FINANCIAL STATEMENTS
for the year end 31 December 2008

KPMG Fakhro
Audit
5th Floor
Chamber of Commerce Building
PO Box 710, Manama
Kingdom of Bahrain

CR No. 6220
Telephone +973 17 224807
Fax +973 17 227443
Internet www.kpmg.com.bh

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Arab Petroleum Investments Corporation
Dammam, Saudi Arabia

03 April 2009

Report on the financial statements

We have audited the accompanying financial statements of Arab Petroleum Investments Corporation ("the Corporation" / "APICORP"), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the Board of Directors and the Management for the financial statements

The Board of Directors and the Management of the Corporation are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal controls relevant to the Corporation'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 controls. An audit also includes evaluating the appropriateness of accounting principles 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 Corporation as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

BALANCE SHEET

as at 31 December 2008

(US$000)

	Notes	2008	2007
ASSETS			
Cash and cash equivalents		9,391	15,510
Trading securities	1	98	50,822
Available-for-sale securities	2	616,940	817,648
Available-for-sale direct equity investments	3	282,848	343,266
Deposits with banks	4	227,618	391,575
Syndicated and direct loans	5	2,371,196	1,892,499
Property and equipment	6	34,174	36,518
Other assets	7	21,537	25,519
TOTAL ASSETS		3,563,802	3,573,357
LIABILITIES			
Deposits from banks	8	1,388,641	1,342,906
Deposits from corporate		447,334	294,730
Securities sold under agreement to repurchase		159,558	225,557
Term financing	9	648,590	648,033
Other liabilities	10	24,929	41,728
Total liabilities		2,669,052	2,552,954
EQUITY			
Share capital		550,000	550,000
Legal reserve		114,100	111,300
General reserve		66,539	66,539
Available-for-sale fair value reserve		122,225	255,488
Retained earnings		41,886	37,076
Total equity (page 35)		894,750	1,020,403
TOTAL LIABILITIES AND EQUITY		3,563,802	3,573,357
OFF-BALANCE SHEET EXPOSURES	11	1,008,317	1,051,857

The financial statements, which consist of pages 33 to 64, were approved by the Board of Directors on 3rd April 2009 and signed on its behalf by:

Abdullah A. Al-Zaid
Chairman

Ahmad Bin Hamad Al Nuaimi
Chief Executive and General Manager

INCOME STATEMENT

for the year ended 31 December 2008

(US$000)

	Notes	2008	2007
Interest income		134,763	153,703
Interest expense		(104,488)	(112,935)
Net interest income	12	**30,275**	40,768
Fee income		6,659	3,625
Fee expense		(114)	(180)
Net fee income	13	**6,545**	3,445
Dividend income	14	57,988	31,649
(Loss) / gain on trading securities	15	(3,893)	6,686
Gain on available-for-sale securities	16	2,982	6,039
Gain on available-for-sale direct equity investments	17	-	5,433
Impairments losses /(reversals)	18	(45,368)	7,982
General administrative expenses	19	(23,553)	(22,296)
Other income	20	2,634	33
PROFIT FOR THE YEAR		**27,610**	79,739
Appropriation of net income			
Legal reserve		2,800	8,200
General reserve		-	51,539
Dividend to shareholders		-	20,000
Retained earnings		24,810	-
		27,610	79,739

Per US$ 1,000 share information	2008	2007
• Earnings (based on weighted average number of shares outstanding)	**US$ 50**	US$ 145
• Actual dividends	-	US$ 36
• Net asset value	**US$ 1,627**	US$ 1,855

The financial statements consists of pages 33 to 64.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2008

(US$000)

				AFS Fair value reserve				
2008	Share Capital	Legal reserve	General reserve	Securities	Direct equity investments	Total	Retained earnings	Total
Balance at 1 January	550,000	111,300	66,539	5,369	250,119	255,488	37,076	1,020,403
Transfer to income statement on impairment	-	-	-	(1,782)	-	(1,782)	-	(1,782)
Fair value changes	-	-	-	(56,145)	(90,017)	(146,162)	-	(146,162)
Transfer to income statement on sale of investment	-	-	-	14,681	-	14,681	-	14,681
Total income and expense recognised directly in equity	-	-	-	(43,246)	(90,017)	(133,263)	37,076	(133,263)
Dividend declared for 2007 (see page 33)	-	-	-	-	-	-	(20,000)	(20,000)
Profit for the year (see page 33)	-	-	-	-	-	-	27,610	27,610
Transfer to legal reserve	-	2,800	-	-	-	-	(2,800)	-
Balance at 31 December	550,000	114,100	66,539	(37,877)	160,102	122,225	41,886	894,750
2007								
Balance at 1 January	550,000	103,100	15,000	6,190	185,149	191,339	37,076	896,515
Transfer to income statement on sale of investment	-	-	-	(6,039)	(3,805)	(9,844)	-	(9,844)
Fair value changes	-	-	-	5,218	68,775	73,993	-	73,993
Total income and expense recognised directly in equity	-	-	-	(821)	64,970	64,149	-	64,149
Dividend declared for 2006 (see page 33)	-	-	-	-	-	-	(20,000)	(20,000)
Profit for the year (see page 33)	-	-	-	-	-	-	79,739	79,739
Transfer to legal reserve	-	8,200	-	-	-	-	(8,200)	-
Transfer to General reserve	-	-	51,539	-	-	-	(51,539)	-
Balance at 31 December	550,000	111,300	66,539	5,369	250,119	255,488	37,076	1,020,403

The financial statements consists of pages 33 to 64.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2008 (US$000)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	144,918	150,237
Interest paid	(111,163)	(108,446)
Receipts from trading activities, net	46,832	19,588
Decrease / (increase) in deposits with banks	163,957	(46,575)
Syndicated and direct loans drawn down	(1,145,135)	(1,237,502)
Syndicated and direct loans repayments and prepayments	665,279	654,435
Recovery from guarantee	4,000	5,000
Fees received	6,659	3,628
Fees paid	(114)	(180)
Operating expenses paid	(21,368)	(18,564)
Other income received	9	14
(Payments) /receipts from other operating assets and liabilities, net	(7,753)	10,446
Cash flows from operating activities	(253,879)	(567,919)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of available-for-sale securities	204,918	469,079
Purchase of available-for-sale securities	(100,462)	(696,963)
Sale of available-for-sale direct equity investments	-	6,494
Purchase of available-for-sale direct equity investments	(29,599)	(24,226)
Dividends recieved from available-for-sale direct equity investments	57,979	31,635
Sale of investment property	-	2,697
Rent received	986	886
Purchase of property and equipment	(402)	(962)
Cash flows from investing activities	133,420	(211,360)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in deposits	45,735	187,238
Increase deposits from corporate	152,604	289,730
(Decrease) / increase in securities sold under agreement to repurchase	(65,999)	225,557
Term financing drawn down	-	400,000
Term financing repayment and prepayment	-	(300,000)
Dividends paid	(18,000)	(18,000)
Cash flows from financing activities	114,340	784,525
Net (Decrease) / increase in cash and cash equivalents for the year	(6,119)	5,246
Cash and cash equivalents at the beginning of the year	15,510	10,264
Cash and cash equivalents at 31 December (see page 33)	9,391	15,510

The financial statements consists of pages 33 to 64.

FORMATION, STATUS AND ACTIVITIES OF APICORP

Arab Petroleum Investments Corporation (APICORP - the Corporation) is an Arab joint stock company established on 23 November 1975 in accordance with an international agreement signed and ratified by the ten member states of the Organization of Arab Petroleum Exporting Countries (OAPEC). The agreement defines the objectives of the Corporation as:

- participation in financing petroleum projects and industries, and in fields of activity which are derived there from, ancillary to, associated with, or complementary to such projects and industries; and

- giving priority to Arab joint ventures which benefit the member states and enhance their capabilities to utilise their petroleum resources and to invest their funds to strengthen their economic and financial development and potential.

Domicile and taxation

The Corporation is an international entity, and operates from its registered head office in Dammam, Kingdom of Saudi Arabia and its Banking Unit in Manama, Kingdom of Bahrain. The establishing agreement states that APICORP is exempt from taxation in respect of its operations in the member states.

Share capital

The capital is denominated in shares of US$ 1,000 and is owned by the governments of the ten OAPEC states as follows:

(US$000)

	Issued and fully paid	Authorised capital	Percentage
United Arab Emirates	93,500	204,000	17%
Kingdom of Bahrain	16,500	36,000	3%
Democratic and Popular Republic of Algeria	27,500	60,000	5%
Kingdom of Saudi Arabia	93,500	204,000	17%
Syrian Arab Republic	16,500	36,000	3%
Republic of Iraq	55,000	120,000	10%
State of Qatar	55,000	120,000	10%
State of Kuwait	93,500	204,000	17%
Socialist Peoples' Libyan Arab Jamahiriya	82,500	180,000	15%
Arab Republic of Egypt	16,500	36,000	3%
	550,000	1,200,000	100%

Activities

APICORP is independent in its administration and the performance of its activities, and operates on a commercial basis with the intention of generating net income. It operates from its registered head office in Dammam, Kingdom of Saudi Arabia and its Banking Unit in Manama, Kingdom of Bahrain.

Currently the Corporation's project-financing activities take the form of loans and direct equity investments in projects. These activities are funded by shareholders' equity, medium-term financing, deposits from government, corporate and short-term deposits from banks.

SIGNIFICANT ACCOUNTING POLICIES

A GENERAL

A-1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

A-2 Basis of preparation

APICORP's functional and presentation currency is United States dollars (US $) because it is a supranational organisation with its capital and the majority of its transactions and assets denominated in that currency.

The financial statements have been prepared on the historical cost convention except for the measurement at fair value of trading securities, certain available-for-sale investments and derivative financial instruments.

The preparation of financial statements in conformity with the IFRS, requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation'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 notes J and K.

These accounting policies have been applied consistently to all periods presented in the financial statements.

A-3 Foreign currency transactions

Transactions in currencies other than US dollars (foreign currencies) are translated at the exchange rates ruling at the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated into US dollars at rates prevailing at the balance sheet date. Differences arising from changes in exchange rates are recognised in the income statement.

Available-for-sale investments (non-monetary assets) denominated in foreign currencies that are stated at fair value are translated to US dollars at prevailing exchange rates. Differences arising from changes in rates are included in the fair value reserve in equity. Capital expenditure on property and equipment is stated at the historical rates of exchange.

Share capital originally contributed in Saudi Riyals is maintained at the historical rates of exchange.

B FINANCIAL ASSETS AND LIABILITIES

B-1 Classification

Trading securities are those that the Corporation purchased principally for the purpose of gains over the short-term. These consist of listed equity securities.

Available-for-sale investments are non-derivative financial assets that are not classified as held for trading or loans provided by the Corporation or held to maturity. Available-for-sale investments include certain debt securities, managed funds and direct equity investments.

Loans arise when the Corporation provides money to a borrower, other than those created with the intention of gains over the short-term. Loans comprise deposits with banks, syndicated and direct loans.

B-2 Recognition

Available-for-sale and held for trading financial assets are recognised on a settlement date basis.

Loans are recognised on the day on which they are drawn down by the borrower.

B-3 Measurement

Financial assets are measured initially at fair value plus transaction costs except for financial assets held for trading where transaction costs are recognised in the income statement. Subsequent to initial recognition, all trading and available-for-sale investments are re-measured to fair value, except in case of certain unlisted available-for-sale direct equity investments, where a reliable measure of fair value is not available.

B Financial Assets and Liabilities (continued)

Loans are carried at amotised cost using the effective interest method, less allowances for impairment, if any. The unamortised portion of deferred participation and upfront fees received is deducted from the carrying values of the loans.

B-4 Amortisation

Where financial assets, mainly bonds, have been purchased at a premium or a discount, the premiums and discounts are amortised through the income statement over the period from the date of purchase to the date of maturity.

B-5 Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. Financial assets, for which there is no quoted market price or other appropriate methods from which to derive fair value are stated at cost less impairment allowances, if any.

B-6 Subsequent measurement

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in a fair value reserve as a separate component of equity. When the assets are sold, collected or otherwise disposed of, or are impaired, the cumulative gain or loss recognised in equity is transferred to the income statement.

Gains and losses arising from a change in the fair value of trading securities and derivative instruments not designated as an accounting hedge are recognised in the income statement in the period in which it arises.

B-7 De-recognition

A financial asset is derecognised when the Corporation loses control over the contractual rights attached to that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when the contract obligations are discharged or cancelled or expires.

B-8 Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the assets' recoverable amounts are estimated. The recoverable amount of an equity instrument is its fair value. The recoverable amount of loans and debt instruments remeasured to fair value is calculated as the present value of the related expected future cash flows discounted at the current market rate of interest for such an instrument.

Where a financial asset remeasured to fair value directly through equity is impaired, and a write-down was previously recognised directly in equity, the write-down is transferred to the income statement and is recognised as part of the impairment loss. Any subsequent additional impairment loss is also recognised in the income statement. Similarly the increase in the fair value of financial asset, previously been recognised in equity is reversed to the extent, it is impaired except for debt securities, where the reversal of impairment is through the income statement.

Allowances for Loans uncollectibility (impairment) consist of:

- Specific allowances for individual loans. Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Corporation on terms that the Corporation would not otherwise consider, indications that a borrower will enter bankruptcy, other observable data relating to a group of assets such as adverse changes in the payment status of borrowers, or economic conditions that correlate with defaults in the Corporation.

- Collective impairment allowances. Loans not found to be individually impaired are grouped on similar credit characteristics. Each group is collectively evaluated for impairment. In assessing collective impairment the Corporation uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

B Financial Assets and Liabilities (continued)

Increases and decreases in allowances for uncollectibility are recognised in the income statement. When a loan is known to be uncollectible, and the final loss has been determined, the loan is written off after receiving specific approval to do so from the Board of Directors.

If in a subsequent period the amount of impairment loss decreases, and the decrease is due to a change in estimates, or can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

B-9 Financial Liabilities

Initial recognition and measurement
Financial liabilities are intially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

Subsquent measurement
All financial liabilities are classified as non-trading liabilities and are measured at amortised cost using the effective interest rate method.

Derecognition
Finance liabilities are derecognised when the obligation is discharged, cancelled or expires.

C CASH AND CASH EQUIVALENTS
For the purpose of the statement of cash flows, cash and cash equivalents comprise cash balances on hand and bank balances.

D REPURCHASE AND RESALE AGREEMENTS
Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) are not derecognised. As the Corporations retains all or substantially all the risks and rewards of the transferred assets. Amounts received under these agreements are treated as liabilities and the difference between the sale and repurchase price treated as interest expense using the effective yield method.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the balance sheet. Amounts paid under these agreements are treated as assets and the difference between the purchase and resale price treated as interest income using the effective yield method

E PROPERTY AND EQUIPMENT
E-1 Classification
Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Where an item of property and equipment comprises significant components having different useful lives, these components are accounted for as separate items of property and equipment. No borrowing costs have been capitalised.

E-2 Subsequent expenditure
Expenditure incurred subsequently to replace a major component of an item of property and equipment that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits expected to accrue from the item of property and equipment.

All other expenditure, for example on maintenance and repairs, is expensed in the income statement as incurred.

E-3 Depreciation
Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the items of property and equipment, and of the major components that are accounted for separately. Land is not depreciated.

E Property and Equipment (continued)

The estimated useful lives of the Corporation's property and equipment are as follows:

• Head office building (civil works and other major components)	20 to 40 years
• Head office building (finishes, systems and equipment)	5 to 20 years
• Housing compound buildings (including new extension)	15 years (from 2000)
• Housing compound equipment, furniture and fittings	5 to 10 years
• Office furniture, equipment and computer hardware (and related software)	3 to 10 years

• Office fit outs capitalized at Bahrain branch are depreciated over un-expired period of lease or 5 years whichever is less.

The property and equipment residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

F INVESTMENT PROPERTY

The Corporation's investment property is carried at fair value. Fair value is determined by an independent, professional property valuator based on open market prices. Any gain or loss arising from a related change in fair value is recognised in income statement.

G INCOME RECOGNITION

G-1 Interest income and expenses

Interest income and interest expense for all interest-bearing financial instruments except those classified as held-for-trading are recognised within "interest income" and "interest expense" in the income statement using the effective interest rate method. Fees, including loan origination less and early redemption fees are included in the calculation of the effective interest rate to the extent that they are considered to be an integral part of the effective interest rate.

G-2 Dividend income

Dividend income is recognised in the income statement when the right to receive is established.

G-3 Fee income

Fee income arises from financial services provided by the Corporation including project and structured finance transactions, for example advising on underwriting and arranging syndicated loan facilities, and is recognised when the service is provided.

Fees that are analagous to interest and are considered to be part of the overall yield on loans, specifically participation and upfront fees are initially deferred and then amortised over the lives of the related loans. The amortised income is included in interest income.

G-4 Rent income

Rent income is recognised in the income statement on a time apportionment basis.

H EMPLOYEES' END OF SERVICE BENEFITS

The Corporation provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service subject to the completion of a minimum service period. Provision for the unfunded commitment (which is a defined benefit scheme under IAS 19) has been made by calculating the notional liability, had all the employees left at the balance sheet date.

I DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments and include interest rate swap and forward currency contracts.

Derivative financial instruments 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. The fair value of a derivative is the equivalent to its prevailing market rates or is based on broker quotes. Derivatives with positive market values are disclosed as assets and derivatives with negative market values are disclosed as liabilities in the balance sheet. Any gains or losses arising from changes in fair value on derivative instruments are recognised directly in the income statement in period in which it arises.

J JUDGEMENTS

In the process of applying the Corporation's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

J-1 Classification of investments

Management decides on acquisition of an investment whether it should be classified as trading or available-for-sale, which is based on the intention of the management.

J-2 Impairment of investments

The Corporation considers quoted available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. For AFS investments that are carried at cost less impairment, corporation considers among other factors, the evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

K ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

K-1 Impairment losses on loans and advances

The Corporation reviews its loans portfolio on a quarterly basis to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgment by Corporation is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

K-2 Collective impairment provisions on loans and advances

In addition to specific provisions against individually significant loans and advances, the Corporation also makes a collective impairment provision against loans and advances which although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loan, since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

These internal grading take into consideration factors such as any deterioration in country risk, industry, technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

L NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

During the year the following relevant standards and interpretations were issued:

- IAS 1 - Presentation of Financial Statements (effective 1 January 2009)
- Amendment to IAS 39 - Financial Instruments: Recognition and Measurement - Eligible Hedged Items (effective 1 July 2009)

The adoption of these standards and interpretations are not expected to have material impact on the financial statements.

M LEGAL AND GENERAL RESERVES

Under Article 35 of APICORP's establishment agreement and statute, 10% of annual net income is to be transferred to a legal reserve until such reserve equals the paid up share capital. The legal reserve is not available for distribution.

Article 35 also permits the creation of other reserves such as a general reserve. The general reserve may be applied as is consistent with the objectives of the Corporation, and as may be resolved by the General Assembly, on the recommendation of the Board of Directors.

for the year ended 31 December 2008 (US$000)

1. TRADING SECURITIES

	2008	2007
Listed equities	98	600
Listed managed funds	-	50,222
	98	50,822

2. AVAILABLE-FOR-SALE SECURITIES

	2008	2007
Fixed-rate bonds	189	383
Floating-rate bonds	306,272	339,993
U.S. treasury bills	29,999	99,057
U.S. treasury notes	121,162	110,411
Structured notes	108,801	151,927
Managed funds	50,517	115,877
	616,940	817,648
Allowance for specific impairment at 31 December	55,506	-

Securities sold under agreements to repurchase: The Corporation enters into collateralised borrowing transactions (repurchase agreements) in the ordinary course of its financing activities. Collateral is provided in the form of securities held within the available-for-sale portfolio. At 31 December 2008, the fair value of available-for-sale that had been pledged as collateral under repurchase agreements was US$ 302,020 (2007: US$ 261,120). These transactions are conducted under the terms that are usual and customary to standard lending and securities borrowing & lending activities.

3. AVAILABLE-FOR-SALE DIRECT EQUITY INVESTMENTS

	2008	2007
Unlisted investments – carried at cost less impairment		
Kingdom of Bahrain		
Bahrain National Gas Co. (Banagas)	11,491	11,491
Kingdom of Saudi Arabia		
Saudi European Petro Co. (Ibn Zahr)	142,219	142,219
Arabian Industrial Fibers Co. (Ibn Rushd)	-	-
Republic of Iraq		
Arab Company for Detergent Chem (Aradet)	5,120	5,120
Socialist Peoples' Libyan Arab Jamahiriya		
Arab Drilling and Workover Co. (Adwoc)	11,686	11,686
Arab Geophysical Exploration Svcs Co. (Agesco)	594	594
Arab Republic of Egypt		
Alexandria Carbon Black Co.	10,996	10,996
Alexandria Fiber Co. SAE (AFC)	4,550	4,550
Oriental Petrochemicals Co.	6,151	6,151
Egyptian Methanex Methanal Co.	18,788	7,099
MISR Oil Processing Company SAE	33,911	16,750
Egyptian Bahraini Gas Derivative Co.	1,250	500
Non-shareholder countries		
Tankage Mediterranee (Tankmed), Tunisia	1,112	1,112
Listed investments – carried at fair value		
Kingdom of Saudi Arabia		
Yansab Petrochemical Complex (YANSAB)	34,980	124,998
	282,848	343,266

for the year ended 31 December 2008 (US$000)

3. Available-for-sale direct equity investments (continued)

During the Year Corporation received shares in MISR Oil Processing Company SAE as part of a share swap agreement entered into by the share holders of Egyptian Agrium product Company and MISR Oil Processing Company. The registration and other legal formulates are in process at 31 December 2008.

Movements in the year	**2008**	2007
Net carrying value at the beginning of the year	343,266	256,731
Additions during the year	29,599	24,226
Disposal during the year	-	(4,866)
Net (decrease) / increase in fair value in the year	(90,017)	68,775
Impairment charge for the year	-	(1,600)
Net carrying value at 31 December	**282,848**	343,266
Movements in allowance for specific impairment		
At the beginning of the year	86,490	84,890
Impairment charge for the year	-	1,600
Allowance for specific impairment at 31 December	**86,490**	86,490
Commitments – uncalled share capital		
At the beginning of the year	64,699	26,478
Expired commitments during the year	-	62,447
Additional commitments during the year	(4,900)	-
Commitments fulfilled	(29,599)	(24,226)
Commitments at 31 December	**30,200**	64,699

Companies in which the Corporation holds 20% or more of the equity are not treated as associates under IAS 28 - Investments in Associates because APICORP's philosophy is that it should act in a fiduciary and advisory capacity and not exercise significant influence over the management and operations of the companies. These investments primarily include private equity investments in closely held project companies where the Corporation intends to exit these investments principally by means of strategic buy outs by an existing shareholder or through initial public offerings. Investment committee regularly evaluates exit opportunities. Accordingly, these investments are classified as available-for-sale assets.

Unquoted available-for-sale direct equity investments are carried at cost in the absence of reliable measure of fair value. The fair value of these investments cannot be reliably measured due to lack of information from the investee companies, which is primarily due to lack of influence of the Corporation on the investee companies.

4. DEPOSITS WITH BANKS

	2008	2007
Deposits with banks		
Murabaha with Islamic financial institutions	27,768	20,000
Deposits with conventional financial institutions	199,850	371,575
	227,618	391,575

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5. SYNDICATED AND DIRECT LOANS

	2008	2007
Unimpaired loans		
- Islamic	432,993	429,985
- Conventional	1,958,071	1,456,613
Unamortised participation and upfront fees	(13,507)	(13,108)
Collective impairment allowance	(6,361)	(6,020)
	2,371,196	1,867,470
Impaired loans		
Non-performing loans (see below)	17,652	21,262
Performing loans	-	27,898
Allowance for specific impairments	(17,652)	(24,131)
	-	25,029
	2,371,196	1,892,499

	2008	2007
Impaired (non-performing) loans – Fully provided		
Iraqi companies fully owned by Government of Iraq	51,848	51,848
Dividends & interest due to Government of Iraq, offset against defaulted loans	(50,756)	(47,146)
Net Iraqi loans, after dividends offset (see below)	1,092	4,702
Others	16,560	16,560
Total impaired (non-performing) loans at 31 December	**17,652**	21,262

Impaired loans to companies fully owned by Government of Iraq

As a result of the 1990-1991 second Gulf war, certain Government of Iraq controlled companies defaulted on loans from the Corporation. Consequently, since 1992 dividends (and non contractual accrued interest thereon) due to the Government of Iraq (a shareholder in APICORP) have not been paid.

With effect from 1998, the Corporation reduced impairment allowances against the defaulted loans by the amount of the unpaid dividends, while still carrying the dividends as liabilities in the balance sheet upto 2003.

In May 2003, APICORP Board of Directors adopted a resolution authorizing management, in cases where no settlement is reached, to set-off bad debts owed to the Corporation by companies and public corporations fully owned by any of APICORP's shareholder governments, against accounts held by the Corporation belonging to such bodies and governments including dividends, provided all legal requirements are satisfied and complied with.

Accordingly, and until negotiation is undertaken with the Government of Iraq, the Corporation starting from 2003, has made a primary offset of the unpaid dividends (and non contractual accrued interest thereon) due to the Government of Iraq, against the principal amounts of the defaulted loans due from Government of Iraq controlled companies.

Since the beginning of default during 1990-1992, the Corporation has kept memorandum record for contractual interest and fee on the defaulted Iraqi loans. The total contractual overdue interest and fee on these impaired Iraqi loans as at 31 December 2008 amounts to US$ 117,100 thousand (2007: US$ 107,800 thousand).

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5. Syndicated and direct loans (continued)

	2008	2007
Unimpaired loans movement during the year		
Outstanding at the beginning of the year	1,886,598	1,291,957
Draw-downs on new and existing loans	1,145,135	1,237,502
Repayments and prepayments received	(665,279)	(650,660)
Reclassified as performing (impaired)	27,898	-
Exchange rate movements (Euro and Swiss franc-denominated loans)	(3,288)	7,799
Unimpaired loans outstanding at 31 December	2,391,064	1,886,598
Undrawn loan commitments and guarantees		
At the beginning of the year	984,586	710,511
Additional underwriting and commitment during the year	844,584	1,667,224
Drawdowns during the year	(1,145,135)	(1,237,502)
Expired commitments and other movements - net	293,589	(155,647)
Undrawn commitments at 31 December	977,624	984,586
Allowance for specific impairments		
At the beginning of the year		
Allowance for specific impairments – gross	71,277	72,598
Less: Unpaid dividends and interest due to Government of Iraq	(47,146)	(42,764)
	24,131	29,834
Write-downs (see note 18)	-	79
Reversals of write-downs (see note 18)		
- Unpaid dividends & interest due to the Government of Iraq	(3,610)	(4,382)
- Partial recoveries / reversals	(2,869)	(1,400)
Net reduction in the year	(6,479)	(5,703)
Allowance for specific impairments at 31 December – gross	68,408	71,277
Unpaid dividends and interest due to the Government of Iraq	(50,756)	(47,146)
Allowance for specific impairments at 31 December - net	17,652	24,131
Allowance for collective impairment		
At the beginning of the year	(6,020)	4,316
(Additional) /reversal allowance during the year - net	(341)	1,704
Allowance for collective impairment at 31 December	(6,361)	6,020

(US$000)

6. PROPERTY AND EQUIPMENT

	2008	2007
Land at Rakah – head office building and housing compound	4,003	4,003
Head office building, equipment, decor and furnishings	38,454	38,415
Housing compound buildings, equipment, decor & furnishings	28,371	28,275
Computer hardware and other office equipment	882	771
Computer systems software	908	869
Bahrain Banking unit office equipment, decor & furnishings	984	868
Total cost at 31 December	**73,602**	73,201
Accumulated depreciation	(39,428)	(36,683)
	34,174	36,518

Movements during the year

	2008	2007
Net carrying value at the beginning of the year	36,518	38,300
Additions at cost		
Head office building, operating equipment, decor & furnishings	39	176
Housing compound buildings, equipment, decor & furnishings	96	154
Computer systems software – acquisition & implementation	150	100
Other	116	569
Depreciation charge	(2,745)	(2,744)
Disposals at net carrying value – mostly fully depreciated	-	(37)
Net carrying value at 31 December	**34,174**	36,518

7. OTHER ASSETS

	2008	2007
Accrued interest receivables	14,455	24,403
Employee loans and advances	789	911
Derivatives fair values instruments (see note 11)	6,000	-
Miscellaneous receivables and advance payments	293	205
	21,537	25,519

8. DEPOSITS FROM BANKS

	2008	2007
Short-term US dollar deposits from conventional banks	331,850	506,125
Short-term non-US dollar deposits from conventional banks	247,736	333,219
Short-term US dollar Murabaha financing from Islamic financial institutions	483,824	133,179
Short-term non-US dollar Murabaha financing from Islamic financial institutions	325,231	370,383
	1,388,641	1,342,906

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9. TERM FINANCING

	2008	2007
US$ 250 million loan 2005-2010 – fully drawn	250,000	250,000
Interest rate – US$ LIBOR plus 37.5 basis points		
US$ 400 million loan 2007 – 2012 – fully drawn	400,000	400,000
Interest rate: US$ LIBOR plus 28.5 basis points		
Unamortised front-end fees for all current facilities	(1,410)	(1,967)
	648,590	648,033

The loans are subject to similar financial covenants, with which the Corporation has complied:

- The ratio of total shareholders' funds to total assets shall at all times be equal to or greater than 20%; and
- The amount of total shareholders' funds shall at all times be greater than US$ 500 million.

10. OTHER LIABILITIES

	2008	2007
Accrued interest payable	12,880	21,722
Employees' end of service benefits	6,924	6,334
Accrued expenses	4,135	4,405
Derivatives fair values instruments	-	8,743
Other payables	990	524
	24,929	41,728

Movement in employee retirement benefits

The movement on the provision is as follows:

	2008	2007
Balance at 1 January	6,334	6,330
Charge for the year	1,201	653
Paid during the year	(611)	(649)
Balance at 31 December	**6,924**	6,334

11. OFF-BALANCE SHEET EXPOSURES

	2008	2007
Commitments to underwrite and fund loans (see note 5)	977,624	984,586
Commitments to subscribe capital to available-for-sale direct equity investments	30,200	64,699
Contracted capital expenditure commitments	493	-
	1,008,317	1,049,285

Derivative financial instruments

The Corporation uses derivatives, not designated in a qualifying accounting hedge relationship, to manage its exposure to market risks. The Company enters into interest rate swap agreements to hedge the exposure to interest rate risks on deposits placed with banks. The Company also enters into forward currency contract to hedge against foreign exchange fluctuations. Fair values of the interest rate swap agreements and forward currency contracts are estimated based on the prevailing market rates of interest and forward rates of the related foreign currencies, respectively.

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11. Off-balance sheet exposures (continued)

The details of derivative financial instruments held by the Corporation as at 31 December are provided below:

	Fair value (gain) / loss		Notional Amount	
	2008	2007	**2008**	2007
Interest rate swap	-	1,115	-	63,885
Forward exchange contract	(6,000)	7,628	556,516	234,526
		204,000		
At 31 December	**(6,000)**	8,743	**556,516**	298,411

The contractual maturity analysis of the derivative instruments are included as part of liquidity risk information in note 23.

12. NET INTEREST INCOME

Interest income	**2008**	2007
Cash and bank balances	376	290
Deposits with banks – Islamic	578	287
– Conventional	15,401	18,002
Available-for-sale securities – coupon interest	20,601	29,421
Available-for-sale securities – amortisation of premium	193	838
Syndicated and direct loans – Islamic	19,909	14,695
– Conventional	73,873	85,854
Amortisation of loan participation and upfront fees	3,832	4,316
Total interest income	**134,763**	153,703
Interest expense		
Deposits from banks – Conventional	(42,887)	(48,694)
– Islamic	(21,851)	(25,590)
Deposits from corporate	(14,528)	(800)
Term financing	(23,030)	(34,828)
Amortisation of term financing front-end fees	(582)	(641)
Unpaid dividends	(1,610)	(2,382)
Total interest expense	**(104,488)**	(112,935)
Net interest income	**30,275**	40,768

13. NET FEE INCOME

	2008	2007
Fee income		
Fee income derived from the Corporation's lending activities:		
Underwriting and arranging services	3,708	1,765
Agency, advisory and other services	2,256	1,725
Fee from securities lending activities	695	135
	6,659	3,625
Fee expense		
Custody fees and other charges paid to banks	(114)	(180)
Net fee income	**6,545**	3,445

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14. DIVIDEND INCOME

	2008	2007
Dividend income from:		
Trading securities	9	14
Available-for-sale direct equity investments	57,979	31,635
	57,988	31,649

15. GAIN / (LOSS) ON TRADING SECURITIES

	2008	2007
Net (losses) / gains on sale	(3,880)	3
Net (losses) / gains on revaluation	(13)	6,683
	(3,893)	6,686

16. GAIN / (LOSS) ON SALE OF AVAILABLE-FOR-SALE SECURITIES

	2008	2007
Bonds and structured notes	1,100	(4)
Managed funds	1,882	6,043
	2,982	6,039

17. GAIN / (LOSS) ON SALE OF AVAILABLE-FOR-SALE DIRECT EQUITY INVESTMENTS

	2008	2007
Gains on sale of available-for-sale direct equity	-	5,433

18. IMPAIRMENT LOSSES / (REVERSALS)

	2008	2007
Write-downs		
Syndicated and direct loans (see note 5)		
Specific impairment allowance	-	(79)
Collective impairment allowance	(341)	(1,704)
Available-for-sale securities (see note 2)	(55,506)	-
Available-for-sale direct equity investments (see note 3)	-	(1,600)
	(55,847)	(3,383)
Reversals of write-downs		
Syndicated and direct loans (see note 5)		
Government of Iraq – reversal through unpaid dividend	3,610	4,382
Specific impairment allowance reversals on recovery	2,869	1,400
Recovery from Aradet, Iraq (see below)	4,000	5,000
Others	-	583
	10,479	11,365
Net impairment (losses) / Reversals	**(45,368)**	7,982

Payments under guarantees - Aradet, Iraq

Following the lifting of the United Nations sanctions against Iraq, APICORP was successful in negotiating terms for the settlement of amounts paid on behalf of Aradet under guarantees. The balance due till date, under the 2005 settlement agreement of guarantees was duly received and the related provisions were released, since this balance was fully provided in previous years and the recovery relating to this balance is recognised in income statement.

(US$000)

19. GENERAL AND ADMINISTRATIVE EXPENSES

	2008	2007
Human resources costs	15,215	14,405
Employees' end of sevice benefits	1,081	-
Premises costs, including depreciation	2,775	2,696
Equipment and communications costs	1,252	1,055
Key Management's benefits, fees and expense	1,849	1,719
Key Management's post employment benefits	120	73
Donations	315	305
Consultancy	53	1,123
Other corporate expenses	893	920
	23,553	22,296

20. OTHER INCOME

	2008	2007
Exchange (losses) / gains	(5,467)	7,185
Derivatives fair values changes	7,115	
(8,743)		
Rent – head office building and housing compound	986	889
Gains on disposal of investment property	-	702
	2,634	33

21. RELATED PARTY TRANSACTIONS

APICORP's principal related parties are its shareholders. Although the Corporation does not transact any commercial business directly with the shareholders themselves, it does finance companies which are either controlled by the shareholder governments or over which they have significant influence.

Loans to related parties	**2008**	2007
Loans outstanding at 31 December – gross	1,863,487	1,553,793
Allowance for specific Impairments outstanding at 31 December	(1,092)	(4,702)
Dividends & interest due to Government of Iraq, offset against defaulted loans at 31 December	(50,756)	(47,146)
Commitments to underwrite and fund loans at 31 December	(540,366)	(910,977)
Interest income from loans during the year	72,797	102,033
Loan fees received during the year	5,133	10,363

Loans to related parties are made at ruling market interest rates and subject to normal commercial negotiation as to terms. The majority of loans to related parties are syndicated, which means that participation and terms are negotiated by a group of arrangers, of which the Corporation may, or may not, be a member. No loans to related parties were written off in 2008-2007.

Available-for-sale direct equity investments in related parties	**2008**	2007
Investments at 31 December	261,151	313,971
Commitments to invest at 31 December	30,200	26,799
Dividends received during the year	55,811	30,321

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21. Related party transactions (continued)

Related parties deposits from corporate

	2008	2007
Deposits from banks at 31 December	47,000	-
Deposits from corporate at 31 December	242,764	294,730
Interest expense on related parties deposits from banks during the year	2,534	-
Interest expense on related parties deposits from corporate during the year	6,455	800
Balances due to key management	120	73

For key management's compensation see note 19

22. CAPITAL ADEQUACY AND MANAGEMENT

The risk asset ratio at 31 December, calculated in accordance with the capital adequacy of the Basel I Committee on Banking Supervision, is as follows:

	2008	2007
Carrying values		
On-balance sheet assets (see page 33)	3,563,802	3,573,357
Off-balance sheet exposures (see note 11)	1,008,317	1,051,857
	4,572,119	4,625,214
Risk-weighted exposures		
On-balance sheet assets	3,085,375	2,891,206
Off-balance sheet exposures	993,217	1,053,422
Total risk-weighted exposures	4,078,592	3,944,628
Capital adequacy ratio		
Tier – 1 capital: share capital, legal & general reserves and retained earnings	772,525	764,915
Tier – 2 capital: Investments fair value reserve & collective impairment allowance	128,585	261,508
Qualifying capital	901,110	1,026,423
Capital base expressed as a percentage of total risk-weighted exposures:		
Qualifying capital	22.1%	26.0%
Tier 1 capital	19.0%	19.4%

The Corporation's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Corporation recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Corporation manages / monitors its capital based on the capital adequacy ratios prescribed by Basel Committee.

The Corporation has complied with all externally imposed capital requirements throughout the year (see note 9). There have been no material changes in the Corporation's management of capital during the year.

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

A financial instrument is any contract that gives rise to both a financial asset in one enterprise and a financial liability or equity instrument in another enterprise. APICORP's financial assets are principally trading securities, available-for-sale securities, deposits placed with banks, syndicated and direct loans, available-for-sale direct equity investments and certain other assets.

Financial liabilities consist of commitments to lend and invest in equity, deposits from banks, term financing, other liabilities, and guarantees.

These financial instruments expose APICORP to varying degrees of market risk (including currency, interest rate and price risks), credit risk and liquidity risk.

Credit risk management

Credit risk is the risk that a borrower or counter-party of APICORP will be unable or unwilling to meet a commitment that it has entered into with the Corporation. It arises from the lending, treasury and other activities undertaken by the Corporation. Policies and procedures are in place for the control and monitoring of all such exposures.

Proposed loans and available-for-sale direct equity investments are subject to systematic investigation, analysis and appraisal before being reviewed by the Credit Committee (consisting of the General Manager and senior managers), which makes appropriate recommendations to the Board of Directors, who have the ultimate authority to sanction commitments. These procedures, plus the fact that most of the loans are backed by sovereign guarantees and export credit agency cover, limit APICORP's exposure to excessive credit risk.

The Corporation faces a credit risk on undrawn commitments because it is potentially exposed to loss in an amount equal to the total unused commitments. However the eventual loss, if any, will be considerably less than the total unused commitments, since most commitments to extend credit are contingent upon borrowers maintaining specified credit standards. All loan commitments, whether drawn or undrawn, are subject to systematic monitoring so that potential problems may be detected early and remedial action taken.

Treasury activities are controlled by means of a framework of limits and external credit ratings. Dealing in marketable securities is primarily restricted to United States and major European stock exchanges. Dealings are only permitted with approved internationally rated banks, brokers and other counter-parties. Securities portfolios and investing policies are reviewed from time to time by the Assets and Liabilities Committee.

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23. Financial instruments and risk management (continued)

The maximum exposure to credit risk on cash and bank balances is their carrying amount. Details of credit risk exposure on other financial instruments are as follows:

	Syndicated & direct loan (note 5)		Deposits with banks (note 4)		Available for Sales securities (note 2)	
	2008	2007	**2008**	2007	**2008**	2007
Carrying amount on 31 December	**2,371,196**	1,892,499	**227,618**	391,575	**565,423**	701,771
Individually impaired						
Impaired non performing						
Grade F (see note 5)	68,408	68,408	-	-	-	-
Grade E	-	-	-	-	-	-
Gross amount	68,408	68,408	-	-	-	-
Allowance for impairment	(68,408)	(68,408)	-	-	-	-
Carrying on amount on 31 December	-	-	-	-	-	-
Impaired performing						
Grade D	-	-	-	-	-	-
Grade C	-	27,898	-	-	-	-
Gross amount	-	27,898	-	-	-	-
Allowance for impairments	-	(2,869)	-	-	-	-
Carrying amount on 31 December	-	25,029	-	-	-	-
Past due but not impaired						
Grade C+	-	-	-	-	-	-
Neither past due nor impaired						
Grade B	-	-	-	-	-	-
Grade A	2,391,064	1,758,985	-	-	-	-
Includes accounts with renegotiable terms					-	-
Grade B	-	-	-	-	-	-
Grade A	-	127,613	-	-	-	-
Loans & Advances to banks in Organisation for Economic Co-operation and Development countries (OECD)	-	-	122,850	93,527	-	-
Loans & Advances to banks in non-OECD countries	-	-	104,768	298,048	-	-
Externally rated (investment grade) AFS investments	-	-	-	-	565,423	701,771
Gross amount	2,391,064	1,886,598	227,618	391,575	565,423	701,771
Collective impairment allowance	(6,361)	(6,020)	-	-	-	-
Unamortised participation and commitment	(13,507)	(13,108)	-	-	-	-
Net neither past due nor impaired	2,371,196	1,867,470	227,618	391,575	565,423	701,771
Total carrying amount on 31 December	**2,371,196**	1,892,499	**227,618**	391,575	**565,423**	701,771

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23. Financial instruments and risk management (continued)

The Corporation monitors concentration of credit risk by sector and by geographic location. An analysis of concentration of risk at reporting date is shown below (also see note 29 and 30).

	Syndicated & direct loan (note 5)		Deposits with banks (note 4)		Available for Sales securities (note 2)	
	2008	2007	**2008**	2007	**2008**	2007
Carrying amount on 31 December	**2,371,196**	1,892,499	**227,618**	391,575	**565,423**	701,771
Concentration of credit risk by sector						
Petroleum and petrochemicals	1,473,391	1,196,009	-	-	21,329	21,716
Fertilizer plants	416,425	379,697	-	-	-	-
Maritime transportation	265,235	168,920	-	-	-	-
Power generation	139,839	122,139	-	-	-	-
Banks and financial institutions	-	-	227,618	391,575	-	445,933
Governments and public sector	-	-	-	-	533,984	209,468
Other industries	76,306	25,734	-	-	10,110	24,654
Carrying amount on 31 December	**2,371,196**	1,892,499	**227,618**	391,575	**565,423**	701,771

	Syndicated & direct loan (note 5)		Deposits with banks (note 4)		Available for Sales securities (note 2)	
Carrying amount on 31 December	**2,371,196**	1,892,499	**227,618**	391,575	**565,423**	701,771
Concentration of credit risk by location						
Kingdom of Saudi Arabia	733,497	418,952	-	45,280	48,583	49,048
State of Qatar	538,009	385,222	25,000	30,000	18,119	20,378
Other Gulf Cooperation Council states	401,446	329,898	79,768	222,768	217,730	244,814
Other Middle East states	-	28,318	-	-	-	-
Egypt and North Africa	349,928	382,127	-	-	-	-
Total Arab World	2,022,880	1,544,517	104,768	298,048	284,432	314,240
Western Europe	123,895	115,762	112,000	93,527	62,888	15,676
Asia Pacific Rim	-	4,374	-	-	-	-
United States	224,421	200,000	10,850	-	218,103	278,439
Other North and South America	-	27,846	-	-	-	93,416
Carrying amount on 31 December	**2,371,196**	1,892,499	**227,618**	391,575	**565,423**	701,771

Liquidity risk and funding management

Liquidity risk is the risk of being unable to raise funds at a reasonable price to meet commitments when they fall due, or to take advantage of investment opportunities when they arise. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Corporation.

APICORP's liquidity management policies are designed to ensure that even under adverse conditions, the Corporation has access to adequate funds to meet its obligations, and to service it core investment and lending functions. This is achieved by the application of prudent but flexible controls, which provide security of access to liquidity without undue exposure to increased costs from the liquidation of assets or to bid aggressively for deposits.

As part of liquidity Management the Corporation also ensures availability of Term financing at a competitive rates, at all times to meet long term funding requirements of the Corporation.

Daily liquidity position is monitored and regular stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies are subject to review and approval by ALCO. Liquidity controls are provided for an adequately diversified deposit base in terms of maturities and the range of counter-parties. The asset and liability maturity profile based on estimated repayment terms is set out in note 26.

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23. Financial instruments and risk management (continued)

Liquidity risk and funding management (continued)

Contractual maturities of financial liabilities (including interest):

2008	Up to 3 months	3 months To 1 year	1 year To 5 years	5 years And over	Contractual Outflows	Carrying value
Liabilities						
Deposits from banks	(1,106,473)	(325,958)	-	-	(1,432,431)	(1,388,641)
Deposits from corporates	(385,476)	(72,641)	-	-	(458,117)	(447,334)
Securities sold under REPO	(79,787)	(82,365)	-	-	(162,152)	(159,558)
Term financing	(1,864)	(14,435)	(675,485)	-	(691,784)	(648,590)
	(1,573,600)	**(495,399)**	**(675,485)**	**-**	**(2,744,484)**	**(2,644,123)**
Derivative instruments	(337,579)	(218,783)	-	-	(556,362)	6,000
Off-balance sheet exposures	(221,468)	(396,840)	(372,437)	(17,572)	(1,008,317)	(1,008,317)
	(2,132,647)	**(1,111,022)**	**(1,047,922)**	**(17,572)**	**(4,309,163)**	**(3,646,440)**

2007	Up to 3 months	3 months To 1 year	1 year To 5 years	5 years And over	Contractual Outflows	Carrying value
Liabilities						
Deposits from banks	(1,099,839)	(369,444)	-	-	(1,469,283)	(1,342,906)
Deposits from corporates	(65,623)	(131)	-	-	(65,754)	(294,730)
Securities sold under REPO	(184,788)	(58,301)	-	-	(243,089)	(225,557)
Term financing	(12,844)	(26,240)	(789,667)	-	(828,751)	(648,033)
	(1,363,094)	(454,116)	(789,667)	-	(2,606,877)	(2,511,226)
Derivative instruments	(32,809)	(218,519)	-	-	(251,328)	(8,743)
Off-balance sheet exposures	(75,923)	(222,119)	(749,130)	(4,686)	(1,051,858)	(1,051,857)
	(1,471,826)	(894,754)	(1,538,797)	(4,686)	(3,910,063)	(3,571,826)

Market risk management

Market risk is the risk that changes in market factors, such as interest rate, equity prices and foreign exchange rates will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

APICORP holds (but currently does not actively trade) debt and equity securities. Treasury activities are controlled by the Assets and Liabilities Committee and are also subject to a framework of Board-approved currency, industry and geographical limits and ratings by agencies including Standard & Poors.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates, foreign exchange rates and equity prices.

Interest rate risk: Syndicated and direct loans are normally denominated in United States dollars, as is the Corporation's funding, and interest rates for both are normally linked to LIBOR. The Corporation's exposure to interest rate fluctuations on certain financial assets is also hedged by entering into interest rate swap agreements.

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23. Financial instruments and risk management (continued)

Market risk management (continued)

Exposure to interest rate risk is restricted by permitting only a limited mismatch between the re-pricing of the main components of the Corporation's assets and liabilities. The re-pricing profile of assets and liabilities is set out in note 27.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Corporation's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a periodic basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. An analysis of the Corporation's income statement sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	100 bp parallel increase	100 bp parallel decrease
At 31 December 2008	**2,360**	**(2,360)**
At 31 December 2007	166	(166)

Currency risk is minimised by regular review of exposures to currencies other than United States dollars to ensure that no significant positions are taken which may expose APICORP to undue risks. Currently there is no trading in foreign exchange. The Corporation's net currency exposures are set out in note 28. The Corporation's exposures in the currencies other than US $ is also hedged by entering into forward contracts.

An analysis of the Corporation's income statement sensitivity to 5% strengthening or 5% weakening of US $ against major un-pegged foreign currencies is shown below. This analysis assumes that all other variables, in particular interest rates, remain same.

	5% strengthening of US $ against OECD currencies	5% weakening of US $ against OECD currencies
At 31 December 2008		
EUR	(574)	574
GBP	(133)	133
CHF	79	(79)
EGP	(19)	19
At 31 December 2007		
EUR	(375)	375
GBP	(185)	185
CHF	95	(95)
EGP	(28)	28

Equity prices risk is the risk that Corporations quoted equity investments will depreciate in value due to movements in the quoted equity prices. The overall authority of equity prices risk management vested in ALCO. Periodical listed equity prices movements are reviewed by executive management and ALCO. Corporation's exposure to listed equities is insignificant hence sensitivity to equity prices risk is not significant.

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23. Financial instruments and risk management (continued)

Market risk management (continued)

Operational risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing.

A framework and methodology has been developed to identify and control the various operational risks. While operational risk cannot be entirely eliminated, it is managed and mitigated by ensuring that the appropriate infrastructure, controls, systems, procedures, and trained and competent people are in place throughout the Corporation. A strong internal audit function makes regular, independent appraisals of the control environment in all identified risk areas. Adequately tested contingency arrangements are also in place to support operations in the event of a range of possible disaster scenarios.

24. EFFECTIVE INTEREST RATES

The weighted average effective interest rates of the Corporation's financial instruments at the balance sheet date were:

	2008	2007
Interest-bearing financial assets		
Fixed-rate bonds	3.37%	3.48%
Floating-rate bonds	3.20%	5.49%
US Treasury Notes	3.41%	3.79%
Structured notes	2.18%	6.00%
Deposits placed with banks	2.19%	5.02%
Syndicated and direct loans	2.91%	5.78%
US dollar denominated	2.86%	5.85%
Non-dollar – mainly denominated in euros	3.86%	4.48%
Interest-bearing financial liabilities		
Deposits from banks	3.82%	5.29%
US dollar denominated	3.57%	5.31%
Non-dollar – Euros, Swiss francs and Saudi riyals	4.29%	5.25%
Term financing	2.47%	5.40%
US$ LIBOR AT 31 December was:		
One-month	0.44%	4.63%
Three-month	1.43%	4.73%
Six-month	1.75%	4.73%

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25. FAIR VALUE INFORMATION

The table below set outs the Corporations' classification of each class of financial assets and liabilities and fair values (excluding interest).

	Trading	Loans & receivables	AFS investments	Others at amortised cost	Carrying amount	Fair values
2008						
Cash and bank balances	-	9,391	-	-	9,391	9,391
Trading securities	98	-	-	-	98	98
Available-for-sale securities	-	-	616,940	-	616,940	616,940
Available-for-sale direct equity (see note 3)	-	-	282,848	-	282,848	282,848
Deposits with banks	-	227,618	-	-	227,618	227,618
Syndicated and direct loans(Fair value - based on discounted cash flows at current market prices)	-	2,371,196	-	-	2,371,196	2,486,547
Other Assets	-	789	-	-	789	789
Total assets	98	2,608,994	899,788	-	3,508,880	3,624,231
Deposits from banks	-	-	-	(1,388,641)	(1,388,641)	(1,388,641)
Deposits from corporate	-	-	-	(447,334)	(447,334)	(447,334)
Securities sold under agreement to repurchase	-	-	-	(159,558)	(159,558)	(159,558)
Term financing (Fair value - based on current market rates for similar remaining maturity)	-	-	-	(648,590)	(648,590)	(637,574)
Other liabilities	-	-	-	(990)	(990)	(990)
Total liabilities	-	-	-	(2,645,113)	(2,645,113)	(2,634,097)
2007						
Cash and bank balances	-	15,510	-	-	15,510	15,510
Trading securities	50,822	-	-	-	50,822	50,822
Available-for-sale securities	-	-	817,648	-	817,648	817,648
Available-for-sale direct equity	-	-	343,266	-	343,266	343,266
Deposits with banks	-	391,575	-	-	391,575	391,575
Syndicated and direct loans (Fair value - based on discounted cash flows at current market prices)	-	1,890,486	-	-	1,890,486	1,929,699
Other Assets	-	911	-	-	911	911
Total assets	50,822	2,298,482	1,160,914	-	3,510,218	3,549,431
Deposits from banks	-	-	-	(1,342,906)	(1,342,906)	(1,342,906)
Deposits from corporate	-	-	-	(294,730)	(294,730)	(294,730)
Securities sold under agreement to repurchase	-	-	-	(225,557)	(225,557)	(225,557)
Term financing (Fair value - based on current market rates for similar remaining maturity)	-	-	-	(648,033)	(648,033)	(630,449)
Other liabilities	-	-	-	(524)	(524)	(524)
Total liabilities	-	-	-	(2,511,750)	(2,511,750)	(2,494,166)

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26. MATURITY PROFILE OF ASSETS AND LIABILITIES

The maturity profile of the Corporation's assets and liabilities, based on contractual repayment arrangements and in certain cases management's judgment of its realizations, is set out below. The apparent significant short-term mismatch between maturities of assets and liabilities is substantially reduced in practice because the majority of deposits from banks are routinely rolled over on maturity.

2008	Up to 3 months	3 months To 1 year	1 year To 5 years	5 years And over	Total
ASSETS					
Cash and bank balances	9,391	-	-	-	9,391
Trading securities	-	-	-	98	98
Available-for-sale securities	90,088	147,988	203,689	175,175	616,940
Available-for-sale direct equity investments	-	-	-	282,848	282,848
Deposits with banks	227,618	-	-	-	227,618
Syndicated and direct loans	44,394	85,068	703,960	1,537,774	2,371,196
Property and equipment	-	-	-	34,174	34,174
Other assets	3,429	9,515	158	8,435	21,537
Total assets	**374,920**	**242,571**	**907,807**	**2,038,504**	**3,563,802**
LIABILITIES AND EQUITY					
Deposits from banks	(1,097,082)	(291,559)	-	-	(1,388,641)
Deposits from corporates	(376,007)	(71,327)	-	-	(447,334)
Securities sold under agreements to repurchase	(78,949)	(80,609)	-	-	(159,558)
Term financing	139	418	(649,147)	-	(648,590)
Other liabilities	(14,266)	(5,998)	(1,731)	(2,934)	(24,929)
Equity	-	-	-	(894,750)	(894,750)
Total liabilities and equity	**(1,566,165)**	**(449,075)**	**(650,878)**	**(897,684)**	**(3,563,802)**
Maturity gap	**(1,191,245)**	**(206,504)**	**256,929**	**1,140,820**	**-**
Cumulative maturity gap	**(1,191,245)**	**(1,397,749)**	**(1,140,820)**	**-**	**-**
2007					
Total assets	398,989	325,722	1,247,513	1,601,133	3,573,357
Total liabilities and equity	(1,405,766)	(495,421)	(650,180)	(1,021,990)	(3,573,357)
Maturity gap	(1,006,777)	(169,699)	597,333	579,143	-
Cumulative maturity gap	(1,006,777)	(1,176,476)	(579,143)	-	-

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27. REPRICING PROFILE OF FINANCIAL ASSETS AND LIABILITIES

The reporting profile of the Corporation's interest bearing financial assets and liabilities at 31 December was as follows:

2008	Up to 3 months	3 months To 1 year	1 year To 5 years	5 years And over	Total
ASSETS					
Available for sale securities					
Fixed-rate bonds	-	189	-	-	189
Floating-rate bonds	306,272	-	-	-	306,272
US treasury notes	60,088	61,074	-	-	121,162
Structured notes	14,504	68,596	-	25,701	108,801
Deposits with banks	227,618	-	-	-	227,618
Syndicated and direct loans					
US$ denominated	1,589,876	712,510	-	68,408	2,370,794
Euro and Swiss francs	86,366	2,313	-	-	88,679
LIABILITIES					
Deposits from banks					
US$ denominated	(736,374)	(79,300)	-	-	(815,674)
Saudi riyal and Euro	(360,707)	(212,260)	-	-	(572,967)
Deposits from corporate	(376,007)	(71,327)	-	-	(447,334)
Securities sold under REPO	(78,949)	(80,609)	-	-	(159,558)
Term financing	(648,590)	-	-	-	(648,590)
Interest rate sensitivity gap	**84,097**	**401,186**	**-**	**94,109**	**579,392**
Cumulative Gap	84,097	485,283	485,283	579,392	
2007					
ASSETS					
Available for sale securities					
Fixed-rate bonds	-	-	383	-	383
Floating-rate bonds	281,771	58,222	-	-	339,993
US treasury notes	-	-	110,411	-	110,411
Structured notes	58,618	93,309	-	-	151,927
Deposits with banks	326,575	65,000	-	-	391,575
Syndicated and direct loans					
US$ denominated	1,166,620	702,936	-	-	1,869,556
Euro and Swiss francs	87,938	25,410	-	-	113,348
LIABILITIES					
Deposits from banks					
US$ denominated	(705,353)	(138,382)	-	-	(843,735)
Saudi riyal and Euro	(396,238)	(102,933)	-	-	(499,171)
Deposits from corporate	(97,035)	(197,695)	-	-	(294,730)
Securities sold under REPO	(182,348)	(43,209)	-	-	(225,557)
Term financing	(648,033)	-	-	-	(648,033)
Interest rate sensitivity gap	(107,485)	462,658	110,794	-	465,967
Cumulative Gap	(107,485)	355,173	465,967	465,967	

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28. CURRENCY EXPOSURES

The Corporation's currency exposures at 31 December were as follows:

	Assets	Liabilities and equity	2008 Net Exposure	2007 Net Exposure
ASSETS, LIABILITIES AND EQUITY				
United States dollar	2,804,975	(2,872,980)	**(68,005)**	422,777
Euro	229,455	(240,929)	**(11,474)**	17,543
Other OECD currencies (see below)	54,747	(55,834)	**(1,087)**	7,331
Arab currencies			-	
GCC (see below)	474,601	(393,653)	**80,948**	(433,039)
Other Middle East			-	-
Egypt and North Africa	24	(406)	**(382)**	(14,612)
	3,563,802	**(3,563,802)**	-	-

	2008	2007
COMMITMENTS AND GURANTEES		
United States dollar	962,265	1,047,208
Euro	28,420	-
Arab currencies – GCC (see below)	17,632	4,649
	1,008,317	1,051,857

Other OECD currencies
The other member countries of the Organisation for Economic Co-operation and Development, excluding the United States and the twelve European Monetary Union countries are: Australia, Canada, Czech Republic, Denmark, Hungary, Iceland, Japan, Mexico, New Zealand, Norway, Poland, South Korea, Sweden, Switzerland, Turkey and the United Kingdom.

GCC
The member states of the Gulf Co-operation Council are: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Their currencies except for Kuwait are pegged against the United States dollar.

Significant exchange rates
The following year-end rates have been used in translating other currencies to United States dollars:

		2008	2007
Euro	EUR 1=US$	1.4124	1.4749
Saudi riyal	US$ 1=SAR	3.7500	3.7500
Swiss franc	US$ 1=CHF	1.0525	1.2163
Egyptian pound	US$ 1=EGP	5.5250	5.5300

Since the Corporation's net foreign currency exposures to currencies other than US dollar and GCC currencies is not significant, the sensitivity of fluctuation in the currencies will not be significant.

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29. INDUSTRY DISTRIBUTION OF ASSETS AND LIABILITIES

The industry distribution of the Corporation's assets and liabilities was as follows:

	2008	2007
ASSETS		
Petroleum and petrochemicals		
Refineries	218,932	166,170
Oilfield production development and services	317,045	327,617
Floating production, storage and offloading facilities	30,380	8,555
Pipelines and distribution	-	5,846
Gas-to-liquids plants	33,827	36,241
Liquefied natural gas plants	371,250	284,059
Petrochemical plants	750,618	691,949
Fertilizer plants	416,425	398,218
Maritime transportation	267,638	172,694
Power generation	140,017	123,659
Other petroleum	117,477	57,467
Total petroleum and petrochemicals	2,663,609	2,272,475
Banks and financial institutions	166,104	406,737
Banks and financial institutions – managed funds	51,517	166,099
Other industries	150,782	62,883
Governments and public sector institutions	531,790	665,163
Total assets at 31 December	**3,563,802**	3,573,357
LIABILITIES AND EQUITY		
Banks and financial institutions	2,648,537	2,541,693
Other industries	20,515	11,261
Shareholders	894,750	1,020,403
Total liabilities and equity at 31 December	**3,563,802**	3,573,357
COMMITMENTS AND GUARANTEES		
Petroleum and petrochemicals		
Refineries	61,662	29,700
Oilfield production development and related services	151,081	176,542
Floating production, storage and offloading facilities	18,162	39,959
Liquefied natural gas plants	61,012	161,883
Petrochemicals plants	205,174	236,568
Fertilizer plants	211,540	169,465
Maritime transportation	114,750	86,560
Power generation	83,662	69,519
Other petroleum	54,639	81,661
Total petroleum and petrochemical	961,682	1,051,857
Other industries	46,635	-
Governments and public sector institutions	-	-
Total commitments and guarantees at 31 December	**1,008,317**	1,051,857

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30. GEOGRAPHICAL DISTRIBUTION OF RISK

The geographical distribution of risk of the Corporation's assets and liabilities, after taking into account insurance and third-party guarantees, was as follows:

	2008	2007
ASSETS		
Kingdom of Saudi Arabia	1,065,192	820,701
State of Qatar	582,713	440,097
Other Gulf Cooperation Council states	724,276	815,476
Other Middle East states	5,211	33,525
Egypt and North Africa	442,056	445,736
Total Arab World	**2,819,448**	2,555,535
Western Europe	293,923	328,420
Asia Pacific Rim	-	4,378
United States	450,431	563,538
Other North and South America	-	121,486
Total assets	**3,563,802**	3,573,357
LIABILITIES AND EQUITY		
Kingdom of Saudi Arabia	879,243	980,132
State of Qatar	289,269	185,562
Other Gulf Cooperation Council states	1,306,741	881,273
Other Middle East states	133,445	149,604
Egypt and North Africa	267,100	351,658
Total Arab World	**2,875,798**	2,548,229
Western Europe	613,040	951,309
Asia Pacific Rim	26,000	26,000
United States	48,964	47,819
Total liabilities and equity	**3,563,802**	3,573,357
COMMITMENTS AND GUARANTEES		
Kingdom of Saudi Arabia	422,053	419,547
State of Qatar	216,016	187,774
Other Gulf Cooperation Council states	151,317	177,569
Egypt and North Africa	172,112	190,653
Total Arab World	**961,498**	975,543
Western Europe	46,819	76,314
Asia Pacific Rim	-	-
	1,008,317	1,051,857