الشركة العربية للاستثمار ش.م.ع.

THE ARAB INVESTMENT COMPANY S.A.A.

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Annual Report 2016

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ANNUAL REPORT

2016

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THE ARAB INVESTMENT COMPANY OVERVIEW

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 by initiating investment projects in agricultural, industrial, commercial, transportation and service 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 wholly owned by the governments of 17 Arab states with an authorized capital of US$ 1,200 million and a paid-up capital of US$ 800 million, shared by member countries. TAIC conducts its two main lines of business, i.e. project equity and banking, from its Head Office in Riyadh, Saudi Arabia and its banking branch in the Kingdom of Bahrain.

VISION AND MISSION STATEMENT

Vision

To become the leading Arab financial institution focused on mobilizing resources to meet the investment and financing needs of businesses in the Arab region, which will lead to sustainable development in the Arab region.

Mission

Generate sound financial returns, 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.

SUBSCRIPTION OF MEMBER COUNTRIES

COUNTRY	AMOUNT (US$ Thousands)	%
The Kingdom of Saudi Arabia	125,422	15.68
The State of Kuwait	125,422	15.68
The United Arab Emirates (Abu Dhabi)	125,422	15.68
The Republic of Iraq	83,871	10.48
The State of Qatar	65,543	8.19
The Arab Republic of Egypt	55,743	6.97
The Syrian Arab Republic	55,743	6.97
The State of Libya	55,743	6.97
The Republic of Sudan	21,421	2.68
The Kingdom of Bahrain	13,679	1.71
The Republic of Tunisia	13,679	1.71
The Kingdom of Morocco	13,679	1.71
The Sultanate of Oman	13,679	1.71
The Republic of Lebanon	12,899	1.61
The People's Democratic Republic of Algeria	12,899	1.61
The Hashemite Kingdom of Jordan	2,578	0.32
The Republic of Yemen	2,578	0.32
TOTAL	**800,000**	**100.00**

BOARD OF DIRECTORS

H.E. Eng. Yousef Ibrahim Al-Bassam
Chairman of the Board
The Kingdom of Saudi Arabia

Mr. Yusuf Abdullah Humood
Vice-Chairman
The Kingdom of Bahrain

Mr. Saleh Abdulaziz Al Sheikh
Board Member
The Kingdom of Saudi Arabia

Mr. Abdullah Humaid Al Mazrouei
Board Member
The United Arab Emirates

Mr. Ahmed Abdulla Al Mehairi
Board Member
The United Arab Emirates

Mr. Khaled Abdulaziz Al Hassoun
Board Member
The State of Kuwait

Mr. Nael Mohamed Al Homoud
Board Member
The State of Kuwait

Mr. Elgaili Mohamed Al Bashir
Board Member
The Republic of Sudan

Mr. Ahmed Abdelrehim Elsayad
Board Member
The Arab Republic of Egypt

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

Dr. Mhd Samer Abdulrahman Al Khalil
Board Member
The Syrian Arab Republic
(Membership began on 18/10/2016)

Dr. Fadhil Nabee Othman
Board Member
The Republic of Iraq

Mrs. Fouzia Zaaboul
Board Member
The Kingdom of Morocco

Mr. Ali Milad Zaidi
Board Member
The State of Libya
(Membership began on 04/06/2016)

Mr. Ali M. Reda Alhaj Jafar
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 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 authority. This Committee is composed of eight Board members as follows:

1	H.E.Eng. Yousef Ibrahim Al-Bassam	Chairman
2	Mr. Ali M. Reda Alhaj Jafar	Member
3	Eng. Barakat Arafat Arafat (Membership ended on 18/10/2016)	Member
4	Mr. Taher Mohamed Hawisa (Membership ended on 04/06/2016)	Member
5	Mr. Elgaili Mohamed Al Bashir (Membership ended on 28/12/2016)	Member
6	Mrs. Fouzia Zaaboul	Member
7	Mr. Ahmed Abdulla Al Mehairi	Member
8	Mr. Nael Mohamed Al Homoud	Member

Risk and Asset Committee

The Risk and Asset Committee is charged with assisting the Board of Directors in assuming its supervisory tasks relating to the risks inherent to the Company's activities. It also evaluates and reviews equity investment and banking risks. This committee is composed of three Board members as follows:

1	Mr. Yusuf Abdullah Humood	Chairman
2	Mr. Khaled Abdulaziz Al Hassoun	Member
3	Mr. Abdullah Humaid Al Mazrouei	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 three Board members as follows:

1	Dr. Fadhil Nabee Othman	Chairman
2	Mr. Omar Abdulaziz Al Hamid	Member
3	Mr. Saleh Abdulaziz Al Sheikh	Member

Nominations and Compensation Committee

The Nominations and Compensation Committee is charged with the responsibility of assisting the Board of Directors in fulfilling its responsibilities pertinent to employees' nominations and compensations in such a way to help safeguard the interests of the Company and achieve its objectives. This committee is composed of three Board members as follows:

1	H.E.Eng. Yousef Ibrahim Al-Bassam	Chairman
2	Mr. Yusuf Abdullah Humood	Member
3	Mr. Ahmed Abdelrehim Elsayad	Member

EXECUTIVE MANAGEMENT

EXECUTIVE MANAGEMENT

HEAD OFFICE - RIYADH

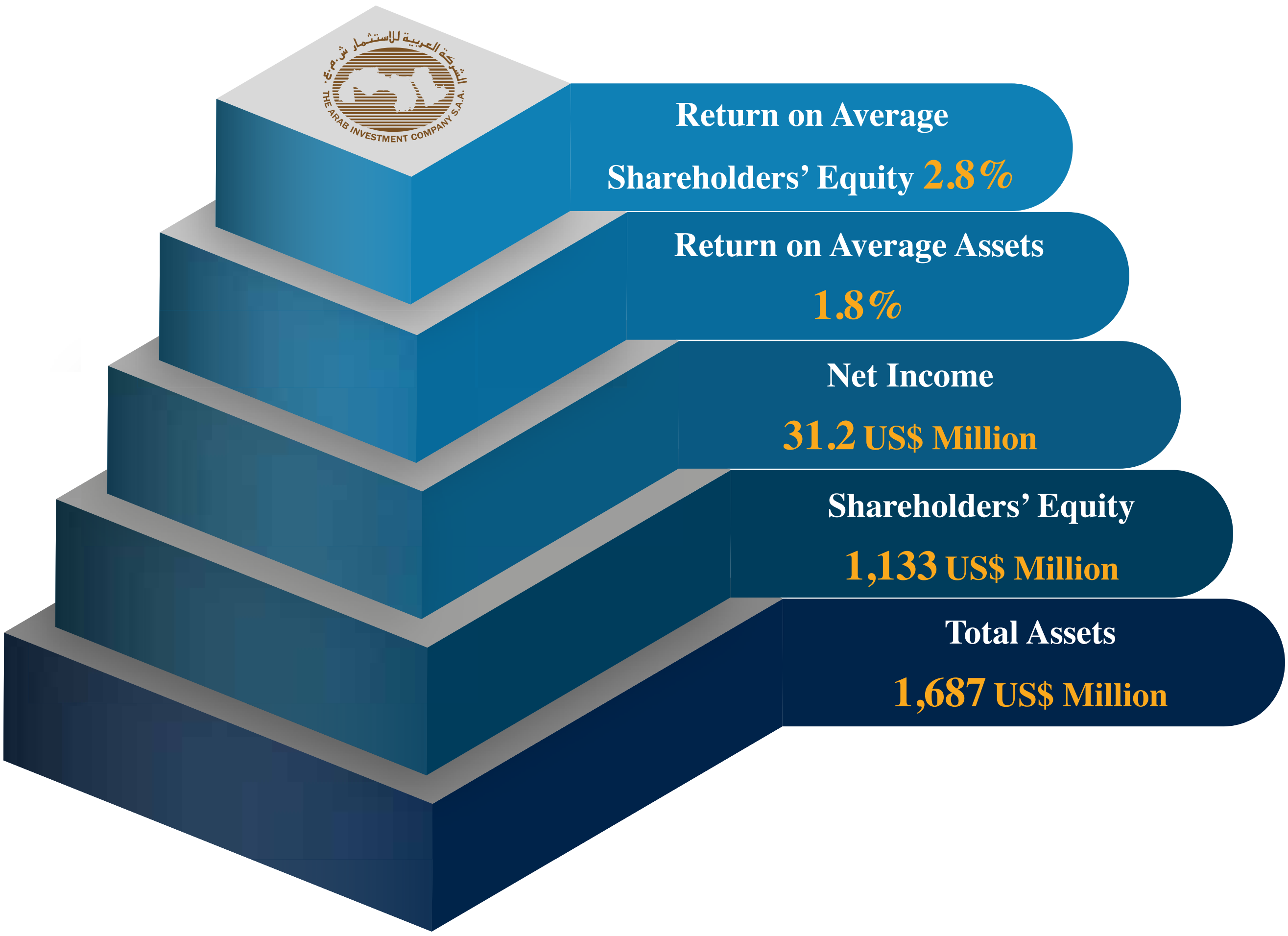
Chief Executive Officer
Mr. Ibrahim H. AlMazyad

1	Finance & Administration Affairs	Mr. Fahad A. Al Haqbani
2	Investment	Mr. Fahd S. Al Nhit
3	Human Resources & Administration	Mr. Abdulaziz A. Al Fureih
4	Financial Affairs	Mr. Magdi M. Elkafrawy
5	Information Technology	Eng. Abdullah M. Al Subaie
6	Strategic Planning & Research	Mr. Dakheel A. Al Zahrani
7	Legal Advisor	Mr. Khalid S. Al- Zugaibi
8	Internal Audit	Mr. Youssef S. Salem

Bahrain Branch (Wholesale Bank)

1	Branch General Manager	Mr. Ibrahim M. Zletni
2	Administration & Finance	Mr. Mahmood Salman
3	Treasury & Capital Market	Mr. Marc Dondi
4	Credit Department	Mr.Samir Medjiba / Mr.Isam Khalid
5	Operations	Mr.Mohammadine Menjra
6	Risk Management	Mr. Nitin Gupta
7	Legal Advisor	Dr. Osama Mukhtar
8	Internal Audit	Mr. Lalit Bakhru
9	Compliance Officer	Ms. Sudha Tilani
10	Information Technology	Mr.Masoud Murad

FINANCIAL HIGHLIGHTS



Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors of the Arab Investment Company ("TAIC"), it is my pleasure to present to the General Assembly the Annual Report of the Arab Investment Company covering the Company's activities and financials for the fiscal year that ended on 31/12/2016.

During the year 2016, and despite the continued volatility in global economic growth rates, coupled with fluctuations in the regional and global financial markets, in addition to the continued uncertainty and increased geopolitical risks in the Arab region and the negative impact on the investment climate in general, the Company continued its activities and leadership role as a catalyst for investment and development in the Arab world while adapting to the prevailing conditions. TAIC proved its ability to meet with the various challenges and showed a high degree of flexibility in adapting to different economic conditions based on the support of its shareholders, the strength and robustness of its financial position, its outstanding human resources and its relentless efforts to improve the efficiency in the utilization of available resources in such a way to ensure the growth of shareholders' equity and increase their returns.

In view of the growth of the financial results and profits achieved by the Arab Investment Company during 2016, despite the difficult economic conditions, the Board of Directors looks forward with confidence and optimism towards another year of achievements and hard work aimed to achieve further growth and prosperity in order to achieve the Company's objectives and meet the aspirations of its shareholders.

Finally, on behalf of my fellow Board members, I would like to extend my thanks and gratitude to the governments of the shareholding countries for their trust and constructive role in supporting the Company's activities. I would like also to express my appreciation for the efforts of the members of the Board of Directors, the Executive Management and the Company's staff for their contribution to the results achieved in 2016, wishing the Arab Investment Company further progress and prosperity.

Eng. Youssef Ibrahim Al Bassam
Chairman

CEO's Statement

The Arab Investment Company continued its constant efforts towards its vision to achieve sustainable development in the Arab region despite the challenges observed in the business environment during the year 2016. Despite the surrounding challenges and their implications , TAIC was able to add another year of good results to its record of achievements due to its balanced treasury policies and a solid capital base, and based on its investment expertise, optimal utilization of financial and human resources, sound and prudent management of various risks, and its permanent commitment to the application of best practices and professional standards in the conduct of its investment activities and investment banking in order to reach the desired goals.

The Company managed during the 2016 fiscal year to continue its activities in both equity investment and the provision of financial services with efficiency, and maintained its outstanding presence among joint Arab companies as a catalyst for the establishment and development of investment projects across the Arab region. It also proved readiness for new investment horizons to ensure growth, diversification and sustainability of its investment activities based on an acceptable level of risks that will ensure the Company's future growth of profits and returns and increase shareholders' equity and the development of their revenues.

In the field of project equity investment, the Company paid special attention during the year to the management of its existing portfolio while providing various types of support to it in order to develop its investment income. At the same time, it was able to execute planned exits from some of its shareholdings and took the initiative in building strategic alliances and cooperation ties with major companies in the region. TAIC also continued its efforts to identify promising investment opportunities throughout the Arab region, studied and developed them in order to enter into new investments during the next period that meet the aspirations and expectations of the Board of Directors.

In the field of financial services, the Company continued, through its banking branch in the Kingdom of Bahrain, to manage prudently and objectively its banking assets and cope with the prevailing business environment in line with the objectives that the company seeks to achieve. The efforts of the Company focused on mobilizing resources, managing liquidity, and continuously evaluating and managing the components of its credit and securities portfolio with utmost caution in accordance with the requirements of international accounting standards and regulators.

On another side, the Company focused on developing its internal work environment, and continued to upgrade the skills and capabilities of its employees and raise their competencies. It also paid special attention to internal and external training in various disciplines related to its activities. The company was also instrumental during the year in developing working methods to keep pace with new developments in this field. To this respect, TAIC modernized and developed its information technology systems, and strengthened the institutional work through an integrated system of rules and regulations in accordance with the principles of corporate governance, the decisions of the Board of Directors and the directives of the regulatory authorities in order to move the company's activities towards new horizons of progress and prosperity.

The synergies adopted in 2016 had a positive reflection on the Company's financial results on both equity investment and banking fronts, and was successful in increasing its net profit by 21% to US $31.2 million, compared with a net profit of US $25.7 million in 2015. The Company also achieved a shareholders' equity growth of US $52 million, bringing total shareholders' equity to US $1,133 million at the end of 2016. This increase in equity included the amount paid from the third installment of the capital increase amounting to US $23.9million. The Company recorded a return on average shareholders' equity of 2.8% at the end of the fiscal year 2016 compared to 2.4% the previous year.

We, at the Arab Investment Company, constantly keep in mind the Company's mission and strategic aspirations for the development of shareholders' equity and work together to achieve them in the most efficient way in accordance with a comprehensive long-term vision that takes into account the conditions surrounding us and ensures that the company will continue to grow and prosper. I have great hope and confidence in the strong economic fundamentals of the Arab economies that will result in promising investment opportunities and achieve sustainable development in the Arab region.

In conclusion, I would like to seize this opportunity to express my deep thanks and appreciation to the shareholding countries and to the members of the Board of Directors for their trust and support for the Arab Investment Company and to all the colleagues in the Company for their sincere efforts and dedication in achieving our aspirations. Hoping and wishing a new year of progress and achievement to the Arab Investment Company, its shareholders and employees.

Ibrahim H. Al Mazyad
Chief Executive Officer

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THE ARAB INVESTMENT COMPANY S.A.A.

DIRECTORS' REPORT 2016

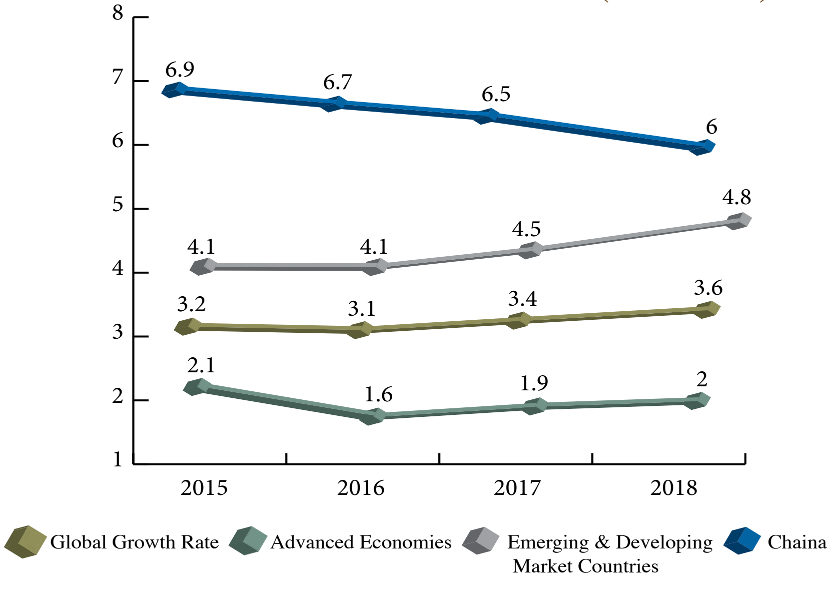
1. Global Economic Developments in 2016

1.1 World Economic Growth

During 2016, the world economy experienced a slight decline in the pace of growth achieved in 2015, albeit at rates varying across countries, with global GDP growth rate falling to 3.1% compared to 3.2% the previous year. Advanced economies recorded a significant drop in the level of growth to 1.6% compared to the level achieved in the previous year, amounting to 2.1%, while in emerging and developing countries growth stabilized at the previous year's level of 4.1%. In advanced economies, the United States recorded a decline in growth to 1.6% versus 2.1% the previous year, while the growth of Euro zone countries slowed to 1.7% versus 2% the previous year. In the United Kingdom growth recorded a level of 2% rate against 2.2% the previous year while Japan recorded a decline in its growth rate to 0.9% compared with 1.2% the previous year. In the meantime, emerging markets and developing economies, growth rate in China fell to 6.7% versus 6.9% in 2015 and fell to 6.6% in India versus 7.6% the previous year. Latin American and Caribbean States recorded a contraction of 0.7% compared to a growth rate of 0.1% the previous year.

According to the World Economic Outlook report (January 2017) issued by the International Monetary Fund, the pace of economic growth in both developed economies as well as emerging and developing economies is expected to improve during the years 2017 and 2018 with the achievement of a global growth rate of 3.4% and 3.6%, respectively. It is also expected that the developed economies are growing at a rate of 1.9% in 2017 and 2% in 2018, but the main factor that contributed to this improved outlook for the global economy for the period 2017-2018 is the expected improvements in the growth of emerging economies and developing countries at a rate of 4.5% in 2017 and 4.8 % in 2018 thanks to the gradual return of normalcy in a number of major economies that experienced extraordinary pressure in 2016.

Annual Growth Rate % (2015-2018)*



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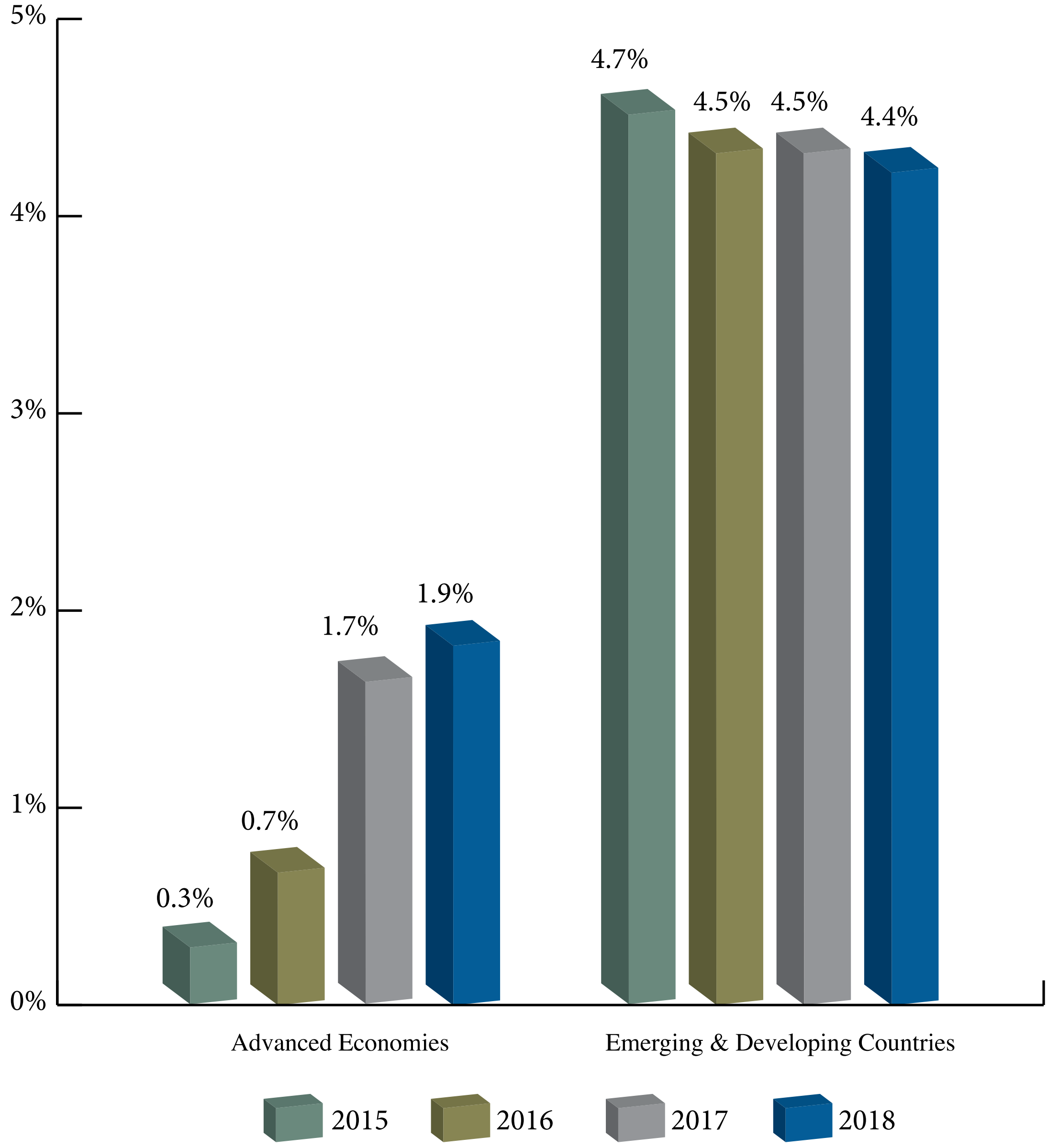
* Source: World Economic Outlook report (January 2017) issued by the International Monetary Fund.

1.2 Inflation

On the inflation front, the inflation rate in the developed economies rose from 0.3% in 2015 to 0.7% in 2016, while the inflation rate for emerging markets and developing economies countries saw a decline of 4.5% versus 4.7% the previous year. Inflation is expected to continue to rise in the developed countries during the years 2017 and 2018 at a rate of 1.7% and 1.9% respectively, while it is expected to stabilize at 4.5% in the emerging markets and developing economies countries in 2017, with a drop to 4.4% in 2018.

Inflation rate (2015-2018)*



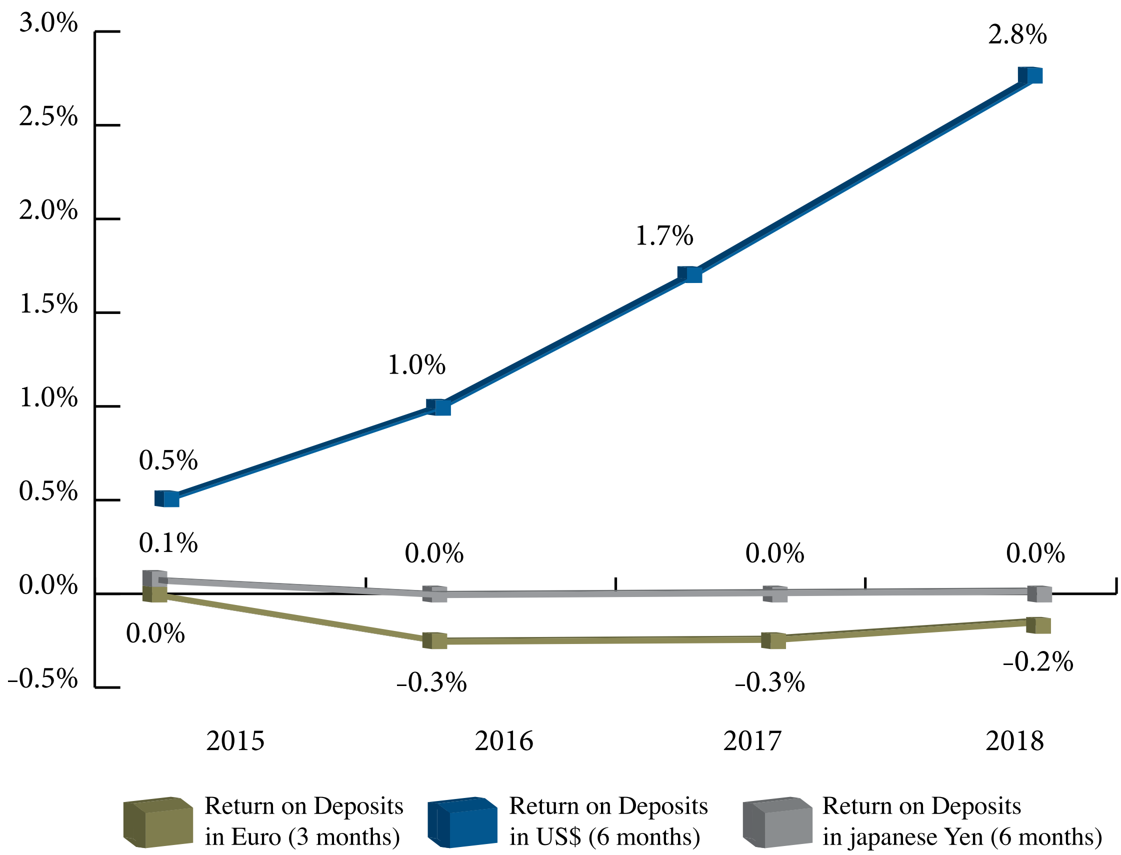
* Source: World Economic Outlook report (January 2017) issued by the International Monetary Fund.

1.3 Financial and Monetary Developments

1.3.1 Interest Rates

The prevailing exchange rates on deposits in US dollars in London interbank system (six months) rose from 0.5% in 2015 to 1.0% in 2016. It is expected to continue to rise to record 1.7% in 2017 and 2.8% in 2018, while the rate dropped on deposits in Japanese yen (six months) from 0.1% in 2015 to reach zero in 2016, with the expectation to continue at this rate during the years 2017 and 2018. Yield on deposits decreased for the Euro (three months) from zero in 2015 to (0.3%) in 2016, it is expected to stabilize at this rate in 2017, before rising slightly in 2018 to reach (0.2%). The following is a graph that illustrates the movement of interest rates on deposits in US dollars, the Japanese Yen and the Euro:

Interest rates on deposits in US Dollars, Japanese Yen and Euro*

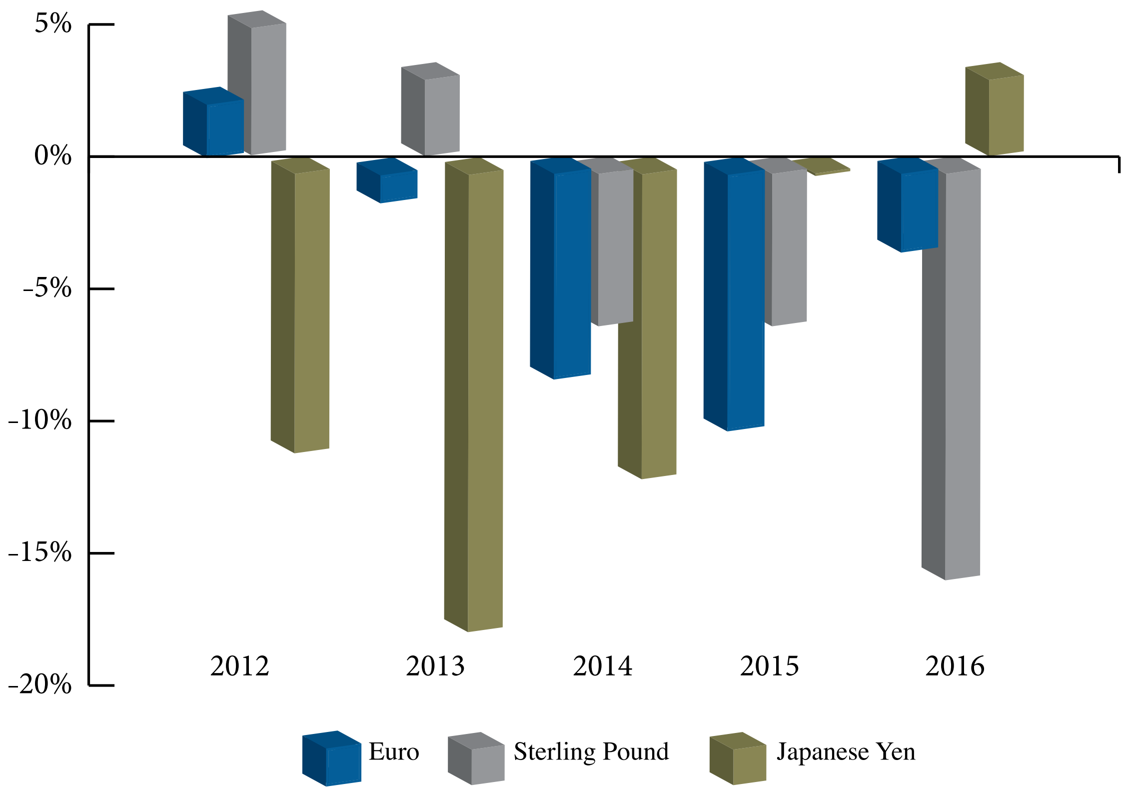


* Source: World Economic Outlook report (January 2017) issued by the International Monetary Fund. International Monetary Fund.

1.3.2 Exchange Rates

The US dollar continued to register high exchange rates against most major currencies at the end of 2016 supported by the decision of the US central bank Federal Reserve to raise interest rates in December of the same year at a rate of 25 basis points. On the other hand, the Euro and British pound marked a decline against the US dollar marked of about 3.2% and 16.5% by year-end, respectively. Several currencies of emerging markets recorded a significant drop through 2016, notably the Turkish lira and Mexican Peso against a rise in currency markets of primary commodities markets, notably Russia.

Change rate in major currencies against US$*



* Source: The World's Trusted Currency Authority.

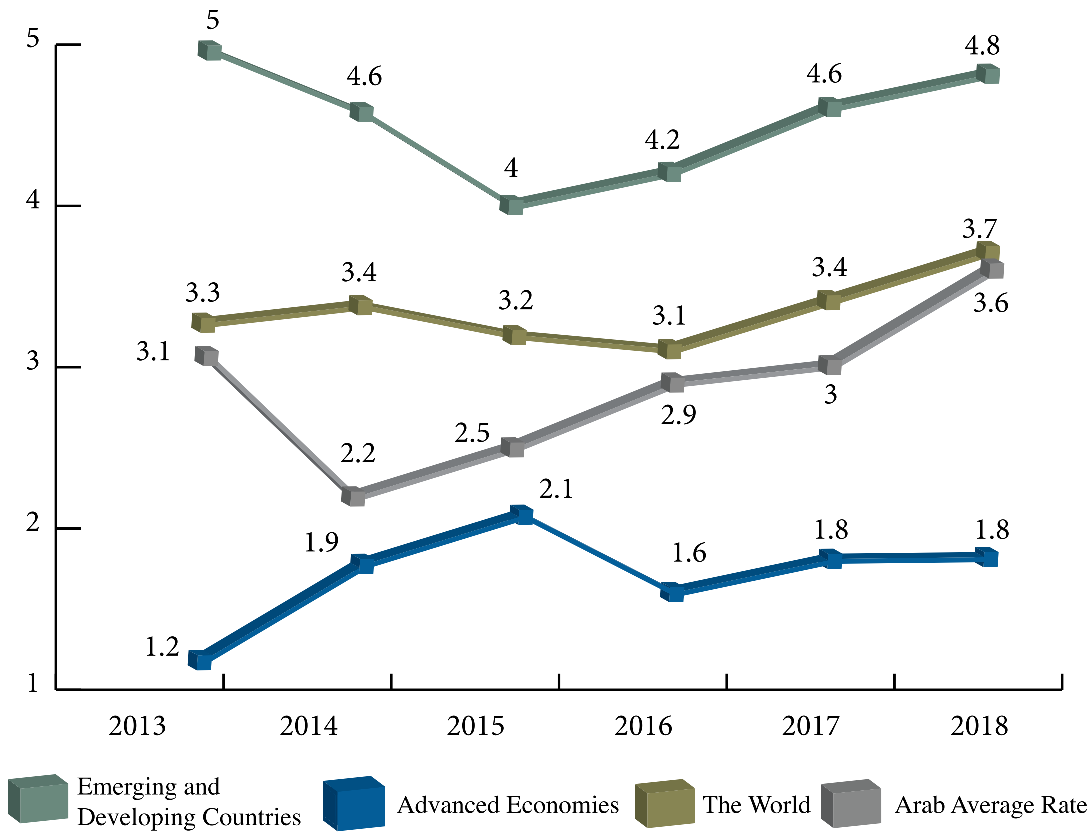
1.3.3 Financial markets for stocks and bonds:

On global stock markets front, Dow Jones index (DJIA) of US stock market increased by 21.8% to reach 20,100 points by the end of 2016, and in Europe, Morgan Stanley index of European equities (MSCI-EURO) rose by 2.85% to reach the level of 1,513 points by year-end. In UK, the FTSE index (FTSE-100) increased slightly at the end of 2016 by 0.32% to 7,184 points. While Nikkei (NIKKEI index) Japanese shares rose by 8.41% to reach 19,368 points by the end of 2016. With regard to markets bonds, the yield on US government bonds of all maturities recorded a markup by the end of the year, while government bond yields fell in the euro zone and Japan for all maturities at the end of 2016 with the exception of return on long-term bonds.

2. Economic developments in the Arab region in 2016:

The Arab region faced during 2016 two of the biggest geopolitical and economic challenges, namely the intensification of geopolitical fluctuations and worsening security situation in the region together with a sharp drop in world oil prices over the past two years. The combination of these two factors led to an increase in risks across the Arab region and the consequent negative impact on growth prospects in the region in short and long term. According to International Monetary Fund statistics, the Arab GDP growth rate rose to 2.9% in 2016, compared with 2.5% in 2015, with expectations of an increase reaching 3% in 2017, although the predictions are characterized by a great deal of uncertainty because of the volatility of oil prices and the repercussions of regional conflicts.

Expected real growth rate of the Arab GDP (%) compared to emerging and developing countries and developed countries for the period from 2013 to 2018*



* Source: World Economic Outlook report (October 2016) issued by the International Monetary Fund.

Economic growth rates varied generally in the Arab countries during 2016. Despite the recent surge in oil prices from their lowest levels early in the year- the main driver of the economy in the oil exporting countries- forecasts indicate that these prices will remain low in the coming years, causing a slow economic activity in the Gulf Cooperation Council (GCC) countries. According to World Economic Outlook report (October 2016) issued by the International Monetary Fund, GDP growth rate is expected to decline in the GCC countries for 2016 to 1.7% compared to a growth rate of 3.4% in 2015, but the pace of economic growth is expected to improve in 2017 to reach 2.3%. On the other hand and in spite of the economic reforms, the decline in oil prices during the past two years and the resulting amelioration in macroeconomic stability, the economic growth in oil-importing countries is still weak and fragile, and the growth rate is expected to stabilize in 2017 around the levels achieved in 2016 at 3.2 %.

With regard to inflation, and as a result of decisions and measures taken many Arab countries to reduce subsidies on fuel and energy, accompanied by a rise in the prices of goods and fuel, weighted average rate of inflation in the Arab countries rose from 4.8% in 2015 to 5.6% in 2016 , with and expected stability around 5.9% through 2017.

3. TAIC activity in 2016

Within the framework of deteriorating economic and geopolitical conditions experienced by the region and its negative repercussions on the investment climate in the Arab world in terms of the scarcity of investment opportunities and limited resources in many Arab countries, especially those undergoing heated political tensions the Company pursued its search for good investment opportunities, expressing high flexibility in adapting with various economic challenges facing the region. It also continued to intensify its efforts to strike a balance between assets diversity and quality, while maintaining good rates for capital adequacy standard, high liquidity, prudent risk management, professional and conscious handling of various changes and developments surrounding the performance of various economic sectors in the Arab region, based on the support it received from the shareholding countries and taking advantage of the flexibility provided by its charter and the efficiency offered by its internal bylaws.

In 2016, TAIC continued during the year to focus on managing effectively its existing investment portfolio, executing planned exits from some investments, developing new products and entering into strategic regional and international alliances. In addition to this, the Company pursued its efforts to attract and mobilize financial resources and direct them to viable investments. TAIC also remained keen on identifying and elaborating promising business opportunities in coordination with various Arab financial institutions; Pan-Arab and international companies; Arab Chambers of Commerce and Industry; and Investment promoting agencies in the Arab countries while committed to the utmost caution in making investment decisions.

Significant developments in some of TAIC's activities and financial results during 2016 are provided below:

3.1 The Company's Management

During 2016, The Arab Investment Company (TAIC) pursued its efforts to achieve its objectives and plans as it continued to update some regulations governing the activities of the company to accommodate new developments and introduce flexibility into the necessary legal and regulatory frameworks in order to enable it to achieve its goals. To this end, the Company determined during 2016 its needs of functional competencies and training programs as directed by the regulatory authorities in each of Saudi Arabia, the host country, and the Kingdom of Bahrain, where the Company's branch is located.

In 2016 and in line with its steering role the Board held four meetings during which it took the appropriate decisions and directives using a host of measures and bylaws emanating from TAIC charter and articles of association. The committees formed by the Board, namely the Higher Investment Committee, Risks and Assets Committee, Audit Committee and the Nominations and Compensation Committee, carried out their tasks and responsibilities entrusted to them by the Board. Executive Management also developed its plans for the year guided by the Board's instructions and directives emanating from the Company's vision and mission together with future aspirations set by the Board while taking into account TAIC commitment to the resolutions of its meetings in order to meet the objectives of the shareholding countries, therefore creating the investment environment and sustainable development which respond to the aspirations of Arab countries in general and shareholding countries in particular.

3.2 Financial Results in 2016:

The Company's net profit for the fiscal year 2016 stood at US$ 31.2 million against US$ 25.7 million reflecting an increase of 21%. This rise in the company's profits in 2016 was due to higher commissions and fee revenues, income from dealing in securities, an increase in profits made from selling shareholdings, lower administrative expenses and lower provisions compared to 2015. The total operating income of the company's various activities at the end of the fiscal year 2016 amounted to 51.8 million US dollars, compared with US$ 65.8 million in 2015, a decrease of 21.4%. Administrative expenses declined by 20.7% to reach US$ 17.2 million due to lower personnel expenses and consulting costs. The company's activities in both investment and banking contributed in achieving these results. The decline of the company's operating income in 2016 was due to a decrease of net interest income by 27%, and projects' dividends by 25%.

Total assets as of the year end 2016 amounted to US$ 1,687 million as compared to US$ 1,786 million the previous year, thereby recording 5.5% decrease due to retraction in credit risks exposure.

The Company shareholders' equity registered an increase of 4.8% from US$ 1,081 million in 2015 to 1,133 million at the end of 2016.

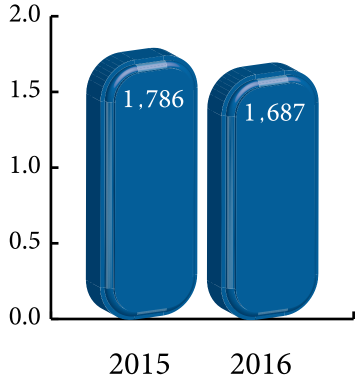
Return on assets and shareholders' equity stood at 1.8% and 2.8% respectively at the end of the year. The following chart represents the Company's main performance indicators during 2016 compared to those achieved in 2015:

Main Performance Indicators for 2016 and 2015

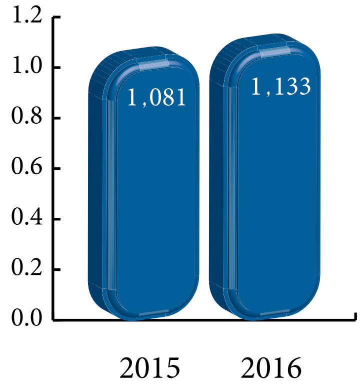
Indicator	Year 2016	Year 2015
Return on Average Shareholders' Equity (ROAE)	2.8%	2.4%
Return on Average Assets (ROAA)	1.8%	1.4%
Operating Expenses Ratio	33.2%	32.9%
Capital Adequacy Ratio	83%	86%

The following charts represent the growth in TAIC's net profit, shareholders' equity and return on assets and shareholders' equity during 2015-2016:

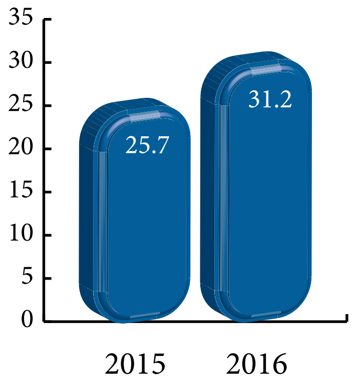
Total Assets (million US$)

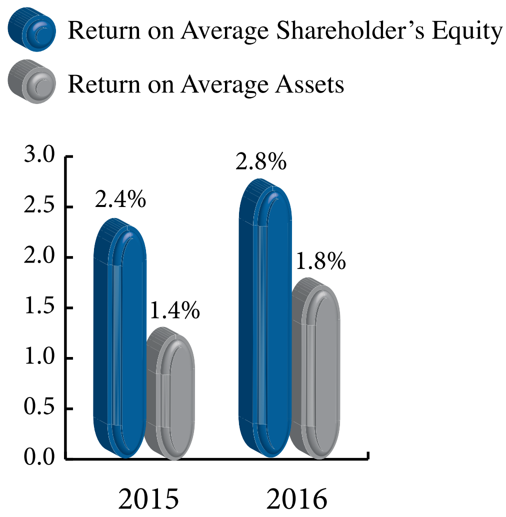


Total Shareholder's Equity (million US$)



Net Annual Income (million US$)





3.3 TAIC's Equity Investment Activities

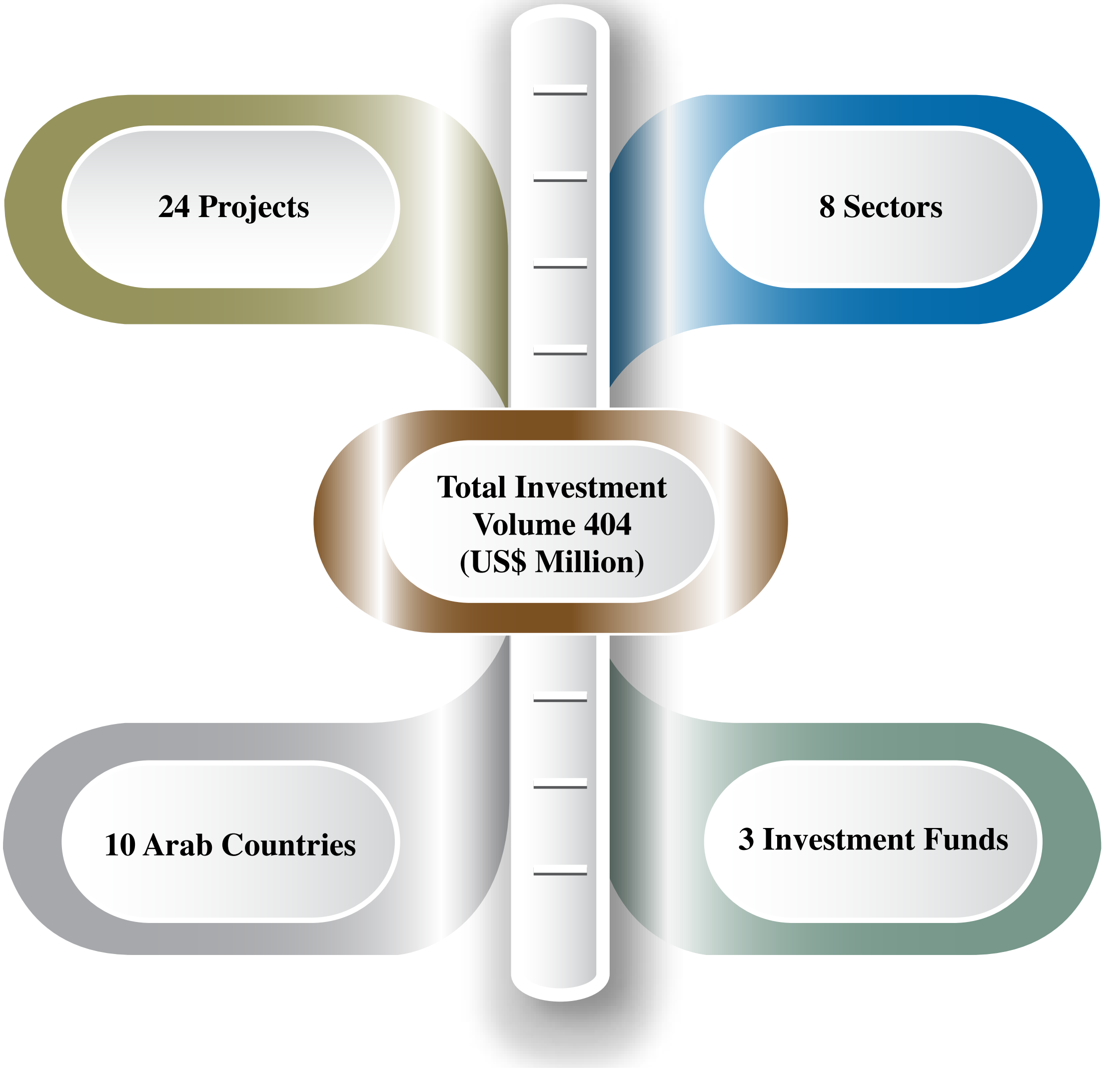
Investment in projects is the essential anchor for which the Company was established to achieve its goals. Through investment in equity projects, TAIC is keen to localize technology in the host countries of those projects, as well as use Arab human resources of these countries in order to provide the greatest possible job opportunities to promising Arab youth to integrate vision and mission to meet the aspirations of the shareholding countries. The Company is also keen to communicating with all relevant authorities in order to overcome all the obstacles that stand in the way of desired Arab development by contributing directly in shaping the investment plans, attracting investment funds and using human resources to take advantage of their potentials. TAIC focuses on diversifying its investments and using any element that would contribute to boosting the Arab economies.

The company has focused during 2016 most of its attention on the follow-up of its existing equity portfolio and taking advantage of investment opportunities in light of the political and economic challenges facing the Arab region. The Company was also keen to participating in the meetings of the boards of directors and general assemblies of these projects, while exerting distinct efforts to address the challenges faced by some of the projects in collaboration with other contributors. The Company also continued its identification of promising investment opportunities in various Arab countries that are consistent with the objectives and tailored to its investment criteria.

On the other hand, in order to promote growth and sustainability of the Company's revenues, the Arab Investment Company ended during 2016 its expansion project of its residential compound in Riyadh with the construction of 15 additional housing units, bringing the total number of the compound units to 86. The Company is expected to start the rental process of these new units during the first quarter of 2017.

3.3.1 TAIC's Investment portfolio as of 31/12/2016

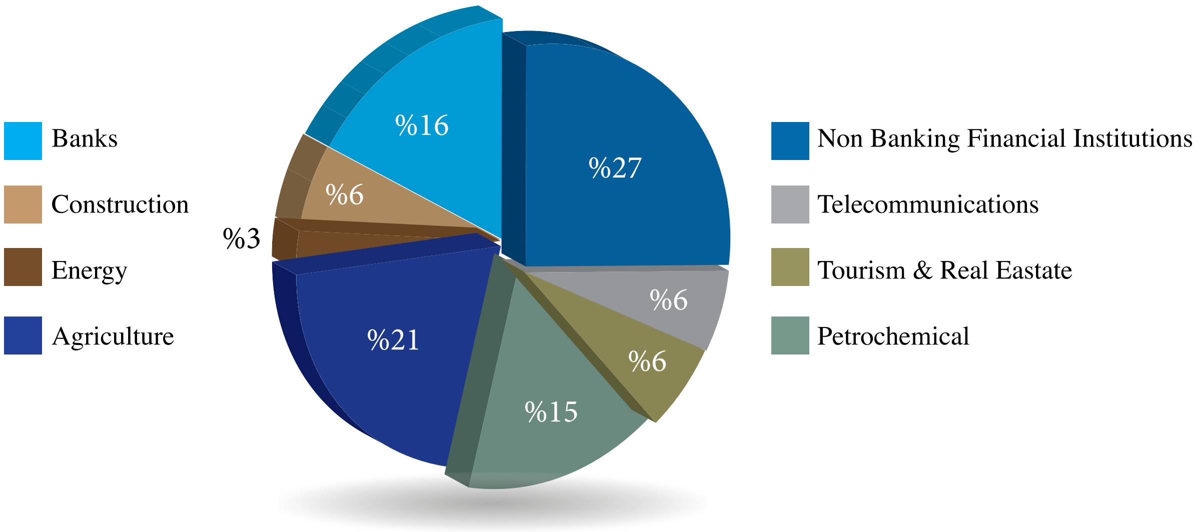
At the end of the year, TAIC's total investments in both equity and investment funds amounted to US$ 404 million. The portfolio included 24 equity projects and 3 investment funds, spread geographically over 10 Arab states and distributed over 8 sectors, namely agriculture, petrochemicals, non-banking financial institutions, banks, tourism and real estate, construction, telecommunications and energy, as shown in the following Figure:



The total paid-up capital of the above eight sectors projects amounted to US$ 8.1 billion and shareholders' equity totaled US$ 11.2 billion. TAIC's investments in these projects totaled US$ 319 million, representing 40% of its Paid-up Capital.

The following chart shows the percentage of the investment portfolio's sectoral distribution at historical cost at the end of 2016:

Investment Portfolio Composition



On the investment funds front, the Company's portfolio at the year-end included participation in three funds totaling US$ 85 million. The aim of these funds, having a total value of US$ 900 million, is to invest in initial offerings, energy and development companies.
The following tables summarize the Company's portfolio in equity projects and investment funds as of 31/12/2016:

Equity Investment portfolio at year-end 2016

	Name of Project	TAIC Participation (US$ Million)	TAIC Share %	Major Shareholders	Sector
	Kenana Sugar Company	62.4	6.99%	- The Government of Sudan - Kuwait Investment Authority - The Government of Saudi Arabia	Agriculture
	Egyptian Propylene & Polypropylene Company	27.6	10%	- Hail Said Group - Oriental Weavers	Petrochemicals
	Bidaya Home Finance Company	26.7	11.1%	-Public Investment Fund - The Islamic Corporation for the Development of the Private Sector - Al Rashed A. Al Rashed & Sons Company	Non-Banking Financial Institutions
	SUDATEL Telecommunications Group LTD	20.7	2.18%	- The Government of Sudan	
	The Arab Jordan Investment Bank	19.1	10.25%	- Abdulqader A. Al Qadi Family - Libyan Foreign Bank	Banks

Name of Project	TAIC Participation (US$ Million)	TAIC Share %	Major Shareholders	Sector
Saudi International Petrochemical Company (Sipchem)	19	1.75%	- Al Olayan Financial Company Ltd. - Al Zamil Holding Group - Public Pension Agency - Icarus Petrochemical Holding Company	Petrochemicals
Berber Cement Company	16.4	16.40%	- National Cement Co. - The Islamic Corporation for the Development of the Private Sector - National Social Security Fund	Construction
Middle East Company for Financial Investment	16	15%	- Kuwait and Middle East Financial Co.	Non-Banking Financial Institutions
Bank ABC	15.7	0.42%	- Libyan Central Bank - General Authority for Investment - Kuwait	Banks
Arab International Company for Hotels and Tourism	12.7	13.62%	-Arab International Bank - General Authority for Investment – Kuwait - Abu Dhabi Investment Authority	Tourism & Real Estate
Arab Leasing Corporation SpA	10.7	25%	- Bank ABC - Algeria - Caisse Nationale d’Epargne et de Prevoyance	Non-Banking Financial Institutions
National Trigeneration CHP Company	9.04	9.94%	- Ministry of Islamic Affairs and Waqf - Al Anoud Charity Foundation	Energy
The Arab Leasing Company LTD	9	30%	- The Islamic Corporation for the Development of the Private Sector - Libyan Foreign Bank	Non-Banking Financial Institutions
The Arab Jordan Investment Bank	8.7	15%	- The Arab Jordan Investment Bank	Banks
Taager Leasing Company	7.9	18.79%	- Oman Investment Fund - Ministry of Defense Pension Fund	Non-Banking Financial Institutions
International Company for Leasing (Incolease)	7.9	10%	- Arab International Banking Corporation Bank - Banque Misr	Non-Banking Financial Institutions
Arab International Hotels Company	7.79	8.36%	- Jordan Ahli Bank - Jordan Worsted Mills Co. - Al Nabeel Trading Co.	Tourism & Real Estate
Maroc Leasing	4.76	5.74%	- Groupe Banque Populaire - Credit Immobilier & Hotelier Bank	Non-Banking Financial Institutions
Financial Investment Bank	4.44	20.8%	- Central Bank of Sudan - Tadhamon International Islamic Bank - Hospico Company	Banks

	Name of Project	TAIC Participation (US$ Million)	TAIC Share %	Major Shareholders	Sector
	The Arab Co. for Livestock Development	3.56	1.67%	- Arab Joint Company	Agriculture
	Bank ABC	3.17	4.18%	-Bank ABC– Bahrain	Banks
	Arab Trade Financing Programme	3.33	0.44%	- Arab Monetary Fund - Arab Fund for Economic & Social Development - Banque d'Algerie	Non-Banking Financial Institutions
	The Arab Mining Co.	2.16	1.1%	- Arab Joint Company	Mining
	Société Riad Swalem	0.2	33%	Asma Investment Company	Tourism & Real Estate

Investment Funds Portfolio at year-end 2016

	Name of Fund	Fund Investment Field	Fund Volume (USMillion)	TAIC Share (US$ Million)	Investment Geographical Scope
	IFC MENA Fund	Development Companies	300	45	MENA Region
	PowerVest Fund (AquaPower)	Energy Sector	300	30	Worldwide
	Saudi Fransi GCC IPO Fund	Initial Offerings	427	10	GCC Countries

3.3.2 The most important projects that have seen developments during 2016:

Some portfolio projects recorded significant developments during the year, the most important of which are as follows:

- The Egyptian propylene and polypropylene Company (Egypt):

  The General Assembly of the Egyptian propylene and polypropylene Company approved in March 2016 a cash dividend distribution for the first time for the year 2015, amounting to about US $ 22 million, representing 7.6% of the capital.

  The company is currently working on the launch and of a dual listings of its stocks in each of the LSE and Cairo Stock Exchange, which will increase the project's capital through the IPO in order to raise production capacity to about 600 thousand tons per year.

- Bidaya Home Finance Company (Saudi Arabia):

  The company started its activities during 2016, after obtaining a license from the Saudi Arabian Monetary Agency to engage in real estate finance activity. Bidaya Company provides its customers with a number of residential finance products, notably the Shariah-compliant “Ijara contracts”. The company has managed this year to open several offices in the city of Riyadh, Jeddah and Dammam to enhance marketing operations. Total financing portfolio during the year amounted to about 250 million Saudi riyals. Bidaya Company was instrumental in signing a cooperation agreement with a real estate development fund to provide funding support to the beneficiaries of the real estate fund, which will start during 2017.

- Saudi International Petrochemical Company (Sipchem):

  The Saudi International Petrochemical Company (Sipchem) announced that International Methanol Co. (65% owned by Sipchem) has signed on 08/12/2016 a design, procurement and construction agreement to raise the energy efficiency and improve the performance of the methanol plant with a company of the Korean ETec company. The project aims to meet the requirements of the Saudi Center for energy efficiency to reach the expected energy reduction target, which will contribute to raising the efficiency of the methanol plant operations. The estimated total project cost is estimated at 543 million Saudi riyals, and is expected to be completed during the fourth quarter of 2018.

- IFC MENA Fund:

  The Fund, which size amounts to US$ 300 million, acquired stakes representing 1.5% worth US$ 15 million in Souq.com company, specialized in the field of e-commerce, where more than 1.5 million products are offered to its customers in the UAE, Egypt, Kuwait and Saudi Arabia, by adopting a business model similar to Amazon.com. The Fund also acquired a stake of 1.5% worth US$ 15 million in the international network specialized in providing payment solutions through cards in the Middle East and Africa. This network provides technology and communication solutions between sales outlets in shops and commercial banking. It is also working on a wide network management of ATMs

3.4 TAIC’s Investment Activities in Financial Services:

In addition to its main activity of investment in project equity, TAIC provides wide ranging and full-fledged financial services through its Branch in the Kingdom of Bahrain, which is licensed as a Conventional Wholesale Bank by the Central Bank of Bahrain. The banking activity constitutes an important and stable source of income and is instrumental in enhancing project equity by generating additional income for reinvestment across the shareholders’ countries, hence consolidating the role of TAIC as an investment catalyst in the Arab world. The Branch provides various financial services to its customers comprising of public, semi-public and private institutions. The branch also has a network of relationships with a large number of banks and financial institutions in many countries supported by highly skilled staff with an outstanding expertise in different banking areas and leveraged by state-of-the-art technology and best banking practices.

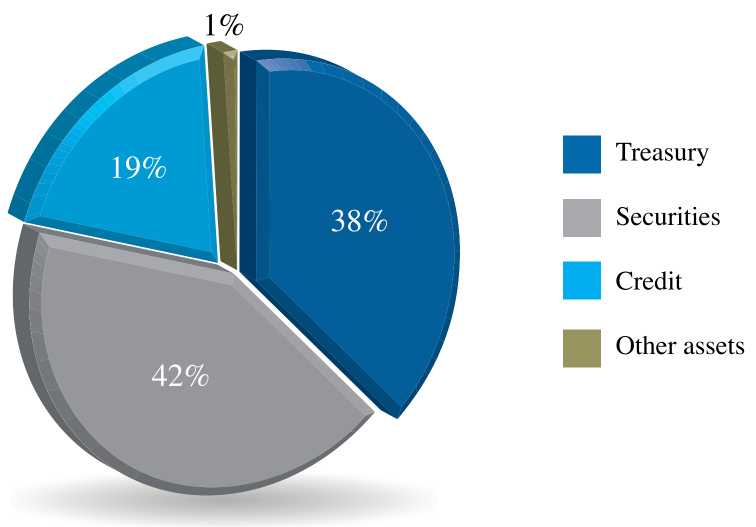
Despite the prevailing global and regional economic conditions, the Branch pursued its efforts in the management of its banking activity by adopting a sound and objective approach in dealing with the Company’s banking assets to cope with the requirements of this critical period and the goals of the Company. These efforts focused mostly on resource mobilization, liquidity management and close monitoring of its credit and investment portfolios in accordance with the requirements of international accounting standards and directives of regulatory authorities as well as best market practices. At the end of the year, total banking assets amounted to US$ 1,314 million against US$ 1,434 million in the previous year, reflecting a decrease of 8.4%. The following table shows the composition of banking assets at the end of 2016:

Banking assets composition and rates as of 31/12/2016

Banking Assets	US$ Million	%
Placements	504.6	38%
Securities	551.1	42%
Credit facilities	247.9	19%
Other Assets	10.6	1%
Total	1,314	100%

The following chart shows the distribution of the banking assets at the end of the year 2016:

Banking Assets to Total Assets as of 31/12/2016



Banking Assets are managed through the following activities:

- Treasury and Capital Market Portfolio:

  During the year 2016, despite uncertain global and regional markets, Treasury and Capital Market Department adopted an extremely prudent approach that effectively ensured the balance between different activities and the diversification of investing the asset portfolio in order to minimize risk in the exposure and optimize profitability. Accepted deposits from clients, financial institutions and government entities amounted to US$ 537 million at the end of the year against US$ 688 million in the previous year, reflecting a decrease of 22% due to tightening of the liquidity and economic crunch faced by all sectors in the markets. Placements with banks and financial institutions amounted to US$ 505 million against US$ 758 million in 2015, thereby recording a decline of 33%. The investment portfolio in securities stood at US$ 551 million at the end of the year against US$ 505 million the previous year, reflecting an increase of 9%.

TAIC's Treasury actively manages overall liquidity of the Company and maintains adequate positions throughout the year to mitigate the liquidity risk emanating from global markets volatility.

- Credit Facilities:

In the midst of tough market conditions characterized by tight spreads and rigorous regulatory requirements necessitating vigilance and close monitoring, Credit Department pursued the provision of credit facilities to clients directly or through participation in syndications with other financial institutions. The Department also extends trade finance facilities, with special emphasis on customers in the Arab region, which includes opening, advising, confirming and refinancing letters of credit, discounting commercial papers and financing pre-export production. At the year-end, the outstanding balance of the credit and financing portfolio stood at US$ 248 million (after provisions) against US$ 160 million, representing an increase of 55%. The significant growth in the loan portfolio is the result of the efforts made by the Company's management to restructure the credit activity by building a sustainable loan portfolio based on a sound redistribution of risks over different geographies and improvement of asset quality, while minimizing exposures to high credit risks.

3.5 Support Services

Within the framework of its upgrading and development plans, TAIC paid close attention in 2016 to developing its support services in the fields of information management systems and human resources development and consolidating mechanisms in such a way to retain its qualified personnel, attract distinctive skills and develop its human resources capabilities through continuous in-house and outside training so that they would contribute in achieving the Company's objectives as detailed here under:

3.5.1 Information Technology System Development:

In the framework of the management's commitment to keep pace with the latest technology in the field of banking, a plan was developed during the last quarter of 2015 reflecting its commitment to carry out substantial development in Treasury and security systems together with workstations users. The company has also embarked on the development of information technology systems, through applying Kondor+ system, which constitutes the latest treasury system. Thanks to the new treasury system, the company will be able to consolidate and integrate the trading and risk platform, which allows cost control and improves yield and profitability at the Company level. It will also help to make the right timely decisions and control risks with a focus on certain asset classes, markets and clients, and compliance with regulatory requirements. This step made it possible to apply Fusion Capital Condor system to upgrade to a more dynamic, effective and safer treasury system, where we are now better positioned to support the development and monitoring of new products and communicate with other trading systems. This development plan was accompanied with an update of information security policies and procedures and the consolidation of the Company's data protection systems. TAIC also implemented a security network made up of new protection walls to raise the level of efficiency and performance in this system. The company has also upgraded its back-up and retrieval hardware and applications. In the context of raising readiness and line with the regulatory directives and the best practices, the department carried out the annual test of the business continuity plan in the alternative site in Amwaj Island in Bahrain to run it in times of crisis to ensure its readiness. On the other hand and in order to apply various stages of development and modernization process, the Company focused on providing the necessary training for professionals in IT management, allowing them to better manage and operate all systems and solutions used by the Company.

3.5.2 Human Resource Development:

As part of its permanent interest in developing human resources and based on the strategic importance of the development of human capital, the Arab Investment Company has updated during the 2016 the work procedures of human resources management in line with the changes in the Company's approved personnel bylaws. The company continued as well the training of its staff and the development of their capabilities and efficiency in both the Company's head office in Riyadh and its branch in Bahrain. 31 employees from all departments of the company, representing about 33% of the company's 93 employees, opportunities to participate in a number of the Company investment and banking activities related courses, training programs, advanced events and workshops. The most important of these programs included building advanced financial modeling program (CFM) to financial analysts, which is an advanced training program organized within the Company and attended by 10 specialist staff, as well as the Fellowship of Human Resources Management Professionals program (CIPD). In addition to this, some staff members participated to a variety of specialized courses in asset and liability management, treasury operations, risk management and compliance, internal audit, anti-money laundering and terrorist financing, corporate governance, updates in international accounting standards, analysis of financial statements, Islamic banking, international trade and information security. The company also participated during 2016 in a number of Arab important economic events in order to communicate with financial and business community in the Arab region.

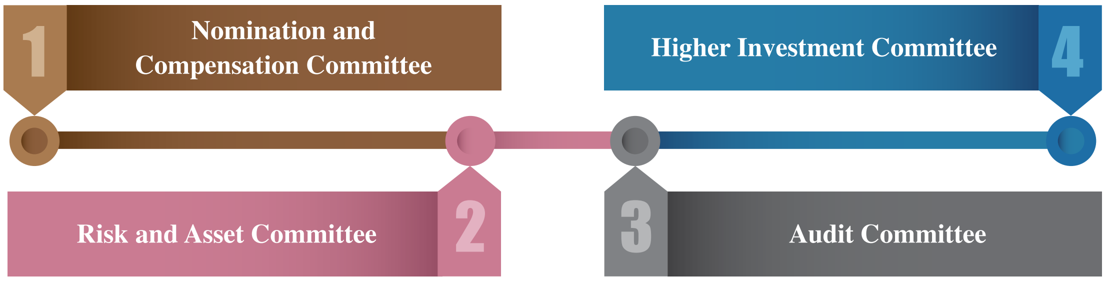
3.6 Institutional Management

Based on the principles set forth the Company's charter and articles of association, directives of its Board of Directors and General Assembly and the implementation of important decisions and the requirements of regulatory authorities, and in light of 2008 global economic crisis ramifications, TAIC exerted its efforts to keep pace with the leading international practices and standards in the application of the best corporate governance with all the efficiency, professionalism, transparency and integrity together with the high ethical principles in the workplace. Through the integration of roles between the Board of Directors, executive management and shareholders, these three entities support the internal control unit in the company in order to achieve transparency and justice and ensure that the company is working to achieve its objectives and long-term strategies. Institutional management is carried out in accordance with the following principles:

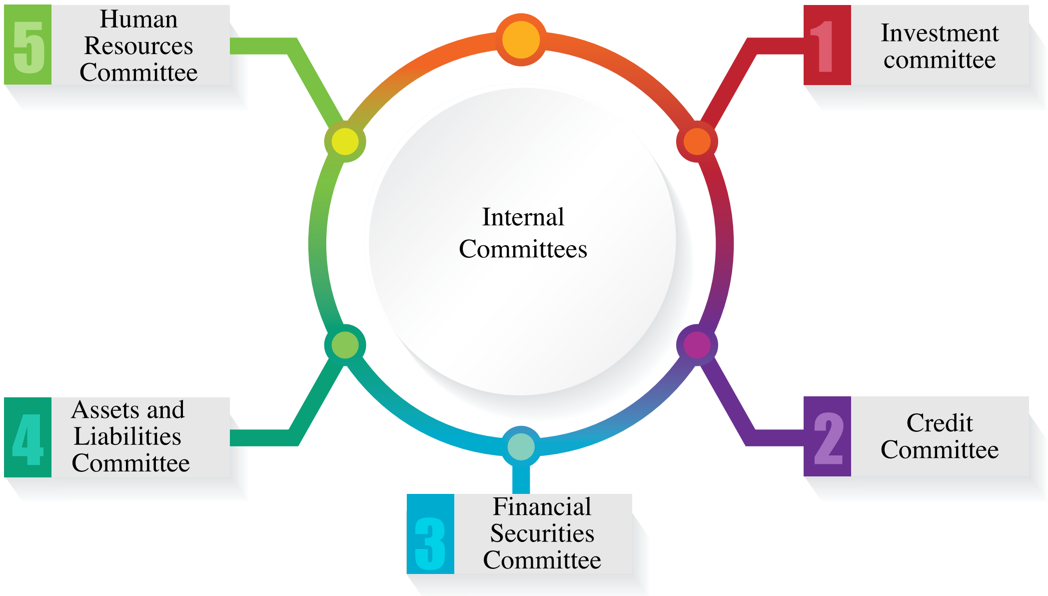
3.6.1 Corporate Governance:

Since its inception and for over four decades, TAIC has been adhering to the principles and standards of corporate governance as an integral part of its culture and philosophy in building and strengthening credibility, confirming transparency and maintaining clear and effective channels for disclosure, which has had a positive impact on maximizing the value of the Company. This commitment was reflected in defining the responsibilities of both supervisory and executive parties and ensuring their independence. The Company conducts its institutional activities through 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 as follows:



- Establish rules, regulations and powers of management-level committees to organize the work and perform tasks efficiently and effectively. These committees are the Investment Committee, the Human Resources Committee, the Assets and Liabilities Committee, Securities Committee and the credit Committee.



- Exercising and evaluating institutional work within the rules and regulations issued by the Board of Directors.
- Use of accredited international expertise firms with efficiency, professionalism and credibility to review the financial reports of the Company.
- Activating the role of the internal controls through internal audit unit to adjust working systems within the Company, and to ensure compliance with the regulations and instructions, while exercising its functions through specified controls.
- Developing interim strategic plans coupled with specific targets over certain periods of time, and overseeing its implementation in a timely manner.
- contributing to the dissemination of the existing institutional work culture based on expertise, administrative bylaws and regulations in all departments of the projects in which the Company invests, including the establishment of new companies, and participation in the preparation of regulations governing their activities.

3.6.2 Risk Management and Compliance

A) Risk Management:

Risk is inherent in TAIC's business activities and is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls. The Company is exposed to credit, market, liquidity and operational as well as other forms of risk inherent in its financial operations.

Over the last few years, TAIC has invested in developing a comprehensive and robust risk management infrastructure. This includes credit, market, operational and liquidity risk identification policies / processes and risk measurement models namely – Asset & Liability / Market Risk Management System, internal credit rating systems and Capital Assessment Platform which have instigated the following developments:

- Implementation of Industry Best Practices and Regulatory Requirements;
- Adopting Risk Based Approach in contrast to subjective Credit Risk Assessment;
- Enhancing credit process efficiency, Improving credit quality and reducing credit losses;
- Facilitating business decision process through informed liquidity management;
- Improving the quality of capital market portfolio and reducing losses emanating from market risk;
- Development /Implementation of the Stress Testing Framework to test overall risk appetite of the Company, and
- Independent reporting structure to the Board's nominated Committee.

Within the broader governance infrastructure, the Board's Risk and Asset Committee (RAC) carry the responsibility for implementation of best practices and oversight through independent Risk Management Function. The RAC defines risk appetite, risk tolerance standards and risk policies.

Identification, assessment and management of risk are the responsibilities of every staff member within the scope of their work and assignments. TAIC employs three lines of defense for the management of risk, understood as a clear set of principles by which to implement a cohesive operating model across its business operations. The first line of defense is the Business Departments which are accountable for owning and managing the risks that exist in their area within a defined risk appetite. Risk and Compliance Department acts as a second line of defense ensuring independent monitoring and are accountable for owning / developing the risk and control frameworks. Internal Audit Department and External Auditors are third line of defense which provide independent assurance on the appropriateness of the design and operational effectiveness of risk management and internal controls that mitigate TAIC's key risks. Since the risks associated with commercial activity cannot be excluded completely, the function of risk management aims at ensuring effective management of these risks in order to achieve competitive returns commensurate with the perceived degree of risk. Risk assessment is based on the potential effects on income and the value of assets, taking into account the changes in the political and economic conditions in the markets as well as the creditworthiness of the Company's clients.

The Board of Directors and senior management participate in the development of all policies and processes related to risks, periodic oversight and guidance of the risk management activity. The Board of Directors constantly reviews the Company's policies on risk management and approve them at least once a year.

B) Compliance and Anti Money Laundering and Terrorism Financing:

TAIC is committed to comply with all applicable Laws, regulations and global sanctions requirements and adopt industry best practices in Compliance and Anti-Money Laundering and terrorism financing.

During the period 2015- 2016, TAIC further strengthened its Compliance and Anti-Money Laundering and terrorism financing Function through:

- Full commitment with the program combating money laundering and terrorism financing ratified by the Board of Directors.
- Induction of experienced staff in Anti Money Laundering and Compliance Functions; Independent reporting structure to the Board's nominated Committee;
- Creating Compliance and AMLculture and awareness across the Company, through comprehensive training programs.
- The Compliance and AML/CTF activities are reviewed by Internal Auditors who report to the Audit Committee of the Board. Additionally, these are also reviewed by External Auditors every year and their report is submitted to the Regulator.

(1). Regulatory Compliance:

The Compliance framework adopted by the Board reflects the principles for promoting sound compliance practices at TAIC. The role of the Compliance function is to assist senior management to ensure that the activities of TAIC are conducted in conformity with applicable laws and regulations and international best practices.

(2). Anti-Money Laundering (AML) and Combating Financing Terrorism (CFT):

The AML/CFT policies and procedures are complaint with FATF international standards on combatting money laundering and financing of terrorism. Systems and Processes are in place to ensure sound customer due diligence, sanction screening, transaction monitoring; procedure for identifying / reporting suspicious transactions, comprehensive employee training programs and record keeping for all banking transactions.

(3). Commitment to tax compliance for foreign accounts Act (FATCA):

The Arab Investment Company is committed to protecting the integrity of tax systems and to being in line with the commitment to the US tax compliance for foreign accounts FATCA law as defined by the terms of IRS Reporting Model 1 FFI model.

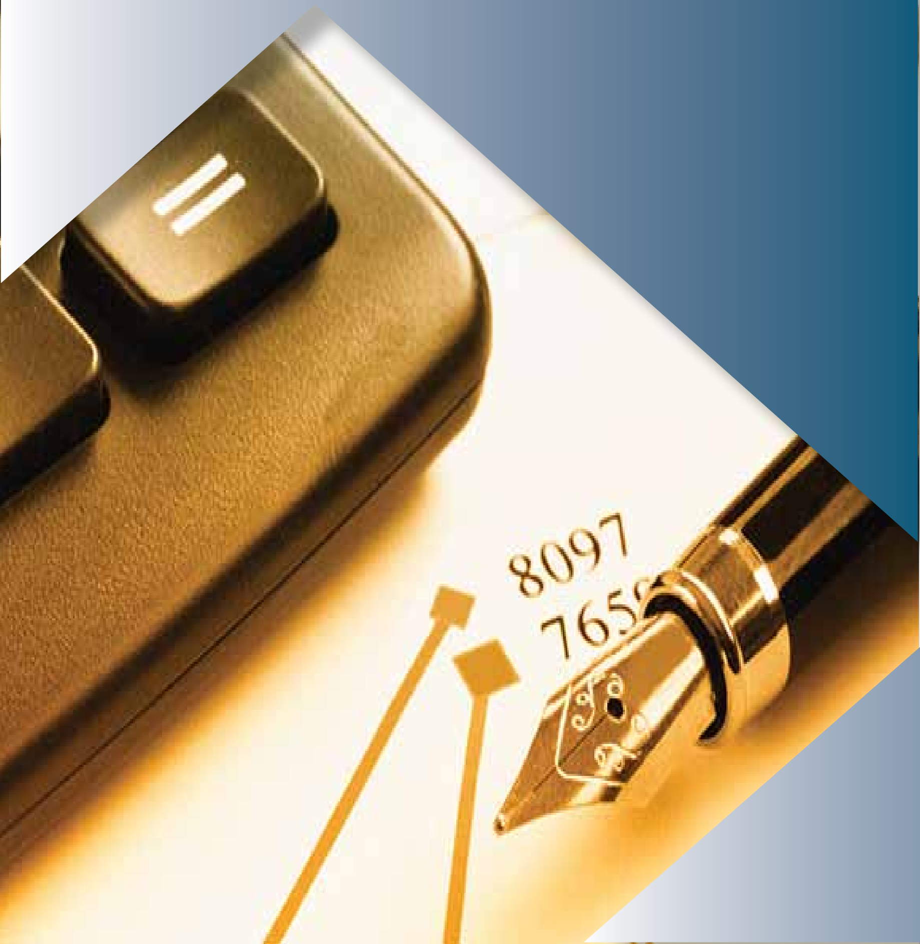
TAIC was registered with the Internal Revenue Service (IRS) and obtained the Global Intermediary Identification Number (GIIN).

Finally, while presenting this annual report, the Board of Directors would like to take this 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 banking branch), for the timely assistance they have always extended to the Company through their various government agencies.

At the same time, the Board would like to express its deep appreciation for the support that TAIC has always received from its clients in both public and private sectors. The Board would also like to thank the Company's staff for their individual and collective dedication and continuous efforts in achieving optimal financial results for the year.

Financial Statements

31 DECEMBER 2016



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Ernst & Young & Co. (Public Accountants)
Al Faisaliah Office Tower
PO Box 2732
King Fahad Road
Riyadh 11461
Saudi Arabia
Registration Number: 45

Tel: +966 11 273 4740
Fax: +966 11 273 4730

www.ey.com

Report of the Independent Auditors
To The Shareholders of The Arab Investment Company
(Arab Joint Stock Company)

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of The Arab Investment Company (the "Company"), which comprise the statement of financial position as at 31 December 2016, and the statements of income, comprehensive income, changes in shareholders equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements taken as a whole present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Saudi Arabia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered

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Report of the Independent Auditors (continued)
To The Shareholders of The Arab Investment Company
(Arab Joint Stock Company)

Auditor's responsibilities for the audit of the financial statements (continued)

material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

For Ernst & Young

Waleed G. Tawfiq
Certified Public Accountant
Registration No. 437

Riyadh: 19 Jumada Al Akhir 1438 H
(18 March 2017)

STATEMENT OF FINANCIAL POSITION
As of 31 DECEMBER 2016
All amounts in United States Dollars thousands

	Notes	2016	2015
ASSETS			
Cash and deposits with banks	5	**544,707**	769,917
Investments:			
Securities	6	**586,087**	534,179
Equity participations	7.1	**269,503**	284,053
Loans and advances	8	**247,873**	160,219
Other assets	9	**16,538**	17,154
Property and equipment	10.1	**14,125**	14,095
Investment property	10.2	**7,885**	6,191
TOTAL ASSETS		**1,686,718**	1,785,808
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits	11	**537,095**	688,244
Derivative financial instruments	12	**32**	110
Other liabilities	13	**16,983**	16,608
TOTAL LIABILITIES		**554,110**	704,962
SHAREHOLDERS' EQUITY			
Share capital	14.1	**800,000**	800,000
Subscription in share capital	14.2	**75,399**	51,481
Statutory reserve	15	**102,001**	98,885
General Reserve	16	**22,799**	-
Retained earnings		**94,246**	89,378
Fair value reserve	17	**38,163**	41,102
TOTAL SHAREHOLDERS' EQUITY		**1,132,608**	1,080,846
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,686,718**	1,785,808

Director of Finance	Chief Executive Officer	Chairman of the Board
Magdi Mohamed El Kafrawy	Ibrahim Hammoud Al- Mazyad	Engineer/Yousef Ibrahim Al-Bassam

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

All amounts in United States Dollars thousands

	Notes	2016	2015
INCOME			
Interest income		**28,831**	37,239
Interest expense		**(5,377)**	(5,059)
Net interest income		**23,454**	32,180
Gain on sale of equity participations	7.2	**2,458**	2,260
Dividends		**11,334**	15,130
Net fees and commissions	18	**1,274**	795
Net gain (loss) on financial securities	19	**1,478**	(701)
Net foreign exchange loss		**(219)**	(1,078)
Rental income		**4,587**	4,508
Other income	20	**7,391**	12,742
Total operating income		**51,757**	65,836
EXPENSES			
General and administrative	21	**(17,188)**	(21,678)
Provisions	22	**(3,411)**	(18,409)
Total operating expenses		**(20,599)**	(40,087)
PROFIT FOR THE YEAR		**31,158**	25,749

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

All amounts in United States Dollars thousands

	Notes	2016	2015
Profit for the year		**31,158**	25,749
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net fair value movement on available for sale financial assets		**(4,004)**	(44,620)
Recycling of gains to the statement of income on sale or impairment of available for sale financial assets		**1,065**	10
	17	**(2,939)**	(44,610)
Total comprehensive income (loss)		**28,219**	(18,861)

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

All amounts in United States Dollars thousands

	Notes	Share Capital	Subscription for share capital	Statutory reserve	General reserve	Retained Earnings	Fair value reserve	Total
Balance at 31 December 2014		800,000	26,959	96,310		66,654	85,712	1,075,635
Profit for the year		-	-	-	-	25,749	-	25,749
Other comprehensive income		-	-	-	-	-	(44,610)	(44,610)
Total comprehensive income		-	-	-	-	25,749	(44,610)	(18,861)
Transfer to statutory reserve	15	-	-	2,575		(2,575)	-	-
Board of directors' bonuses paid		-	-	-	-	(450)	-	(450)
Contribution for share capital (increase (note 14.2		-	24,522	-	-	-	-	24,522
Balance at 31 December 2015		800,000	51,481	98,885	-	89,378	41,102	1,080,846
Profit for the year		-	-	-	-	31,158	-	31,158
Other comprehensive gain		-	-	-	-	-	(2,939)	(2,939)
Total comprehensive gain		-	-	-	-	31,158	(2,939)	28,219
Transfer to statutory reserve	15	-	-	3,116		(3,116)	-	-
Transfer to general reserve	16	-	-	-	22,799	(22,799)	-	-
Board of directors' bonuses paid		-	-	-	-	(375)	-	(375)
Contribution for share capital (increase (note 14.2		-	23,918	-	-	-	-	23,918
Balance at 31 December 2016		**800,000**	**75,399**	**102,001**	**22,799**	**94,246**	**38,163**	**1,132,608**

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

All amounts in United States Dollars thousands

	Notes	**2016**	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**31,158**	25,749
Adjustments to reconcile net income to net cash			
provided by operating activities:			
Gain on sale of equity participations	7.2	**(2,458)**	(2,260)
Impairment on equity participations	22	**1,500**	4,000
Impairment on loans and advances	22	**1,911**	14,409
(Gain) loss on sale of investments		**(1,283)**	273
Amortisation of discount		**(107)**	(163)
Depreciation	10	**705**	990
		31,426	42,998
Changes in operating assets and liabilities:			
Deposits with banks with maturities longer than 3 months		**135,760**	(200,765)
Financial assets at fair value through income statement		**8,154**	(9,858)
Loans and advances, net		**(85,680)**	241,437
Other assets		**618**	(2,786)
Deposits		**(151,149)**	(361,935)
Derivative financial instruments		**(78)**	85
Other liabilities		**375**	(578)
Net cash from (used in) operating activities		**(60,574)**	(291,402)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from sale and purchase			
of investment securities		**(58,378)**	(98,317)
Proceeds from disposal/refund of equity participations		**8,387**	7,449
.Property and equipment and investment properties	10	**(2,429)**	(1,656)
Net cash used in investing activities		**(52,420)**	(92,524)
CASH FLOWS FROM FINANCING ACTIVITIES			
Board of directors' bonuses paid		**(375)**	(450)
Subscription in capital increase		**23,919**	24,522
Net cash from financing activities		**23,544**	24,072
DECREASE IN CASH AND CASH EQUIVALENTS		**(89,450)**	(359,854)
Cash and cash equivalents, beginning of the year	5	**399,374**	759,228
CASH AND CASH EQUIVALENTS, END OF THE YEAR	5	**309,924**	399,374
Supplemental non cash information			
Net change in fair value reserve	17	**2,939**	(44,610)
Operational cash flows from interest and dividends			
Interest income received		**30,054**	37,546
Interest expense paid		**(12,638)**	(7,596)
Dividends received		**12,407**	14,944

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

1. GENERAL

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

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

P.O. Box 4009

Riyadh 11491

Kingdom of Saudi Arabia

The Company has a branch which operates as a wholesale bank in the Kingdom of Bahrain ("the Branch") under a license granted by the Central Bank of Bahrain ("the CBB"). The principal activities of the Company include trade financing, commercial lending, treasury services and Islamic banking.

The Kingdom of Saudi Arabia (the host country) exempts gross profits, 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

2.1 Basis of preparation

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

The financial statements have been prepared under the historical cost convention, except for the measurement at fair value of 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.

2.2 Summary of significant accounting policies

The summary of the significant accounting policies for the Company is as follow:

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

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

(b) Transactions and balances

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

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

(c) Sale and repurchase agreements

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

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 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 charged to the statement of income. Gains and losses arising from changes in fair value are included directly in the statement of income. Interest income and expense and dividend income and expenses on financial assets held for trading are included in the statement of income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

Financial assets designated at fair value through income statement

Financial assets 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 and liabilities 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 carried 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 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.

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,

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

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 rate method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the statement of income.

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.

(e) Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest. The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or dealer price quotations. For all other financial instrument not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e. using recent arm's length market transactions adjusted as necessary and with reference to the current market value of another instrument that is substantially the same) and the income approach (i.e. discounted cash

flow analysis and option pricing models making as much use of available and supportable market data in a reasonably possible manner). A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between the levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. (See Note 3.5 (b))

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy. (See Note 3.5 (b))

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

Financial liabilities

The Company's financial liabilities are carried 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 as effective 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.

Offsetting financial instruments

Financial assets and financial 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.

Derecognition of financial assets and financial liabilities

(a) Financial assets

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

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

When the Company has transferred its rights to receive cash flows from the asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and reward of the asset nor transferred control of the asset,

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

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.

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 fair value through income statement. The changes in the fair values of such embedded derivatives are recognised in the statement of income.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

to discount the future cash flows for the purpose of measuring the impairment loss.

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.

Dividend income

Dividends are recognised in the statement of income when the Company's right to receive payment is established usually when the investee declares the dividends.

Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

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

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

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

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

(b) Assets classified as available-for-sale

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

(c) Renegotiated loans

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

Property and equipment

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

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:

• Building 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.

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.

Cash and cash equivalents

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

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

Employee benefits

(a) 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.

(b) Savings scheme

The Company's contributions to defined contribution savings scheme are charged to the statement of income 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.

(c) 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 branch.

Accounting for leases

(a) Where the Company is the lessee

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

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

(b) Where the Company is the lessor

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

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

2.3 New and amended standards and interpretation

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2015, they did not have a material impact on the annual financial statements of the Company. The nature and the impact of each new standard or amendment is described below:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2-3 New and amended standards and interpretation (continued)

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment did not have any impact on the Company's financial statement.

Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle

These improvements are effective for accounting periods beginning on or after 1 July 2014 and the Company has applied these improvements for the first time in these financial statements. They include:

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The Company does not apply the portfolio exception in IFRS 13.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the revaluation adjustments recorded by the Company during the current period.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Company as it does not receive any management services from other entities.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Company has relied on IFRS 3, not

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 New and amended standards and interpretation (continued)

IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment did not impact the accounting policy of the Company.

2.4 New standards and amendments issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company plans to adopt the new standard on the required effective date.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the full retrospective method. Furthermore, the Company is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

IFRS 16 Leases

IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The standard is not expected to have any impact on the Company.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 New standards and amendments issued but not yet effective (continued)

understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Company is currently evaluating the impact.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments are not expected to have any impact on the Company.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statements of profit or loss and other comprehensive income and the statement of financial position may be disaggregated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 New standards and amendments issued but not yet effective (continued)

- That entities have flexibility as to the order in which they present the notes to financial statements

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and other comprehensive income. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

3. FINANCIAL RISK MANAGEMENT

Risk is inherent in banking Branch's business activities and is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls. The Company is exposed to Credit, Liquidity, Market and Operational as well as other forms of risk inherent in its financial operations.

The Company regularly reviews its risk management policies and systems to reflect changes in markets, products, regulatory requirements and emerging best practices.

The Company has independent Risk management Function reporting directly to the Board's Risk and Asset Committee (RAC). The RAC defines risk appetite, risk tolerance standards and risk policies.

3.1 Credit risk

Credit Risk represents the potential financial loss as a consequence of a customer's inability to honor the terms and conditions of the credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Company has well laid out procedures, not only to appraise but also to regularly monitor credit risk. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented.

The Company follows stringent risk based criteria in setting credit limits for countries and financial institutions. Prudent norms have also been implemented to govern the Company's investment activities. Not only are regular appraisals conducted to judge the credit worthiness of the counterparty but day- to-day monitoring of financial developments across the globe ensures timely identification of any event affecting the risk profile.

Concentration of credit risk arises when the counterparties are engaged in similar business activities or conducting 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. To mitigate this risk, the Company spreads its exposure, to the extent possible, over the various types of counterparties. However, where concentration is inevitable, the Company takes more than adequate precautions to reduce this additional risk to acceptable levels.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.1 Credit risk measurement: Asset Classification and Internal Credit Rating

The asset quality of the Company is segregated in two categories - Standard or Performing Assets and Classified / Problem or Non-performing assets. Further classification for Standard and Non-performing assets is provided in the table below:

Prudential Asset Classification	Days past due	Category
Standard Assets		
Performing Assets	-	-
Assets under Watch List	-	A
Classified or Problem accounts (Non Performing)		
Sub-standard Assets	90 Days	B
Doubtful Assets	180 Days	C
Loss Assets	360 Days	D

The Company also performs an overall collective assessment of its loan portfolio on an annual basis as required by IAS 39. The Company is currently in the process of implementing IFRS 9, wherein there will be a shift in methodology; for recognition of losses from incurred to expected loss model.

An internal credit rating system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action. The Company's internal ratings are based on a 7-point scale for non-defaulted borrowers that takes into account the financial strength of a borrower as well as qualitative aspects, to arrive at a comprehensive snapshot of the risk of default associated with the borrower.

These Ratings scales are further sub-divided into categories which reflect estimates of the potential maximum loss if default occurs. Risk Ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Company to exit accounts that evidence deterioration in risk profile. The Company also uses the ratings by established rating agencies, viz., Moody's, Standard & Poor and Fitch as part of the appraisal process while considering exposures to rated entities.

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.2 Risk limit control and mitigation policies

For effective credit risk management, the Board approved Policies stipulates risk acceptance criteria and risk based methodology for establishments of Limits for Countries and borrower / counterparties. Further to mitigate Credit concentration risk, the Policies enumerates limits for sectors, products and portfolios.

Some 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 obtaining security against funds advanced. The Company implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation.

(b) 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 inception of the lending activities. In contrast, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the statement of financial position date based on objective evidence of impairment. The table below shows the percentage of the Company’s statement of financial position items relating to gross loans and advances and the associated impairment provision for each of the Company’s internal rating categories:

	Percentage			
	2016		2015	
	Loans and Advances %	**Impairment provision %**	Loans and advances %	Impairment Provision %
Regular	**95**	**3**	91	4
Loss	**5**	**100**	9	100
	100		100	

3.1.4 Maximum exposure to credit risk without taking account of any collateral or other credit enhancements

The table shows the Company’s maximum exposure to credit risk for the components of on and off statement of financial position exposures. The maximum exposure shown is before the effect of mitigation through the use of master netting and collateral arrangements, but net of any provision for impairment.

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.4 Maximum exposure to credit risk without taking account of any collateral or other credit enhancements (continued)

	Maximum Exposure	
	2016	2015
Credit risk exposures relating to funded exposures are as follows:		
Deposits and cash with banks	**544,702**	769,911
Loans and advances to banks	**234,098**	121,523
Loans and advances to non-banks	**13,775**	38,696
Trading debt securities	**4,821**	4,796
Investment debt securities	**522,516**	470,826
Interest receivable and other assets	**6,811**	7,572
	1,326,723	1,413,324
Credit risk exposures relating to non-funded exposures are as follows:		
Contingent liabilities		
Loan commitments	**20,352**	41,772
Letters of credit commitments	**14,028**	17,846
Bank guarantees	**-**	-
	34,380	59,618
At 31 December	**1,361,103**	1,472,942

The above table represents a worst case scenario of credit risk exposure of the Company as at 31 December 2016 and 2015, without taking into account any collateral held or other credit enhancements attached. For on statement of financial position assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position net of any impairment

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:

- '95% of the overdrafts, loans and advances portfolio is categorized under Standard Assets as per approved Credit Policy as (31 December 2015: 91%);

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3-1 Credit risk (continued)

3.1.4 Maximum exposure to credit risk without taking account of any collateral or other credit enhancements (continued)

- '95% of the overdrafts, loans and advances portfolio are considered to be neither past due nor impaired (31 December 2015: 91%); and
- Approximately 35% (31 December 2015: 20%) of the debt securities have at least A- credit rating.

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 2016					
Deposits and cash with banks	544,702	-	-	-	544,702
Debt securities (including (trading	523,818	-	-	13,674	537,492
Loans and advances					
- Loans and advances to banks	240,735	-	-	14,487	255,222
- Loans and advances to non-banks	13,775	-	-	-	13,775
Interest receivable and other assets	6,811	-	-	-	6,811
	1,329,841	**-**	**-**	**28,161**	**1,358,002**

As at 31 December 2016, US$ Nil thousand (2015: Nil thousand) has been past due for less than 30 days and US$ Nil thousand (31 December 2015: US$ 6,567 thousand) for over a year.

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.5 Credit quality of financial assets (continued)

	Neither past due nor Impaired		Past due but not Impaired	Individually Impaired	Total
	Regular	Watch			
31 December 2015					
Deposits and cash with banks	769,911	-	-	-	769,911
Debt securities (including (trading	469,055	-	6,567	6,908	482,530
Loans and advances					
- Loans and advances to banks	131,726	-	-	16,464	148,190
- Loans and advances to non-banks	35,130	-	-	-	35,130
Interest receivable and other assets	7,572	-	-	-	7,572
	1,413,394	-	6,567	23,372	1,443,333

Total impairment provision for overdraft, loans and advances as at 31 December 2016 is US$ 21,124 thousand (31 December 2015: US$ 23,101 thousand). 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 2016 is US$ 10,106 thousand (31 December 2015: US$ 6,908 thousand).

(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 counterparty 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 management, indicate that payment will most likely continue. These policies are kept under continuous review. None of the facilities were renegotiated that would otherwise be past due or impaired as at 31 December 2016 (31 December 2015: nil).

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.6 Debt Securities

The table below presents an analysis of debt securities, at 31 December 2016 and 2015, based on Standard & Poor's rating or its equivalent:

	FVIS	Available for sale securities	Held to maturity securities	Total
December 2016 31				
A to A+	**-**	**171,789**	**10,726**	**182,515**
Lower than A-	**4,821**	**331,439**	**4,995**	**341,255**
Unrated	**-**	**3,567**	**48**	**3,615**
Total	**4,821**	**506,795**	**15,769**	**527,385**

	FVIS	Available for sale securities	Held to maturity securities	Total
December 2015 31				
A to A+	-	87,069	7,244	94,313
Lower than A-	4,738	210,350	4,926	220,014
Unrated	58	152,745	8,492	161,295
Total	4,796	450,164	20,662	475,622

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (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	506,290	416	14	37,982	544,702
Loans and advances	158,411	56,005	270	33,187	247,873
Debt securities	214,230	48	112,015	201,092	527,385
Interest receivable and other assets	3,949	407	923	1,532	6,811
At 31 December 2016	**882,880**	**56,876**	**113,222**	**273,793**	**1,326,771**
At 31 December 2015	820,721	80,275	175,387	336,941	1,413,324
Non-funded exposures:					
At 31 December 2016	**34**	**34,027**	**7**	**-**	**34,068**
At 31 December 2015	32,532	26,498	287	301	59,618

3.2 Market risk

Market Risk is the risk of potential losses arising from movements in market prices of interest rate related instruments and equities in the trading portfolio and foreign exchange throughout the Company. For identification, assessment, measurement, management, control and mitigation of market risk, necessary policies, procedures and IT Systems are in place

(a) Interest rate risk

Interest Rate Risk is measured by the extent to which changes in market interest rates impact margins, net interest income and the economic value of Company's equity. The Company's asset and liability management process is utilized to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Company's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while selectively positioning itself to benefit from near-term changes in interest rate levels.

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

(a) Interest rate risk (continued)

The Company uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives positions. Modified Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Price Value Basis Point (PVBP) analysis is used to calculates change in value of Assets and Liabilities given change of one Basis Point in the interest rates and its impact on Company's Shareholders' Equity.

The Treasurer is primarily responsible for managing interest rate risk. Reports on overall positions and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings. Strategic decisions are made with the objective of producing a strong and stable interest income over time.

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 and fixed rate financial assets and liabilities that are re-measured to fair value held at 31 December. If market interest rates increase by the amounts shown in the table, net income and head office funds will be affected as mentioned below. A similar decrease in the rates will result in an equal but opposite effect.

	USD 100BP	EUR 100BP	AED 100BP	SAR 100BP	Other 100BP	Total
Interest rate risk 31 December 2016						
Financial assets:						
Deposit with banks	**4,979**	**-**	**8**	**8**	**-**	**4,995**
Overdrafts, loans						
and advances	**1,895**	**179**	**-**	**-**	**-**	**2,074**
Debt securities	**1,845**	**-**	**-**	**-**	**-**	**1,845**
Impact of Financial						
Assets	**8,719**	**179**	**8**	**8**	**-**	**8,914**
Financial liabilities:						
Deposits	**(4,735)**	**-**	**(6)**	**(34)**	**-**	**(4,775)**
Impact of Financial						
Liabilities	**(4,735)**	**-**	**(6)**	**(34)**	**-**	**(4,775)**
Impact on the results of the Company	**3,984**	**179**	**2**	**(26)**	**-**	**4,139**

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	Other 100BP	Total
Interest rate risk 31 December 2015						
Financial assets:						
Deposit with banks	6,338	274	803	-	92	7,507
Overdrafts, loans and advances	609	217	-	-	-	826
Debt securities	927	88	-	-	22	1,037
Impact of financial Assets	7,874	579	803	-	114	9,370
Financial liabilities:						
Deposits	(6,112)	(56)	(6)	(44)	(92)	(6,310)
Impact of financial liabilities	(6,112)	(56)	(6)	(44)	(92)	(6,310)
Impact on the results of the Company	1,762	523	797	(44)	22	3,060

(b) Equity Position risk

Equity position risk is defined as potential change in the current economic value of an equity or similar position due to changes in the associated underlying market risk factors. The Equity Position Risk includes Equities booked under both Trading and Banking Book. The Company measures the Equity Position Risk through daily revaluation of Equity portfolio

The table below shows the effect on profit and loss of an assumed 10% change in fair values of equity and investment funds:.

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

(a) Interest rate risk (continued)

Equity classification	2016			2015		
	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**	**686**		±10	1,665	-
Available for sale equity	**±10**		**5,184**	±10	-	1,433
Equity participations - quoted	**±10**		**11,634**	±10	-	12,607

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$ 155.9 million (2015: US$ 165.9 million).

(c) Foreign exchange risk

Foreign-exchange risk is the risk that an asset denominated in a foreign currency will lose value or a liability denominated in a foreign currency will increase as a result of unfavourable exchange rate fluctuations vis-à-vis Company's base / reporting currency.

The Company identifies foreign exchange risks at two levels: (a). Transaction; and (b). Structural. Transaction risk arises when Company extends exposure or borrows in foreign currency i.e. other than its reporting / base currency. Structural risk occurs when there is mismatch between respective foreign currency denominated cash inflows and outflows. The Structural foreign exchange risk is measured by identification of Currency-wise gaps between assets and liabilities bucketed in various time-bands according to their maturities, across the Company.

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 summarizes the company exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Company assets and liabilities and head office funds at carrying amounts, categorised by major currencies.

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

(c) Foreign exchange risk (continued)

Concentrations of currency risk - financial instruments:

As at 31 December 2016	USD	EUR	AED	SAR	BHD	GBP	Others	Total
Cash and deposits with banks	526,691	249	829	15,993	171	117	657	544,707
Financial assets at fair value through								
income statement	4,820	-	-	-	1,687	-	5,175	11,682
Investments securities:								
-Available for sale	492,762	39,865	-	11,941	-	-	14,068	558,636
-Held to maturity	15,721	-	-	-	-	-	48	15,769
Overdrafts, loans and advances	217,439	17,932	-	12,502	-	-		247,873
Equity participation	87,729	-	-	79,019	-	-	102,755	269,503
Property, plant and equipment and investment in property	22,010	-	-	-	-	-	-	22,010
Other assets	14,840	760	-	352	582	2	2	16,538
Total financial assets	**1,382,012**	**58,806**	**829**	**119,807**	**2,440**	**119**	**122,705**	**1,686,718**
Derivative financial instruments	(32)	-	-	-	-	-	-	(32)
Deposits	(477,084)	(55,461)	(835)	(3,655)	(53)	(7)	-	(537,095)
Other liabilities	(3,451)	(330)	-	(9,881)	(3,320)	-	-	(16,982)
Total financial liabilities	**(480,567)**	**(55,791)**	**(835)**	**(13,536)**	**(3,373)**	**(7)**	**-**	**(554,109)**
Fair value reserve	(37,716)	503	-	955	-	-	(1,905)	(38,163)
Net open position	**863,729**	**3,518**	**(6)**	**107,226**	**(933)**	**112**	**120,800**	**1,094,446**
As at 31 December 2015								
Total financial assets	1,376,137	58,269	80,472	115,450	11,994	154	143,332	1,785,808
Total financial liabilities	(619,095)	(58,259)	(845)	(14,526)	(10,239)	(128)	(1,870)	(704,962)
Fair value reserve	(6,525)	(81)	-	619	-	-	(35,115)	(41,102)
Net open position	750,517	(71)	79,627	101,543	1,755	26	106,347	1,039,744

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk

Liquidity risk is classified as the potential inability of the Company to meet its financial obligations on account of a maturity mismatch between assets and liabilities. Liquidity risk comprises of both funding liquidity risk and market Liquidity risk. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Company. For assessment, measurement, management and control of liquidity risk, necessary policies, procedures and IT Systems are in place. The Company's ALCO operates a governance and control process that covers the liquidity risk management activities, which facilitates business decision process through informed Liquidity Management.

The Company measures the short and long term liquidity risk through Static Gap analysis approach. This analysis involves maturity profiling of entire Balance Sheet cash flows in specific time buckets to identify mismatches across time horizon based on contractual and expected cash flows. ALM Gap Limits are in place for effective monitoring of liquidity.

The Company has a Contingency funding plan for managing liquidity in case of severe disruptions to the Company's ability to fund some or all of its activities in a timely manner and at a reasonable cost. The Company maintains adequate investments in liquid assets such as inter-bank placements and treasury bills. In addition, the Company also relies on trading assets and other marketable securities to provide secondary sources of liquidity.

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.1 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 2016	Less than 12 months	Over 12 months	No fixed Maturity	Total
ASSETS				
Cash and deposits with banks	544,707	-	-	544,707
Investments:				
Securities	113,386	465,406	7,295	586,087
Equity participations	-	-	269,503	269,503
Loans and advances	116,446	131,427	-	247,873
Property and equipment	-	-	14,125	14,125
Investment property	-	-	7,885	7,885
Other assets	16,053	71	414	16,538
TOTAL ASSETS	790,592	596,904	299,222	1,686,718
LIABILITIES				
Deposits	537,095	-	-	537,095
Derivative financial instruments	32	-	-	32
Other liabilities	5,215	8,592	3,176	16,983
TOTAL LIABILITIES	542,342	8,592	3,176	554,110
NET	248,250	588,312	296,046	1,132,608
Cumulative liquidity gap	248,250	836,562	1,132,608	-

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.1 Maturity analysis of assets and liabilities (continued)

As at 31 December 2015	Less than 12 months	Over 12 months	No fixed Maturity	Total
ASSETS				
Cash and deposits with banks	769,917	-	-	769,917
Investments:				
Securities	79,797	438,699	15,683	534,179
Equity participations	-	-	284,053	284,053
Loans and advances	140,219	20,000	-	160,219
Property and equipment	-	-	14,095	14,095
Investment property	-	-	6,191	6,191
Other assets	16,739	-	415	17,154
TOTAL ASSETS	1,006,672	458,699	320,437	1,785,808
LIABILITIES				
Deposits	688,244	-	-	688,244
Derivative financial instruments	110	-	-	110
Other liabilities	5,852	8,072	2,684	16,608
TOTAL LIABILITIES	694,206	8,072	2,684	704,962
NET	312,466	450,627	317,753	1,080,846
Cumulative liquidity gap	312,466	763,093	1,080,846	-

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

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 statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows:

As at 31 December 2016	1-3 months	3-12 months	Total
Liabilities			
Deposits	**459,807**	**77,228**	**537,035**
Other liabilities	**3,118**	**3,352**	**6,470**
Total liabilities (contractual maturity dates)	**462,925**	**80,580**	**543,505**
As at 31 December 2015			
Liabilities			
Deposits	444,202	244,042	688,244
Other liabilities	3,645	4,470	8,115
Total liabilities (contractual maturity dates)	447,847	248,512	696,359

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, and deposits with banks, items in the course of collection, loans and advances to banks, customer overdrafts; 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.

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

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 2016					
Derivatives held for trading					
Foreign exchange derivatives:					
Outflow	33,141	-	-	-	33,141
Inflow	33,122	-	-	-	33,122
Total outflow	33,141	-	-	-	33,141
Total inflow	33,122	-	-	-	33,122
As at 31 December 2015					
Derivatives held for trading					
Foreign exchange derivatives:					
Outflow	67,964	41,757	7,197	-	116,918
Inflow	67,910	41,714	7,184	-	116,808
Total outflow	67,964	41,757	7,197	-	116,918
Total inflow	67,910	41,714	7,184	-	116,808

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.4 Loan commitments, financial guarantees, acceptances and other off-statement of financial position items

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 years	Total
31 December 2016			
Loan commitments	20,352	-	20,352
Guarantees, acceptances and other financial facilities	695	13,333	14,028
Total	**21,047**	**13,333**	**34,380**
Loan commitments	41,772	-	41,772
Guarantees, acceptances and other financial facilities	4,513	13,333	17,846
Total	46,285	13,333	59,618

a. The maturities set out above are based on contractual re-pricing 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.

d. The Company has investment commitments amounting to US$ 87.8 million as at 31 December 2016 (31 December 2015: US$ 91.9 million)

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Stress Testing

Stress Testing refers to a range of techniques used to assess the vulnerability of a financial institution or the entire system to exceptional but plausible events. Stress testing is an important risk management tool that is used by banks as part of their internal risk management. Stress testing alerts bank management to adverse unexpected outcomes related to a variety of risks and provides an indication of how much capital might be needed to absorb losses should large shocks occur. Moreover, stress testing is a tool that supplements other risk management approaches and measures.

The Company has adopted Sensitivity Analysis Methodology for Stress Testing due to its simplicity and combined the different sensitivity tests into a multi factor stress.

The Stressed Testing Framework covers credit, market, and liquidity risk and contains three levels of shocks under each scenario. These three levels of shocks are defined as (i) Low, (ii) Medium, and (iii) High. This classification reflects the intensity of the shocks and magnitude of their impact.

3.5 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.

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair value of financial assets and liabilities (continued)

(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.

Assets and liabilities measured at fair value

31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through income statement				
- Debt securities	4,821	-	-	4,821
- Equity securities	6,861	-	-	6,861
Available for sale financial assets				
- Equity securities	12,375	-	-	12,375
- Debt securities	503,228	-	-	503,228
- Investment funds	-	-	39,423	39,423
- Equity participations	113,642	-	155,861	269,503
Total assets	640,927	-	195,284	836,211
Financial liabilities at FVIS				
- Derivative financial instruments	-	32	-	32
Total liabilities	-	32	-	32

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair value of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

31 December 2015	Level 1	Level 2	Level 3	Total
Financial assets at fair value through income statement				
- Debt securities	4,796	-	-	4,796
- Equity securities	15,041	-	-	15,041
Available for sale financial assets				
- Equity securities	8,587	-	-	8,587
- Debt securities	443,597	6,567	-	450,164
- Investment funds	-	-	34,853	34,853
- Equity participations	118,124	-	165,929	284,053
Total assets	590,145	6,567	200,782	797,494
Financial liabilities at FVIS				
- Derivative financial instruments	-	110	-	110
Total liabilities	-	110	-	110

There were no transfers between the levels of fair value hierarchies during the year

Reconciliation of fair value measurements of Level 3 financial instruments

The Company has classified unquoted equity shares within the fair value hierarchy.

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

	2016	2015
1 January	**165,929**	170,441
Sales	**-**	(4,099)
Liquidation	**-**	(1,779)
Total gains and losses recognised in other comprehensive income	**(10,068)**	1,366
31 December	**155,861**	165,929

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair value of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

(c) Financial instruments not measured at fair value

At 31 December 2016, the fair value of HTM instruments carried at amortised cost of US$ 15.7 million (31 December 2015: US$ 20.6 million) was determined to be US$ 15.7 million (31 December 2015: US$ 20.5 million). The estimated fair value of the other financial assets and liabilities including loans and advances was not significantly different from their respective carrying values. These would qualify for Level 2 disclosure in the table above.

3.6 Capital management

The Company's objectives when managing capital, which is a broader concept than '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 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.

All amounts in United States Dollars thousands

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)

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 has evaluated compliance with all applicable regulations, outcome of any perceived litigation and 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.

5. CASH AND DEPOSITS WITH BANKS

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

	2016	2015
Cash and cash equivalents:		
Cash on hand and in banks	**10,617**	9,550
Time deposits maturing within three months of acquisition	**299,307**	389,824
Cash and cash equivalents	**309,924**	399,374
Time deposits with original maturities of more than three months	**234,783**	370,543
Total	**544,707**	769,917

All amounts in United States Dollars thousands

6. INVESTMENTS

Investment securities as of 31 December comprise the following:

	2016	2015
a) Financial assets at fair value through		
income statement (FVIS)		
Equity securities	**6,861**	15,041
Debt securities	**4,821**	4,796
Total	**11,682**	19,837
b) Available-for-sale securities		
Equity securities	**15,255**	12,212
Debt securities	**516,901**	457,072
Investment funds	**41,656**	37,184
Provision for impairment	**(15,176)**	(12,788)
Total	**558,636**	493,680
c) Held-to-maturity securities		
Debt securities	**15,769**	20,662
Total	**15,769**	20,662
Total investments	**586,087**	534,179

The movement in investment securities is summarised below:

	FVIS	Available-for-sale	Held-to-maturity	Total	
				2016	2015
At 1 January	19,837	493,680	20,662	**534,179**	436,245
Exchange differences	(25)	(2,612)	-	**(2,637)**	(2,829)
Additions	-	186,407	-	**186,407**	186,477
Disposals (sale, maturity (and redemption	(9,719)	(119,398)	(5,000)	**(134,117)**	(76,726)
Change in fair value	1,589	559	-	**2,148**	(9,387)
Accretion of discount	-	-	107	**107**	210
Writeback of provision	-	-	-	**-**	189
At 31 December	11,682	558,636	15,769	**586,087**	534,179

All amounts in United States Dollars thousands

6. INVESTMENTS (continued)

Investments in debt securities of US$ 85,287 thousand (2015: US$ 146,708 thousand) are pledged under repurchase agreements with banks and financial institutions.

During the financial year of 2008, in view of the rare circumstance caused by the significant deterioration in the world's financial markets, the Company reclassified interest bearing securities from the 'fair value through statement of income' sub-category of held for trading to the 'held to maturity' (HTM) category. These securities had a fair value of US$ 4,996 thousand (2015: US$ 9,829 thousand) and carrying value of US$ 4,996 thousand (2015: US$ 9,864 thousand) as of 31 December 2016.

Had these interest bearing securities not been re-classified to HTM, fair value gains of US$ 114 thousands (2015: US$ 89 thousand) would have been recognised in the statement of income for the year ended 31 December 2016.

7. INVESTMENTS IN EQUITY PARTICIPATIONS

7.1 Fair value of equity participations

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

	2016	2015
Quoted	**113,642**	118,124
Unquoted	**155,861**	165,929
Total	**269,503**	284,053

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

7.1 Fair value of equity participations (continued)

2016	Quoted Shares	Fair value of participation	Percentage of Shareholding
Country / Project			
Kingdom of Morocco			
Société Ryad Soualem S.A.		**198**	**33.0**
Maroc Leasing Company	Quoted	**6,155**	**5.7**
		6,353	
Kingdom of Saudi Arabia			
Saudi International Petrochemical Company	Quoted	**32,324**	**1.8**
Middle East Financial Investment Company		**16,000**	**15.0**
National Trigeneration CHP Company		**4,028**	**9.9**
Bidaya Home Finance		**26,667**	**11.1**
		79,019	
Republic of Sudan			
Kenana Sugar Company		**15,187**	**7.0**
Sudatel Group for Communication	Quoted	**8,055**	**2.2**
Financial Investment Bank	Quoted	**5,290**	**20.8**
Berber Cement Company		**11,832**	**16.4**
The Arab Leasing Company		**7,491**	**30.0**
		47,855	

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

7.1 Fair value of equity participations (continued)

2016 (Continued)	Quoted Shares	Fair value of participation	Percentage of Shareholding
Arab Republic of Egypt			
Arab International Company for Hotels and Tourism		**12,335**	**13.7**
Egyptian Propylene and Polypropylene Company		**27,630**	**10.0**
International Company for Leasing		**2,879**	**10.0**
		42,844	
Peoples' Democratic Republic of Algeria			
Arab Banking Corporation – Algeria		**3,171**	**4.2**
Arab Leasing Corporation		**10,694**	**25.0**
		13,865	
The Hashemite Kingdom of Jordan			
Arab Jordan Investment Bank	Quoted	**36,839**	**10.3**
Arab International Hotels Company	Quoted	**5,090**	**8.4**
		41,929	
Kingdom of Bahrain			
Arab Banking Corporation	Quoted	**4,792**	**0.4**
State of Qatar			
Arab Jordan Investment Bank		**8,700**	**15.0**
Sultanate of Oman			
Taageer Finance Company	Quoted	**15,096**	**18.8**
Pan-Arab			
The Arab Company for Livestock Development		**3,559**	**1.7**
Arab Mining Company		**2,156**	**1.1**
Arab Trade Financing Program		**3,335**	**0.4**
		9,050	
Total		**269,503**	

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

7.1 Fair value of equity participations (continued)

2015			
	Quoted Shares	Fair value of participation	Percentage of Shareholding
Country / Project			
Kingdom of Morocco			
Société Ryad Soualem S.A.		198	33.0
Maroc Leasing Company	Quoted	6,281	5.7
		6,479	
Kingdom of Saudi Arabia			
Saudi International Petrochemical Company	Quoted	31,497	2.3
Middle East Financial Investment Company		16,000	15.0
National Trigeneration CHP Company		4,094	9.9
Bidaya Home Finance		26,667	11.1
		78,258	
Republic of Sudan			
Kenana Sugar Company		16,770	7.0
Sudatel Group for Communication	Quoted	7,173	2.2
Financial Investment Bank	Quoted	5,170	20.8
Berber Cement Company		15,136	16.4
The Arab Leasing Company		9,000	30.0
		53,249	
Arab Republic of Egypt			
Arab International Company for Hotels and Tourism		12,700	13.6
Egyptian Propylene and Polypropylene Company		27,630	10.0
International Company for Leasing		6,119	10.0
		46,449	
Peoples' Democratic Republic of Algeria			
Arab Banking Corporation		3,171	4.2
Arab Leasing Corporation		10,694	25.0
		13,865	

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

7.1 Fair value of equity participations (continued)

2015 (continued)	Quoted shares	Fair value of participation	Percentage of shareholding
Country / Project			
The Hashemite Kingdom of Jordan			
Arab Jordan Investment Bank	Quoted	41,466	10.3
Arab International Hotels Company	Quoted	4,948	8.4
		46,414	
Kingdom of Bahrain			
Arab Banking Corporation	Quoted	5,504	0.4
State of Qatar			
Arab Jordan Investment Bank		8,700	15.0
Sultanate of Oman			
Taageer Finance Company	Quoted	16,085	18.8
Pan-Arab			
The Arab Company for Livestock Development		3,559	1.7
Arab Mining Company – Jordan		2,156	1.1
Arab Trade Financing Program		3,335	0.4
		9,050	
Total		284,053	

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 was previously recognised.

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

7.2 Gain on sale of equity participations

The gain on sale of equity participations during the years ended 31 December consist of the following:

	2016
Saudi International Petrochemical Co. - Kingdom of Saudi Arabia	**2,458**
Total	**2,458**

	2015
Saudi Hotel Services Company - Kingdom of Saudi Arabia	2,023
Societe Ryad Soualem S.A. – Morocco – under liquidation	(83)
Liquidation proceeds from Societe Tunisienne de Banque –Tunis	320
Total	2,260

8. LOANS AND ADVANCES

Loans and advances as of 31 December comprise the following:

	2016	2015
Loans and advances	**268,997**	183,320
Total loans and advances	**268,997**	183,320
Provision for impairment on loans and advances	**(21,124)**	(23,101)
Loans and advances, net	**247,873**	160,219
Movement in provision:		
At 1 January	**23,101**	11,359
Provision for the year (see Note 22)	**-**	12,219
Writeback	**(1,974)**	(766)
Transfer, net*	**-**	289
Other Movement	**(3)**	-
At 31 December	**21,124**	23,101
Specific impairment provision	**14,487**	16,464
Collective impairment provision	**6,637**	6,637
	21,124	23,101

All amounts in United States Dollars thousands

8. LOANS AND ADVANCES (continued)

* During the year, provision for impairment of US$ Nil thousand (31 December 2015: US$ 289 Thousand) was transferred from LC contingent liability to General provision of loans upon settlement of liability. Further, provision for impairment of US$ Nil thousand (31 December 2015 : US$ 39 thousand) for loans was transferred from Specific to General upon settlement of credit.

The fair value of collaterals that the company holds relating to loans individually determined to be impaired at 31 December 2016 amounts to US$ Nil (31 December 2015: US$ nil thousand).

9. OTHER ASSETS

Other assets as of 31 December comprise the following:

	2016	2015
Accrued income	**12,788**	13,337
Other receivables	**3,750**	3,817
Total	**16,538**	17,154

10. PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY

10.1 Property and equipment:

Property and equipment as of 31 December comprise the following:

				Total	
	Land	Building and its equipment	Furniture and equipments	**2016**	2015
Cost:					
At 1 January	7,416	19,368	13,405	**40,189**	39,655
Adjustment	-	-	-	**-**	-
Additions during the year		-	640	**640**	1,953
Disposals during the year		(4)	(119)	**(123)**	(1,419)
At 31 December	7,416	19,364	13,926	**40,706**	40,189
Accumulated depreciation:					
At 1 January	-	(13,548)	(12,546)	**(26,094)**	(25,303)
Charge for the year	-	(237)	(373)	**(610)**	(890)
Relating to disposals	-	4	119	**123**	99
At 31 December	-	(13,781)	(12,800)	**(26,581)**	(26,094)
Net book value:					
At 31 December 2016	**7,416**	**5,583**	**1,126**	**14,125**	
At 31 December 2015	7,416	5,820	859		14,095

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:

	2016	2015
Cost:		
At 1 January	**31,636**	30,613
Additions during the year	**1,789**	1,023
At 31 December	**33,425**	31,636
Accumulated depreciation:		
At 1 January	**(25,445)**	(25,345)
Charge for the year	**(95)**	(100)
At 31 December	**(25,540)**	(25,445)
Net book value:	**7,885**	6,191

The fair value of investment property at 31 December 2016 amounted to approximately US$ 22 million (31 December 2015: US$ 25 million).

11. DEPOSITS

Deposits as of 31 December comprise the following:

	2016	2015
Deposits by banks	**432,159**	386,665
Deposits by non-banks	**104,936**	301,579
Total	**537,095**	688,244

Included in the above are deposits raised under repurchase agreements whose carrying value as at 31 December 2016 is US$ 76.7 million (31 December 2015: US$ 132.9 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.

All amounts in United States Dollars thousands

12. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	31 December 2016		
	Contract Notional	Fair value	
	Amount	Assets	Liabilities
Held for trading			
Foreign exchange derivatives:			
Currency swaps	66,263	13	32
		13	32

	31 December 2015		
	Contract Notional	Fair value	
	Amount	Assets	Liabilities
Held for trading			
Foreign exchange derivatives:			
Currency swaps	233,726	-	110
		-	110

13. OTHER LIABILITIES

Other liabilities as of 31 December comprise the following:

	2016	2015
Accounts payable and accrued expenses	**3,999**	4,192
Deferred income	**2,487**	1,859
Employees' benefits (see table below)	**9,637**	9,011
Interest payable	**860**	1,546
Total	**16,983**	16,608

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	
				2016	2015
At 1 January	814	7,258	939	**9,011**	9,246
Addition for the year	152	918	741	**1,811**	1,959
Provisions utilised	-	(549)	(636)	**(1,185)**	(2,194)
At 31 December	**966**	**7,627**	**1,044**	**9,637**	9,011

Under the employees saving scheme, additions for the year represent the cost of the benefits provided by the Company to the employees who are participating in the scheme. Provisions utilised represent the additional contributions to the saving scheme made by the employees less the withdrawals of the employees' entitlements at the time of exiting from the scheme. Contribution made by employees to the saving schemer during the year ended 31 December 2016 amounted to US$ 68 thousand (31 December 2015 : US$ 59).

14. SHARE CAPITAL

14.1 Authorized and paid

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

	2016		2015	
	No. of Shares	**Amount**	No. of Shares	Amount
Authorised	**1,200,000**	**1,200,000**	1,200,000	1,200,000
Fully paid	**800,000**	**800,000**	800,000	800,000

On 8 June 2013, the Extraordinary General Assembly Meeting approved an increase in the authorised share capital from US$ 800 million to US$ 1.2 billion, and paid-up capital from US$ 700 million to US$ 1,050 million through the capitalization of US$ 175 million from retained earnings over the next five years and the balance through payment by willing member states in five annual instalments beginning on 1 April 2014. (see note 14.2)

All amounts in United States Dollars thousands

14. SHARE CAPITAL (Continued)

14.1 Authorized and paid (Continued)

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

	Ownership Percentage (%)	**2016**	2015
Kingdom of Saudi Arabia	15.68	**125,422**	125,422
State of Kuwait	15.68	**125,422**	125,422
United Arab Emirates (Abu Dhabi)	15.68	**125,422**	125,422
Republic of Iraq	10.48	**83,871**	83,871
State of Qatar	8.19	**65,543**	65,543
Arab Republic of Egypt	6.97	**55,743**	55,743
Syrian Arab Republic	6.97	**55,743**	55,743
The State of Libya	6.97	**55,743**	55,743
Republic of Sudan	2.68	**21,421**	21,421
Kingdom of Bahrain	1.71	**13,679**	13,679
Republic of Tunisia	1.71	**13,679**	13,679
Kingdom of Morocco	1.71	**13,679**	13,679
Sultanate of Oman	1.71	**13,679**	13,679
Republic of Lebanon	1.61	**12,899**	12,899
People's Democratic Republic of Algeria	1.61	**12,899**	12,899
The Hashemite Kingdom of Jordan	0.32	**2,578**	2,578
Republic of Yemen	0.32	**2,578**	2,578
Total	100.00	**800,000**	800,000

All amounts in United States Dollars thousands

14. SHARE CAPITAL (Continued)

14.2 Contribution to share capital increase

The subscription in share capital as at 31 December is as follows:

	Ownership Percentage (%)	**2016**	2015
Kingdom of Saudi Arabia	15.68	**16,464**	10,976
State of Kuwait	15.68	**16,464**	10,976
United Arab Emirates (Abu Dhabi)	15.68	**-**	-
Republic of Iraq	10.48	**11,004**	7,336
State of Qatar	8.19	**8,599**	5,733
Arab Republic of Egypt	6.97	**7,319**	4,879
Syrian Arab Republic	6.97	**-**	-
The State of Libya	6.97	**2,439**	2,440
Republic of Sudan	2.68	**2,814**	1,876
Kingdom of Bahrain	1.71	**1,795**	1,197
Republic of Tunisia	1.71	**1,791**	1,196
Kingdom of Morocco	1.71	**1,795**	1,197
Sultanate of Oman	1.71	**1,197**	1,197
Republic of Lebanon	1.61	**1,691**	1,127
People’s Democratic Republic of Algeria	1.61	**1,691**	1,127
The Hashemite Kingdom of Jordan	0.32	**336**	224
Republic of Yemen	0.32	**-**	-
Total	100.00	**75,399**	51,481

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.

	2016	2015
Movement of statutory reserve:		
Balance, beginning of the year	**98,885**	96,310
Additions for the year	**3,116**	2,575
Balance, end of the year	**102,001**	98,885

All amounts in United States Dollars thousands

16. GENERAL RESERVE

During the current year and pursuant to general assembly's resolution number 56 dated 4 June 2016. The general assembly resolved to transfer an amount of US$ 22,799 thousand from retained earnings to the general reserve. The general reserve can only be used through a resolution of the board of directors.

17. FAIR VALUE RESERVE

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

	2016	2015
Equity participations		
Balance, at beginning of year	**44,642**	81,737
Change in fair value	**(8,120)**	(37,095)
Balance, at end of year	**36,522**	44,642
Securities available-for-sale		
Balance, at beginning of year	**(3,540)**	3,975
Change in fair value	**5,181**	(7,515)
Balance, at end of year	**1,641**	(3,540)
Total fair value reserve	**38,163**	41,102

18. NET FEES AND COMMISSIONS

	2016	2015
Loans	**799**	176
Trade finance	**202**	299
Islamic banking	**283**	402
Others	**(10)**	(82)
Net fees and commissions	**1,274**	795

All amounts in United States Dollars thousands

19. NET GAIN (LOSS) ON FINANCIAL SECURITIES

	2016	2015
Equities	**229**	(2,695)
Debt securities	**1,157**	(390)
Unit Trust Funds	**92**	2,384
Total	**1,478**	(701)

20. OTHER INCOME

	2016	2015
Recovery of loans previously written off	**5,842**	11,446
Remuneration for attending Projects Board of Directors	**378**	359
Others	**1,171**	937
Total	**7,391**	12,742

21. GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Salaries and related benefits	**11,770**	11,874
Professional and consultancy	**1,279**	5,492
Board of directors' expenses	**720**	785
Others	**3,419**	3,527
Total	**17,188**	21,678

All amounts in United States Dollars thousands

22. IMPAIRMENT PROVISIONS

	2016	2015
Securities	**3,885**	2,190
Loans and advances (written back)/charged, net	**(1,974)**	12,219
Equity participation	**1,500**	4,000
Total	**3,411**	18,409

23. RELATED PARTY TRANSACTIONS AND BALANCES

In the ordinary course of its activities, the Company has no transactions with related parties, except remuneration to board members and executive managers personnel.

1. The balances resulting from such transactions at 31 December are as follows:

	2016	2015
Executive management personnel:		
End of service benefit	**2,120**	1,918

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

	2016	2015
Board of directors' expenses	**720**	785
Board of directors' bonuses paid	**375**	450
Salaries and short-term employee benefits	**639**	610
End of service benefits	**202**	189

24. COMPARATIVE INFORMATION

Certain comparative figures have been reclassified where necessary to conform to the presentation adopted in the financial statements at 31 December 2016.

25. POLITICAL UNREST

Certain Arab countries in which the Company has investments are undergoing political unrest. Management expects the political situation in these countries to stabilise over the medium 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).

26. APPROVAL OF FINANCIAL STATEMENTS

The accompanying financial statements were approved by the Board of Directors of the Company on 19 Jamad Al Akhir 1438H (corresponding to 18 March 2017).

الشركة العربية للاستثمار ش.م.ع.

THE ARAB INVESTMENT COMPANY S.A.A.

Company's Addresses

HEAD OFFICE
Kingdom of Saudi Arabia
King Abdulaziz Road
P.O. Box. 4009
Riyadh 11491 - Saudi Arabia
Telephone: +(966) 114760601 (many lines)
Fax: +(966) 114760514
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)
Swift: TAIQ BH BM
E-mail: taic@taicobu.com

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