THE ARAB INVESTMENT COMPANY S.A.A.

ANNUAL REPORT 2011

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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 shareholding 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 the 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 Statment 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 Arab capital to meet the investment and financing needs of businesses in the Arab region, which will lead to sustainable development 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 State of Libya	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. Badreldin 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. Najmaldeen Al Hammali Al Mokhtar
Board Member
The State of Libya

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 three Board members as follows:

• Mr. Badreldin Mahmoud Abbas	Chairman
• Mr. Motlaq M. Al Sani	Member
• Mr. Yusuf A. Humood	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

EXECUTIVES

HEAD OFFICE - RIYADH

Chief Executive Officer
Ibrahim H. AlMazyad

Financial Affairs	Sami Yousif Mohamed
Production Projects	Nassir S. Al Dekhayel
Services Projects	Fahd M. Al-Ahmadi
Human Resources & Administration Affairs	Fahad A. Al Haqbani
Information Systems Department	Saleh M. Al Mogbel
Internal Audit Unit	Jamal A. Issa
Legal Advisor	Khalid S. Al- Zugaibi

EXECUTIVES

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	Samir Medjiba / Isam Khalid
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, 2011. The report reviews the Company's investment activities in project equity and banking services, highlighting the financial results achieved from these activities.

Investment climate in the Arab region was impacted by the overall developments as well political and social transformations that took place in the region during the year, resulting in a scarcity of financial resources and a decrease in investment inflows. Within this economic background, The Arab Investment Company (TAIC) strived to mitigate the reverberations of these changes on its investment activities through prudent risk management and sound dealing with the uncertain economic climate that prevailed in most Arab countries.

In the field of equity investment, TAIC directed its resources during the year to monitoring on-going projects portfolio which included holdings in 36 projects in 11 different economic sectors domiciled in 13 Arab states. These projects help support economic growth in host countries, through contributing to creating employment opportunities, improving balance of payments, harnessing natural resources in host countries and acquiring sophisticated technologies. These elements reflect the Company's mission that aim at investing Arab funds in order to develop Arab resources as stipulated by its charter.

On the banking side and despite the continued instability and uncertainty that characterized the credit environment during the year, TAIC continued to offer comprehensive and diversified financial services through its banking branch in the Kingdom of Bahrain. TAIC also strived to cope with the new developments in the region and focused primarily on financial resource mobilization, liquidity management, credit portfolio review, and provision of trade finance in support of economic growth efforts. During 2011, TAIC pursued its endeavors that aim at boosting and developing its supporting services in the fields of IT systems and human resources.

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. With much optimism, we look forward to more achievements in the future by this successful pan-Arab financial institution.

Eng. Youssef Ibrahim Al Bassam

Chairman

DIRECTORS' REPORT

DIRECTORS' REPORT

I - Arab Region Economic Review:

During 2011 most of Arab countries suffered a retraction in their economic growth rates as a result of unprecedented social and political unrest that marked these countries during the year. In addition to the direct negative economic repercussions of these unanticipated developments, the Arab region was also impacted by the global economic activity downturn reflecting the ramifications of global financial crisis, sovereign debt and banking sector problems in the Euro region and surging commodity prices. Reflecting these elements, the overall Arab region average aggregate real GDP grew by about 4% during 2011. In the meantime, GCC countries recorded higher growth rates, exceeding 7% supported by higher oil prices and a better performance of their production and service sectors as a result of a more stable political and economic environment.

Investment climate in the Arab region also reflected the overall developments and transformations that took place in the region during the year. Foreign and inter-Arab capital inflows decreased by almost 50% in 2011. However, while some Arab countries still enjoy a favorable investment environment, political stability remains a decisive element to streamline and eventually increase investments in these countries. Further efforts are therefore required to support and promote capital markets through the creation of a more attracting business, regulatory and institutional environment. To this respect, these countries could benefit from the expertise of joint Arab organizations to revise and improve their respective investment related regulations and practices.

This regional context highlighted the challenge of preserving macroeconomic stability while maintaining social cohesion. In this context, Arab countries could anchor expectations, and reduce economic uncertainty with the adoption of balanced and well-reflected policies to provide for investment flows through mechanisms that ensure safety and good yield to investors, and take into consideration the economic and social interests of the recipient countries. This can only be achieved through economic reform plans that help the promotion of the private sector and enable it to play a more active and sustainable role in creating more job opportunities and reducing unemployment rates in these countries. The Arab region is also still in need of promoting joint Arab economic action with further enactment of the Great Arab Free Trade Zone, support of inter-Arab trade exchange and the implementation of the Action Program adopted by the First Arab Economic and Social Development Summit, held in Kuwait early in 2010 under the motto "Toward the realization of Arab Common Market".

Despite these challenges, The Arab Investment Company remains keen on cooperating and coordinating with Arab financial institutions, pan-Arab joint stock companies, investment guarantee and export promoting institutions, Arab chambers of commerce and industry, and investment promoting agencies in Arab countries. In this respect, the Company is continuously identifying viable investment opportunities and working closely with local promoters for the establishment of new projects, assessment of their technical and financial feasibility, taking stakes in their capital and supervising their implementation and management process for the achievement of their objectives. TAIC directed its resources during the year to supporting its investments in equity holdings as well as the provision of financial services through its banking arm in the Kingdom of Bahrain, which mobilizes financial resources from financial institutions in the region for reinvestment in the service of Arab economy in such a manner that boosts the Company's ability to invest in more equity projects.

II - TAIC 2011 Review:

Within an environment of social and political transformations in several Arab countries in 2011, together with the resulting direct and indirect effects on their respective economies, The Arab Investment Company (TAIC) focused its efforts on monitoring the repercussions of these effects on its activities in both equity participation and financial services. The Company also strived to mitigate the reverberations of these changes through prudent risk management and sound dealing with the uncertain economic climate that prevailed in most Arab countries.

Saudi International Petrochemical Company
(Sipchem) Saudi Arabia

The Board of Directors of the Company played its role in steering the Company's activities through these tumultuous conditions. It drew the policy and provided guidance during its quarterly scheduled meetings. The Board held its third quarter meeting in the city of Dubai, United Arab Emirates, with the other three meetings held in Riyadh. In the same context, the Board committees performed their assigned tasks, with Financial Committee holding two meetings and Audit Committee holding four meetings. Higher Investment Committee continued to perform its functions in accordance with applicable rules that allow relevant and timely investment decision-making. The Board reviewed reports submitted by these organs and ensured the Company made optimal use of its resources to achieve relatively good financial results during the year despite the difficult conditions experienced by some Arab countries hosting a number of the Company's projects.

During the year, TAIC pursued its investment activities through proper management of equity portfolio, provision of financial services, development of supporting services, and enhancement of corporate governance within the framework of its long-term policies and resolutions by its Board of Directors, as described below:

2.1 - TAIC’s Equity Investment Activities

TAIC strives to achieve the objectives stated in its charter through direct investment in production and service projects. The Company is always keen to play its vital role as an investment catalyst of Arab funds in projects that support and enhance Arab economic cooperation and integration.

In pursuance of its prime activities, the Company invests in projects which meet a number of investment criteria, including the strategic role of the project in the development plan objectives of the host country, the extent of its reliance on local or Arab resources, its capacity to achieve inter-Arab economic integration, its comparative advantages, provision of a high added value to national economy development, investment environment adequacy that ensures the project’s success, transfer of know-how as well environmental considerations of the project’s location.

In the face of the unprecedented political and social events that took place in several Arab countries and their fallouts on different economic sectors in most of Arab region, together with the resultant investment downturn trend, scarcity of viable investment opportunities and retraction in financial resources, TAIC adopted a highly prudent and conservative policy in its investment decisions. Accordingly, TAIC directed most of its resources during the year to monitoring on-going projects to improve their equity return. To this end, the Company worked closely with managements and other shareholders of these projects to help surmount their difficulties, increase their capacity, and improve their performance. In line with its policy of providing the necessary support and funding to its ongoing projects, TAIC participated, during 2011, in the paid-up capital increase of Taageer Leasing Company in the Sultanate of Oman to expand its capital base in accordance with the capital requirements imposed by the Central Bank of Oman and to support its share in the country’s leasing market. TAIC also participated in the paid-up capital increase in Société Arabe des Industries Pharmaceutiques (SAIPH) in the Republic of Tunisia to help it meet its expansion plan needs aimed at increasing its production capacity, improving its production, quality controls and storage conditions alongside with its information systems. Total TAIC contributions in the capital increase of these two projects amounted to 2.2 million US dollars. In addition to monitoring its ongoing investment portfolio,

The Arab Jordan Investment Bank - Jordan the Company also pursued its efforts to identify new promising investment opportunities in different Arab countries that respond to its objectives and investment criteria.

SUDATEL Telecommunication Group - Sudan

At the end of the year, TAIC's investment portfolio included 36 projects, spread geographically over 13 Arab states and distributed sectorally over 15 production projects and 21 service projects. In the production fields, TAIC investments cover various sectors, namely agriculture, petrochemicals, construction, paper, energy and pharmaceuticals, while service investments include banks, non-banking financial institutions, tourism and real estate, telecommunications and health services. The total paid-up capital of these projects amounted to US$ 7.6 billion and shareholders' equity totaled US$ 11.9 billion. TAIC's initial investments in these projects totaled US$ 350 million, representing 50% of its paid-up capital.

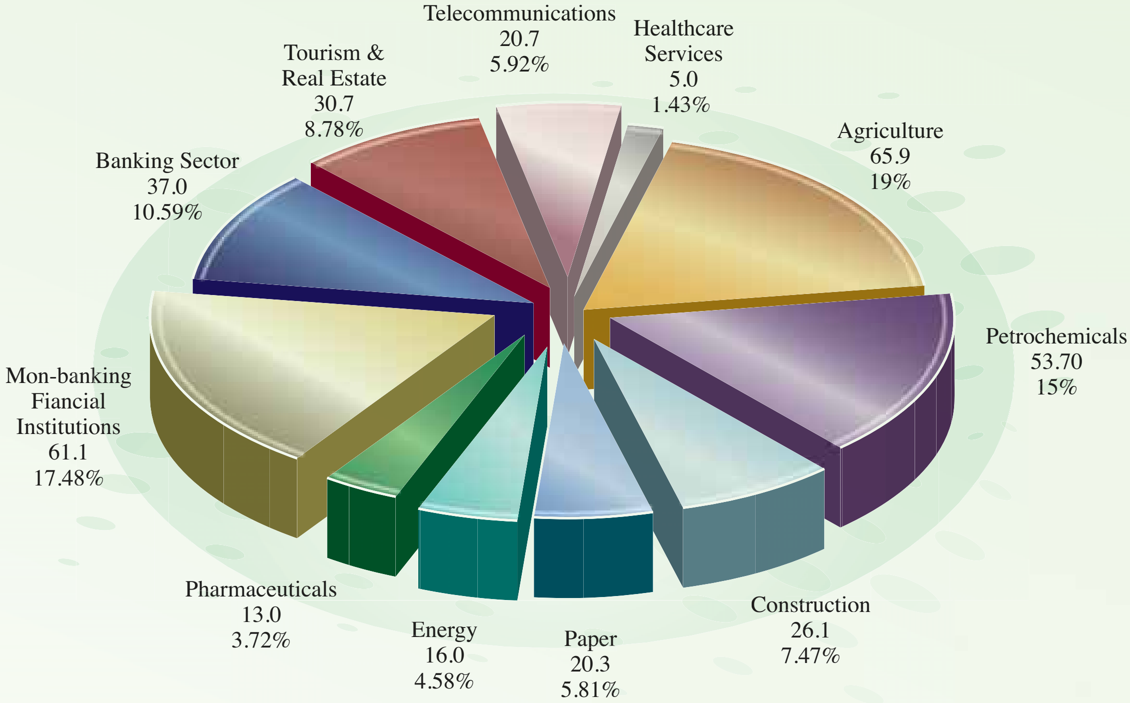
TAIC's equity investments play an important role in supporting economic growth in host countries, through contributing to creating employment opportunities, acquiring sophisticated technologies, harnessing natural resources and increasing their added value, and benefiting from comparative advantages enjoyed by these countries.

Egyptian Propylene and Polypropylene company - Egypt

The following is a summary of the components of the Company's projects in which it holds stakes by sector as of 31/12/2011:

Sector	Initial Equity (US$ M)	Participation share to Total Equity Portfolio	Participation share to TAIC Paid-up Capital
Production Projects			
Agricultural Sector	65.90	18.86%	
Petrochemical Sector	53.70	15.36%	
Construction Sector	26.10	7.47%	
Paper Sector	20.30	5.81%	
Energy Sector	16.00	4.58%	
Pharmaceutical Sector	13.00	3.72%	
Total Production Projects	**195.00**	**55.79%**	**27.86%**
Service Projects			
Non-banking Financial Institutions	61.10	17.48%	
Banking Sector	37.00	10.59%	
Tourism & Real Estate Sector	30.70	8.78%	
Telecommunication Sector	20.70	5.92%	
Healthcare Sector	5.00	1.43%	
Total Service Projects	**154.50**	**44.21%**	**22.07%**
TOTAL PORTFOLIO	**349.50**	**100.00%**	**50%**

Sectoral Distribution of Projects as of 31/12/2011 (US$ Million)



Investment Committee - Head Office

TAIC's Projects Portfolio Holdings
(As at December 31, 2011)

Production Sector

	Company Participation	Country	Initial Equity (US$ M)	Share %
Petrochemical Sector				
1	Saudi International Petrochemical Company (Sipchem)	The Kingdom of Saudi Arabia	18.00	1.92%
2	The Arab Company for Detergent Chemicals	The Republic of Iraq	7.00	6.00%
3	Egyptian Propylene & Polypropylene Company	The Arab Republic of Egypt	28.70	10.00%
	TOTAL		**53.70**	
Construction Sector				
4	The Arab Mining Co.	Pan-Arab Company	2.20	1.10%
5	Arab Company for Special Steel	The Arab Republic of Egypt	5.10	5.49%
6	Uniceramic Company	The Republic of Lebanon	1.80	10.00%
7	Berber Cement Company	The Republic of Sudan	17.00	16.40%
	TOTAL		**26.10**	
Pharmaceutical Sector				
8	Pharmaceutical Solution Industries Company Ltd.	The Kingdom of Saudi Arabia	5.10	19.01%
9	The Arab Company for Antibiotics Industry	The Republic of Iraq	6.90	12.40%
10	Société Arabe des Industries Pharmaceutiques	The Republic of Tunisia	1.00	4.02%
	TOTAL		**13.00**	
Agricultural Sector				
11	Kenana Sugar Company	The Republic of Sudan	62.40	6.99%
12	The Arab Co. for Livestock Development	Pan-Arab Company	3.50	1.67%
	TOTAL		**65.90**	
Energy Sector				
13	National Trigeneration CHP Company	The Kingdom of Saudi Arabia	16.00	9.98%
	TOTAL		**16.00**	
Paper Sector				
14	Cellulose du Maroc	The Kingdom of Morocco	17.50	27.31%
15	Jordan Paper & Cardboard Manufacturing Company	The Hashemite Kingdom of Jordan	2.80	26.67%
	TOTAL		**20.30**	
Total Production Sector Equity			**195.00**	

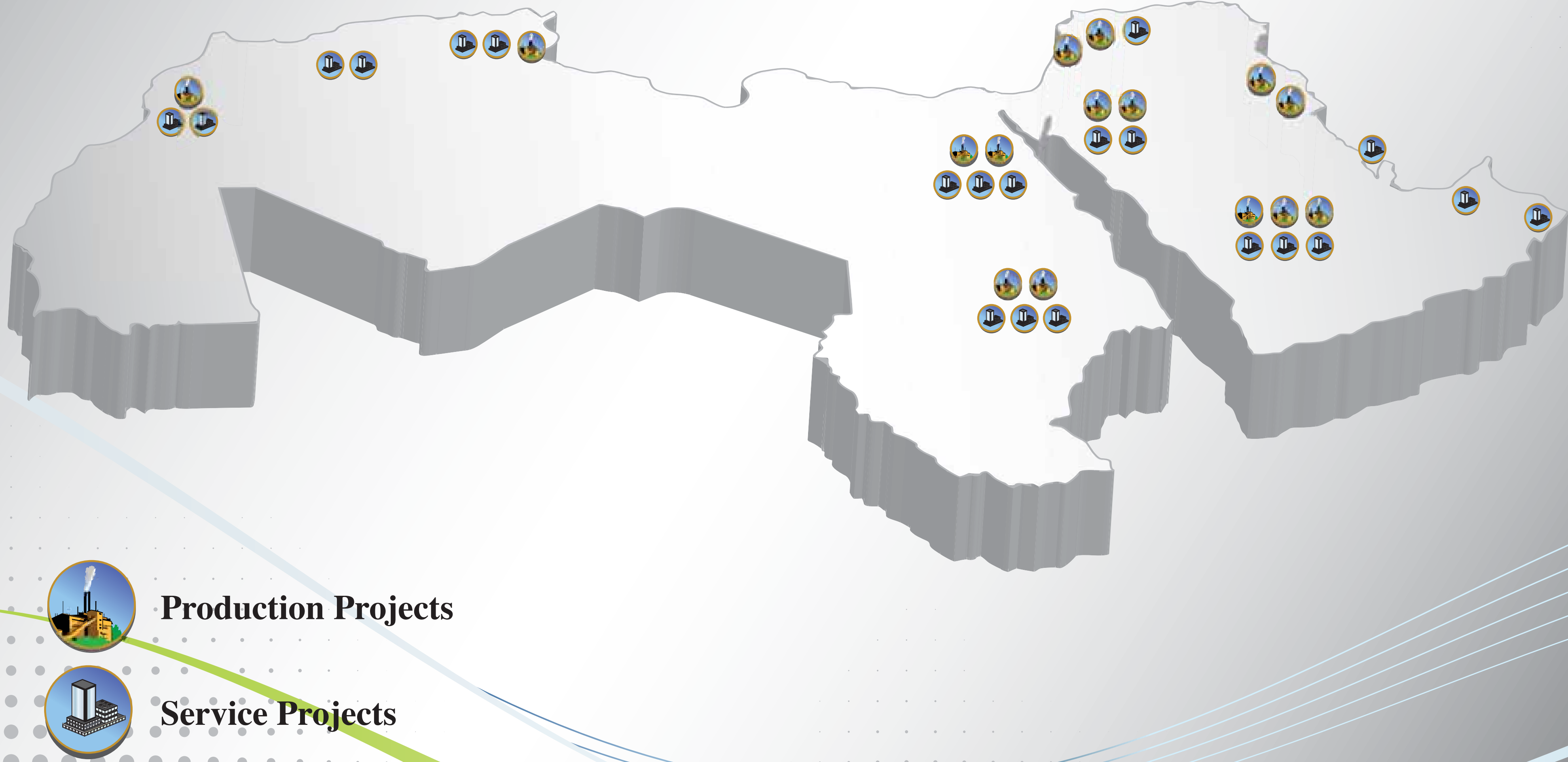
■ Listed companies in local financial markets

Service Sector

Company Participation		Country	Initial Equity (US$ M)	Share %
Non-Banking Financial Sector				
1	Taageer Leasing Company	The Sultanate of Oman	7.90	18.79%
2	Maroc Leasing	The Kingdom of Morocco	4.80	5.74%
3	Allianz Insurance Co.	The Arab Republic of Egypt	0.90	10.00%
4	Arab Trade Financing Programme	Pan-Arab Company	2.00	0.44%
5	Société Arabe Internationale de Leasing	The Republic of Tunisia	1.90	20.00%
6	Arab Leasing Company	The People's Democratic Republic of Algeria	10.70	25.00%
7	Middle East Company for Financial Investment	The Kingdom of Saudi Arabia	16.00	15.00%
8	International Company for Leasing (Incolease)	The Arab Republic of Egypt	7.90	10.00%
9	The Arab Leasing Company LTD.	The Republic of Sudan	9.00	30.00%
TOTAL			**61.10**	
Banking Sector				
10	Société Tunisienne de Banque	The Republic of Tunisia	1.90	0.43%
11	The Arab Jordan Investment Bank	The Hashemite Kingdom of Jordan	11.80	10.25%
12	Arab Banking Corporation	The Kingdom of Bahrain	15.70	0.42%
13	Financial Investment Bank	The Republic of Sudan	4.40	20.80%
14	Arab Banking Corporation – Algeria	The People's Democratic Republic of Algeria	3.20	4.18%
TOTAL			**37.00**	
Tourism and Real Estate Sector				
15	Arab International Hotels Company	The Hashemite Kingdom of Jordan	7.80	8.36%
16	Syrian Arab Company for Hotels and Tourism	The Syrian Arab Republic	2.30	20.45%
17	Saudi Hotel Services Co.	The Kingdom of Saudi Arabia	5.90	20.00%
18	Arab International Company for Hotels and Tourism	The Arab Republic of Egypt	12.70	13.62%
19	Société Riad Swalem	The Kingdom of Morocco	2.00	33.00%
TOTAL			**30.70**	
Telecommunication Sector				
20	SUDATEL Telecommunications Group LTD	The Republic of Sudan	20.70	2.18%
TOTAL			**20.70**	
Healthcare Sector				
21	Al-Ahsa Medical Services Co.	The Kingdom of Saudi Arabia	5.00	12.50%
TOTAL			5.00	
Total Service Sector Equity			**154.50**	
Project Portfolio Grand Total			**349.50**	

Listed companies in local financial markets

Geographical & Sectorial Distribution of TAIC's Projects As of 31/12/2011



2.2. TAIC's Investment Activities in Financial Services:

TAIC conducts its banking activities through its branch in the Kingdom of Bahrain that operates as a wholesale bank under the license and supervision of the Central Bank of Bahrain. The Branch provides a comprehensive range of financial services. It is through this branch that the Company has been successful in mobilizing financial resources and redeploying them for investment throughout the Arab World in fulfillment of its role as an Investment catalyst. The branch offers complete range of banking products that meet the growing needs of its clientele in public and semi-public entities as well as private sector institutions. The branch also enjoys a wide network of financial institutions worldwide that enables it to conduct its activities in an effective way.

TAIC banking branch was impacted during 2011 by the continued uncertainty in financial markets arising out of European debt, combined with the dislocated debt capital markets as a consequence to the global financial crisis. These sluggish conditions resulted in an unstable credit environment and a significant contraction in interbank medium term deposits together with the negative sentiment that followed the political tumults in the Arab region and the downgrading of the rating of several Arab countries. In face of these conditions and their impact on investment climate, the branch continued to make exceptional efforts to ensure sound and objective 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.

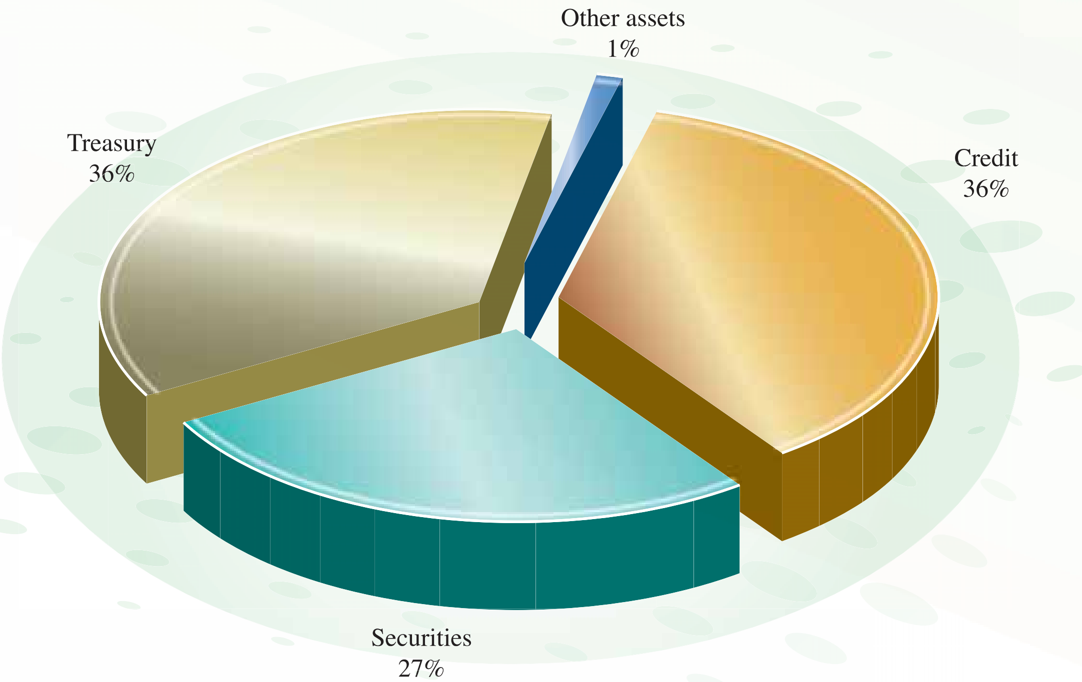
Following is a review of the financial activities and results achieved at the end of 2011:

Total banking assets amounted to US$ 1,776 million at the end of 2011 against US$ 1,870 million the previous year, reflecting a decrease of 5% as a consequence of the slowdown in economic activity in the region due to political changes in some Arab countries, global financial crisis fallouts and credit crisis in Europe. These factors combined resulted into a significant retraction in accepted deposits and finance transactions. The following table shows the components of the different banking assets at the end of 2011:

Components of the banking assets as at 31/12/ 2011

Banking Assets	(US$ Million)	% of Total Assets
Deposits & cash with banks	638	36%
Securities	471	27%
Credit & Islamic Finance	644	36%
Other assets	23	1%
TOTAL	1,776	100%

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



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

2/1) 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. Accepted deposits from clients, financial institutions and government entities amounted to US$ 1,185 million at the end of the year against US$ 1,269 million the previous year, with a decrease of 7%. Placements with banks and financial institutions amounted to US$ 638 million against 921 million in 2010, a decrease of 31%. The volume of investment portfolio in securities stood at US$ 471 million at the end of the year against US$ 380 million the previous year, an increase of 24%. The branch was keen on maintaining a secure volume of liquidity to enable it to deal with global markets changes.

2/2) 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$ 644 million (after provisions) against US$ 551 million, an increase of 17%.

III-Supporting Services

During 2011, 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:

During 2011, TAIC pursued the implementation of its IT systems development plan in order to complete upgrading the whole infrastructure and shifting to the use of a virtual environment and central storage. This shift helped increase the efficiency of applications and software without the need for further hardware, decrease licensing costs and accelerate daily processing of transaction data. The Company also set out during the year the implementation of the second phase of IT development plan that includes risk management and Basel requirement compliance applications. IT department completed the direct linkage process of its major systems in Bahrain branch to Riyadh Head Office. This development will ensure constant work continuity, proper emergency actions and a better integration and interaction between the Head Office and Bahrain branch. This development plan was accompanied by a full policies and procedures upgrading to boost the safety and protection of the Company's data from any kind of breaches. It also reflected in a better performance and cost efficiency of various applications serving human resources, equity projects, budgeting and data storage and retrieval. The new infrastructure will help provide timely and accurate information that supports proper decision-making as it accommodates all banking activities, including treasury, credit, risk management, financial reporting and financial analysis. IT staff were properly trained to handle the new systems and their various applications.

3/2 Human Resource Development:

Guided by its firm belief that staff efficiency is the key to success in any institution, and in accordance with its HR development policy, TAIC paid due attention 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. Several in-house training courses were conducted in both its Head Office in Riyadh and Bahrain branch. External training covered the enrolment of the Company's staff members in workshops and seminars pertinent to money markets, trade finance, anti-money laundering in the banking sector, banking correspondence system applications (Swift 7), financial analysis, financial reporting criteria, human resources and information technologies. 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. To this end, the Board relies on its committees to help fulfill its responsibilities.
- 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 and institutional governance requirements.
- Compliance with regulations governing the Company's activities, including Board of Directors by-laws, equity participation regulations, banking regulations, financial regulations, audit rules, anti-money laundering and combating the financing of terrorism regulations, procurement regulations and staff bylaws.
- 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 are constantly maintained through the adoption of a collective approach in decision-making in accordance with proper hierarchy and in full compliance with the Company's regulations, rules and bylaws that provide a solid basis for internal controls.

In pursuing this methodology, TAIC presents periodic reports pertaining to its financial service activities to both Saudi Arabian Monetary Agency and Central Bank of Bahrain. The company is also fully committed to complying with Basel requirements through the promotion of a unified risk management approach and the adoption of basic index method for operational risks. The Company's risk assessment approach encompasses as well 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 future strategic goals while monitoring global and regional economic developments. The realization of these goals will promote the Company's performance and provide it with the necessary flexibility to cope with these developments. Specifically, efforts will be focused, in the near future, on achieving the following tasks:

- 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.
- Increasing return on shareholders' equity through optimal use of available financial and human resources.
- Pursuing the Company's policy of continuous capital base expansion from internal resources. This is dictated by the emergence of larger financial conglomerations in the region, the increase in equity projects financial requirements, competitiveness and the expansion of investment and banking service scope.
- Coping with the new developments in Risk Management and further use of the best practices in this respect.

- Obtaining a suitable financial rating for the Company to facilitate better access to additional lines of credit at lower cost.
- Pursuing the implementation of the Company's policy to instill 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 its deep appreciation for the support TAIC has always received from the Company's 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.

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The Arab Investment Company S.A.A.

www.taic.com

FINANCIAL RESULTS

Financial Statements as of December 31, 2011

ERNST & YOUNG

P.O. Box 2732
Al Faisaliah Office Tower - Level 6 & 14
King Fahad Road
Riyadh 11461, Saudi Arabia
Tel: +966 1 273 4740/+966 1 215 9898
Fax: +966 1 273 4730
www.ey.com/me
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 2011 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.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2011, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

for Ernst & Young

Rashid S. Al-Rashoud
Certified Public Accountant
Registration No. 366

Riyadh: 1 Jamad Awal 1433H
(24 March 2012)

BALANCE SHEET As Of 31 December 2011

All amounts in United States Dollars Thousands

	Notes	2011	2010
ASSETS			
Cash and deposits with banks	5	**640,304**	923,592
Investments:			
Securities	6	**479,966**	387,873
Equity participations	7	**299,855**	314,669
Loans and advances	8	**643,964**	551,365
Property and equipment	10	**14,385**	14,232
Investment property	10	**5,439**	5,544
Other assets	9	**26,724**	22,672
TOTAL ASSETS		**2,110,637**	2,219,947
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits	11	**1,184,544**	1,269,487
Derivative financial instruments	12	**2,029**	4,591
Other liabilities	13	**28,744**	26,301
TOTAL LIABILITIES		**1,215,317**	1,300,379
SHAREHOLDERS' EQUITY			
Share capital	14	**700,000**	700,000
Statutory reserve	15	**83,594**	80,972
Retained earnings		**53,867**	30,778
Proposed dividend	16	**-**	35,000
Fair value reserve	17	**57,859**	72,818
TOTAL SHAREHOLDERS' EQUITY		**895,320**	919,568
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,110,637**	2,219,947

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

STATEMENT OF INCOME As Of 31 December 2011

All amounts in United States Dollars Thousands

	Notes	2011	2010
INCOME			
Interest income		**47,084**	51,418
Interest expense		**(9,411)**	(12,379)
Net interest income		**37,673**	39,039
Gain on sale of equity participations		**-**	13,744
Dividends		**11,630**	12,207
Net gain on derivative financial instruments		**2,226**	4,943
Net fees and commissions	18	**6,233**	6,484
Net gain on investments	19	**4,183**	3,769
Net foreign exchange loss		**(29)**	(530)
Rental income		**4,107**	3,781
Other income		**1,456**	2,718
Total operating income		**67,479**	86,155
EXPENSES			
General and administrative	20	**(20,159)**	(20,827)
Provisions	21	**(21,104)**	(12,429)
Total operating expenses		**(41,263)**	(33,256)
PROFIT FOR THE YEAR		**26,216**	52,899

STATEMENT OF COMPREHENSIVE INCOME As Of 31 December 2011

All amounts in United States DollarsThousands

	Note	2011	2010
Profit for the year		**26,216**	52,899
Other comprehensive income			
Net fair value movement during the year	17	**(14,959)**	(1,981)
Total comprehensive income		**11,257**	50,918

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

STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY
As Of 31 December 2010
All amounts in United States Dollars Thousands

	Notes	Share capital	Statutory reserve	Retained earnings	Proposed dividend	Fair value reserve	Total
Balance at 31 December 2009		600,000	75,682	118,727	-	74,799	869,208
Bonus share issue	14	100,000	-	(100,000)	-	-	-
Net profit for the year		-	-	52,899	-	-	52,899
Other comprehensive income		-	-	-	-	(1,981)	(1,981)
Total comprehensive income		-	-	52,899	-	(1,981)	50,918
Transfer to statutory reserve	15	-	5,290	(5,290)		-	-
Proposed dividends	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
Net profit for the year		-	-	26,216	-	-	26,216
Other comprehensive income		-	-	-	-	(14,959)	(14,959)
Total comprehensive income		-	-	26,216	-	(14,959)	11,257
Transfer to statutory reserve	15	-	2,622	(2,622)	-	-	-
Dividends paid	16	-	-	-	(35,000)	-	(35,000)
Board of directors' bonuses paid		-	-	(505)		-	(505)
Balance at 31 December 2011		**700,000**	**83,594**	**53,867**	**-**	**57,859**	**895,320**

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

STATEMENT OF CASH FLOWS As Of 31 December 2010
All amounts in United States Dollars Thousands

	Notes	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**26,216**	52,899
Adjustments to reconcile net income to net cash			
provided by operating activities:			
Gain on sale of equity participations		**-**	(13,744)
Impairment of available for sale securities	21	**701**	3,098
Impairment on loans and advances	21	**15,403**	6,831
Impairment on equity participations	21	**5,000**	2,500
Gain on sale of investments		**(2,700)**	-
Amortisation of discount		**(978)**	-
Depreciation	10	**1,099**	818
Gain on sale of property and equipment	10	**(48)**	(8)
		44,693	52,394
Changes in operating assets and liabilities:			
Financial assets at fair value through income statement		**(91)**	9,535
Loans and advances, net		**(108,002)**	224,923
Other assets		**(4,052)**	(7,052)
Deposits		**(84,943)**	(417,090)
Derivative financial instruments		**(2,562)**	-
Other liabilities		**2,443**	(4,958)
Net cash used in operating activities		**(152,514)**	(142,248)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds (additions) from sale and purchase			
of investment securities		**(91,950)**	38,417
Purchase of equity investments		**(2,220)**	(7,790)
Proceeds from disposal of equity participations		**-**	29,598
Additions to property and equipment and investment properties	10	**(1,147)**	(1,258)
Proceeds from sale of property and equipment		**48**	16
Net cash (used in) from investing activities		**(95,269)**	58,983
CASH FLOWS FROM FINANCING ACTIVITIES			
Board of directors' bonuses paid		**(505)**	(558)
Dividends paid		**(35,000)**	-
Net cash used in financing activities		**(35,505)**	(558)
DECREASE IN CASH AND CASH EQUIVALENTS		**(283,288)**	(83,823)
Cash and cash equivalents, beginning of the year	5	**923,592**	1,007,415
CASH AND CASH EQUIVALENTS, END OF THE YEAR	5	**640,304**	923,592
Supplemental non cash information			
Net change in fair value reserve	17	**(14,959)**	(1,981)
Interest income received		**41,928**	46,895
Interest expense paid		**(11,964)**	(15,558)
Dividends received		**12,854**	10,665

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

NOTES TO THE FINANCIAL STATEMENTS
31 December 2011

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 significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2010, except that the Company has adopted the following new and amended IASB Standards and International Financial Reporting Interpretations Committee (IFRIC) Interpretations which became effective in 2011:

IAS 24 Related Party Disclosures (Amendment)

The IASB has issued an amendment to IAS 24 that clarifies the identification of related party relationships, particularly in relation to significant influence or joint control. The new definitions emphasise a symmetrical view on related party relationship as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Company.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 32 Financial instruments: presentation (amendment)

The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro-rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Company as the Company has not issued these type of instruments.

IFRS 7 Financial instruments: Disclosures (amendment)

These amendments introduced new disclosure requirements for transfers of financial assets, including disclosures for:

- financial assets that are not derecognised in their entirety; and
- financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

The amendment has had no effect on the disclosures made by the Company, as the Company has not issued these types of instruments.

Improvements to IFRSs

In May 2010 the Board issued its third omnibus amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Company.

- ***IFRS 3 Business Combinations:*** The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation must be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

- ***IFRS 7 Financial Instruments – Disclosures:*** The amendment was intended to simplify the disclosures provided, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments.
- ***IAS 1 Presentation of Financial Statements:*** The amendment clarifies that an analysis of each component of other comprehensive income may be presented either in the statement of changes in equity or in the notes to the financial statements.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

- ***IFRS 3 Business Combinations*** (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008);
- ***IFRS 3 Business Combinations*** (Un-replaced and voluntarily replaced share-based payment award);
- ***IAS 27 Consolidated and Separate Financial Statements;***
- ***IAS 34 Interim Financial Statements; and***
- ***IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.***

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

2-1- Standards and interpretations issued but not yet effective.

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards (where applicable) when they become effective:

IAS 1 Financial Statement Presentation

The amendments becomes effective for annual periods beginning on or after 1 July 2012 and require that an entity present separately, the items of other comprehensive income that would be reclassified (or recycled) to profit or loss in the future if certain conditions are met (for example, upon derecognition or settlement), from those that would never be reclassified to profit or loss. The amendment affects presentation only, therefore, will have no impact on the Company's financial position or performance.

IAS 19 Employee Benefits

The IASB has issued numerous amendments to IAS 19, which are effective for annual periods beginning on or after 1 January 2013. These include the elimination of the corridor approach and recognising all actuarial gains and losses in other comprehensive income as they occur; immediate recognition of all past service costs; and replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset); and certain clarifications and re-wording. The Company is currently assessing the full impact of these amendments.

IFRS 9 Financial Instruments

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Standards and interpretations issued but not yet effective (continued)

It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 Reassessment of Embedded Derivatives.

The standard is currently effective for annual periods beginning on or after 1 January 2015. In subsequent phases the IASB will address hedge accounting and impairment of financial assets.

The Company will quantify the effect of adoption of this Standard, in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Instruments

IFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single consolidation model that identifies control as the basis for consolidation for all types of entities.

An investor controls an investee when:

- it is exposed or has rights to variable returns from its involvement with that investee;
- it has the ability to affect those returns through its power over that investee; and
- there is a link between power and returns.

Control is re-assessed as facts and circumstances change.

IFRS 10 replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. IFRS 10 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Company is currently assessing the full impact of this new standard.

IFRS 11 Joint arrangements

IFRS 11 establishes principles for financial reporting by parties to a joint arrangement and improves on IAS 31 by establishing principles that are applicable to the accounting for all joint arrangements.

IFRS 11 Joint arrangements(continued)

IFRS 11 classifies joint arrangements into two types – Joint operations and Joint ventures; and defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (i.e. activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.

IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Company is currently assessing the full impact of this new standard.

IFRS 12 Disclosure of interests in other entities

IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new IFRSs, the IASB also issued amended and retitled IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures.

IFRS 12 aims to provide information to enable users to evaluate:

- the nature of, and risks associated with, an entity’s interests in other entities; and
- the effect of those interests on the entity’s financial position, financial performance and cash flows.

IFRS 12 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Company is currently assessing the full impact of this new standard.

IFRS 13 Fair value measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not extend to the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Company is currently assessing the full impact of this new standard.

IAS 27 Separate Financial Statements (as revised in 2011)

IAS 27 (2011) supersedes IAS 27 (2008). As a consequence of the new IFRS 10 and IFRS 12 aforementioned, IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 27 (2011) is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Company does not present separate financial statements.

IAS 28 Investments in Associates and Joint Ventures Separate Financial Statements (as revised in 2011)

IAS 28 (2011) supersedes IAS 28 (2008). As a consequence of the new IFRS 11 and IFRS 12 (refer above), IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

IAS 28 (2011) is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Company is currently assessing the full impact of this amendment.

2-2 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.

2-3 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

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2-3 Foreign currency translation (continued)

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.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2-4 Financial assets (continued)

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 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 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 at fair value through income statement are recorded in the statement of financial position at fair value. Changes in fair value are recorded in the statement of income.

(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

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2-4 Financial assets (continued)

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- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2-7 Derecognition of financial assets and liabilities (continued)

- 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- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 or when the investee declare the dividends.

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

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2-12 Impairment of financial assets (continued)

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).

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2-12 Impairment of financial assets (continued)

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

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2-13 Property and equipment (continued)

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- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Savings scheme

The Company's contributions to defined contribution savings scheme 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 Company's Employees By laws and in accordance with the local statutory requirements of the foreign branches.

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.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2-18 Accounting for leases (continued)

(b) Where the Company is the lessor (continued)

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 analyse 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- FINANCIAL RISK MANAGEMENT (continued)

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.

3- FINANCIAL RISK MANAGEMENT (continued)

3-1-1 Credit risk measurement (continued)

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 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 deterioration in the 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 deterioration indicators that are included under the category (B) Sub-Standard with the added characteristic that the weaknesses make collection or 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 is delayed for a period of 270 days. These assets are considered uncollectible and of such little value, that continuance as bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer classifying the asset under this Category even though partial recovery may be possible in the future.

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.

3- FINANCIAL RISK MANAGEMENT (continued)

3-1-1 Credit risk measurement (continued)

(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, companies, 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.

All amounts in United States Dollars thousands

3- FINANCIAL RISK MANAGEMENT (continued)

3-1-2 Risk limit control and mitigation policies (continued)

(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:

	Percentage			
	2011		2010	
	Loans and advances %	**Impaiment Provision %**	Loans and advances %	Impaiment Provision %
Regular	**82**	**1**	77	2
Watch	**4**	**-**	5	-
Sub-Standard	**1**	**20**	10	20
Doubtful	**5**	**54**	3	57
Loss	**8**	**73**	5	86
	100		100	

All amounts in United States Dollars thousands

3- FINANCIAL RISK MANAGEMENT (continued)

3-1-4 Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum Exposure	
	2011	2010
Credit risk exposures relating to funded exposures are as follows:		
Deposits with banks	**640,299**	923,586
Overdrafts	**98,910**	100,372
Loans and advances to banks	**417,772**	353,322
Loans and advances to non banks	**127,282**	97,671
Trading debt securities	**8,602**	9,138
Investment debt securities	**435,989**	343,315
Interest receivable	**19,001**	13,971
	1,747,855	1,841,375
Credit risk exposures relating to non-funded exposures are as follows:		
Contingent liabilities		
Loan commitments	**44,167**	5,250
Letters of credit commitments	**99,055**	89,568
Credit derivatives - Unfunded credit default swaps	**23,000**	53,000
At 31 December	**1,914,077**	1,989,193

The above table represents a worst case scenario of credit risk exposure to the Company at 31 December 2011 and 2010, 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, 34% of the total maximum exposure is derived from loans and advances (including overdrafts) to banks and non banks at 31 December 2011 (2010: 28%);

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:

- 82% of the overdraft, loans and advances portfolio is categorised in the first grade of the internal rating system - regular grade at 31 December 2011 (2010: 77 %);
- 86% of the gross loans and advances portfolio are considered to be neither past due nor impaired at 31 December 2011 (2010: 82%); and
- 56% of the debt securities have at least a credit rating of A – (as rated by Standard & Poor’s or its equivalent) at 31 December 2011 (2010: 54%).

All amounts in United States Dollars thousands

3- FINANCIAL RISK MANAGEMENT (continued)

3-1-5 Credit Quality of Financial Assets

The credit exposure as at 31 December is summarised below. These amounts are shown gross without the related impairment provision:

	Neither past due nor Impaired		Past due but not impaired	Individually impaired	**Total**
	Regular	Watch			
31 December 2011					
Deposit with banks	640,299	-	-	-	**640,299**
Debt securities	443,141	-	-	21,200	**464,341**
Loans and advances					
- Overdrafts	98,910	-	-	-	**98,910**
- Loans and advances to banks	430,738	30,000	-	30,803	**491,541**
- Loans and advances to non-banks	56,071	-	-	71,211	**127,282**
Interest receivable and other assets	18,924	77	-	-	**19,001**
	1,688,083	30,077	-	123,214	**1,841,374**

	Neither past due nor Impaired		Past due but not impaired	Individually impaired	Total
	Regular	Watch			
31 December 2010					
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
	1,759,353	30,069	500	128,919	1,918,841

Amounts in respect of debt securities are disclosed before collective impairment of US$ 7.5 million on 31 December 2011 (2010: US$ 2.5 million).

The total impairment provision for loans and advances as at 31 December 2011 is US$ 73.77 million (2010: US$ 58.36 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 2011 is US$ 21.2 million (2010: US$ 19.1 million)

All amounts in United States Dollars thousands

3- FINANCIAL RISK MANAGEMENT (continued)

3-1-5 Credit Quality of financial Assets (continued)

(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.

(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$ 7.6 million at 31 December 2011 (2010: US$ 6.19 million).

3-1-6 Debt Securities

The table below presents an analysis of debt securities, at 31 December 2011 and 2010, based on Standard & Poor's rating or its equivalent:

31 December 2011	FVIS	Available for sale securities	Held to maturity securities	**Total**
A to A+	-	139,974	108,333	**248,307**
Lower than A-	8,602	104,289	26,929	**139,820**
Unrated	-	51,357	5,107	**56,464**
Total	8,602	295,620	140,369	**444,591**

31 December 2010	FVIS	Available for sale securities	Held to maturity securities	Total
A to A+	-	153,878	35,735	189,613
Lower than A-	9,138	79,247	14,551	102,936
Unrated	-	59,797	107	59,904
Total	9,138	292,922	50,393	352,453

All amounts in United States Dollars thousands

3- FINANCIAL RISK MANAGEMENT (continued)

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.

	Gulf	Other Arab countries	Asia	Western Europe and USA	Total
Deposits with banks	461,819	9,940	85,134	83,406	640,299
Overdrafts	98,910	-	-	-	98,910
Loans & advances	40,319	320,892	57,741	126,102	545,054
Debt securities	174,729	20,036	5,109	244,717	444,591
Interest receivable and other assets	3,185	13,172	541	2,103	19,001
At 31 December 2011	**778,962**	**364,040**	**148,525**	**456,328**	**1,747,855**
At 31 December 2010	1,005,882	473,979	91,374	270,140	1,841,375
Non-funded exposures:					
At 31 December 2011	63,554	68,668	29,000	5,000	166,222
At 31 December 2010	29,894	84,894	18,000	15,030	147,818

3- FINANCIAL RISK MANAGEMENT (continued)

3-2 Market risk

The Company takes an 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.

All amounts in United States Dollars thousands

3- FINANCIAL RISK MANAGEMENT (continued)

3-2 Market risk (continued)

(a) Interest rate risk (continued)

	USD 100BP	EUR 100BP	AED 100BP	SAR 100BP	JOD 100BP	QAR 100BP	Other 100BP	**Total**
Interest rate risk 2011								
Financial assets:								
Deposit with banks	4,569	959	320	127	99	-	93	**6,167**
Overdrafts, loans	-	-						
and advances	2,804	808	-	-	-	-	113	**3,725**
Debt securities	1,539	1,206	181	-	-	-	61	**2,987**
Impact of Financial Assets	8,912	2,973	501	127	99	-	267	**12,879**
Financial liabilities:								
Deposits	(6,853)	(2,760)	-	(528)	(99)	-	(114)	**(10,354)**
Impact of Financial Liabilities	(6,853)	(2,760)	-	(528)	(99)	-	(114)	**(10,354)**
Impact on the results of the Company	2,059	213	501	(401)	-	-	153	**2,525**

	USD 100BP	EUR 100BP	AED 100BP	SAR 100BP	JOD 100BP	QAR 100BP	Other 100BP	Total
Interest rate risk 2010								
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

All amounts in United States Dollars thousands

3- FINANCIAL RISK MANAGEMENT (continued)

3-2 Market risk (continued)

(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	2011			2010		
	Change in equity price/ fund NAV %	Effect on net income	Effect on equity	Change in equity price/ fund NAV%	Effect on net income	Effect on Equity
Trading equity	±10	±267	-	±10	±205	-
Available for sale equity	±10	-	±2,389	±10	-	±2,541
Equity participations - quoted	±10	±12,092	-	±10	-	±13,947

The non-trading equity price risk arising from unquoted equity participations classified as available for sale cannot be easily quantified. Fair value attributed to unquoted equity participation included within equity at the year end amounted to US$ 65.16 million (2010: US$ 77.19 million)

(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 31 December. Included in the table are the Company's financial instruments at carrying amounts, categorised by major currencies. Some assets and liabilities are not included in the table since they are not considered in the monitoring of currency risk exposure.

All amounts in United States Dollars thousands

3- FINANCIAL RISK MANAGEMENT (continued)

3-2 Market risk (continued)

Concentrations of currency risk - financial instruments:

As at 31 December 2011	USD	EUR	AED	SAR	JOD	QAR	GBP	Others	Total
Cash and deposits with banks	461,050	97,411	45,356	16,837	9,919	-	9,351	380	**640,304**
Financial assets at fair value through income statement									
Investments securities:	8,925	-	-	954	-	-	-	1,401	**11,280**
-Available for sale	200,269	76,922	9,131	18,785	-	-	-	23,210	**328,317**
-Held to maturity	78,367	52,355	9,540	-	-	-	-	107	**140,369**
Overdrafts, loans and advances	502,556	90,067	-	40,000		-	-	11,341	**643,964**
Equity participation	90,114	-	-	72,020	41,513	-	-	96,208	**299,855**
Other assets	16,073	1,164	69	8,399	8	-	1	3	**25,717**
Total financial assets	1,357,354	317,919	64,096	156,995	51,440	-	9,352	132,650	**2,089,806**
Derivative financial instruments	(2,029)	-	-	-	-	-	-	-	**(2,029)**
Deposits	(720,221)	(322,789)	(43,072)	(67,708)	(9,876)	-	(9,335)	(11,543)	**(1,184,544)**
Other liabilities	(5,133)	(2,360)	(52)	(6,340)	(6)	-	(10)	(767)	**(14,668)**
Total financial liabilities	(727,383)	(325,149)	(43,124)	(74,048)	(9,882)	-	(9,345)	(12,310)	**(1,201,241)**
Net open position	629,971	(7,230)	20,972	82,947	41,558		7	120,340	**888,565**
Credit commitments	23,000	-	-	-	-	-	-	-	**23,000**
As at 31 December 2010									
Total financial assets	1,210,808	207,815	240,260	152,657	50,724	166,193	-	170,840	2,199,297
Total financial liabilities	(950,891)	(211,814)	(1,047)	(78,444)	(21,187)	-	-	(31,895)	(1,295,278)
Net open position	259,917	(3,999)	239,213	74,213	29,537	166,193	-	138,945	904,019
Credit commitments	32,294	42,234	2,573	17,717	-	-	-	-	94,818

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.

All amounts in United States Dollars thousands

3- FINANCIAL RISK MANAGEMENT (continued)

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 cash flows, whereas the Company manages the inherent liquidity risk based on expected cash inflows not resulting in a significantly different analysis. Due to system constraints the company does not have undiscounted cash flow analysis.

As at 31 December 2011	1-3 months	3-12 months	Over 12 months	**Total**
Liabilities				
Deposits	772,815	343,429	68,300	**1,184,544**
Other liabilities	3,022	8,435	332	**11,789**
Total liabilities (contractual maturity dates)	775,837	351,864	68,632	**1,196,333**
As at 31 December 2010				
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

All amounts in United States Dollars thousands

3- FINANCIAL RISK MANAGEMENT (continued)

3-3 Liquidity risk (continued)

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. 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 table below sets out the Company's maturity of contractual cash flows of derivatives:.

	Up to 1 month	1-3 months	3-12 months	1-5 years	**Total**
As at 31 December 2011					
Derivatives held for trading					
Foreign exchange derivatives:					
Outflow	57,226	-	20,000	-	**77,226**
Inflow	57,251	-	19,968	-	**77,219**
Interest rate derivatives:					
Outflow	-	125	1,462	1,500	**3,087**
Inflow	42	75	350	599	**1,066**
Total outflow	57,226	125	21,462	1,500	**80,313**
Total inflow	57,293	75	20,318	599	**78,285**
As at 31 December 2010					
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

All amounts in United States Dollars thousands

3- FINANCIAL RISK MANAGEMENT (continued)

3-3-4 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 2011	Less than 12 months	Over 12 months	No fixed maturity	**Total**
ASSETS				
Cash and deposits with banks	640,304	-	-	**640,304**
Investments:				
Securities	107,988	360,389	11,589	**479,966**
Equity participations	-	-	299,855	**299,855**
Loans and advances	467,797	176,167	-	**643,964**
Property and equipment	-	-	14,385	**14,385**
Investment property	-	-	5,439	**5,439**
Other assets	26,724	-	-	**26,724**
TOTAL ASSETS	1,242,813	536,556	331,268	**2,110,637**
LIABILITIES				
Deposits	1,116,244	68,300	-	**1,184,544**
Derivative financial instruments	1,616	413	-	**2,029**
Other liabilities	7,858	3,358	17,528	**28,744**
TOTAL LIABILITIES	1,125,718	72,071	17,528	**1,215,317**
NET	117,095	464,485	313,740	**895,320**

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

3- FINANCIAL RISK MANAGEMENT (continued)

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 quoted 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.

All amounts in United States Dollars thousands

3- FINANCIAL RISK MANAGEMENT (continued)

3-4 Fair value of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

Assets and liabilities measured at fair value

31 December 2011	Level 1	Level 2	Level 3	**Total**
Financial assets at fair value through income statement				
- Debt securities	8,602	-	-	**8,602**
- Equity securities	2,678	-	-	**2,678**
Available for sale financial assets				
- Equity securities	8,803	-	-	**8,803**
- Debt securities	274,603	21,017	-	**295,620**
- Investment funds	-	23,894	-	**23,894**
- Equity participations	114,221	-	185,634	**299,855**
Total assets	408,907	44,911	185,634	**639,452**
Financial liabilities at FVIS				
- Derivative financial instruments	-	2,029	-	**2,029**
Total liabilities	-	2,029	-	**2,029**

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				
- Equity securities	7,960	-	-	7,960
- Debt securities	234,649	58,273	-	292,922
- Investment 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

Reconciliation of fair value measurements of Level 3 financial instruments

The Company carries unquoted equity shares as available for sale financial instruments classified as level 3 within the fair value hierarchy.

All amounts in United States Dollars thousands

3- FINANCIAL RISK MANAGEMENT (continued)

3-4 Fair value of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

A reconciliation of the beginning and closing balances including movements is summarised below:

	Total
1 January 2010	185,383
Sales	(8,181)
Purchases	6,434
Investment refund	(1,000)
Total gains and losses recognised in other comprehensive income	279
31 December 2010	**182,915**
Purchases	127
Total gains and losses recognised in other comprehensive income	2,592
31 December 2011	**185,634**

(c) Financial instruments not measured at fair value

At 31 December 2011, the fair value of HTM instruments carried at amortised cost of US$ 140,262 thousand (2010: US$ 50,286 thousand) was determined to be US$ 136,431 thousand (2010: US$ 47,978 thousand). The estimated fair value of the other assets and liabilities was 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.

Classification of investments

Management decides on acquisition of an investment whether it should be classified as carried at fair value through statement of income, held-to-maturity or available-for-sale. The Company classifies investments as fair value through statement of income if they are acquired primarily for the purpose of making short term profit. Classification of investments designated as fair value through statement of income depends on how management monitors the performance of these investments. Investments are classified as held-to-maturity when the Company has the positive intention and ability to hold it to maturity. All other investments are classified as available-for-sale.

All amounts in United States Dollars thousands

5- CASH AND DEPOSITS WITH BANKS

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

	2011	2010
Cash and cash equivalents:		
Cash on hand and in banks	23,712	4,248
Time deposits maturing within three months of acquisition	616,592	919,344
Total	640,304	923,592

6- INVESTMENT SECURITIES

Investment securities as of 31 December comprise the following:

		2011	*2010*
a)	**Financial assets at fair value through**		
	income statement (FVIS)		
	Equity securities	**2,678**	2,051
	Debt securities	**8,602**	9,138
	Total	**11,280**	11,189
b)	**Available-for-sale securities**		
	Equity securities	**8,803**	7,960
	Debt securities	**295,620**	292,922
	Investment funds	**23,894**	25,409
	Total	**328,317**	326,291
c)	**Held-to-maturity securities**		
	Debt securities	**140,369**	50,393
	Total	**140,369**	50,393
	Total investments	**479,966**	387,873

All amounts in United States Dollars thousands

6- INVESTMENT SECURITIES (continued)

The movement in investment securities is summarised below:

	FVIS	Available-for-sale	Held-to-Maturity	Total	
				2011	2010
At 1 January	11,189	326,291	50,393	**387,873**	429,388
Exchange differences	(41)	(2,416)	-	**(2,457)**	(9,670)
Additions	933	147,948	91,668	**240,549**	79,219
Disposals (sale, maturity and redemption)	-	(139,793)	(2,485)	**(142,278)**	(121,687)
Change in fair value	(801)	(3,713)	-	**(4,514)**	10,239
Accretion of discount	-	-	793	**793**	384
At 31 December	11,280	328,317	140,369	**479,966**	387,873

Included in the above are securities pledged under repurchase agreements with other banks whose carrying value at 31 December 2011 is US$ 182.6.million (2010: US$ 107.5 million)

7- INVESTMENTS IN EQUITY PARTICIPATIONS

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

	2011	2010
Quoted	**114,221**	131,754
Unquoted	**185,634**	182,915
Total	**299,855**	314,669

2011				
	Quoted shares	***Original cost of participation***	***Fair value of participation***	***Percentage of shareholding***
Country / Project				
Kingdom of Morocco				
Cellulose du Maroc		17,568	6,359	27.3
Société Ryad Soualem S.A.		1,977	1,977	33.0
Maroc Leasing Company	Quoted	4,764	8,207	5.7
		24,309	**16,543**	
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	3,461	12.5
Saudi International Petrochemical Company	Quoted	17,995	36,932	1.9
Middle East Financial Investment Company		16,000	14,517	15.0
National Trigeneration CHP Company		9,043	6,131	10.0
		59,017	**72,020**	

All amounts in United States Dollars thousands

7- INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

2011 (continued)

	Quoted shares	*Original cost of participation*	*Fair value of participation*	*Percentage Of shareholding*
Syrian Arab Republic				
Syrian Arab Company for Hotels and Tourism		**2,272**	**2,079**	20.5
Republic of Sudan				
Kenana Sugar Company		62,395	30,320	7.0
Sudatel Group for Communication	Quoted	20,733	15,027	2.2
Financial Investment Bank	Quoted	4,441	7,617	20.8
Berber Cement Company		14,757	14,757	16.4
The Arab Leasing company		9,000	9,000	30.0
		111,326	**76,721**	
Republic of Tunisia				
Société Tunisienne de Banque	Quoted	1,918	727	0.4
Société Arabe des Industries Pharmaceutiques		994	994	4.0
Société Arab Internationale Lease		1,881	1,881	20.0
		4,793	**3,602**	
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	6,571	10.0
		54,165	**47,754**	
Peoples' Democratic Republic of Algeria				
Arab Banking Corporation - Algeria		3,171	3,171	4.2
Arab Leasing Corporation		10,693	10,693	25.0
		13,864	**13,864**	
The Hashemite Kingdom of Jordan				
Arab Jordan Investment Bank	Quoted	11,849	18,944	10.3
Jordan Paper & Cardboard Manufacturing Company	Quoted	2,862	1,552	26.7
Arab International Hotels Company	Quoted	7,787	7,170	8.4
		22,498	**27,666**	
Republic of Iraq				
Arab Company for Detergent Chemicals		6,955	6,955	6.0
Arab Company for Antibiotics Industries		6,891	6,891	12.4
		13,846	**13,846**	
Kingdom of Bahrain				
Arab Banking Corporation	Quoted	**15,723**	**5,440**	0.4

NOTES TO THE FINANCIAL STATMENTS
All amounts in United States Dollars thousands

7- INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

2011 (continued)

	Quoted shares	*Original cost of participation*	*Fair value of participation*	*Percentage Of shareholding*
Republic of Lebanon				
Uniceramic Company		**1,765**	-	10.0
Sultanate of Oman				
Taageer Finance Company	Quoted	**7,901**	**12,605**	18.8
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		**339,194**	**299,855**	

2010

	Quoted shares	*Original cost of participation*	*Fair value of participation*	*Percentage of shareholding*
Country / Project				
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	10.0
		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	*Quoted*	20,733	20,052	2.2
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**	

All amounts in United States Dollars thousands

7- INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

2010 (continued)

	Quoted shares	*Original cost of participation*	*Fair value of participation*	*Percentage Of shareholding*
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**	

All amounts in United States Dollars thousands

7- INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

Effective beginning of 2001, the Company applied prospectively IAS 39 Financial Instruments: Recognition and Measurement, which requires the re-evaluation 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:

	2011	*2010*
Overdrafts	**98,910**	100,372
Short term facilities	**158,330**	222,050
Bills discounted	**3,961**	4,825
Loans and advances	**456,532**	282,484
Total loans and advances	**717,733**	609,731
Provision for impairment on loans and advances	**(73,769)**	(58,366)
Loans and advances, net	**643,964**	551,365
Movement in provision:		
At 1 January	**58,366**	54,212
Provision for the year (see Note 21)	**16,889**	21,464
Written off during the year	**-**	(2,677)
Recoveries during the year (see Note 21)	**(1,486)**	(14,633)
At 31 December	**73,769**	58,366

9- OTHER ASSETS

Other assets as of 31 December comprise the following:

	2011	*2010*
Accrued income	**24,449**	19,568
Other receivables	**2,275**	3,104
Total	**26,724**	22,672

All amounts in United States Dollars thousands

10- PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY

10-1 Property and equipment

Property and equipment as of 31 December comprise the following:

	Freehold improvements	Building and its equipment	Furniture and equipment	Total	
				2011	2010
Cost:					
At 1 January	5,683	18,556	11,528	**35,767**	34,655
Adjustment	139	-	-	**139**	202
Additions during the year	-	2	976	**978**	1,001
Disposals during the year	-	-	(360)	**(360)**	(91)
At 31 December	**5,822**	**18,558**	**12,144**	**36,524**	**35,767**
Accumulated depreciation:					
At 1 January	-	(12,427)	(9,108)	**(21,535)**	(20,948)
Charge for the year	-	(267)	(697)	**(964)**	(670)
Related disposals	-	-	360	**360**	83
At 31 December	**-**	**(12,694)**	**(9,445)**	**(22,139)**	**(21,535)**
Net book value:					
At 31 December 2011	**5,822**	**5,864**	**2,699**	**14,385**	
At 31 December 2010	5,683	6,129	2,420		14,232

All amounts in United States Dollars thousands

10- PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY (continued)

10-2 Investment property

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

	2011	2010
Cost:		
At 1 January	**30,416**	30,361
Additions during the year	**30**	55
At 31 December	**30,446**	30,416
Accumulated depreciation:		
At 1 January	**(24,872)**	(24,724)
Charge for the year	**(135)**	(148)
At 31 December	**(25,007)**	(24,872)
***Net book value*:**	**5,439**	5,544

The fair value of investment property at 31 December 2011 amounted to approximately US$ 25 million (2010: US$ 26 million).

All amounts in United States Dollars thousands

11- DEPOSITS

Deposits as of 31 December comprise the following:

	2011	*2010*
Deposits by banks	**1,127,463**	954,572
Deposits by non-banks	**57,081**	314,915
Total	**1,184,544**	1,269,487

Included in the above are deposits raised under repurchase agreements whose carrying value as at 31 December 2011 is US$ 159.2 million (2010: US$ 94.4 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.

	2011		
	Contract/Notional Amount	***Fair value***	
		Assets	***Liabilities***
Held for trading			
Credit derivatives:	**23,000**	**-**	**1,021**
Credit- default swaps			
Interest rate derivatives:			
Interest rate swap	**25,000**	**-**	**976**
Foreign exchange derivatives:			
Currency swaps	**154,446**	**24**	**32**
		24	**2,029**

All amounts in United States Dollars thousands

12- DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	2010		
	Contract/Notional Amount	Fair value	
		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	475,335	148	369
		148	4,591

13- OTHER LIABILITIES

Other liabilities as of 31 December comprise the following:

	2011	*2010*
Accounts payable and accrued expenses	**5,405**	5,073
Deferred income	**5,849**	2,572
Employees' benefits (see table below)	**14,076**	14,449
Interest payable	**3,414**	4,207
Total	**28,744**	26,301

All amounts in United States Dollars thousands

13- OTHER LIABILITIES (continued)

Employees' benefits as of 31 December comprise the following:

	Employees saving schemes	*Provision for end of service indemnity*	*Provision for leave*	*Total*	
				2011	*2010*
At 1 January	1,892	11,135	1,422	14,449	13,999
Charge for the year	94	1,369	633	2,096	2,459
Provisions utilised	(1,024)	(941)	(643)	(2,608)	(2,167)
Other movement	139	-	-	139	158
At 31 December	**1,101**	**11,563**	**1,412**	**14,076**	**14,449**

14- SHARE CAPITAL

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

	2011		*2010*	
	No. of shares	***Amount***	*No. of Shares*	*Amount*
Authorised	**800,000**	**800,000**	800,000	800,000
Fully paid	**700,000**	**700,000**	700,000	700,000

During 2010, 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 affect this increase have been completed.

All amounts in United States Dollars thousands

14- SHARE CAPITAL(continued)

The ownership of the shareholders as at 31 December is as follows:

	Ownership percentage	***2011***	*2010*
Kingdom of Saudi Arabia	15.68	**109,744**	109,744
State of Kuwait	15.68	**109,744**	109,744
United Arab Emirates (Abu Dhabi)	15.68	**109,744**	109,744
Republic of Iraq	10.48	**73,387**	73,387
State of Qatar	8.19	**57,350**	57,350
Arab Republic of Egypt	6.97	**48,775**	48,775
Syrian Arab Republic	6.97	**48,775**	48,775
The State of Libya	6.97	**48,775**	48,775
Republic of Sudan	2.68	**18,744**	18,744
Kingdom of Bahrain	1.71	**11,969**	11,969
Republic of Tunisia	1.71	**11,969**	11,969
Kingdom of Morocco	1.71	**11,969**	11,969
Sultanate of Oman	1.71	**11,969**	11,969
Republic of Lebanon	1.61	**11,287**	11,287
People’s Democratic Republic of Algeria	1.61	**11,287**	11,287
The Hashemite Kingdom of Jordan	0.32	**2,256**	2,256
Republic of Yemen	0.32	**2,256**	2,256
Total	100.00	**700,000**	700,000

All amounts in United States Dollars thousands

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.

	2011	*2010*
Movement of statutory reserve:		
Balance, beginning of the year	**80,972**	75,682
Additions for the year	**2,622**	5,290
Balance, end of the year	**83,594**	80,972

16- DIVIDENDS PROPOSED AND PAID

The Board of Directors in their meeting on 23 April 2011 had proposed a cash dividend of USD 50 per share amounting to USD 35 million for 2010 which was approved by the General Assembly in their meeting dated 25 June 2011. No dividend was proposed for the year ended 31 December 2011.

17- FAIR VALUE RESERVE

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

	2011	*2010*
Investments in equity participations		
Balance, at beginning of year	**77,196**	88,712
Change in fair value	**(12,034)**	(11,516)
Balance, at end of year	**65,162**	77,196
Investments in securities available-for-sale		
Balance, at beginning of year	**(4,378)**	(13,913)
Change in fair value	**(2,925)**	9,535
Balance, at end of year	**(7,303)**	(4,378)
Total fair value reserve	**57,859**	72,818

All amounts in United States Dollars thousands

18- NET FEES AND COMMISSIONS

	2011	2010
Loans	**1,366**	814
Trade finance	**3,720**	4,212
Islamic banking	**1,240**	1,468
Others	**(93)**	(10)
Net fees and commissions	**6,233**	6,484

19- NET GAIN FROM INVESTMENTS

	2011	2010
Equities	**607**	142
Debt securities	**3,158**	3,108
Unit Trust Funds	**418**	519
Total	**4,183**	3,769

20- GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
Salaries and related benefits	**14,390**	15,790
Professional and financial	**2,149**	1,659
Board of directors’ expenses	**747**	780
Other	**2,873**	2,598
Total	**20,159**	20,827

All amounts in United States Dollars thousands

21- IMPAIRMENT PROVISIONS

	2011	*2010*
Securities	**701**	3,098
Loans and advances, net	**15,403**	6,831
Equity participation	**5,000**	2,500
Total	**21,104**	12,429

22- COMMITMENTS AND CONTINGENCIES

Credit related commitments include commitments to extend credit, 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:

	No later than 1 year	*1-5 year*	*Over 5 years*	*Total*
31 December 2011				
Loan commitments	11,000	33,167	-	44,167
Guarantees, acceptances and other financial facilities	74,259	19,463	5,333	99,055
Credit default swaps	23,000	-	-	23,000
Total	**108,259**	**52,630**	**5,333**	**166,222**

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

All amounts in United States Dollars thousands

22- COMMITMENTS AND CONTINGENCIES (continued)

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.

23- INVESTMENT MANAGEMENT SERVICES

The Company manages an investment fund on behalf of Arab Submarine Cable Company. The funds under management as at 31 December 2011 amounted to US$ 5.2 million (2010: US$ 2.4 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.

24- 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:

	2011	*2010*
Executive management personnel:		
Loans and advances	**215**	**323**
End of service benefit	**3,473**	**2,848**

All amounts in United States Dollars thousands

24- RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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:

	2011	*2010*
Board of directors' remuneration	**747**	780
Board of directors' bonuses paid	**505**	558
Salaries and short-term employee benefits	**965**	924
End of service benefits	**342**	282

25- COMPARATIVE INFORMATION

Certain comparative figures have been reclassified where necessary to conform to the presentation adopted in the financial statements at 31 December 2011.

26- POLITICAL UNREST

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 nearest 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).

27- APPROVAL OF FINANCIAL STATEMENTS

The accompanying financial statements were approved by the Board of Directors of the Company on 1 Jamad Awal 1433H (corresponding to 24 March 2012).

Addresses

HEAD OFFICE

Kingdom of Saudi Arabia
King Abdulaziz Road
P.O. Box. 4009
Riyadh 11491 - Saudi Arabia

Telephone	:	(966 1) 4760601 (many lines)
Fax	:	(966 1) 4760514
Web Site	:	www.taic.com
E-mail	:	taic@taic.com

BAHRAIN BRANCH (Wholesale Bank)

TAIC Building
Al Seef District, P.O. Box. 5559, Manama - Kingdom of Bahrain

Telephone	:	(973) 17588888 (general), (973)17588999 (dealing)
Fax	:	(973) 17588885 (general), (973)17588988 (dealing)
Reuters	:	TAIC
Swift	:	TAIQ BH BM
E-mail	:	taic@taicobu.com

Regional Offices

CAIRO OFFICE
21 Giza Street, Nile Tower – 14th floor
Giza 12311 - Egypt

Telephone	:	(202) 35729585 - 35728753
Fax	:	(202) 35727035
E-mail	:	taic@ie-eg.com

AMMAN OFFICE

Forth Circle – Embassies Road
P.O. Box 950422,
Amman 11195 Jordan

Telephone	:	(9626) 5930527 - 5933034
Fax	:	(9626) 5931529
E-mail	:	taicarabam@taicarab.com

TUNIS OFFICE

Immeuble «La Residence du Lac»
Bloc E, Appartement E 23
Route de la Marsa - Lac de Tunis 2045
Tunis, Tunisia

Telephone	:	(216) 71 860778 – 71 860086
Fax	:	(216) 71 860012
E-mail	:	taic.tunisia@planet.tn

الشركة العربية للاستثمار ش.م.ع

The Arab Investment Company S.A.A.

www.taic.com

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