



Al Khalij Commercial Bank (al khaliji) (Q.S.C.)
Interim Condensed Consolidated Financial Statements
for the six months ended 30 June 2009

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Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

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Report on Review of Interim Condensed Consolidated Financial Statements

**To The Board of Directors
Al Khalij Commercial Bank Q.S.C.
Doha – Qatar**

We have reviewed the accompanying interim condensed consolidated financial statements of Al Khalij Commercial Bank Q.S.C, comprising the statement of financial position as at June 30, 2009, and the related interim condensed consolidated statements of income, comprehensive income for the three and six month period then ended, changes in shareholders' equity and cash flows for the six month period then ended, and certain explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard - 34 "Interim Financial Reporting" and Qatar Central Bank regulations. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

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

The financial position as of June 30, 2009 and results of operations for the three and six month period then ended of the subsidiaries have been incorporated on basis of returns certified by management of the subsidiaries and have not been independently reviewed. The net profit for the six month period ended June 30, 2009 and the total assets and total liabilities of the subsidiaries as at June 30, 2009 amounted to QR 8,400,481, QR 2,990,867,674 and QR 2,371,955,644 respectively.

Except for the above, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard - 34 "Interim Financial Reporting" and Qatar Central Bank regulations.

For **Deloitte & Touche**

Doha – Qatar
July 20, 2009

Muhammad Bahemia
License No. 103

Al Khalij Commercial Bank (al khaliji) (Q.S.C)
Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2009

	Notes	30 June 2009 (Reviewed) QAR'000	31 December 2008 (Audited) QAR'000
Assets			
Cash and balances at central banks		976,424	1,029,622
Due from banks and financial institutions		2,964,968	2,200,708
Loans, advances and financing activities	3	8,150,580	6,980,053
Financial investments	4	2,812,101	1,016,283
Intangible assets		988,321	951,616
Property and equipment		130,449	147,407
Other assets		196,032	174,826
Total assets		16,218,875	12,500,515
Liabilities			
Due to central banks		21,932	42,837
Due to banks and financial institutions		2,879,911	2,391,626
Customer deposits		7,664,140	4,673,858
Subordinated debt		128,559	127,555
Other liabilities		735,447	718,667
Total liabilities		11,429,989	7,954,543
Shareholders' equity			
Share capital	5	3,600,000	3,600,000
Statutory reserves		907,669	907,669
Risk reserve		17,450	17,450
Fair value reserve		(12,270)	(60,649)
Foreign currency translation reserve		102,217	16,090
Retained earnings		173,820	65,412
Total shareholders' equity		4,788,886	4,545,972
Total liabilities and shareholders' equity		16,218,875	12,500,515

The Interim condensed consolidated financial statements have been approved by the Board of Directors on 20 July 2009, and signed on its behalf by:

Hamad Bin Faisal Bin Thani Al-Thani
Chairman and Managing Director

Robin McCall
Acting Chief Executive Officer

The accompanying notes 1 to 10 set out on pages 8 to 13 form an integral part of the interim condensed consolidated financial statements.

Al Khalij Commercial Bank (al khaliji) (Q.S.C)
Interim Condensed Consolidated Statement of Income

For the three and six months ended 30 June 2009

	Notes	3 months ended 30 June		6 months ended 30 June	
		2009 (Reviewed) QAR'000	2008 (Reviewed) QAR'000	2009 (Reviewed) QAR'000	2008 (Reviewed) QAR'000
Interest income		160,067	77,227	293,388	157,558
Interest expense		(84,041)	(15,957)	(138,649)	(28,288)
Net interest income		76,026	61,270	154,739	129,270
Income from Islamic financing activities		15,809	-	31,618	-
Fee and commission income		41,579	6,324	66,238	7,329
Fee and commission expense		(1,806)	-	(2,434)	-
Net fee and commission income		39,773	6,324	63,804	7,329
Net gains from foreign currency transactions		1,585	329	4,319	(132)
Net gains from financial instruments at fair value		194	-	194	-
Net gains on available for sale investments		3,394	-	3,394	-
Net operating income		136,781	67,923	258,068	136,467
Administration and general expenses		(76,121)	(57,815)	(159,788)	(115,027)
Depreciation of property and equipment		(10,907)	(4,888)	(19,551)	(8,787)
Amortisation of intangible assets		(10,433)	-	(20,821)	-
Impairment losses on loans, net of recoveries		(29,775)	-	(30,113)	-
Other income	6	48,270	-	82,661	-
Net profit before taxes		57,815	5,220	110,456	12,653
Income tax expense		(1,156)	-	(2,048)	-
Net profit for the period		56,659	5,220	108,408	12,653
Earnings per share					
Basic and diluted earnings per share (QAR)		0.16	0.01	0.30	0.04
Weighted average number of shares outstanding	5	360,000,000	360,000,000	360,000,000	360,000,000

The accompanying notes 1 to 10 set out on pages 8 to 13 form an integral part of the interim condensed consolidated financial statements.

Al Khalij Commercial Bank (al khaliji) (Q.S.C)**Interim Condensed Consolidated Statement of Comprehensive Income**

For the three and six months ended 30 June 2009

	3 month ended 30 June		6 months ended 30 June	
	2009 (Reviewed) QAR'000	2008 (Reviewed) QAR'000	2009 (Reviewed) QAR'000	2008 (Reviewed) QAR'000
Net Profit for the period	56,659	5,220	108,408	12,653
Other comprehensive income				
Exchange difference on translating foreign operations	75,740	-	86,127	-
Net change in fair value of available for sale investments	56,425	-	51,773	-
Net change in fair value transferred to profit and loss	(3,394)	-	(3,394)	-
Total other comprehensive income for the period	128,771	-	134,506	-
Total comprehensive income for the period	185,430	5,220	242,914	12,653

The accompanying notes 1 to 10 set out on pages 8 to 13 form an integral part of the interim condensed consolidated financial statements.

Al Khalij Commercial Bank (al khaliji) (Q.S.C)
Interim Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2009

	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
Balance as at 1 January 2008 (Audited)	3,600,000	886,953	-	-	-	74,309	4,561,262
Total comprehensive income for the period	-	-	-	-	-	12,653	12,653
Balance at 30 June 2008 (Reviewed)	3,600,000	886,953	-	-	-	86,962	4,573,915
Balance at 1 January 2009 (Audited)	3,600,000	907,669	17,450	(60,649)	16,090	65,412	4,545,972
Total comprehensive income for the period	-	-	-	48,379	86,127	108,408	242,914
Balance at 30 June 2009 (Reviewed)	3,600,000	907,669	17,450	(12,270)	102,217	173,820	4,788,886

The accompanying notes 1 to 10 set out on pages 8 to 13 form an integral part of the interim condensed consolidated financial statements.

Al Khalij Commercial Bank (al khaliji) (Q.S.C)
Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2009

	Notes	6 months ended 30 June	
		2009	2008
		(Reviewed) QAR'000	(Reviewed) QAR'000
Cash flows from operating activities		3,821,268	431,265
Cash flows from investing activities			
Purchase of financial investments		(2,368,758)	(1,158,857)
Proceeds from sale of financial investments		625,980	-
Purchase of intangible assets		(4,245)	(176,846)
Purchase of property and equipment		(2,593)	(19,938)
Net cash used in investing activities		(1,749,616)	(1,355,641)
Net increase / (Decrease) in cash and cash equivalents		2,071,652	(924,376)
Exchange gains on foreign currency cash and cash equivalents		(2,551)	-
Cash and cash equivalents at beginning of period		1,482,833	4,197,734
Cash and cash equivalents at end of period	7	3,551,934	3,273,358

The accompanying notes 1 to 10 set out on pages 8 to 13 form an integral part of the interim condensed consolidated financial statements.

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

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 head office in Doha.

al khaliji and its subsidiaries (the “Group”) are engaged in commercial and Islamic banking activities and consulting services. The Group operates from its head office and three branches in Qatar, one branch in France and four branches in the United Arab Emirates.

During the period the Group, after obtaining the appropriate approvals, opened a separate Islamic branch providing Islamic financing activities in Qatar.

2. Accounting policies

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2009 have been prepared in accordance with IAS 34 – Interim financial reporting and are presented in Qatari Riyals (QAR) thousands except when otherwise stated.

Islamic financing activities are conducted in accordance with the Islamic Sharia, as determined by the Sharia Control Board. Islamic banking accounts are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and Qatar Central Bank regulations. For the purpose of Islamic banking activities, capital is provided separately. Statement of income and balance sheet for Islamic activities are ultimately combined with the records to produce the overall Group’s results.

The interim condensed consolidated financial statements does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s consolidated financial statements for the period ended 31 December 2008. The results of the six months ended 30 June 2009 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2009.

2.2 Accounting policies

The accounting policies used in preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group’s financial statements for the period ended 31 December 2008 except as follows:

- **IAS 1 – Presentation of financial statements (revised) – effective 1 January 2009:** Adoption of revised IAS 1 resulted in the requirement to present the total comprehensive income. Total comprehensive income includes statement of income items in addition to items that are recognized directly in equity. Items recognized directly in equity are presented under the heading “other comprehensive income”. Revised IAS 1 permits the presentation of total comprehensive income in a single “statement of comprehensive income” or in a statement of income and a separate statement for comprehensive income. The Group elected to present total comprehensive income in a separate statement. The adoption of revised IAS 1 did not have any effect of the financial position or performance of the Group.
- **IFRS 8 - Operating Segments - effective 1 January 2009:** IFRS 8 is a disclosure standard that has resulted in a re-designation of the Group’s reportable segments (see note 9), but has had no impact on the reported results or financial position of the Group.
- **Derivatives held for risk management and hedge accounting:** During the period, the group designated certain derivatives as hedging instruments in qualifying hedge relationships.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and the strategy in undertaking the hedge transaction, together with the method that will be used to assess the effectiveness of the hedging relationship. The group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which hedge is designated.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the statement of income, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. Effective changes in fair value of hedging instruments and related hedged items are reflected in the same statement of income line item. Any ineffectiveness is recognised in 'Gains/losses from financial instruments at fair value'.

If the hedge no longer meets the criteria for fair value hedge accounting hedge accounting is prospectively discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the effective interest rate of the item over its remaining life.

- **Held to maturity financial investments:** During the period the Group has acquired certain financial investments and that were classified held to maturity financial investment.

Held to maturity financial investments are non derivative financial assets, with fixed or determinable payments and fixed maturities that the group has the ability and the positive intent to hold to maturity, and are not designated as fair value through profit or loss, or available for sale. Held to maturity investments are carried at the amortised cost using the effective interest rate method.

- **Fair value through profit or loss:** The Group acquired certain financial investments that were designated as financial investments at fair value through profit and loss. Financial investments are classified as fair value through profit and loss if the investments are managed, evaluated and reported internally on fair value basis. Changes in fair value of these investments are recognised immediately in profit or loss.
- **Islamic financing activities:** Islamic financing activities are stated at their gross principal amounts less any amount received, provision for credit loss and deferred profit. Revenues from Islamic financing transactions are recognised on an accrual basis using the reducing installment method.

Application of new accounting policies or adoption of other new or amended accounting standards effective on 1 January 2009 does not have a significant effect on the financial position or performance of the Group.

2.3 Estimates

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies were the same as those applied to the consolidated financial statements as at and for the period ended 31 December 2008.

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For the six months ended 30 June 2009

3. Loans, advances and financing activities

	30 June 2009	31 December 2008
	(Reviewed)	(Audited)
	QAR'000	QAR'000
Conventional loans	7,270,864	7,010,634
Islamic financing activities	924,500	-
Gross loans, advances and financing activities	8,195,364	7,010,634
Allowance for impairment	(30,768)	(30,581)
Islamic financing activities deferred profit	(14,016)	-
Net loans, advances and financing activities	8,150,580	6,980,053

As part of the government program to support banks in Qatar, the Group has sold loans and advances with a net amount of QAR 769 million for government bonds.

4. Financial investments

	30 June 2009	31 December 2008
	(Reviewed)	(Audited)
	QAR'000	QAR'000
Available for sale financial investments	2,047,102	1,016,283
Held to maturity financial investments	727,332	-
Financial investments at fair value through profit or loss	37,667	-
Total financial investments	2,812,101	1,016,283

5. Share Capital

During the period, the Group obtained approval to reduce the authorised share capital from QAR 7.2 billion to QAR 3.6 billion. This resulted in the cancelation of the unpaid amount of authorised share capital, and reducing the number of issued shares from 720 million shares to 360 million shares by offering one 100% paid-up share to every shareholder for every two 50% paid-up shares previously issued. The restructuring had no effect on either the amount of issued share capital or the ownership structure of the Group. The Earnings per share calculation was adjusted retrospectively to reflect the effect of the above.

6. Other income

An amount of QAR 110.9 million was received by the Group during the period within the Qatari government plan to support national banks. The Group recognised an amount of QAR 82.6 million as income during the six months ended 30 June 2009 and an amount of QAR 28.3 million was deferred to be recognized as income as the related costs are incurred.

The Group recognizes government assistance as income over the periods necessary to match them with the related costs which they are intended to compensate according to the conditions of the assistance provided that there is reasonable assurance that the assistance will be received and the group will comply with the attached conditions.

In absence of conditions, recognition is based on the Group's management estimate of incurrence of related costs. The Group estimates that costs warranting recognition of income from the above

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For the six months ended 30 June 2009

mentioned government assistance is represented in the difference between the actually achieved margins during stressed market conditions and the margins that would have been achieved under normal market conditions.

7. Cash and cash equivalents

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

	30 June 2009 (Reviewed) QAR'000	30 June 2008 (Reviewed) QAR'000
Cash and deposits with central banks	586,966	12,809
Due from banks maturing within 3 months	2,964,968	3,260,549
Balance as at the end of the period	3,551,934	3,273,358

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

8. Contingent liabilities and other commitments

8.1 Contingent liabilities

	30 June 2009 (Reviewed) QAR'000	31 December 2008 (Audited) QAR'000
Guarantees	3,090,240	2,884,525
Unutilised credit facilities	2,837,209	1,687,706
Letters of credit and acceptances	555,287	152,215
Total contingent liabilities	6,482,736	4,724,446

8.2 Other commitments

	30 June 2009 (Reviewed) QAR'000	31 December 2008 (Audited) QAR'000
Operating lease commitment	64,924	71,669
Capital commitments	38,403	54,650
Notional amounts of interest rate swaps and forward contracts	2,217,038	486,455
Total other commitments	2,320,365	612,774

8.3 Litigation and claims

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business amounting to QAR 22.9 million. Based on legal advice, the Group does not expect the outcome of the legal claims to have a material effect on the Group's financial position

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

9. Segment information

9.1 Operating segments

The group is organised into three main operating segments, wholesale banking, consumer banking and Islamic banking, in addition to head office. Following are segment information as reviewed regularly by the Group's management:

	Consumer Banking QAR'000	Wholesale Banking QAR'000	Islamic Banking QAR'000	Head office QAR'000	Total QAR'000
30 June 2009 (Reviewed)					
Net operating income	119,717	107,034	31,616	(299)	258,068
Net profit for the period	37,515	94,848	29,237	(53,192)	108,408
Total assets	3,943,080	9,985,597	1,248,057	1,042,141	16,218,875
Total liabilities	3,225,730	7,465,341	300,000	438,918	11,429,989
30 June 2008 (Reviewed)					
Net operating income	1,499	134,968	-	-	136,467
Net profit for the period	(11,250)	126,386	-	(102,483)	12,653
Total assets	12,808	5,644,669	-	375,996	6,033,473
Total liabilities	7,500	1,254,166	-	197,892	1,459,558

9.2 Geographical segments

Qatar operations contribute 93% in terms of the Group's net profits, and hold 85% of the Group's assets.

10. Related party transactions

10.1 Statement of financial position items

	Key management QAR'000	Affiliate companies QAR'000	Total QAR'000
30 June 2009 (Reviewed)			
Loans and advances	21,737	1,629,179	1,650,916
Customer deposits	87,060	1,701,341	1,788,401
Subordinated debt	-	128,559	128,559
31 December 2008 (Audited)			
Loans and advances	5,310	1,183,359	1,188,669
Customer deposits	28,845	208,301	237,146
Subordinated debt	-	127,555	127,555

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

10.2 Statement of Income items

	Key management QAR '000	Affiliate companies QAR '000	Total QAR '000
6 months ended 30 June 2009 (Reviewed)			
Interest income	371	8,871	9,242
Interest expense	671	14,019	14,690
Commission income	-	682	682
Income from Islamic financing activities	-	31,618	31,618
Other income	-	82,661	82,661
6 months ended 30 June 2008 (Reviewed)			
Interest income	-	5,143	5,143
Interest expense	-	-	-
Commission income	-	-	-
Income from Islamic financing activities	-	-	-
Other income	-	-	-

10.3 Compensation of key management personnel

	6 months ended 30 June	
	2009 (Reviewed) QAR '000	2008 (Reviewed) QAR '000
Salaries and allowances and other benefits	15,920	23,827
End of service benefit	185	1,088
Total compensation of key management personnel	16,105	24,915