THE ARAB INVESTMENT COMPANY S.A.A

ANNUAL REPORT 2010

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ANNUAL REPORT

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COTENTS

THE ARAB INVESTMENT COMPANY

The Arab Investment Company (TAIC) was established in July 1974 as a Pan-Arab joint-stock company.

Its prime objective, according to the terms stipulated in its Memorandum of Association, is to “invest Arab funds to develop Arab resources in different economic sectors by initiating investment projects in different economic sectors, based on sound economic and commercial criteria, in a manner that would support and develop the Arab economy”. The Company enjoys all guarantees and concessions provided by the national, Pan-Arab and foreign investment codes in the shareholder countries. In particular, its assets are granted full mobility and freedom of expatriation, and are immune against nationalization and expropriation.

The Company is owned by governments of 17 Arab states with an authorized capital of US$ 800 million and a paid-up capital of US$ 700 million, shared by member countries. TAIC conducts its activities from its Head Office in Riyadh, Saudi Arabia, its banking branch in the Kingdom of Bahrain and its regional offices in Cairo, Amman and Tunis.

Mission Statement and Vision

Mission Statement

Support economic development and contribute to the betterment of the investment environment in the Arab world through playing a catalytic role in the establishment and implementation of projects in different economic sectors, based on sound economic and commercial criteria, and by mobilizing Arab resources through the Company's banking activity to provide the necessary funds for investment projects and boost inter-Arab trade exchange in such a way to support economic integration between Arab countries.

Vision

To become the leading Arab financial institution focused on mobilizing capital to meet the investment and financing needs of businesses in the Arab region.

SUBSCRIPTION OF MEMBER COUNTRIES

COUNTRY	AMOUNT (US$ Thousands)	%
The Kingdom of Saudi Arabia	109,744	15.68
The State of Kuwait	109,744	15.68
The United Arab Emirates (Abu Dhabi)	109,744	15.68
The Republic of Iraq	73,387	10.48
The State of Qatar	57,350	8.19
The Arab Republic of Egypt	48,775	6.97
The Syrian Arab Republic	48,775	6.97
The Great Socialist Peoples' Libyan Arab Jamahiriya	48,775	6.97
The Republic of Sudan	18,744	2.68
The Kingdom of Bahrain	11,969	1.71
The Republic of Tunisia	11,969	1.71
The Kingdom of Morocco	11,969	1.71
The Sultanate of Oman	11,969	1.71
The Republic of Lebanon	11,287	1.61
The People's Democratic Republic of Algeria	11,287	1.61
The Hashemite Kingdom of Jordan	2,256	0.32
The Republic of Yemen	2,256	0.32
TOTAL	700,000	100.0

BOARD OF DIRECTORS

Eng. Yousef I. Al-Bassam
Chairman of the Board
The Kingdom of Saudi Arabia

Mr. Khalifa M. Hamada
Vice-Chairman
The State of Kuwait

Mr. Khaled M. Balama
Board Member
The United Arab Emirates

Mr. Mohammad A. Al-Jarboua
Board Member
The Kingdom of Saudi Arabia

Mr. Motlaq M. Al Sani
Board Member
The State of Kuwait

Mr. Badr El Dine Mahmoud Abbas
Board Member
The Republic of Sudan

Mr. Amr Aly El Garhi
Board Member
The Arab Republic of Egypt

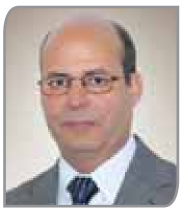
Mr. Omar A. Al Hamid
Board Member
The State of Qatar

Mr. Khalifa S. Al Suwaidi
Board Member
The United Arab Emirates

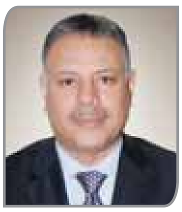
Mr. Yusuf A. Humood
Board Member
The Kingdom of Bahrain

Mr. Barakat Arafat Arafat
Board Member
The Syrian Arab Republic

Dr. Fadhil Nabee Othman
Board Member
The Republic of Iraq



Dr. Lahbib Idrissi Alami
Board Member
The Kingdom of Morocco



Mr. Ibrahim Milad Daw Zlitni
Board Member
The Great Socailist Peoples
Libyan Arab Jamahiriya

Mr. Ali M. Reda Haj Jaafar
Board Member
The Sultanate of Oman

Board Committees

In exercising its duties, TAIC's Board of Directors is assisted by a number of specialized committees. At the end of the year, the composition of these committees was as follows:

Higher Investment Committee

The Higher Investment Committee is competent to exercise the Board authorities pertinent to investment decision making with regard to equity projects and banking activity in cases that are beyond the Company's internal committee powers. This Committee is composed of seven Board members as follows:

- Eng. Youssef I. Al-Bassam — **Chairman**
- Mr. Khalifa M. Hamada — **Member**
- Mr. Khaled M. Balama — **Member**
- Mr. Barakat Arafat Arafat — **Member**
- Mr. Amr Aly El Garhi — **Member**
- Mr. Ali M. Reda Haj Jaafar — **Member**
- Dr. Lahbib Idrissi Alami — **Member**

Banking Committee

The Banking Committee is charged with the preparation and discussion of plans, programs and strategies that aim at developing and promoting TAIC's banking activity, widen its scopes, increase its return and minimize its risk. This committee is composed of four Board members as follows:

- Mr. Badr El Dine Mahmoud Abbas — **Chairman**
- Mr. Motlaq M. Al Sani — **Member**
- Mr. Yusuf A. Humood — **Member**
- Mr. Ibrahim Milad Daw Zlitni — **Member**

Audit Committee

The Audit Committee is charged with the responsibility of assisting the Board of Directors in fulfilling its fiduciary responsibilities to provide oversight with respect to the integrity of the Company's financial statements and its compliance with legal requirements and Company policies, the independence of the external auditors and the performance of internal auditor, as well as the integrity of the internal system of controls. This committee is composed of four Board members as follows:

- Dr. Fadhil Nabee Othman — **Chairman**
- Mr. Khalifa S. Al Suwaidi — **Member**
- Mr. Omar A. Al Hamid — **Member**
- Mr. Mohammad A. Al-Jarboua — **Member**

EXECUTIVES

Head Office, Riyadh

Bahrain Branch

HEAD OFFICE - RIYADH

Chief Executive Officer	**Dr. Saleh H. Al-Humaidan**
Deputy Chief Executive Officer – Financial & Administration Affairs	**Ibrahim H. AlMazyad**
Financial Affairs	**Sami Yousif Mohamed**
Services Projects	**Fahd M. Al-Ahmadi**
Agricultural Projects	**Abdulrahman A. Al-Shaye**
Industrial Projects	**Nassir S. Al Dekhayel**
Human Resources & Administration Affairs	**Fahad A. Al Haqbani**
Information Systems Unit	**Saleh M. Al Mogbel**
Internal Audit Unit	**Jamal A. Issa**
Legal Advisor	**Khalid S. Al- Zugaibi**

Bahrain Branch (Wholesale Bank)

Deputy Chief Executive Officer	
General Manager	**Nabeel A. Al-Sahaf**
Finance & Administration	**Mohammed A. Magboul**
Treasury	**Gurinder Singh Bedi**
Credit Department	**Suleiman A. Walhad**
Operations	**Mohammadine H. Menjra**
Risk Management	**Nitin D. Gupta**
Internal Audit	**Lalit H. Bakhru**
Compliance Officer	**Taher A. Al-Taher**
Legal Advisor	**Osama A. Mukhtar**

REGIONAL OFFICES

Amman	**Mahmoud Sammour**
Tunis	**Ziad El Arfaoui**
Cairo	**Mohamed Ra'fat**

CHAIRMAN'S STATEMENT

Dear Shareholders,
On behalf of the Board of Directors, it is my pleasure to present to your Assembly the Annual Report of the Arab Investment Company ("TAIC") for the fiscal year ending December 31, 2010. The report reviews the Company's investment activities in project equity and banking services, and highlighting the financial results achieved from these activities.

Within an environment of gradual economic recovery from the global financial crisis and the positive sentiment that prevailed in the Arab region, the Arab Investment Company (TAIC) managed to add another good year to its performance record, due mainly to prudent and balanced policies and optimal use of available financial and human resources. The company diligently pursued the main objectives defined in its strategic plan and easily adjusted and adapted to the new global and regional economic environment, truly preserving its distinguished position among its peer Arab financial institutions. This was achieved through focusing on monitoring and managing existing investments, identifying promising new investment opportunities, mobilizing resources needed to finance investment activities, developing support services and enhancing institutional management. At the same time, the Company received full shareholders' support through increasing its paid-up capital from US$ 600 million to US$ 700 million, via capitalization of US$ 100 million from retained earnings and issuance of free shares in lieu thereof, thus enabling the Company to further diversify and expand its investment activities.

At the end of the year, TAIC project investment portfolio included holdings in 36 projects and holding companies domiciled in 13 Arab states. These projects contribute, in varying proportions, to Arab economic integration, as they provide goods and services to local and regional markets. They also play an important role in supporting economic growth in host countries, through contributing to improving balance of payments, creating employment opportunities, acquiring sophisticated technologies, harnessing natural resources, and benefiting from comparative advantages enjoyed by these countries. The total paid-up capital of these projects and holding companies amounted to about US$ 6.5 billion, while shareholders' equity exceeded US$ 10.4 billion. These figures demonstrate TAIC's instrumental role as a catalyst in developing and implementing investment projects in the Arab region.

On the banking side, TAIC continued to provide comprehensive and diversified financial services through its banking branch in the Kingdom of Bahrain, which operates as a wholesale bank. Encouraged by the gradual recovery of global and regional economy, TAIC strived to achieve optimum use of its banking assets, focusing primarily on financial resource mobilization, liquidity management, credit portfolio review, and provision of trade finance in support of economic growth efforts. Special attention was also given to developing supporting services in the fields of IT systems and human resources.

To keep up with developments in the global and regional investment arena, TAIC participated in a number of regional conferences and events held, during the year, to address issues related to economic and investment aspects in the Arab region. Participation in these gatherings helped the Company to understand regional as well as global developments, analyze their potential impacts on its different lines of business, maintain closer ties with the business community, and most importantly, identify new attractive investment opportunities.

TAIC has, indeed, been keen to comply with the principles of corporate governance, directives from its Board of Directors, and the requirements of regulatory authorities. The Company has also been keen to transfer its corporate culture and professional expertise to the Boards of Directors and executive managements of projects in which it holds stakes.

Despite the negative impact of the global financial crisis, TAIC was able to achieve relatively good financial results during the year, due mainly to a host of factors, including the flexibility provided by the Company charter, the efficiency of its internal by-laws, the continuous support of the shareholding countries, and the fruitful efforts made during the year by the Board of Directors and all staff members.

While presenting this report, I would like to seize the opportunity to express my deepest appreciation and gratitude to the governments of the shareholding countries for their unwavering support to the Company. Special thanks are particularly due to the governments of the Kingdom of Saudi Arabia (the host country) and the Kingdom of Bahrain (host of the Company's banking branch) for the timely assistance they have always provided through their various agencies. Our appreciation is also extended to the Company's clients and investment partners for their valuable trust, which is a source of TAIC strength and dynamism. I would also like to thank my fellow Board Members for their effective contributions in guiding and managing the Company, and to thank all TAIC staff for their devotion and determination to pursue the Company mission, undiscouraged by the difficult conditions and the huge challenges. With much optimism, I look forward to more achievements in the future by this successful pan-Arab financial institution, which has become a source of pride for all of us.

Eng. Youssef Ibrahim Al Bassam

Chairman

DIRECTORS' REPORT

I - Arab Region Economic Review:

Driven by a gradual rebound of economic activity worldwide, the overall Arab region average aggregate real GDP grew by about 4.4% during 2010. Various factors contributed to this relatively good growth, including higher oil prices, consolidation of public expenditures on infrastructure, and supportive investment policies. In addition, financial and regulatory measures were taken to mitigate the negative impact of the global economic crisis. Most Arab countries embraced a combination of initiatives aimed at developing resources and making their respective economies more resilient to economic shocks, with high priority accorded to diversifying income and encouraging quality exports that can compete worldwide. Arab states were also keen to enforce strict supervision over financial institutions domestically, in addition to playing an effective role internationally, through participation in the development and implementation of stronger regulatory, supervisory, and other global policies in order to address vulnerabilities, and promote global financial stability.

1/1 Investment Inflows

With the objective to improve business environment, encourage entrepreneurship, boost local investments, and increase direct foreign investment inflows, most Arab countries made sincere efforts during the year to meet contemporary economic requirements. Such efforts included revision of investment laws, adherence to institutional and governance principles, and facilitating foreign investment access to new economic sectors. Most Arab countries were also keen to make optimum use of new applications in telecommunication, information technology, digital infrastructure and internationally standardized economic data bases to promote economic growth.

While Arab countries were relatively successful in attracting increased foreign and regional direct investments, the region continues to face numerous challenges in this respect. The Arab economies are still in need of additional capital inflows commensurate with their economic development requirements and their ambitions to achieve higher economic growth rates. Therefore, an effective and realistic assessment of the obstacles that hinder a smooth flow of international and regional investments needs to be carried out. Further efforts are also required to streamline and vitalize capital markets, create investment funds which can provide financing for medium and small businesses, as well as according higher priority to economic development related investments. The Arab region is also still in need of promoting joint ventures, especially in the fields of agriculture, water conversion, transfer of new technologies, and water and food security. In addition, the region is required to further promote governance and regulatory systems, remove bureaucratic obstacles, open its domestic labor markets, reduce inflation to sound levels, and adopt more efficient marketing and promotion tools in order to attract more investments.

1/2 Arab Financial Markets

During 2010, Arab capital markets indices performed relatively well, reflecting stabilization of global financial markets, economic recovery in the Arab region, and profitability improvement for most listed companies. However, liquidity and initial public offerings remained at low levels during the year, as foreign investments in these markets were below rates recorded in previous years. On the other hand, a host of timely measures were taken by regulatory authorities in most Arab countries to ensure efficient and proper operation of their financial markets. These measures, which included, inter-alia, stringent supervisory regulations and close monitoring of financial markets, significantly contributed to these markets stability and steady performance, despite the global financial crisis fallouts. The Arab financial sector still has a long way to go in assisting the private sector to play a more active role in promoting sustainable economic development.

1/3 Arab Economic Joint Action

Several events were held during the year throughout the Arab region to monitor the implementation of the Action Program adopted by the First Arab Economic and Social Development Summit, held in Kuwait early in 2009. The program included a series of steps and road maps aimed at realizing sustainable overall development, accelerating economic integration, and raising the standards of living for Arab citizens. Among key features of this program were mechanisms to assist the private sector and civil community in shouldering their economic and social responsibilities through active participation in implementing the summit road map, so as to achieve the overall developmental, social and economic goals.

Many economic related events were held in various Arab capitals during the year in response to the Arab summit call for a joint action towards the realization of the Arab Common Market. These forums revolved mostly around adopting Plans to acheive the Arab Common Market and increase capabilities of the Arab Free Trade Zone to support pan-Arab trade and boost economic and social integration. In fulfilling its role as a driving engine for economic growth, the private sector made reasonable efforts during the year to achieve stronger pan-Arab economic ventures and enhance cooperation among Arab institutions.

The Arab Investment Company was, indeed, a beneficiary of such efforts. While embracing its developmental role, the Company pursued its mission through identifying and closely monitoring viable investment opportunities generated by this joint Arab action and by national economic development plans in Arab countries, coordinating with concerned parties to translate the objectives defined in these plans into projects.

1/4 Pan-Arab Trade

As inter-Arab trade exchanges play a major role in building stronger economic ties, it has been accorded high priority by most Arab states. As a result, regional investment flows, used to finance project equity and trade in Arab countries increased during the year to promising levels. Despite the effects of the global financial crisis on world trade, and the resultant liquidity squeeze and monetary flow retraction, overall pan-Arab trade recorded a positive performance during the year.

As a regional investment catalyst, the Arab Investment Company played an active role in promoting pan-Arab trade by providing trade related financial services to Arab financial and commercial institutions through its branch in the Kingdom of Bahrain, which operates as a wholesale bank.

II - TAIC 2010 Review:

During 2010, the Arab Investment Company (TAIC) strived to achieve its strategic objectives through making optimal use of its financial and human resources, and by fully adjusting and adapting to global and regional economic environment that prevailed throughout the year.

The Company was fairly successful in providing valuable services in support of Arab economy through closely monitoring existing investments, identifying new investment opportunities, diversifying financial services provided to investors, and mobilizing resources needed to finance investment activities. The Board of Directors of the Company drew the policy and provided guidance during its quarterly scheduled meetings. The Board held its fourth quarter meeting in the city of Dubai, United Arab Emirates, in line with its tradition of holding some of its meetings in one member country or another, with the aim of strengthening business relations and cooperation with public and private sectors in that country.

To further enable the Company to play its vital role as an investment catalyst in the Arab region, the shareholders decided, in June 2010, to increase the paid-up capital from US$ 600 million to US$ 700 million, through capitalization of US$ 100 million from retained earnings and issuance of free shares in lieu thereof. This capital increase reflects shareholders commitment to enhance the Company's capabilities in order to further diversify and expand its investment activities.

During the year, TAIC managed to achieve a number of quantitative and qualitative objectives defined in its five-year (2006-2010) strategic plan within the framework of its long-term policies and resolutions by its Board of Directors. These objectives were achieved through (i) proper management of equity portfolio, (ii) provision of financial services, (iii) development of supporting services, and (iv) enhancement of corporate governance, as described below:

2.1 TAIC's Equity Investment Activities

Equity investment in financially viable projects in member countries is the main line of business through which TAIC pursues its strategic objectives. The Company strives to invest in projects which meet a number of basic criteria, including transfer of know-how, provision of expertise in new technologies, exploitation of natural resources, development of domestic integrated industries capable of competing in both regional and international markets as well as providing employment opportunities. When making investment decisions, priority is normally given to joint ventures that would support Arab economic cooperation and integration. Consideration is also given to diversifying the investment portfolio sectorally and geographically in order to minimize risks, secure a rewarding and steady return on investments, and to avail all member countries the opportunity to benefit from the company services and financial resources. In performing its role as an investment catalyst, the Company is continuously seeking viable investment opportunities and closely working with local partners to initiate new projects, usually playing a major role in assessing the technical and financial viability, and arranging for financing, if needed.

At the end of the year, TAIC's investment portfolio included 36 projects and holding companies, spread over 13 Arab states, and covering various sectors, namely pharmaceuticals, construction and building materials, steel, paper, food, energy, petrochemicals, banks, non-banking financial institutions, tourism, real estate, telecommunications and health services. The total paid-up capital of these projects and holding companies amounted to US$ 6.5 billion and shareholders' equity exceeded US$ 10.4 billion. TAIC's initial investments in these projects totaled US$ 347 million, representing 50% of its paid-up capital. These figures demonstrate TAIC's instrumental role as a catalyst in developing and implementing investment projects in the Arab region.

TAIC's equity investments play an important role in supporting economic growth in host countries, through contributing to improving balance of payments, creating employment opportunities, acquiring sophisticated technologies, harnessing natural resources, and benefiting from comparative advantages enjoyed by these countries. The company focused attention throughout the year on closely monitoring its existing investment portfolio to improve return on investments, working closely with managements and other shareholders of these projects to provide the assistance needed for improving performance, inducing growth and increasing profitability.

In line with its determination to support on-going projects, TAIC participated, during 2010, in the paid-up capital increase in each of Egyptian Propylene & Polypropylene Company in the Arab Republic of Egypt, and Berber Cement Company in the Republic of Sudan. The Company also increased its holding in Financial Investment Bank in the Republic of Sudan. At the same time, the Company realized rewarding capital gains out of its disinvestment in each of Indo-Jordan Chemical Company in the Hashemite Kingdom of Jordan, and the United Ahli Bank in the Arab Republic of Egypt, as part of its asset management policy to optimize returns from the portfolio.

Most of the portfolio projects were able to achieve relatively good results, thus contributing to improving the Company's shareholders' equity and profitability. The following is a summary of the most important developments experienced by some projects during the year:

The Saudi International Petrochemical Company (Sipchem)/ Saudi Arabia

Saudi International Petrochemical Company (Sipchem) has become one of the leading basic and intermediate petrochemical companies in Saudi Arabia. During the year, Sipchem completed implementation of the second phase of its integrated industrial complex, adding to the existing Methanol and Butanediol plants three new plants for the production of carbon monoxide, acetic acid and vinyl acetate monomers. The five-plant complex, unique in the Arab region, will produce high value-added materials, directed mostly for export and significantly contributing to revenues and improving returns on investment. The five plants are supported by Sipchem Marketing and Services Company, and by the International Company for General Utilities which manages the operation and maintenance of Sipchem complex in Al Jubail industrial city.

In parallel, Sipchem made good progress in the implementation of its third phase set of projects. This phase involves the establishment of a new petrochemical company under the name of "International Polymer Company", which will build two fully integrated Vinyl Ethylene and Polyvinyl plants. Arrangements for the provision of know-how and raw materials have been finalized and implementation will follow. Other projects are under preparations as part of this phase.

Egyptian Propylene and Polypropylene Company/Egypt

Egyptian Propylene & Polypropylene Company (EPPC) owns and operates a petrochemical complex in Port Said city, consisting of a plant producing propylene from propane gas, and another plant to convert propylene into polypropylene with a total capacity of 400,000 tons per year. The final product is widely used in the automotive, carpet, furniture, medical containers and packaging industries. By the end of the year, the plant was fully operational. Several factors will usher this project to success, including abundance of raw materials, availability of skilled manpower, quality and adequacy of infrastructure, and proximity to targeted markets. The project, an important addition to Egyptian petrochemical industry, is targeting export markets, thus contributing to improving Egypt's balance of trade. During the year, the Company's capital was increased to US$ 276 million to meet the increased project's cost. In addition to TAIC, the project is owned by several institutional shareholders from the Gulf region and Egypt. The total cost of the project is 790 million U.S. dollar, which has been financed from paid-up capital and mid-term bank facilities. TAIC has played an active role in the different phases of the project, drawing on its rich experience and technical capabilities.

Berber Cement Company/Sudan

Berber Cement plant, built in the Nile River Governorate, is one of the newest and largest cement plants in the Republic of Sudan. With a designed capacity of 1.6 million tons per year of Portland cement, the project is expected to significantly contribute to meeting the growing local demand for cement, thus reducing dependence on imports. In addition to the Arab Investment Company, the project is owned by a number of regional and local institutions, including the National Social Security Fund (Sudan), Dan Fodio Holding Company (Sudan), National Cement Company (Dubai), National Holding Company (Abu Dhabi) and the

Islamic Corporation for the Development of the Private Sector, an affiliate of the Islamic Development Bank Group. The Arab Investment Company played a major role in the different stages of the project from inception to implementation and has provided valuable support.

During the year, the Company's capital was increased to US$ 90 million to meet project cost over-run, and TAIC contributed its share of the increase. By the end of 2010, the plant was commercially operational, providing the market with high quality cement. The total cost of the project reached US$ 250 million, and was financed from the Company's capital and the issuance of Islamic Sukuks,.

The Arab Leasing Company Ltd./Sudan (TALC)

Encouraged by its rewarding experience in the leasing sector in several Arab countries, TAIC took the initiative to establish the Arab Leasing Company (TALC) in the Republic of Sudan, developed the concept, prepared feasibility study, and supervised the incorporation process. A number of carefully selected institutions subscribed in the US$ 30 million initial paid-up capital of the new company. In addition to TAIC, a number of international, regional and local institutions have holdings in this project, including the Islamic Corporation for the Development of the Private Sector, an affiliate of the Islamic Development Bank Group, Libyan Foreign Bank, OPEC Fund for International Development, Al Jazeera Sudanese Jordanian Bank, Taager Leasing Company in the Sultanate of Oman and Financial Investment Bank in the Republic of Sudan. TALC will finance equipment and capital assets in accordance with Sharia laws regulating financial institutions in Sudan.

During 2010, TALC completed its administrative structures, finalized its internal procedures, regulations and by-laws, and recruited the human resources needed for implementing its business plan. The Company commenced operations during the last quarter of the year with technical assistance from Taager Leasing Company from the Sultanate of Oman, which is a stakeholder in the Company. TALC is expected to become a pioneer institution in the leasing industry in Sudan, providing financial support to the private sector.

Société Ryad Soualem/Morocco

In 2005, Société Riyad Soualem, a real estate Moroccan venture, was established as a result of the long outstanding cooperation between TAIC and the Saudi-Moroccan Investment Company, which is a bilateral financial institution jointly owned by the governments of Saudi Arabia and Morocco. The purpose of the new Company is to participate in developing real estate infrastructure in the Kingdom of Morocco to meet the growing demand for residential and commercial properties. To this end, the Company completed in 2010 the comprehensive development of a 50 hectare model district in Had Soualem town, a suburb of Casablanca. The project is composed of residential, commercial and industrial units with all needed facilities and services, including schools, social centers, electricity, water and telecommunications. The project is a pioneer real estate undertaking in the region, setting a good example for developing similar projects in the Kingdom of Morocco. Riyad Soualem Company is currently considering new projects, with developmental and commercial perspectives, that would contribute to the development of real estate sector in Morocco.

Geographical & Sectorial Distribution of TAIC's Projects

As of 31/12/2010

2.2. TAIC's Investment Activities in Financial Services:

TAIC banking branch was established in Bahrain in 1984 as a wholesale bank that operates under the license and supervision of the Central Bank of Bahrain. In fulfillment of its overall objectives as an investment bank, The Branch provides a wide range of financial services and solutions tailored to suit the requirements of its distinguished clientele. It is through this branch that the Company has been successfully mobilizing financial resources and redeploying them for investment throughout the Arab World in fulfillment of its investment catalytic role. TAIC is keen to leverage its resources, expertise, banking best practices and wide network connection with financial institutions worldwide to meet the ever-growing needs of economic entities in the region, public and private alike.

TAIC continued to make exceptional efforts, during the year, to ensure sound management of its banking assets, focusing primarily on resource mobilization, liquidity management, and closely monitoring credit and investment portfolios according to international accounting standards and directives from relevant regulatory authorities. The branch also played an active role in financing trade transactions in several Arab countries to support private sector institutions. At the end of the year, the banking branch was successful in achieving good results in most of its various lines of business.

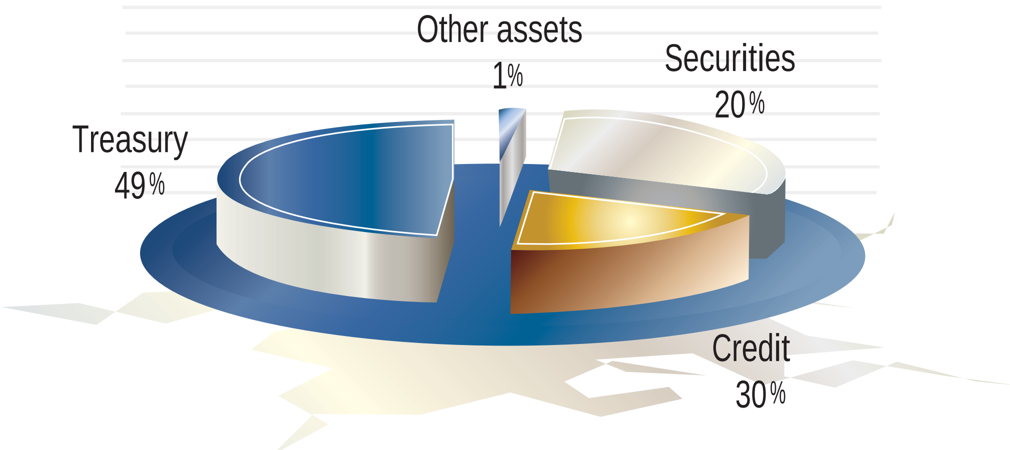
Following is a review of financial activities and the results achieved at the end of 2010:

Total banking assets amounted to US$ 1,870 million at the end of 2010 against US$ 2,221 million the previous year, reflecting a decrease of 16% as a consequence of the global financial crisis fallouts and the resulting retraction in accepted deposits and finance transactions. The following table shows the components of the different banking assets at the end of 2010:

Banking Assets	(US$ Million	% of Total Assets
Deposits & cash with banks	921	49%
Securities	380	20%
Credit & Islamic Finance	551	30%
Other assets	18	1%
TOTAL	1,870	**100%**

The following chart shows the distribution of the banking assets at the end of the year:

Banking Assets to Total Assets as of 31/12/2010



Banking assets were spread over various fields of activities, as follows:

A) Treasury & Securities:

Treasury department performed its tasks of mobilizing financial resources, building quality investment portfolio, minimizing risk exposure, and optimizing profitability in an environment of shrinking liquidity and declining interest rates. High priority was given to maintaining liquidity to ensure timely fulfillment of financial obligations to others. Accepted deposits from clients, financial institutions and government entities amounted to US$ 1,269 million at the end of the year against US$ 1,687 million the previous year, with a decrease of 25%. Placements with banks and financial institutions amounted to US$ 921 million against 1,006 million in 2009, a decrease of 9%. The volume of investment portfolio in securities stood at US$ 381 million at the end of the year against US$ 419 million the previous year, a decrease of 9%.

B) Credit Facilities:

Credit Department provides conventional and Sharia Compliant loans and credit facilities to clients directly or through participation in syndicated facilities for different purposes. In addition, the Department also finances inter-Arab trade as well as trade among Arab countries and their non-Arab trade partners. These transactions include opening, advising, confirming and refinancing letters of credit, discounting commercial papers and financing pre-export production needs. At the year-end, the outstanding balance of the credit and financing portfolio stood at US$ 551 million (after provisions) against US$ 783 million, a decrease of 30%. This decrease was due to the conservative strategic plan adopted by the Company to reduce credit in its balance sheet, waiting for markets to stabilize and credit activity to be resumed.

Banking Activity Outlook

Within an unstable economic regional environment stemming from the ramifications of the global financial crunch, the branch will continue to focus on liquidity mobilization and management of its current portfolios on a prudent and sound basis, while strengthening its position through committing to further carefully selected transactions. Treasury and securities will be at the center of interest in order to benefit from investment opportunities in GCC markets, particularly arbitrage transactions in the region's currency markets.

At the same time, the branch will continue to provide credit services with emphasis on careful scrutiny of available opportunities and their corresponding collaterals to safeguard shareholders' equity. Credit Department will also ensure a sound management and monitoring of its ongoing credit portfolios according to international accounting standards and directives from relevant regulatory authorities.

As part of its compliance policy, the Company will monitor any new regulations and laws relating to money laundering and terrorism financing, and will accommodate them to ensure full compliance to regulatory authority requirements and avoid any potential risks.

III-Supporting Services

During 2010, the Company continued to interact with its changing environment through developing and upgrading its supporting services, including information technology and human resources as follows:

3/1 Information Technology System Development:

As part of its strategy to upgrade its IT systems and improve operational efficiency, TAIC completed procuring and installing the "Midas Plus" system, the newest and most sophisticated generation in business information technology, replacing the older "Midas" version. The new system provides a platform that supports proper interaction with other IT systems, serving human resources, equity projects, budgeting and data storage and retrieval. It will help provide timely and accurate information that supports proper decision-making. The new system will accommodate all banking activities, including

treasury, credit, risk management, financial reporting and financial analysis, in addition to conforming with international accounting criteria applications, risk management applications, Islamic banking activity management, and compliance with Basel requirements. IT staff were properly trained to handle the new system and its various applications.

3/2 Human Resource Development:

Guided by its firm belief that staff efficiency is the key to success in any institution, TAIC adopted a more pragmatic approach in its HR Management System, which focuses on developing staff professional skills to ensure better performance. This is augmented by continuous review of related by-laws and enhancement of HR electronic management systems, so as to provide adequate incentives to attract and retain qualified staff. The Company completed implementation of the organizational, technical and financial recommendations made by an international consultant for the development of human resource infrastructure compatible with labor market and industry-wide requirements in the region.

In accordance with its HR development policy, TAIC paid due attention during the year to in-house and external staff training, with the objective of upgrading the staff professional skills and updating the analytical tools used in financial analysis. An in-house training course on the applications of MIDAS Plus system was conducted in each of the Head Office in Riyadh and Bahrain branch. External training covered the enrolment of the Company's staff members, from both its Head office in Riyadh and its branch in Bahrain, in workshops and seminars pertinent to corporate governance, credit, money markets, financial tools, anti-money laundering, internal financial transactions, Islamic banking, asset management, international trade finance, financial analysis, and corporate finance. TAIC staff actively participated during the year in various Arab economic conferences and seminars, where they gained knowledge and experience. These gatherings helped TAIC build good working relationships with other Arab financial institutions, enabling it to further strengthen its position in areas of corporate governance, project investment and provision of financial services.

IV - Institutional Management

In fulfillment of the general objectives stated in its charter, TAIC pursued its objective of enhancing institutional management practices in accordance with the principles of corporate governance, directives of its Board of Directors, and the requirements of regulatory authorities. Institutional management is carried out in accordance with the following:

4/1 Corporate Governance:

TAIC has long realized the importance of sound corporate governance as a critical factor in infusing institutional integrity, credibility, transparency, efficiency and brand value. To promote corporate governance, the Company takes into consideration the following measures:

- Strengthening the supervisory role of the Board of Directors as the policy maker of the Company and regulator of ways and means of implementing policies.
- Selection of well reputed and professionally experienced international external auditors to review and audit the Company's financial statements.
- Strengthening internal audit role to ensure adequate internal controls.
- Setting-up internal committees with varied functions and authorities to facilitate business management according to the best business practices.
- Reviewing and updating bylaws in order to cope with new developments in the industry, and provide the needed flexibility for proper functioning.
- Compliance with directives and rules issued by Basel, OECD and concerned regulatory authorities.
- Transfer of the Company's corporate culture and professional experience to the Boards of Directors and executive managements of projects in which the Company holds stakes. This culture includes developing business plans, issuing clear corporate by-laws, enhancing internal controls, enforcing accountability, and segregation between supervisory and executive roles in managing these projects.

4/2 Risk Management

TAIC has always adopted a prudent and conservative approach, where gain realization and risk appetite are balanced, with strong commitment to transparency and disclosure in all accounting statements and reporting. Precautionary procedures and controls are constantly maintained through full compliance with the Company's regulations, rules and bylaws. The company is fully committed to complying with all directives from the supervisory and all Basel II requirements affecting the banking system, within an environment of transparent and interactive global financial markets, strong competition and closer regulatory scrutiny. The Company's risk assessment approach encompasses credit risks, market risks, operational risks, liquidity and interest rate risks and credit concentration risks.

TAIC risk management is built on a control structure composed of three lines of defense steered by the Risk Management Department at varying levels and stages. These lines are reflected in internal committees, risk management department and internal audit, all under direct supervision of the Board of Directors and its committees.

V- Outlook

In discharge of its role as an investment catalyst in Arab countries, TAIC will continue to utilize its financial and human resources in order to achieve quantitative and qualitative strategic goals while monitoring global and regional economic developments. Specifically, efforts will be focused, in the near future, on achieving the following tasks:

1 - Increasing return on shareholders' equity through optimal use of available financial and human resources.
2 - Streamlining investment activities in equity participation and provision of financial services, while diversifying sources of income and opening new areas of direct and indirect investments.
3 - Pursuing the Company's policy of continuous capital base expansion from internal resources. This is dictated by the Company's role as an investment catalyst in the Arab region and the growing challenges it is facing, namely stronger economic competition, increasing role of private sector in economic activities and emergence of important economic conglomerations and large scale projects with high investment costs.
4 - Enhancing risk management and expanding its role to cover risk management at Company level to ensure asset quality and safeguard shareholders' equity.
5 - Obtaining a suitable financial rating for the Company to facilitate better access to additional lines of credit at lower cost.
6 - Pursuing the implementation of Company's policy to instil institutional management practices to business entities in which it holds stakes.

Finally, while presenting this annual report, the Board of Directors, would seize the opportunity to thank the shareholding countries for their relentless support to the Company, and in particular the Government of the Kingdom of Saudi Arabia (the host country), and the government of the Kingdom of Bahrain (which hosts the wholesale banking branch), for the timely assistance they have always rendered to the Company through their various government agencies. At the same time, the Board would like to express deep appreciation for the support TAIC has always received from central banks and financial institutions in the shareholding countries, and from its clients in both public and private sectors. The Board would also like to thank the Company's staff for their dedication and collective efforts, which were instrumental in achieving optimal financial results for the year.

FINANCIAL RESULTS

Financial Statements

As of December 31, 2010

P.O. Box 2732
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King Fahad Road
Riyadh 11461, Saudi Arabia
Tel: +966 1 273 4740
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Registration No. 45

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
OF THE ARAB INVESTMENT COMPANY S.A.A.
(Arab Joint Stock Company)

We have audited the accompanying financial statements of The Arab Investment Company S.A.A. (the "Company"), which comprise the statement of financial position as at 31 December 2010 and the 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 information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 entity'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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
OF THE ARAB INVESTMENT COMPANY S.A.A. (continued)
(Arab Joint Stock Company)

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2010, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

for Ernst & Young

Fahad M. Al-Toaimi
Certified Public Accountant
Registration No. 354

Riyadh: 19 Jamad Awal 1432H
(23 April 2011)

THE ARAB INVESTMENT COMPANY S.A.A.
BALANCE SHEET
As Of 31 December 2010
All amounts in United States Dollars Thousands

	Notes	2010	2009
ASSETS			
Cash and deposits with banks	5	923,592	1,007,415
Investments:			
Securities	6	387,873	429,388
Equity participations	7	314,669	336,749
Loans and advances	8	551,365	783,119
Property and equipment	10	14,232	13,707
Investment property	10	5,544	5,637
Other assets	9	22,672	15,620
TOTAL ASSETS		2,219,947	2,591,635
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits	11	1,269,487	1,686,577
Derivative financial instruments	12	4,591	9,602
Other liabilities	13	26,301	26,248
TOTAL LIABILITIES		1,300,379	1,722,427
SHAREHOLDERS' EQUITY			
Share capital	14	700,000	600,000
Statutory reserve	15	80,972	75,682
Retained earnings		30,778	118,727
Proposed dividend	16	35,000	-
Fair value reserve	17	72,818	74,799
TOTAL SHAREHOLDERS' EQUITY		919,568	869,208
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,219,947**	**2,591,635**

The accompanying notes form an integral part of these financial statements.

THE ARAB INVESTMENT COMPANY S.A.A.

STATEMENT OF INCOME

As Of 31 December 2010

All amounts in United States Dollars Thousands

	Notes	2010	2009
Income			
Interest income		51,418	71,689
Interest expense		(12,379)	(36,756)
Net interest income		39,039	34,933
Gain on sale of equity participations		13,744	62
Dividends		12,207	14,028
Net gain on derivative financial instruments		4,943	13,864
Net fees and commissions	18	6,484	6,636
Net gain on investment securities	19	3,769	4,754
Net foreign exchange (loss) gain		(530)	2,316
Rental income		3,983	3,571
Other income		2,516	1,932
		86,155	82,096
Expenses			
General and administrative	20	(20,827)	(21,488)
Provisions	21	(12,429)	(6,588)
Total operating expenses		(33,256)	(28,076)
PROFIT FOR THE YEAR		52,899	54,020

The accompanying notes form an integral part of these financial statements.

THE ARAB INVESTMENT COMPANY S.A.A.
STATEMENT OF COMPREHENSIVE INCOME
As Of 31 December 2010
All amounts in United States DollarsThousands

	Notes	2010	2009
Profit for the year		52,899	54,020
Other comprehensive income			
Net fair value movement during the year	17	(1,981)	64,290
Total comprehensive income		**50,918**	118,310

The accompanying notes form an integral part of these financial statements.

THE ARAB INVESTMENT COMPANY S.A.A.
STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY
As Of 31 December 2010
All amounts in United States Dollars Thousands

	Notes	Share capital	Statutory Rreserve	Retained Eearnings	Proposed dividend	Fair value reserve	Total
Balance at 31 December 2008		600,000	70,280	70,424	-	10,509	751,213
Total comprehensive income		-	-	54,020	-	64,290	118,310
Transfer to statutory reserve	15	-	5,402	(5,402)	-	-	-
Board of directors' bonuses paid		-	-	(315)	-	-	(315)
Balance at 31 December 2009		**600,000**	**75,682**	**118,727**	**-**	**74,799**	**869,208**
Bonus Share issue	14	100,000	-	(100,000)	-	-	-
Total comprehensive income		-	-	52,899	-	(1,981)	50,918
Transfer to statutory reserve	15	-	5,290	(5,290)		-	-
Proposed dividend	16	-	-	(35,000)	35,000	-	-
Board of directors' bonuses paid		-	-	(558)	-	-	(558)
Balance at 31 December 2010		**700,000**	**80,972**	**30,778**	**35,000**	**72,818**	**919,568**

The accompanying notes form an integral part of these financial statements.

THE ARAB INVESTMENT COMPANY S.A.A.
STATEMENT OF CASH FLOWS
As Of 31 December 2010
All amounts in United States Dollars Thousands

	Notes	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		52,899	54,020
Adjustments to reconcile net income to net cash			
(used in) provided by operating activities:			
Gain on sale of equity participations		(13,744)	(62)
Impairment of available for sale securities	21	3,098	2,499
Depreciation	10	818	669
Gain on sale of property and equipment	10	(8)	-
Provisions	21	9,331	4,089
		52,394	61,215
Changes in operating assets and liabilities:			
Deposits with banks maturing after ninety days of acquisition	5	-	777,268
Financial assets at fair value through income statement		9,535	(9,589)
Loans and advances, net		224,923	470,457
Other assets		(7,052)	43,844
Deposits		(417,090)	(1,138,280)
Other liabilities		(4,958)	(33,391)
Net cash (used in) from operating activities		(142,248)	171,524
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds (addition) from sale and purchase			
of investment securities		38,417	42,846
Purchase of equity investments		(7,790)	(19,904)
Proceeds from disposal of equity participations		29,598	622
Additions to property and equipment and investment properties	10	(1,258)	(1,538)
Proceed from sale of property and equipment		16	-
Net cash from investing activities		58,983	22,026
CASH FLOWS FROM FINANCING ACTIVITIES			
Board of directors' bonuses paid		(558)	(315)
Net cash used in financing activities		(558)	(315)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(83,823)	193,235
Cash and cash equivalents, beginning of the year	5	1,007,415	814,180
CASH AND CASH EQUIVALENTS, END OF THE YEAR	5	**923,592**	1,007,415
Supplemental non cash information			
Net change in fair value reserve	17	**(1,981)**	64,290

The accompanying notes form an integral part of these financial statements.

1. GENERAL

The Arab Investment Company S.A.A. (the "Company") is an Arab joint stock company formed in July 1974 and owned by 17 Arab states. The Company's primary objective is the encouragement of investment and development in the Arab world through participation in commercially and economically viable projects. The Company has been granted all guarantees and concessions applicable to national, Arab and foreign investments by the laws of shareholder countries. In particular, its assets are granted full freedom of movement and are guaranteed against nationalisation, expropriation and other non-commercial risks.

The Company's head office is located at the following address:

P.O. Box 4009

Riyadh 11491

Kingdom of Saudi Arabia

The Company has a branch which operates as a wholesale bank in the Kingdom of Bahrain (the "Branch") under a license granted by the Central Bank of Bahrain (the "CBB")

Kingdom of Saudi Arabia (the host country) exempts the gross profits, the dividends and reserves of the Company from all taxes, fees and royalties throughout the duration of the Company. Additionally, the Bahrain branch is also exempted from all taxes in accordance with the laws of the Kingdom of Bahrain.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

The following new and amended standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Company:

- IFRS 2 Share-based payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010;
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39;

- IAS 39 Financial Instruments: Recognition and Measurements - Eligible Hedged items effective 1 July 2009;
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009; and
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations effective 1 January 2010.
- IAS 17 Leases – amendment effective for financial periods beginning on or after 1 January 2010.

2.1 Basis of preparation

The Company's financial statements are prepared in accordance with and comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Accounting convention

The financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and financial liabilities held at fair value through income statement and derivative financial instruments which are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The financial statements are presented in United States Dollars, which is the Company's functional and presentation currency. The figures shown in the financial statements are stated in USD thousands, except when indicated otherwise.

2.2 Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and are effective for future periods indicated below:

IAS 32 Financial Instruments (Revised): Presentation - Classification of Rights Issues

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity>s non-derivative equity instruments, or to acquire a fixed number of the entity>s own equity instruments for a fixed amount in any currency. This amendment is expected to have no significant impact on the Company upon initial application.

IAS 24 Related Party Disclosures

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Company does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities for the entire standard.

IFRS 9: Financial Instruments: Classification and Measurement

IFRS 9 was issued in November 2009 and replaces parts of IAS 39 relating to the classification and measurement of financial assets. The standard is effective for annual periods beginning on or after 1 January 2013. The Company is considering the implication of the standard, the impact on the Company and the timing of its adoption by the Company.

2.3 Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of Company are measured using the currency of the primary economic environment in which the Company operates (the “functional currency”).

b) Transactions and balances

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

Translation differences on non-monetary items, such as equities held as trading securities, are treated as part of fair value gain or loss in the statement of income. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets are included in comprehensive income.

c) Sale and repurchase agreements

Securities sold subject to repurchase agreements (<repos>) are retained in the financial statements and the counterparty liability is included in deposits from banks. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2.4 Financial assets

The Company classifies its financial assets in the following categories: financial assets at fair value through income statement; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

Purchases and sales of financial assets held at fair value through statement of income, held to maturity and available for sale are recognised on the trade-date, i.e., the date on which the Company commits to purchase or sell the asset.

a) Financial assets at fair value through income statement ("FVIS")

This category has two sub-categories: financial assets held for trading, and those designated at fair value through income statement at inception.

Financial assets held for trading

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as effective hedging instruments.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the statement of income. Gains and losses arising from changes in fair value are included directly in the statement of income. Interest income and expense and dividend income and expenses on financial assets held for trading are included in the statement of income.

Financial assets designated at fair value through income statement

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities at fair value through income statement are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial asset and liabilities designated at fair value through profit or loss'.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

a) those classified as at fair value through income statement (b) those designated as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value, which is the cash consideration to originate or purchase the financial asset including any transaction costs and measured subsequently at amortised cost using the effective interest rate method.

c) Held-to-maturity ("HTM") financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. If the Company were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

d) Available-for-sale ("AFS") financial assets

Available-for-sale financial assets are those 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, or that are not classified as loan and receivables, held to maturity investments or financial assets at fair value through income statement.

For financial assets where there is no quoted market price, including investments in equity participations in excess of 20% of the shareholding where the Company does not have significant influence over their operations and financial decisions, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the financial assets. Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income, except for impairment losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the statement of income. However, interest calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the statement of income.

e) Determination of fair value

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Company uses, in case of investments in funds, latest net asset valuation obtained from fund managers, and other valuation techniques including the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2.5 Financial liabilities

The Company holds financial liabilities at fair value through income statement (including financial liabilities held for trading and those designated at fair value) and at amortised cost. Financial liabilities are derecognised when extinguished.

a) Financial liabilities at fair value through income statement

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Company as at fair value through income statement upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the statement of income.

b) Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through income statement fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost include deposits from banks or customers.

2.6 Offsetting financial instruments

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.

2.7 Derecognition of financial assets and liabilities

a) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flow from the asset have expired.
- The Company has transferred its right to receive cash flow from the asset or has assumed an obligation to pay the received cash flows in full without material delay to the third party under a 'pass-through' arrangement; and either:
    - The Company has transferred substantially all the risks and rewards of the asset, or
    - The Company has neither transferred nor retained substantially all the risks and reward of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from the asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and reward of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the assets and the maximum amount of consideration that the Company could be required to repay.

b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

2.8 Derivative 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. All derivative financial instruments held by the Company are privately negotiated contracts and carried as assets when fair value is positive and as liabilities when fair value is negative. Fair values are obtained from counterparties or through the use of pricing services such as Bloomberg. Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value, when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried as held for trading. The changes in the fair values of such embedded derivatives are recognised in the statement of income.

2.9 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through income statement, are recognised within 'interest income' and 'interest expense' in the statement of income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated 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 the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.10 Fees and commission income

Fees and commissions are generally recognised on an accrual basis, when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Company has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

2.11 Dividend income

Dividends are recognised in the statement of income when the Company's right to receive payment is established. Dividend income is included in other income.

2.12 Impairment of financial assets

a) Assets carried at amortised cost

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets 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 the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. asset type and industry).

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Company and historical loss experience for assets with credit risk characteristics similar to those in the Company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

When a loan is uncollectible, 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.

b) Assets classified as available-for-sale

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of available-for-sale equity instruments, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of income, is recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of income, the impairment loss is reversed through the statement of income.

c) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due, but are treated as new loans.

2.13 Property and equipment

Property and equipment excluding land is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings and its improvements : 5 - 50 years,
- Furniture and equipment : 3 - 5 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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.

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

2.14 Investment property

Property held for long-term rental yields or for capital appreciation or both, which is not occupied by the Company is classified as investment property. Investment property principally comprises land, buildings (and equipment, fixtures and fittings which are an integral part of the buildings). Investment property is recorded at historical cost, net of accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the statement of income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their costs over their estimated useful lives as indicated under property and equipment.

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

2.15 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and balances with banks and time deposits with an original maturity of less than three months at the date of acquisition.

2.16 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

2.17 Employee benefits

Compensation costs

Company employee benefits and entitlements including entitlement for annual leave, holiday, air passage and other short term benefits are recognised as they accrue to the employees.

Pension plans

The Company's contributions to defined contribution pension plans are charged to the income statement in the year to which they relate. In respect of these plans, the Company has a legal and constructive obligation to pay the contributions as they fall due and no obligations exist to pay the future benefits.

Termination benefits

The staff indemnity provision is made based on an actuarial valuation of the Company's liability under the Saudi Arabian Labor and Workmen Law and in accordance with the local statutory requirements of the foreign branch.

2.18 Accounting for leases

a) Where the Company is the lessee

Leases entered into by the Company are all operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

b) Where the Company is the lessor

When assets are sold under a finance lease, the present value of the lease payments is recognised as a receivable and disclosed under "Loans and advances". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets granted on operating leases are included in the financial statement as investment property. Income from operating lease is recognised on a straight-line basis over the period of the lease.

3. FINANCIAL RISK MANAGEMENT

The Company's activities are exposed to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business.

The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

The Company's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by a Risk Management Department under policies approved by the Board of Directors. The Risk Management Department identifies, evaluates and manages financial risks in close co-operation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, market risk, liquidity risk and other operational risk. Market risk includes currency risk, interest rate and price risk.

3.1 Credit risk

The Company is exposed to credit risk, which is the risk that a counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Company's assets portfolio. There is also credit risk in non-funded financial instruments, such as loan commitments, documentary letters of credit, letters of guarantees, etc.

In management of this risk, the Company has established various procedures that inter alia, include the following:

- The credit and marketing team screens, reviews and continuously monitors all credit related areas on a global basis.
- Approval is obtained on the basis of credit recommendations prepared by designated account officers and reviewed by the Company's management.
- The Company has a system of ensuring that adequate security / collateral is in place in respect of funded and non-funded exposures.

Concentration of credit risk arises when the counterparties are engaged in similar business activities or activities in the same geographic region. The risk associated with such concentration is that the exposure would be substantial in the event of a common trend affecting that industry / geographic region. Concentration of credit risk by geographic region and industry relating to loans and advances is given in Note 3.1.7.

To mitigate this risk, the Company spreads its exposure, to the extent possible, over various types of counterparties. However, where concentration is inevitable, the Company seeks to take adequate precautions to reduce this additional risk to acceptable levels.

3.1.1 Credit risk measurement

a) Loans and advances

The Company reviews the creditworthiness of the counterparties to which loans and advances are extended at a counterparty level. The Company also performs an overall collective assessment of its loan portfolio on an annual basis.

Assets are reclassified from the "Regular" grade to the below internal rating scale of the Company, when the obligor financial status indicates possible problems. Therefore, so long as the assets are regular in paying back its dues on time, the assets are not subject to the below classification.

Company rating	Description of the grade	Explanation
A	Watch	Applies to assets which are settled on agreed dates but where careful analysis of the obligor's financial status indicates possible problems or weaknesses in his financial position A. or the collaterals provided which might affect his future ability to pay on time.
B	Sub-Standard	Applies to assets where repayment of installments and or interest are delayed for a period of 90 days or less and their full settlement is in doubt, and there is a significant detorioration in their value of collaterals.
C	Doubtful	Applies to assets for which the repayment of the installments and or interest are delayed for a period of 180 days. These assets contain all detorioration indicators that are included under the category (B) Sub-Standard with the added characteristics that the weaknesses make collectionor liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.
D	Loss	Applies to assets for which the repayment of the interest, principal or any due installments are delayed for a period of 270 days. These assets are consodered uncollectible as bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or desirable to differ classifying the asset under this category even though partial recovery may be effected in the futuer.

The Company uses the above ratings in its internal credit risk assessment. Observed defaults per rating category vary year on year, especially over an economic cycle.

Exposure at default is based on the amounts that Company expects to be owed at the time of default. For example, for a loan, this is the face value. For a commitment, the Company includes any amount that may be drawn by the time of default.

(b) Debt securities and other bills

For debt securities and other bills, external rating such as Standard & Poor's, Fitch and Moody's ratings are used by the Company's treasury for managing the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

(c) Derivatives

Credit risk exposure from derivatives is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral is not usually obtained for credit risk exposures on these instruments.

(d) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Company on behalf of a customer authorising a third party to draw drafts on the Company up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Company is potentially exposed to loss in an amount equal to the total unused commitments.

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

3.1.2 Risk limit control and mitigation policies

The Company manages limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and the Company, and to industries and countries.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or the Company's borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved by the Board of Directors.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Some other specific control and mitigation measures are outlined below:

a) Collateral

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

b) Settlement risk

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Company's market transactions on any single day.

c) Master netting arrangements

The Company further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions.

3.1.3 Impairment and provisioning policies

The internal rating systems described in Note 3.1.1 focus more on credit quality mapping from the inception of the lending activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. However, the majority of the impairment provision comes from the bottom two gradings. The table below shows the percentage of the Company's funded and non-funded exposures relating to loans and advances and the associated impairment provision for each of the Company's internal rating categories:

	2010		2009	
	Loans and advances	Impairment Provision	Loans and advances	Impairment Provision
	%	%	%	%
Regular	77	2	85	2
Watch	5	-	2	-
Sub-Standard	10	20	7	6
Doubtful	3	57	3	42
Loss	5	86	3	95
Total	100		100	

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum Exposure	
	2010	**2009**
Credit risk exposures relating to funded exposures are as follows:		
Deposits with banks	923,586	1,007,409
Overdrafts	100,372	100,703
Loans and advances to banks	353,322	415,641
Loans and advances to non banks	97,671	266,775
Trading debt securities	9,138	18,225
Investment debt securities	343,315	372,866
Interest receivable	13,971	9,799
	1,841,375	2,191,418
Credit risk exposures relating to non-funded exposures are as follows:		
Contingent liabilities		
Loan commitments	5,250	15,000
Letters of credit commitments	89,568	97,061
Credit derivatives - Unfunded credit default swaps	53,000	58,000
At 31 December	**1,989,193**	**2,361,479**

The above table represents a worst case scenario of credit risk exposure to the Company at 31 December 2010 and 2009, without taking account of any collateral held or other credit enhancements attached. For funded assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 28% of the total maximum exposure is derived from loans and advances (including overdrafts) to banks and non banks at 31 December 2010 (2009: 33%); and 17% represents investments in debt securities (2009: 16%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Company resulting from both its loans and advances portfolio and debt securities based on the following:

- 77% of the overdraft, loans and advances portfolio is categorised in the first grade of the internal rating system - regular grade at 31 December 2010 (2009: 85 %);
- 82% of the gross loans and advances portfolio are considered to be neither past due nor impaired at 31 December 2010 (2009: 87%); and
- 54% of the debt securities have at least a credit rating of A – (as rated by Standard & Poor’s or its equivalent) at 31 December 2010 (2009: 43%).

3.1.5 Credit Quality of Financial Assets

The credit exposure as at 31 December is summarised as follows:

31 December 2010	Neither past due nor Impaired		Past due but not impaired	Individually impaired	Total
	Regular	Watch			
Deposit with banks	923,586	-	-		923,586
Debt securities	352,453	-	-	19,100	371,553
Loans and advances					
- Overdrafts	100,372	-	-	-	100,372
- Loans and advances to banks	302,998	30,000	500	31,571	365,069
- Loans and advances to non-banks	66,042	-	-	78,248	144,290
Interest receivable and other assets	13,902	69	-	-	13,971
Total	**1,759,353**	**30,069**	**500**	**128,919**	**1,918,841**

31 December 2009	Neither past due nor Impaired		Past due but not impaired	Individually impaired	Total
	Regular	Watch			
Deposit with banks	1,007,409	-	-	-	1,007,409
Debt securities	391,091	-	-	17,500	408,591
Loans and advances					
- Overdrafts	100,703	-	-	-	100,703
- Loans and advances to banks	389,112	-	7,208	29,667	425,987
- Loans and advances to non-banks	217,523	13,450	30,085	49,583	310,641
Interest receivable and other assets	8,956	2	841	-	9,799
Total	**2,114,794**	**13,452**	**38,134**	**96,750**	**2,263,130**

Amounts in respect of debt securities are disclosed before collective impairment of USD 2.5 million

The total impairment provision for loans and advances as at 31 December 2010 is US$ 58.36 million (31 December 2009: US$ 54.21 million). Further information of the impairment allowance for overdrafts, loans and advances is provided in Note 8.

Total impairment provision for debt securities as at 31 December 2010 is US$ 19.1 million (31 December 2009: US$ 17.50 million)

(a) Age analysis of past due but not impaired financial assets

Financial assets less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Financial assets more than 90 days past due are considered impaired unless there is available information to indicate the contrary, such as availability of sufficient collateral or pledged securities. Gross amount of loans and advances that were past due but not impaired were as follows:

At 31 December 2010 past due but not impaired loans and advances of US$ 0.5 million are past due by more than 90 days. Refer table below for comparative information.

	Days past due				
31 December 2009	**Up to 30 days**	**30 - 60 days**	**60 - 90 days**	**Over 90 days**	**Total**
Loans and advances					
- Loans and advances to banks	-	-	-	7,208	7,208
- Loans and advances to non-banks	-	-	9,990	20,095	30,085
Interest receivable and other assets	-	-	841	-	841
	-	-	10,831	27,303	38,134

(b) Financial assets renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated financial assets that would otherwise be past due or impaired totalled US$ 6.19 million at 31 December 2010 (2009: US$ 8.85 million).

3.1.6 Debt Securities

The table below presents an analysis of debt securities, at 31 December 2010 and 2009, based on Standard & Poor's rating or its equivalent:

		US$ 000	
31 December 2010	**FVIS**	**Investment securities**	**Total**
A to A+	-	189,613	189,613
Lower than A-	9,138	93,798	102,936
Unrated	-	59,904	59,904
Total	**9,138**	**343,315**	**352,453**

		US$'000	
31 December 2009	**FVIS**	**Investment securities**	**Total**
A to A+	-	167,961	167,961
Lower than A-	18,225	90,638	108,863
Unrated	-	114,267	114,267
Total	**18,225**	**372,866**	**391,091**

3.1.7 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

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

			US$'000		
	Gulf	**Other Arab countries**	**Asia**	**Western Europe**	**Total**
Deposits with banks	681,734	56,258	40,150	145,444	923,586
Overdrafts	-	100,372	-	-	100,372
Loans and advances	136,673	277,467	35,591	1,262	450,993
Debt securities	184,278	29,915	15,270	122,990	352,453
Interest receivable	3,197	9,967	363	444	13,971
At 31 December 2010	**1,005,882**	**473,979**	**91,374**	**270,140**	**1,841,375**
At 31 December 2009	1,089,147	598,871	142,494	360,906	2,191,418
Non-funded exposures:					
At 31 December 2010	**29,894**	**84,894**	**18,000**	**15,030**	**147,818**
At 31 December 2009	25,000	106,734	18,297	20,030	170,061

(b) Industry sectors

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

US$'000

	Banks	Manufacturing	Real Estate	Telecom	Sovereign sector	Other Industries	Total
Deposits with banks	923,586	-	-	-	-	-	923,586
Overdrafts	100,371	1	-	-	-	-	100,372
Loans and advances	385,110	48,147	9,287	1,155	-	7,294	450,993
Investment debt securities	238,994	36,031	8,241	5,715	40,343	23,129	352,453
Interest receivable	12,648	263	34	43	448	535	13,971
At 31 December 2010	**1,660,709**	**84,442**	**17,562**	**6,913**	**40,791**	**30,958**	**1,841,375**
At 31 December 2009	1,906,828	115,766	52,174	32,218	55,600	28,832	2,191,418
Non-funded exposures:							
At 31 December 2010	**104,841**	**9,644**	**-**	**-**	**20,000**	**13,333**	**147,818**
At 31 December 2009	131,728	10,000	-	-	15,000	13,333	170,061

3.2 Market risk

The Company takes anon exposure to market risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Company separates exposures to market risk into either trading or non-trading portfolios.

Non-trading portfolios primarily arise from the interest rate management of the entity' banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Company's held-to-maturity and available-for-sale investments.

(a) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect either the fair values or the future cash flows of the financial instrument.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company takes exposures which are subject to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise.

The following table depicts the sensitivity to a reasonable change in interest rates, with other variables held constant, on the Company's statement of income. The sensitivity of the income is the effect of the assumed changes in interest rates on the floating rate non-trading financial assets and financial liabilities held at December 31. Should market interest rates increase by the amounts shown in the table, net income will be affected as mentioned below. An equal decrease in the rates will result in an equal and opposite effect.

	US$'000							
Interest rate risk 2010	**USD 100BP**	**EUR 100BP**	**AED 100BP**	**SAR 100BP**	**JOD 100BP**	**QAR 100BP**	**Other 100BP**	**Total**
Financial assets:								
Deposit with banks	3,801	973	2,209	227	212	1,659	94	9,175
Overdrafts, loans and advances	2,046	29	-	-	-	-	216	2,291
Debt securities	1,251	940	191	100	-	-	-	2,482
Impact of Financial assets	**7,098**	**1,942**	**2,400**	**327**	**212**	**1,659**	**310**	**13,948**
Financial liabilities:								
Deposits	(8,590)	(1,799)	-	(578)	(212)	-	(221)	(11,400)
Impact of Financial liabilities	**(8,590)**	**(1,799)**	**-**	**(578)**	**(212)**	**-**	**(221)**	**(11,400)**
Impact on the results of the Company	**(1,492)**	**143**	**2,400**	**(251)**	**-**	**1,659**	**89**	**2,548**

Interest rate risk 2009	USD 100BP	EUR 100BP	AED 100BP	SAR 100BP	JOD 100BP	QAR 100BP	Other 100BP	Total
	US$'000							
Financial assets:								
Deposits with banks	4,875	1,843	17	24	-	1,867	1,352	9,978
Overdrafts, loans and advances	3,896	124	-	-	-	-	250	4,270
Debt securities	2,157	862	95	100	-	-	102	3,316
Impact of financial assets	**10,928**	**2,829**	**112**	**124**	**-**	**1,867**	**1,704**	**17,564**
Financial liabilities:								
Deposits	(10,359)	(2,545)	-	(541)	-	-	(1,442)	(14,887)
Impact of Financial liabilities	**(10,359)**	**(2,545)**	**-**	**(541)**	**-**	**-**	**(1,442)**	**(14,887)**
Impact on the results of the Company	**569**	**284**	**112**	**(417)**	**-**	**1,867**	**262**	**2,677**

(b) Equity price risk

Equity risk refers to the risk of decrease in fair values of equities in the Company's investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks. The effect on the Company's equity investment held as held for trading and available for sale due to reasonable change in equity indices, with all other variables held constant, is as follows:

Equity classification	2010			2009		
	Change in equity price/ fund NAV %	Effect on net income	Effect on equity	Change in equity price/ fund NAV%	Effect on net on income	Effect Equity
Trading equity	±10	±205	-	±10	±308	-
Available for sale equity	±10	-	±2,541	±10	-	±2,567
Equity participations - quoted	±10	-	±13,947	±10	-	±15,851

(c) Foreign exchange risk

The Company takes an exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intraday positions, which are monitored daily. The table below summarises the Company's exposure to foreign currency exchange rate risk at December 31. Included in the table are the Company's financial instruments at carrying amounts, categorised by major currencies. Other classes of assets and liabilities are not included in the table since they are not considered in the monitoring of currency risk exposure.

Concentrations of currency risk - financial instruments:

As at 31 December 2010	USD	EUR	AED	SAR	JOD	QAR	Others	Total
Cash and deposits with banks	382,906	99,363	220,946	23,353	21,234	165,901	9,889	923,592
Financial assets at fair value through income statement	9,486	-	-	-	-	-	1,703	11,189
Investments securities:								
-Available for sale	173,638	87,165	8,671	32,447	-	-	24,370	326,291
-Held to maturity	31,762	8,973	9,551	-	-	-	107	50,393
Overdrafts	100,152	176	44	-			-	100,372
Equity participation	87,304	-	-	85,087	29,476	-	112,802	314,669
Loans and advances	414,732	11,423	-	3,200	-	-	21,638	450,993
Other assets	10,819	715	1,048	8,570	14	292	331	21,789
Total financial assets	**1,210,799**	**207,815**	**240,260**	**152,657**	**50,724**	**166,193**	**170,840**	**2,199,288**
Derivative financial instruments	(4,591)	-	-	-	-	-	-	(4,591)
Deposits	(941,410)	(210,844)	(1,047)	(63,325)	(21,177)	-	(31,684)	(1,269,487)
Other liabilities	(4,890)	(970)	-	(15,119)	(10)	-	(211)	(21,200)
Total financial liabilities	**(950,891)**	**(211,814)**	**(1,047)**	**(78,444)**	**(21,187)**	**-**	**(31,895)**	**(1,295,278)**
Net open position	**259,908**	**(3,999)**	**239,213**	**74,213**	**29,537**	**166,193**	**138,945**	**904,010**
Credit commitments	**32,294**	**42,234**	**2,573**	**17,717**	**-**	**-**	**-**	**94,818**
As at 31 December 2009								
Total financial assets	1,553,403	351,790	14,311	110,677	37,346	187,038	317,537	2,572,102
Total financial liabilities	(1,662,905)	(302,451)	(763)	(73,314)	-	-	(160,074)	(2,199,507)
Net open position	(109,502)	49,339	13,548	37,363	37,346	187,038	157,463	372,595
Credit commitments	49,344	40,793	2,803	14,355	-	-	4,766	112,061

United States Dollars is the functional currency of the Company. The Company does not therefore have a foreign exchange risk to United States Dollars exposures and balances are provided for information only

3.3 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

3.3.1 Liquidity risk management process

The Company's liquidity management process, as carried out within the Company and monitored by a separate team in the Company's treasury, includes:

- Day to day funding managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or is borrowed by customers. The Company maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting takes the form of cash flow measurement and projections for the next day, week and month, respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets. The Company's treasury also monitors unmatched medium term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

3.3.2 Non-derivative cash flows

The table below presents the cash flows payable by the Company under non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Company manages the inherent liquidity risk based on expected undiscounted cash inflows not resulting in a significantly different analysis.

As at 31 December 2010	1 - 3 months	3 - 12 months	Total
Liabilities			
Deposits	812,145	457,342	1,269,487
Other liabilities	2,490	8,212	10,702
Total liabilities (contractual maturity dates)	**814,635**	**465,554**	**1,280,189**
Assets held for managing liquidity risk (contractual maturity dates)	**995,355**	**442,864**	**1,438,219**
As at 31 December 2009	**1 - 3 months**	**3 - 12 months**	**Total**
Liabilities			
Deposits	1,065,127	621,450	1,686,577
Other liabilities	3,077	8,024	11,101
Total liabilities (contractual maturity dates)	**1,068,204**	**629,474**	**1,697,678**
Assets held for managing liquidity risk (contractual maturity dates)	**1,126,508**	**432,560**	**1,559,068**

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, deposits with banks, items in the course of collection, loans and advances to banks; and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The Company would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources.

3.3.3 Derivative cash flows

The Company's derivatives that will be settled on a gross basis comprise foreign currency swaps and interest rate swaps. The table below sets out the Company's assets/liabilities that will be settled on a gross basis, into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 31 December 2010	Up to 1 Month	1 - 3 months	3 - 12 Months	1 - 5 years	Total
Derivatives held for trading					
Foreign exchange derivatives: Outflow	222,155	211,463	41,766	-	475,384
Inflow	222,074	211,372	41,717	-	475,163
Interest rate derivatives: Outflow	-	-	1,930	2,337	4,267
Inflow	38	103	424	966	1,531
Total outflow	**222,155**	**211,463**	**43,696**	**2,337**	**479,651**
Total inflow	**222,112**	**211,475**	**42,141**	**966**	**476,694**

As at 31 December 2009	Up to 1 Month	1 - 3 months	3 - 12 Months	1 - 5 years	Total
Derivatives held for trading					
Foreign exchange derivatives: Outflow	284,153	2,668	26,783	-	313,604
Inflow	284,270	2,667	26,685	-	313,622
Interest rate derivatives: Outflow	-	-	837	2,860	3,697
Inflow	64	63	427	1,067	1,621
Total outflow	**284,153**	**2,668**	**27,620**	**2,860**	**317,301**
Total inflow	**284,334**	**2,730**	**27,112**	**1,067**	**315,243**

3.4 Fair value of financial assets and liabilities

(a) Financial instruments measured at fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges (for example, FTSE, NYSE) and broker quotes from Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques.

The fair value of over-the-counter (OTC) derivatives is determined using valuation methods that are commonly accepted in the financial markets, such as present value techniques. The fair value of foreign exchange forwards is generally based on current forward exchange rates.

(b) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

Assets and liabilities measured at fair value

31 December 2010	Level 1	Level 2	Level 3	Total
Financial assets at fair value through income statement				
- Debt securities	9,138	-	-	9,138
- Equity securities	2,051	-	-	2,051
Available for sale financial assets				
- Investment securities equity	7,960	-	-	7,960
- Investment securities debts	234,649	58,273	-	292,922
- Investment securities – funds	-	25,409	-	25,409
- Equity participations	131,754	-	182,915	314,669
Total assets	**385,552**	**83,682**	**182,915**	**652,149**
Financial liabilities at FVIS				
- Derivative financial instruments	-	4,591	-	4,591
Total liabilities	**-**	**4,591**	**-**	**4,591**

31 December 2009	Level 1	Level 2	Level 3	Total
Financial assets at fair value through income statement				
- Debt securities	18,225	-	-	18,225
- Equity securities	2,600	-	-	2,600
Available for sale financial assets				
- Investment securities equity	8,211	-	-	8,211
- Investment securities debts	250,064	74,485	-	324,549
- Investment securities – funds	-	5,231	-	5,231
- Equity participations	151,369	-	185,380	336,749
Total assets	**430,469**	**79,716**	**185,380**	**695,565**
Financial liabilities at FVIS				
- Derivative financial instruments	-	9,602	-	9,602
Total liabilities	**-**	**9,602**	**-**	**9,602**

At 31 December 2009, available for sale financial assets of US$ 22,077 thousand were carried at cost.

(c) Financial instruments not measured at fair value

The estimated fair value of the Company's other financial assets and liabilities not presented on the statement of financial position at their fair values are not significantly different from their respective carrying values.

3.5 Capital management

The Company's objectives when managing capital, which is a broader concept than the 'equity' are:

- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continuously evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances and debt securities

The Company reviews its loan and debt security portfolios to assess impairment at least on a semi-annual basis. In determining whether an impairment loss should be recorded in the statement of income; the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of the borrower. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of available-for-sale investment securities

The Company determines that available-for-sale investment securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates amongst other factors, whether there is deterioration in the financial health of the investee, industry or sector performance, changes in technology, and operational and financing cash flows.

Going concern

The Company's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

5. CASH AND DEPOSITS WITH BANKS

Cash and deposits with banks as of 31 December comprise the following:

	2010	2009
Cash and cash equivalents:		
Cash on hand and in banks	4,248	9,642
Time deposits maturing within ninety days of acquisition	919,344	997,773
Total	**923,592**	**1,007,415**

6. INVESTMENT SECURITIES

Investment securities as of 31 December comprise the following:

	2010	2009
a) Financial assets at fair value through **income statement (FVIS)**		
Equity securities	2,051	2,600
Debt securities	9,138	18,225
Total	**11,189**	**20,825**
b) **Available-for-sale securities**		
Equity securities	7,960	8,211
Debt securities	292,922	324,549
Investment fund	25,409	27,308
Total	**326,291**	**360,068**
c) Held-to-maturity securities		
Debt securities	50,393	48,317
Investment fund	-	178
Total	**50,393**	**48,495**
Total investments	**387,873**	**429,388**

The movement in investment securities is summarised below:

	FVIS	Available-for-sale	Held-to-maturity	2010	2009
At 1 January	20,825	360,068	48,495	429,388	407,945
Exchange differences	(185)	(8,609)	(876)	(9,670)	1,010
Additions	-	69,519	9,700	79,219	44,707
Disposals (sale, maturity and redemption)	(10,155)	(104,222)	(7,310)	(121,687)	(82,097)
Change in fair value	704	9,535	-	10,239	57,200
Accretion of discount	-	-	384	384	623
At 31 December	**11,189**	**326,291**	**50,393**	**387,873**	**429,388**

Included in the above are securities pledged under repurchase agreements with banks whose carrying value at 31 December 2010 is US$ 107.5 million (2009: US$ 174.3 million).

7. INVESTMENTS IN EQUITY PARTICIPATIONS

Investments in equity participations as of 31 December comprise the following:

	2010	2009
Quoted	**131,754**	151,369
Unquoted	**182,915**	185,380
Total	**314,669**	336,749

2010

Country / Project	Quoted shares	Original cost of participation	Fair value of participation	Percentage Of shareholding
Kingdom of Morocco				
Cellulose du Maroc		17,568	8,527	27.3
Société Ryad Soualem S.A.		1,977	1,855	33.0
Maroc Leasing Company	Quoted	4,764	10,223	5.7
		24,309	**20,605**	
Kingdom of Saudi Arabia				
Saudi Hotel Services Company		5,855	5,855	20.0
Pharmaceutical Solutions Industry Limited Company		5,124	5,124	19.0
Al-Ahsa Medical Services Company		5,000	3,325	12.5
Saudi International Petrochemical Company	Quoted	17,995	47,379	1.9
Middle East Financial Investment Company		16,000	14,361	15.0
National Trigeneration CHP Company		9,043	9,043	9.9
		59,017	**85,087**	
Syrian Arab Republic				
Syrian Arab Company for Hotels and Tourism		**2,272**	**1,946**	20.5
Republic of Sudan				
Kenana Sugar Company		62,395	30,116	7.0
Sudatel Group for Communication (“SUDATEL”)	Quoted	20,733	20,052	2.1
Financial Investment Bank	Quoted	4,441	7,962	20.8
Berber Cement Company		14,757	14,757	16.4
The Arab Leasing company		9,000	9,000	30.0
		111,326	**81,887**	

7. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

Republic of Tunisia				
Société Tunisienne de Banque	**Quoted**	1,918	1,421	0.4
Société Arabe des Industries Pharmaceutiques		867	867	3.9
Société Arab Internationale Lease		1,881	1,881	20.0
		4,666	**4,169**	
Arab Republic of Egypt				
Allianz Insurance Company - Egypt		853	853	10.0
Arab International Company for Hotels and Tourism		12,700	12,700	13.6
The Arab Company for Special Steel		5,081	-	5.5
Egyptian Propylene and Polypropylene Company		27,630	27,630	10.0
International Company for Leasing		7,901	6,535	10.0
		54,165	**47,718**	
Peoples' Democratic Republic of Algeria				
Arab Banking Corporation - Algeria		3,171	3,171	4.2
Arab Leasing Corporation		10,694	10,694	25.0
		13,865	**13,865**	
The Hashemite Kingdom of Jordan				
Arab Jordan Investment Bank	**Quoted**	11,849	20,549	10.3
Jordan Paper & Cardboard Manufacturing Company	**Quoted**	2,862	1,638	26.7
Arab International Hotels Company	**Quoted**	7,787	7,289	8.4
		22,498	**29,476**	
Republic of Iraq				
Arab Company for Detergent Chemicals		6,955	70	6.0
Arab Company for Antibiotics Industries		6,891	6,891	12.4
		13,846	**6,961**	
Kingdom of Bahrain				
Arab Banking Corporation	**Quoted**	**15,723**	**6,605**	0.4

Republic of Lebanon				
Uniceramic Company		**1,765**	**-**	10.0
Sultanate of Oman				
Taageer Finance Company	**Quoted**	5,807	8,635	18.4
Pan-Arab				
The Arab Company for Livestock Development - Syria		3,559	3,559	1.7
Arab Mining Company - Jordan		2,156	2,156	1.1
Arab Trade Financing Program - Abu Dhabi		2,000	2,000	0.4
		7,715	**7,715**	
Total		**336,974**	**314,669**	

2009

Country / Project	Quoted shares	Original cost of participation	Fair value of participation	Percentage Of shareholding
Kingdom of Morocco				
Cellulose du Maroc		17,568	9,488	27.3
Société Ryad Soualem S.A.		1,977	1,841	33.0
Maroc Leasing Company	**Quoted**	4,764	7,477	10.0
		24,309	**18,806**	
Kingdom of Saudi Arabia				
Saudi Hotel Services Company		5,855	5,855	20.0
Pharmaceutical Solutions Industry Limited Company		5,124	5,124	19.0
Al-Ahsa Medical Services Company		5,000	3,565	12.5
Saudi International Petrochemical Company	**Quoted**	17,995	40,647	1.9
Arab Submarine Cables Company		1,000	1,000	2.9
Middle East Financial Investment Company		16,000	14,544	15.0
National Trigeneration CHP Company		9,043	9,043	9.9
		60,017	**79,778**	

Syrian Arab Republic				
Syrian Arab Company for Hotels and Tourism		**2,272**	**1,228**	**20.5**
Republic of Sudan				
Kenana Sugar Company		62,395	30,116	7.0
Sudatel Group for Communication(“SUDATEL”)	**Quoted**	20,733	32,174	2.1
Financial Investment Bank	**Quoted**	3,085	6,550	17.6
Berber Cement Company		10,500	10,500	15.0
The Arab Leasing company		9,000	9,000	30.0
		105,713	**88,340**	
Republic of Tunisia				
Société Tunisienne de Banque	**Quoted**	1,918	1,176	0.4
Société Arabe des Industries Pharmaceutiques		867	867	3.9
Société Arab Internationale Lease		1,881	1,881	20.0
		4,666	**3,924**	
Arab Republic of Egypt				
Allianz Insurance Company - Egypt		306	306	10.0
Arab International Company for Hotels and Tourism		12,700	12,700	13.6
The Arab Company for Special Steel		5,081	342	5.5
Ahli United Bank	Quoted	13,251	16,316	4.2
Egyptian Propylene and Polypropylene Company		26,000	26,000	10.0
International Company for Leasing		7,901	5,170	10.0
		65,239	**60,834**	
Peoples’ Democratic Republic of Algeria				
Arab Banking Corporation - Algeria		3,171	3,171	10.0
Arab Leasing Corporation		10,693	10,746	25.0
		13,864	**13,917**	
The Hashemite Kingdom of Jordan				
Arab Jordan Investment Bank	**Quoted**	11,849	18,681	10.3
Jordan Paper & Cardboard Manufacturing Company	**Quoted**	2,862	3,165	26.7

Indo-Jordan Chemicals Company Ltd.		8,181	8,181	13.0
Arab International Hotels Company	**Quoted**	7,787	6,992	8.4
		30,679	**37,019**	
Republic of Iraq				
Arab Company for Detergent Chemicals		6,955	106	6.0
Arab Company for Antibiotics Industries		6,891	6,891	12.4
		13,846	6,997	
Kingdom of Bahrain				
Arab Banking Corporation	**Quoted**	**15,723**	**8,678**	**0.7**
Republic of Lebanon				
Uniceramic Company		1,765	129	10.0
Sultanate of Oman				
Taageer Finance Company	**Quoted**	3,542	9,384	18.0
Pan-Arab				
The Arab Company for Livestock Development - Syria		3,559	3,559	1.7
Arab Mining Company - Jordan		2,156	2,156	1.1
Arab Trade Financing Program - Abu Dhabi		2,000	2,000	0.4
		7,715	**7,715**	
Total		**349,350**	**336,749**	

Effective beginning of 2001, the Company applied prospectively IAS 39 Financial Instruments: Recognition and Measurement, which requires the reevaluation of available-for-sale investments at fair value and the recognition of any unrealised gains or losses resulting from the revaluation in the fair value reserve within comprehensive income rather than statement of income, as it was previously recognised.

8. LOANS AND ADVANCES

Loans and advances as of 31 December comprise the following:

	2010	2009
Overdrafts	100,372	100,703
Short term facilities	222,050	275,735
Bills discounted	4,825	16,671
Loans and advances	**282,484**	**444,222**
Total loans and advances	609,731	837,331
Provision for impairment on loans and advances	(58,366)	(54,212)
Loans and advances, net	**551,365**	**783,119**

Movement in provision:		
At 1 January 2010	**54,212**	51,826
Provision for the year (see Note 21)	21,464	7,203
Written off during the year	(2,677)	(1,703)
Recoveries during the year (see Note 21)	(14,633)	(3,114)
At 31 December 2010	**58,366**	**54,212**

9. OTHER ASSETS

Other assets as of 31 December comprise the following:

	2010	2009
Accrued income	19,568	13,276
Other receivables	3,104	2,344
Total	**22,672**	**15,620**

10. PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY

10.1 Property and equipment:

Property and equipment as of 31 December comprise the following:

				Total	
	Freehold improvements	Building and its equipment	Furniture and equipment	2010	2009
Cost:					
At 1 January 2010	5,481	18,556	10,618	34,655	33,326
Adjustment	202	-	-	202	204
Additions during the year	-	-	1,001	1,001	1,265
Disposals during the year	-	-	(91)	(91)	(140)
At 31 December 2010	5,683	18,556	11,528	35,767	34,655
Accumulated depreciation:					
At 1 January	-	(12,160)	(8,788)	(20,948)	(20,577)
Charge for the year	-	(267)	(403)	(670)	(511)
Related disposals	-	-	83	83	140
At 31 December 2010	-	**(12,427)**	**(9,108)**	**(21,535)**	**(20,948)**
Net book value:					
At 31 December 2010	**5,683**	**6,129**	**2,420**	**14,232**	**13,707**
At 31 December 2009	**5,481**	**6,396**	**1,830**	**13,707**	**12,749**

10.2 Investment property:

Investment property, net as of 31 December comprises the following:

	2010	2009
Cost:		
At 1 January 2010	30,361	30,292
Additions during the year	55	69
At 31 December 2010	30,416	30,361
Accumulated depreciation:		
At 1 January 2010	(24,724)	(24,566)
Charge for the year	(148)	(158)
At 31 December 2010	**(24,872)**	**(24,724)**
Net book value:	**5,544**	**5,637**

The fair value of investment property at 31 December 2010 amounted to approximately US$ 26 million (2009: US$ 27 million).

11. DEPOSITS

Deposits as of 31 December comprise the following:

	2010	2009
Deposits by banks	954,572	1,421,342
Deposits by non-banks	314,915	265,235
Total	**1,269,487**	**1,686,577**

Included in the above are deposits raised under repurchase agreements whose carrying value as at 31 December 2010 is US$ 94.4 million (2009: US$ 145.3 million).

12. DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Company enters into various types of transactions that involve derivative financial instruments. The table below shows the positive (assets) and negative (liabilities) fair values of derivative financial instruments together with their notional amounts. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

	2010		
		Fair value	
	Contract/Notional Amount	Assets	Liabilities
Held for trading			
Credit derivatives:	53,000	-	2,422
Credit- default swaps			
Interest rate derivatives:			
Interest rate swap	35,000	-	1,800
Foreign exchange derivatives:			
Currency swaps	475,353	139	369
Total		**139**	**4,591**

	2009		
		Fair value	
	Contract/Notional Amount	Assets	Liabilities
Held for trading			
Credit derivatives:	58,000	-	7,310
Credit- default swaps			
Interest rate derivatives:			
Interest rate swap	25,000	-	1,854
Foreign exchange derivatives:			
Currency swaps	311,217	436	438
Total		**436**	**9,602**

13. OTHER LIABILITIES

Other liabilities as of 31 December comprise the following:

	2010	2009
Accounts payable and accrued expenses	5,073	4,149
Deferred income	2,572	2,593
Employees' benefits (See Table below)	14,449	13,999
Interest payable	4,207	5,507
Total	**26,301**	**26,248**

Employees benefits as of 31 December comprises the following:

	Employees saving schemes	Provision for end of service indemnity	Provision for leave	2010	2009
At 1 January	1,530	11,024	1,445	13,999	12,984
Charge for the year	204	1,336	919	2,459	2,553
Provisions utilised	-	(1,225)	(942)	(2,167)	(1,183)
Other movement	158	-	-	158	(355)
At 31 December	**1,892**	**11,135**	**1,422**	**14,449**	**13,999**

14. SHARE CAPITAL

The share capital with a par value of US$ 1,000 each as of 31 December comprises the following:

	2010		2009	
	No. of shares	Amount	No. of Shares	Amount
Authorised	800,000	800,000	800,000	800,000
Fully paid	700,000	700,000	600,000	600,000

During the current year, the Board of Directors resolved to increase the fully paid-up share capital to USD 700 million by capitalising USD 100 million from retained earnings, which was approved by the General Assembly in their meeting on 19 June 2010. All legal formalities to effect this increase have been completed.

The ownership of the shareholders after the paid-up share capital increase as at 31 December is as follows:

	Ownership percentage	2010	2009
Kingdom of Saudi Arabia	15.68	109,744	94,066
State of Kuwait	15.68	109,744	94,066
United Arab Emirates (Abu Dhabi)	15.68	109,744	94,066
Republic of Iraq	10.48	73,387	62,903
State of Qatar	8.19	57,350	49,158
Arab Republic of Egypt	6.97	48,775	41,807
Syrian Arab Republic	6.97	48,775	41,807
Great Socialist Peoples> Libyan Arab Jamahiriya	6.97	48,775	41,807
Republic of Sudan	2.68	18,744	16,066
Kingdom of Bahrain	1.71	11,969	10,259
Republic of Tunisia	1.71	11,969	10,259
Kingdom of Morocco	1.71	11,969	10,259
Sultanate of Oman	1.71	11,969	10,259
Republic of Lebanon	1.61	11,287	9,675
People's Democratic Republic of Algeria	1.61	11,287	9,675
The Hashemite Kingdom of Jordan	0.32	2,256	1,934
Republic of Yemen	0.32	2,256	1,934
Total	**100.00**	**700,000**	**600,000**

15. STATUTORY RESERVE

In accordance with the Company's Articles of Association, 10% of the net income is transferred annually to the statutory reserve until the reserve equals 100% of the paid-up capital.

	2010	-
Movement of statutory reserve: Balance, beginning of the year	75,682	70,280
Additions for the year	5,290	5,402
Balance, end of the year	**80,972**	**75,682**

16. PROPOSED DIVIDEND

The Board of Directors' in their meeting on 23 April 2011 have proposed a final dividend of USD 50 per share amounting to USD 35 million for 2010. The proposed dividends are included within the equity as proposed dividends until approved by the shareholders' at the annual general assembly meeting.

17. FAIR VALUE RESERVE

The movements in fair value reserve for the years ended 31 December are summarised as follows:

	2010	2009
Investments in equity participations		
Balance, at beginning of year	88,712	81,622
Change in fair value	(11,516)	7,090
Balance, at end of year	77,196	88,712
Investments in securities available-for-sale		
Balance, at beginning of year	(13,913)	(71,113)
Change in fair value	9,535	57,200
Balance, at end of year	(4,378)	(13,913)
Total fair value reserve	**72,818**	**74,799**

18. NET FEES AND COMMISSIONS

	2010	2009
Fees and commissions income	6,494	6,650
Fees and commissions expenses	(10)	(14)
Net fees and commissions	**6,484**	**6,636**

19. NET GAIN (LOSS) FROM INVESTMENT SECURITIES

	2010	2009
Equities	142	359
Debt securities	3,108	3,486
Unit Trust Funds	519	909
Total	**3,769**	**4,754**

20. GENERAL AND ADMINISTRATIVE EXPENSES

	2010	2009
Salaries and related benefits	15,790	15,637
Professional and financial	1,659	2,632
Board of directors' expenses	780	804
Other	2,598	2,415
Total	**20,827**	**21,488**

21. IMPAIRMENT PROVISIONS

	2010	2009
Securities	3,098	2,499
Loans and advances, net	6,831	4,089
Equity participation	2,500	-
Total	**12,429**	**6,588**

22. COMMITMENTS AND CONTINGENCIES

Credit related commitments include commitments to extend credit, forward exchange contracts, standby letters of credit and guarantees which are designed to meet the requirements of the Company's customers.

Terms to maturity for credit related commitments and contingencies as of 31 December were as follows:

31 December 2010	No later than 1 year	1 - 5 year	Over 5 years	Total
Loan commitments	5,250	-	-	5,250
Guarantees, acceptance and other financial facilities	62,924	19,977	6,667	89,568
Credit default swaps and interest rate swaps	30,000	23,000	-	53,000
Total	**98,174**	**42,977**	**6,667**	**147,818**

31 December 2009	No later than 1 year	1 - 5 year	Over 5 years	Total
Loan commitments	-	-	-	-
Guarantees, acceptance and other financial facilities	70,510	33,551	8,000	112,061
Credit default swaps and interest rate swaps	5,000	53,000	-	58,000
Total	**75,510**	**86,551**	**8,000**	**170,061**

a. The maturities set out above are based on contractual repricing or maturity dates, whichever is earlier.

b. Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses, and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represents future cash requirements.

c. Standby letters of credit and guarantees commit the Company to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. Standby letters of credit would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily undertaken at a floating rate.

23. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

As at 31 December 2010

	Less than 12 months	Over 12 months	No fixed maturity	Total
ASSETS				
Cash and deposits with banks	923,592	--	--	923,592
Investments:				
Securities	107,567	270,295	10,011	387,873
Equity participations	--	--	314,669	314,669
Loans and advances	375,788	175,577	--	551,365
Property and equipment	--	--	14,232	14,232
Investment property	--	--	5,544	5,544
Other assets	22,672	--	--	22,672
TOTAL ASSETS	**1,429,619**	**445,872**	**344,456**	**2,219,947**
LIABILITIES				
Deposits	1,269,487	--	--	1,269,487
Derivative financial instruments	1,453	3,138	--	4,591
Other liabilities	7,568	3,592	15,141	26,301
TOTAL LIABILITIES	**1,278,508**	**6,730**	**15,141**	**1,300,379**
NET	**151,111**	**439,142**	**329,315**	**919,568**

As at 31 December 2009	Less than 12 months	Over 12 months	No fixed maturity	Total
ASSETS				
Cash and deposits with banks	1,007,415	-	-	1,007,415
Investments:				
Securities	99,663	318,913	10,812	429,388
Equity participations	-	-	336,749	336,749
Loans and advances	538,662	244,457	-	783,119
Property and equipment	-	-	13,707	13,707
Investment property	-	-	5,637	5,637
Other assets	15,620	-	-	15,620
TOTAL ASSETS	**1,661,360**	**563,370**	**366,905**	**2,591,635**
LIABILITIES				
Deposits	1,686,577	-	-	1,686,577
Derivative financial instruments	510	9,092	-	9,602
Other liabilities	9,154	2,968	14,126	26,248
TOTAL LIABILITIES	**1,696,241**	**12,060**	**14,126**	**1,722,427**
NET	**(34,881)**	**551,310**	**352,779**	**869,208**

24. INVESTMENT MANAGEMENT SERVICES

The Company manages an investment fund on behalf of one of its Investment Equity Projects. The funds under management as at 31 December 2010, amounted to US$ 2.4 million (2009: US$ 12.2 million). The fees earned are included in the statement of income. Assets held in trust or in a fiduciary capacity are not treated as assets of the Company. Accordingly, they are not included in the accompanying financial statements.

25. RELATED PARTY TRANSACTIONS AND BALANCES

In the ordinary course of its activities, the Company transacts business with related parties.

(i) The balances resulting from such transactions at 31 December are as follows:

	2010	2009
Executive management personnel:		
Loans and advances	323	-
End of service benefit	2,848	3,130

(ii) The amounts of compensation paid to the board of directors and the executive management personnel during the years ended 31 December are as follows:

	2010	2009
Board of directors' remuneration	780	804
Board of directors' bonuses paid	558	315
Salaries and short-term employee benefits	924	881
End of service benefits	282	300

26. RECLASSIFICATIONS

Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentations.

27. SUBSEQUENT EVENT

Political unrest:

Subsequent to the year end, certain Arab countries in which the Company has investments have experienced political unrest. Management expects the political situation in these countries to stabilise in the near term. In the case of shorter term instruments, the Company has received settlement upon maturity of the instruments. Based on available information as of the date of approval of these financial statements; management is confident of the long term viability and recoverability of the Company's longer term investments (including equity participations).

28. APPROVAL OF FINANCIAL STATEMENTS

The accompanying financial statements were approved by the Board of Directors of the Company on 19 Jumada Al Awal 1432H corresponding to 23 April 2011.

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The Arab Investment Company S.A.A.

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