THE ARAB INVESTMENT COMPANY S.A.A.

ANNUAL REPORT 2012

2012
التقرير السنوي

CONTENTS

THE ARAB INVESTMENT COMPANY

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

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

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

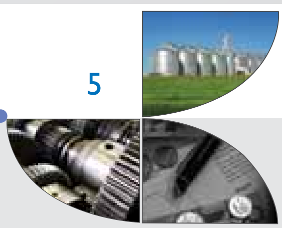
Mission Statement and Vision

Mission Statement

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

Vision

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



SUBSCRIPTION OF MEMBER COUNTRIES

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

BOARD OF DIRECTORS

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

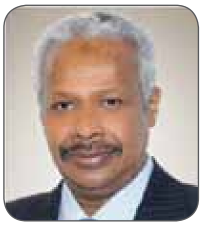
Mr. Motlaq M. Al Sani
Vice-Chairman
The State of Kuwait

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

Mr. Dhaen Mohamed Al Hameli
Board Member
The United Arab Emirates

Mr. Khadem Mohamed Al Remeithi
Board Member
The United Arab Emirates

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



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

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

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

Mr. Yusuf Abdullah Humood
Board Member
The Kingdom of Bahrain

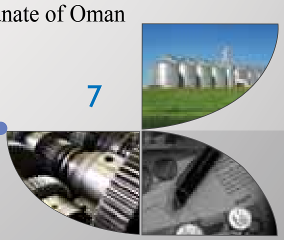
Eng. Barakat Arafat Arafat
Board Member
The Syrian Arab Republic

Dr. Fadhil Nabee Othman
Board Member
The Republic of Iraq

Dr. Lahbib Idrissi Alami
Board Member
The Kingdom of Morocco

Dr. Mohsen Ali Derregia
Board Member
The State of Libya

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



BOARD COMMITTEES

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

Higher Investment Committee

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

• Eng. Youssef Ibrahim Al-Bassam	Chairman
• Mr. Motlaq Mobarak. Al Sani	Member
• Dr. Fadhil Nabee Othman	Member
• Dr. Lahbib Idrissi Alami	Member
• Eng. Barakat Arafat Arafat	Member
• Mr. Omar Abdulaziz. Al Hamid	Member
• Mr. Khadem Mohamed Al Remeithi	Member
• Dr. Mohsen Ali Derregia	Member

Banking Committee

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

• Mr. Badr El Dine Mahmoud Abbas	Chairman
• Mr. Yusuf Abdullah Humood	Member
• Mr. Amr Aly El Garhi	Member
• Mr. Khaled Abdulaziz Al Hassoun	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 control system. This committee is composed of three Board members as follows:

• Mr. Mohammad A. Al-Jarboua	Chairman
• Mr. Ali M. Reda Haj Jaafar	Member
• Mr. Dhaen Mohamed Al Hameli	Member

EXECUTIVES

Head Office, Riyadh

Bahrain Branch

Head Office - Riyadh

Chief Executive Officer
Mr. Ibrahim H. AlMazyad

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

Bahrain Branch (Wholesale Bank)

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present to your Assembly the Annual Report of the Arab Investment Company ("TAIC") for the fiscal year ending December 31, 2012. The report reviews the Company's investment activities in project equity and banking services, highlighting the financial results achieved from these activities.

Within a continued environment of social and political transformations in several Arab countries resulting in uncertain investment environment with varied impact on the Arab region's economies, The Arab Investment Company (TAIC) observed a prudent risk management and dealt cautiously with these conditions and developments during 2012. At the end of the year net profit for the company amounted to US$ 41.1 million, while its shareholders' equity reached 948 million and its total assets US$ 2,180 million.

In the face of the unprecedented political and social changes that took place in several Arab countries and their impact on investments in the Arab region, TAIC directed its resources during the year to monitoring on-going projects portfolio in order to improve its efficiency and increase its operating and financial performance in pursuance of the Company's developmental objectives. The assessment of a number of potential investment opportunities led to the decision of participating in the capital of The Arab Jordan Investment Bank – Qatar Branch. In the meantime and as part of its responsibility to support its project portfolio, the Company increased its holdings in some projects and exited from two other projects to invest in new ones.

On the banking side, TAIC continued to offer comprehensive and diversified financial services through its banking branch in the Kingdom of Bahrain. TAIC also strived to make exceptional efforts to ensure sound and objective management of its banking assets, focusing primarily on financial resource mobilization, liquidity management, credit portfolio review, and provision of trade finance in support of economic growth efforts in the Arab region.

During 2012, TAIC pursued its endeavors that aim at boosting and developing its supporting services in the fields of IT systems and human resources while focusing on the development and training of its staff skills through their participation in a number of workshops and seminars.

While presenting this report, I would like to seize the opportunity to express my deepest appreciation and gratitude to the governments of the shareholding countries for their unwavering support to the Company. Special thanks are particularly due to the governments of the Kingdom of Saudi Arabia (the host country) and the Kingdom of Bahrain (host of the Company's banking branch) for the timely assistance they have always provided through their various agencies. Our appreciation is also extended to the Company's clients and investment partners for their valuable trust, which is a source of TAIC strength and dynamism.

I would also like to thank my fellow Board Members for their effective contributions in guiding and managing the Company, and to thank all TAIC staff for their devotion and determination to pursue the Company mission. With much optimism, we look forward to more achievements in the future by this successful pan-Arab financial institution.

Eng. Youssef Ibrahim Al Bassam

Chairman

DIRECTORS' REPORT

Arab Region Economic Review:

Economic situation in most of Arab countries in 2012 had many similarities with that recorded in 2011, reflecting negative repercussions of political and economic changes experienced by some countries on macroeconomic activity, and on investment, tourism and finance sectors in particular. In addition to this, Arab economies were impacted by the global economic activity downturn and the ramification of the Euro region crisis. These elements resulted in a state of uncertainty that clouded the economies of the region, leading to a retraction in economic growth and a decrease in economic development rates in most of these countries.

Arab economies performed in a varied proportion under global and regional pressure. Oil exporting countries recorded higher growth rates supported by higher oil prices and a better performance of their production and service sectors as a result of a more stable political and economic environment. In the meantime, oil importing countries saw their economies retract to their lowest levels. Political and social changes led a decrease in several Arab countries' sovereign and credit rating, foreign exchange volatility, foreign currency reserves retraction and a retrenchment in tourism income and a downturn in goods exports reflecting an unprecedented decrease in direct and non-direct investment inflows due to a general lack of confidence sentiment. Reflecting these transformations in the region, Arab capital markets recorded, during the year, a sharp disparity in their performances with a decrease in these markets' capitalization in countries that were affected by political and social tumults. In the meantime, more stable Arab countries showed better results in their capital values.

Arab Jordan Investment Bank (Jordan)

TAIC 2012 Review:

Within an environment of social and political transformations in several Arab countries in 2012, together with the resulting direct and indirect effects on their respective economies, The Arab Investment Company (TAIC) strived to mitigate the reverberations of these changes on its activities in both equity participation and financial services. The Arab Investment Company remains keen on cooperating and coordinating with Arab financial institutions, pan-Arab joint stock companies, investment guarantee and export promoting institutions, Arab chambers of commerce and industry, and investment promoting agencies in Arab countries. In this respect, the Company sought to identify, study and elaborate viable investment opportunities in fulfillment of

Kenana Sugar Company (Sudan)

its objectives set forth by its charter and memorandum of association. In its endeavor to achieve these goals, TAIC observed a prudent risk management and dealt cautiously with the uncertain economic climate that prevailed in most Arab countries.

Significant developments in some of TAIC's activities and financial results during 2012 are provided below:

I- The Company's Management:

During 2012 the Company's General Assembly approved the nomination of the new Board of Directors for the Company in its 13th session. In turn, the Board formed its specialized committees from within its members. These organs are the Higher Investment Committee, Banking Committee and Audit Committee. These committees played their role and reported to the Board on the Company's performance. During the year, the Board held five meetings, two in TAIC Head Office in Riyadh, Kingdom of Saudi Arabia, two meetings in the city of Dubai, United Arab Emirates and one meeting in the Kingdom of Bahrain. The Board pursued its regulatory and supervisory role while steering the Company's activities to ensure the Company made optimal use of its resources despite the difficult conditions experienced by some Arab countries hosting a number of the Company's projects and where TAIC conducts its activities.

II- 2012 Financial Results:

The Company's total operating income from various activities of the company amounted to US$ 83.5 million in 2012, compared to US$ 67.5 million in 2011, an increase of 24%. Net profit for the year amounted to US$ 41.1 million against US$ 26.2 million the previous year, an increase of 57%. In addition, the Company was able to increase its shareholders' equity by 6% from US$ 895 million in 2011 to US$ 948 million at the end of 2012. Total assets amounted to US$ 2,180 million against US$ 2,110 the previous year, with an increase of 3%. The Board of Directors proposes the transfer of profits to the retained earnings in order to enhance the Company's reserves and its financial position.

III- TAIC's Equity Investment Activities

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

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

In the face of the unprecedented political and social changes that took place in several Arab countries and their fallouts on different economic sectors, TAIC adopted a highly prudent and conservative policy in its investment decisions. Accordingly, TAIC directed most of its resources during the year to monitor existing projects and to identifying viable investment opportunities. The assessment of a number of investment projects led to the decision of participating in the capital of The Arab Jordan Investment Bank – Qatar Branch by US$ 8.7 million, which represents 15% of the bank's capital. In addition to this, the Company increased its holdings in Saudi International Petrochemical Company (Sipchem) in the Kingdom of Saudi Arabia by US$ 7 million, and paid its share in the capital increase of Berber Cement Company in the Republic of Sudan amounting to US$ 1.6 million. In line with its investment and divestment policy, TAIC sold its shares in the Société Arabe Internationale de Leasing in the Republic of Tunisia and in Al-Ahsa Medical Services Company in the Kingdom of Saudi Arabia, both resulting in capital gains amounting to US$ 3.24 million.

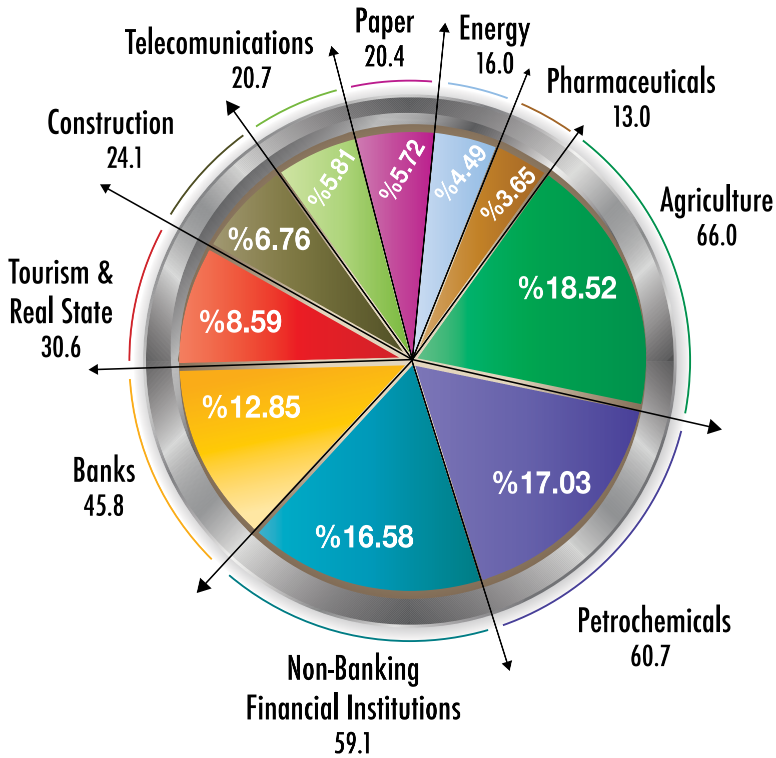
Saudi International Petrochemical Company (Sipchem) Saudi Arabia

At the end of the year, TAIC's investment portfolio included 34 projects, spread geographically over 13 Arab states and distributed over 10 sectors, namely agriculture, petrochemicals, non-banking financial institutions, banks, tourism and real estate, construction, telecommunications, paper, energy and pharmaceuticals. The total paid-up capital of these projects amounted to US$ 7.8 billion and shareholders' equity totaled US$ 12.2 billion. TAIC's initial investments in these projects totaled US$ 356.4 million, representing 51% of its paid-up capital. TAIC's equity investments play an important role in supporting economic growth in host countries, through contributing to the creation of employment opportunities, acquiring sophisticated technologies, harnessing natural resources and increasing their added value, and benefiting from comparative advantages enjoyed by these countries.

The following is a summary of the Company's projects portfolio by sector as of 31/12/2012:

Sector	Historical Cost (US$ M)	Percentage to Total Equity Portfolio
Agricultural	66.00	18.52%
Petrochemical	60.70	17.03%
Non-banking Financial Institutions	59.10	16.58%
Banking	45.80	12.85%
Tourism & Real Estate	30.60	8.59%
Construction	24.10	6.76%
Telecommunication	20.70	5.81%
Paper	20.40	5.72%
Energy	16.00	4.49%
Pharmaceutical	13.00	3.65%
TOTAL PORTFOLIO	356.40	100.00%

Sectoral Distribution of Projects as of 31/12/2012 (US$ Million)



TAIC's Projects Portfolio Holdings

(As at December 31, 2012)

	Company Participation	Country	Initial Equity (US$ M)	Share %
Agricultural Sector				
1	Kenana Sugar Company	The Republic of Sudan	62.40	6.99%
2	The Arab Co. for Livestock Development	Pan-Arab Company	3.60	1.67%
	TOTAL		**66.00**	**18.52%**
Petrochemical Sector				
3	**Saudi International Petrochemical Company (Sipchem)**	**The Kingdom of Saudi Arabia**	**25.00**	**2.30%**
4	The Arab Company for Detergent Chemicals	The Republic of Iraq	7.00	6.00%
5	Egyptian Propylene & Polypropylene Company	The Arab Republic of Egypt	28.70	10.00%
	TOTAL		**60.70**	**17.03%**
Non-Banking Financial Sector				
6	**Taager Leasing Company**	**The Sultanate of Oman**	**7.90**	**18.79%**
7	**Maroc Leasing**	**The Kingdom of Morocco**	**4.70**	**5.74%**
8	Allianz Insurance Co.	The Arab Republic of Egypt	0.90	10.00%
9	Arab Trade Financing Programme	Pan-Arab Company	2.00	0.44%
10	Arab Leasing Company	The People's Democratic Republic of Algeria	10.70	25.00%
11	Middle East Company for Financial Investment	The Kingdom of Saudi Arabia	16.00	15.00%
12	International Company for Leasing (Incolease)	The Arab Republic of Egypt	7.90	10.00%
13	The Arab Leasing Company LTD.	The Republic of Sudan	9.00	30.00%
	TOTAL		**59.10**	**16.58%**
Banking Sector				
14	**Société Tunisienne de Banque**	**The Republic of Tunisia**	**1.90**	**0.43%**
15	**The Arab Jordan Investment Bank**	**The Hashemite Kingdom of Jordan**	**11.90**	**10.25%**
16	**Arab Banking Corporation**	**The Kingdom of Bahrain**	**15.70**	**0.42%**
17	**Financial Investment Bank**	**The Republic of Sudan**	**4.40**	**20.80%**
18	Arab Banking Corporation – Algeria	The People's Democratic Republic of Algeria	8.70	15.00%
19	The Arab Jordan Investment Bank - Qatar	The State of Qatar	3.20	4.18%
	TOTAL		**45.80**	**12.85%**

Listed companies in local financial markets

Company Participation		Country	Initial Equity (US$ M)	Share %
Tourism and Real Estate Sector				
20	**Arab International Hotels Company**	**The Hashemite Kingdom of Jordan**	**7.80**	**8.36%**
21	Syrian Arab Company for Hotels and Tourism	The Syrian Arab Republic	2.30	20.45%
22	Saudi Hotel Services Co.	The Kingdom of Saudi Arabia	5.80	20.00%
23	Arab International Company for Hotels and Tourism	The Arab Republic of Egypt	12.70	13.62%
24	Société Riad Swalem	The Kingdom of Morocco	2.00	33.00%
TOTAL			**30.60**	**8.59%**
Construction Sector				
25	The Arab Mining Co.	Pan-Arab Company	2.20	1.10%
26	Arab Company for Special Steel	The Arab Republic of Egypt	5.00	5.49%
27	Berber Cement Company	The Republic of Sudan	16.90	16.40%
TOTAL			**24.10**	**6.76%**
Telecommunication Sector				
28	**SUDATEL Telecommunications Group LTD**	**The Republic of Sudan**	**20.70**	**2.18%**
TOTAL			**20.70**	**5.81%**
Paper Sector				
29	Cellulose du Maroc	The Kingdom of Morocco	2.90	26.67%
30	**Jordan Paper & Cardboard Manufacturing Company**	**The Hashemite Kingdom of Jordan**	**17.50**	**27.31%**
TOTAL			**20.40**	**5.72%**
Energy Sector				
31	National Trigeneration CHP Company	The Kingdom of Saudi Arabia	16.00	9.98%
TOTAL			**16.00**	**4.49%**
Pharmaceutical Sector				
32	Pharmaceutical Solution Industries Company Ltd.	The Kingdom of Saudi Arabia	5.10	19.01%
33	The Arab Company for Antibiotics Industry	The Republic of Iraq	6.90	12.40%
34	Société Arabe des Industries Pharmaceutiques	The Republic of Tunisia	1.00	4.02%
TOTAL			**13.00**	**3.65%**
Project Portfolio Grand Total			**356.40**	**100.00%**

Listed companies in local financial markets

Geographical Distribution of TAIC's Projects

As of 31/12/2012

IV- TAIC's Investment Activities in Financial Services:

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

Global and regional financial markets experienced difficult conditions in 2012 reflecting the negative impact of the global financial crisis arising out of an unstable credit environment and a significant contraction in interbank medium term deposits together with the negative sentiment that followed the political tumults in some parts of the Arab region and the downgrading of the rating of several Arab countries. In face of these conditions and their impact on investment climate, the branch recorded good results as a result of sound and objective management of its banking assets, resource mobilization, liquidity management being a requirement in such a critical period, and closely monitoring credit and investment portfolios according to international accounting standards and directives from relevant regulatory authorities. The branch also played an active role in financing trade transactions in several Arab countries to support private sector institutions and development projects in these countries.

4/1- Banking activity results at the end of 2012:

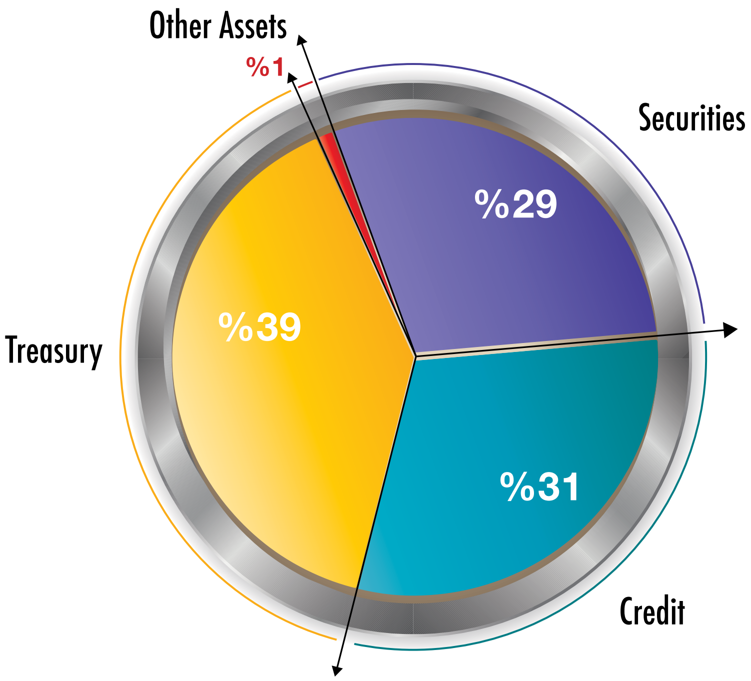
Total banking assets amounted to US$ 1,852 million at the end of 2012 against US$ 1,776 million the previous year, reflecting an increase of 4.3%. The Company was instrumental in achieving this growth rate from its banking assets despite the slowdown in economic activity in the region, global financial crisis fallouts, credit crisis in Europe and political transformations in some Arab countries.

The following table shows the components of the different banking assets at the end of 2012:

Banking Assets	(US$ Million)	% of Total Assets
Securities	539	29%
Credit	574	31%
Treasury	724	39%
Other assets	15	1%
TOTAL	**1,852**	**100%**

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

Banking Assets To Total Assets as of 31/12/2012



4/2- Banking activity performance:

a) Treasury & Securities:

Treasury department performed its tasks of mobilizing financial resources, building quality investment portfolio, minimizing risk exposure, and optimizing profitability in an environment of shrinking liquidity and declining interest rates. Accepted deposits from clients, financial institutions and government entities amounted to US$ 1,207 million at the end of the year against US$ 1,185 million the previous year, with an increase of 2%. Placements with banks and financial institutions amounted to US$ 724 million against US$ 638 million in 2011, an increase of 13%. The volume of investment portfolio in securities stood at US$ 539 million at the end of the year against US$ 471 million the previous year, an increase of 15%. The branch was keen to maintaining a secure volume of liquidity to enable it to deal with global market changes.

b) Credit Facilities:

Credit Department provides conventional and Sharia Compliant loans and credit facilities to clients directly or through participation in syndicated facilities for different purposes. In addition, the Department also finances inter-Arab trade as well as trade among Arab countries and their non-Arab trade partners. These transactions include opening, advising, confirming and refinancing letters of credit, discounting commercial papers and financing pre-export production needs. At the year-end, the outstanding balance of the credit and financing portfolio stood at US$ 574 million (after provisions) against US$ 644 million, a decrease of 11%.

V-Supporting Services

During 2012, the Company continued to interact with its changing environment through developing and upgrading its supporting services, including information technology and human resources as follows:

5/1 Information Technology System Development:

During 2012, TAIC pursued the implementation of its IT systems development plan in order to complete upgrading the whole infrastructure and shifting to the use of a virtual environment and central storage. This shift helped increase the efficiency of applications and software and accelerated daily processing of transaction data. The Company also completed the implementation of the second phase of IT development plan that includes risk management, foreign trade finance and virtual system applications. IT department completed the direct linkage process of its major systems in Bahrain branch to Riyadh Head Office. This development plan was accompanied by a full policies and procedures upgrading to boost the safety and protection of the Company's data from any kind of breaches. It also reflected in a better performance and cost efficiency of various applications serving human resources, equity projects, budgeting and data storage and retrieval. The new infrastructure will help provide timely and accurate information that supports proper decision-making as it accommodates all banking activities, including treasury, credit, risk management, financial reporting and financial analysis. IT staff were properly trained to handle the new systems and their various applications.

5/2 Human Resource Development:

Guided by its firm belief that staff efficiency is the key to success in any institution, and in accordance with its HR development policy, TAIC continued in 2012 the development and training of its staff in both its Head Office in Riyadh and Bahrain branch. Training covered the enrolment of the Company's staff members in workshops and seminars pertinent to money market, financial analysis, risk management, information systems and security and IT virtual operating applications. TAIC staff also actively participated during the year in various Arab economic conferences and seminars, where they gained knowledge and experience and built good working relationships with other Arab financial institutions. Among these events were the annual meeting of the Arab Monetary Fund governors in Marrakesh, the annual meeting of the Islamic Development Bank in Khartoum, Deutsche Bank conference for investors in MENA region in Abu Dhabi, the Regional Meeting for the Middle East in Dubai, the 13th meeting of Gulf Industrialists in Riyadh, the Saudi Forum for Small and Medium Enterprises, the Leasing Forum in Riyadh and the Middle East Forum for financial and Banking Systems in Dubai.

VI - Institutional Management

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

6/1 Corporate Governance:

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

- Strengthening the supervisory role of the Board of Directors as the policy maker of the Company and regulator of ways and means of implementing policies. To this end, the Board relies on its committees to help fulfill its responsibilities.
- Selection of well reputed and professionally experienced international external auditors to review and audit the Company's financial statements.
- Strengthening internal audit role to ensure adequate internal controls.
- Setting-up internal committees with varied functions and authorities to facilitate business management according to the best business practices and institutional governance requirements.
- Compliance with regulations governing the Company's activities, including Board of Directors by-laws, equity participation regulations, banking regulations, financial regulations, audit rules, anti-money laundering and combating the financing of terrorism regulations, procurement regulations and staff bylaws.
- Transfer of the Company's corporate culture and professional experience to the Boards of Directors and executive managements of projects in which the Company holds stakes. This culture includes developing business plans, issuing clear corporate by-laws, enhancing internal controls, enforcing accountability, and segregation between supervisory and executive roles in managing these projects.

6/2 Risk Management

TAIC has always adopted a prudent and conservative approach, where gain realization and risk appetite are balanced, with strong commitment to transparency and disclosure in all accounting statements and reporting. Precautionary procedures are constantly maintained through the adoption of a collective approach in decision-making in accordance with proper hierarchy and in full compliance with the Company's regulations, rules and bylaws that provide a solid basis for internal controls.

In pursuing this methodology, TAIC presents periodic reports pertaining to its financial service activities to both Saudi Arabian Monetary Agency and Central Bank of Bahrain. The company is also fully committed to complying with Basel requirements through the promotion of a unified risk management approach and the adoption of basic index method for operational risks. The Company's risk assessment approach encompasses as well credit risks, market risks, operational risks, liquidity and interest rate risks and credit concentration risks.

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

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

FINANCIAL RESULTS

Financial Statement as of
December 31, 2012

ERNST & YOUNG

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Registration No. 45

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

We have audited the accompanying financial statements of The Arab Investment Company S.A.A. (the "Company"), which comprise the statement of financial position as at 31 December 2012 and the statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

for Ernst & Young

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

ERNST & YOUNG
PROFESSIONAL LICENCE No. 45

Riyadh: 11 Jamad Awal 1434H
(23 March 2013)

STATEMENT OF FINANCIAL POSITION
As of 31 DECEMBER 2012
All amounts in United States Dollars thousands

	Notes	2012	2011
ASSETS			
Cash and deposits with banks	5	**724,203**	640,304
Investments:			
Securities	6	**548,371**	479,966
Equity participations	7	**297,651**	299,855
Loans and advances	8	**574,712**	643,964
Property and equipment	9	**14,096**	14,385
Investment property	9	**5,329**	5,439
Other assets	10	**17,822**	26,724
TOTAL ASSETS		**2,182,184**	2,110,637
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits	11	**1,206,621**	1,184,544
Derivative financial instruments	12	**1,207**	2,029
Other liabilities	13	**25,937**	28,744
TOTAL LIABILITIES		**1,233,765**	1,215,317
SHAREHOLDERS' EQUITY			
Share capital	14	**700,000**	700,000
Statutory reserve	15	**87,703**	83,594
Retained earnings		**90,396**	53,867
Fair value reserve	17	**70,320**	57,859
TOTAL SHAREHOLDERS' EQUITY		**948,419**	895,320
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,182,184**	2,110,637

Chairman of the Board	Chief Executive Officer	Director of Finance
Engineer / Yousef Ibrahim Al-Bassam	Ibrahim Hammoud Al-Mazid	Sami Yusuf Mohamed

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

STATEMENT OF INCOME
Year ended 31 December 2012
All amounts in United States Dollars thousands

	Notes	2012	2011
INCOME			
Interest income		**49,469**	47,084
Interest expense		**(9,453)**	(9,411)
Net interest income		**40,016**	37,673
Gain on sale of equity participations		**3,244**	-
Dividends		**15,193**	11,630
Net gain on derivative financial instruments		**1,584**	2,226
Net fees and commissions	18	**8,492**	6,233
Net gain on investments	19	**7,931**	4,183
Net foreign exchange loss		**(1,017)**	(29)
Rental income		**4,336**	4,107
Other income		**3,710**	1,456
Total operating income		**83,489**	67,479
EXPENSES			
General and administrative	20	**(18,939)**	(20,159)
Provisions	21	**(23,462)**	(21,104)
Total operating expenses		**(42,401)**	(41,263)
PROFIT FOR THE YEAR		**41,088**	26,216

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

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2012
All amounts in United States Dollars thousands

	Notes	2012	2011
Profit for the year		**41,088**	26,216
Other comprehensive income			
Net fair value movement during the year	17	**12,461**	(14,959)
Total comprehensive income		**53,549**	11,257

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Year ended 31 December 2012
All amounts in United States Dollars thousands

	Notes	Share capital	Statutory reserve	Retained earnings	Proposed dividend	Fair value reserve	**Total**
Balance at 31 December 2010		700,000	80,972	30,778	35,000	72,818	**919,568**
Net profit for the year 2011		-	-	26,216	-	-	**26,216**
Other comprehensive income		-	-	-	-	(14,959)	**(14,959)**
Total comprehensive income		-	-	26,216	-	(14,959)	**11,257**
Transfer to statutory reserve	15	-	2,622	(2,622)	-	-	**-**
Dividends paid	16	-	-	-	(35,000)	-	**(35,000)**
Board of directors' bonuses paid		-	-	(505)	-	-	**(505)**
Balance at 31 December 2011		700,000	83,594	53,867	-	57,859	**895,320**
Net profit for the year 2012		-	-	41,088	-	-	**41,088**
Other comprehensive income		-	-	-	-	12,461	**12,461**
Total comprehensive income		-	-	41,088	-	12,461	**53,549**
Transfer to statutory reserve	15	-	4,109	(4,109)	-	-	**-**
Board of directors' bonuses paid		-	-	(450)	-	-	**(450)**
Balance at 31 December 2012		**700,000**	**87,703**	**90,396**	**-**	**70,320**	**948,419**

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

STATEMENT OF CASH FLOWS
Year ended 31 December 2012
All amounts in United States Dollars thousands

	Notes	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**41,088**	26,216
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of equity participations		**(3,869)**	-
Impairment of available for sale securities	21	**563**	701
Impairment on loans and advances	21	**16,899**	15,403
Impairment on equity participations	21	**6,000**	5,000
Gain on sale of investments		**(5,986)**	(2,700)
Amortisation of discount		**(1,923)**	(978)
Depreciation	9	**1,224**	1,099
Gain on sale of property and equipment	9	**-**	(48)
		53,996	44,693
Changes in operating assets and liabilities:			
Financial assets at fair value through income statement		**(11,168)**	(91)
Loans and advances, net		**52,353**	(108,002)
Other assets		**8,902**	(4,052)
Deposits		**22,077**	(84,943)
Derivative financial instruments		**(822)**	(2,562)
Other liabilities		**(2,807)**	2,443
Net cash from (used in) operating activities		**122,531**	(152,514)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds (addition) from sale and purchase of investment securities		**(28,538)**	(91,950)
Purchase of equity participation		**(22,477)**	(2,220)
Proceeds from disposal of equity participations		**13,658**	-
Additions to property and equipment and investment properties	9	**(825)**	(1,147)
Proceeds from sale of property and equipment		**-**	48
Net cash used in investing activities		**(38,182)**	(95,269)

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

STATEMENT OF CASH FLOWS (continued)
Year ended 31 December 2012
All amounts in United States Dollars thousands

	Notes	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES			
Board of directors' bonuses paid		**(450)**	(505)
Dividends paid		**-**	(35,000)
Net cash used in financing activities		**(450)**	(35,505)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**83,899**	(283,288)
Cash and cash equivalents, beginning of the year	5	**640,304**	923,592
CASH AND CASH EQUIVALENTS, END OF THE YEAR	5	**724,203**	640,304
Supplemental non cash information			
Net change in fair value reserve	17	**12,461**	(14,959)
Interest income received		**57,844**	41,928
Interest expense paid		**(13,460)**	(11,964)
Dividends received		**16,296**	12,854

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012
All amounts in United States Dollars thousands

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies

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

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

(b) Transactions and balances

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

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

(c) Sale and repurchase agreements

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

2.2.2 Financial assets

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

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

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

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

- Financial assets held for trading

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

2.2.2 Financial assets (continued)

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

- Financial assets held for trading (continued)

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.

- 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 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

2.2.2 Financial assets (continued)

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

than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

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

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

Available-for-sale financial assets are those that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or that are not classified as loan and receivables, held to maturity investments or financial assets at fair value through income statement.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income, except for impairment losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the statement of income. However, interest calculated using the effective interest 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

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

2.2.3 Financial liabilities

The Company's financial liabilities are carried at amortised cost. Financial liabilities are derecognised when extinguished.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

2.2.3 Financial liabilities (continued)

(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.

2.2.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.2.5 Derecognition of financial assets and liabilities

(a) Financial assets

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

2.2.5 Derecognition of financial assets and liabilities (continued)

(a) Financial assets (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.

2.2.6 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.

2.2.7 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

2.2.7 Interest income and expense (continued)

financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

2.2.8 Fees and commission income

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

2.2.9 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.

2.2.10 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

2.2.10 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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

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

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

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

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

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

(b) Assets classified as available-for-sale

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

2.2.10 Impairment of financial assets (continued)

(b) Assets classified as available-for-sale (continued)

objectively related to an event occurring after the impairment loss was recognised in the statement of income, the impairment loss is reversed through the statement of income.

(c) Renegotiated loans

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

2.2.11 Property and equipment

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

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

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

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

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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

2.2.12 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

2.2.12 Investment property (continued)

accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the statement of income during the financial period in which they are incurred.

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

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

2.2.13 Cash and cash equivalents

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

2.2.14 Provisions

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

2.2.15 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 income statement in the year to which they relate. In respect of these plans, the Company has a legal and constructive obligation to pay the contributions as they fall due and no obligations exist to pay the future benefits.

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 branches.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

2.2.16 Accounting for leases

(a) Where the Company is the lessee

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

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

(b) Where the Company is the lessor

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

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

2.3 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2012:

IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Company>s financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity>s continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Company does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

The following interpretations of published standards are mandatory for accounting periods beginning on or after 1 January 2012 but are not relevant to the Company’s operations:

IAS 12 Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012); and

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (effective for annual periods beginning on or after 1 July 2011).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Standards and interpretations 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.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. However, the amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

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

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g, collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation - Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Company's financial position or performance.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Annual Improvements May 2012

These improvements will not have an impact on the Company, but include:

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

These improvements are effective for annual periods beginning on or after 1 January 2013.

3. FINANCIAL RISK MANAGEMENT

The Company's activities are exposed to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

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

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk

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

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

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

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

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

3.1.1 Credit risk measurement

(a) Loans and advances

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

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.1 Credit risk measurement (continued)

(a) Loans and advances (continued)

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

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

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.1 Credit risk measurement (continued)

(b) Debt securities and other bills

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

(c) Derivatives

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

(d) Credit-related commitments

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

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

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

3.1.2 Risk limit control and mitigation policies

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

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.2 Risk limit control and mitigation policies (continued)

level of credit risk by product, industry sector and by country are approved by the Board of Directors.

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

(a) Collateral

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

(b) Settlement risk

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

(c) Master netting arrangements

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

3.1.3 Impairment and provisioning policies

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

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.3 Impairment and provisioning policies (continued)

	Percentage			
	2012		2011	
	Loans and advances %	**Impairment Provision %**	Loans and advances %	Impairment Provision %
Regular	**81**	**1**	82	1
Watch	**-**	**-**	4	-
Sub-Standard	**1**	**18**	1	20
Doubtful	**5**	**55**	5	54
Loss	**13**	**71**	8	73
	100		100	

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

	Maximum Exposure	
	2012	2011
Credit risk exposures relating to funded exposures are as follows:		
Deposits with banks	**724,200**	640,299
Overdrafts	**99,465**	98,910
Loans and advances to banks	**408,503**	417,772
Loans and advances to non banks	**66,744**	127,282
Trading debt securities	**3,988**	8,602
Investment debt securities	**493,460**	435,989
Interest receivable	**10,903**	19,001
	1,807,263	1,747,855
Credit risk exposures relating to non-funded exposures are as follows:		
Contingent liabilities		
Forward purchase securities	**718**	-
Loan commitments	**-**	44,167
Letters of credit commitments	**66,367**	99,055
Credit derivatives - Unfunded credit default swaps	**-**	23,000
At 31 December	**1,874,348**	1,914,077

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 before collateral held or other credit enhancements (continued)

The above table represents a worst case scenario of credit risk exposure to the Company at 31 December 2012 and 2011, without taking account of any collateral held or other credit enhancements attached. For funded assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 31% of the total maximum exposure is derived from loans and advances (including overdrafts) to banks and non banks at 31 December 2012 (2011: 34%);

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:

- 81% of the overdraft, loans and advances portfolio is categorised in the first grade of the internal rating system - regular grade at 31 December 2012 (2011: 82 %);
- 81% of the gross loans and advances portfolio are considered to be neither past due nor impaired at 31 December 2012 (2011: 86%); and
- 58% of the debt securities have at least a credit rating of A – (as rated by Standard & Poor's or its equivalent) at 31 December 2012 (2011: 56%).

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 2012					
Deposit with banks	724,203	-	-		**724,203**
Debt securities	496,234	-	-	6,200	**502,434**
Loans and advances					
- Overdrafts	99,465	-	-	-	**99,465**
- Loans and advances to banks	389,423			33,333	**422,756**
- Loans and advances to non-banks	48,374	-	-	94,785	**143,159**
Interest receivable and other assets	10,903		-	-	**10,903**
	1,768,602	**-**	**-**	**134,318**	**1,902,920**

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 2011					
Deposit with banks	640,299	-	-	-	640,299
Debt securities	443,141	-	-	21,200	464,341
Loans and advances			-		
- Overdrafts	98,910	-	-	-	98,910
- Loans and advances to banks	430,738	30,000	-	30,803	491,541
- Loans and advances to non-banks	56,071	-	-	71,211	127,282
Interest receivable and other assets	18,924	77	-	-	19,001
	1,688,083	30,077	**-**	123,214	1,841,374

Amounts in respect of debt securities are disclosed before collective impairment of US$ 5 million on 31 December 2012 (2011: US$ 7.5 million).

The total impairment provision for loans and advances as at 31 December 2012 is US$ 90.67 million (2011: US$ 73.77 million). Further information of the impairment allowance for overdrafts, loans and advances is provided in Note 8.

Total impairment provision for debt securities as at 31 December 2012 is US$ 6.2 million (2011: US$ 21.2 million)

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

Financial assets less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Financial assets more than 90 days past due are considered impaired unless there is available information to indicate the contrary, such as availability of sufficient collateral or pledged securities.

(b) Financial assets renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated financial assets that would otherwise be past due or impaired totalled US$ 8.5 million at 31 December 2012 (2011: US$ 7.6 million).

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 2012 and 2011, based on Standard & Poor's rating or its equivalent:

31 December 2012	FVIS	Available for sale securities	Held to maturity securities	**Total**
A to A+	-	176,873	111,13	**288,003**
Lower than A-	3,988	156,612	9,543	**170,143**
Unrated	-	34,254	5,048	**39,302**
Total	**3,988**	**367,739**	**125,721**	**497,448**

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

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.7 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

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

	Gulf	Other Arab countries	Asia	Western Europe and USA	**Total**
Deposits with banks	576,774	11,376	57,625	78,428	**724,203**
Overdrafts	-	99,465	-	-	**99,465**
Loans & advances	68,152	194,881	23,821	188,393	**475,247**
Debt securities	179,895	11,044	66,222	240,287	**497,448**
Interest receivable and other assets	3,948	4,270	943	1,742	**10,903**
At 31 December 2012	**828,769**	**321,036**	**148,611**	**508,850**	**1,807,266**
At 31 December 2011	778,962	364,040	148,525	456,328	**1,747,855**
Non-funded exposures:					
At 31 December 2012	**2,157**	**64,757**	**-**	**171**	67,085
At 31 December 2011	63,554	68,668	29,000	5,000	**166,222**

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk

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

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

(a) Interest rate risk

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

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company takes exposures which are subject to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

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

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

(a) Interest rate risk (continued)

	USD 100BP	EUR 100BP	AED 100BP	SAR 100BP	JOD 100BP	QAR 100BP	Other 100BP	Total
Interest rate risk 2012								
Financial assets:								
Deposit with banks	5,119	40	1,423	145	113	201	91	**7,132**
Overdrafts, loans and advances	1,437	1,561	3	-	-	-	64	**3,065**
Debt securities	1,163	1,232	-				23	**2,418**
Impact of Financial Assets	**7,719**	**2,833**	**1,426**	**145**	**113**	**201**	**178**	**12,615**
Financial liabilities:								
Deposits	(7,897)	(1,736)	(15)	(443)	(113)	-	-	**(10,204)**
Impact of Financial Liabilities	**(7,897)**	**(1,736)**	**(15)**	**(443)**	**(113)**	-	-	**(10,204)**
Impact on the results of the Company	**(178)**	**1,097**	**1,411**	**(298)**	-	**201**	**178**	**2,411**

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

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

(b) Equity price risk

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

	2012			2011		
Equity classification	**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**	**±1,846**	**-**	±10	±267	-
Available for sale equity	**±10**	**-**	**±2,416**	±10	-	±2,389
Equity participations - quoted	**±10**	**-**	**±12,800**	±10	-	±12,092

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$ 178.9 million (2011: US$ 185.6 million)

(c) Foreign exchange risk

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

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

(c) Foreign exchange risk (continued)

Concentrations of currency risk - financial instruments:

As at 31 December 2012	USD	EUR	AED	SAR	JOD	GBP	Others	Total
Cash and deposits with banks	514,359	6,922	142,377	15,856	11,359	9,294	24,036	**724,203**
Financial assets at fair value through income statement	14,599	-	-	3,846	-	-	4,004	**22,449**
Investments securities:								
-Available for sale	294,449	70,606		14,260	-	-	20,886	**400,201**
-Held to maturity	71,689	53,984		-	-	-	48	**125,721**
Overdrafts, loans and advances	324,320	204,865	305	38,798		-	6,424	**574,712**
Equity participation	78,291	-	-	74,998	28,901	-	115,461	**297,651**
Other assets	8,347	484	95	7,745	17	1	-	**16,689**
Total financial assets	**1,306,054**	**336,861**	**142,777**	**155,503**	**40,277**	**9,295**	**170,859**	**2,161,626**
Derivative financial instruments	(1,207)	-	-	-	-	-	-	**(1,207)**
Deposits	(820,850)	(273,429)	(30,116)	(60,703)	(11,287)	(9,292)	(944)	**(1,206,621)**
Other liabilities	(2,825)	(2,476)	(972)	(12,906)	(15)	(1)	(1,491)	**(20,686)**
Total financial liabilities	**(824,882)**	**(275,905)**	**(31,088)**	**(73,609)**	**(11,302)**	**(9,293)**	**(2,435)**	**(1,228,514)**
Net open position	**481,172**	**60,956**	**111,689**	**81,894**	**28,975**	**2**	**168,424**	**933,112**
Credit commitments	**1,911**	**33,324**	**15,672**	**16,178**	-	-	-	**67,085**
As at 31 December 2011								
Total financial assets	1,357,354	317,919	64,096	156,995	51,440	9,352	132,650	2,089,806
Total financial liabilities	(727,383)	(325,149)	(43,124)	(74,048)	(9,882)	(9,345)	(12,310)	(1,201,241)
Net open position	629,971	(7,230)	20,972	82,947	41,558	7	120,340	888,565
Credit commitments	53,450	39,634	24,104	49,028	-	-	4	166,222

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

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk

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

3.3.1 Liquidity risk management process

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

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

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

3.3.2 Non-derivative cash flows

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

	Contractual maturity dates			
As at 31 December 2012	**1-3 months**	**3-12 months**	**Over 12 months**	**Total**
Liabilities				
Deposits	828,998	377,623	-	**1,206,621**
Other liabilities	4,107	5,239	-	**9,346**
Total liabilities	833,105	382,862	-	**1,215,967**

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.2 Non-derivative cash flows (continued)

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

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, deposits with banks, items in the course of collection, loans and advances to banks; and loans and advances to customers. The Company would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources.

3.3.3 Derivative cash flows

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

	Up to 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Total**
As at 31 December 2012					
Derivatives held for trading					
Foreign exchange derivatives:					
Outflow	167,889	63,711	-	-	**231,600**
Inflow	167,407	63,708	-	-	**231,115**
Interest rate derivatives:					
Outflow	-	-	500	500	**1,000**
Inflow	-	68	205	274	**547**
Total outflow	**167,889**	**63,711**	**500**	**500**	**232,600**
Total inflow	**167,407**	**63,776**	**205**	**274**	**231,662**

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.3 Derivative cash flows (continued)

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

3.3.4 Maturity analysis of assets and liabilities

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

As at 31 December 2012	Less than 12 months	Over 12 months	No fixed maturity	Total
ASSETS				
Cash and deposits with banks	724,203	-	-	**724,203**
Investments:				
Securities	126,138	394,503	27,730	**548,371**
Equity participations	-	-	297,651	**297,651**
Loans and advances	477,801	96,911	-	**574,712**
Property and equipment	-	-	14,096	**14,096**
Investment property	-	-	5,329	**5,329**
Other assets	17,822	-	-	**17,822**
TOTAL ASSETS	**1,345,964**	**491,414**	**344,806**	**2,182,184**
LIABILITIES				
Deposits	1,206,621	-	-	**1,206,621**
Derivative financial instruments	794	413	-	**1,207**
Other liabilities	8,627	2,412	14,898	**25,937**
TOTAL LIABILITIES	**1,216,042**	**2,825**	**14,898**	**1,233,765**
NET	**129,922**	**488,589**	**329,908**	**948,419**

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.4 Maturity analysis of assets and liabilities (continued)

As at 31 December 2011	Less than 12 months	Over 12 months	No fixed maturity	Total
ASSETS				
Investments:				
Securities	107,988	360,389	11,589	479,966
Equity participations	-	-	299,855	299,855
Loans and advances	467,797	176,167	-	643,964
Property and equipment	-	-	14,385	14,385
Investment property	-	-	5,439	5,439
Other assets	26,724	-	-	26,724
TOTAL ASSETS	1,242,813	536,556	331,268	2,110,637
LIABILITIES				
Deposits	1,116,244	68,300	-	1,184,544
Derivative financial instruments	1,616	413	-	2,029
Other liabilities	7,858	3,358	17,528	28,744
TOTAL LIABILITIES	1,125,718	72,071	17,528	1,215,317
NET	117,095	464,485	313,740	895,320

3.4 Fair value of financial assets and liabilities

(a) Financial instruments measured at fair value

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

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

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value of financial assets and liabilities (continued)

(a) Financial instruments measured at fair value (continued)

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

(b) Fair value hierarchy

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

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments quoted on exchanges.
- **Level 2** – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- **Level 3** – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

Assets and liabilities measured at fair value

31 December 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through income statement				
- Debt securities	3,988	-	-	**3,988**
- Equity securities	18,460	-	-	**18,460**
Available for sale financial assets				
- Equity securities	9,269	-	-	**9,269**
- Debt securities	351,975	15,763	-	**367,738**
- Investment funds	-	23,194	-	**23,194**
- Equity participations	118,768	-	178,883	**297,651**
- Derivative assets	-	306	-	**306**
Total assets	**502,460**	**39,263**	**178,883**	**720,606**
Financial liabilities at FVIS				
- Derivative financial instruments	-	1,207	-	1,207
Total liabilities	-	**1,207**	**-**	**1,207**

31 December 2011	Level 1	Level 2	Level 3	Total
Financial assets at fair value through income statement				
- Debt securities	8,602	-	-	8,602
- Equity securities	2,678	-	-	2,678
Available for sale financial assets				
- Equity securities	8,803	-	-	8,803
- Debt securities	274,603	21,017	-	295,620
- Investment funds	-	23,894	-	23,894
- Equity participations	114,221	-	185,634	299,855
- Derivative assets	-	24	-	24
Total assets	408,907	44,935	185,634	639,476
Financial liabilities at FVIS				
- Derivative financial instruments	-	2,029	-	2,029
Total liabilities	-	2,029	-	2,029

Reconciliation of fair value measurements of Level 3 financial instruments

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

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

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

	2012	2011
1 January	**185,634**	182,915
Purchased	**10,340**	127
Sold	**(6,881)**	-
Written off	**(1,765)**	-
Total gains and losses recognised in other comprehensive income	**(8,445)**	2,592
31 December	**178,883**	185,634

(c) Financial instruments not measured at fair value

At 31 December 2012, the fair value of HTM instruments carried at amortised cost of US$ 125.67 million (2011: US$ 140.26 million) was determined to be US$ 128.24 million (2011: US$ 136.43 million). The estimated fair value of the other assets and liabilities was not significantly different from their respective carrying values.

3.5 Capital management

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

Impairment losses on loans and advances and debt securities

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

Impairment of available-for-sale investment securities

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

Going concern

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

Classification of investments

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

All amounts in United States Dollars thousands

5. CASH AND DEPOSITS WITH BANKS

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

	2012	2011
Cash and cash equivalents:		
Cash on hand and in banks	**11,027**	23,712
Time deposits maturing within three months of acquisition	**713,176**	616,592
Total	**724,203**	640,304

6. INVESTMENT SECURITIES

Investment securities as of 31 December comprise the following:

	2012	2011
a) Financial assets at fair value through income statement (FVIS)		
Equity securities	**18,460**	2,678
Debt securities	**3,988**	8,602
Total	**22,448**	11,280
b) Available-for-sale securities		
Equity securities	**9,269**	8,803
Debt securities	**367,738**	295,620
Investment funds	**23,194**	23,894
Total	**400,201**	328,317
c) Held-to-maturity securities		
Debt securities	**125,722**	140,369
Total	**125,722**	140,369
Total investment securities	**548,371**	479,966

All amounts in United States Dollars thousands

6. INVESTMENT SECURITIES (continued)

The movement in investment securities is summarised below:

	FVIS	Available-for-sale	Held-to-Maturity	Total	
				2012	2011
At 1 January	11,280	328,317	140,369	**479,966**	387,873
Exchange differences	(172)	698	515	**1,041**	(2,457)
Additions	15,791	146,997	-	**162,788**	240,549
Disposals (sale, maturity and redemption)	(5,008)	(95,667)	(17,128)	**(117,803)**	(142,278)
Change in fair value	558	20,520	-	**21,078**	(4,514)
Accretion of discount	-	-	1,923	**1,923**	793
Write off	-	(664)	42	**(622)**	-
At 31 December	22,449	400,201	125,721	**548,371**	479,966

Included in the above are securities pledged under repurchase agreements with other banks whose carrying value at 31 December 2012 is US$ 230 million (2011: US$ 182.6 million)

7. INVESTMENTS IN EQUITY PARTICIPATIONS

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

	2012	2011
Quoted	**118,768**	114,221
Unquoted	**178,883**	185,634
Total	**297,651**	299,855

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

2012

Country / Project	Quoted shares	Original cost of participation	Fair value of participation	Percentage Of Shareholding
Kingdom of Morocco				
Cellulose du Maroc		17,568	5,579	27.3
Société Ryad Soualem S.A.		1,977	1,977	33.0
Maroc Leasing Company	Quoted	4,764	8,107	5.7
		24,309	**15,663**	
Kingdom of Saudi Arabia				
Saudi Hotel Services Company		5,855	5,855	20.0
Pharmaceutical Solutions Industry Limited Company		5,124	5,124	19.0
Saudi International Petrochemical Company	Quoted	24,994	42,939	2.3
Middle East Financial Investment Company		16,000	14,983	15.0
National Trigeneration CHP Company		9,043	6,095	9.9
		61,016	**74,996**	
Syrian Arab Republic				
Syrian Arab Company for Hotels and Tourism		**2,272**	**1,680**	20.5
Republic of Sudan				
Kenana Sugar Company		62,396	20,556	7.0
Sudatel Group for Communication	Quoted	20,733	11,052	2.2
Financial Investment Bank	Quoted	4,440	5,329	20.8
Berber Cement Company		16,397	15,392	16.4
The Arab Leasing company		9,000	9,000	30.0
		112,966	**61,329**	
Republic of Tunisia				
Société Tunisienne de Banque	Quoted	1,918	623	0.4
Société Arabe des Industries Pharmaceutiques		994	994	4.0
		2,912	**1,617**	
Arab Republic of Egypt				
Allianz Insurance Company - Egypt		853	853	10.0
Arab International Company for Hotels and Tourism		12,700	12,700	13.6
The Arab Company for Special Steel		5,081	-	5.5
Egyptian Propylene and Polypropylene Company		27,630	27,630	10.0
International Company for Leasing		7,901	6,339	10.0
		54,165	**47,522**	

NOTES TO THE FINANCIAL STATEMENTS (continued)
31 December 2012
All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

2012 (continued)

Country / Project	Quoted shares	Original cost of participation	Fair value of participation	Percentage Of Shareholding
Peoples' Democratic Republic of Algeria				
Arab Banking Corporation - Algeria		3,171	3,171	4.2
Arab Leasing Corporation		10,694	10,694	25.0
		13,865	**13,865**	
The Hashemite Kingdom of Jordan				
Arab Jordan Investment Bank	Quoted	11,849	20,246	10.3
Jordan Paper & Cardboard Manufacturing Company	Quoted	2,862	1,750	26.7
Arab International Hotels Company	Quoted	7,787	6,906	8.4
		22,498	**28,902**	
Republic of Iraq				
Arab Company for Detergent Chemicals		6,955	6,955	6.0
Arab Company for Antibiotics Industries		6,891	6,891	12.4
		13,846	**13,846**	
Kingdom of Bahrain				
Arab Banking Corporation	Quoted	**15,723**	**5,958**	0.4
Sultanate of Oman				
Taageer Finance Company	Quoted	**7,901**	**15,858**	18.8
State of Qatar				
Arab Jordan Investment Bank		**8,700**	**8,700**	15.0
Pan-Arab				
The Arab Company for Livestock Development - Syria		3,559	3,559	1.7
Arab Mining Company - Jordan		2,156	2,156	1.1
Arab Trade Financing Program - Abu Dhabi		2,000	2,000	0.4
		7,715	**7,715**	
		347,888	**297,651**	

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

2011

Country / Project	Quoted shares	Original cost of participation	Fair value of participation	Percentage Of Shareholding
Kingdom of Morocco				
Cellulose du Maroc		17,568	6,359	27.3
Société Ryad Soualem S.A.		1,977	1,977	33.0
Maroc Leasing Company	Quoted	4,764	8,207	5.7
		24,309	16,543	
Kingdom of Saudi Arabia				
Saudi Hotel Services Company		5,855	5,855	20.0
Pharmaceutical Solutions Industry Limited Company		5,124	5,124	19.0
Al-Ahsa Medical Services Company		5,000	3,461	12.5
Saudi International Petrochemical Company	Quoted	17,995	36,932	1.9
Middle East Financial Investment Company		16,000	14,517	15.0
National Trigeneration CHP Company		9,043	6,131	9.9
		59,017	72,020	
Syrian Arab Republic				
Syrian Arab Company for Hotels and Tourism		2,272	2,079	20.5
Republic of Sudan				
Kenana Sugar Company		62,396	30,320	7.0
Sudatel Group for Communication	Quoted	20,733	15,027	2.2
Financial Investment Bank	Quoted	4,440	7,617	20.8
Berber Cement Company		14,757	14,757	16.4
The Arab Leasing company		9,000	9,000	30.0
		111,326	76,721	
Republic of Tunisia				
Société Tunisienne de Banque	Quoted	1,918	727	0.4
Société Arabe des Industries Pharmaceutiques		994	994	4.0
Société Arab Internationale Lease		1,881	1,881	20.0
		4,793	3,602	
Arab Republic of Egypt				
Allianz Insurance Company - Egypt		853	853	10.0
Arab International Company for Hotels and Tourism		12,700	12,700	13.6
The Arab Company for Special Steel		5,081	-	5.5
Egyptian Propylene and Polypropylene Company		27,630	27,630	10.0
International Company for Leasing		7,901	6,571	10.0
		54,165	47,754	

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

2011 (continued)

Country / Project	Quoted shares	Original cost of participation	Fair value of participation	Percentage Of Shareholding
Peoples' Democratic Republic of Algeria				
Arab Banking Corporation - Algeria		3,171	3,171	4.2
Arab Leasing Corporation		10,693	10,693	25.0
		13,864	13,864	
The Hashemite Kingdom of Jordan				
Arab Jordan Investment Bank	Quoted	11,849	18,944	10.3
Jordan Paper & Cardboard Manufacturing Company	Quoted	2,862	1,552	26.7
Arab International Hotels Company	Quoted	7,787	7,170	8.4
		22,498	27,666	
Republic of Iraq				
Arab Company for Detergent Chemicals		6,955	6,955	6.0
Arab Company for Antibiotics Industries		6,891	6,891	12.4
		13,846	13,846	
Kingdom of Bahrain				
Arab Banking Corporation	Quoted	15,723	5,440	0.4
Republic of Lebanon				
Uniceramic Company		1,765	-	10.0
Sultanate of Oman				
Taageer Finance Company	Quoted	7,901	12,605	18.8
Pan-Arab				
The Arab Company for Livestock Development - Syria		3,559	3,559	1.7
Arab Mining Company - Jordan		2,156	2,156	1.1
Arab Trade Financing Program - Abu Dhabi		2,000	2,000	0.4
		7,715	7,715	
Total		339,194	299,855	

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

All amounts in United States Dollars thousands

8. LOANS AND ADVANCES

Loans and advances as of 31 December comprise the following:

	2012	2011
Overdrafts	**99,465**	98,910
Short term facilities	**142,525**	158,330
Bills discounted	**41,667**	3,961
Loans and advances	**381,723**	456,532
Total loans and advances	**665,380**	717,733
Provision for impairment on loans and advances	**(90,668)**	(73,769)
Loans and advances, net	**574,712**	643,964
Movement in provision:		
At 1 January	**73,769**	58,366
Provision for the year (see Note 21)	**21,474**	16,889
Recoveries during the year (see Note 21)	**(4,575)**	(1,486)
At 31 December	**90,668**	73,769

All amounts in United States Dollars thousands

9. PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY

9.1 Property and equipment:

Property and equipment as of 31 December comprise the following:

	Freehold improvements	Building and its equipment	Furniture and equipment	Total	
				2012	2011
Cost:					
At 1 January	**5,822**	**18,558**	**12,144**	**36,524**	35,767
Adjustment	**239**	**-**	**-**	**239**	139
Additions during the year	**-**	**-**	**957**	**957**	978
Disposals during the year	**-**	**-**	**(390)**	**(390)**	(360)
At 31 December	**6,061**	**18,558**	**12,711**	**37,330**	36,524
Accumulated depreciation:					
At 1 January	**-**	**(12,694)**	**(9,445)**	**(22,139)**	(21,535)
Charge for the year	**-**	**(262)**	**(842)**	**(1,104)**	(964)
Related disposals	**-**	**-**	**9**	**9**	360
At 31 December	**-**	**(12,956)**	**(10,278)**	**(23,234)**	(22,139)
Net book value:					
At 31 December 2012	**6,061**	**5,602**	**2,433**	**14,096**	
At 31 December 2011	5,822	5,864	2,699		14,385

All amounts in United States Dollars thousands

9. PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY (continued)

9.2 Investment property:

Investment property as of 31 December comprises the following:

	2012	2011
Cost:		
At 1 January	**30,446**	30,416
Additions during the year	**10**	30
At 31 December	**30,456**	30,446
Accumulated depreciation:		
At 1 January	**(25,007)**	(24,872)
Charge for the year	**(120)**	(135)
At 31 December	**(25,127)**	(25,007)
Net book value:	**5,329**	5,439

The fair value of investment property at 31 December 2012 amounted to approximately US$ 26 million (2011: US$ 25 million).

All amounts in United States Dollars thousands

10. OTHER ASSETS

Other assets as of 31 December comprise the following:

	2012	2011
Accrued income	**14,736**	24,449
Other receivables	**3,086**	2,275
Total	**17,822**	26,724

11. DEPOSITS

Deposits as of 31 December comprise the following:

	2012	2011
Deposits by banks	**904,195**	1,127,463
Deposits by non-banks	**302,426**	57,081
Total	**1,206,621**	1,184,544

Included in the above are deposits raised under repurchase agreements whose carrying value as at 31 December 2012 is US$ 192.2 million (2011: US$ 159.2 million).

All amounts in United States Dollars thousands

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.

	2012		
	Contract/Notional Amount	**Fair value**	
		Assets	**Liabilities**
Held for trading			
Interest rate derivatives:			
Interest rate swap	**10,000**	**-**	**412**
Foreign exchange derivatives:			
Currency swaps	**462,715**	**306**	**795**
		306	**1,207**

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

All amounts in United States Dollars thousands

13. OTHER LIABILITIES

Other liabilities as of 31 December comprise the following:

	2012	2011
Accounts payable and accrued expenses	**7,216**	5,405
Deferred income	**5,106**	5,849
Employees' benefits (see table below)	**11,483**	14,076
Interest payable	**2,132**	3,414
Total	**25,937**	28,744

Employees' benefits as of 31 December comprise the following:

	Employees saving schemes	**Provision for end of service indemnity**	**Provision for leave**	**Total 2012**	Total 2011
At 1 January	1,101	11,563	1,412	**14,076**	14,449
Charge for the year	225	1,068	443	**1,736**	2,235
Employee's benefits paid during the year	(121)	(3,524)	(684)	**(4,329)**	(2,608)
At 31 December	**1,205**	**9,107**	**1,171**	**11,483**	14,076

Under the employees saving scheme, charge for the year represent the cost of the benefits provided by the Company to the employees who are participating in the scheme. Other movements 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.

14. SHARE CAPITAL

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

	2012		2011	
	No. of shares	**Amount**	No. Of Shares	Amount
Authorised	**800,000**	**800,000**	800,000	800,000
Fully paid	**700,000**	**700,000**	700,000	700,000

All amounts in United States Dollars thousands

14.SHARE CAPITAL (continued)

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

	Ownership percentage	2012	2011
Kingdom of Saudi Arabia	15.68	**109,744**	109,744
State of Kuwait	15.68	**109,744**	109,744
United Arab Emirates (Abu Dhabi)	15.68	**109,744**	109,744
Republic of Iraq	10.48	**73,387**	73,387
State of Qatar	8.19	**57,350**	57,350
Arab Republic of Egypt	6.97	**48,775**	48,775
Syrian Arab Republic	6.97	**48,775**	48,775
State of Libya	6.97	**48,775**	48,775
Republic of Sudan	2.68	**18,744**	18,744
Kingdom of Bahrain	1.71	**11,969**	11,969
Republic of Tunisia	1.71	**11,969**	11,969
Kingdom of Morocco	1.71	**11,969**	11,969
Sultanate of Oman	1.71	**11,969**	11,969
Republic of Lebanon	1.61	**11,287**	11,287
People's Democratic Republic of Algeria	1.61	**11,287**	11,287
The Hashemite Kingdom of Jordan	0.32	**2,256**	2,256
Republic of Yemen	0.32	**2,256**	2,256
Total	100.00	**700,000**	700,000

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.

	2012	2011
Movement of statutory reserve:		
Balance, beginning of the year	**83,594**	80,972
Additions for the year	**4,109**	2,622
Balance, end of the year	**87,703**	83,594

All amounts in United States Dollars thousands

16. DIVIDENDS PROPOSED AND PAID

The Board of Directors in their meeting on 23 March 2013 had proposed to the general assembly not to distribute dividends for 2012. No dividend was proposed for the year ended 31 December 2011, while the proposed dividend of 2010 was paid in 2011.

17. FAIR VALUE RESERVE

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

	2012	2011
Investments in equity participations		
Balance, at beginning of year	**65,162**	77,196
Change in fair value	**(8,059)**	(12,034)
Balance, at end of year	**57,103**	65,162
Investments in securities available-for-sale		
Balance, at beginning of year	**(7,303)**	(4,378)
Change in fair value	**20,520**	(2,925)
Balance, at end of year	**13,217**	(7,303)
Total fair value reserve	**70,320**	57,859

18. NET FEES AND COMMISSIONS

	2012	2011
Loans	**3,665**	1,366
Trade finance	**4,012**	3,720
Islamic banking	**834**	1,240
Others	**(19)**	(93)
Total	**8,492**	6,233

All amounts in United States Dollars thousands

19. NET GAIN ON INVESTMENTS

	2012	2011
Equities	**1,849**	607
Debt securities	**5,150**	3,158
Unit Trust Funds	**932**	418
Total	**7,931**	4,183

20. GENERAL AND ADMINISTRATIVE EXPENSES

	2012	2011
Salaries and related benefits	**13,328**	14,390
Professional and financial	**1,693**	2,149
Board of directors' expenses	**808**	747
Others	**3,110**	2,873
Total	**18,939**	20,159

21. IMPAIRMENT PROVISIONS

	2012	2011
Securities, net	**563**	701
Loans and advances, net	**16,899**	15,403
Equity participation	**6,000**	5,000
Total	**23,462**	21,104

All amounts in United States Dollars thousands

22. COMMITMENTS AND CONTINGENCIES

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

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

31 December 2012	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Forward purchase securities	718	-	-	718
Guarantees, acceptances and other financial facilities	53,899	7,135	5,333	66,367
Total	**54,617**	**7,135**	**5,333**	**67,085**

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

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

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

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

All amounts in United States Dollars thousands

23. INVESTMENT MANAGEMENT SERVICES

The Company manages an investment fund on behalf of Arab Submarine Cable Company. The funds under management as at 31 December 2012 amounted to US$ 4.6 million (2011: US$ 5.2 million). The fees earned are included in the statement of income. Assets held in trust or in a fiduciary capacity are not treated as assets of the Company. Accordingly, they are not included in the accompanying financial statements.

24. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

	2012	2011
Executive management personnel:		
Loans and advances	**108**	215
End of service benefit	**1,728**	3,473

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

	2012	2011
Board of directors' remuneration	**808**	747
Board of directors' bonuses paid	**450**	505
Salaries and short-term employee benefits	**533**	965
End of service benefits	**158**	342

25. COMPARATIVE INFORMATION

Certain comparative figures have been reclassified where necessary to conform to the presentation adopted in the financial statements at 31 December 2012.

26. POLITICAL UNREST

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

27. APPROVAL OF FINANCIAL STATEMENTS

The accompanying financial statements were approved by the Board of Directors of the Company on 11 Jamad Awal 1434H (corresponding to 23 March 2013).

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