated Amortisation:	
At beginning of the period	-
Charged during the period	17,181
Total accumulated depreciation	17,181
Net carrying amount	269,319

9 Property and Equipment

31 December 2008	Leasehold Improvements QAR'000	Furniture & Equipment QAR'000	Motor Vehicles QAR'000	Capital Projects in Progress QAR'000	Total QAR'000
Cost:					
Balance at beginning of the period	-	-	-	-	-
Additions and transfers	15,102	83,205	1,046	66,587	165,940
Acquired in business acquisition	6,297	3,353	100	-	9,750
Disposals	-	(51)	-	-	(51)
Foreign currency translation	332	247	(5)	-	574
Total cost	21,731	86,754	1,141	66,587	176,213
Accumulated Depreciation:					
Balance at beginning of the period	-	-	-	-	-
Charged during the Period	2,425	25,910	328	-	28,663
Disposals	-	(51)	-	-	(51)
Foreign currency translation	28	166	-		194
Total accumulated depreciation	2,453	26,025	328	-	28,806
Net carrying amount	19,278	60,729	813	66,587	147,407

10 Other Assets

	31 December 2008 QAR'000
Accrued income	91,988
Derivatives with positive fair value (note 16)	32,005
Prepaid expenses	13,304
Others	37,529
Total other assets	174,826

11 Due to Banks and Other Financial Institutions

	31 December 2008 QAR'000
Demand and call deposits	77,934
Term deposits	1,694,395
Borrowings under repurchase agreements	619,297
Total due to banks and other financial institutions	2,391,626

12 Customer Deposits

By type	31 December 2008 QAR'000
Demand and call accounts	815,974
Saving accounts	15,764
Term deposits	3,839,075
Other	3,045
Total customer deposits	4,673,858

By sector	31 December 2008 QAR'000
Government	1,804,381
Corporate	1,913,741
Individuals	955,736
Total customer deposits	4,673,858

13 Subordinated Debt

The subordinated debt consists of loan amounting to EUR 25 million (equivalent to QAR 128 million) for an undetermined period, and the borrower has the right to determine settlement date. Interest is calculated based on EONIA monthly rate (Euro Overnight index average) payable in arrears on a quarterly basis. This loan will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all others creditors of the issuer.

14 Other Liabilities

	31 December 2008 QAR'000
Deferred income	45,106
Accounts payable	584,592
Derivative with negative fair value (note 16)	28,929
Provision for staff benefits (note 14.1)	19,249
Accrued expenses	21,869
Directors remuneration	1,600
Other payables	17,322
Total other liabilities	718,667

14.1 Provisions for Staff Benefits

	31 December 2008 QAR'000
Acquired in business combination	9,503
Additional provisions made during the period	9,922
Utilised during the period	(492)
Translation differences	316
Total provisions for staff benefits	19,249

15 Shareholders' Equity

15.1 Issued Capital

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

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).

15.2 Statutory Reserve

In accordance with the Memorandum and Articles of Association of **al khaliji** 20% of net income for the period 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.

15.3 Risk Reserve

Represents shareholders' contribution in a risk reserve of minimum 1.5% of net loans and advances portfolio in accordance with Qatar Central Bank regulations. Qatar Central Bank has approved gradually building up the risk reserve to start from 0.25% for the current period provided that this percentage is to be revised at the end of the next year.

15.4
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.

The fair value reserve arises from the revaluation of the available-for-sale investments. The movement in fair value reserve during the period is as follows:

	31 December 2008 QAR'000
Balance at beginning of the period	-
Net change in fair value	(60,649)
Balance as at 31 December	(60,649)

The balance of fair value reserve as at 31 December 2008 includes negative fair value of financial investments of carrying value QAR 1,016 million, no gains or losses resulting from change of fair value of these investment were recognized in the net income for the period.

16 Derivative Financial Instruments

The Group's objectives and policies on managing the risks that arise in connection with derivatives are included in Note 3 under the headings 'Market Risk', 'Credit Risk' and 'Liquidity Risk'.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates or prices relative to their terms.

The fair value of a derivative contract represents the amount at which that contract could be exchanged in an arms-length transaction, calculated at market rates current at the balance sheet date.

The fair values and notional amounts of derivative instruments held for trading are set out in the following table:

		Fair value		Notional amount by term to maturity		
	Notional amount QAR'000	Assets QAR'000	Liability QAR'000	Within 3 months QAR'000	3 months to 1 year QAR'000	1 to 5 years QAR'000
31 December 2008						
Forward exchange contracts	486,455	760	-	486,455	-	-
Interest rate swaps:						
Assets	728,400	31,951	-	364,200	-	364,200
Liabilities	(728,400)	-	(28,929)	(364,200)	-	(364,200)
Derivative assets/(liabilities)	486,455	32,005	(28,929)	486,455	-	-

Interest rate swap contracts with customers are back-to-back to avoid any open positions.

17 Contingent Liabilities and Commitments

To meet the financial needs of customers, the Group issues various irrevocable commitments and contingent liabilities.

Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Group. In many instances, the amount recognised on the balance sheet for incurred obligation does not represent the loss potential of the arrangement in full.

The total outstanding commitments and contingent liabilities are as follows:

	31 December 2008 QAR'000
Contingent liabilities	
Guarantees	2,884,525
Unutilised credit facilities	1,687,706
Letters of Credit and acceptances	152,215
Total contingent liabilities	4,724,446

	31 December 2008 QAR'000
Other commitments	
Operating lease commitment	71,669
Capital commitments	54,650
Foreign exchange contacts (note 16)	486,455
Interest rate swaps (note 16)	-
Total other commitments	612,774

17.1

Acceptances, Guarantees and Letters of Credit

Letters of credit, guarantees and acceptances commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. Guarantees and standby letters of credit carry the same risk as loans. Credit guarantees can be in the form of irrevocable letters of credit, advance payment guarantees and endorsement liabilities from bills rediscounted.

17.2
Unused Facilities

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

17.3
Capital Commitments

The capital commitments represent refurbish commitments relating to the completion of the head office building and new branch buildings, as well as contractual commitments in respect of software development.

17.4
Operating Lease Commitments

The Group has entered into commercial leases on certain buildings. These leases have an average life of between three and ten years. There are no restrictions placed upon the Group by entering into these leases. Future minimum lease payments under operating leases are as follows:

	31 December 2008 QAR'000
No later than one year	13,492
Later than one year and no later than 5 years	58,177
Later than 5 years	-
Total operating lease commitments	71,669

18 Net Interest Income

	09 January 2007 to 31 December 2008 QAR'000
Interest income	
Due from banks and financial institutions	336,748
Available-for-sale investments	49,867
Loans and advances to customers	181,329
Total interest income	567,944
Interest expense	
Due to banks and other financial institutions	62,258
Customer deposits	38,768
Other borrowed funds	2,225
Total interest expense	103,251
Net interest income Total	464,693

19 Net Fee and Commission Income

	09 January 2007 to 31 December 2008 QAR'000
Fee and commission income	
Loans, advances to customers	56,579
Indirect credit facilities	7,752
Bank service fees	36
Total fee and commission income	64,367
Fees paid	546
Total fee and commission expense	546
Net fee and commission income	63,821

20 Net Income from Foreign Currency Transactions

	09 January 2007 to 31 December 2008 QAR'000
Profits from foreign currency transactions	5,424
Profit from revaluation of assets and liabilities	824
Net income from foreign currency transactions	6,248

21 Administration and General Expenses

	09 January 2007 to 31 December 2008 QAR'000
Salaries, allowances and other staff costs	194,603
Employee end-of-service benefits	8,669
Directors' fees	1,600
Advertising, marketing and promotional expenses	20,814
Legal and professional fees	47,999
Rent and maintenance	33,806
Computer and IT costs	66,667
Travelling expenses	12,760
Licences and subscriptions	4,685
Other expenses	5,437
Total administration and general expenses	397,040

22 Income Tax Expense

According to the laws and regulations effective in France and United Arab Emirates income tax expense of QAR 1,268 was calculated for income tax expenses incurred for the subsidiary companies in France and United Arab Emirates from the date of acquisition (3 November 2008) to 31 December 2008.

23 Earnings per Share

	09 January 2007 to 31 December 2008 QAR'000
Profit attributable to equity holders	103,578
Basic weighted average number of shares in issue (shares)	628,159,212
Basic and diluted earnings per share (in QAR)	0.16

Basic and diluted earnings per share is calculated by dividing the net profit for the period attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the period. No potential dilutions of ordinary shares existed at 31 December 2008.

24 Related Party Transactions

The Group has carried out transactions in the ordinary course of business with directors and members of the senior management team, their close family members, and major shareholders and their subsidiaries which have significant influence in the Group's financial and operating decisions. These transactions include loans, financing activities, deposits and foreign currency transactions. At balance sheet date the balances for such transactions were as follows:

24.1
Balance Sheet Items

	Key management QAR'000	Major shareholders and their subsidiaries QAR'000	Total QAR'000
Loans	25,404	1,183,358	**1,208,762**
Deposits	8,753	208,301	**217,054**

24.2
Statement of Income Items

	Key management QAR'000	Affiliate companies QAR'000	Total QAR'000
Interest income	91	27,412	**27,503**
Interest expense	24	4,614	**4,638**
Commission income	-	3,529	**3,529**

24.3
Compensation of Key Management Personnel

	09 January 2007 to 31 December 2008 QAR'000
Salaries, allowances and other benefits	41,101
End of service indemnity benefits	2,038
Total compensation to key management personnel	43,139

24.4
Board of Directors' Fees

The Board of Directors fees for 2008 amounted to QAR 1.6 million which is subject to the approval of the General Assembly.

25 Cash and Cash Equivalents

Cash and cash equivalents for purpose of the statement of cash flows, comprise the following:

	31 December 2008 QAR'000
Cash and balances with central banks (note 4)	210,067
Due from banks and financial institutions (note 5)	1,272,766
Cash and cash equivalents	1,482,833

Cash and balances with central banks do not include mandatory cash reserves.

26 Acquisition of Subsidiary

On 3 November 2008 the Group acquired all of the shares in BLC Bank (France) S.A. for USD 250 million. BLC is engaged in banking and investing activities. In the 2 months to 31 December 2008 the subsidiary contributed profit of QAR 5.5 million.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

31 December 2008	Pre-acquisition values QAR'000	Fair value recognised on acquisition date QAR'000
Cash and cash equivalents acquired	512,865	512,865
Reserves and balances with Central Bank	656,724	656,724
Due from banks and financial institutions	506,068	506,068
Loans and advances to customers	899,601	899,601
Financial investments	6,187	6,187
Property, furniture and equipment	9,750	9,750
Other assets	14,428	14,428
Identifiable assets	2,605,623	2,605,623
Due to banks and financial institutions	348,615	348,615
Deposits from customers	1,872,285	1,872,285
Subordinated loans	119,247	119,247
Other liabilities	37,773	37,773
Identifiable liabilities	2,377,920	2,377,920
Net carrying amount of assets		227,703
Recognised goodwill and other intangible assets on acquisition		682,297
Consideration given		910,000
Cash acquired		512,865
Consideration given net of Cash acquired		397,135

Pre-acquisition carrying amounts were determined based on applicable IFRSs immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their estimated fair values.

The fair value of the financial assets acquired includes loans and advances with a fair value of QAR 899.6 million. The gross amount of loans and advances is QAR 929.6 million, of which QAR 30 million is expected to be uncollectible.

The goodwill recognised on the acquisition is attributable mainly to the synergies expected to be achieved from gaining access to BLC markets due to the geographical positioning of its branches in France and United Arab Emirates.

27 Segmental Reporting

27.1

By Business Segment

The performance of the Group's main business segments can be illustrated as follow:

31 December 2008	Consumer banking QAR'000	Wholesale banking QAR'000	Head office QAR'000	Total QAR'000
Net interest income	24,405	440,288	-	464,693
Net fees and commission income	15,282	48,539	-	63,821
Net income from foreign currency transactions	2,414	4,360	(526)	6,248
Other operating income	-	16,439	75	16,514
Net operating income	42,101	509,626	(451)	551,276
General and administration expenses	(45,089)	(21,171)	(330,780)	(397,040)
Depreciation and amortisation	(527)	-	(45,317)	(45,844)
Provision for impairment of loans and advances	(678)	(2,868)	-	(3,546)
Segment results	(4,193)	485,587	(376,548)	104,846
Tax	-	-	(1,268)	(1,268)
Net profit	(4,193)	485,587	(377,816)	103,578
Assets and liabilities				
Total assets	2,841,732	7,021,718	2,637,065	12,500,515
Total liabilities	2,684,446	4,734,253	535,844	7,954,543

Intra-group transactions are eliminated from these workings.

27.2

By Geographical Segment

Geographically, the Group operates in Qatar and through its branches and subsidiary in Europe and GCC. The Qatar operations contribute 95% in terms of the Group's profits, and hold 79% of the Group's assets as illustrated below:

	Qatar QAR'000	Other GCC countries QAR'000	Europe QAR'000	Total QAR'000
31 December 2008				
Net interest income	455,958	5,704	3,031	464,693
Net fees and commission income	59,892	3,253	676	63,821
Net income from foreign currency transactions	3,885	2,236	127	6,248
Other operating income	16,463	51	-	16,514
Net operating income	536,198	11,244	3,834	551,276
General and administration expenses	(388,228)	(4,147)	(4,665)	(397,040)
Depreciation and amortization	(45,317)	(384)	(143)	(45,844)
Recovery (provision) for impairment	(4,609)	569	494	(3,546)
Segment results/net profit before taxes	98,044	7,282	(480)	104,846
Income tax expense	-	(1,268)	-	(1,268)
Net profit for the period	98,044	6,014	(480)	103,578
Assets and liabilities				
Total assets	9,839,694	1,541,386	1,119,435	12,500,515
Total liabilities	5,543,108	1,401,118	1,010,317	7,954,543

28 Financial Statements for the Parent Company

Balance Sheet for the Parent Company

	31 December 2008 QAR'000
Assets	
Cash and balances at central banks	327,395
Due from banks and financial institutions	1,169,321
Loans and advances to customers	6,157,724
Available-for-sale financial investments	1,010,189
Investment in subsidiaries	910,380
Intangible assets	269,319
Property and equipment	137,638
Other assets	136,619
Total assets	10,118,585
Liabilities	
Due to central banks	
Due to banks and financial institutions	2,065,057
Customer deposits	2,846,537
Other liabilities	682,536
Total liabilities	5,594,130
Shareholders' equity	
Share capital	3,600,000
Statutory reserves	907,669
Risk reserve	17,450
Fair value reserve	(60,704)
Retained earnings	60,040
Total shareholders' equity	4,524,455
Total liabilities and shareholders' equity	10,118,585

28 Financial Statements for the Parent Company (continued)

Statement of Income for the Parent Company

For the period ended 31 December 2008

	09 January 2007 to 31 December 2008 QAR'000
Interest income	551,884
Interest expense	(95,926)
Net interest income	455,958
Fee and commission income	60,199
Fee and commission expense	(307)
Net fee and commission income	59,892
Net income from foreign currency transactions	3,885
Other operating income	16,463
Total income	536,198
Administration and general expenses	(388,066)
Depreciation of property and equipment	(28,136)
Amortisation of intangible assets	(17,181)
Provision for impairment of loans and advances	(4,609)
Net profit for the period	98,206

28 Financial Statements for the Parent Company (continued)

Cash flow Statement for the Parent Company

For the period ended 31 December 2008

	09 January 2007 to 31 December 2008 QAR'000
Cash flow from operating activities:	
Reconciliation of profit before tax to net cash flows from operating activities:	98,206
Net profit for the period	
Adjustment for non-cash items:	
• Allowance for impairment	4,609
• Depreciation, amortisation of property and intangible assets	45,317
• Other provisions	9,613
• Amortisation of discount on financial investments	(5,088)
Changes in operating assets and liabilities:	
• Change in regulatory reserve with central bank	(129,624)
• Net increase in loans and advances to banks and customers	(6,162,334)
• Net increase in deposits	2,846,537
• Net increase in due to banks and financial institutions	2,065,057
• Net increase in other assets	(136,619)
• Net increase in other liabilities	672,924
Net cash generated used in operating activities	(691,402)
Cash flow from investment activities	
Purchase of available–for-sale financial investments	(1,065,804)
Purchase of intangible assets	(286,500)
Purchase of property, plant and equipment	(165,775)
Acquisitions of subsidiaries	(910,380)
Net cash used in investing activities	(2,428,459)
Cash flow from financing activities	
Issue of shares	4,486,953
Net cash from financing activities	4,486,953
Net increase in cash and cash equivalents	1,367,092
Cash and cash equivalents at beginning of the period	-
Cash and cash equivalents at end of the period	1,367,092