Annual Report 2014

THE ARAB INVESTMENT COMPANY S.A.A.

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ANNUAL REPORT 2014

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THE ARAB INVESTMENT COMPANY

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

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

The Company is owned by the governments of 17 Arab states with an authorized capital of US$ 1,200 million and a paid-up capital of US$ 800 million, shared by member countries. TAIC conducts its activities from its Head Office in Riyadh, Saudi Arabia, its banking branch in the Kingdom of Bahrain.

Mission Statement and Vision

Mission Statement

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

Vision

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

SUBSCRIPTION OF MEMBER COUNTRIES

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

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

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

Mr. Ahmed Abdelrehim Elsayad
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

Mrs. Fouzia Zaaboul
Board Member
The Kingdom of Morocco

Mr. Taher Mohamed Hawisa
Board Member
The State of Libya

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

Board Committees

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

Higher Investment Committee

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

• Eng. Youssef Ibrahim Al-Bassam	Chairman
• Mr. Motlaq Mobarak. Al Sanie	Member
• Dr. Fadhil Nabee Othman	Member
• Eng. Barakat Arafat Arafat	Member
• Mr. Omar Abdulaziz. Al Hamid	Member
• Mr. Khadem Mohamed Al Remeithi	Member
• Mrs. Fouzia Zaaboul	Member
• Mr. Taher Mohamed Hawisa	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. Yusuf Abdullah Humood	Chairman
• Mr. Ahmed Abdelrehim Elsayad	Member
• Mr. Khaled Abdulaziz Al Hassoun	Member
• Mr. Elgaili Mohamed Al Bashir	Member

Audit Committee

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

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

EXECUTIVES

Head Office,
Riyadh

Bahrain Branch

HEAD OFFICE - RIYADH

Chief Executive Officer
Mr. Ibrahim H. AlMazyad

Finance & Administration Affairs	Mr. Fahad A. Al Haqbani
Financial Affairs	Mr. Abdulaziz Al Fureih
Investment	Mr. Fahd S. Al Nuhait
Information Technology	Mr. Saleh M. Al Mogbel
Strategic Planning & Research	Mr. Dakheel A. Al-Zahrani
Legal Advisor	Mr. Khalid S. Al- Zugaibi
Internal Audit Unit	Mr. Yousif Sami Salim

Bahrain Branch (Wholesale Bank)

Branch General Manager	Mr. Ibrahim Milad Zlitni
Finance & Administration	Mr. Mohammed A. Magboul
Treasury	Mr. Sami Rajab
Credit Department	Mr. Samir Medjiba / Mr. Isam Khalid
Operations	Mr. Mohammadine H. Menjra
Risk Management	Mr. Nitin D. Gupta
Legal Advisor	Dr. Osama A. Mukhtar
Compliance Officer	Mr. Taher A. Al-Taher
Internal Audit	Mr. Lalit H. Bakhru

SUMMARY OF FINANCIAL STATEMENTS
As at December 31, 2014

Net Income

US$ 30.2 Million

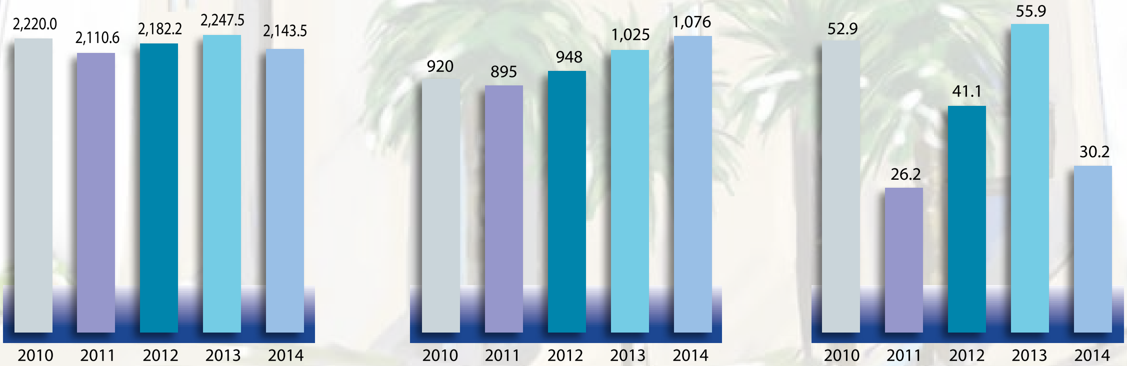
Shareholders' Equity

US$ 1,075.6 Million

Total Assets

US$ 2,143.5 Million

Financial Position (2010 - 2014)



Total Assets (US$ Million) | Shareholders' Equity (US$ Million) | Net income (US$ Million)

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, 2014. The report reviews the Company's investment activities in project equity and banking services, highlighting the financial results achieved from these activities.

The Arab Investment Company (TAIC) pursued its endeavors in 2014 to develop and diversify its Investment and financial activities and managed to achieve good results surpassing the adverse economic challenges it encountered. The Company was successful in mitigating the effects of the unstable political and economic conditions that prevailed in the Arab region.

Despite these conditions, the Company recorded net profit for the year 2014 amounting to US$ 30.2 million, after applying provisions in the amount of US$ 12.3 million against bad debts and decrease in the fair value of some equity participations, against US$ 55.9 million in the previous year.

The Company shareholders' equity registered growth of 5% from US$ 1,025.3 million in 2013 to 1,075.6 million at the end of 2014. Total assets amounted to US$ 2,143.5 million as compared to US$ 2,247.5 million the previous year.

On equity investment front and in the face of unstable regional political and economic conditions, TAIC continued to monitor its existing projects in order to optimize their return on investment rate. To this end, the Company worked closely with the management and shareholders of these projects to help overcome their difficulties, increase their capacities and improve their durability and competitiveness in close cooperation and coordination with the management of these projects. In addition to this, the Company exerted its efforts to identifying viable investment opportunities in different Arab countries that co-relate with its objectives and meet with its investment criteria. TAIC also exited some projects in order to reinvest in new promising investment opportunities.

On the banking side, TAIC continued to consolidate and diversify its banking activities which constitute an important and stable source of income for the Company in order to enhance its capability to invest in equity projects and achieve its developmental objectives.

During the year, the Company commenced implementation of its new strategic plan covering the period from 2014 until 2018. This involves a number of qualitative and quantitative objectives that the Company will strive to achieve by the end of this plan in light of the new developments in the region and in accordance with TAIC ambitions together with its investment and developmental vision. The strategic plan involves as well a further diversification and consolidation of its equity participations and financial services.

In order to bolster the Company's resources and enhance its role as an investment catalyst in the Arab region, TAIC continued the implementation of the decision of the its Extraordinary General Assembly issued in June 2013 stipulating the increase of the Company's capital by US$ 350 million, of which US$ 175 million would be funded from its own resources and the other half to be paid in cash by the shareholders over a period of five years. The paid-up capital should henceforth amount to US$ 1,050 million by the end of 2018. Therefore, the Extraordinary General Assembly held in June 2014 decided to increase the Company's authorized capital from US$ 700 million to US$ 800 million and through capitalization of US$ 100 million. This capital rise translates the extent of commitment of the shareholding countries to bolster the Company's capital base that would enable it to pursue its endeavor in extending and diversifying its investment and banking activities.

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:

Political and economic developments in the Arab region during the year 2014 continued to reflect equivocated conditions and a persisting challenge for investment inflows. The region was also impacted by the ramifications of the world economic slowdown, mainly in industrial countries. With these prevailing conditions, foreign direct investments retracted in most Arab countries together with a drop in their income from such vital sectors as tourism and goods exports.

However, these effects were disparate for most high-income oil exporters as they continued to record steady growth despite plummeting oil price during the year 2014. In contrast, other countries, mostly oil importers and those mired with political and security turbulences, continued to record uneven progress in advancing their economic agenda.

In the meantime Arab capital markets recorded a distinct performance reflecting the region's economic / political conditions and uncertain world investment environment.

TAIC 2014 Review:

Within the uncertain investment environment that characterized world economy in general and the Arab region in particular during 2014, The Arab Investment Company (TAIC) intensified its efforts to counter the resultant adverse effects on its business activities. TAIC pursued its endeavors to develop and diversify its Investment and banking activities and managed to consolidate its stable financial position.

While striving to achieve its business objectives The Arab Investment Company continued to focus on effectively managing its existing portfolios as well as identifying new business/market opportunities. TAIC remains keen on cooperating and coordinating with various Arab financial institutions in order to identify, study and elaborate viable business / investments in various sectors. Some of these institutions include Pan Arab Joint Stock Companies, Investment Guarantee and Export Promoting Institutions and Arab Chambers of Commerce and Industry.

Significant developments in some of TAIC's activities and financial results during 2014 are provided below:

I- The Company's Management:

During 2014, The Arab Investment Company (TAIC) pursued its efforts to achieve its objectives and plans set forth in its charter and memorandum of association. To this respect, the Company's Board of Directors held four meetings and pursued its regulatory and supervisory role. The Board steered the Company's activities to ensure optimal use of its resources and implementation of General Assembly's decisions through Board of Directors' and its nominated Committees' frequent meetings.

In order to strengthen the Company's capabilities and resources, TAIC continued to implement its Extraordinary General Assembly decision made in June 2013 to increase its Paid-up Capital by US$ 350 million i.e. bringing the overall Paid up Capital to USD 1,050 million by the end of 2018. This will be achieved through subscription of the shareholding countries in the amount of USD 175 million and the balance by capitalization of earnings.

In June 2014 the General Assembly held an extraordinary meeting and decided to raise the Company's paid-up capital from US$ 700 million to US$ 800 million through capitalization of earnings in the amount of US$ 100 million.

This capital rise translates the extent of the shareholding countries' commitment to bolster the Company's capital base to enable it to pursue its endeavor in extending and diversifying its investment and banking activities.

During the year, the Company commenced implementation of its new strategic plan covering the period from 2014 until 2018. This involves a number of qualitative and quantitative objectives to be achieved by the end of this plan. To this respect, TAIC updated its existing bylaws and policies and developed certain new ones, in line with best market practices and Regulatory guidelines. During the year, TAIC developed and implemented various models which will facilitate the risk mitigation and decision making process. TAIC also began to implement its business plan through a detailed review of its organizational structure and determination of its needs of functional skills and training programs.

With regard to the implementation course of its strategic plan in the equity investment, the Company completed during the year the preparation of a business plan aiming at improving the performance of its equity investment portfolio. This plan incorporated several tasks that ensure the achievement of the set goals, determine the targeted investments and set forth the mechanism that would help the Company build new investment partnerships in various economic sectors.

On the banking front, the Company prepared a new plan to reduce risk concentration on the assets side and diversify its banking activities. The plan also includes streaming entire banking activities to ensure readiness to external rating exercise.

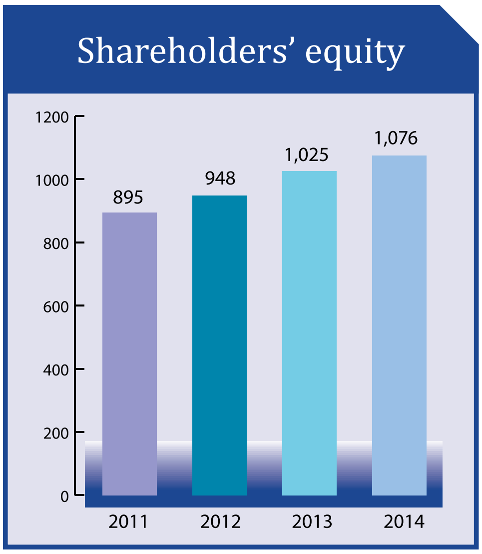
II- 2014 Financial Results:

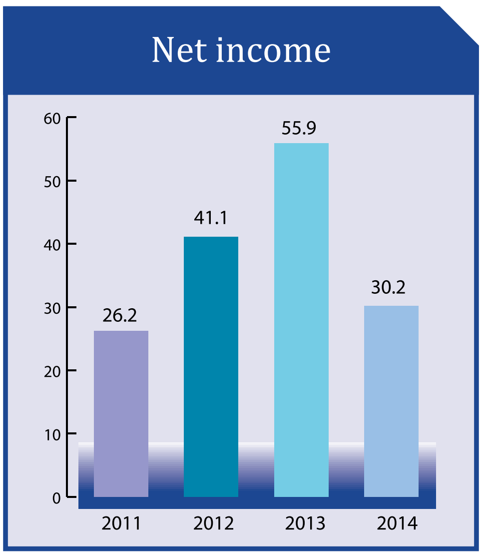
The Company's total operating income from various activities of the company amounted to US$ 61.1 million in 2014, compared to US$ 92.4 million in 2013, a decrease of 34%. This decrease was due to a contraction in the Company's net interest income, fees & commissions, gains on sale of Equity participations unrealized gains / losses on Financial Securities and losses incurred on written off Equity participations.

As a result, Net profit for the year 2014 amounted to US$ 30.2 million against US$ 55.9 million in the previous year, reflecting a decrease of 46%.

The Company shareholders' equity registered growth of 5% from US$ 1,025.3 million in 2013 to 1,075.6 million at the end of 2014. Return on shareholders' equity represented 2.8% at the end of the year against 5.5% in 2013. Total assets amounted to US$ 2,143.5 million as compared to US$ 2,247.5 million the previous year. Return on assets represented a rate of 1.4% in 2014 against 2.5% in 2013.

The following chart represents the growth in TAIC net profit and its shareholders' equity during the period 2011-2014 in US$ millions:





III- TAIC's Equity Investment Activities

Equity participation in projects is the major line of business through which TAIC pursues its strategic objectives. The Company always strives to play its vital role as an investment catalyst of Arab funds in projects that contribute to the transfer of technological expertise to the Arab world, train the local human resources on its utilization and optimize the use of comparative advantages of Arab countries in order to create local industries capable of competing regionally and worldwide. The Company also focuses its interest on joint projects that support Arab economic cooperation and integration. TAIC is always keen on diversifying its investment portfolio on sectorial and geographical basis in order to minimize risks, secure a rewarding and stable return on investments and allow the shareholding countries to benefit from its resources.

In the face of unstable political and economic conditions that prevailed in a number of Arab countries, TAIC continued to monitor its existing projects in order to optimize their return on investment rate. To this end, the Company worked closely with the management and shareholders of these projects to help overcome their difficulties, increase their capacities and improve their durability and competitiveness in close cooperation and coordination with the management of these projects. In addition to this, the Company exerted its efforts to identifying viable investment opportunities in different Arab countries that co-relate with its objectives and meet with its investment criteria.

In accordance with the objectives laid down in the Company's strategic plan that stipulate taking initiatives in elaborating, developing and promoting new investment opportunities, the Company participated in the formation of Bidaya Home Finance Company in the Kingdom of Saudi Arabia and acquired stakes in the amount of US$ 26.67 million, representing 11.1% of the project's capital. The project will finance the acquisition and construction of houses and housing compounds. The Company also committed to hold 15% interests in the capital of Powervest Fund (ACWA Power) in the Kingdom of Saudi Arabia, amounting to US$ 30 million. The fund aims at holding equity shares in power and water projects in the Arab region. During the year and reflecting its support to on-going projects, the Company participated with its full share in the paid-up capital increase of The Arab Jordan Investment Bank in the Hashemite Kingdom of Jordan, which amounted to US$ 7.24 million, representing 10.25% of this increase. This capital increase was motivated by the bank's acquisition of HSBC business in Jordan.

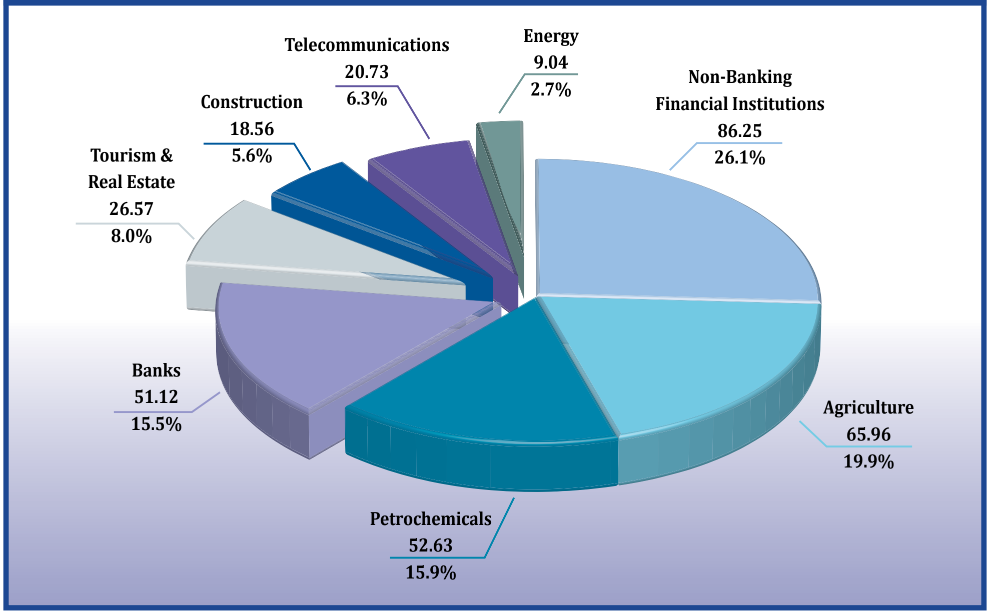
The current strategic plan is to exit some projects in order to reinvest in new promising investment opportunities, the Company made a capital gain out of its disinvestment from Allianz Insurance Company in the Arab Republic of Egypt in the amount of US$ 974,000. TAIC also decided to exit from some stressed projects that constituted a burden on its equity portfolio.

At the end of the year, TAIC's investment portfolio included 25 projects, spread geographically over 11 Arab states and distributed over 8 sectors, namely agriculture, petrochemicals, non-banking financial institutions, banks, tourism and real estate, construction, telecommunications and energy. The total paid-up capital of these projects amounted to US$ 8.1 billion and shareholders' equity totaled US$ 11.1 billion. TAIC's initial investments in these projects totaled US$ 330.86 million, representing 41.4% of its paid-up capital.

The following is a summary of the components of the Company's projects where it holds stakes by sector as of 31/12/2014:

Sector	Initial Equity (US$ M)	Participation share to Total Equity Portfolio
Non-banking Financial Institutions	86.25	26.1%
Agricultural Sector	65.96	19.9%
Petrochemical Sector	52.63	15.9%
Banking Sector	51.12	15.5%
Tourism & Real Estate Sector	26.57	8.0%
Construction Sector	18.56	5.6%
Telecommunication Sector	20.73	6.3%
Energy Sector	9.04	2.7%
TOTAL PORTFOLIO	**330.86**	**100.00%**

Sectoral Distribution of Projects as of 31/12/2014
(US$ Million)



TAIC's Projects Portfolio Holdings
(As at December 31, 2014)

Company Participation		Country	Initial Equity (US$ M)	Share %
Non-Banking Financial Sector				
1	**Taager Leasing Company**	**The Sultanate of Oman**	**7.90**	**18.79%**
2	**Maroc Leasing**	**The Kingdom of Morocco**	**4.76**	**5.74%**
3	Arab Trade Financing Programme	Pan-Arab Company (U.A.E.)	3.33	0.44%
4	Arab Leasing Company	The People's Democratic Republic of Algeria	10.69	25.00%
5	Middle East Company for Financial Investment	The Kingdom of Saudi Arabia	16.00	15.00%
6	International Company for Leasing (Incolease)	The Arab Republic of Egypt	7.90	10.00%
7	The Arab Leasing Company LTD.	The Republic of Sudan	9.00	30.00%
8	Bidaya Home Finance Company	The Kingdom of Saudi Arabia	26.67	11.10%
Total Investment in the Sector			**86.25**	**26.07%**
Agricultural Sector				
9	Kenana Sugar Company	The Republic of Sudan	62.40	6.99%
10	The Arab Co. for Livestock Development	Pan-Arab Company (Syria)	3.56	1.67%
Total Investment in the Sector			**65.96**	**19.94%**
Petrochemical Sector				
11	**Saudi International Petrochemical Company (Sipchem)**	**The Kingdom of Saudi Arabia**	**25.00**	**2.30%**
12	Egyptian Propylene & Polypropylene Company	The Arab Republic of Egypt	27.63	10.00%
Total Investment in the Sector			**52.63**	**15.91%**
Banking Sector				
13	The Arab Jordan Investment Bank	The Hashemite Kingdom of Jordan	19.09	10.25%
14	Arab Banking Corporation	The Kingdom of Bahrain	15.72	0.42%
15	Financial Investment Bank	The Republic of Sudan	4.44	20.80%
16	Arab Banking Corporation – Algeria	The People's Democratic Republic of Algeria	3.17	4.18%
17	The Arab Jordan Investment Bank - Qatar	The State of Qatar	8.70	15.00%
Total Investment in the Sector			**51.12**	**15.45%**

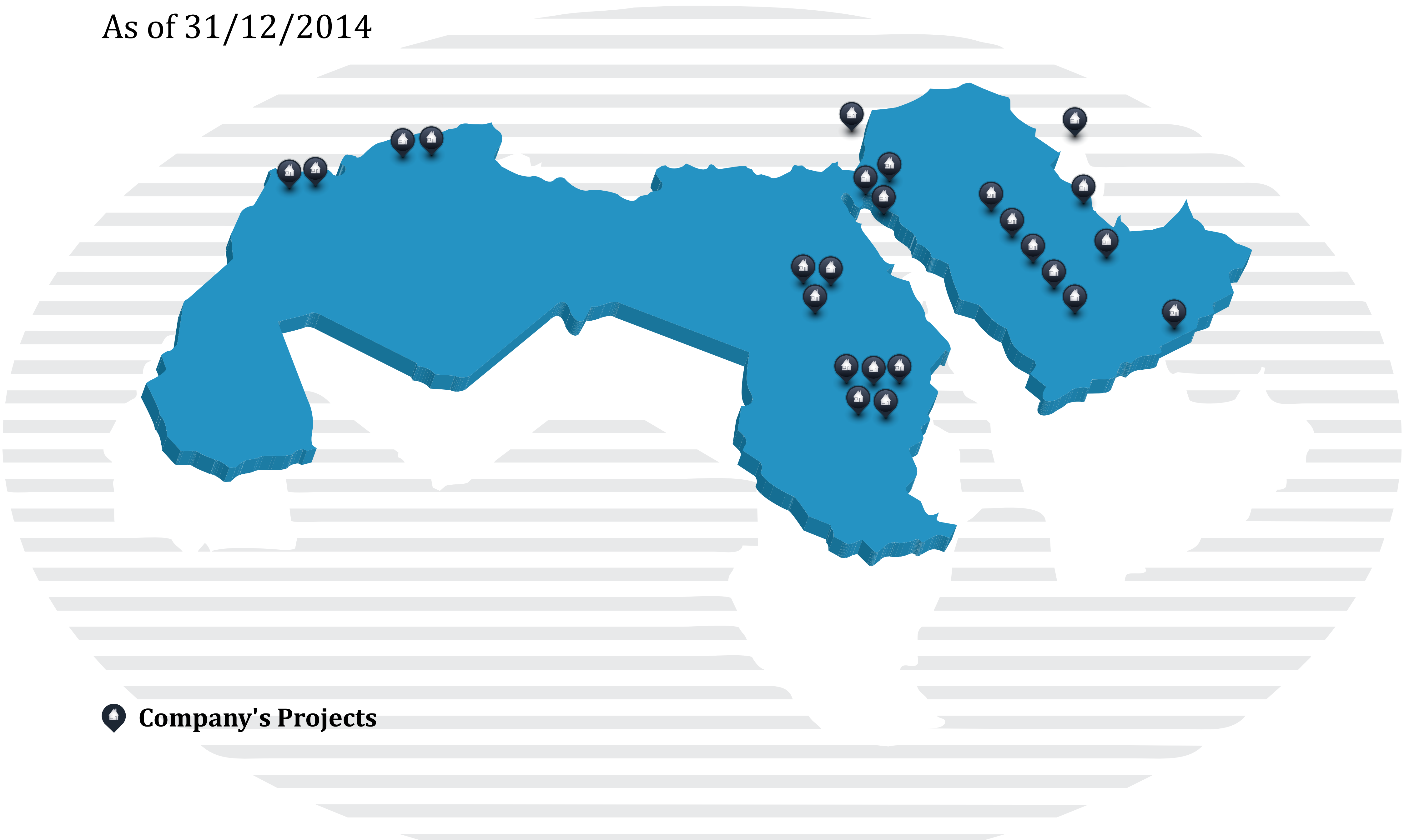
Listed companies in local financial markets

Company Participation		Country	Initial Equity (US$ M)	Share %
Tourism and Real Estate Sector				
18	**Arab International Hotels Company**	**The Hashemite Kingdom of Jordan**	**7.79**	**8.36%**
19	Saudi Hotel Services Co.	The Kingdom of Saudi Arabia	4.10	20.00%
20	Arab International Company for Hotels and Tourism	The Arab Republic of Egypt	12.70	13.62%
21	Société Riad Swalem	The Kingdom of Morocco	1.98	33.00%
Total Investment in the Sector			**26.57**	**8.02%**
Telecommunication Sector				
22	**SUDATEL Telecommunications Group LTD**	**The Republic of Sudan**	**20.73**	**2.18%**
Total Investment in the Sector			**20.73**	**6.27%**
Construction Sector				
23	The Arab Mining Co.	Pan-Arab Company (Jordan)	2.16	1.10%
24	Berber Cement Company	The Republic of Sudan	16.40	16.40%
Total Investment in the Sector			**18.56**	**5.61%**
Energy Sector				
25	National Trigeneration CHP Company	The Kingdom of Saudi Arabia	9.04	9.94%
Total Investment in the Sector			**9.04**	**2.73%**
Project Portfolio Grand Total			**330.86**	**100.00%**

Listed companies in local financial markets

Geographical Distribution of TAIC's Projects

As of 31/12/2014



Company's Projects

IV- TAIC's Investment Activities in Financial Services:

TAIC conducts its financial service 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 wide range of comprehensive financial services and solutions tailored to suit the requirements of its distinguished clientele. The Company has been successfully mobilizing financial resources and redeploying them for investment throughout the Arab World in fulfillment of its investment objectives through its banking branch in Bahrain. The banking activity constitutes an important and stable source of income for the Company. TAIC leverages on its wide ranging banking products/resources and cater to the ever-growing needs of public and private institutions operating in the region.

During the year, the branch pursued its efforts in the management of its banking assets by adopting a sound and objective approach in dealing with the prevailing global and regional economic conditions. These efforts focused mostly on business development, deposit mobilization, liquidity management and close monitoring of credit and investment portfolios. 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.

Despite the difficult economic conditions that prevailed in the international and regional financial markets, the Branch was instrumental in achieving good results, thanks to its objective management.

Following is an outline of the most significant developments in financial activities during the year:

4/1- Banking activity results at the end of 2014:

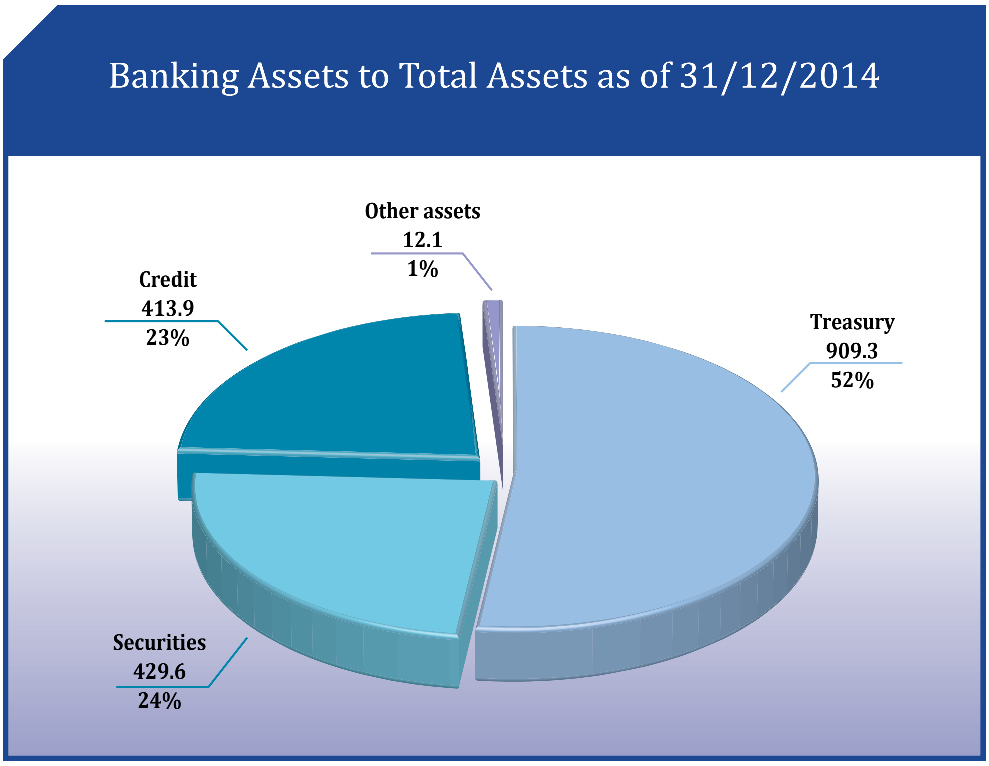
Total banking assets amounted to US$ 1,764.9 million at the end of 2014 against US$ 1,886 million in the previous year, reflecting a decrease of 6%.

The following table shows the composition of banking assets at the end of 2014:

Components of the banking assets as at 31/12/2014

Banking Assets	(US$ Million)	% of Total Assets
Treasury	909.3	52%
Securities	429.6	24%
Credit	413.9	23%
Other assets	12.1	1%
TOTAL	**1,764.9**	**100%**

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



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$ 1,050 million at the end of the year against US$ 1,199 million the previous year. Placements with banks and financial institutions amounted to US$ 909 million against US$ 993 million in 2013, a decrease of 8%. The investment portfolio in securities stood at US$ 430 million at the end of the year against US$ 487 million the previous year, reflecting a decrease of 12%. The Treasury actively manages overall liquidity of the Company and maintained adequate positions throughout the year to mitigate any liquidity risk emanating from any global market changes.

b) Credit Facilities:

Credit Department extends loans and credit facilities to clients directly or through participation in syndications for diverse corporate purposes. In addition, the Department also facilitates inter-Arab trade finance business. At the year-end, the outstanding balance of the credit and financing portfolio stood at US$ 414 million (after provisions) against US$ 386 million, an increase of 7%.

V- Supporting Services

During 2014, the Company continued to upgrade and develop its supporting services to meet the growing challenges and Regulatory requirements. An outline of the activities of the support functions is as follows:

5/1 Information Technology System Development:

During 2014, TAIC pursued the implementation of its IT systems development plan. The Company completed the installation of a more advanced infrastructure, which enabled it to integrate and operate more sophisticated applications and software. This process helped accelerate the Company's daily processing of transaction data and build a working system characterized by its continuity and reliable protection against external risks and breaches. Thanks to a multi-layer protection mechanism and prevention measures covering all the systems components. The Company also completed the implementation of some development projects that involved applications of project management, risk management, upgrade of its central storage systems and introduction of a new local and Intranet network. TAIC also successfully completed tests on an alternative site for use in crisis times and ascertained its readiness. During the year, IT department also completed the documentation of its policies and procedures and reinforced the direct linkage process of its major systems in Bahrain branch to alternative systems in Riyadh Head Office to ensure work continuity, meet any emergency requirements and preserve the security of information. This development reflected a better performance and cost efficiency of various applications serving human resources, equity management, budgeting and data storage and retrieval. The new infrastructure will help provide timely and accurate information that supports proper decision-making. IT staff were properly trained to handle the new systems and their various applications.

5/2 Human Resource Development:

TAIC continued in 2014 the development and training of its staff both at its Head Office in Riyadh and in Bahrain branch. Training covered the enrolment of the Company's staff members in workshops and seminars pertinent to TAIC investment activities and contributing to the improvement of their performance, including financial analysis, risk management, treasury, marketing, networking and data processing. TAIC also actively participated during the year in various Arab economic conferences and meetings to build good working relationships with other financial and investment institutions in the Arab region. Among these events were the Competitiveness forum in Riyadh, the Extraordinary meeting of the Arab League Economic and Social Council in Khartoum, the Annual Conference and Exhibition of banking technologies in Manama, the Annual Meetings of Arab Financial Institutions in Tunis, the National Forum for Information Security in Riyadh and the Annual Meeting of the Islamic Development Bank Group in Jeddah. 25 staff members, representing 26% of TAIC workforce of 97 employees, took part in these investment and banking events.

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 principles:

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 and organizing the tasks of its different departments 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.
- Adopting strategic plans that involve a number of qualitative and quantitative objectives.
- 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 and Compliance

Risk Management

In light of Board of Directors' directives to revamp Risk Management Framework, TAIC has successfully achieved the milestones of upgrading its Risk Management Function.

The revamp process includes:

- Enhancement of existing and introducing new Policies and Procedures for managing Credit, Market, Liquidity and Operational Risks, in line with the best market practices and Regulatory requirements.
- Successful development and implementation of Risk Models which includes Asset and Liability Management (ALM) for managing Liquidity and Market Risk; Internal Credit Risk Rating Models for Banks/Financial Institutions and Corporates; and Basel II Capital Adequacy.

The overhaul of Risk Management Function at TAIC results in:

- Elevating Credit, Market and Liquidity Risk Management Framework to Industry Best Practices and Regulatory Requirements;
- Moving from subjective Credit Risk Assessment Approach to Risk Based Approach;
- Enhance Credit Process Efficiency, Improve Credit Quality and Reduce Credit Losses
- Facilitate Business Decision process through informed Liquidity Management
- Improve Quality of Capital Market Portfolio and Reduce Losses emanating from Market Risk

TAIC has always maintained its philosophy of prudent and conservative Risk Management approach in managing it business activities.

Compliance

TAIC has an effective Compliance function which supervises the adherence to all Regulatory and Global Sanctions requirements. All compliance related Policies and Procedures are periodically reviewed and approved by the Board of Directors on an annual basis.

The Compliance function is equipped with automated tools for effective management of its activities.

TAIC presents periodic reports pertaining to its financial service activities to both Saudi Arabian Monetary Agency (SAMA) and Central Bank of Bahrain (CBB).

VII - Outlook

In its endeavor to achieve the best results possible and play its developmental role as an investment catalyst in the Arab region, TAIC started during the year the implementation of its five-year strategic plan for the period 2014-2018. This plan involves a number of gradual quantitative and qualitative objectives that TAIC looks forward to achieving in the future in fulfillment of its investment ambitions and orientations through diversifying and expanding its investment activity in both equity projects and financial services. Therefore, the Company will interact with the requirements of the new investment environment in the Arab region and adapt with the ever changing dynamics of the market in order to achieve the following objectives:

- Continue to develop its investment activity in equity projects and financial services while diversifying its income sources and opening to new direct and indirect investment fields.
- Restructure and develop its existing investments as well as identifying targeted promising sectors.
- Establish economic partnerships with well-reputed institutions and explore new investment opportunities.
- Pursue its development plans in risk management and instill the best practices governing its actions.
- Introduce innovative banking products.
- Consolidate its financial position and credit solvency and obtain the appropriate credit rating that would facilitate its activity financing at the lowest cost.
- Continue to enforce institutional action and implement the best governance systems.

Finally, while presenting this annual report, the Board of Directors would like to take this opportunity to thank the shareholding countries for their relentless support to the Company, and in particular the Government of the Kingdom of Saudi Arabia (the host country), and the Government of the Kingdom of Bahrain (which hosts the wholesale banking branch), for the timely assistance they have always rendered to the Company through their various government agencies.

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

Financial Statements

For the year ended December 31, 2014

And The Independent Auditor's Report

Building a better
working world

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Riyadh 11461
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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 2014, and the statement of income, statement of comprehensive income, statement of changes in shareholders' equity and statement of 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 about whether the financial statements are free from 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 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

for Ernst & Young

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

Riyadh: 12 Jamad Thani 1436H
(1 April 2015)

STATEMENT OF FINANCIAL POSITION
As of 31 DECEMBER 2014
All amounts in United States Dollars thousands

	Notes	2014	2013
ASSETS			
Cash and deposits with banks	5	**929,006**	1,010,048
Investments:			
Securities	6	**436,245**	494,488
Equity participations	7.1	**330,337**	313,393
Loans and advances	8	**413,875**	386,088
Property and equipment	10.1	**14,352**	13,765
Investment property	10.2	**5,268**	5,228
Other assets	9	**14,370**	24,463
TOTAL ASSETS		**2,143,453**	2,247,473
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits	11	**1,050,180**	1,198,606
Derivative financial instruments	12	**25**	326
Other liabilities	13	**17,613**	23,241
TOTAL LIABILITIES		**1,067,818**	1,222,173
SHAREHOLDERS' EQUITY			
Share capital	14.1	**800,000**	700,000
Subscription in share capital	14.2	**26,959**	-
Statutory reserve	15	**96,310**	93,295
Retained earnings		**66,654**	140,124
Fair value reserve	16	**85,712**	91,881
TOTAL SHAREHOLDERS' EQUITY		**1,075,635**	1,025,300
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,143,453**	2,247,473

Chairman of the Board	Chief Executive Officer	Acting Director of Finance
Engineer/ Yousef Ibrahim Al-Bassam	Ibrahim Hammoud Al -Mazyad	Abdulaziz Abdulrahman Al-Fureih

STATEMENT OF INCOME
Year ended 31 December 2014
All amounts in United States Dollars thousands

	Notes	2014	2013
INCOME			
Interest income		**38,527**	48,590
Interest expense		**(6,807)**	(7,948)
Net interest income		**31,720**	40,642
Gain on sale of equity participations	7.2	**974**	10,837
Loss on written off equity participations		**(3,583)**	-
Dividends		**13,177**	14,631
Net gain on derivative financial instruments		**201**	211
Net fees and commissions	17	**2,497**	5,031
Net gain on financial securities	18	**8,785**	13,269
Net foreign exchange (loss) gain		**(895)**	1,041
Rental income		**4,561**	4,478
Other income		**3,697**	2,301
Total operating income		**61,134**	92,441
EXPENSES			
General and administrative	19	**(18,644)**	(20,403)
Provisions	20	**(12,332)**	(16,118)
Total operating expenses		**(30,976)**	(36,521)
PROFIT FOR THE YEAR		**30,158**	55,920

The accompanying notes form an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2014
All amounts in United States Dollars thousands

	Notes	2014	2013
Profit for the year		**30,158**	55,920
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net fair value movement on available for sale financial assets		**7,445**	29,001
Recycling of gains to the statement of income on sale or impairment of available for sale financial assets		**(13,614)**	(7,440)
	16	**(6,169)**	21,561
Total comprehensive income		**23,989**	77,481

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Year ended 31 December 2014
All amounts in United States Dollars thousands

	Notes	Share capital	Subscription in share capital	Statutory reserve	Retained earnings	Fair value reserve	Total
Balance at 31 December 2012		700,000	-	87,703	90,396	70,320	948,419
Profit for the year		-	-	-	55,920	-	55,920
Other comprehensive income		-	-	-	-	21,561	21,561
Total comprehensive income		-	-	-	55,920	21,561	77,481
Transfer to statutory reserve	15	-	-	5,592	(5,592)	-	-
Board of directors' bonuses paid		-	-	-	(600)	-	(600)
Balance at 31 December 2013		**700,000**	**-**	**93,295**	**140,124**	**91,881**	**1,025,300**
Profit for the year		**-**	**-**	**-**	**30,158**	**-**	**30,158**
Other comprehensive income		**-**	**-**	**-**	**-**	**(6,169)**	**(6,169)**
Total comprehensive income		**-**	**-**	**-**	**30,158**	**(6,169)**	**23,989**
Transfer to statutory reserve	**15**	**-**	**-**	**3,015**	**(3,015)**	**-**	**-**
Board of directors' bonuses paid		**-**	**-**	**-**	**(613)**	**-**	**(613)**
Increase in share capital (note 14.1)		**100,000**	**-**	**-**	**(100,000)**	**-**	**-**
Subscription in share capital (note 14.2)		**-**	**26,959**	**-**	**-**	**-**	**26,959**
Balance at 31 December 2014		**800,000**	**26,959**	**96,310**	**66,654**	**85,712**	**1,075,635**

The accompanying notes form an integral part of these financial statements

STATEMENT OF CASH FLOWS
Year ended 31 December 2014
All amounts in United States Dollars thousands

	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**30,158**	55,920
Adjustments to reconcile net income to net cash			
provided by operating activities:			
Gain on sale of equity participations	7.2	**(974)**	(10,837)
Impairment on equity participations	20	**5,000**	9,000
Impairment on loans and advances	20	**7,332**	7,118
Loss on write off of equity participation		**3,583**	-
Gain on sale of investments		**(1,885)**	(3,795)
Amortisation of discount		**(481)**	(1,668)
Gain on valuation of land		**(756)**	-
Depreciation	10	**1,183**	1,285
		43,160	57,023
Changes in operating assets and liabilities:			
Deposits with banks with maturities longer than 3 months		**(169,778)**	-
Financial assets at fair value through income statement		**16,401**	(3,931)
Loans and advances, net		**(35,119)**	183,142
Other assets		**10,094**	(6,641)
Deposits		**(148,426)**	(8,015)
Derivative financial instruments		**(301)**	(881)
Other liabilities		**(5,628)**	(2,696)
Net cash (used in) from operating activities		**(289,597)**	218,001
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from sale and purchase of investment securities		**43,869**	52,632
Purchase of equity participation		**(33,907)**	(1,335)
Proceeds from disposal/refund of equity participations		**3,523**	18,000
Property and equipment and investment properties, net	10	**(1,054)**	(853)
Net cash from investing activities		**12,431**	68,444

The accompanying notes form an integral part of these financial statements

STATEMENT OF CASH FLOWS (continued)
Year ended 31 December 2014
All amounts in United States Dollars thousands

	Notes	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES			
Board of directors' bonuses paid		(613)	(600)
Subscription in capital increase		26,959	-
Net cash from (used in) financing activities		26,346	(600)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(250,820)	285,845
Cash and cash equivalents, beginning of the year	5	1,010,048	724,203
CASH AND CASH EQUIVALENTS, END OF THE YEAR	5	759,228	1,010,048
Supplemental non cash information			
Net change in fair value reserve	16	(6,169)	21,561
Interest income received		46,541	44,572
Interest expense paid		(9,313)	(9,146)
Dividends received		17,467	13,830

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2014
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.

The 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 International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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

2. 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:

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 presentation currency. The figures shown in the financial statements are stated in USD thousands, except when indicated otherwise.

(b) Transactions and balances

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

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

(c) Sale and repurchase agreements

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

Financial assets

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

Purchases and sales of financial assets are recognised on the trade-date, i.e., the date on which the Company commits to purchase or sell the asset.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

Financial assets (continued)

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

Financial assets held for trading

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

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

Financial assets designated at fair value through income statement

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

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

Financial assets at fair value through income statement are carried at fair value. Changes in fair value are recorded in the statement of income.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those classified as at fair value through income statement (b) those designated as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

Financial assets (continued)

(b) Loans and receivables (continued)

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

(c) Held-to-maturity (“HTM”) financial assets

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

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

(d) Available-for-sale (“AFS”) financial assets

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

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

For financial assets where there is no quoted market price, including investments in equity participations in excess of 20% of the shareholding where the Company does not have significant influence over their operations and financial decisions, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on the expected cash flows or the underlying net asset base of the financial assets.

(e) Determination of fair value

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

Financial assets (continued)

(e) Determination of fair value (continued)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest. The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or dealer price quotations. For all other financial instrument not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e. using recent arm's length market transactions adjusted as necessary and with reference to the current market value of another instrument that is substantially the same) and the income approach (i.e. discounted cash flow analysis and option pricing models making as much use of available and supportable market data in a reasonably possible manner). A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between the levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. (See Note 3.4 (b))

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy. (See Note 3.4 (b))

Financial liabilities

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

(a) Financial liabilities at fair value through income statement

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

- A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
- Derivatives are also categorised as held for trading unless they are designated as effective hedging instruments. Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the statement of income

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

Financial liabilities (continued)

(b) Other liabilities measured at amortised cost

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

Offsetting financial instruments

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

Derecognition of financial assets and financial liabilities

(a) Financial assets

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

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

When the Company has transferred its rights to receive cash flows from the asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and reward of the asset nor transferred control of the asset, 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

Derivative financial instruments

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

Interest income and expense

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

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

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

Fees and commission income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

Dividend income

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

Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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

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

(b) Assets classified as available-for-sale

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

(c) Renegotiated loans

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

Property and equipment

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

Property and equipment (continued)

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

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

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

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

Investment property

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

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

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

Cash and cash equivalents

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

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.

Employee benefits

a) Compensation costs

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

b) Savings scheme

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

c) Termination benefits

The staff indemnity provision is made based on an actuarial valuation of the Company's liability under the Company's Employees By laws and in accordance with the local statutory requirements of the foreign branches.

Accounting for leases

(a) Where the Company is the lessee

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

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

(b) Where the Company is the lessor

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 New and amended standards and interpretation

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2013, except for the new and amended standards and interpretation made in the following which are effective for annual periods beginning on or after 1 January 2014.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Company, as it is not regarded as an investment entity under IFRS 10.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Company as the Company has not novated its derivatives during the current or prior periods.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 New and amended standards and interpretation (continued)

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Company, since the Company is an existing IFRS preparer.

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.

IFRS 9 Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

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

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company. They include:

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

IAS 40 Investment Property

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

IFRS 15 Revenue from Contracts with Customers

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

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

The Company has not early adopted any other standard, interpretation or amendment that has been issued for early adoption but is not yet effective.

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.

3. FINANCIAL RISK MANAGEMENT (continued)

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 equity price risk.

3.1 Credit risk

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

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

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

Concentration of credit risk arises when the counterparties are engaged in similar business activities or activities in the same geographic region. The risk associated with such concentration is that the exposure would be substantial in the event of a common trend affecting that industry geographic region. Concentration of credit risk by geographic region 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. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (Continued)

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 their dues on time, the assets are not subject to the below classification.

Company rating	Description of the grade	Explanation
A	Watch	Applies to assets which are settled on agreed dates but where careful analysis of the obligor's financial status indicates possible problems or weaknesses in his financial position which might affect its 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.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (Continued)

3.1.1 Credit risk measurement (Continued)

(a) Loans and advances (Continued)

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

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

(b) Debt securities and other bills

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

(c) Derivatives

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

(d) Credit-related commitments

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

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

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (Continued)

3.1.2 Risk limit control and mitigation policies

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

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

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

(a) Collateral

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

(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			
	2014		2013	
	Loans and advances %	**Impairment provision %**	Loans and advances %	Impairment provision %
Regular	**86**	**1**	78	2
Watch	**-**	**-**	-	-
Sub-Standard	**14**	**15**	4	17
Doubtful	**-**	**-**	2	63
Loss	**-**	**-**	16	81
	100		100	

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

	Maximum Exposure	
	2014	2013
Credit risk exposures relating to funded exposures are as follows:		
Deposits and cash with banks	**929,001**	1,010,045
Overdrafts	**99,161**	110,858
Loans and advances to banks	**262,307**	221,959
Loans and advances to non-banks	**52,407**	53,271
Trading debt securities	**4,908**	4,409
Investment debt securities	**405,410**	442,853
Interest receivable	**8,766**	15,516
	1,761,960	1,858,911
Credit risk exposures relating to non-funded exposures are as follows:		
Contingent liabilities		
Loan commitments	**86,238**	7,839
Letters of credit commitments	**26,165**	48,027
Bank guarantees	**226**	226
	112,629	56,092
At 31 December	**1,874,589**	1,915,003

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 2014 and 31 December 2013, 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, 22% of the total maximum exposure is derived from loans and advances (including overdrafts) to banks and non-banks at 31 December 2014 (2013: 20%);

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:

- 86% of the overdraft, loans and advances portfolio is categorised in the first grade of the internal rating system - regular grade at 31 December 2014 (2013: 78%);
- 86% of the gross overdraft, loans and advances portfolio are considered to be neither past due nor impaired at 31 December 2014 (2013: 78%); and
- 33% of the debt securities have at least a credit rating of A– (as rated by Standard & Poor's or its equivalent) at 31 December 2014 (2013: 40%).

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 2014					
Deposits and cash with banks	929,001	-	-	-	929,001
Debt securities (including trading)	403,642	-	6,675	4,718	415,035
Loans and advances					
- Overdrafts	99,160	-	1	-	99,161
- Loans and advances to banks	213,586	-	-	60,081	273,667
- Loans and advances to non-banks	52,407	-	-	-	52,407
Interest receivable and other assets	8,766	-	-	-	8,766
	1,706,562	-	6,676	64,799	1,778,037

As at 31 December 2014, US$ 1 thousand (2013: 11,698 thousand) has been past due for less than 30 days and US$ 6,675 thousand (2013: US$ 6,675 thousand) for over a year.

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

3.1.5 Credit quality of financial assets (Continued)

	Neither past due nor Impaired		Past due but not Impaired	Individually Impaired	Total
	Regular	Watch			
31 December 2013					
Deposits and cash with banks	1,010,045	-	-	-	1,010,045
Debt securities (including trading)	440,593	-	6,675	5,000	452,268
Loans and advances					
- Overdrafts	99,160	-	11,698	-	110,858
- Loans and advances to banks	236,036	-	-	-	236,036
- Loans and advances to non-banks	12,596	1,493	-	102,454	116,543
Interest receivable and other assets	15,516	-	-	-	15,516
	1,813,946	1,493	18,373	107,454	1,941,266

The total impairment provision for overdraft, loans and advances as at 31 December 2014 is US$ 11.4 million (2013: US$ 77.35 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 2014 is US$ 4.7 million (2013: US$ 5 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 counterparty account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These assets are kept under continuous review. Renegotiated financial assets that would otherwise be past due or impaired totalled US$ nil at 31 December 2014 (2013: US$ 22.9 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 2014 and 31 December 2013, based on Standard & Poor's rating or its equivalent:

31 December 2014	**FVIS**	**Available for sale securities**	**Held to maturity securities**	**Total**
A to A+	**58**	**136,987**	**-**	**137,045**
Lower than A-	**4,850**	**244,753**	**14,694**	**264,297**
Unrated	**-**	**8,928**	**48**	**8,976**
Total	**4,908**	**390,668**	**14,742**	**410,318**

31 December 2013	FVIS	Available for sale securities	Held to maturity securities	Total
A to A+	-	115,590	65,140	180,730
Lower than A-	4,409	219,615	16,529	240,553
Unrated	-	25,931	48	25,979
Total	4,409	361,136	81,717	447,262

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	748,431	20,026	74,686	85,858	929,001
Overdrafts	-	99,160	-	-	99,160
Loans and advances	20,075	167,110	4,658	122,872	314,715
Debt securities	186,520	20,634	112,704	90,459	410,317
Interest receivable and other assets	3,352	2,007	1,838	1,568	8,765
At 31 December 2014	**958,378**	**308,937**	**193,886**	**300,757**	**1,761,958**
At 31 December 2013	1,137,748	348,829	154,248	218,086	1,858,911
Non-funded exposures:					
At 31 December 2014	**8,207**	**58,579**	**25,842**	**20,000**	**112,628**
At 31 December 2013	2,449	46,980	6,663	-	56,092

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 possible 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 2014								
Financial assets:								
Deposit with banks	5,607	484	1,363	1,329	-	-	258	9,041
Overdrafts, loans and advances	1,622	483	-	-	-	-	-	2,105
Debt securities	262	158	-	-	-	-	23	443
Impact of Financial Assets	7,491	1,125	1,363	1,329	-	-	281	11,589
Financial liabilities:								
Deposits	(8,761)	(390)	(64)	(376)	-	-	(9)	(9,600)
Impact of Financial Liabilities	(8,761)	(390)	(64)	(376)	-	-	(9)	(9,600)
Impact on the results of the Company	(1,270)	735	1,299	953	-	-	272	1,989

	USD 100BP	EUR 100BP	AED 100BP	SAR 100BP	JOD 100BP	QAR 100BP	Other 100BP	Total
Interest rate risk 2013								
Financial assets:								
Deposit with banks	5,495	451	1,581	1,332	-	914	76	9,849
Overdrafts, loans and advances	1,279	2	115	-	-	-	22	1,418
Debt securities	837	591	-	-	-	-	20	1,448
Impact of financial assets	7,611	1,044	1,696	1,332	-	914	118	12,715
Financial liabilities:								
Deposits	(9,179)	(936)	(14)	(604)	-	-	-	(10,733)
Impact of financial liabilities	(9,179)	(936)	(14)	(604)	-	-	-	(10,733)
Impact on the results of the Company	(1,568)	108	1,682	728	-	914	118	1,982

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:

	2014			2013		
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**	**507**	**-**	±10	2,344	-
Available for sale equity	**±10**	**-**	**1,426**	±10	-	1,796
Equity participations - quoted	**±10**	**-**	**16,653**	±10	-	16,116

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$ 170.4 million (2013: US$ 159.5 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 2014	USD	EUR	AED	SAR	JOD	GBP	Others	Total
Cash and deposits with banks	570,372	48,694	138,740	133,063	9	25,930	12,198	929,006
Financial assets at fair value through income statement	4,850	-	767	-	-	-	4,361	9,978
Investments securities:								
-Available for sale	375,091	16,013	-	6,634	-	-	13,787	411,525
-Held to maturity	14,694	-	-	-	-	-	48	14,742
Overdrafts, loans and advances	279,072	84,221	25,134	25,448	-	-		413,875
Equity participation	79,511	-	-	111,535	50,756	-	88,535	330,337
Property, plant and equipment	19,620	-	-	-	-	-	-	19,620
Other assets	12,540	147	757	254	-	12	660	14,370
Total financial assets	**1,355,750**	**149,075**	**165,398**	**276,934**	**50,765**	**25,942**	**119,589**	**2,143,453**
Derivative financial instruments	(25)	-	-	-	-	-	-	(25)
Deposits	(880,991)	(108,029)	(12,157)	(47,560)	-	(1,355)	(88)	(1,050,180)
Other liabilities	(4,428)	(354)	(1)	(10,151)	-	(1)	(2,678)	(17,613)
Total financial liabilities	(885,444)	(108,383)	(12,158)	(57,711)	-	(1,356)	(2,766)	(1,067,818)
Fair value reserve	(13,605)	(161)	-	(30,096)	(25,251)	-	(16,599)	(85,712)
Net open position	456,701	40,531	153,240	189,127	25,514	24,586	100,224	989,923
As at 31 December 2013								
Total financial assets	1,256,000	179,359	223,705	301,532	36,982	9,563	240,332	2,247,473
Total financial liabilities	(944,473)	(180,175)	(2,656)	(81,157)	-	(9,533)	(4,179)	(1,222,173)
Fair value reserve	584	(268)	-	(44,291)	(16,702)	-	(31,204)	(91,881)
Net open position	312,111	(1,084)	221,049	176,084	20,280	30	204,949	933,419

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

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk

Liquidity risk is the risk that the Company 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. Due to system constraints the company does not have undiscounted cash flow analysis.

As at 31 December 2014	1-3 months	3-12 months	Total
Liabilities			
Deposits	717,193	332,987	1,050,180
Other liabilities	3,719	2,522	6,241
Total liabilities (contractual maturity dates)	720,912	335,509	1,056,421

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)

As at 31 December 2013	1-3 months	3-12 months	Total
Liabilities			
Deposits	761,733	436,873	1,198,606
Other liabilities	4,538	6,982	11,520
Total liabilities (contractual maturity dates)	766,271	443,855	1,210,126

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:

As at 31 December 2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
Derivatives held for trading					
Foreign exchange derivatives:					
Outflow	**241,777**	**198,689**	**-**	**-**	**440,466**
Inflow	**241,822**	**198,936**	**-**	**-**	**440,758**
Interest rate derivatives:					
Outflow	**-**	**-**	**-**	**-**	**-**
Inflow	**-**	**-**	**-**	**-**	**-**
Total outflow	**241,777**	**198,689**	**-**	**-**	**440,466**
Total inflow	**241,822**	**198,936**	**-**	**-**	**440,758**

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.3 Derivative cash flows (continued)

As at 31 December 2013	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
Derivatives held for trading					
Foreign exchange derivatives:					
Outflow	231,056	207,535	-	-	438,591
Inflow	231,018	207,541	-	-	438,559
Interest rate derivatives:					
Outflow	-	-	500	-	500
Inflow	-	67	200	-	267
Total outflow	231,056	207,535	500	-	439,091
Total inflow	231,018	207,608	200	-	438,826

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 2014	**Less than 12 months**	**Over 12 months**	**No fixed maturity**	**Total**
ASSETS				
Cash and deposits with banks	929,006	-	-	**929,006**
Investments:				
Securities	47,863	383,310	5,072	**436,245**
Equity participations	-	-	330,337	**330,337**
Loans and advances	287,708	126,167	-	**413,875**
Property and equipment	-	-	14,352	**14,352**
Investment property	-	-	5,268	**5,268**
Other assets	14,272	98	-	**14,370**
TOTAL ASSETS	**1,278,849**	**509,575**	**355,029**	**2,143,453**
LIABILITIES				
Deposits	1,050,180	-	-	**1,050,180**
Derivative financial instruments	25	-	-	**25**
Other liabilities	9,317	8,296	-	**17,613**
TOTAL LIABILITIES	**1,059,522**	**8,296**	**-**	**1,067,818**
NET	**219,327**	**501,279**	**355,029**	**1,075,635**
Cumulative liquidity gap	**219,327**	**720,606**	**1,075,635**	

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 2013	Less than 12 months	Over 12 months	No fixed maturity	Total
ASSETS				
Cash and deposits with banks	1,010,048	-	-	1,010,048
Investments:				
Securities	134,762	337,756	21,970	494,488
Equity participations	-	-	313,393	313,393
Loans and advances	353,838	32,250	-	386,088
Property and equipment	-	-	13,765	13,765
Investment property	-	-	5,228	5,228
Other assets	24,456	7	-	24,463
TOTAL ASSETS	1,523,104	370,013	354,356	2,247,473
LIABILITIES				
Deposits	1,198,606	-	-	1,198,606
Derivative financial instruments	326	-	-	326
Other liabilities	5,135	3,402	14,704	23,241
TOTAL LIABILITIES	1,204,067	3,402	14,704	1,222,173
NET	319,037	366,611	339,652	1,025,300
Cumulative liquidity gap	319,037	685,648	1,025,300	

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.

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value of financial assets and liabilities (continued)

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

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

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

(b) Fair value hierarchy

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

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

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

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

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

Assets and liabilities measured at fair value

31 December 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through income statement				
- Debt securities	5,071	-	-	5,071
- Equity securities	4,908	-	-	4,908
Available for sale financial assets				
- Equity securities	7,543	-	-	7,543
- Debt securities	383,993	6,675	-	390,668
- Investment funds	-	13,315	-	13,315
- Equity participations	159,896	-	170,441	330,337
Total assets	**561,411**	**19,990**	**170,441**	**751,842**
Financial liabilities at FVIS				
- Derivative financial instruments	-	25	-	25
Total liabilities	**-**	**25**	**-**	**25**

31 December 2013	Level 1	Level 2	Level 3	Total
Financial assets at fair value through income statement				
- Debt securities	4,409	-	-	4,409
- Equity securities	21,970	-	-	21,970
Available for sale financial assets				
- Equity securities	8,277	-	-	8,277
- Debt securities	349,661	11,475	-	361,136
- Investment funds	-	16,979	-	16,979
- Equity participations	153,871	-	159,522	313,393
- Derivative assets	-	-	-	-
Total assets	538,188	28,454	159,522	726,164
Financial liabilities at FVIS				
- Derivative financial instruments	-	326	-	326
Total liabilities	-	326	-	326

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

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)

Reconciliation of fair value measurements of Level 3 financial instruments

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

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

	2014	2013
1 January	**159,522**	178,883
Purchases	**26,667**	1,335
Sales	**(853)**	(22,692)
Written off	**(23,950)**	-
Total gains and losses recognised in other comprehensive income	**9,057**	1,996
31 December	**170,443**	159,522

(c) Financial instruments not measured at fair value

At 31 December 2014, the fair value of HTM instruments carried at amortised cost of US$ 14.7 million (2013: US$ 81.7 million) was determined to be US$ 14.8 million (2013: US$ 82.3 million). The estimated fair value of the other assets and liabilities was not significantly different from their respective carrying values. These would qualify for Level 2 disclosure in the table above.

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:

	2014	2013
Cash and cash equivalents:		
Cash on hand and in banks	14,688	14,117
Time deposits maturing within three months of acquisition	744,540	995,931
Cash and cash equivalents	759,228	1,010,048
Time deposits with original maturities of more than three months	169,778	-
Total	929,006	1,010,048

6. INVESTMENT SECURITIES

Investment securities as of 31 December comprise the following:

	2014	2013
a) Financial assets at fair value through income statement (FVIS)		
Equity securities	5,070	21,970
Debt securities	4,908	4,409
Total	9,978	26,379
b) Available-for-sale securities		
Equity securities	7,543	8,277
Debt securities	390,668	361,136
Investment funds	13,314	16,979
Total	411,525	386,392
c) Held-to-maturity securities		
Debt securities	14,742	81,717
Total	14,742	81,717
Total investments	436,245	494,488

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 2014	Total 2013
At 1 January	26,379	386,392	81,717	494,488	548,371
Exchange differences	(7)	(620)	-	(627)	3,008
Additions	2,632	186,383	-	189,015	149,302
Disposals (sale, maturity and redemption)	(17,995)	(160,574)	(67,456)	(246,025)	(201,589)
Change in fair value	(1,031)	(338)		(1,369)	(6,272)
Accretion of discount	-	-	481	481	1,668
Provision of writeback	-	282	-	282	-
At 31 December	**9,978**	**411,525**	**14,742**	**436,245**	494,488

Included in the above are securities pledged under repurchase agreements with other banks whose carrying value at 31 December 2014 is US$ 147.4 million (2013: US$ 198.4 million)

* During the year, provision for impairment of US$ nil (2013: 450 thousand) was transferred from investment to loans and advances upon restructuring of a facility. This was netted off by a transfer of provision for impairment of US$ nil (2013: 1,150 thousand) from loan and advances to investment.

The Company's investment in debt securities held at amortised cost amounting to US$ 14,762 thousand (2013: US$ 87,717 thousand) has a fair value amounting to US$ 14,828 thousand (2013: US$ 82,272 thousand).

During the financial year of 2008, in view of the rare circumstance caused by the significant deterioration in the world's financial markets, the Company reclassified interest bearing securities from the ‹fair value through statement of profit and loss› sub-category of held for trading to the ‹held to maturity› (HTM) category. These securities had a fair value of US$ 9,740 (2013: US$ 16,132 thousand) and carrying value of US$ 9,734 (2013: US$ 16,490 thousand) as of 31 December 2014. Had these interest bearing securities not been re-classified to HTM, fair value gains of US$ 506 thousands (2013: US$ 268 thousand) would have been recognised in the statement of profit and loss for the year ended 31 December 2014.

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS

7.1 Fair value of equity participations

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

	2014	2013
Quoted	**159,894**	153,871
Unquoted	**170,443**	159,522
Total	**330,337**	313,393

2014

Country / Project	Quoted shares	Original cost of participation	Fair value of participation	Percentage of shareholding
Kingdom of Morocco				
Société Ryad Soualem S.A.		1,977	1,977	33.0
Maroc Leasing Company	Quoted	4,764	6,363	5.7
		6,741	8,340	
Kingdom of Saudi Arabia				
Saudi Hotel Services Company		4,099	4,099	20.0
Saudi International Petrochemical Company	Quoted	24,994	59,666	2.3
Middle East Financial Investment Company		16,000	16,000	15.0
National Trigeneration CHP Company		9,043	5,103	9.9
Bidaya Home Finance		26,667	26,667	11.1
		80,803	111,535	
Republic of Sudan				
Kenana Sugar Company		62,396	17,245	7.0
Sudatel Group for Communication	Quoted	20,733	10,651	2.2
Financial Investment Bank	Quoted	4,440	4,832	20.8
Berber Cement Company		16,397	12,570	16.4
The Arab Leasing Company		9,000	8,619	30.0
		112,966	53,917	

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

7.1 Fair value of equity participations (continued)

2014 (Continued)

Country / Project	Quoted shares	Original cost of participation	Fair value of participation	Percentage of shareholding
Arab Republic of Egypt				
Arab International Company for Hotels and Tourism		12,700	12,700	13.6
Egyptian Propylene and Polypropylene Company		27,630	27,630	10.0
International Company for Leasing		7,901	6,218	10.0
		48,231	46,548	
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	19,090	44,455	10.3
Arab International Hotels Company	Quoted	7,786	6,301	8.4
		26,876	50,756	
Kingdom of Bahrain				
Arab Banking Corporation	Quoted	15,723	9,066	0.4
State of Qatar				
Arab Jordan Investment Bank		8,700	8,700	15.0
Sultanate of Oman				
Taageer Finance Company	Quoted	7,901	18,560	18.8
Pan-Arab				
The Arab Company for Livestock Development		3,559	3,559	1.7
Arab Mining Company – Jordan		2,156	2,156	1.1
Arab Trade Financing Program - Abu Dhabi		3,335	3,335	0.4
		9,050	9,050	
Total		330,856	330,337	

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

7.1 Fair value of equity participations (continued)

2013

Country / Project	Quoted shares	Original cost of participation	Fair value of participation	Percentage of Shareholding
Kingdom of Morocco				
Société Ryad Soualem S.A.		1,977	1,977	33.0
Maroc Leasing Company	Quoted	4,764	7,824	5.7
		6,741	9,801	
Kingdom of Saudi Arabia				
Saudi Hotel Services Company		5,855	5,855	20.0
Saudi International Petrochemical Company	Quoted	24,994	71,491	2.3
Middle East Financial Investment Company		16,000	16,000	15.0
National Trigeneration CHP Company		9,043	5,697	9.9
		55,892	99,043	
Syrian Arab Republic				
Syrian Arab Company for Hotels and Tourism		2,272	634	20.5
Republic of Sudan				
Kenana Sugar Company		62,396	18,091	7.0
Sudatel Group for Communication	Quoted	20,733	10,482	2.2
Financial Investment Bank	Quoted	4,440	4,375	20.8
Berber Cement Company		16,397	9,294	16.4
The Arab Leasing Company		9,000	8,619	30.0
		112,966	50,861	
Republic of Tunisia				
Société Tunisienne de Banque	Quoted	1,918	354	0.4
Société Arabe des Industries Pharmaceutiques		994	994	4.0
		2,912	1,348	

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

7.1 Fair value of equity participations (continued)

2013 (continued)

Country / Project	Quoted shares	Original cost of participation	Fair value of participation	Percentage of Shareholding
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	5,726	10.0
		54,165	46,909	
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	28,682	10.3
Jordan Paper & Cardboard Manufacturing Company	Quoted	2,862	1,046	26.7
Arab International Hotels Company	Quoted	7,787	7,183	8.4
		22,498	36,911	
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	4,857	0.4
State of Qatar				
Arab Jordan Investment Bank		8,700	8,691	15.0
Sultanate of Oman				
Taageer Finance Company	Quoted	7,901	17,577	18.8
Pan-Arab				
The Arab Company for Livestock Development		3,559	3,559	1.7
Arab Mining Company – Jordan		2,156	2,156	1.1
Arab Trade Financing Program - Abu Dhabi		3,335	3,335	0.4
		9,050	9,050	
Total		326,531	313,393	

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

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

7.2 Gain on sale of equity participations

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

	2014
Allianz Company –Egypt	**974**
Total	**974**

	2013
Cellulose du Maroc – Morocco	5,303
Pharmaceutical Solutions Industry Limited Company – Saudi Arabia	5,534
Total	10,837

All amounts in United States Dollars thousands

8. LOANS AND ADVANCES

Loans and advances as of 31 December comprise the following:

	2014	2013
Overdrafts	**99,161**	110,858
Short term facilities	**92,340**	195,173
Bills discounted	**-**	2,794
Loans and advances	**233,733**	154,612
Total loans and advances	**425,234**	463,437
Provision for impairment on loans and advances	**(11,359)**	(77,349)
Loans and advances, net	**413,875**	386,088
Movement in provision:		
At 1 January	**77,349**	90,668
Provision for the year (see Note 20)	**7,324**	7,118
Written off during the year	**(73,314)**	(19,737)
Transfer, net*	**-**	(700)
At 31 December	**11,359**	77,349
Specific impairment provision	**9,012**	68,570
Collective impairment provision	**2,347**	8,779
	11,359	77,349

* During the year, provision for impairment of US$ nil (2013: US$ 450 thousand) was transferred from investments to loans and advances upon restructuring of a facility. Further, this was netted off by a transfer of provision for impairment of US$ nil (2013: 1,150 thousand) from loan and advances to investment.

The fair value of collaterals that the company holds relating to loans individually determined to be impaired at 31 December 2014 amounts to US$ nil (2013: US$ 44,706 thousand). The collaterals consists of equity shares and real estate properties. The utilisation of the above collaterals will be on a customer by customer basis and will be limited to the customer›s total exposure.

All amounts in United States Dollars thousands

9. OTHER ASSETS

Other assets as of 31 December comprise the following:

	2014	2013
Accrued income	10,921	20,790
Other receivables	3,449	3,673
Total	14,370	24,463

10. PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY

10.1 Property and equipment:

Property and equipment as of 31 December comprise the following:

	Land	Building and its equipment	Furniture and equipments	Total 2014	Total 2013
Cost:					
At 1 January	6,660	18,568	12,911	**38,139**	37,330
Adjustment	756	-	-	**756**	599
Additions during the year	-	2	1,262	**1,264**	366
Disposals during the year	-	(265)	(239)	**(504)**	(156)
At 31 December	7,416	18,305	13,934	**39,655**	38,139
Accumulated depreciation:					
At 1 January	-	(13,184)	(11,190)	**(24,374)**	(23,234)
Charge for the year	-	(221)	(857)	**(1,078)**	(1,172)
Relating to disposals	-	85	64	**149**	32
At 31 December	-	(13,320)	(11,983)	**(25,303)**	(24,374)
Net book value:					
At 31 December 2014	7,416	4,985	1,951	**14,352**	
At 31 December 2013	6,660	5,384	1,721		13,765

All amounts in United States Dollars thousands

10. PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY (Continued)

10.2 Investment property:

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

	2014	2013
Cost:		
At 1 January	**30,468**	30,456
Additions during the year	**145**	12
At 31 December	**30,613**	30,468
Accumulated depreciation:		
At 1 January	**(25,240)**	(25,127)
Charge for the year	**(105)**	(113)
At 31 December	**(25,345)**	(25,240)
Net book value:	**5,268**	5,228

The fair value of investment property at 31 December 2014 amounted to approximately US$ 25 million (2013: US$ 27 million).

11. DEPOSITS

Deposits as of 31 December comprise the following:

	2014	2013
Deposits by banks	**718,523**	813,143
Deposits by non-banks	**331,657**	385,463
Total	**1,050,180**	1,198,606

Included in the above are deposits raised under repurchase agreements whose carrying value as at 31 December 2014 is US$ 125.6 million (2013: US$ 173.4 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.

	2014		
		Fair value	
	Contract/Notional Amount	**Assets**	**Liabilities**
Held for trading			
Foreign exchange derivatives:			
Currency swaps	**881,224**	**315**	**25**
		315	**25**

	2013		
		Fair value	
	Contract/Notional Amount	Assets	Liabilities
Held for trading			
Interest rate derivatives:			
Interest rate swap	10,000	-	201
Foreign exchange derivatives:			
Currency swaps	877,150	86	125
		86	326

All amounts in United States Dollars thousands

13. OTHER LIABILITIES

Other liabilities as of 31 December comprise the following:

	2014	2013
Accounts payable and accrued expenses	**4,316**	8,786
Deferred income	**2,126**	2,121
Employees' benefits (see table below)	**9,246**	9,600
Interest payable	**1,925**	2,734
Total	**17,613**	23,241

Employees' benefits as of 31 December comprise the following:

	Employees saving schemes	Provision for end of service indemnity	Provision for leave	**Total**	
				2014	2013
At 1 January	997	7,625	978	**9,600**	11,483
Charge for the year	159	985	802	**1,946**	1,942
Provisions utilised	(122)	(1,348)	(830)	**(2,300)**	(3,825)
At 31 December	1,034	7,262	950	**9,246**	9,600

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. Provisions utilised represent the additional contributions to the saving scheme made by the employees less the withdrawals of the employees› entitlements at the time of exiting from the scheme.

14. SHARE CAPITAL

14.1 Authorized and paid

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

	2014		2013	
	No. of Shares	**Amount**	No. of Shares	Amount
Authorised	**1,200,000**	**1,200,000**	800,000	800,000
Fully paid	**800,000**	**800,000**	700,000	700,000

On 22 June 2014, the extra ordinary General Assembly Meeting approved an increase in paid up capital from US$ 700 million to US$ 800 million, through capitalization of retained earnings of an amount of US$ 100 million. Legal formalities to effect this increase are completed at the balance sheet date.

All amounts in United States Dollars thousands

14. SHARE CAPITAL (Continued)

14.1 SHARE CAPITAL PAID (continued)

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

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

	Ownership Percentage(%)	**2014**	2013
Kingdom of Saudi Arabia	15.68	**125,422**	109,744
State of Kuwait	15.68	**125,422**	109,744
United Arab Emirates (Abu Dhabi)	15.68	**125,422**	109,744
Republic of Iraq	10.48	**83,871**	73,387
State of Qatar	8.19	**65,543**	57,350
Arab Republic of Egypt	6.97	**55,743**	48,775
Syrian Arab Republic	6.97	**55,743**	48,775
The State of Libya	6.97	**55,743**	48,775
Republic of Sudan	2.68	**21,421**	18,744
Kingdom of Bahrain	1.71	**13,679**	11,969
Republic of Tunisia	1.71	**13,679**	11,969
Kingdom of Morocco	1.71	**13,679**	11,969
Sultanate of Oman	1.71	**13,679**	11,969
Republic of Lebanon	1.61	**12,899**	11,287
People's Democratic Republic of Algeria	1.61	**12,899**	11,287
The Hashemite Kingdom of Jordan	0.32	**2,578**	2,256
Republic of Yemen	0.32	**2,578**	2,256
Total	100.00	**800,000**	700,000

All amounts in United States Dollars thousands

14. SHARE CAPITAL (Continued)

14.2 Subscription in share capital

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

	Ownership Percentage(%)	2014	2013
Kingdom of Saudi Arabia	15.68	**5,488**	-
State of Kuwait	15.68	**5,488**	-
United Arab Emirates (Abu Dhabi)	15.68	**-**	-
Republic of Iraq	10.48	**3,668**	-
State of Qatar	8.19	**2,866**	-
Arab Republic of Egypt	6.97	**2,440**	-
Syrian Arab Republic	6.97	**-**	-
The State of Libya	6.97	**2,440**	-
Republic of Sudan	2.68	**938**	-
Kingdom of Bahrain	1.71	**598**	-
Republic of Tunisia	1.71	**597**	-
Kingdom of Morocco	1.71	**598**	-
Sultanate of Oman	1.71	**598**	-
Republic of Lebanon	1.61	**564**	-
People's Democratic Republic of Algeria	1.61	**564**	-
The Hashemite Kingdom of Jordan	0.32	**112**	-
Republic of Yemen	0.32	**-**	-
Total	100.00	**26,959**	-

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.

	2014	2013
Movement of statutory reserve:		
Balance, beginning of the year	**93,295**	87,703
Additions for the year	**3,015**	5,592
Balance, end of the year	**96,310**	93,295

All amounts in United States Dollars thousands

16. FAIR VALUE RESERVE

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

	2014	2013
Investments in equity participations		
Balance, at beginning of year	**87,567**	57,103
Change in fair value	**(5,830)**	30,464
Balance, at end of year	**81,737**	87,567
Investments in securities available-for-sale		
Balance, at beginning of year	**4,314**	13,217
Change in fair value	**(339)**	(8,903)
Balance, at end of year	**3,975**	4,314
Total fair value reserve	**85,712**	91,881

17. NET FEES AND COMMISSIONS

	2014	2013
Loans	**10**	7
Trade finance	**2,138**	3,695
Islamic banking	**485**	1,393
Others	**(136)**	(64)
Net fees and commissions	**2,497**	5,031

18. NET GAIN ON FINANCIAL SECURITIES

	2014	2013
Equities	**6,212**	8,641
Debt securities	**200**	3,385
Unit Trust Funds	**2,373**	1,243
Total	**8,785**	13,269

19. GENERAL AND ADMINISTRATIVE EXPENSES

	2014	2013
Salaries and related benefits	**12,259**	13,864
Professional and consultancy	**2,125**	2,482
Board of directors' expenses	**702**	689
Others	**3,558**	3,368
Total	**18,644**	20,403

All amounts in United States Dollars thousands

20. IMPAIRMENT PROVISIONS

	2014	2013
Securities	(282)	-
Loans and advances, net	7,324	7,118
Provision expenses for contingent liabilities	290	-
Equity participation	5,000	9,000
Total	12,332	16,118

21. 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 2014	No later than 1 year	1-5 year	Over 5 years	Total
Loan commitments	86,238	-	-	86,238
Guarantees, acceptances and other financial facilities	14,391	12,000	-	26,391
Total	**100,629**	**12,000**	-	**112,629**

31 December 2013	No later than1 year	1-5 year	Over 5 years	Total
Loan commitments	6,663	1,176	-	7,839
Guarantees, acceptances and other financial facilities	36,035	9,551	2,667	48,253
Total	42,698	10,727	2,667	56,092

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

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

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

d. The Company has investment commitments amounting to US$ 48.1 million as at 31 December 2014 (2013: US$ 46.3 million)

All amounts in United States Dollars thousands

22. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

	2014	2013
Executive management personnel:		
Loans and advances	**(85)**	-
End of service benefit	**1,729**	1,266

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:

	2014	2013
Board of directors' expenses	**702**	689
Board of directors' bonuses paid	**613**	600
Salaries and short-term employee benefits	**573**	536
End of service benefits	**463**	413

23. COMPARATIVE INFORMATION

Certain comparative figures have been reclassified where necessary to conform to the presentation adopted in the financial statements at 31 December 2014.

24. 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 near term. In the case of shorter term instruments, the Company has received settlement upon maturity of the instruments. Based on available information as of the date of approval of these financial statements; management is confident of the long term viability and recoverability of the Company's longer term investments (including equity participations).

25. APPROVAL OF FINANCIAL STATEMENTS

The accompanying financial statements were approved by the Board of Directors of the Company on 12 Jamad Thani 1436H (corresponding to 1 April 2015).

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