



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

Consolidated Financial Statements

for the year ended 31 December 2010

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

Consolidated Financial Statements

For the year ended 31 December 2010

TABLE OF CONTENTS

	Page
Independent Auditor's report	1-2
Consolidated Statement of Financial Position	3
Consolidated Statement of Income	4
Consolidated Statement of Comprehensive Income	5
Consolidated Statement of Changes in Shareholders' Equity	6
Consolidated Cash Flow Statement	7
Notes to the Consolidated Financial Statements	8-50

INDEPENDENT AUDITOR'S REPORT

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 financial position as at December 31, 2010 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, 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, 2010 and of its financial performance and its cash flows for the year ended December 31, 2010 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 Decree Law No. 33 of 2006 and Qatar Central Bank regulations during the financial year that would materially affect its activities or its financial position.

For **Deloitte & Touche**

Doha, Qatar
February 8, 2011

Muhammad Bahemia
License No. 103

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

As at 31 December

	Notes	2010 QAR'000	2009 (Restated) QAR'000
Assets			
Cash and balances with central banks	4	1,387,231	644,362
Due from banks and financial institutions	5	3,959,853	3,582,521
Loans, advances and financing activities to customers	6	7,256,709	8,585,406
Financial investments	7	7,083,441	3,965,085
Intangible assets	8	335,599	381,348
Property and equipment	9	115,672	131,015
Other assets	10	236,556	234,363
Total assets		20,375,061	17,524,100
Liabilities			
Due to banks and financial institutions	11	6,130,209	3,131,489
Customer deposits	12	7,996,226	9,239,777
Subordinated debt	13	120,503	131,153
Other liabilities	14	198,028	186,775
Total liabilities		14,444,966	12,689,194
Unrestricted investment accounts	15	674,714	5,001
Total liabilities and unrestricted investment accounts		15,119,680	12,694,195
Shareholders' equity			
	16		
Share capital		3,600,000	3,600,000
Statutory reserves		967,068	924,398
Risk reserve		108,851	42,927
Fair value reserve		76,427	810
Foreign currency translation reserve		8,530	74,706
Proposed dividends		360,000	-
Retained earnings		134,505	187,064
Total shareholders' equity		5,255,381	4,829,905
Total liabilities, unrestricted investment accounts and shareholders' equity		20,375,061	17,524,100

The consolidated financial statements have been approved by the Board of Directors on 8 February 2011, and signed on its behalf by:

Sheikh Hamad Bin Faisal Al-Thani
Chairman

Robin McCall
Acting CEO

The accompanying notes 1 to 30 set out on pages 8 to 50 form an integral part of the consolidated financial statements.

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

Consolidated Statement of Income

For the year ended 31 December

		2010	2009
	Notes	QAR'000	QAR'000
Interest income		764,938	607,794
Interest expense		(301,716)	(328,794)
Net interest income	19	463,222	279,000
Income from Islamic financing and investing activities		107,782	77,365
Unrestricted investment account holders' share in profits		(18,955)	(128)
Net income from Islamic financing and investing activities	30	88,827	77,237
Fee and commission income		106,352	113,328
Fee and commission expense		(5,121)	(2,862)
Net fee and commission income	20	101,231	110,466
Dividend income		1,666	-
Net gains from foreign currency transactions	21	11,649	10,284
Net gains / (losses) from financial instruments at fair value		4,331	(6,020)
Net profit on available-for-sale investments		88,768	51,177
Other operating income		655	-
Net operating income		760,349	522,144
General and administration expenses	22	(319,515)	(310,863)
Depreciation of property and equipment	9	(31,494)	(38,941)
Amortisation of intangible assets	8	(43,667)	(42,244)
Impairment losses on loans, net of recoveries	6	70,165	(247,534)
Other income	23	1,475	291,353
Profit before tax		437,313	173,915
Income tax expense	24	(10,610)	(6,621)
Profit for the year		426,703	167,294
		QAR	QAR
Earnings per share			
Basic and diluted earnings per share	25	1.19	0.46

The accompanying notes 1 to 30 set out on pages 8 to 50 form an integral part of the consolidated financial statements.

Al Khalij Commercial Bank (al khaliji) Q.S.C
Consolidated Statement of Comprehensive Income
For the year ended 31 December

	2010	2009
	QAR'000	QAR'000
Profit for the year	426,703	167,294
Other comprehensive income		
Foreign currency translation difference of foreign operations	(66,176)	58,616
Net change in fair value of available-for-sale investments	164,385	112,636
Net change in fair value transferred to statement of income	(88,768)	(51,177)
Total other comprehensive income for the year	9,441	120,075
Total comprehensive income for the year	436,144	287,369

The accompanying notes 1 to 30 set out on pages 8 to 50 form an integral part of the consolidated financial statements.

Al Khalij Commercial Bank (al khaliji) Q.S.C
Consolidated Statement of Changes in Shareholders' Equity

	Share Capital	Statutory Reserve	Risk Reserve	Fair Value Reserve	Foreign Currency Translation Reserve	Proposed dividends	Retained Earnings (Restated)	Total
	QAR'000	QAR'000	QAR'000	QAR'000	QAR'000	QAR'000	QAR'000	QAR'000
Balance at 1 January 2010	3,600,000	924,398	42,927	810	74,706	-	187,064	4,829,905
Profit for the year	-	-	-	-	-	-	426,703	426,703
Foreign currency translation difference of foreign operations	-	-	-	-	(66,176)	-	-	(66,176)
Net change in fair value of available-for-sale investments	-	-	-	75,617	-	-	-	75,617
Total comprehensive income for the year	-	-	-	75,617	(66,176)	-	426,703	436,144
Contribution to Social and Sport fund (Note 16.5)	-	-	-	-	-	-	(10,668)	(10,668)
Transfer to Risk Reserve	-	-	65,924	-	-	-	(65,924)	-
Transfer to Statutory Reserve	-	42,670	-	-	-	-	(42,670)	-
Proposed dividends	-	-	-	-	-	360,000	(360,000)	-
Balance at 31 December 2010	3,600,000	967,068	108,851	76,427	8,530	360,000	134,505	5,255,381
Balance at 1 January 2009	3,600,000	907,669	17,450	(60,649)	16,090	-	65,412	4,545,972
Profit for the year	-	-	-	-	-	-	167,294	167,294
Foreign currency translation difference of foreign operations	-	-	-	-	58,616	-	-	58,616
Net change in fair value of available-for-sale investments	-	-	-	61,459	-	-	-	61,459
Total comprehensive income for the year, net of tax	-	-	-	61,459	58,616	-	167,294	287,369
Contribution to Social and Sport fund (Note 16.5)	-	-	-	-	-	-	(3,436)	(3,436)
Transfer to Risk Reserve	-	-	25,477	-	-	-	(25,477)	-
Transfer to Statutory Reserve	-	16,729	-	-	-	-	(16,729)	-
Balance at 31 December 2009	3,600,000	924,398	42,927	810	74,706	-	187,064	4,829,905

The accompanying notes 1 to 30 set out on pages 8 to 50 form an integral part of the consolidated financial statements.

Al Khalij Commercial Bank (al khaliji) (Q.S.C)**Consolidated Cash Flow Statement***For the year ended 31 December*

		2010	2009
	Notes	QAR'000	QAR'000
Cash flow from operating activities:			
Profit for the year before tax		437,313	173,915
Reconciliation of profit before tax to net cash flows from operating activities:			
Adjustment for non-cash items:			
- Allowance for impairment	6	(70,165)	247,534
- Depreciation of property, equipment and intangible assets	8, 9	75,161	81,185
- Gain on sale of available-for-sale financial investments		(88,768)	(51,177)
- Loss on sales of assets		3,405	546
- Other provisions	14.1	9,791	4,149
- Amortisation of discount on financial investments		(4,442)	1,530
- Fair value of forward contracts		92	
		<u>362,387</u>	<u>457,682</u>
Changes in operating assets and liabilities:			
- Net increase in regulatory reserves with central banks		(35,108)	(180,522)
- Net increase in due from banks and financial institutions		(1,085,093)	1,379,589
- Net decrease / (increase) in loans and advances to banks and customers		1,398,862	(1,869,614)
- Net increase in other assets		(2,193)	(60,074)
- Net (decrease) / increase in deposits		(573,838)	4,612,184
- Net increase in due to banks and financial institutions		2,998,720	746,542
- Net increase in other liabilities		1,462	2,547
Net cash from operating activities		3,065,199	5,088,334
Cash flow from investment activities			
Purchase of financial investments		(7,950,836)	(5,133,513)
Purchase of intangible assets	8	(9,212)	(4,752)
Purchase of property and equipment	9	(40,882)	(25,036)
Proceeds from property and equipment	9	-	107
Proceeds from financial investments		4,436,555	2,295,818
Net cash used in investing activities		(3,564,375)	(2,867,376)
Net increase in cash and cash equivalents		(499,176)	2,220,958
Exchange gains on foreign currency cash and cash equivalents		(29,961)	6,772
Cash and cash equivalents at beginning of the year		3,710,563	1,482,833
Cash and cash equivalents at end of year	27	3,181,426	3,710,563

The accompanying notes 1 to 30 set out on pages 8 to 50 form an integral part of the consolidated financial statements.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

1 Incorporation and Principal Activities

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

al khaliji and its subsidiaries (the "Group") are engaged in commercial and Islamic banking activities. 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 year the Board of Directors al khaliji approved the initiation of merger talks with International Bank of Qatar (IBQ). As at 20 December 2010 the proposed merger has entered final stages of negotiations and due diligence, including formal discussions with key regulators.

2 Significant Accounting Policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied to the accounting periods presented except where the Group adopted standards, amendments and interpretations which are effective in the current year.

2.1 Statement of compliance

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

2.2 Standards, amendments and interpretations effective in the current year

The following standards, amendments and interpretations, which became effective in 2010, are relevant to the Group. The adoption of these standards, amendments and interpretations do not impact the financial performance or positions of the group, but impacted presentations and disclosures:

(i) IFRS 8 (New) - Operating segments

The new standard which replaced IAS 14 'Segment Reporting' requires a 'management approach' under which segment information is presented. Operating segments are identified on a basis, consistent with the internal reporting provided and reviewed to the Chief Operating decision maker, in order to allocate resources to the segments and to assess their performance.

In addition to the amendments described above, a number of standards were also amended. The Improvements have led to changes in the details of the Bank's accounting policies – some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported.

The following amendments and interpretations became effective in 2010, but did not have a material impact or were not relevant to the accounting policies, financial position or performance of the Group:

IFRS 1 (Revised)	– First time adoption of International Financial Reporting Standards
IFRS 2 (Revised)	– Group cash settled shared based payment transactions
IFRS 3 (Revised)	– Business combination and consequential amendments to IAS 27, Consolidated and separate financial statements; IAS 28, Investment in associates; IAS31, Interests in joint ventures
IFRS 5 (Revised)	– Non-current assets held for sale and discontinued operations
IAS 1 (Revised)	– Settlement of liabilities by the issue of shares
IAS 7 (Revised)	– Statement of cash flows
IAS 17 (Revised)	– Leases

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

IAS 36 (Revised)	- Impairment of assets
IAS 38 (Revised)	- Intangible assets
IAS 39 (Revised)	- Financial instruments: recognition and measurement
IFRIC 9 (Revised)	- Reassessment of embedded derivatives
IFRIC 16 (Revised)	- Hedges of net investment in a foreign currency
IFRIC 17 (New)	- Leases, transfers of assets from customers
IFRIC 18 (New)	- Transfers of assets from customers

2.3 Standards, amendments and interpretation issued but not yet effective

The following accounting standards, amendments and interpretations have been issued and are mandatory for the Group's accounting periods beginning on or after 1 July 2010, and are expected to be relevant to the Group. The Group has not early adopted these new or amended standards in the year ended 31 December 2010:

IAS 32 (Revised)	- Classification of right issues	1 February 2010
IFRS 1 (Revised)	- First time adoption of International Financial Reporting Standards	1 July 2010
IFRS 3 (Revised)	- Business combination and consequential amendments to IAS 27, Consolidated and separate financial statements	1 July 2010
IFRIC 19 (New)	- Extinguishing financial liabilities with equity instruments	1 July 2010
IFRS 1 (Revised)	- First time adoption of International Financial Reporting Standards	1 January 2011
IFRS 7 (Revised)	- Financial instruments disclosures	1 January 2011
IAS 1 (Revised)	- Presentation of Financial statements	1 January 2011
IAS 24 (Revised)	- Related party disclosures.	1 January 2011
IAS 34 (Revised)	- Interim Financial Reporting	1 January 2011
IFRIC 14 (Revised)	- Prepayments of a minimum funding requirement	1 January 2011
IFRS 9 (New)	- Financial instruments –classification and measurement	1 January 2013

The Group is considering the implications of these standards, the impact on the consolidated financial statements and the timing of its adoption.

2.4 Basis of preparation

The consolidated financial statements comprise the consolidated statement of financial positions, the statement of income and statement of comprehensive income as two separate statements, the statement of changes in equity, the cash flow statement and the notes for Al Khalij Commercial Bank Q.S.C. and its subsidiaries.

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

Islamic financing activities are conducted in accordance with the Islamic Sharia, as determined by the Sharia Supervisory Board. The statements of income and financial position for Islamic activities are ultimately combined with the records to produce the overall Group's results.

2.5 Comparative financial reporting

During the 2010, the Group appropriated an amount of QAR 3.4 million to the social and sports development fund of Qatar, representing its contribution payable for the year ended 31 December 2009 (note 16.5). The comparative figures of the financial position as at 31 December 2009 were restated to reflect this appropriation.

Certain comparative amounts were reclassified, where necessary to conform to the current year's presentation.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2.6 Consolidation

2.6.1 Subsidiaries

The consolidated financial statements combine the financial statements of **al khaliji** and its subsidiaries. The details of the subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Share capital	Acquired	Ceased	Owned	Principal activities
al khaliji France S.A. (formerly BLC Bank (France) S.A.)	France	EUR 104,000,000	2008	-	100%	Banking

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.

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.

2.7 Foreign currency translation

2.7.1 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.

2.7.2 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.

Non-monetary asset and liabilities that are recognised at historical cost are translated using the exchange rates prevailing at the initial transactions date. Translation differences on available-for-sale assets are recognised in the fair value reserve in equity.

2.7.3 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. 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. All resulting exchange differences are recognised in other comprehensive income and included in shareholders' equity within foreign currency translation reserve.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

The exchange differences arising on the translation of a foreign operation are included in the statement of income on disposal or partial disposal of the operation.

2.8 Revenue recognition

2.8.1 Interest

The Group recognises interest income and interest expense in the statement of income for all interest bearing financial instruments classified as loans and receivables, held-to-maturity and available-for-sale using the effective interest method.

The effective interest rate is the rate that 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.

2.8.2 Fees and commissions

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

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.

2.9 Financial instruments

The Group classifies its financial instruments in the following categories. Management determines the classification at initial recognition.

2.9.1 Financial assets

2.9.1.1 Due from banks and financial institutions and loans, advances and financing activities to customers

Due from banks and financial institutions and loans, advances and financing activities to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as fair value through profit or loss, or available-for-sale.

Due from banks and financial institutions and 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.

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 instalment method.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2.9.1.2 Held-to-maturity financial instruments

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.

2.9.1.3 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 statement of financial position at fair value. Unrealised gains or losses arise from changes in the fair values are recognised directly in other comprehensive income and accumulated in equity under 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 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, 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.

2.9.1.4 Fair value through profit and loss financial instruments

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 the statement of income.

2.9.2 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.

2.9.3 Derivatives held for risk management and hedge accounting

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'.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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.

2.9.4 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

2.9.5 Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that financial assets 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 reporting 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.

2.9.5.1 Assets carried at amortised cost

For due from banks and financial institutions and loans, advances and financing activities to customers, the Group first assesses whether objective evidence of impairment exists individually for the loans 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 the loans 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.

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 2.18)

When a loan is uncollectable, it is written off against the related provision 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 impairment account. The amount of the reversal is recognised in the statement of income.

2.9.5.2 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. Rather, increases in the fair value of equity shares after impairment are recognised directly in other comprehensive income and accumulated in equity under the fair value reserve.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2.9.6 Unrestricted investment accounts

Profit distribution among unrestricted investment account holders and shareholders of Islamic Branch is guided by Qatar Central Bank regulations. All income and expenses of Islamic branch for the financial year are taken into consideration for profit distribution. The unrestricted investment account holders' share of profit is calculated on the basis of their daily deposit balances over the year, after deducting the pre-agreed and declared Mudaraba fee.

Expenses or losses which arise out of misconduct on the part of the Bank due to non-compliance of regulatory instructions or sound banking norms, are not borne by the unrestricted investment account holders. Such matter is subject to the Qatar Central Bank's decision.

In case of Islamic branch results at end of a financial year being a net loss, then the Qatar Central Bank, who has the authority to evaluate the Bank's responsibility for the loss, shall decide how this loss will be treated according to the rules and principles of Islamic Sharia.

2.9.7 Repurchase agreements

Debt securities sold subject to repurchase agreements ("repos") are retained on the statement of financial position 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.

2.9.8 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.

2.10 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 on property and equipment are recognised in the statement of income 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. Land is stated at cost and is not depreciated.

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, and adjusted if appropriate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property, plant and equipment were impaired as at 31 December 2010 (2009: QAR nil). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of income.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2.11 Intangible assets

2.11.1 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 and carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units or groups of cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Goodwill is tested at each reporting date for impairment by comparing the present value of the expected future cash flows from a cash generating unit with the carrying value of its net assets, including attributable goodwill 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.

2.11.2 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 when 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.

2.12 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. 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 reporting 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.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2.13 Employees end of service benefits, share based payments 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 reporting 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 statement of financial position. 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.

The Group engages in long-term incentive plan in respect of services received from certain of its employees. This long-term incentive plan is based on the achievement of internal performance targets, including the increase in the value of the bank's shares, and is not a share scheme or equity settled scheme. 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.

2.14 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.

2.15 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.

2.16 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers i.e. the Group executive Board. The Board is responsible for allocating resources to and assessing the performance of the operating segments.

The Group has the following business segments; consumer banking, wholesale banking, Islamic banking and head office.

2.17 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.

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

2.18 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:

2.18.1 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 reporting date. Where the fair values of financial assets and financial liabilities recorded on the statement of financial position 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.

2.18.2 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. 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.

2.18.3 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 judgement by the Group.

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 have a maturity less than three months, or reprice 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 or 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.

3.1.2.3 Fair value measurement:

The Group uses the following hierarchy to determine and disclose the fair value of financial instruments by valuation technique:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities (observable inputs).

Level 2: Inputs, other than quoted prices, which have a significant effect on the fair value that are observable, either directly or indirectly (derived inputs).

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

The table below provides an analysis of financial instruments recognised at fair value by level of the fair value hierarchy set out above:

	Level 1 QAR'000	Level 2 QAR'000	Level 3 QAR'000	Total QAR'000
31 December 2010				
Available-for-sale financial investments	4,136,528	1,744,438	417,039	6,298,005
Financial investments at fair value through profit or loss	-	40,043	-	40,043
Derivative instruments held for trading	-	21,645	-	21,645
Total assets at fair value	4,136,528	1,806,126	417,039	6,359,693
Derivative instruments held for trading	-	(20,941)	-	(20,941)
Derivative instruments held for risk management	-	(24,639)	-	(24,639)
Total liabilities at fair value	-	(45,580)	-	(45,580)

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3.1.2.3 Fair value measurement (continued)

	Level 1 QAR'000	Level 2 QAR'000	Level 3 QAR'000	Total QAR'000
31 December 2009				
Available-for-sale financial investments	1,911,513	-	924,215	2,835,728
Financial investments at fair value through profit or loss	-	37,256	-	37,256
Derivative instruments held for trading	-	25,459	-	25,459
Total assets at fair value	1,911,513	62,715	924,215	2,898,443
Derivative instruments held for trading	-	(32,524)	-	(32,524)
Derivative instruments held for risk management	-	(6,884)	-	(6,884)
Total liabilities at fair value	-	(39,408)	-	(39,408)

During the reporting period 31 December 2010, there were no transfers between Level 1 and Level 2 fair value measurements.

3.2 Risk management

The identification, measurement and management of risk is 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 following:

- **Level 1: Board of Directors**
- **Level 2: Board Committees** - Compliance and Risk Committee
- **Level 3: Senior Management Committees** - Credit Risk Committee; Group Asset, Liability and Capital Committee
- **Level 4: Risk Function** - Units for Corporate Credit, Business Banking Credit, Consumer Credit, Market and Operational Risks
- **Level 5: Business Units** - Risk awareness culture, Desktop level procedures, systems and controls

Internal audit provides an independent assessment of the adequacy of risk management and compliance with its policies, procedures, and reports to the audit committee of the board.

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

- Credit risk (see note 3.3)
- Market risk (see note 3.4)
- Liquidity risk (see note 3.5)
- Operational risk (see note 3.6)

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.

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 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 following table provides the maximum exposure to credit risk for all financial position and off-financial position 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:

	31 December 2010 QAR'000	31 December 2009 QAR'000
Credit exposure relating to on-financial position items:		
Due from central banks	1,322,980	598,074
Due from banks and other financial institutions	3,959,853	3,582,521
Loans and advances to customers	7,256,709	8,585,406
Derivative financial instruments	21,645	25,459
Financial investments	7,083,441	3,965,085
Total on-financial position credit exposure	19,644,628	16,756,545
Credit exposure relating to off-financial position items:		
Financial guarantees	3,113,086	3,940,546
Letters of credit and acceptances	892,093	661,948
Unutilised credit facilities	4,395,916	2,942,374
Total off-financial position credit exposure	8,401,095	7,544,868
Total credit exposure	28,045,723	24,301,413

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3.3.2 Quality of credit exposure

	Loans, advances and financing activities QAR'000	Banks and financial institutions QAR'000	Financial investments QAR'000	Derivative financial instruments QAR'000
31 December 2010				
Neither past due nor impaired	6,680,026	5,282,833	7,083,441	21,645
Past due but not impaired	637,960	-	-	-
Impaired (net of interest in suspense)	100,290	352	-	-
Gross exposure	7,418,276	5,283,185	7,083,441	21,645
Allowance for impairment	(161,567)	(352)	-	-
Net exposure	7,256,709	5,282,833	7,083,441	21,645
31 December 2009				
Neither past due nor impaired	8,426,524	4,180,595	3,965,085	25,459
Past due but not impaired	87,206	-	-	-
Impaired (net of interest in suspense)	309,128	372-	-	-
Total	8,822,858	4,180,967	3,965,085	25,459
Allowance for impairment	(237,452)	(372)	-	-
Net exposure	8,585,406	4,180,595	3,965,085	25,459

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 credit quality of customer advances that are neither past due nor impaired:

	Satisfactory risk QAR'000	Viable but monitoring QAR'000	Total QAR'000	Fair value of collateral QAR'000
31 December 2010				
Consumer	904,460	10,936	915,396	706,018
Wholesale	4,144,098	1,310,384	5,454,482	3,575,905
Conventional banking	5,048,558	1,321,320	6,369,878	4,281,923
Islamic banking	310,148	-	310,148	500,000
Total	5,358,706	1,321,320	6,680,026	4,781,923
31 December 2009				
Consumer	1,260,383	14,049	1,274,432	1,121,698
Wholesale	5,580,215	351,739	5,931,954	2,793,361
Conventional banking	6,840,598	365,788	7,206,386	3,915,059
Islamic banking	1,220,138	-	1,220,138	-
Total	8,060,736	365,788	8,426,524	3,915,059

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(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:

	Past due up to 30 days QAR'000	Past due 30 to 60 days QAR'000	Past due 60 to 90 days QAR'000	Past due longer than 90 days QAR'000	Total QAR'000	Fair value of collateral QAR'000
31 December 2010						
Consumer	29,936	7,275	702	-	37,913	56,081
Wholesale	16,060	578,784	5,203	-	600,047	365,565
Conventional banking	45,996	586,059	5,905	-	637,960	421,646
Islamic banking	-	-	-	-	-	-
Total	45,996	586,059	5,905	-	637,960	421,646
31 December 2009						
Consumer	29,568	4,972	47,285	1,751	83,576	80,978
Wholesale	3,630	-	-	-	3,630	37
Conventional banking	33,198	4,972	47,285	1,751	87,206	81,015
Islamic banking	-	-	-	-	-	-
Total	33,198	4,972	47,285	1,751	87,206	81,015

(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:

	2010		2009	
	Gross Amount QAR'000	Fair value of collateral QAR'000	Gross Amount QAR'000	Fair value of collateral QAR'000
Consumer	76,918	80,876	71,128	32,256
Wholesale	23,372	23,707	238,000	22,330
Conventional banking	100,290	104,583	309,128	54,586
Islamic banking	-	-	-	-
Total	100,290	104,583	309,128	54,586

(iv) Renegotiated loans and advances with customers

Restructured facilities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously past due account is reset to current status.

	2010 QAR'000	2009 QAR'000
Consumer	255,903	-
Wholesale	11,979	-
Total	267,882	-

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

(v) *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. The value of repossessed collateral at the reporting date amounted to QAR 0.4 million (2009: QAR 0.3 million).

No collateral is generally held over loans and advances to banks or against financial investments, and no such collateral was held at 31 December 2010.

3.3.2.2 *Financial assets other than advances*

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

	Banks and financial institutions QAR'000	Derivative financial instruments QAR'000	Financial investments QAR'000	Total QAR'000
31 December 2010				
AAA to AA-	2,949,790	21,645	5,001,787	7,973,222
A+ to A-	1,025,919	-	1,011,139	2,037,058
Lower than A-	409,724	-	127,385	537,109
Unrated	897,400	-	943,130	1,840,530
Total	5,282,833	21,645	7,083,441	12,387,919
31 December 2009				
AAA to AA-	2,398,734	-	662,651	3,061,385
A+ to A-	1,204,508	25,459	2,394,499	3,624,466
Lower than A-	256,194	-	43,164	299,358
Unrated	321,159	-	864,771	1,185,930
Total	4,180,595	25,459	3,965,085	8,171,139

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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. For this table, the Group has allocated exposures to regions based on the country of domicile of counterparties.

	Qatar QAR'000	Other GCC QAR'000	Europe QAR'000	Canada and US QAR'000	Other QAR'000	Total QAR'000
31 December 2010						
Due from banks and financial institutions	1,788,688	684,872	2,565,515	26,518	217,240	5,282,833
Loans, advances and financing activities	3,840,621	2,684,944	170,514	96,159	464,471	7,256,709
Derivative financial instruments	-	18	-	21,627	-	21,645
Financial investments	5,226,538	835,411	946,563	69,525	5,404	7,083,441
Net exposure	10,855,847	4,205,245	3,682,592	213,829	687,115	19,644,628
31 December 2009						
Due from banks and financial institutions	2,374,106	432,277	679,453	487,670	207,089	4,180,595
Loans, advances and financing activities	5,789,093	2,362,432	185,776	-	248,105	8,585,406
Derivative financial instruments	-	-	25,459	-	-	25,459
Financial investments	2,310,805	994,796	491,945	161,635	5,904	3,965,085
Net exposure	10,474,004	3,789,505	1,382,633	649,305	461,098	16,756,545

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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:

	Banks and financial institutions QAR'000	Loans and advances QAR'000	Derivative financial instruments QAR'000	Financial investments QAR'000	Total QAR'000
31 December 2010					
Government	-	364,000	-	4,686,564	5,050,564
Government agencies	1,322,980	-	-	354,923	1,677,903
Industry	-	332,385	-	408,428	740,813
Commercial	-	742,786	-	126,588	869,374
Services and financial institutions	3,960,205	3,177,529	21,645	1,506,938	8,666,317
Contracting	-	555,210	-	-	555,210
Real Estate	-	1,327,645	-	-	1,327,645
Personal	-	597,733	-	-	597,733
Others	-	320,988	-	-	320,988
Total	5,283,185	7,418,276	21,645	7,083,441	19,806,547
Allowance for impairment	(352)	(161,567)	-	-	(161,919)
Net exposure	5,282,833	7,256,709	21,645	7,083,441	19,644,628
31 December 2009					
Government	-	671,410	-	898,083	1,569,493
Government agencies	598,074	-	-	882,148	1,480,222
Industry	-	326,704	-	513,508	840,212
Commercial	-	1,089,085	-	97,910	1,186,995
Services and Financial institutions	3,582,893	3,973,761	25,459	1,573,436	9,155,549
Contracting	-	547,350	-	-	547,350
Real Estate	-	1,530,587	-	-	1,530,587
Personal	-	614,627	-	-	614,627
Other	-	69,334	-	-	69,334
Total	4,180,967	8,822,858	25,459	3,965,085	16,994,369
Allowance for impairment	(372)	(237,452)	-	-	(237,824)
Net exposure	4,180,595	8,585,406	25,459	3,965,085	16,756,545

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 to 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 through monitoring interest rate gaps and using off balance sheet instruments, primarily interest rate swaps, where appropriate. 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, using the shorter of maturity or repricing periods is as follows:

	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
31 December 2010							
Cash and balances at central banks	808,865	-	-	-	578,366	1,387,231	0.9%
Due from banks and financial institutions	2,219,550	416,217	1,281,280	-	42,806	3,959,853	1.7%
Loans, advances and financing activities	4,201,337	1,780,483	1,193,094	81,795	-	7,256,709	6.2%
Financial investments	1,959,955	3,910,660	577,011	-	635,815	7,083,441	4.6%
Other assets	-	-	-	513,697	174,130	687,827	
Total assets	9,189,707	6,107,360	3,051,385	595,492	1,431,117	20,375,061	
Deposits to banks	3,366,424	1,043,885	1,719,900	-	-	6,130,209	1.4%
Customer deposits	6,626,043	958,721	200	-	411,262	7,996,226	3.6%
Subordinated liabilities	-	-	120,503	-	-	120,503	0.4%
Other liabilities	-	-	-	-	198,028	198,028	
Unrestricted investment accounts	672,714	2,000	-	-	-	674,714	
Shareholders' equity	-	-	-	-	5,255,381	5,255,381	
Total liabilities and shareholders' equity	10,665,181	2,004,606	1,840,603	-	5,864,671	20,375,061	
Financial position re-price gap	(1,475,474)	4,102,754	1,210,782	595,492	(4,433,554)		
Derivatives held for risk management	1,705,613	-	(1,705,613)	-	-		
Interest rate repricing gap	230,139	4,102,754	(494,831)	595,492	(4,433,554)		
Cumulative interest rate repricing gap	230,139	4,332,893	3,838,062	4,433,554			

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3.4.1 Interest rate risk (continued)

	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
31 December 2009 (restated)							
Cash and balances at central banks	116,857	19,829	-	-	507,676	644,362	2.0%
Due from banks and financial institutions	3,563,897	18,624	-	-	-	3,582,521	1.6%
Loans, advances and financing activities	3,633,130	1,823,898	1,796,908	110,185	1,221,285	8,585,406	7.0%
Financial investments	1,222,344	-	1,964,202	778,539	-	3,965,085	4.2%
Other assets	-	-	-	-	746,726	746,726	
Total assets	8,536,228	1,862,351	3,761,110	888,724	2,475,687	17,524,100	
Deposits from banks	3,105,258	26,231	-	-	-	3,131,489	1.4%
Customer deposits	8,791,341	448,351	85	-	-	9,239,777	4.3%
Subordinated liabilities	-	-	131,153	-	-	131,153	
Other liabilities	-	-	-	-	186,775	186,775	
Shareholders' equity	-	-	-	-	4,829,905	4,829,905	
Unrestricted investment accounts	-	-	-	-	5,001	5,001	
Total liabilities and shareholders' equity	11,896,599	474,582	131,238	-	5,021,681	17,524,100	
Financial position re-price gap	(3,360,371)	1,387,769	3,629,872	888,724	(2,545,994)		
Derivatives held for risk management	564,200	-	(564,200)	-	-		
Interest rate repricing gap	(2,796,171)	1,387,769	3,065,672	888,724	(2,545,994)		
Cumulative interest rate repricing gap	(2,796,171)	(1,408,402)	1,657,270	2,545,994			

3.4.1.1 Net Interest income sensitivity

The following table illustrates the effect of a reasonably possible change in interest rates, with all other variables held constant, on the consolidated statement of income. An equal decrease in interest rates is expected to have an equal but opposite impact. The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate of non-trading financial instruments, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing available-for-sale investments, including the effect of any associated hedges.

Currency	Change in % Increase/ (Decrease)	Sensitivity of income		Sensitivity of comprehensive income	
		Increase QAR'000	Decrease QAR'000	Increase QAR'000	Decreased QAR'000
QAR	10%	(418)	418	(8,739)	8,871
USD	10%	(501)	501	(11,263)	11,410
AED	10%	299	(299)	(1)	1
EUR	10%	(31)	31	(132)	133

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3.4.1.2 Equity price risk

Equity price risk is the risk that the fair values of equity investments decrease as a result of changes in the levels of equity indices and the value of individual stocks. The effect on equity due to a reasonable possible change in equity indices, with all other variables held constant, is as follows:

Market Indices	Change in basis points Increase/ (Decrease)	Sensitivity of other comprehensive income	
		Increase QAR'000	Decrease QAR'000
Qatar Exchange	10 bpts	8,558	(8,558)

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:

	QAR QAR 000	EUR QAR 000	USD QAR 000	AED QAR 000	Other QAR 000	Total QAR 000
31 December 2010						
Financial position items:						
Assets	9,144,175	750,658	8,739,480	1,552,953	187,795	20,375,061
Liabilities and shareholders' equity	10,635,431	842,184	7,206,867	1,506,686	183,893	20,375,061
Financial position currency exposure	(1,491,256)	(91,526)	1,532,613	46,267	3,902	-
Off-financial position items:						
Contingent liabilities	3,322,664	249,385	2,557,751	2,228,644	42,651	8,401,095
Other commitments	259,194	322,346	2,394,110	2,183	22,553	3,000,386
Off-financial position currency exposure	3,581,858	571,731	4,951,861	2,230,827	65,204	11,401,481
31 December 2009 (Restated)						
Financial position items:						
Assets	7,544,296	1,240,187	6,885,412	1,427,978	426,227	17,524,100
Liabilities and shareholders' equity	7,551,501	1,550,414	6,549,891	1,414,341	457,953	17,524,100
Financial position currency exposure	(7,205)	(310,227)	335,521	13,637	(31,726)	-
Off-financial position items:						
Contingent liabilities	3,231,522	106,704	1,573,844	2,629,277	3,521	7,544,868
Other commitments	96,742	10,480	2,121,369	185,238	-	2,413,829
Off- financial position currency exposure	3,328,264	117,184	3,695,213	2,814,515	3,521	9,958,697

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

Foreign currency sensitivity analysis

The following table illustrates the effect of a reasonably possible change of the relevant foreign currencies against the Qatari Riyal, with all other variables held constant, on the consolidated statement of income. An equal decrease in each of the below mentioned currencies against the Qatari Riyal is expected to have an equal but opposite impact.

	Percentage change	2010 QAR'000	2009 QAR'000
Euro	+3%	380	(10,066)
Other currencies	+3%	117	409

The Qatari Riyal 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-financial position 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 following table 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 reporting date to the contractual maturity date and do not take account of the Group's deposit retention history.

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3.5.1 Financial position items

	Up to 1 month	1 to 3 months	3 to 12	1 to 5 years	More than 5	No Maturities	Total
31 December 2010	QAR'000	QAR'000	months	QAR'000	years	QAR'000	QAR'000
			QAR'000	QAR'000	QAR'000		QAR'000
Assets							
Cash and balances with central banks	1,387,231	-	-	-	-	-	1,387,231
Banks and financial institutions	1,492,793	745,463	440,317	1,281,280	-	-	3,959,853
Loans, advances and financing activities	1,376,787	198,701	1,777,664	2,924,809	978,748	-	7,256,709
Financial Investments	264,899	546,671	123,161	3,297,056	2,766,078	85,576	7,083,441
Other assets	34,148	179,666	-	3	-	474,010	687,827
Total assets	4,555,858	1,670,501	2,341,142	7,503,148	3,744,826	559,586	20,375,061
Liabilities							
Deposits from banks	2,254,639	1,087,685	1,431,985	1,355,900	-	-	6,130,209
Customer deposits	5,906,838	1,130,463	958,725	200	-	-	7,996,226
Other liabilities	89,792	24,221	1,409	21,158	4,447	57,001	198,028
Subordinated loan	-	-	-	-	-	120,503	120,503
Unrestricted investment accounts	15,000	657,714	2,000	-	-	-	674,714
Total liabilities	8,266,269	2,900,083	2,394,119	1,377,258	4,447	177,504	15,119,680
Financial position maturity gap	(3,710,411)	(1,229,582)	(52,977)	6,125,890	3,740,379	382,082	5,255,381
31 December 2009 (Restated)							
Assets							
Cash and balances with central banks	322,997	19,829	-	-	301,536	-	644,362
Banks and financial institutions	3,340,705	223,192	18,624	-	-	-	3,582,521
Loans, advances and financing activities	860,432	919,619	3,009,000	3,149,125	647,230	-	8,585,406
Financial Investments	500,116	460,587	-	2,225,837	778,545	-	3,965,085
Other assets	113,973	1,165	1,544	185	629,859	-	746,726
Total assets	5,138,223	1,624,392	3,029,168	5,375,147	2,357,170	-	17,524,100
Liabilities							
Deposits from banks	1,670,106	1,143,952	26,231	291,200	-	-	3,131,489
Customer accounts	6,434,914	2,356,427	448,351	85	-	-	9,239,777
Other liabilities	55,440	-	-	-	131,335	-	186,775
Subordinated loan	-	-	-	131,153	-	-	131,153
Unrestricted investment accounts	5,001	-	-	-	-	-	5,001
Total liabilities	8,165,461	3,500,379	474,582	422,438	131,335	-	12,694,195
Financial position maturity gap	(3,027,238)	(1,875,987)	2,554,586	4,952,709	2,225,835	-	4,829,905

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3.5.2 Off-financial position items

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

	No later than 1 year QAR'000	1 to 5 years QAR'000	More than 5 years QAR'000	Total QAR'000
31 December 2010				
Loan commitments	1,943,212	2,452,704	-	4,395,916
Other financial facilities	3,439,971	565,186	22	4,005,179
Contingent liabilities	5,383,183	3,017,890	22	8,401,095
Other commitments	930,773	1,365,000	704,613	3,000,386
Total off-financial position items	6,313,956	4,382,890	704,635	11,401,481
31 December 2009				
Loan commitments	1,582,285	1,360,089	-	2,942,374
Other financial facilities	2,891,436	1,683,803	27,255	4,602,494
Contingent liabilities	4,473,721	3,043,892	27,255	7,544,868
Other commitments	1,085,229	1,237,600	91,000	2,413,829
Total off-financial position items	5,558,950	4,281,492	118,255	9,958,697

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 management

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 2010. The individual entities in the Group and the Group complied with the externally imposed capital requirements to which they are subject:

	31 December 2010 QAR'000	31 December 2009 QAR'000
Tier 1 capital	4,563,840	4,564,992
Tier 2 capital	263,746	207,909
Total regulatory capital	4,827,586	4,772,901
Risk weighted assets	17,868,436	17,615,614
Tier 1 capital adequacy ratio	25.5%	25.9%
Total capital adequacy ratio	27.0%	27.1%

Tier 1 capital includes issued paid-up capital, statutory reserves, and 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.

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4 Cash and balances with central banks

	31 December 2010 QAR'000	31 December 2009 QAR'000
Cash	64,251	46,288
Balances with central banks other than mandatory cash reserves	878,567	168,699
Cash and balances with central bank included in cash and cash equivalents	942,818	214,987
Deposits with central banks (maturities longer than 3 months)	-	19,829
Mandatory cash reserves with central banks	444,413	409,546
Cash and balances with central banks	1,387,231	644,362

Cash reserves with central banks amounting to QR 444.4 million (2009: QR 409.5 million) are mandatory reserves and are not available for use in the Bank's day-to-day operations.

5 Due from banks and financial institutions

	31 December 2010 QAR'000	31 December 2009 QAR'000
Demand accounts	363,642	668,509
Deposits	1,874,966	2,827,067
Balances with banks included in cash and cash equivalents	2,238,608	3,495,576
Long term deposits	1,313,408	18,624
Loans and advances to banks	408,189	68,693
Less: Allowance for impairment	(352)	(372)
Total due from banks and financial institutions	3,959,853	3,582,521

Movement in allowances for impairments

Balance at beginning of the year	372	367
Foreign currency movement	(20)	5
Balance at the end of the year	352	372

6 Loans, advances and financing activities to customers

6.1 By type

	31 December 2010 QAR'000	31 December 2009 QAR'000
<i>(a) Conventional banking loans and advances</i>		
Loans	6,162,829	6,852,336
Overdrafts	646,687	649,641
Discounted notes	298,612	100,748
Gross loans and advances	7,108,128	7,602,725
Allowance for impairment	(161,567)	(237,452)
Net conventional loans and advances	6,946,561	7,365,273
<i>(b) Islamic financing activities</i>		
Receivables and balances of Islamic financing activities	319,075	1,251,140
Deferred income	(8,927)	(31,007)
Net Islamic financing activities to customers	310,148	1,220,133
Total net loans, advances and financing activities to customers	7,256,709	8,585,406

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

As part of the government program to support the national banks, the Group has sold loans and advances with a net amount of QAR 769 million to the government, in exchange for government bonds. The Group continues to perform the administration for these loans on behalf of the government, without retaining any risks or rewards.

The total non-performing loans, advances and financing activities at 31 December 2010 amounted to QAR 100.3 million (2009: QAR 309.1 million), representing 1.3% (2009: 3.5%) of the total gross loans, advances and financing activities. Interest in suspense amounted to QAR 12.0 million (2009: QAR 21.4 million).

6.2 By industry

	Loans	Overdrafts	Discounted Notes	Islamic financing activities	Total
	QAR'000	QAR'000	QAR'000	QAR'000	QAR'000
31 December 2010					
Government	364,000	-	-	-	364,000
Industry	224,999	62,114	45,272	-	332,385
Commercial	381,420	209,865	151,150	-	742,435
Services	3,061,661	98,865	16,471	531	3,177,528
Contracting	341,094	129,429	84,687	-	555,210
Real Estate	1,016,982	1,046	-	309,617	1,327,645
Personal	508,614	89,021	98	-	597,733
Others	264,059	56,347	934	-	321,340
Gross loans, advances and financing activities	6,162,829	646,687	298,612	310,148	7,418,276
Less allowance for impairment	(132,729)	(28,838)	-	-	(161,567)
Net loans, advances and financing activities	6,030,100	617,849	298,612	310,148	7,256,709
31 December 2009					
Government	365,000	860	-	305,550	671,410
Industry	320,368	6,068	268	-	326,704
Commercial	393,214	212,431	78,105	405,335	1,089,085
Services	3,912,983	45,640	15,138	-	3,973,761
Contracting	322,183	222,567	2,600	-	547,350
Real Estate	1,019,204	2,135	-	509,248	1,530,587
Personal	456,172	153,818	4,637	-	614,627
Others	63,212	6,122	-	-	69,334
Gross loans, advances and financing activities	6,852,336	649,641	100,748	1,220,133	8,822,858
Less allowance for impairment	(218,235)	(19,217)	-	-	(237,452)
Net loans, advances and financing activities	6,634,101	630,424	100,748	1,220,133	8,585,406

6.3 Movement in allowance for impairment

	31 December 2010 QAR'000	31 December 2009 QAR'000
Balance at the beginning of the year	237,452	30,581
Provided during the year	119,930	250,798
Recoveries during the year	(190,095)	(3,264)
Net impairment during the year	(70,165)	247,534
Amounts written off	(6,851)	(41,395)
Foreign exchange translation differences	1,131	732
Balance at the end of the year	161,567	237,452

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7 Financial investments

	31 December 2010 QAR'000	31 December 2009 QAR'000
Available-for-sale financial investments	6,298,005	2,835,728
Financial investments at fair value through profit / loss	40,043	37,256
Held-to-maturity financial investments	745,393	1,092,101
Total financial investments	7,083,441	3,965,085

Debt securities with a carrying value of QAR 2,971.1 million (2009: QAR 2,020.5 million) are pledged as collateral under repurchase and other borrowing agreements with other banks.

7.1 By type

	31 December 2010		31 December 2009	
	Quoted QAR'000	Unquoted QAR'000	Quoted QAR'000	Unquoted QAR'000
Available-for-sale financial investments				
State of Qatar securities	1,671,068	1,464,530	898,089	-
Other debt securities	2,193,358	25,175	1,013,424	606,026
Mutual funds	-	308,049	-	318,179
Equities	635,815	10	-	10
Financial investments at fair value through profit / loss				
Other debt securities	-	40,043	-	37,256
Held-to-maturity financial investments	-	-		
State of Qatar securities		442,673	-	-
Other debt securities	180,757	121,963	158,636	933,465
Total financial investments	4,680,998	2,402,443	2,070,149	1,894,936

7.2 By interest rate

	31 December 2010 QAR'000	31 December 2009 QAR'000
Available-for-sale financial investments		
Fixed rate	5,642,748	2,556,436
Floating rate	19,432	279,282
Fair value through profit or loss		
Fixed rate	40,043	37,256
Held-to-maturity financial investments		
Fixed rate	618,806	1,063,101
Floating rate	126,587	29,000
Total interest bearing financial investments	6,447,616	3,965,075
Equities	635,825	10
Total financial investments	7,083,441	3,965,085

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

8 Intangible assets

	Goodwill QAR'000	Software QAR'000	Total QAR'000
31 December 2010			
Cost:			
At beginning of the year	149,906	291,328	441,234
Additions	-	9,212	9,212
Adjustments	-	(10)	(10)
Foreign currency translation	(12,173)	424	(11,749)
Total cost	137,733	300,954	438,687
Accumulated amortisation:			
At beginning of the year	-	59,886	59,886
Charged during the year	-	43,667	43,667
Foreign currency translation	-	(465)	(465)
Total accumulated amortisation	-	103,088	103,088
Net carrying amount	137,733	197,866	335,599
31 December 2009			
Cost:			
At beginning of the year	136,298	287,689	423,987
Additions	-	4,752	4,752
Adjustments	-	(1,113)	(1,113)
Foreign currency translation	13,608	-	13,608
Total cost	149,906	291,328	441,234
Accumulated amortisation:			
At beginning of the year	-	17,642	17,642
Charged during the year	-	42,244	42,244
Total accumulated amortisation	-	59,886	59,886
Net carrying amount	149,906	231,442	381,348

8.1 Goodwill

The Group acquired all the shares of BLC Bank (France) S.A., resulting in goodwill amounting to EUR 28.6 million (approximating QAR 136.3 million) at date of acquisition, being recognised

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

9 Property and equipment

	Land and buildings QAR'000	Leasehold Improvements QAR'000	Furniture & Equipment QAR'000	Motor Vehicles QAR'000	Capital work in progress QAR'000	Total QAR'000
31 December 2010						
<i>Cost:</i>						
Balance at beginning of the year	12,150	43,458	108,408	1,299	32,820	198,135
Additions	7,471	29,982	3,429	-	-	40,882
Disposals	-	-	(962)	-	(2,443)	(3,405)
Transfers and adjustments	-	-	-	-	(20,834)	(20,834)
Foreign currency translation	-	(574)	(259)	(1)	-	(834)
Total cost	19,621	72,866	110,616	1,298	9,543	213,944
<i>Accumulated Depreciation:</i>						
Balance at beginning of the year	-	8,303	58,077	740	-	67,120
Charged during the year	125	11,735	19,217	417	-	31,494
Disposals	-	-	-	-	-	-
Foreign currency translation	-	(145)	(195)	(2)	-	(342)
Total accumulated depreciation	125	19,893	77,099	1,155	-	98,272
Net carrying amount	19,496	52,973	33,517	143	9,543	115,672
31 December 2009						
<i>Cost:</i>						
Balance at beginning of the year	-	21,731	85,564	1,141	66,587	175,023
Additions	12,150	162	2,604	158	9,962	25,036
Disposals	-	-	(584)	-	-	(584)
Transfers and adjustments	-	21,409	20,656	-	(43,729)	(1,664)
Foreign currency translation	-	156	168	-	-	324
Total cost	12,150	43,458	108,408	1,299	32,820	198,135
<i>Accumulated Depreciation:</i>						
Balance at beginning of the year	-	2,453	25,564	328	-	28,345
Charged during the year	-	5,823	32,711	407	-	38,941
Disposals	-	-	(305)	-	-	(305)
Foreign currency translation	-	27	107	5	-	139
Total accumulated depreciation	-	8,303	58,077	740	-	67,120
Net carrying amount	12,150	35,155	50,331	559	32,820	131,015

10 Other assets

	31 December 2010 QAR'000	31 December 2009 QAR'000
Accrued income	185,881	116,773
Derivatives with positive fair value (note 17)	21,645	25,459
Prepaid expenses	13,829	13,258
Other receivables	15,201	78,873
Total other assets	236,556	234,363

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

11 Due to banks and financial institutions

	31 December 2010 QAR'000	31 December 2009 QAR'000
Due to central banks	96	-
Demand and call deposits	777,852	78,776
Term deposits	3,068,154	1,103,573
Borrowings under repurchase agreements	2,284,107	1,949,140
Total due to banks and financial institutions	6,130,209	3,131,489

12 Customer deposits

	31 December 2010 QAR'000	31 December 2009 QAR'000
By type		
Demand and call accounts	1,524,043	1,175,690
Saving accounts	15,760	13,586
Term deposits	6,283,080	7,922,802
Other	173,343	127,699
Total customer deposits	7,996,226	9,239,777
By sector		
Government	4,242,357	4,867,345
Corporate	2,577,910	2,959,828
Individuals	1,175,959	1,412,604
Total customer deposits	7,996,226	9,239,777

13 Subordinated debt

The subordinated debt consists of a loan amounting to EUR 25 million for an undetermined period, and carries interest at 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 other creditors of the issuer.

	31 December 2010 QAR'000	31 December 2009 QAR'000
Balance at the beginning of year	131,153	127,555
Foreign exchange translation difference	(10,650)	3,598
Balance at the end of year	120,503	131,153

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

14 Other liabilities

	31 December 2010 QAR'000	31 December 2009 QAR'000
Deferred income	9,890	15,490
Accounts payable	28,664	21,609
Derivative with negative fair value (note 17)	45,689	39,408
Provision for staff benefits (note 14.1)	27,917	21,485
Accrued expenses	50,437	59,396
Directors remuneration	3,000	1,850
Other payables	32,431	27,537
Total other liabilities	198,028	186,775

14.1 Provisions for staff benefits

	31 December 2010 QAR'000	31 December 2009 QAR'000
Balance as at 1 January	21,485	19,249
Additional provisions made during the year	9,791	4,149
Utilised during the year	(3,393)	(1,873)
Translation differences	34	(40)
Total provisions for staff benefits	27,917	21,485

15 Unrestricted investment accounts

	31 December 2010 QAR'000	31 December 2009 QAR'000
By type		
Term deposits	674,714	5,001
By sector		
Corporate	650,000	-
Individuals	24,714	5,001
Profit distribution rates for the investment account holders		
6 months term	4.5%	5%

16 Shareholders' equity

16.1 Issued Capital

During 2009, the Group obtained approval to reduce the authorised share capital from QAR 7.2 billion to QAR 3.6 billion. This resulted in the cancellation 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. Qatar Holdings Company holds 10.0% of the ordinary shares of al khaliji at 31 December 2010 (2009: 6.8%). Other Qatar Government Related Entities hold

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

35.2% of the ordinary shares of al khaliji, with the remaining 54.8% held by institutional investors and members of the public.

16.2 Statutory Reserve

During 2009, an extraordinary Shareholders' meeting approved the amendment of the Article of Association by changing the annual legal reserve transfer from 20% of net profits for the year to 10%, pursuant to the provisions of the Commercial Companies Law No. 5 of 2002. The transfer to the legal reserve is required until the legal reserve equals the paid up capital, and 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.

16.3 Risk Reserve

In accordance with Qatar Central Bank regulations, a minimum of 1.5% of net loans, advances and financing activities to customers, has been transferred to the risk reserve in 2010. For the prior reporting periods, the Qatar Central Bank has approved that the Group gradually building up the risk reserve as follows:

31 December 2008: 0.25%

31 December 2009: 0.50%

16.4 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 financial investments.

Fair value reserve for available-for-sale investments at 31 December 2010 includes negative fair value of QAR 13.5 million (2009:QAR 8.4 million).

16.5 Contribution to Social and Sports fund

According to Qatari law no. 13 for the year 2008 and the related clarifications issued in January 2010, the group is required to contribute 2.5% of its annual net profits to the state social and sports fund. The clarification relating to law no. 13 requires the payable amount to be recognised as a distribution of income.

During the year, the group appropriated an amount of QAR 3.4 million representing the contribution payable for the year ended 31 December 2009. This appropriation has been considered as a restatement of the 2009 retained earnings in accordance with IAS 8, Accounting policies, changes in accounting estimates and errors.

Subsequently, the Group made an additional appropriation of QAR 10.7 million representing the contribution payable for the year ended 31 December 2010.

16.6 Proposed dividends

The Board of Directors has proposed a cash dividend of 10% (QAR 1 per share) for the year 2010 (2009: QAR Nil). The proposed cash dividends are subject to approval of the shareholder at the forthcoming Annual General Assembly.

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

17 Derivative financial instruments

The Group transacts in derivatives as principal either as a trading activity or to manage risk. 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 statement of financial position 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 ruling at the reporting date.

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

	Notional amount	Fair value		Notional amount by term to maturity		
		Assets	Liability	Within 3 months	3 months to 1 year	1 to 5 years
	QAR'000	QAR'000	QAR'000	QAR'000	QAR'000	QAR'000
31 December 2010						
Derivatives for customers						
Forward exchange contracts	625,847	863	(109)	475,587	150,260	-
Interest rate swaps	364,000	20,782	(45,580)	-	-	364,000
Options contracts	254,800	-	-	-	254,800	-
Derivatives held for risk management						
Interest rate swaps	1,705,613	-	-	-	-	1,705,613
Derivative assets/(liabilities)	2,950,260	21,645	(45,689)	475,587	405,060	2,069,613
31 December 2009						
Derivatives for customers						
Forward exchange contracts	988,487	2,095	(7,999)	988,487	-	-
Interest rate swaps	764,400	23,364	(24,525)	-	-	764,400
Derivatives held for risk management						
Interest rate swaps	564,200	-	(6,884)	-	-	564,200
Derivative assets/(liabilities)	2,317,087	25,459	(39,408)	988,487	-	1,328,600

The Group enters into fair value hedges to manage interest rate risk in the financial position. Fair value hedges principally involve interest rate swaps hedging the interest rate risk in recognised financial assets and financial liabilities. Interest rate derivatives designated as fair value hedges primarily hedge the interest rate risk of fixed rate debt securities held.

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

18 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 with the financial position, they do contain credit risk and are therefore part of the overall risk of the Group. In many instances, the amount recognised with the financial position for incurred obligations do not represent the loss potential of the arrangement in full. The total outstanding commitments and contingent liabilities are as follows:

	31 December 2010 QAR'000	31 December 2009 QAR'000
Contingent liabilities		
Guarantees	3,113,086	3,940,546
Unutilised credit facilities	4,395,916	2,942,374
Letters of credit and acceptances	892,093	661,948
Total contingent liabilities	8,401,095	7,544,868
Other commitments		
Operating lease commitment	48,663	58,177
Capital commitments	1,463	38,565
Foreign exchange contracts (note 17)	625,847	988,487
Interest rate swaps (note 17)	2,069,613	1,328,600
Option contracts	254,800	-
Total other commitments	3,000,386	2,413,829

18.1 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.

18.2 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.

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

18.3 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.

18.4 Operating lease commitments

The Group has entered into commercial leases on certain buildings. These leases have an average life of between three and five 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 2010 QAR'000	31 December 2009 QAR'000
No later than one year	10,746	11,965
Later than one year and no later than 5 years	37,917	46,212
Total operating lease commitments	48,663	58,177

18.5 Litigation and claims

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business amounting to QAR 8.2 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.

19 Net interest income

	Year ended 31 December 2010 QAR'000	Year ended 31 December 2009 QAR'000
<i>Interest income</i>		
Banks and financial institutions	24,486	42,993
Financial investments	242,376	102,828
Loans and advances to customers	498,076	461,973
Total interest income	764,938	607,794
<i>Interest expense</i>		
Due to banks and other financial institutions	(56,369)	(39,368)
Customer deposits	(245,347)	(289,426)
Total interest expense	(301,716)	(328,794)
Total net interest income	463,222	279,000

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

20 Net fee and commission income

	Year ended 31 December 2010 QAR'000	Year ended 31 December 2009 QAR'000
<i>Fee and commission income</i>		
Loans, advances to customers	59,846	75,778
Indirect credit facilities	38,851	30,754
Bank service fees	7,655	6,796
Total fee and commission income	106,352	113,328
Fees paid	(5,121)	(2,862)
Total fee and commission expense	(5,121)	(2,862)
Net fee and commission income	101,231	110,466

21 Net income from foreign currency transactions

	Year ended 31 December 2010 QAR'000	Year ended 31 December 2009 QAR'000
Profits from foreign currency transactions	11,619	6,926
Profit from revaluation of assets and liabilities	30	3,358
Net income from foreign currency transactions	11,649	10,284

22 General and administration expenses

	Year ended 31 December 2010 QAR'000	Year ended 31 December 2009 QAR'000
Salaries, allowances and other staff costs	199,498	191,638
Employee end of service benefits	7,806	8,255
Directors' remuneration and meeting attendance fees	3,578	2,260
Advertising, marketing and promotional expenses	11,257	2,908
Legal and professional fees	16,691	22,062
Rent and maintenance	38,600	32,237
Computer and IT costs	29,761	42,872
Travelling expenses	1,896	2,459
Licences and subscriptions	2,761	2,202
Other expenses	7,667	3,970
Total administration and general expenses	319,515	310,863

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

23 Other income

During 2009 the Group received a total amount of QAR 291 million within the Qatari government plan to support national banks. The Group recognised this amount as income during 2009 consistent with the requirements of IAS 20, Accounting for Government Grants and Disclosure of Government Assistance.

24 Income tax expense

According to the laws and regulations effective in France and United Arab Emirates income tax expense of QAR 10.6 million (2009: QAR 6.6 million), was calculated for the subsidiary companies in France and United Arab Emirates for the year ended 31 December 2010.

The subsidiary company in France has previously accumulated tax losses amounting to EUR 6.8 million (2009: EUR 7.5 million) which it intends to utilise against the company's future taxable income. The benefit of the tax losses has not been recognised by raising a deferred tax asset as the exact amount of the benefit is uncertain.

25 Earnings per share

	Year ended 31 December 2010 QAR'000	Year ended 31 December 2009 QAR'000
Profit attributable to equity holders	426,703	167,294
Basic weighted average number of shares in issue (shares)	360,000,000	360,000,000
Basic and diluted earnings per share (in QAR)	1.19	0.46

Basic and diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year. No potential dilutions of ordinary shares existed at 31 December 2010.

26 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 affiliated companies which have significant influence in the Group's financial and operating decisions. These transactions include loans, financing activities, deposits and foreign currency transactions. At the reporting date the balances for such transactions were as follows:

26.1 Statement of financial position items

	Key management QAR'000	Others QAR'000	Total QAR'000
31 December 2010			
Loans and advances	6,473	364,000	370,473
Customer deposits	20,846	889	21,735
Subordinated debt	-	120,503	120,503
31 December 2009			
Loans and advances	4,225	1,585,133	1,589,358
Customer deposits	848	3,234,656	3,235,504
Subordinated debt	-	131,153	131,153

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

26.2 Statement of income items

	Key management QAR'000	Others QAR'000	Total QAR'000
Year ended 31 December 2010			
Interest income	316	55,941	56,257
Interest expense	83	2,667	2,750
Commission income	5	48	53
Income from Islamic financing activities	1,401	25,543	26,944
Year ended 31 December 2009			
Interest income	231	786	1,017
Interest expense	288	38,733	39,021
Commission income	-	1,113	1,113
Income from Islamic financing activities	-	77,367	77,367

26.3 Compensation of key management personnel

	Year ended 31 December 2010 QAR'000	Year ended 31 December 2009 QAR'000
Salaries, allowances and other benefits	26,947	30,024
End of service indemnity benefits	1,006	778
Total compensation paid to key management personnel	27,953	30,802

26.4 Board of Directors' fees

The Board of Directors fees for 2010 amounted to QAR3,578,000 (2009: QAR 2,260,000) which is subject to the approval of the General Assembly.

27 Cash and cash equivalents

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

	31 December 2010 QAR'000	31 December 2009 QAR'000
Cash and balances with central banks (note 4)	942,818	214,987
Due from banks and financial institutions (note 5)	2,238,608	3,495,576
Cash and cash equivalents	3,181,426	3,710,563

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

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

28 Segmental reporting

28.1 By business segment

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

	Conventional Banking QAR'000	Islamic Banking QAR'000	Al Khaliji France QAR'000	Unallocated QAR'000	Total QAR'000
31 December 2010					
Net interest income	379,063	-	84,159	-	463,222
Net income from Islamic financing activities	-	88,827	-	-	88,827
Net fees and commission income	70,360	-	30,871	-	101,231
Net income from foreign currency transactions	4,157	-	7,492	-	11,649
Other operating income	93,891	-	1,529	-	95,420
Net operating income	547,471	88,827	124,051	-	760,349
General and administration expenses	(77,484)	(7,873)	(59,383)	(174,775)	(319,515)
Depreciation and amortisation	(3,584)	(663)	(2,163)	(68,751)	(75,161)
Impairment losses on loans, net of recoveries	71,246	-	(1,081)	-	70,165
Other income	-	-	300	1,175	1,475
Segment results	537,649	80,291	61,724	(242,351)	437,313
Tax	-	-	(10,610)	-	(10,610)
Net profit	537,649	80,291	51,114	(242,351)	426,703
Assets and liabilities					
Total assets	16,151,985	989,626	3,082,106	151,344	20,375,061
Total liabilities and unrestricted investment accounts	11,669,647	688,088	2,580,155	181,790	15,119,680
31 December 2009					
Net interest income	225,578	-	53,422	-	279,000
Net income from Islamic financing activities	-	77,237	-	-	77,237
Net fees and commission income	84,067	-	26,843	(444)	110,466
Net income from foreign currency transactions	1,798	-	8,486	-	10,284
Other operating income	38,307	-	6,850	-	45,157
Net operating income	349,750	77,237	95,601	(444)	522,144
General and administration expenses	(73,054)	(5,962)	(55,869)	(175,978)	(310,863)
Depreciation and amortisation	(2,769)	(28)	(3,107)	(75,281)	(81,185)
Impairment losses on loans, net of recoveries	(246,710)	-	(824)	-	(247,534)
Other income	-	-	692	290,661	291,353
Segment results	27,217	71,247	36,493	38,958	173,915
Tax	-	-	(6,621)	-	(6,621)
Net profit	27,217	71,247	29,872	38,958	167,294
Assets and liabilities					
Total assets	12,178,695	1,312,897	2,988,423	1,044,085	17,524,100
Total liabilities	9,123,461	1,091,650	2,337,690	137,958	12,690,759

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

29 Financial statements of the Parent Company

29.1 Statement of financial position of the Parent Company as at 31 December

	2010	2009
	QAR'000	QAR'000
Assets		
Cash and balances with central banks	1,095,096	435,972
Due from banks and financial institutions	3,029,886	2,449,252
Loans, advances and financing activities to customers	6,063,448	7,383,171
Financial investments	6,453,095	3,690,462
Investment in subsidiaries	691,571	691,571
Intangible assets	196,999	231,442
Property and equipment	102,881	123,191
Other assets	213,817	199,201
Total assets	17,846,793	15,204,262
Liabilities		
Due to banks and financial institutions	5,754,862	2,732,694
Customer deposits	6,113,809	7,599,238
Other liabilities	151,365	143,056
Total liabilities	12,020,036	10,474,988
Unrestricted investment account	674,714	5,001
Total liabilities and unrestricted investment accounts	12,694,750	10,479,989
Shareholders' equity		
Share capital	3,600,000	3,600,000
Statutory reserves	924,398	924,398
Risk reserve	42,927	42,927
Fair value reserve	67,978	1,691
Retained earnings	516,740	155,257
Total shareholders' equity	5,152,043	4,724,273
Total liabilities, unrestricted investment accounts and shareholders' equity	17,846,793	15,204,262

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

29.2 Statement of Income of the Parent Company

	Year ended 31 December 2010 QAR'000	Year ended 31 December 2009 QAR'000
Interest income	666,772	527,831
Interest expense	(287,709)	(302,253)
Net interest income	379,063	225,578
Income from Islamic financing and investing activities	107,782	77,365
Unrestricted investment account holders' share of profits	(18,955)	(128)
Net income from Islamic financing and investing activities	88,827	77,237
Fee and commission income	73,855	84,904
Fee and commission expense	(3,495)	(1,281)
Net fee and commission income	70,360	83,623
Dividend income	1,666	-
Net gains from foreign currency transactions	4,157	1,797
Net losses from financial instruments at fair value	4,331	(8,593)
Net profit on sale of available-for-sale investments	87,894	46,900
Other operating income	-	-
Net operating income	636,298	426,542
General and administration expenses	(258,468)	(254,994)
Depreciation of property and equipment	(29,930)	(35,834)
Amortisation of intangible assets	(43,068)	(42,244)
Impairment losses on loans, net of recoveries	71,246	(246,710)
Other Income	(489)	290,661
Profit for the year	375,589	137,421

Al Khalij Commercial Bank (al khaliji) Q.S.C
Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

30 Islamic Banking

The Statement of financial position and statement of income of **al khaliji al islami** are presented below. The Islamic branch's accounts are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Audit Organisation for Islamic Financial Institutions (AAOIFI) and Qatar Central Bank regulations

30.1 Statement of financial position as at 31 December 2010

	2010 QAR'000	2009 QAR'000
Assets		
Cash and balances with central bank	245	107
Due from banks and financial institutions	672,098	25,834
Due from financing activities to customers	310,148	1,220,133
Property and equipment	6,870	4,085
Other assets	265	62,738
Total Assets	989,626	1,312,897
Liabilities		
Customer current accounts	11,050	1,316
Qardh	-	1,066,439
Other liabilities	2,324	18,894
Total liabilities	13,374	1,086,649
Unrestricted investment accounts	674,714	5,001
Total liabilities and unrestricted investment accounts	688,088	1,091,650
Shareholders' equity		
Capital funding provided by Head Office	150,000	150,000
Retained earnings	151,538	71,247
Total shareholders' equity	301,538	221,247
Total liabilities, unrestricted investment accounts and shareholders' equity	989,626	1,312,897

30.2 Statement of income for the year ended 31 December 2010

	2010 QAR'000	2009 QAR'000
Income from financing and investing activities	92,604	70,616
Fee and commission income	15,239	6,770
Fee and commission expense	(57)	(42)
Net fee and commission income	15,182	6,728
Net gains from foreign currency transactions	(4)	21
Total net income from Islamic financing and investing activities	107,782	77,365
General and administration expenses	(7,873)	(5,962)
Depreciation of property and equipment	(663)	(28)
Profit for the year	99,246	71,375
Unrestricted investment account holders' share of profits	(18,955)	(128)
Profit for the year attributable to shareholders	80,291	71,247