THE ARAB INVESTMENT COMPANY S.A.A.

ANNUAL REPORT 2017

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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 (USD 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. Ali M. Reda Alhaj Jafar
Board Member
The Sultanate of Oman

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

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

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

Mrs. Fouzia Zaaboul
Board Member
The Kingdom of Morocco

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

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

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

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

Mr. Ali Milad Zaidi
Board Member
The State of Libya

Mrs. Taif Sami Mohammed Al Shakrachi
Board Member
The Republic of Iraq

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 Seven Board members as follows:

1	H.E.Eng. Yousef Ibrahim Al-Bassam	Chairman
2	Mr. Ali M. Redha Alhaj Jafar	Member
3	Mrs. Faouzia Zaaboul	Member
4	Mr. Ahmed Abdulla Al Mehairi	Member
5	Mr. Nael Mohamed Al Homoud	Member
6	Mr. Ali Milad Al Zaidi	Member
7	Mrs. Taif Sami Mohamed Al Shakrachi	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	Mr. Ahmed Abdelrehim Elsayad	Chairman
2	Mr. Omer 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. Dakheel A. Al Zahrani
3	Financial Affairs	Mr. Magdi M. Elkafrawy
4	Human Resources & Administration	Mr. Abdulaziz A. Al Fureih
5	Information Technology	Eng. Abdullah M. Al Subaie
6	Legal Advisor	Mr. Khalid S. Al- Zugaibi
7	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

01 Return on Average Shareholders’ Equity 3.25%

02 Return on Average Assets 2.25%

03 Net Income 37.9 USD Million

04 Shareholders’ Equity 1,188 USD Million

05 Total Assets 1,628 USD Million

Chairman's Statement

Dear Shareholders,

On behalf of my colleagues, members of the Board of Directors, I am pleased to present to you the annual report of the Arab Investment Company, which presents the most important achievements of the company during the fiscal year 2017 in the areas of equity projects and providing financial services in addition to the final accounts for the financial year ended on 31 December 2017.

Despite the difficulties faced by the Arab region during the year 2017, and their continued negative impact on the investment climate in general, the Arab Investment Company continued its pioneering role as a catalyst for investment and development in the Arab world and continued its efforts to develop its activities, diversify its investment and financial instruments and enhance its investment role throughout the Arab world. The company was able to add to its track record another year of good results, overcoming the challenges and obstacles it faced, thanks to its continuous support from its shareholders, the strength of its financial position, its distinct human resources and its prudent risk management. At the same time, we look forward with confidence and ambition to another year of achievements and work hard to realize the Company's objectives and meet the aspirations of the shareholding countries.

Finally, on behalf of my fellow Board members and in my name, I would like to extend my thanks and gratitude to the governments of the shareholding countries and our distinguished customers for their trust and their constructive role in supporting the Company's activities. I would also like to express my appreciation for the efforts of my colleagues, the members of the Board of Directors, the Executive Management and the Company's staff for their contribution to the results achieved in 2017, wishing the Arab Investment Company further progress and prosperity.

Eng. Youssef Ibrahim Al Bassam
Chairman

CEO Statement

During the fiscal year 2017, the Arab Investment Company continued its successful track record and outstanding achievements in developing its activities and diversifying its investment and financial instruments in line with its objectives set forth in its Memorandum of Association and Articles of Association. Despite the economic volatility and the uncertainty that prevailed in a number of countries in the Arab region and the resulting uncertainties that overshadowed the investment environment, the Arab Investment Company successfully managed to achieve good financial results, overcoming the circumstances and challenges it faced thanks to its long-standing investment experience, the optimal use of its financial and human resources and the prudent management of various risks, thus confirming its pioneering and distinguished position among Arab joint companies.

In terms of investment in equity projects, the Arab Investment Company continued to consolidate its regional position in supporting the Arab development process through its continuous focus on direct investment in the Arab countries and following up its existing projects which included 25 projects and one investment fund in 8 different sectors, geographically dispersed in 10 Arab countries, at the end of the year. Over the past year, the Company focused on strengthening the capabilities of its existing project portfolio and addressing the problems it faced in cooperation and coordination with other shareholding parties and the executive management of these projects. At the same time, TAIC managed to diversify some of its investments through planned exits from some projects and channeling the liquidity generated from these equities into new and promising investment opportunities.

On the front of providing financial services, the Company continued, through its banking branch in the Kingdom of Bahrain, to deal prudently and objectively with the management of its banking assets to cope with the conditions and developments of the prevailing conditions, and 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 compliance rules, regulatory bodies and international financial reporting standards.

On another side and as part of its efforts to develop its business environment, the Company focused on building the capabilities of its employees and improving their performance. TAIC also worked on developing its internal work environment by keeping abreast of the latest administrative and technical methods, enhancing the culture of institutional work and rules of good governance. The Company was as well keen on participating in several economic events held in a number of Arab countries to discuss issues related to the investment climate in various economic sectors, and took the initiative in building strategic alliances and cooperation with major investment companies of the region so as to achieve the Company's goals and the aspirations of its shareholders.

The synergies adopted in 2017 had a positive reflection on the Company's financial results and was successful in increasing its net profit by 22% to USD 37.9 million, compared with a net profit of USD 31.2 million in 2016. The Company also achieved a shareholders' equity growth by 4.9% bringing total shareholders' equity to USD 1,188 million at the end of 2017. As a result, the Company recorded a return on average shareholders' equity of 3.3% at the end of the fiscal year 2017 compared to 2.8% for the previous year.

On the occasion of issuing the Annual Report for the fiscal year 2017 and while starting a new year in which we look forward with confidence to further success, I am pleased to express my sincere thanks and appreciation to the Arab countries for their continued support to the Company, particularly the government of the Kingdom of Saudi Arabia, which hosts the head office of the Company, and the government of Kingdom of Bahrain, which hosts the banking branch of the Company, for the distinguished facilities and care provided by the two countries to the Company through their various institutions.

In conclusion, I would like to seize this opportunity to express my deep thanks and appreciation to the members of the Board of Directors for their support of the Company's activities and to all the colleagues in the Company for their sincere efforts and dedication in work, which had a positive impact in achieving this distinguished financial performance in 2017. In the meantime, I look forward to further progress and achievements in the future.

Ibrahim H. Al Mazyad
Chief Executive Officer

الشركة العربية للاستثمار ش.م.ع.

THE ARAB INVESTMENT COMPANY S.A.A.

DIRECTORS' REPORT 2017

First- Global Economic Developments in 2017

1.1 World Economic Growth

The relative recovery of global economic activity was evident in 2017 as a result of improved performance of manufacturing sector, higher volume of investments and increased global trade, which helped to boost confidence in the prospects of global economic growth. Global GDP growth rose to 3.7% in 2017, compared to a growth rate of 3.2% in the previous year.

The improvement in the global economy growth is due to a significant rise in the growth rate of developed economies to 2.3%, from 1.7% in 2016, and emerging markets and developing economies from 4.4% in 2016 to 4.7% in 2017 as a result of a significant recovery in the economies of Brazil, Russia, Nigeria, Latin American and Caribbean countries.

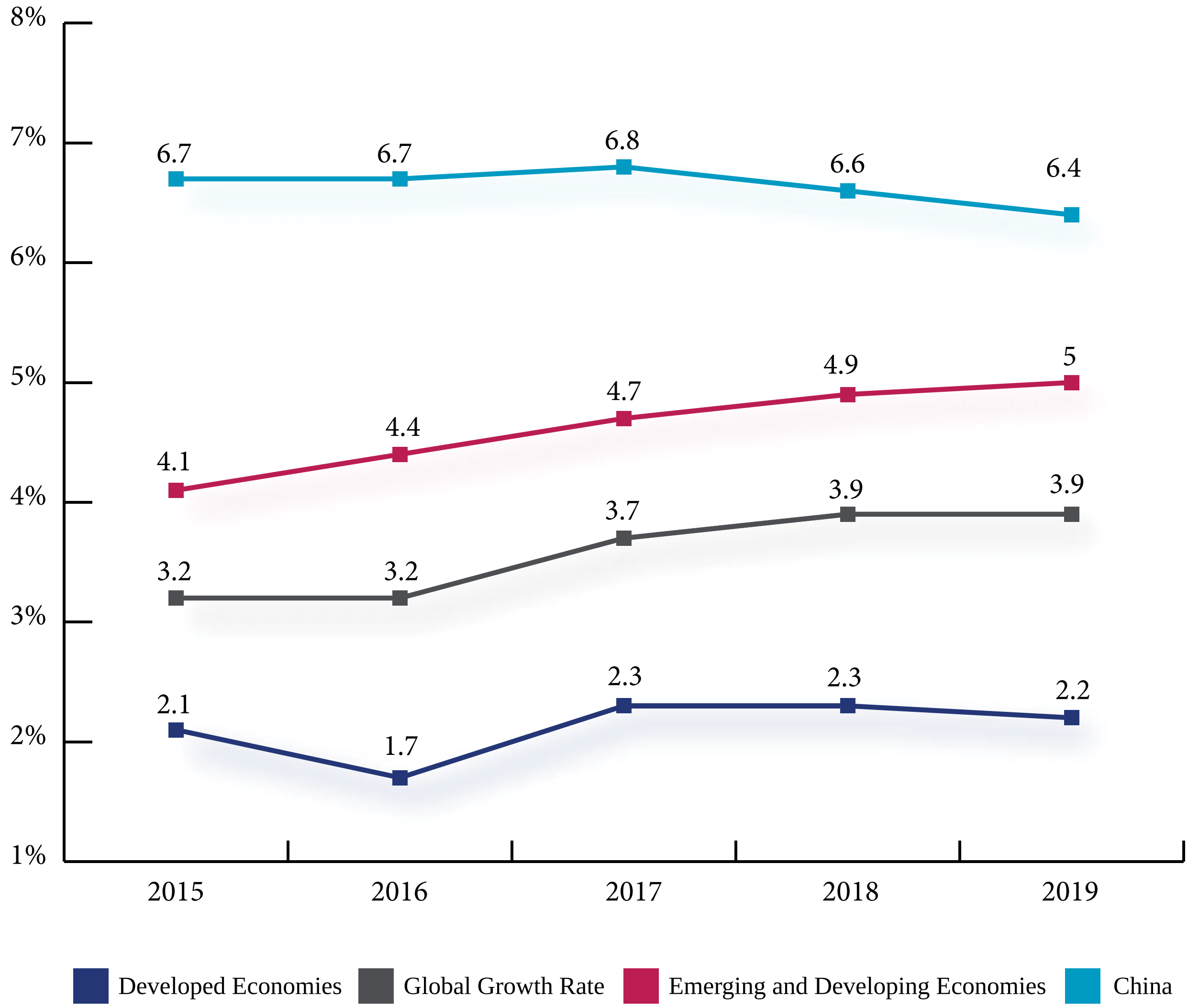
In the developed economies, the United States of America recorded a growth rate of 2.3% compared to 1.5% year earlier. Corporate growth and consumer spending were the main drivers of US economic growth in 2017. The growth rate of the Eurozone economy for the year 2017 rose by 2.4%, compared with 1.8% during the previous year, as the exporting countries benefited from the improvement of the world trade activity. Japan recorded a remarkable growth in GDP, with a growth rate of 1.8% in 2017, in comparison to 0.9% in 2016, driven primarily by a pick-up in consumer spending, investments and exports. In the meantime, UK growth rate fell to 1.7% in 2017, compared with 1.9% in the previous year due to a drop in consumer spending as well as concerns surrounding BREXIT.

With respect to emerging markets and developing economies, China's growth rate rose to 6.8% in 2017 from 6.7% the year earlier, driven by an increase in industrial output, retail sales, and fixed asset investments. Economies in Latin America and the Caribbean countries grew by 1.3% compared to a contraction of 0.7% in the previous year. While growth rate in India fell to 6.7% in 2017, compared to 7.1% in 2016.

According to the World Economic Outlook report (January 2018) issued by the International Monetary Fund (IMF), the pace of economic growth in both developed economies, emerging markets and developing economies is expected to continue, with expectations of a global growth projected at 3.9% for 2018 and 2019, due to a marked-up momentum of global growth and US tax cut, which will in turn revive investments.

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

Annual Growth Rate (2015-2019)

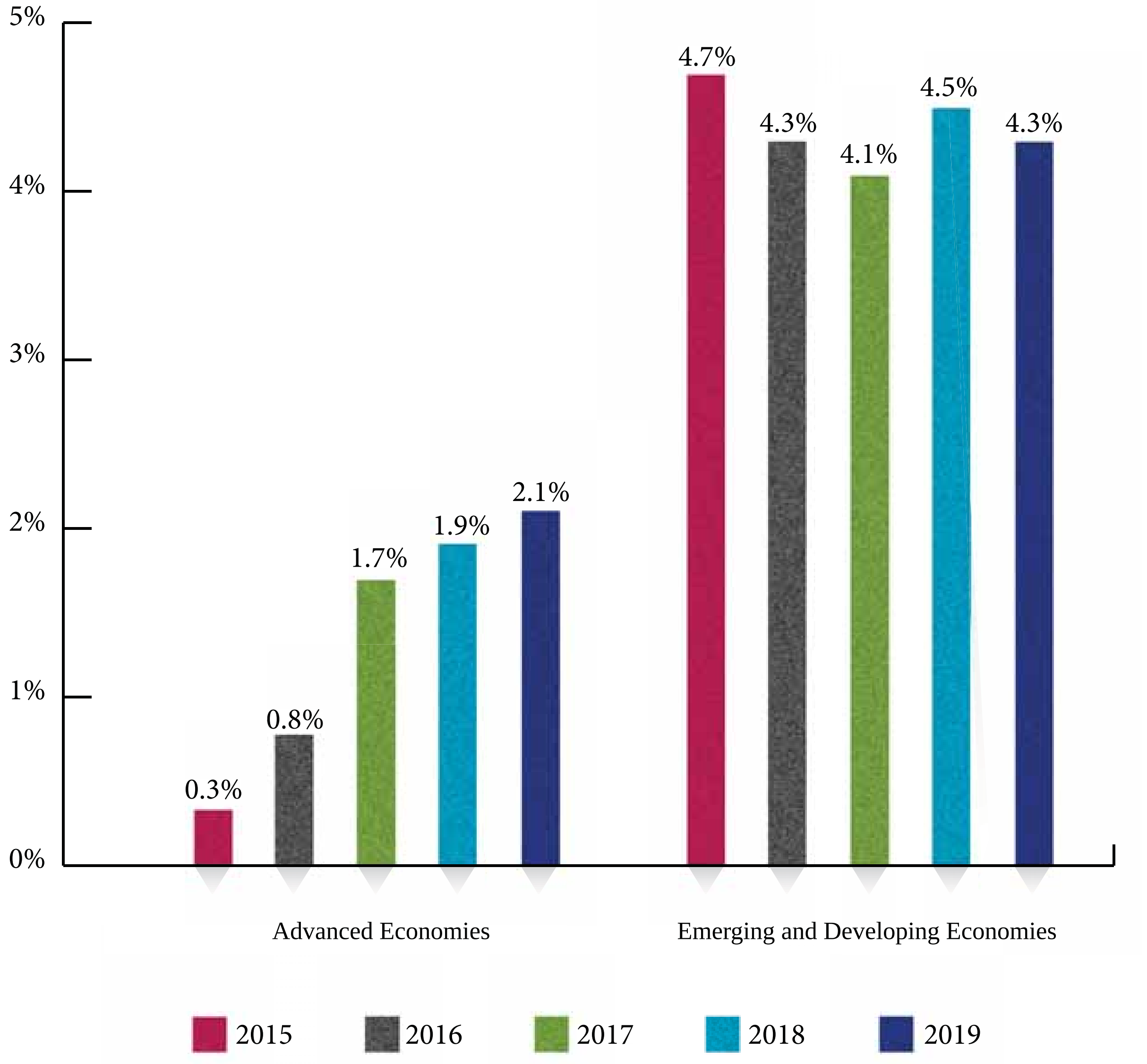


* Source: World Economic Outlook report (January 2018) issued by the International Monetary Fund (IMF).

1.2 Inflation

Inflation in the advanced economies rose from 0.8% in 2016 to 1.7% in 2017, due to the increase in oil prices during the year, while the inflation rate in emerging markets and developing economies fell to 4.1%, compared to 4.3% in the previous year. Inflation is expected to continue to rise in the advanced economies in 2018 and 2019 to 1.9% and 2.1% respectively, while inflation in emerging and developing economies is expected to rise to 4.5% in 2018 before dropping again to 4.3% in 2019.

Inflation Rate (2015-2019)*



* Source: World Economic Outlook report (January 2018) issued by the International Monetary Fund (IMF).

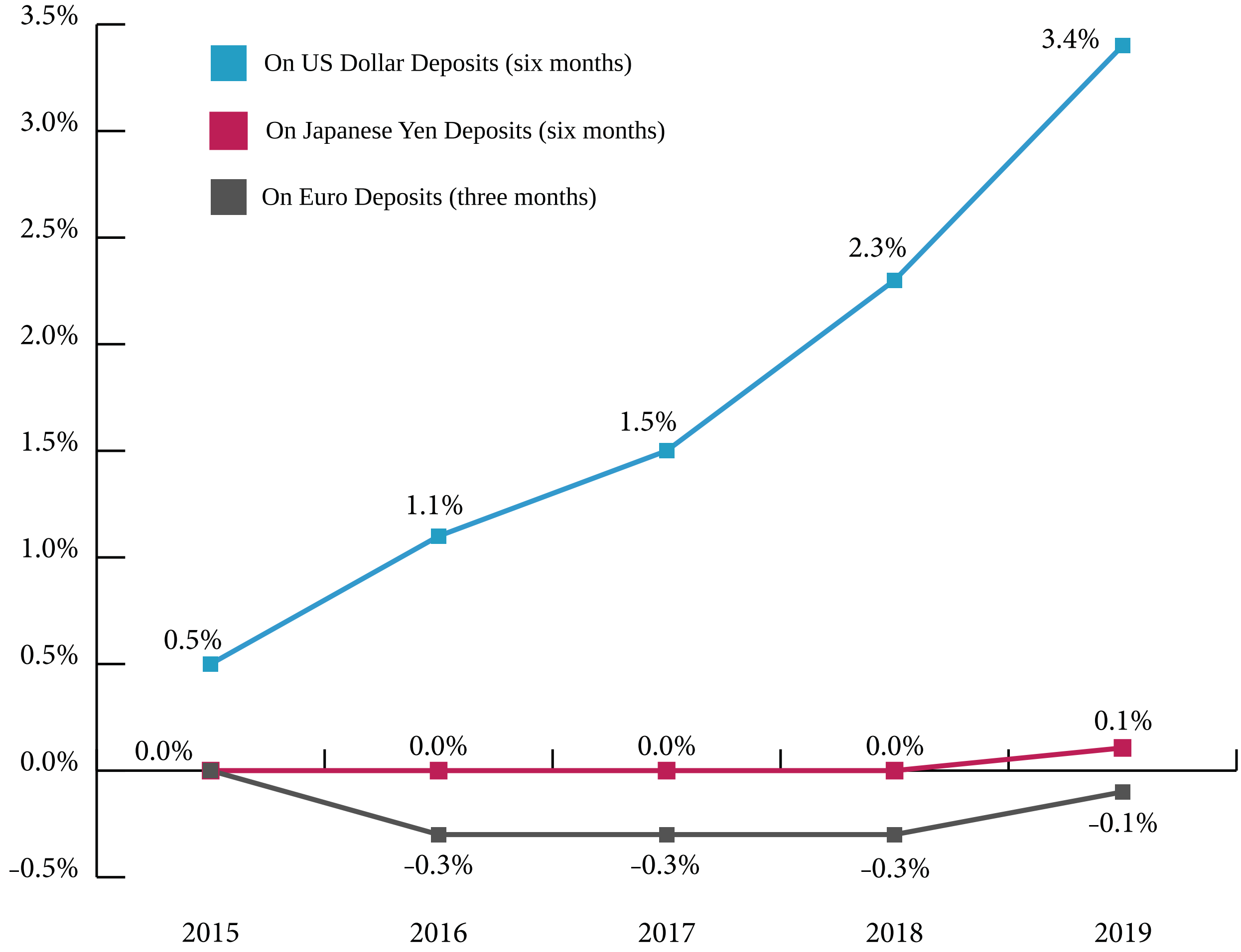
1.3 Monetary and Financial Developments

1.3.1 Interest Rates:

The six-months average London Interbank Offer Rate (LIBOR) rose from 1.1% in 2016 to 1.5% in 2017 and is expected to continue rising to 2.3% in 2018 and 3.4% in 2019 in light of the US Federal Reserve moves towards a gradual interest rate rise over 2018 and 2019.

The yield on deposits in the Japanese Yen remained zero in 2017, and is expected to remain at the same level in 2018. The return on deposits in Euro (3 months) remained negative in 2017 at -0.3%, and is also expected to stabilize at this rate in 2018, before improving marginally within the same year to reach -0.1%.

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

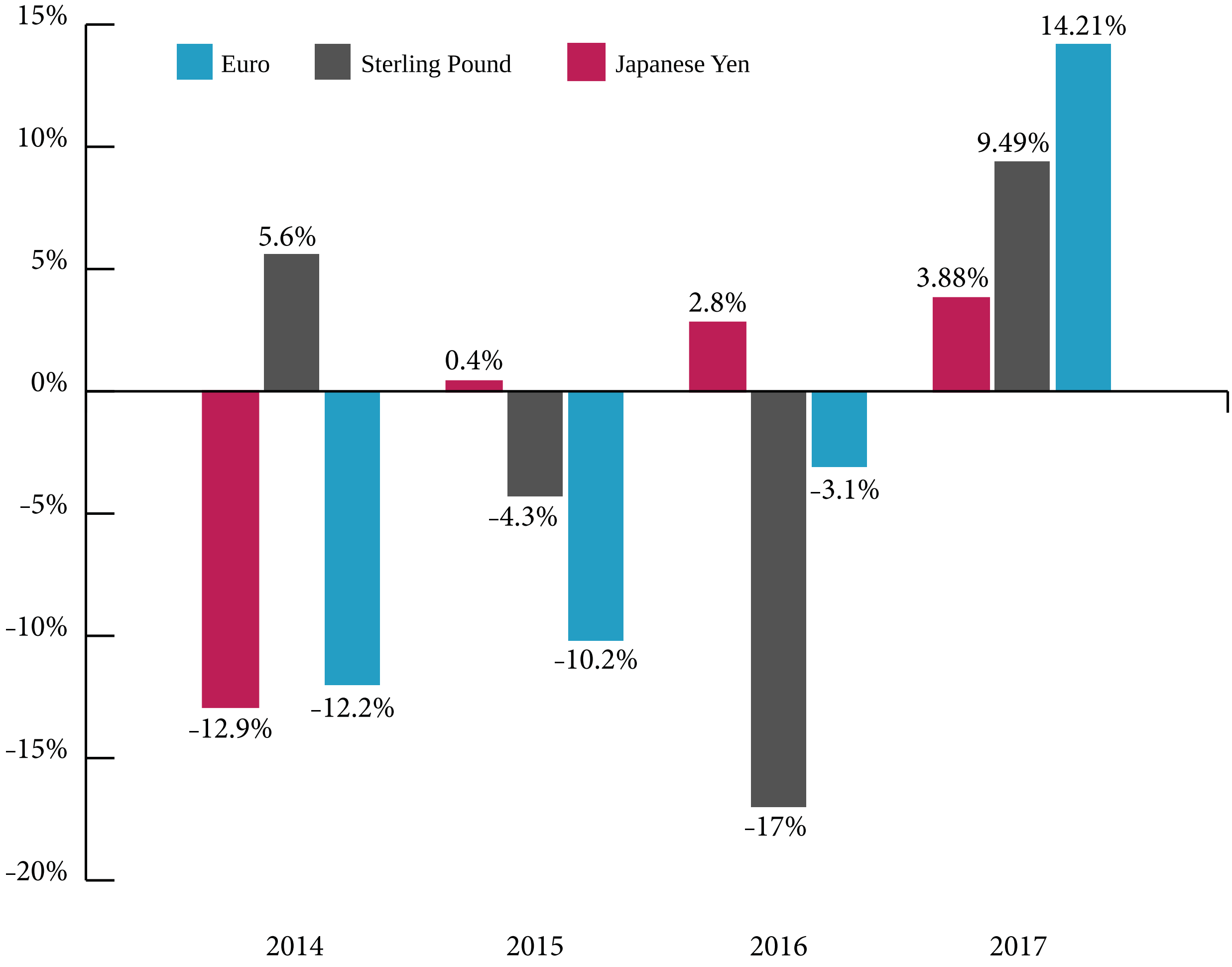


* Source: World Economic Outlook report (January 2018) issued by the International Monetary Fund (IMF).

1.3.2 Exchange Rates:

The US dollar fell against the major currencies in 2017 despite the US Federal Reserve raising its interest rate threefold in 2017. The decline against the EURO was 14.21% as a result of improved growth outlook, and 9.49% against the Sterling Pound in a context characterized with the Bank of England's decision to increase interest rates and increased expectations of an agreement on BREXIT to be reached between the UK and the EU. In the meantime, the US dollar marginally fell against the Japanese Yen by 3.88%. On the other hand, the currencies of some emerging markets fell against the US dollar, in particular the Mexican Peso, the Turkish Lira and the Brazilian Riyal. While the currencies of primary commodities markets, notably the Russian Ruble and Malaysian Ringgit, rose as a result of higher commodity prices.

Percentage of Change in major currencies against USD*



* Source: World Economic Outlook report (January 2018) issued by the International Monetary Fund (IMF).

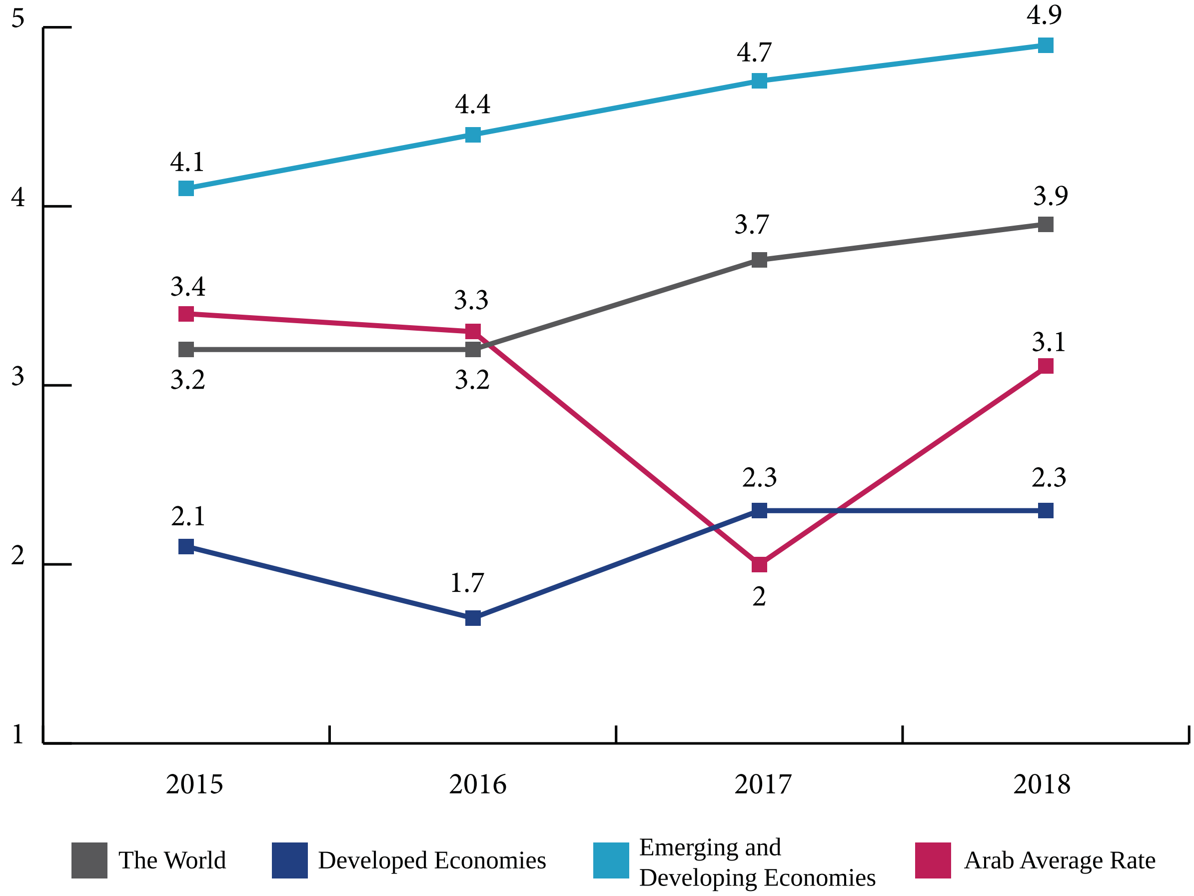
1.3.3 Financial markets for stocks and bonds:

On the global stock markets front, the Dow Jones American equities index (DJIA) rose by 25% to 24,719 points at the end of 2017. In Europe, the MSCI-EURO index rose by 21.3% to 1,796 points by the end of 2017. In the United Kingdom, the FTSE-100 index rose by 7% to 7,687 points by the end of 2017. While Japan's Nikkei stock index rose by 19.1% to 22,764 points by the end of 2017. As for bond markets, yields on US and European government bonds rose for all maturities by the end of 2017, while Yields on government bonds in Japan stabilized for all maturities for the year 2017.

Second- Economic developments in the Arab region in 2017

The World Economic Outlook report issued by the IMF in October 2017 expects the growth rate of the Arab economy would decline to 2% in 2017, compared with 3.3% in the previous year. The report also expects that the Arab economy will recover during 2018 to reach a growth rate of 3.1% as a result of the improvement in oil prices in addition to the expected returns of the financial reforms that started in early 2016 in a number of Arab countries.

Arab economy growth rate compared to global growth indicators (2015 to 2018)*



* Source: World Economic Outlook report (January 2018) issued by the International Monetary Fund (IMF).

In general, the economic growth rates in the Arab countries have varied. Arab oil exporting countries are expected to grow by 1.3% in 2017 compared to 2.4% in the previous year, while economic growth is expected to grow by 2.5% in 2018.

On the level of oil importing countries, they are expected to continue to achieve decent growth in 2017 reaching 3.7%, compared to 2.7% in 2016, and this growth is expected to increase to 4% in 2018, supported by the recovery of global economic, in addition to the positive impact of the economic reforms being implemented.

With regard to inflation, and as a result of the measures taken by many Arab countries to lift subsidies on energy, raise taxes and fees on various goods and services, in addition to the impact on the volumes of the supply due to local developments in some Arab countries since 2011, inflation in these countries rose from 5.3% in 2016 to 7.8% in 2017, with a expectations that the inflation rate would stabilize around 6.4% in 2018.

Third- TAIC activity in 2017

Despite the difficult conditions witnessed by the Arab region especially during the last five years, which posed a number of challenges to investment projects in the Arab countries, The Arab Investment Company (TAIC) continued to perform its tasks according to the requirements of the current phase in terms of making the right investment decisions, taking advantage of good investment opportunities, making programmed and thoughtful exits from some projects, which helped the Company to adapt the surrounding circumstances to perform its leading role in identifying investments and making good use of available resources in light of the continuous support received from shareholding countries. The Arab Investment Company also continued to coordinate with the Arab financial institutions, joint Arab companies, investment guarantee institutions, Arab chambers of commerce, industry and agriculture, as well as promoting investment in various countries in the region to identify, study and benefit from available investment opportunities in order to achieve the objectives set by its Memorandum of Association while committed to the best practices in the field of investment. This has enabled the Company to achieve good financial results for the year 2017. The following is a review of the Company's activities and financial results.

3.1: The Company's Management

The Arab Investment Company pursued its efforts in the field of investment in equity projects and the provision of financial services while committed to its regulations and directives issued by the General Assembly and the Board of Directors. In 2017 and in line with its steering role, the Board held four meetings, three of which were held in the Kingdom of Bahrain and one in the Kingdom of Morocco. In light of these meetings, the Board carried out its supervisory role through the restructuring of the specialized committees being: the Higher Investment Committee, Risk and Asset Committee, Audit Committee and Nominations and Compensation Committee, and through continuous change of the members to serve the decisions of the Board of Directors and the General Assembly; These committees submitted their reports to the Board to ascertain the proper work execution. The Board also directed the executive management to implement the General Assembly resolutions, including minor amendments to the Memorandum of Incorporation and Articles of Association to cope with the requirements the Company is going through.

The Company's management constantly develops regulations and systems, taking on the role assigned to it, in order to achieve the company's goals, enhance its investment mission and meet the wishes and aspirations of the shareholding countries.

3.2 Financial Results 2017:

The Company's net profit for the fiscal year 2017 stood at USD 37,944 thousand against USD 31,158 thousand in 2016, representing an increase of 22%. This rise in the Company's profits in 2017 was due to higher net interest income, an increase in gain on sale of equity participation exits and lower impairment provisions compared to 2016. The total operating income of the Company's various activities for the fiscal year 2017 amounted to USD 54,878 thousand, compared with USD 51,757 thousand in 2016, representing an increase of 6%. General and administrative expenses rose by 3% to reach USD 17,689 thousand compared to USD 17,188 thousand during the previous year, due to an increase in personnel expenses and consulting costs. The Company's activities in both investment and banking services contributed to achieve these results despite the difficult economic conditions that prevailed in 2017.

Total assets at the end of 2017 amounted to USD 1,628,093 thousand as compared to USD 1,686,718 thousand in the previous year, thereby recording a 3.5% decrease, mainly due to retraction in accepted deposits amounted to USD 95,000 thousand.

Total shareholders' equity at the end of 2017 stood at USD 1,187,577 thousand, compared to USD 1,132,608 thousand at the end of 2016, representing an increase of 4.9%, after capitalization of net profit of USD 37,944 thousand for the year and paying the fourth installment for the capital increase subscription amounting to USD 18,440 Thousand.

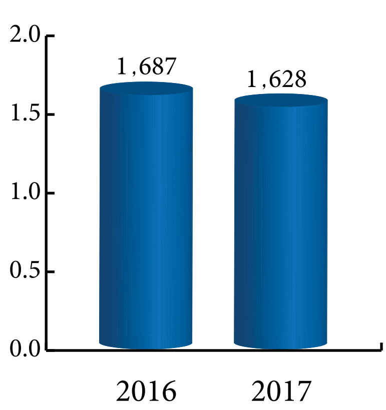
The Company achieved a return on average assets (ROAA) of 2.3%, while return on average shareholders' equity (ROAE) stood at 3.3% at the end of the fiscal year 2017. The following table represents the Company's main performance indicators for 2017 compared to those achieved in 2016:

Main Performance Indicators (2016 - 2017)

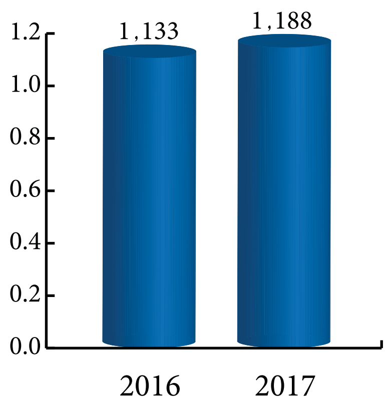
Indicator	Year 2016	Year 2017
Return on Average Shareholders' Equity (ROAE)	2.8%	3.3%
Return on Average Assets (ROAA)	1.8%	2.3%
Cost to Revenue Ratio	33.2%	32.2%
Capital Adequacy Ratio	83%	88%

The following charts represent TAIC's net profit, assets, shareholders› equity, and return on average assets and return on average shareholders' equity during 2016-2017:

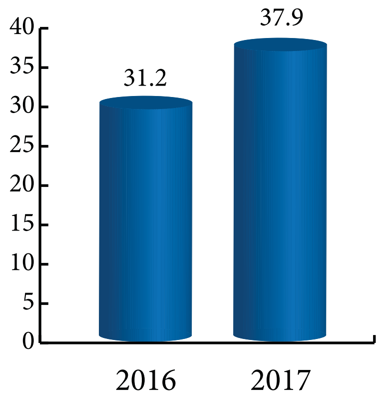
Total Assets (million USD)



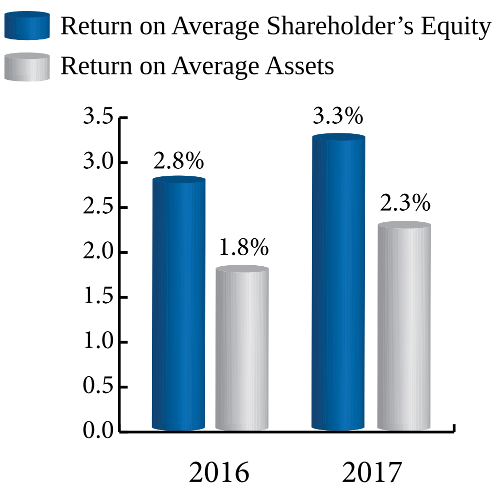
Total Shareholders' Equity (million USD)



Net Income (million USD)



Performance Indicators



3.3- TAIC's Equity Investment Activities in 2017

Investment in projects is considered a strategic anchor for which the Company was established to achieve its goals. Through investment in equity projects, TAIC is keen to develop the economies of the region, achieve Arab economic integration and boost trade exchange between Arab countries. The Company is also keen to build bridges of communication with all relevant authorities in order to overcome all the obstacles that obstruct the Arab development path. At the same time, the Company seeks to ensure a balance in its geographic spread and the optimal use of the available opportunities.

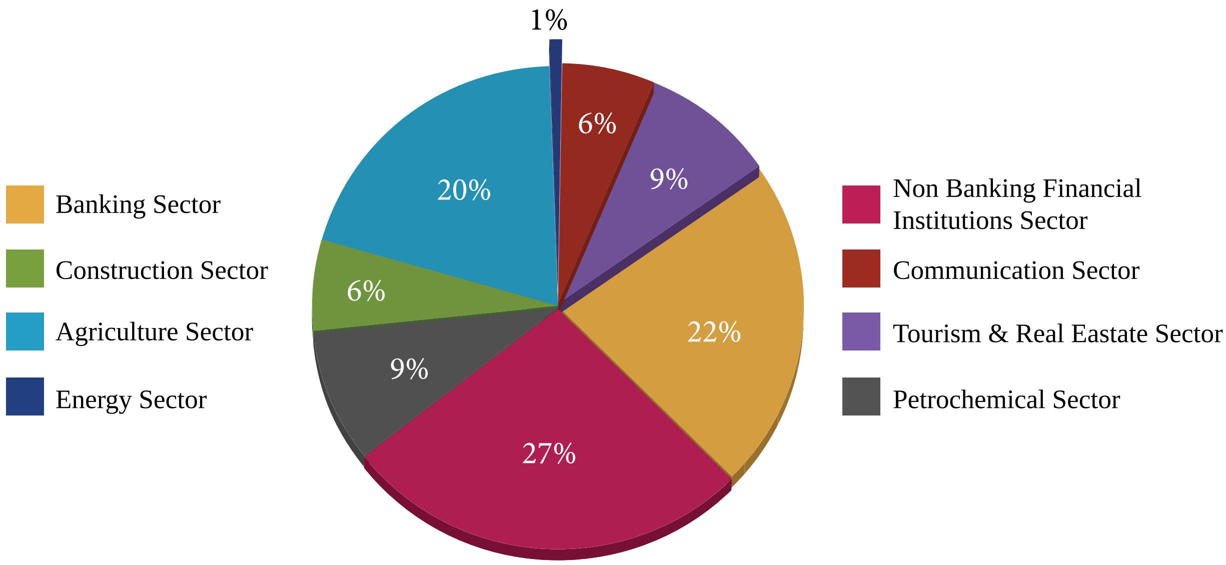
3.3.1 TAIC's Investment portfolio as of 31/12/2017

At the end of the year, TAIC's total investments in both project equity and investment funds amounted to USD 348 million compared to USD 404 million at the end of 2016. The portfolio included 25 equity projects amounting USD 324 million, in addition to IFC investment fund for the Middle East and North Africa amounting to USD 24 million. These projects were 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.

The total paid-up capital of the projects in the above eight sectors at the end of the year 2017 amounted to USD 12.5 billion, with a total shareholders' equity of USD 20.9 billion. TAIC's investments in these projects totaled USD 324 million, representing 40.5% 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 2017:

Investment Portfolio Composition



On the investment funds front, the Company's portfolio at the year end of 2017 included participation in a single investment fund totaling USD 24 million, in partnership with International Finance Corporation (IFC) representing 15% of the fund size totaling USD 162.4 million. The fund invests in infrastructure, financial and industrial sectors in the Middle East, North Africa and Turkey. Total investments of the fund since its inception in 2015 amounted to USD 52.5 million.

The following is a summary of the Company's portfolio in equity projects and investment funds as of 31/12/2017:

TAIC's Projects Portfolio Holding As Of 31/12/2017

Name of Project	TAIC Participation (USD Million)	TAIC Share %	Major Shareholders	Sector
Kenana Sugar Company - Sudan	62.40	6.99%	- The Government of Sudan - Kuwait Investment Authority - The Government of Saudi Arabia	Agriculture
Egyptian Propylene & Polypropylene Company - Egypt	27.63	10.00%	- Hail Said Group - Oriental Weavers	Petrochemicals
Bidaya Home Finance Company - Saudi Arabia	26.67	11.11%	-Public Investment Fund - The Islamic Corporation for the Development of the Private Sector - Al Rashed A. Al Rashed & Sons Company	Non-Banking Financial Institutions

Name of Project	TAIC Participation (USD Million)	TAIC Share %	Major Shareholders	Sector
SUDATEL Telecommunications Group LTD - Sudan	20.73	2.18%	- The Government of Sudan	Communication
The Arab Jordan Investment Bank - Jordan	19.09	10.25%	- Abdulqader A. Al Qadi Family - Libyan Foreign Bank	Banks
Berber Cement Company - Sudan	16.40	16.40%	- National Cement Co. - The Islamic Corporation for the Development of the Private Sector - National Social Security Fund	Construction
Middle East Financial Investment Company – Saudi Arabia	16.00	15.00%	- Kuwait and Middle East Financial Company	Non-Banking Financial Institutions
Bank ABC - Bahrain	15.72	0.42%	- Libyan Central Bank - Kuwait Investment Authority	Banks
SAMBA Financial Group – Saudi Arabia	21.14	0.18%	- Public Investments Fund (Saudi Arabia) - Public Pension Agency (Saudi Arabia) General Organization for Social Insurance (Saudi Arabia)	Banks
Arab International Company for Hotels and Tourism - Egypt	12.70	13.62%	-Arab International Bank - Kuwait Investment Authority - Abu Dhabi Investment Authority	Tourism & Real Estate
Arab Leasing Corporation spa-Algeria	10.70	25.00%	- Bank ABC - Algeria - Caisse Nationale d'Epargne et de Prévoyance	Non-Banking Financial Institutions
National Trigeneration CHP Company – Saudi Arabia	3.98	9.94%	- Ministry of Islamic Affairs and Waqf - Al Anoud Charity Foundation	Energy
The Arab Leasing Company LTD – Sudan	9.00	30.00%	- The Islamic Corporation for the Development of the Private Sector - Libyan Foreign Bank	Non-Banking Financial Institutions
The Arab Jordan Investment Bank - Qatar	8.70	15.00%	- The Arab Jordan Investment Bank	Banks
Taager Leasing Company - Oman	7.90	18.79%	- Oman Investment Fund - Ministry of Defense Pension Fund	Non-Banking Financial Institutions
International Company for Leasing (Incolease) - Egypt	7.90	10.00%	- Arab International Banking Corporation Bank - Banque Misr	Non-Banking Financial Institutions
Arab International Hotels Company - Jordan	7.79	8.36%	- Jordan Ahli Bank - Jordan Worsted Mills Co. - Al Nabeel Trading Co.	Tourism & Real Estate
Maroc Leasing - Morocco	4.76	5.74%	- Groupe Banque Populaire - Crédit Immobilier & Hôtelier Bank	Non-Banking Financial Institutions

Name of Project	TAIC Participation (USD Million)	TAIC Share %	Major Shareholders	Sector
Financial Investment Bank - Sudan	4.44	20.80%	- Central Bank of Sudan - Tadhamon International Islamic Bank - Hospico Company	Banks
The Arab Co. for Livestock Development – Arab Joint Company	3.56	1.67%	- Arab Joint Company	Agriculture
Bank ABC – Algeria	3.17	4.18%	-Bank ABC– Bahrain	Banks
Arab Trade Financing Programme – UAE	3.33	0.44%	- Arab Monetary Fund - Arab Fund for Economic & Social Development - Banque d'Algerie	Non-Banking Financial Institutions
The Arab Mining Co. - Jordan	2.16	1.10%	- Arab Joint Company	Construction
Société Riad Swalem - Morocco	0.20	33.00%	Saudi-Moroccan Development Investment Company	Tourism & Real Estate
Asma Club Plus real estate - Morocco	7.97	40.00%	Saudi-Moroccan Development Investment Company	Tourism & Real Estate

Investment Funds Portfolio at the end of 2017

Name of Fund	Fund Investment Field	Fund Volume (USD Million)	TAIC Share (USD Million)	Investment Geographical Scope
IFC MENA Fund	Development Companies	162.4	24.4	MENA Region

3.3.2: The most important projects that have seen developments during 2017:

The projects portfolio witnessed some developments during the year, the most important of which are as follows:

A. Asma Club Plus Real Estate (Morocco)

TAIC participated in the capital of the Asma Club Plus real estate project in the Kingdom of Morocco with the Saudi-Moroccan Development Investment Company by investing USD 12 million representing 40% of the project capital amounting to USD 30 million. The project aims to develop two pieces of land with an area of 19,000 square meters constructing a residential, commercial and office complex in Casablanca city, at a total cost of USD 96 million.

B. SAMBA Financial Group (Saudi Arabia):

The Company has approved a USD 30 million investment in Samba Financial Group listed on the Saudi Stock Exchange due to the Group's favorable financial indicators.

C. Saudi International Petrochemical Company (Sipchem):

In the year 2017, the Company exited investment in the share capital of Saudi International Petrochemical Company (Sipchem). TAIC's complete share in the company's capital was gradually sold and achieved a capital gain of USD 7,057 thousand.

D. National Trigeneration CHP Company (NTCC):

During the year 2017, the Arab Investment Company canceled its outstanding commitment for the NTCC project following the decision of the National Trigeneration CHP Company (NTCC) to reduce its authorized share capital from SAR 525,000 thousand down to an authorized capital of SAR 262,500 thousand and a paid up capital of SAR 150,000 thousand by the end of 2017.

E. IFC MENA Fund (IFC):

In 2017, the Fund invested USD 25 million in Apex International Energy Company, an emerging oil and gas exploration and production platform established in 2016. The investment aims at establishing a portfolio of oil-producing assets in the Western Sahara region of Egypt.

3.4 TAIC's Investment Activities in Financial Services:

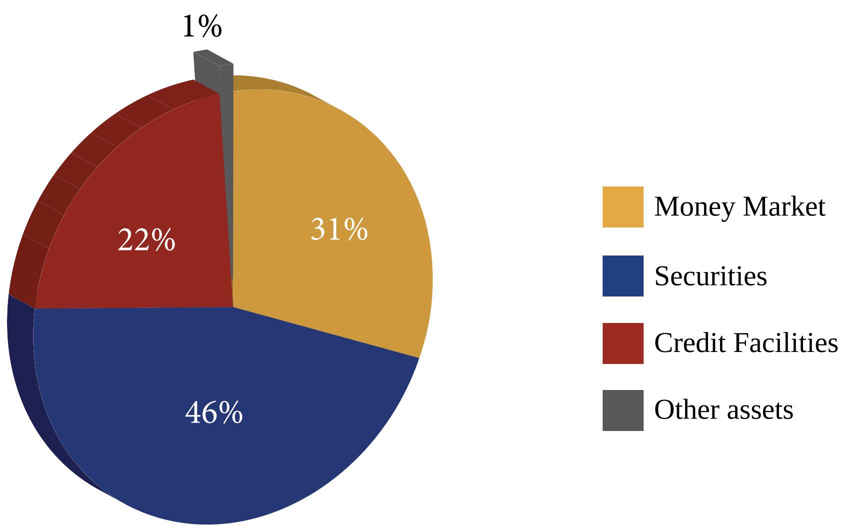
In addition to its main activity of investment in equity projects, TAIC provides a wide range of financial services through its Branch in the Kingdom of Bahrain, which is licensed as a Conventional Wholesale Bank by the Central Bank of Bahrain. The banking activity constitutes an important and stable source of income and is instrumental in enhancing project equity by generating additional income for reinvestment across the shareholding 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 worldwide supported by a 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 Company's objectives. These efforts focused mostly in 2017 on resource mobilization, liquidity management and close monitoring of its credit and investment portfolios in accordance, while complying with the requirements of international accounting standards and directives of regulatory authorities as well as the best market practices. At the end of the year, total banking assets amounted to USD 1,246 million against USD 1,314 million in the previous year, reflecting a decrease of 5.2%. The following table shows the composition of banking assets at the end of 2017:

Banking Assets Composition as of 31/12/2017

Banking Assets	USD Million	%
Money Market	384	31%
Securities	579	46%
Credit facilities	274	22%
Other Assets	9	1%
Total	**1,246**	**100%**

The following graph also illustrates the banking assets and their percentages at the end of 2017:



Banking Assets are managed through the following activities:

3.4.1 Treasury and Capital Market Portfolio:

During 2017, developed markets performed well in all asset classes thanks mainly to continuous injection of liquidity by major central banks through their uninterrupted quantitative easing programs and improving economies. In the GCC, the increased regional geopolitical tensions drove Treasury and Capital Market Department to run its activities with additional prudent approach to minimize credit risk through further diversification. Treasury also rebalanced its assets portfolio to manage the increasing interest rate risk and optimize profitability. The investment portfolio in securities stood at USD 579 million at the end of the year against USD 551 million in 2016, reflecting an increase of 5%. Accepted deposits from clients, financial institutions and government entities amounted to USD 421 million at the end of the year against USD 537 million in the previous year, reflecting a decrease of 22% due to further tightening of regional liquidity and increasing financial markets regulatory pressure towards lending cash. Placements with banks and financial institutions amounted to USD 384 million against USD 505 million in 2016, a decline in line with the decrease of accepted deposits. TAIC's Treasury actively managed overall liquidity of the Company and maintained adequate positions throughout the year to mitigate the liquidity risk emanating from regional markets volatility.

3.4.2 Credit Facilities:

The market conditions throughout 2017 were very challenging for the of credit activity in a context marked by tight spreads, low pricing due to available liquidity, especially in particular in Europe and South East Asia; as well as stringent regulatory requirements marked by the implementation of IFRS9 Accounting Standards starting from January 1st 2018.

Notwithstanding the challenging environment, The Arab Investment Company S.A.A., through its Bahrain Branch, continued to provide credit facilities to clients directly or through participation in syndications and club deals with regional and international financial institutions. The Bahrain Branch is also engaged in the provision of Trade Finance products, with particular emphasis on the shareholders' countries despite challenging compliance requirements, which had affected the Trade Finance Business. Trade services include opening, advising, confirming and refinancing letters of credit; discounting commercial papers and financing pre-export activity.

At the year-end of FYE 2017, the loan portfolio, net of provisions, increased by 10.5% to USD 274 million from USD 248 million in FYE 2016. The growth of the loan portfolio was driven by new loans booked during the financial year in an aggregate amount of USD 140 million. The loan portfolio was mainly dominated by credit facilities extended to financial institutions (74.4%), followed by government sector (17.0%), insurance market (6.1%) and trade (2.5%).

The non-performing loans dropped by 18.5% to USD 11.8 million against USD 14.5 million in FYE 2016 as a result of recoveries in the amount of USD 2.7 million. The NPLs were fully provided for, with a 100% loan loss coverage ratio.

Restructuring of the credit activity which began four years ago has been of paramount importance for the Executive Management of the Company, who put additional efforts towards building a sustainable loan portfolio based on a sound redistribution of risks across different geographies, redefinition of the customer base and improvement of asset quality, while minimising exposure to high credit risks.

3.5 Supporting Services

Reflecting the interest of the Company's management to develop the institutional work, upgrade the level of its employees to serve the work environment and achieve the desired goals and future aspirations, and in line with the latest technological developments, supporting services were upgraded in 2017, through the development of information technology systems and human resources as follows:

3.5.1 Information Technology System Development:

The management of the Arab Investment Company seeks to keep abreast of the successive developments in the fields of upgrading IT systems, and in order to qualify its employees with adequate qualifications and develop their skills as a prerequisite for assuming any position, especially in the field of information technology, most notably: updating the IT Policy and procedures, upgrading the systems of direct international communication between the Head Office and Bahrain Branch at the alternative site at Amwaj Island in the Kingdom of Bahrain through a pilot test to ascertain its readiness to ensure proper workflow in times of crisis, as well as the installation of fire suppression systems in the data centers at both Head Office and Bahrain branch. It also focusses on raising capabilities of support staff through training courses, events, forums and workshops to keep abreast of the latest developments upgrading the Company's IT systems in terms of banking correspondence, backups and e-mailing with the objectives of raising readiness, enhancing informational security, updating data center network, maintaining and upgrading IT infrastructure and preparing the accounting system for the implementation of the new IFRS9 in terms of data, programs and reporting, to support the banking operations in conformity with the best practices. On the other hand, the company's IT department is looking forward to further development in order to make the best use of it in the protection of treasury systems and enhancing information security, user workstations, control of data flow, to mitigate against possible IT risks and ensure maximum caution against any possible cyber-attacks.

3.5.2 Human Resource Development:

During the year 2017, the Arab Investment Company continued to devote its efforts to enhance its employees' commitment toward the Company and its customers by developing their capabilities, enhancing their skills, retaining and involving them in achieving the Company's strategic objectives. In 2017, several initiatives were launched to achieve this goal successfully, most notably was the "Future Leaders Training" initiative, which sought to select employees who have the capacity to become future leaders and to provide developmental activities to ensure their suitability for leading roles in the future.

During the year, 44% of the company's 89 employees participated in a number of specialized training courses, events, and workshops related to the investment and banking activity of the Company. The most important of these programs were a training program for the application of the new IFRS9, a VAT implementation program, an advanced program on anti-money laundering and combatting the financing of terrorism, in addition to the participation in a variety of specialized training programs on asset and liability management, advanced financial models, treasury operations, risk management and compliance, syndicated loans, preparation of financial budgets, information technology and security.

TAIC continues to develop the use of latest technology in human resources through continuous process of automation.

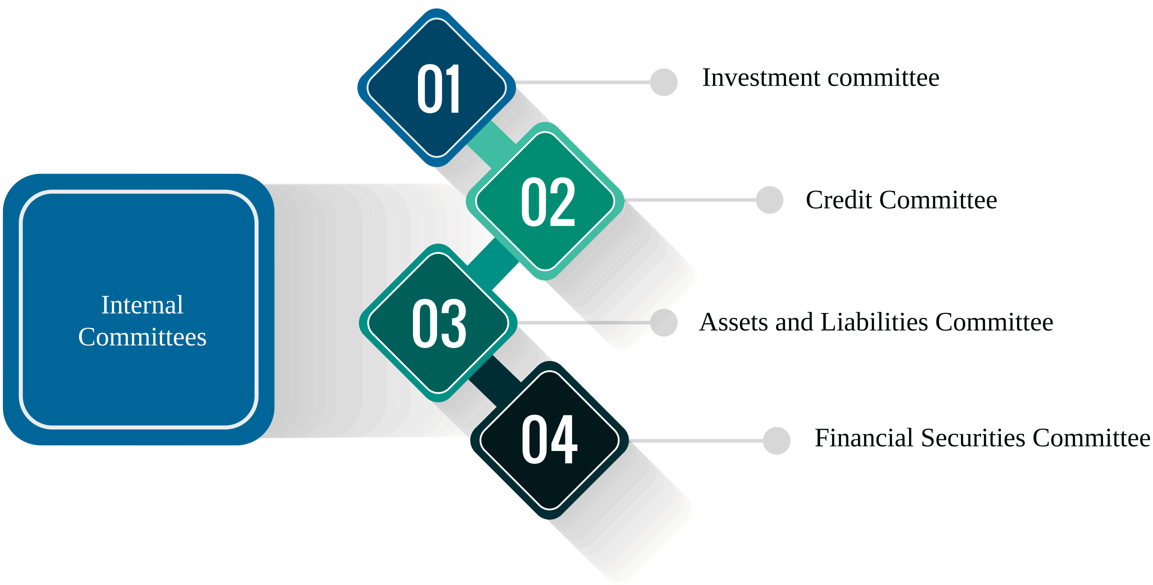
3.6 Institutional Management

TAIC continued to develop and modernize internal work systems including regulations, policies and procedures in line with the best practices and international standards in the field of institutional work and governed by the directives issued by the General Assembly and the Board of Directors, as well as by the relevant regulatory authorities. The company promotes the culture of institutional work among the projects in which it contributes in accordance with its belief in its role in supporting transparency and the best international business practices within the Arab economy and in execution of its general objectives stipulated in its Memorandum of Association and Articles of Association.

3.6.1 Corporate Governance:

The Arab Investment Company is committed to implementing the best international standards of good governance as the cornerstone of the Company’s vision, mission and aspirations of its shareholders. To this end, the Company has established independent committees to achieve governance in order to ensure the quality of implementation of the governance framework and to support the board of directors and committees of the Board in performing the tasks entrusted to them. The following committees emerge from the Board of Directors:

The Company›s governance is also strengthened through the existence of internal committees aiming at organizing teamwork and performing various tasks professionally and impartially. These committees are: Investment Committee, Credit Committee, Assets and Liabilities Committee and Securities Committee.



3.6.2 Risk Management and Compliance

A) Risk Management

Risk is inherent in TAIC's financial business activities and is managed through a process of on-going identification, measurement, monitoring and reporting. The Financial Operations are exposed to credit, market, liquidity and operational as well as other forms of inherent risks. The business and risk management strategy is tailored and regularly reviewed in consideration of risk exposures relative to risk appetite.

The risk governance structure ensures central oversight and control with clear accountability and ownership of risk. The Board of Directors has the ultimate responsibility for setting of risk appetite, establishment and oversight of the risk management framework. This is managed through an independent Board Risk and Asset Committee (RAC).

Within the broader governance infrastructure, RAC carries 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.

B) Risk Framework:

Over the last few years, TAIC has invested in developing a comprehensive and robust risk management infrastructure. This includes well defined Policies for managing credit risks, market risks, operational and liquidity risks emanating from various business activities. These Policies are reviewed annually so as to ensure their compliance to regulatory guidelines and industry best practices. Furthermore, the said Policies are supplemented with risk measurement models including; Asset & Liability / Market Risk Management System, Internal Credit Risk Rating Systems and Capital Assessment Platform.

The key features of Risk Management Framework are:

- Risk taking is within approved authorities giving consideration to compliance with regulatory requirements.
- Ensuring that all employees are sufficiently trained and have access to appropriate tools to ensure risk-taking is controlled and in line with risk appetite.
- Implementation of Industry Best Practices and regulatory requirements.
- A systematic operational risk management process comprising of risk assessment, risk treatment, risk monitoring, and risk communication and reporting. The process is challenged and reviewed regularly to ensure its effectiveness and appropriateness for the growth and business strategy.
- Designing and implementation of appropriate controls with adequate reporting in place to monitor their ongoing effectiveness to safeguard Company's interests.
- Adopting Risk Based Approach in contrast to subjective Credit Risk Assessment, enhancing credit process efficiency, improving credit quality and reducing credit losses.
- Periodic Stress Testing to assess the overall risk appetite.
- Providing oversight and policy guidelines for Business Continuity Management and its regular testing to ensure its adequacy and effectiveness.
- Adoption of three lines of defense for the management of risk where the first line of defense is the Business Departments, Risk and Compliance Department acts as a second line of defense and Internal Audit Department and External Auditors are third line of defense.

Since the risks associated with the business activity cannot be mitigated 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 its clients.

C) Compliance and Anti Money Laundering and Combatting the Financing of Terrorism (AML/CFT)

TAIC is committed to comply with all applicable Laws, regulations and global sanctions requirements and adopt industry best practices in Compliance and AML/CFT.

The Compliance function is independent and reports to the Risk and Asset Committee of the Board (RAC). The AML/CFT policy is reviewed and approved by the Board of Directors annually. Compliance and AML/CFT activities are reviewed quarterly by the Internal Audit which reports to the Audit Committee of the Board. The External Auditors annually review compliance with AML policy and procedures and submit their report to the regulator.

• Regulatory Compliance

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

• Anti-Money Laundering / Combating the Financing of Terrorism (AML/CFT)

The AML/CFT policies and procedures are complaint with FATF international standards on combating money laundering and terrorism financing. 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 as per regulatory requirements.

• Commitment to Tax Compliance (FATCA):

The Compliance Framework is committed to comply with the US FATCA law and the Common Reporting Standards (CRS), which together make up the Automatic Exchange of Information (AEOI). The AEOI Policy duly approved by the Board of Directors is in place.

Finally, while presenting this annual report to the General Assembly, the Board of Directors would like to take this opportunity to thank and express its gratitude to 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 while ensuring its pride for their trust. The Board would also like to thank the Company's staff for their dedication and continuous efforts, each employee in his/her position, in achieving optimal financial results in 2017. The Board looks forward for further individual and collective efforts to achieve the Company's objectives and aspirations in the future.

Financial Statements

31 DECEMBER 2017

EY
Building a better working world

Ernst & Young & Co. (Public Accountants)
6th & 14th Floors – 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

Independent Auditor's Report
To The Shareholders of The Arab Investment Company
(Arab Joint Stock Company)

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 2017, 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 present fairly, in all material respects, the financial position of the Company as at 31 December 2017 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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Independent Auditor's Report
To The Shareholders of The Arab Investment Company
(Arab Joint Stock Company) (continued)

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: 15 Rajab 1439 H
1 April 2018

شركة إرنست ويونغ وشركاهم محاسبون قانونيون
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

All amounts in United States Dollars thousands

	Notes	2017	2016
ASSETS			
Cash and deposits with banks	5	**447,707**	544,707
Investments:			
Securities	6	**595,580**	586,087
Equity participations	7.1	**273,304**	269,503
Loans and advances	8	**273,858**	247,873
Other assets	9	**15,914**	16,538
Property and equipment	10.1	**13,620**	14,125
Investment property	10.2	**8,110**	7,885
TOTAL ASSETS		**1,628,093**	1,686,718
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits	11	**420,596**	537,095
Derivative financial instruments	12	**158**	32
Other liabilities	13	**19,762**	16,983
TOTAL LIABILITIES		**440,516**	554,110
SHAREHOLDERS' EQUITY			
Share capital	14.1	**800,000**	800,000
Subscription in share capital	14.2	**93,839**	75,399
Statutory reserve	15	**105,795**	102,001
General Reserve	16	**22,799**	22,799
Retained earnings		**127,946**	94,246
Fair value reserve	17	**37,198**	38,163
TOTAL SHAREHOLDERS' EQUITY		**1,187,577**	1,132,608
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,628,093**	1,686,718

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	2017	2016
INCOME			
Interest income		**35,510**	28,831
Interest expense		**(6,275)**	(5,377)
Net interest income		**29,235**	23,454
Gain on sale of equity participations	7.2	**7,057**	2,458
Dividends		**9,282**	11,334
Net fees and commissions	18	**1,179**	1,274
Net gain (loss) on financial securities	19	**(277)**	1,478
Net foreign exchange loss		**(50)**	(219)
Rental income		**4,699**	4,587
Other income	20	**3,753**	7,391
Total operating income		**54,878**	51,757
EXPENSES			
General and administrative	21	**(17,689)**	(17,188)
Provisions	22	**755**	(3,411)
Total operating expenses		**(16,934)**	(20,599)
PROFIT FOR THE YEAR		**37,944**	31,158

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

All amounts in United States Dollars thousands

	Notes	2017	2016
Profit for the year		**37,944**	31,158
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net fair value movement on available for sale financial assets		**9,534**	(119)
Recycling of gains to the statement of income on sale or impairment of available for sale financial assets		**(10,499)**	(2,820)
	17	**(965)**	(2,939)
Total comprehensive income (loss)		**36,979**	28,219

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 2015		800,000	51,481	98,885	-	89,378	41,102	1,080,846
Profit for the year		-	-	-	-	31,158	-	31,158
Other comprehensive income		-	-	-	-	-	(2,939)	(2,939)
Total comprehensive income		-	-	-	-	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
Profit for the year		-	-	-	-	37,944	-	37,944
Other comprehensive gain		-	-	-	-	-	(965)	(965)
Total comprehensive gain		-	-	-	-	37,944	(965)	36,979
Transfer to statutory reserve	15	-	-	3,794	-	(3,794)	-	-
Transfer to general reserve	16	-	-	-	-	-	-	-
Board of directors' bonuses paid		-	-	-	-	(450)	-	(450)
Contribution for share capital increase (note 14.2)		-	18,440	-	-	-	-	18,440
Balance at 31 December 2017		**800,000**	**93,839**	**105,795**	**22,799**	**127,946**	**37,198**	**1,187,577**

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

All amounts in United States Dollars thousands

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**37,944**	31,158
Adjustments to reconcile net income to net cash			
provided by operating activities:			
Gain on sale of equity participations	7.2	**(7,057)**	(2,458)
Impairment on equity participations	22	**-**	1,500
(Gain) Impairment on loans and advances	22	**(755)**	1,911
Loss (gain) on sale of investments		**2,762**	(1,283)
Amortisation of discount (premium)		**10**	(107)
Loss on valuation of lands		**206**	-
Depreciation	10	**760**	705
		33,870	31,426
Changes in operating assets and liabilities:			
Deposits with banks with maturities longer than 3 months		**182,013**	135,760
Financial assets at fair value through income statement		**5,639**	8,154
Loans and advances, net		**(24,452)**	(85,680)
Other assets		**623**	618
Deposits		**(116,499)**	(151,149)
Derivative financial instruments		**126**	(78)
Other liabilities		**2,780**	375
Net cash from (used in) operating activities		**84,100**	(60,574)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from sale and purchase			
of investment securities		**(42,511)**	(58,378)
Proceeds from disposal/refund of equity participations		**26,119**	8,387
.Property and equipment and investment properties	10	**(685)**	(2,429)
Net cash used in investing activities		**(17,077)**	(52,420)
CASH FLOWS FROM FINANCING ACTIVITIES			
Board of directors' bonuses paid		**(450)**	(375)
Subscription in capital increase		**18,440**	23,919
Net cash from financing activities		**17,990**	23,544
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**85,013**	(89,450)
Cash and cash equivalents, beginning of the year	5	**309,924**	399,374
CASH AND CASH EQUIVALENTS, END OF THE YEAR	5	**394,937**	309,924
Supplemental non cash information			
Net change in fair value reserve	17	**(964)**	(2,939)
Operational cash flows from interest and dividends			
Interest income received		**36,089**	30,054
Interest expense paid		**(16,905)**	(12,638)
Dividends received		**11,929**	12,407

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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

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

(b) Assets classified as available-for-sale

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

(c) Renegotiated loans

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

measured reliably. All other repairs and maintenance are charged to operating expenses during the financial period in which they are incurred.

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

- 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 New and amended standards and interpretation (continued)

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 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

The IASB issued IFRS 9 'Financial Instruments' in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 sets out the requirements for recognizing and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Company plans to adopt the new standard on the required effective date and currently assessing the impact of the application of IFRS 9 on the financial statements of the Company.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Company plans to adopt the new standard on the required effective date using the full retrospective method and currently assessing the impact of the application of IFRS 15 on the financial statements of the Company.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Company does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

IFRS 7 Financial Instruments: Disclosures

IFRS 7 Financial Instruments: Disclosures has been amended to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.

Transfers of Investment Property — Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Company will apply amendments when they become effective and does not expect any effect on its financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration,

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- The beginning of the reporting period in which the entity first applies the interpretation or
- The beginning of a prior reporting period presented as comparative information in the financial statements
- of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. These amendments are not applicable to 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.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

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.

3.1.1 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		
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			
	2017		2016	
	Loans and Advances %	**Impairment provision %**	Loans and Advances %	Impairment provision %
Regular	**93**	**3**	95	3
Watch	**3**	**-**	-	-
Loss	**4**	**100**	5	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

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)

is before the effect of mitigation through the use of master netting and collateral arrangements, but net of any provision for impairment.

	Maximum Exposure	
	2017	2016
Credit risk exposures relating to funded exposures are as follows:		
Deposits and cash with banks and treasury bills	**447,702**	544,702
Loans and advances to banks	**228,514**	234,098
Loans and advances to non-banks	**45,344**	13,775
Trading debt securities	**-**	4,821
Investment debt securities	**554,558**	522,516
Interest receivable and other assets	**6,288**	6,811
	1,282,406	1,326,723
Credit risk exposures relating to non-funded exposures are as follows:		
Contingent liabilities		
Loan commitments	**4,031**	20,352
Letters of credit commitments	**13,333**	14,028
	17,364	34,380
At 31 December	**1,299,770**	1,361,103

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)

The above table represents a worst case scenario of credit risk exposure of the Company as at 31 December 2017 and 2016, 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:

- 93% of the overdrafts, loans and advances portfolio is categorized under Standard Assets as per approved Credit Policy as (31 December 2016: 95%);
- 96% of the overdrafts, loans and advances portfolio are considered to be neither past due nor impaired (31 December 2016: 95%); and
- Approximately 22 % (31 December 2016: 35%) 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 2017					
Deposits and cash with banks and treasury bills	447,702	-	-	-	447,702
Debt securities (including trading)	551,818	-	-	13,266	565,084
Loans and advances					
- Loans and advances to banks	218,302	-	-	11,805	230,107
- Loans and advances to non-banks	63,344	-	-	-	63,344
Interest receivable and other assets	6,288	-	-	-	6,288
	1,287,454	**-**	**-**	**25,071**	**1,312,525**

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 2016					
Deposits and cash with banks and treasury bills	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

Total impairment provision for overdraft, loans and advances as at 31 December 2017 is USD 19,592 thousand (31 December 2016: USD 21,124 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 2017 is USD 10,478 thousand (31 December 2016: USD 10,106 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. Renegotiated facilities that would otherwise be past due or impaired as at 31 December 2017 amount to USD 7,374 thousand (31 December 2016: 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 2017 and 2016, based on Standard & Poor's rating or its equivalent:

	FVIS	Available for sale securities	Held to maturity securities	Total
31 December 2017				
A to A+	**-**	**118,288**	**3,501**	**121,789**
Lower than A-	**-**	**429,980**	**-**	**429,980**
Unrated	**-**	**2,789**	**48**	**2,837**
Total	**-**	**551,057**	**3,549**	**554,606**

	FVIS	Available for sale securities	Held to maturity securities	Total
31 December 2016				
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

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.

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 (continued)

	Gulf	Other Arab Countries	Asia	Western Europe and USA	Total
Deposits with banks and treasury bills	381,627	336	40,014	25,725	447,702
Loans and advances	111,889	75,969	2,000	84,000	273,858
Debt securities	182,889	35,611	-	336,106	554,606
Interest receivable and other assets	2,807	1,029	177	2,275	6,288
At 31 December 2017	**679,212**	**112,945**	**42,191**	**448,106**	**1,282,454**
At 31 December 2016	882,880	56,876	113,222	273,793	1,326,771
Non-funded exposures:					
At 31 December 2017	**-**	**17,364**	**-**	**-**	**17,364**
At 31 December 2016	34	34,027	7	-	34,068

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.

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.

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

(a) Interest rate risk (continued)

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	BHD 100BP	GBP 100BP	Total
Interest rate risk 31 December 2017							
Financial assets:							
Deposit with banks and treasury bills	**2,826**	**156**	**8**	**69**	**755**	**149**	**3,963**
Overdrafts, loans							
and advances	**2,743**	**-**	**-**	**-**	**-**	**-**	**2,743**
Debt securities	**3,550**	**-**	**-**	**-**	**-**	**-**	**3,550**
Impact of Financial							
Assets	**9,119**	**156**	**8**	**69**	**755**	**149**	**10,256**
Financial liabilities:							
Deposits	**(3,570)**	**-**	**(6)**	**(5)**	**-**	**-**	**(3,581)**
Impact of Financial							
Liabilities	**(3,570)**	**-**	**(6)**	**(5)**	**-**	**-**	**(3,581)**
Impact on the results of the Company	**5,549**	**156**	**2**	**64**	**755**	**149**	**6,675**

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	BHD 100BP	GBP 100BP	Total
Interest rate risk 31 December 2016							
Financial assets:							
Deposit with banks and treasury bills	**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**

(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)

(b) Equity Position risk (continued)

Equity classification	2017			2016		
	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**	**604**	**-**	±10	686	-
Available for sale equity	**±10**	**-**	**3,572**	±10	-	5,184
Equity participations - quoted	**±10**	**-**	**10,784**	±10	-	11,634

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$ 165.5 million (2016: US$ 155.9 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 2017	USD	EUR	AED	SAR	BHD	GBP	Others	Total
Deposits with banks and treasury bills	299,367	19,456	847	33,715	78,512	15,000	810	447,707
Financial assets at fair value through	-	-	-	-	-	-	-	
income statement	-	-	-	-	1,207	-	4,836	6,043
Investments securities:								
-Available for sale	518,790	46,356	-	4,824	-	-	16,018	585,988
-Held to maturity	3,501	-	-	-	-	-	48	3,549
Overdrafts, loans and advances	266,484	-	-	7,374	-	-	-	273,858
Equity participation	93,603	-	-	68,020	-	-	111,681	273,304
Property, plant and equipment and investment in property	21,730	-	-	-	-	-	-	21,730
Other assets	14,364	853	1	81	608	7	-	15,914
Total financial assets	**1,217,839**	**66,665**	**848**	**114,014**	**80,327**	**15,007**	**133,393**	**1,628,093**
Derivative financial instruments	(158)	-	-	-	-	-	-	(158)
Deposits	(358,637)	(60,526)	(837)	(589)	-	(7)	-	(420,596)
Other liabilities	(4,667)	(333)	-	(11,452)	(3,311)	-	-	(19,762)
Total financial liabilities	**(363,462)**	**(60,859)**	**(837)**	**(12,041)**	**(3,311)**	**(7)**	**-**	**(440,516)**
Fair value reserve	(10,743)	(368)	-	4,494	-	-	(30,581)	(37,198)
Net open position	**843,634**	**5,438**	**11**	**106,467**	**77,016**	**15,000**	**102,812**	**1,150,379**
As at 31 December 2016								
Total financial assets	1,382,012	58,806	829	119,807	2,440	119	122,705	1,686,718
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

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 2017	Less than 12 months	Over 12 months	No fixed Maturity	Total
ASSETS				
Cash, deposits with banks and treasury bills	447,707	-	-	447,707
Investments:				
Securities	32,596	556,461	6,523	595,580
Equity participations	-	-	273,304	273,304
Loans and advances	83,039	190,819	-	273,858
Property and equipment	-	-	13,620	13,620
Investment property	-	-	8,110	8,110
Other assets	13,895	1,603	416	15,914
TOTAL ASSETS	577,237	784,883	301,973	1,628,093
LIABILITIES				
Deposits	420,596	-	-	420,596
Derivative financial instruments	158	-	-	158
Other liabilities	7,484	9,130	3,148	19,762
TOTAL LIABILITIES	428,238	9,130	3,148	440,516
NET	148,999	739,753	298,825	1,187,577
Cumulative liquidity gap	148,999	888,752	1,187,577	-

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 2016	Less than 12 months	Over 12 months	No fixed Maturity	Total
ASSETS				
Cash, deposits with banks and treasury bills	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	16,683
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)

3.3.2 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 2017	1-3 months	3-12 months	Total
Liabilities			
Deposits	**318,122**	**102,474**	**420,596**
Other liabilities	**3,934**	**3,613**	**7,547**
Total liabilities (contractual maturity dates)	**322,056**	**106,087**	**428,143**
As at 31 December 2016			
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

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 2017					
Derivatives held for trading					
Foreign exchange derivatives:					
Outflow	33,947	5,648	-	-	39,595
Inflow	33,832	5,608	-	-	39,440
Total outflow	33,947	5,648	-	-	39,595
Total inflow	33,832	5,608	-	-	39,440
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

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 2017			
Loan commitments	4,031	-	4,031
Guarantees, acceptances and other financial facilities	-	13,333	13,333
Total	**4,031**	**13,333**	**17,364**
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

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 USD 86 million as at 31 December 2017 (31 December 2016: USD 87.8 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 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through income statement				
- Equity securities	6,042	-	-	6,042
Available for sale financial assets				
- Equity securities	5,305	-	-	5,305
- Debt securities	548,269	-	-	548,269
- Investment funds	-	-	29,626	29,626
- Equity participations	107,836	-	165,468	273,304
Total assets	667,452	-	195,094	862,546
Financial liabilities at FVIS				
- Derivative financial instruments	-	158	-	158
Total liabilities	-	158	-	158

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 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

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:

	2017	2016
1 January	**155,861**	165,929
Written off	**(5,068)**	-
Total gains and (losses) recognised in other comprehensive income	**14,675**	(10,068)
31 December	**165,468**	155,861

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Fair value of financial assets and liabilities (continued)

(c) Financial instruments not measured at fair value

At 31 December 2017, the fair value of HTM instruments carried at amortised cost of USD 3.50 million (31 December 2016: USD 15.70 million) was determined to be USD 3.49 million (31 December 2016: USD 15.70 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, DEPOSITS WITH BANKS AND TREASURY BILLS

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

	2017	2016
Cash and cash equivalents:		
Cash on hand and in banks	**13,621**	10,617
Deposits with banks with original maturities of three months or less	**357,829**	299,307
Treasury bills maturing within three months of acquisition	**23,487**	-
Cash and cash equivalents	**394,937**	309,924
Deposits with banks with original maturities of more than three months	**797**	234,783
Treasury Bills with original maturities of more than three months	**51,973**	-
Total	**447,707**	544,707

All amounts in United States Dollars thousands

6. INVESTMENTS

Investment securities as of 31 December comprise the following:

	2017	2016
a) Financial assets at fair value through		
income statement (FVIS)		
Equity securities	**6,043**	6,861
Debt securities	**-**	4,821
Total	**6,043**	11,682
b) Available-for-sale securities		
Equity securities	**5,868**	15,255
Debt securities	**561,534**	516,901
Investment funds	**30,818**	41,656
Provision for impairment	**(12,232)**	(15,176)
Total	**585,988**	558,636
c) Held-to-maturity securities		
Debt securities	**3,549**	15,769
Total	**3,549**	15,769
Total investments	**595,580**	586,087

The movement in investment securities is summarised below:

	FVIS	Available-for-sale	Held-to-maturity	Total	
				2017	2016
At 1 January	11,682	558,636	15,769	**586,087**	534,179
Exchange differences	(28)	5,801	-	**5,773**	(2,637)
Additions	120	237,373	-	**237,493**	186,407
Disposals (sale, maturity (and redemption	(5,216)	(222,315)	(12,210)	**(239,741)**	(134,117)
Change in fair value	(515)	5,493	-	**4,978**	2,148
Accretion of discount	-	-	(10)	**(10)**	107
Writeback of provision	-	1,000	-	**1,000**	-
At 31 December	6,043	585,988	3,549	**595,580**	586,087

All amounts in United States Dollars thousands

6. INVESTMENTS (continued)

Investments in debt securities of USD 112,879 thousand (2016: USD 85,287 thousand) are pledged under repurchase agreements with banks and financial institutions.

7. INVESTMENTS IN EQUITY PARTICIPATIONS

7.1 Fair value of equity participations

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

	2017	2016
Quoted	**107,836**	113,642
Unquoted	**165,468**	155,861
Total	**273,304**	269,503

2017			
	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	**6,993**	**5.7**
Asma Club Plus Company		**8,555**	**40.0**
		15,746	
Kingdom of Saudi Arabia			
Middle East Financial Investment Company		**16,000**	**15.0**
National Trigeneration CHP Company		**3,975**	**9.9**
Bidaya Home Finance		**24,914**	**11.1**
Samba Financial Group	Quoted	**23,131**	**0.18**
		68,020	
Republic of Sudan			
Kenana Sugar Company		**14,696**	**7.0**
Sudatel Group for Communication	Quoted	**11,800**	**2.2**
Financial Investment Bank	Quoted	**4,967**	**20.8**
Berber Cement Company		**16,397**	**16.4**
The Arab Leasing Company		**6,235**	**30.0**
		54,095	

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

7.1 Fair value of equity participations (continued)

2017 (Continued)	Quoted Shares	Fair value of participation	Percentage of Shareholding
Arab Republic of Egypt			
Arab International Company for Hotels and Tourism		**12,126**	**13.7**
Egyptian Propylene and Polypropylene Company		**27,630**	**10.0**
International Company for Leasing		**3,127**	**10.0**
		42,883	
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	**37,949**	**10.3**
Arab International Hotels Company	Quoted	**4,452**	**8.4**
		42,401	
Kingdom of Bahrain			
Arab Banking Corporation	Quoted	**3,821**	**0.4**
State of Qatar			
Arab Jordan Investment Bank		**8,700**	**15.0**
Sultanate of Oman			
Taageer Finance Company	Quoted	**14,723**	**18.8**
Pan-Arab			
The Arab Company for Livestock Development		**3,559**	**1.7**
Arab Mining Company		**3,335**	**0.4**
Arab Trade Financing Program		**2,156**	**1.1**
		9,050	
Total		**273,304**	

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)

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.

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:

	2017
Saudi International Petrochemical Co. - Kingdom of Saudi Arabia	**7,057**
Total	**7,057**

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

8. LOANS AND ADVANCES

Loans and advances as of 31 December comprise the following:

	2017	2016
Loans and advances	**293,450**	268,997
Total loans and advances	**293,450**	268,997
Provision for impairment on loans and advances	**(19,592)**	(21,124)
Loans and advances, net	**273,858**	247,873
Movement in provision:		
At 1 January	**21,124**	23,101
Provision for the year (see Note 22)	**1,150**	-
Writeback	**(2,682)**	(1,974)
Other Movement	**-**	(3)
At 31 December	**19,592**	21,124
Specific impairment provision	**11,805**	14,487
Collective impairment provision	**7,787**	6,637
	19,592	21,124

All amounts in United States Dollars thousands

9. OTHER ASSETS

Other assets as of 31 December comprise the following:

	2017	2016
Accrued income	**12,473**	12,788
Other receivables	**3,441**	3,750
Total	**15,914**	16,538

10. PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY

10.1 Property and equipment:

Property and equipment as of 31 December comprise the following:

	Land	Building and its equipment	Furniture and equipments	Total 2017	Total 2016
Cost:					
At 1 January	7,416	19,364	13,926	**40,706**	40,189
Adjustment	(206)	-	-	**(206)**	-
Additions during the year	-	60	225	**285**	640
Disposals during the year	-	-	-	**-**	(123)
At 31 December	7,210	19,424	14,151	**40,785**	40,706
Accumulated depreciation:					
At 1 January	-	(13,781)	(12,800)	**(26,581)**	(26,094)
Charge for the year	-	(239)	(345)	**(584)**	(610)
Relating to disposals	-	-	-	**-**	123
At 31 December	-	(14,020)	(13,145)	**(27,165)**	(26,581)
Net book value:					
At 31 December 2017	**7,210**	**5,404**	**1,006**	**13,620**	-
At 31 December 2016	7,416	5,583	1,126	-	14,125

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:

	2017	2016
Cost:		
At 1 January	**33,425**	31,636
Additions during the year	**401**	1,789
At 31 December	**33,826**	33,425
Accumulated depreciation:		
At 1 January	**(25,540)**	(25,445)
Charge for the year	**(176)**	(95)
At 31 December	**(25,716)**	(25,540)
Net book value:	**8,110**	7,885

The fair value of investment property at 31 December 2017 amounted to approximately USD 19 million (31 December 2016: USD 22 million).

11. DEPOSITS

Deposits as of 31 December comprise the following:

	2017	2016
Deposits by banks	**296,535**	432,159
Deposits by non-banks	**124,061**	104,936
Total	**420,596**	537,095

Included in the above are deposits raised under repurchase agreements whose carrying value as at 31 December 2017 is USD 101.9 million (31 December 2016: USD 76.7 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 2017		
	Contract Notional	**Fair value**	
	Amount	**Assets**	**Liabilities**
Held for trading			
Foreign exchange derivatives:			
Currency swaps	66,263	2	158
		2	158

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

13. OTHER LIABILITIES

Other liabilities as of 31 December comprise the following:

	2017	2016
Accounts payable and accrued expenses	**5,910**	3,999
Deferred income	**2,707**	2,487
Employees' benefits (see table below)	**10,217**	9,637
Interest payable	**928**	860
Total	**19,762**	16,983

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	
				2017	2016
At 1 January	966	7,627	1,044	**9,637**	9,011
Addition for the year	147	948	744	**1,839**	1,811
Provisions utilised	(36)	(521)	(702)	**(1,259)**	(1,185)
At 31 December	**1,077**	**8,054**	**1,086**	**10,217**	9,637

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 2017 amounted to USD 70 thousands (31 December 2016 : USD 68 thousands).

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:

	2017		2016	
	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 USD 800 million to USD 1.2 billion, and paid-up capital from USD 700 million to USD 1,050 million through the capitalization of USD 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 (%)	**2017**	2016
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 (%)	**2017**	2016
Kingdom of Saudi Arabia	15.68	**16,464**	16,464
State of Kuwait	15.68	**21,952**	16,464
United Arab Emirates (Abu Dhabi)	15.68	**-**	-
Republic of Iraq	10.48	**14,672**	11,004
State of Qatar	8.19	**11,466**	8,599
Arab Republic of Egypt	6.97	**9,758**	7,319
Syrian Arab Republic	6.97	**-**	-
The State of Libya	6.97	**2,439**	2,439
Republic of Sudan	2.68	**3,752**	2,814
Kingdom of Bahrain	1.71	**2,394**	1,795
Republic of Tunisia	1.71	**2,394**	1,791
Kingdom of Morocco	1.71	**2,394**	1,795
Sultanate of Oman	1.71	**1,197**	1,197
Republic of Lebanon	1.61	**2,254**	1,691
People's Democratic Republic of Algeria	1.61	**2,255**	1,691
The Hashemite Kingdom of Jordan	0.32	**448**	336
Republic of Yemen	0.32	**-**	-
Total	100.00	**93,839**	75,399

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.

	2017	2016
Movement of statutory reserve:		
Balance, beginning of the year	**102,001**	98,885
Additions for the year	**3,794**	3,116
Balance, end of the year	**105,795**	102,001

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 USD 22,799 thousand from retained earnings to the general reserve. The general reserve can only be used through a resolution by the board of directors.

17. FAIR VALUE RESERVE

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

	2017	2016
Equity participations		
Balance, at beginning of year	**36,522**	44,642
Change in fair value	**(6,237)**	(8,120)
Balance, at end of year	**30,285**	36,522
Securities available-for-sale		
Balance, at beginning of year	**1,641**	(3,540)
Change in fair value	**5,272**	5,181
Balance, at end of year	**6,913**	1,641
Total fair value reserve	**37,198**	38,163

18. NET FEES AND COMMISSIONS

	2017	2016
Loans	**736**	799
Trade finance	**30**	202
Islamic banking	**414**	283
Others	**(1)**	(10)
Net fees and commissions	**1,179**	1,274

All amounts in United States Dollars thousands

19. NET GAIN (LOSS) ON FINANCIAL SECURITIES

	2017	2016
Equities	**(1,490)**	229
Debt securities	**460**	1,157
Unit Trust Funds	**753**	92
Total	**(277)**	1,478

20. OTHER INCOME

	2017	2016
Recovery of loans previously written off	**2,110**	5,842
Remuneration for attending Projects Board of Directors	**250**	378
Others	**1,393**	1,171
Total	**3,753**	7,391

21. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Salaries and related benefits	**11,944**	11,770
Professional and consultancy	**1,466**	1,279
Board of directors' expenses	**760**	720
Others	**3,519**	3,419
Total	**17,689**	17,188

22. IMPAIRMENT PROVISIONS

	2017	2016
Securities	**777**	3,885
Loans and advances written back, net	**(1,532)**	(1,974)
Equity participation	**-**	1,500
Total	**(755)**	3,411

All amounts in United States Dollars thousands

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:

	2017	2016
Executive management personnel:		
End of service benefit	**2,340**	2,120

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:

	2017	2016
Board of directors' expenses	**760**	720
Board of directors' bonuses paid	**450**	375
Salaries and short-term employee benefits	**672**	639
End of service benefits	**220**	202

24. COMPARATIVE INFORMATION

Certain comparative figures have been reclassified where necessary to conform to the presentation adopted in the financial statements at 31 December 2017.

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 14 Rajab 1439H (corresponding to 31 March 2018).

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

الشركة العربية للاستثمار ش.م.ع.

THE ARAB INVESTMENT COMPANY S.A.A.

www.taic.com