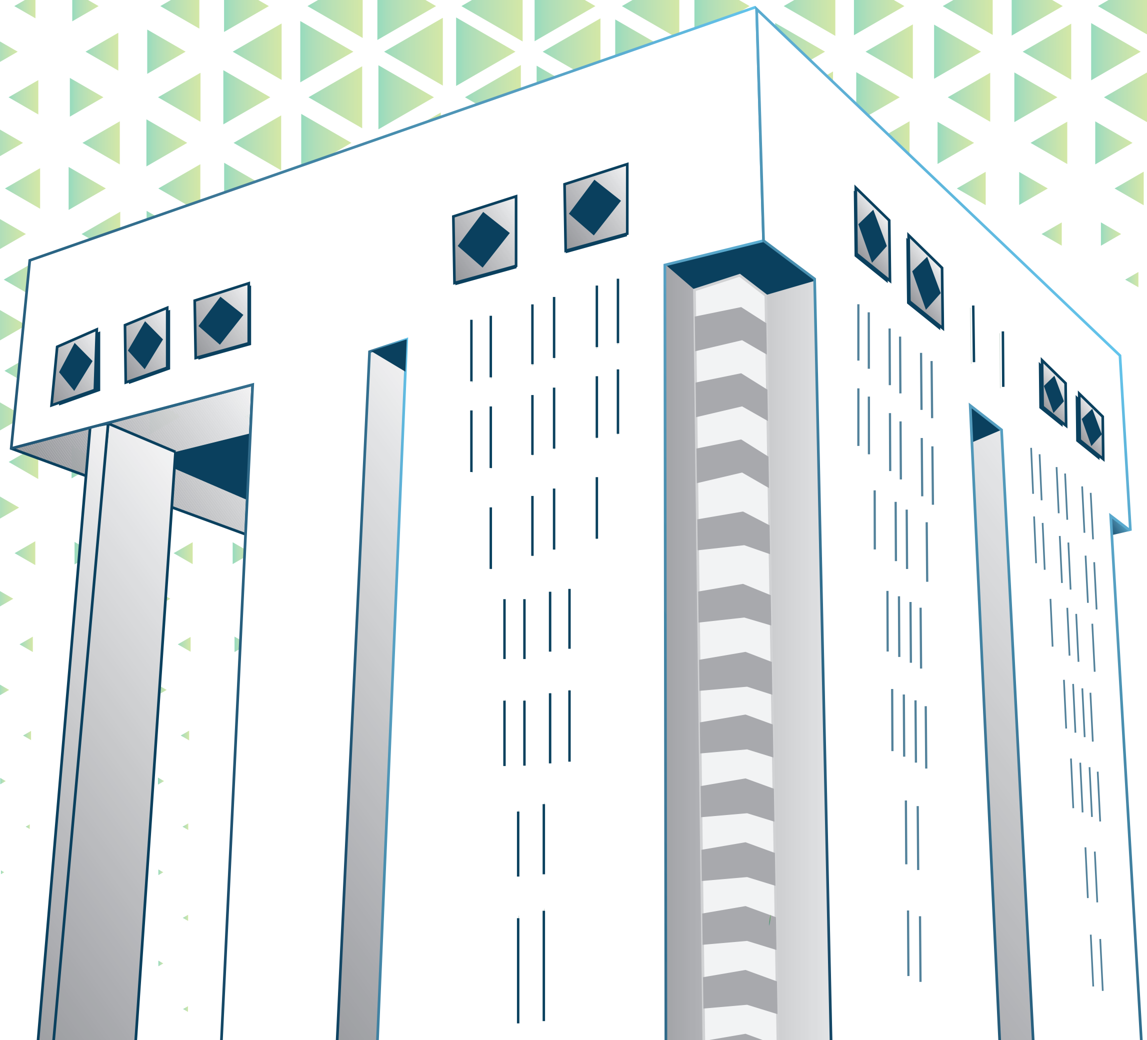
THE ARAB INVESTMENT COMPANY S.A.A.

Annual Report

2019



الشركة العربية للاستثمار ش.م.ع.

THE ARAB INVESTMENT COMPANY S.A.A.

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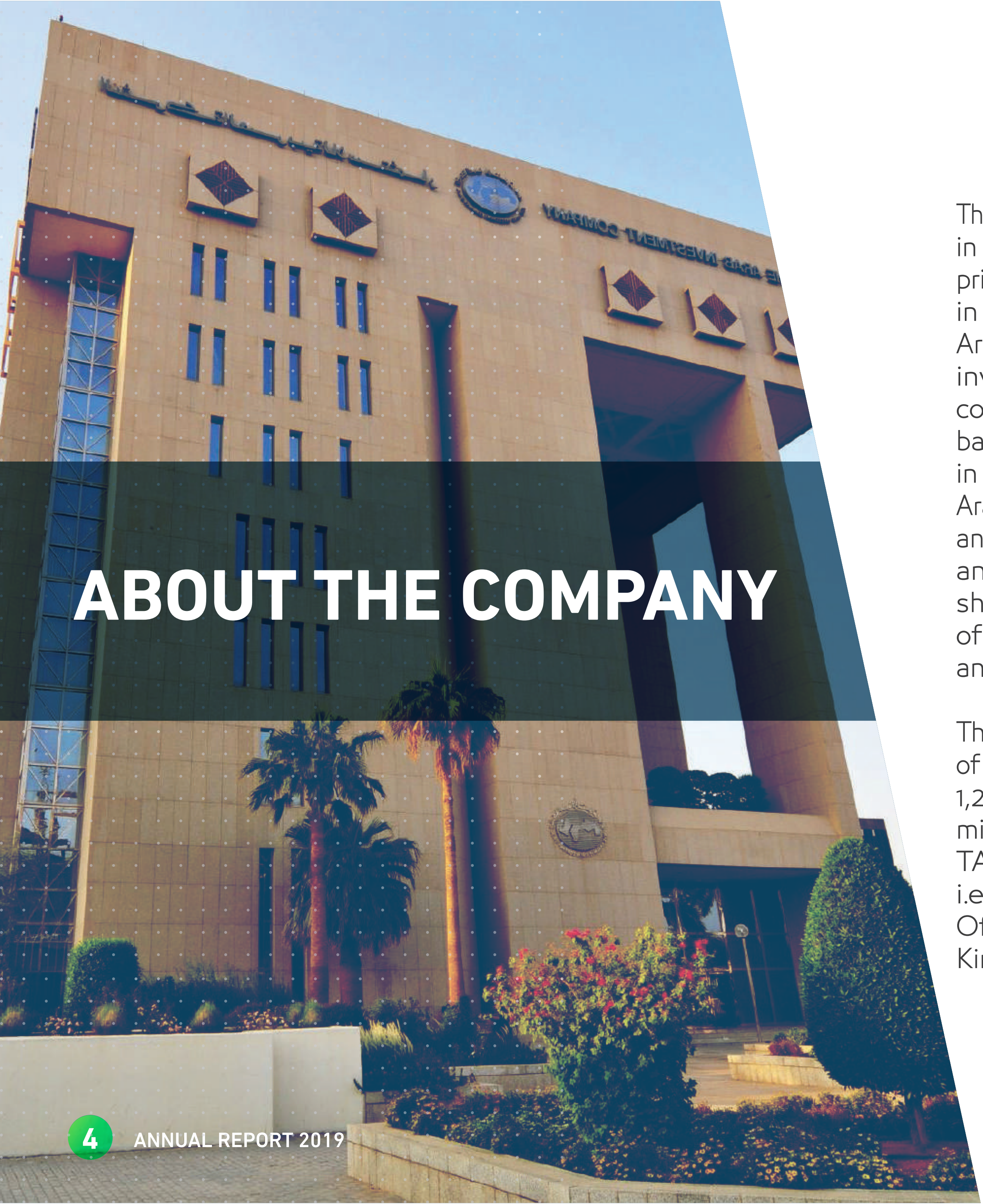


ABOUT THE COMPANY

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 by initiating investment projects in agricultural, industrial, commercial, transportation and service sectors, based on sound economic and commercial criteria, in a manner that would support and develop the Arab economy". The Company enjoys all guarantees and concessions granted by the national, Pan-Arab and foreign investment codes in the respective shareholding countries, including free movement of capital and immunity against nationalization and expropriation.

The Company is wholly owned by the governments of 17 Arab states with an authorized capital of USD 1,200 million and a paid-up capital of USD 1,050 million, distributed among the member countries. TAIC conducts its two main lines of business, i.e. project equity and banking, from its Head Office in Riyadh, Saudi Arabia and branch in the Kingdom of Bahrain respectively.

Vision

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

Mission

Generate sound financial returns, support economic development and contribute to the improvement of the investment environment in the Arab world by 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 funding for investment projects and boost inter-Arab trade exchange designed to support economic integration between Arab countries.

BOARD OF DIRECTORS

H.E. Mr. Abdulaziz Salih Alfuraih
Chairman of the Board
The Kingdom of Saudi Arabia

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

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

Dr. Abdullah Abdulrahman Alnamlah
Board Member
The Kingdom of Saudi Arabia

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

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

Mr. Mahmoud Montaser Ibrahim
Board Member
The Arab Republic of Egypt

Mr. Abdelali Eddebbagh
Board Member
The Kingdom of Morocco

Mr. Abdulla Ali Al-Kuwari
Board Member
The State of Qatar

Mr. Khalid H Alomar
Board Member
The State of Kuwait

Mr. Mohamed Fahed Almazrouei
Board Member
The United Arab Emirates

Eng. Mustafa T. Khattabi
Board Member
The State of Libya

Board Committees

Supreme Investment Committee

H.E. Mr. Abdulaziz Salih Alfuraih
Chairman

Mr. Nael Mohamed Al Homoud
Member

Mr. Abdelali Eddebbagh
Member

Eng. Mustafa T. Khattabi
Member

Mr. Mohamed Fahed Almazrouei
Member

Risk and Compliane Committee

Dr. Abdullah Abdulrahman Alnamlah
Chairman

Mr. Mahmoud Montaser Ibrahim
Member

Mr. Mohamed Fahed Almazrouei
Member

Mr. Abdulla Ali Al-Kuwari
Member

Audit Committee

Mr. Nael Mohamed Al Homoud
Chairman

Dr. Abdullah Abdulrahman Alnamlah
Member

Mrs. Taif Sami Al Shakrachi
Member

Nominations and Compensation Committee

Mr. Yusuf Abdullah Humood
Chairman

Mr. Khalid H Alomar
Member

Mr. Ahmed Abdulla Al Mehairi
Member

EXECUTIVE MANAGEMENT

Mr. Ibrahim H. AlMazyad
Chief Executive Officer

Head Office- Riyadh

Mr. Fahad A. Al Haqbani
Finance & Administration Affairs

Mr. Dakheel A. Al Zahrani
Investment

Mr. Magdi M. Elkafrawy
Financial Affairs

Mr. Abdulaziz A. Al Fureih
Human Resources & Administration

Eng. Abdullah M. Al Subaie
Information Technology

Mr. Khalid S. Al- Zugaibi
Legal Advisor

Mr. Raed A. Al Jalajil
Internal Audit

Bahrain Branch

Mr. Ibrahim M. Zletni
Branch General Manager

Mr. Mohammadine H. Menjra
Operations

Mr. Marc Dondi
Treasury & Capital Market

Mr. Samir Medjiba / Mr. Isam Khalid
Credit Department

Mr. Mahmood Salman
Administration & Finance

Mr. Nitin Gupta
Risk Management

Mr.Shelly Jose
Compliance Officer

Dr. Osama Mukhtar
Legal Advisor

Mr. Masoud Murad
Information Technology

Mr. Lalit Bakhru
Internal Audit

Financial Highlights
in 31 December 2019

63.8 USD Million
Total Revenue

48.9 USD Million
Net Income

1,746 USD Million
Total Assets

1,299 USD Million
Shareholders' Equity

2.9 % Return on Average Assets

3.9 % Return on Average Shareholders' Equity

344 USD Million
Size of Investment in Projects

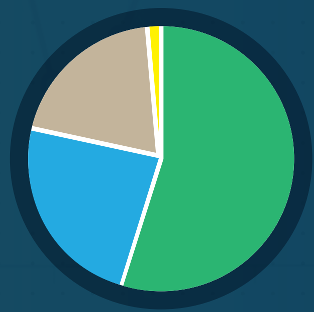
These investments are distributed over:

26
Investment projects

10
Arab countries

1,319 USD Million
Banking Assets

These assets are distributed over:



Chairman

Chairman's Statement

Abdulaziz S. Al Furaih

Dear Shareholders,

On behalf of my colleagues, members of the Board of Directors, and on my own behalf I am pleased to present you the annual report of The Arab Investment Company for the financial year ended 31 December 2019.

Over the past 45 years, the Arab Investment Company has continued its pioneering career as a catalyst for investment and development in the Arab world. Also, it continues to pursue determined efforts to develop its activities and diversify its investment and financial instruments, in parallel, seeks to achieve sustainability as well as growth in profits and meet the aspirations and ambitions of the shareholding countries.

In 2019, despite the volatility of the global economic environment, the Company recorded its highest revenues and net profits over the past five years, with a net profit of USD 48.9 million, an increase of 17% over last year's profit. This performance confirms the Company's ability to respond to market conditions, deal with risks and instability, and to take advantage of opportunities, while ensuring continued strategic planning, governance practice, and efficiency of performance in accordance with a robust risk management governance structure and framework that acts as a growth platform and ensures a crucial balance between risk and reward in the Company, to ensure the achievement of its development and investment objectives, in accordance with its Memorandum of Association and Statutes.

In conclusion, I extend my sincere thanks to the governments of the shareholding countries, particularly the Government of the Kingdom of Saudi Arabia, where the Company is headquartered, and the Government of the Kingdom of Bahrain, which hosts the banking branch of the Company, for their unlimited support that helped the Company to fully discharge its responsibilities.

Thanks are extended to my colleagues, members of the Board of Directors, for their effective contribution and outstanding propositions enabling the Company achieve its goals. Also, I would like to thank my colleagues in the Executive Management and all employees of the Company for their efforts and dedication, which had a great role in achieving good financial results in 2019, looking forward to further progress in the coming years.

Chief Executive Officer

CEO's Statemen

Ibrahim H. Al Mazyad

The Arab Investment Company witnessed another year full of record achievements, as the Company continued in 2019 to achieve good results, at both the investment and banking levels, which confirms that it is on the path to success with confidence and competence.

Our success is due to the Company's ability to adapt to the circumstances surrounding the Arab region environment, and to take advantage of the strength and durability of its capital, in addition to the continued support of the governments of the shareholding countries, the prudent guidance of the Board of Directors, the effectiveness of the regulations and policies governing the Company's work and its oversight role, and the commitment to the implementation of regional and international compliance rules.

In terms of investment activity, the private equity portfolio at the end of 2019 reached about 26 investment projects, spread geographically over ten Arab countries in 9 different sectors. These projects are distinguished by their support to Arab economic and social development, as well as their role in stimulating inter-Arab trade, creating job opportunities and integrating various economic sectors. The Company is intensifying its efforts to overcome obstacles to these projects and to anticipate investment prospects in searching for promising investment opportunities, with a greater focus in the coming years on projects that achieve sustainable development in the Arab world.

At the level of banking activity, banking assets grew in 2019 by 7% over the previous year. The Company's efforts through its banking branch in the Kingdom of Bahrain have focused on mobilizing resources, managing liquidity and continuously evaluating and managing the components of credit and securities portfolio to cope with the challenges facing the banking industry and market data, with particular focus on increasing the profitability under the low interest-rate environment, and on the markets of the shareholding countries, despite the challenging requirements for the implementation of compliance rules.

During the fiscal year 2019, we succeeded in achieving good financial results, with a net profit increased by 17% to reach USD 48.9 million, as the Company's highest profit during the past five years in light of the slowdown in global economic growth and the repercussions of instability in the Arab region at the commercial and investment levels. The Company's total assets increased by 8.7%, to USD 1,746 million, and shareholders' equity grew by 6.6%, to reach USD 1,299 million. These results would not have been achieved without concerted efforts, carrying out the burdens and responsibilities to the fullest, and integrating the roles between the shareholding countries, Board of Directors, and Executive Management.

The Company will continue its efforts to achieve its investment objectives and development role to meet the expectations of the shareholding countries in order to promote sustainable development and achieve its aspirations to become the leading Arab financial institution.

In conclusion, I would like to thank the Arab shareholding countries for their continued support, particularly the Government of the Kingdom of Saudi Arabia, where the Company is headquartered, and the Government of the Kingdom of Bahrain, which hosts the banking branch of the Company, for the excellent facilities and care provided by the two countries to the Company through their various institutions.

Also, I would like to thank His Excellency the Chairman of the Board of Directors, and the members, for their wise views and guidance, as well as my colleagues in the Company in their various positions for their sincerity, loyalty and tireless efforts to support the Company's success. We look forward to another year full of success and distinction at all levels.

Directors' Report

INVESTMENT CLIMATE IN 2019

In 2019, the global economy experienced a simultaneous slowdown, as global GDP growth fell to 2.9%, marking the slowest pace of growth since the 2008 global financial crisis, affected by fears and uncertainties resulting from the continuing trade tensions between the United States and China, in addition to the major turmoil in global supply chains. The world trade rate also fell to 1.0% in 2019, compared to 3.7% in 2018.

In parallel, the Arab economy witnessed the continuing positive effects of economic reform programs implemented by some Arab countries. The aim of these programs is to support and stimulate economic activity and diversify the production and export base, which is expected to improve the GDP growth rate of Arab countries to 2.5% in 2019 and 3.4% in 2020, supported by a gradual recovery of the global economic activity and continued improvement in domestic demand levels.

Despite this, the Arab countries face a number of challenges. Foremost among these is the urgent need to increase the levels of economic diversification, designed to improve business environments, promote micro, small and medium-sized enterprises and develop the financial sector, in addition to shift towards economies of knowledge, reduce unemployment rates, promote regional integration and adopt structural and institutional reforms to enhance productivity and competitiveness of Arab countries.

The Consumer Price Index (CPI) of Arab countries is expected to decline from 9.2% in 2018 to about 6.5% during the period (2019-2020), due to a series of financial reforms, initiatives and compensatory measures designed to mitigate their impact on consumers.

2018
3.6%
2019
2.9%
Global GDP Growth

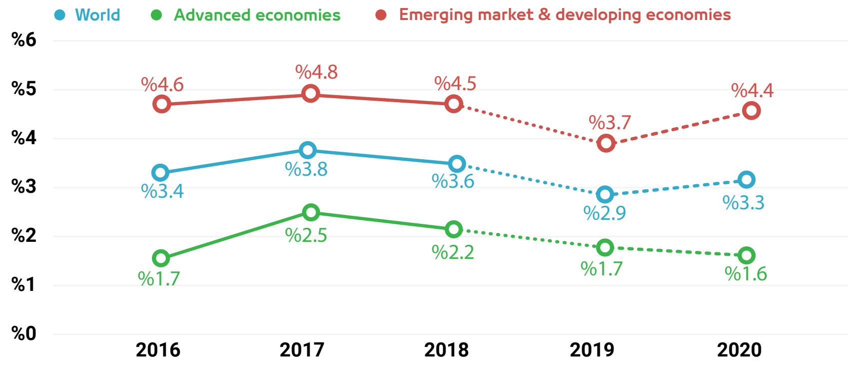
2018
3.7%
2019
1.0%
World Trade Volume

2018
2.1%
2019
2.5%
GDP growth of Arab countries

2018
9.2%
2019
6.7%
Inflation rate of Arab countries

Global Economic Growth Outlook

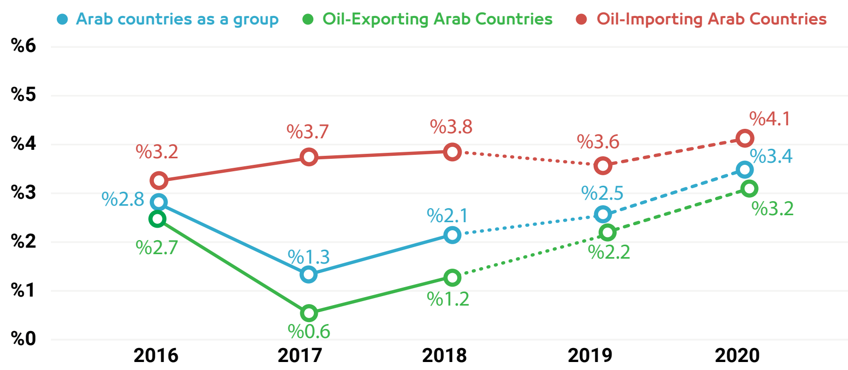
Reflects a significant decline in the activity and an expected recovery in a number of economics of developing countries and emerging markets.



Source: Arab Monetary Fund (Arab Economic Outlook - September 2019)

Economic Growth Outlook of Arab Countries

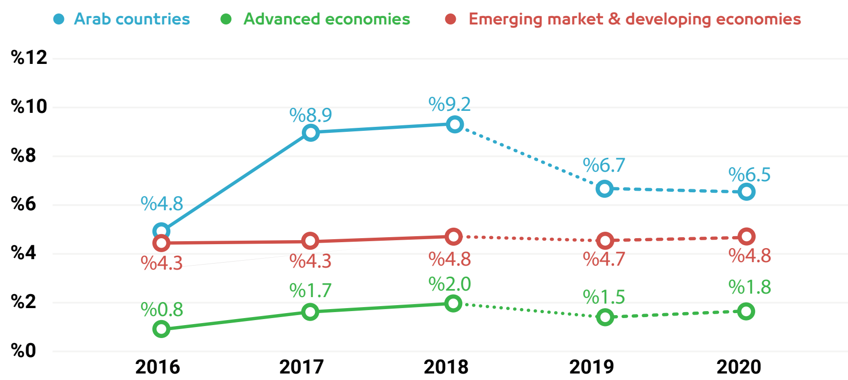
The expansion of growth reflects the relative recovery of oil-exporting countries, whereas oil-importing countries are expected to be affected by lower external demand, while growth continues to be supported by the positive impact of economic reforms.



Source: Arab Monetary Fund (Arab Economic Outlook - September 2019)

Inflation Rate

The slowdown in economic activity is expected to lead to a decrease in inflationary pressures in developed economies as well as in Arab countries, while they are expected to stabilize in developing countries.



Source: International Monetary Fund (Global Economic Outlook- January 2019) and Arab Monetary Fund (Arab Economic Outlook- September 2019)

COMPANY'S ACTIVITY

in 2019

The Company has continued its successful journey, spanning nearly 45 years, in performing its investment role with the aim of developing Arab economies.

During the year, the Company's efforts were divided between managing its existing investments and searching for promising investment opportunities as well as providing financial services, based on the support received from the shareholding countries.

Despite the challenges and mixed investment climate that prevailed over the global economy and Arab region in particular, the Company was able to achieve good financial performance in 2019, recording the highest revenues and net profits for the past five years. This is due to the ability of The Arab Investment Company to deal with, and adapt to various circumstances and variables to achieve its ambitions to become a leading Arab financial institution.

The following pages are a review of the Company's performance in these areas and its financial results in 2019.

In The Field of

Company Management

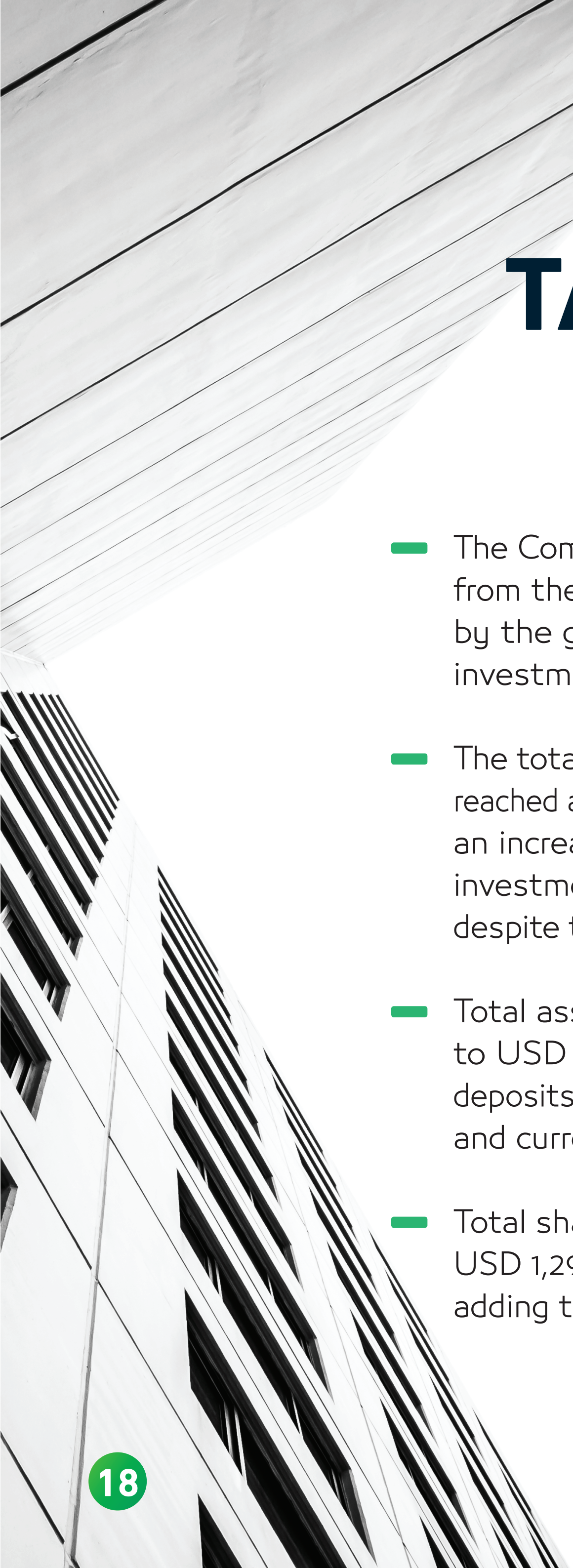
TAIC's confident steps towards achieving its investment and development mission are the fundamental pillar upon which it relies to meet the objectives and aspirations of the shareholding countries to support and develop the Arab economy.

The current formation of the Board of Directors reflects an appropriate mix of skills and expertise from different backgrounds and disciplines. It plays a proactive leadership role, which enhances the Company's governance and provides effective guidance in developing its initiatives and addressing the various challenges related to business, investment and asset management.

Each year, the Company develops an annual operating plan, conducts extensive reviews of the economic environment and internal processes, and seeks to implement several initiatives in line with the Company's objectives. In addition, the Board of Directors supervises the Company's business plan to check the mechanism of workflow, enabling to achieve the required performance results.

In 2019, the Company achieved most of the quantitative and qualitative objectives set out in its annual operating plan, which contributed to maintaining its outstanding and leading position among Arab joint companies. In addition, the annual operating plan has enabled the Company in recent years to take urgent measures and adopt programs designed to enhance efficiency and performance.

During the year, the Company's operations were subject to periodic reviews by the internal audit unit approved by the Audit Committee, to objectively and independently verify the adequacy, transparency, and effectiveness of internal control systems for all operations and activities of the Company. Moreover, management systems, policies and procedures are regularly updated to enhance the Company's governance and performance efficiency practices, and to ensure the achievement of the Company's development and investment objectives.



TAIC Financial Results

For 2019

- The Company achieved a net profit of USD 48.9 million in 2019, up by a 17% from the previous year's profit of USD 41.8 million. This increase was driven by the growth of net interest income, higher dividends and returns from investment funds.

- The total operating income generated by the Company's various operations reached about USD 63.8 million in 2019, compared to USD 57.5 million, representing an increase of 11% over the previous year. The Company's activities in both investment and banking services have contributed to achieve these results despite the difficult economic conditions that prevailed in 2019.

- Total assets increased by 8.7% to reach USD 1.746 million in 2019, compared to USD 1,606 million a year earlier, largely due to the growth of accepted deposits and the improvement in the fair value of projects portfolio, securities and current year's profits.

- Total shareholders' equity increased from USD 1,218 million in 2018 to about USD 1,299 million at the end of 2019, representing an increase of 6.6%, after adding this year's net profits and the improvement in the fair value reserve.

17%
48.9
USD million
Net Income

11%
63.8
USD million
Total Revenue

8.7%
1,746
USD million
Total Assets

6.6%
1,299
USD million
Shareholders' Equity

Key Performance Indicators

2019 3.9% (2018 3.5%)

Return on Average Equity (ROAE)

2019 2.9% (2018 2.5%)

Return on Average Assets (ROAA)

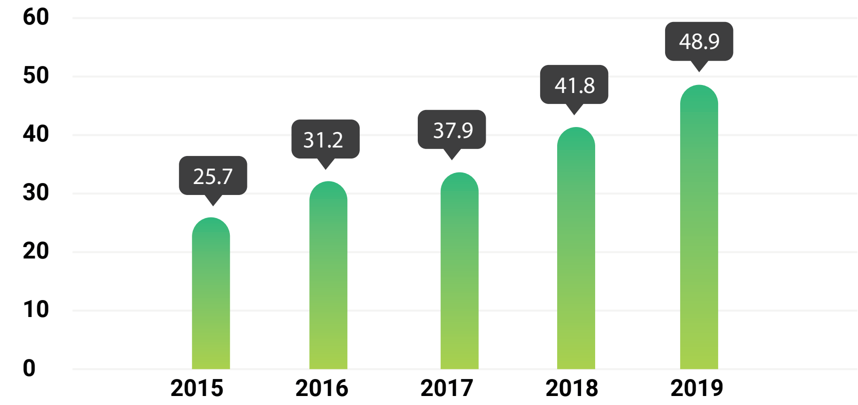
2019 30.1% (2018 31.2%)

Cost to Income Ratio

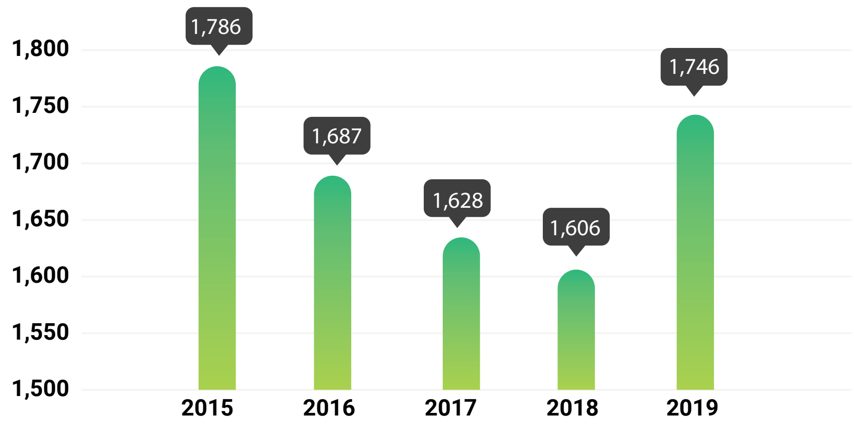
2019 87% (2018 98%)

Capital Adequacy

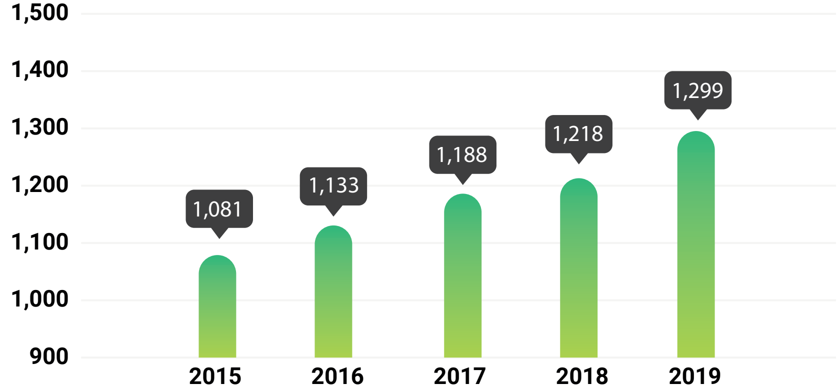
Net Profit
(USD Million)



Total Assets
(USD Million)



Shareholders' Equity
(USD Million)



In The Field of

Investment In Projects

Investment in projects represents the main area of focus of TAIC's activity. Over the past years, the Company's investments in various sectors have achieved their development and economic objectives across different Arab countries.

Over the past 45 years, the Company has invested heavily in projects that support the Arab economic and social development. These projects achieved distinct results by providing goods and services for local and regional markets, in addition to their role in stimulating inter-Arab trade, creating job opportunities, and achieving integration among different economic sectors.

In 2019, TAIC's existing projects received priority and attention, with particular focus on enhancing the competitiveness and sustainability of projects amid different circumstances that faced the regional and global investment climate. The Company continued its ongoing efforts to overcome obstacles and address problems of some projects, through cooperation and coordination with the respective Management of such projects and other shareholders participating in them.

The Company also continued to look for promising new investment opportunities, and to that end, it conducted, in 2019, its own study to anticipate investment prospects in Arab countries, which resulted in the identification of countries and sectors targeted for investment in the coming years. The Company benefits from its cooperation and strategic alliances with regional and international institutions, to draw up investment plans and attract capital.

In 2020, the Company seeks to expand and diversify its investment portfolio, with a greater focus on opportunities for sustainable development.

Overview

Private Equity Portfolio (2019)

TAIC's private equity portfolio reached USD 344 million by the end of 2019, representing 33% of its paid-up capital. The portfolio, which includes 26 investment projects, is geographically spread over 10 Arab countries and distributed across 9 different sectors. The total paid up capital of the projects in targeted sectors was approximately USD 28 billion, while the total shareholders' equity exceeded USD 294 billion. These figures highlight the importance of the Company's role as a major catalyst in mobilizing financial resources and encouraging the private sector to contribute to investment projects across Arab countries.

Size of Investments

344 USD Million

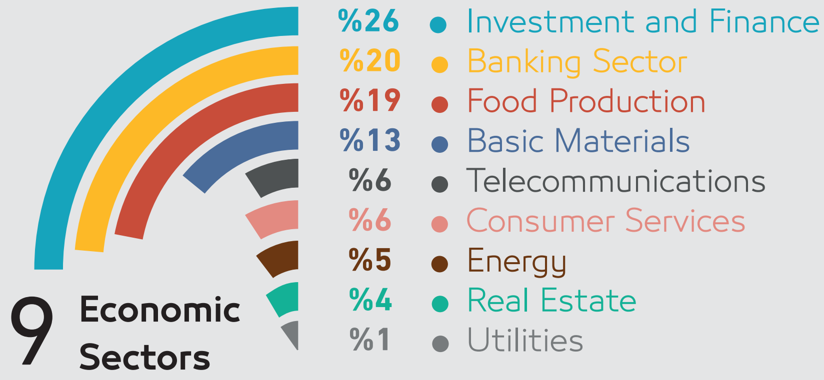
These investments are distributed over:

26 Projects

10 Arab countries

9 Economic sectors

Sectoral and Geographical Distribution for Projects Portfolio According to Historical Cost



% of Total Historical Cost as at the End of 2019

TAIC's Private Equity Portfolio Summary

Project or Company	Company Participation	% USD Million	Major Shareholders
Banking Sector			
Samba Financial Group Saudi Arabia	21.14	0.18%	• Public Investment Fund • Public Pension Agency • General Organization for Social Insurance
The Arab Jordan Investment Bank Jordan	19.09	10.25%	• Abdulqader Abdullah Al-Qadi • Libyan Foreign Bank
Arab Banking Corporation (ABC) Bahrain	15.72	0.42%	• Libyan Central Bank • Kuwait Investment Authority
The Arab Jordan Investment Bank Qatar	8.10	15.00%	• The Arab Jordan Investment Bank
Arab Banking Corporation (ABC) Algeria	3.17	4.18%	• Arab Banking Corporation (Bahrain)
Basic Materials Sector			
Berber Cement Company Sudan	16.40	16.40%	• National Cement Company • The Islamic Corporation for the Development of the Private Sector • National Social Security Fund
Egyptian Propylene and Polypropylene Company Egypt	27.63	10.00%	•The Egyptian Petrochemicals Holding Company • Egyptian Natural Gas Company • Hail Saeed Group • Oriental Weavers
The Arab Mining Company Jordan	2.16	1.10%	• Arab Joint Company

Project or Company	Company Participation	% USD Million	Major Shareholders
Food Production Sector			
Kenana Sugar Company Sudan	62.40	%6.99	• The Government of Sudan • Kuwait Investment Authority • The Government of Saudi Arabia
The Arab Company for Livestock Development Saudi Arabia	3.56	1.67%	• Arab Joint Company
Energy Sector			
The Saudi Arabian Oil Company (Saudi Aramco) Saudi Arabia	15.85	0.001%	• The Government of Saudi Arabia
Real Estate Sector			
Asma Club Plus Real Estate Company Morocco	12.29	40.00%	• Saudi Moroccan Development Investment Company
Société Riad Swalem Morocco	0.20	33.00%	• Saudi Moroccan Development Investment Company
Utilities Sector			
National Tri-generation CHP Company Saudi Arabia	3.98	9.94%	• Ministry of Islamic Affairs and Awqaf • Al Anoud Charity Foundation

Project or Company	Company Participation	% USD Million	Major Shareholders
Investment and Finance Sector			
Bidaya Home Finance Company Saudi Arabia	26.67	%11.11	• Public Investment Fund • The Islamic Corporation for the Development of the Private Sector • Rashed A. AlRashed & Sons Company
Middle East Financial Investment Company Saudi Arabia	16.00	%15.00	• Kuwait & Middle East Financial Company
The Arab Leasing Company Algeria	10.70	25.00%	• Arab Banking Corporation (Algeria) • Caisse Nationale d'Epargne et de Prévoyance
The Arab Leasing Company Ltd Sudan	9.00	30.00%	• The Islamic Corporation for the Development of the Private Sector • Libyan Foreign Bank • OPEC Fund for International Development
Taageer Leasing Company Oman	7.90	18.79%	• Oman Investment Fund • Ministry of Defense Pension Fund
International Company For Leasing (Incolease) Egypt	7.90	10.00%	• Arab International Banking Corporation • Banque Misr
Maroc Leasing Company Morocco	4.76	5.74%	• Groupe Banque Populaire • CIH Bank
Financial Investment Bank Sudan	4.44	20.80%	• Central Bank of Sudan • Tadhamon International Islamic Bank • Hospico Company
Arab Trade Financing Program Emirates	3.33	0.44%	• Arab Monetary Fund • Arab Fund for Economic & Social Development

Project or Company	Company Participation	% USD Million	Major Shareholders
Telecommunications Sector			
Sudatel Telecom Group Ltd. Sudan	20.73	2.18%	• The Government of Sudan
Consumer Services Sector			
Arab International Hotels Company Jordan	7.79	8.36%	• Jordan Ahli Bank • Jordan Worsted Mills Company • Al-Nabeel Trading Company
Arab International Company for Hotels and Tourism Egypt	12.70	13.62%	• Arab International Bank • Kuwait Investment Authority • Abu Dhabi Investment Authority

Overview

Investment Fund Portfolio (2019)

The fund's portfolio consists of the Company's contribution amounting to USD 24.4 million in a single investment fund, representing 7% of the Company's investments.

In partnership with regional and international institutions including the International Finance Corporation (IFC), the Arab Fund for Economic and Social Development (AFESD), Arab Petroleum Investments Corporation (APICORP), and the Japan International Cooperation Agency (JICA). The total size of the fund is USD 162.4 million.

The fund invests in the infrastructure as well as in financial and industrial sectors in the MENA region and Turkey.

IFC Middle East and North Africa Fund

Fund's Size

162.4
Million USD

Company Participation

24.4
Million USD

Share **15%**

In The Field of

Financial Services

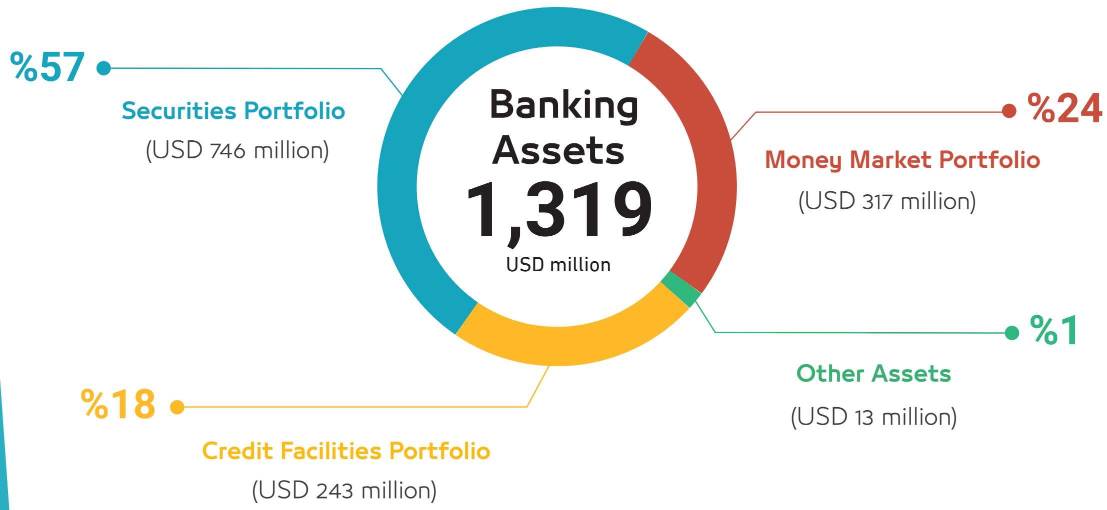
The banking activity is an important source of income for the Company that enhances its project equity capability by generating additional income intended for reinvestment across the shareholders' countries, hence consolidating the role of TAIC as an investment catalyst in the Arab world.

TAIC provides a number of integrated financial services through its Branch in the Kingdom of Bahrain, which is licensed as a Conventional Wholesale Bank by the Central Bank of Bahrain.

The efforts of the banking activity in 2019 were primarily focused on resource mobilization, liquidity management and close monitoring of the components of its banking assets in proportion to the challenges facing the banking industry globally as well as market data.

At the end of 2019, Total banking assets amounted to USD 1,319 million, compared to USD 1,237 million in the previous year, reflecting an increase of 7%.

Components and Percentages of Banking Assets as at the End of 2019



1

Treasury and Capital Market

The year 2019 witnessed the trend of central banks around the world pursuing a supplementary accommodative monetary policy to avoid any potential new economic crisis amid a global economic slowdown, which was accompanied by the slowest pace of growth since the 2008 financial crisis.

Business activities and asset values in the Middle East have been affected by the slowdown of global economic growth more than any other region, due to the coincidence with the increasing geopolitical risks in the region, which in turn constituted an additional burden on the regional economy.

Nevertheless, the Company was able to mobilize the necessary financial resources for its business activities, and successfully deployed more than USD 1 billion of funds allocated through investments in fixed-income, equities, mutual funds, loans and capital market activities. The focus has been directed towards increasing profitability amid a low-interest-rate environment, and minimizing exposure to high credit risks through adequate risk mitigation tools and distribution of risks across different geographies.

Overview

Treasury and Capital Market Portfolio (2019)

15%
746
USD million
Securities Portfolio

At the end of 2019, the size of investment securities portfolio increased by 15% over the previous year, to reach USD 746 million, due to the Company's move towards investment in Government bonds of the shareholding countries, which enjoy a high liquidity and quality profile, as well as higher returns.

3%
317
USD million
Money Market Portfolio

Money market portfolio (Placements with banks and Treasury Bills) decreased by 3% from 2018 to USD 317 million, as a result of the reallocation of part of it to be invested in the securities portfolio to enhance returns on the invested capital.

13%
415
USD million
Accepted Deposits

Accepted deposits from clients, financial institutions and Government entities increased to USD 415 million at the end of 2019, recording a growth of 13% over the previous year, due to the new deposits attracted from government institutions of the shareholding countries.

2

Credit Facilities

In 2019, credit activity faced a number of challenges, including the deterioration of geopolitical situation in the MENA region, the slowdown in global economic growth and the volatility of emerging markets, coupled with tight spreads and available liquidity in the market.

Despite these challenges, the Company continued to offer credit facilities to its clients either directly or through participating in syndicated loans with regional and international financial institutions, in addition to the provision of trade services, where the Company's focus remains on the markets of shareholding States, despite the challenging compliance requirements that have affected the trade finance business. Trade services include opening, confirmation and refinancing of letters of credit, discounting commercial papers and financing pre-export activity.

The Company intensified its efforts towards building a sustainable loan portfolio based on a sound redistribution of risks across different geographies, redefinition of the customer base, and improvement of asset credit quality metrics by minimizing exposure to high credit risks through adequate risk mitigation tools, as and when required and in line with the Company's objectives.

Overview

Credit Facilities Portfolio (2019)

4.4%

243
USD Million
Credit Facilities Portfolio

At the end of 2019, outstanding net loans and credit facilities provided to clients decreased by 4.4% over the previous year, to reach USD 243 million, as a result of early repayment of some credit facilities amounting to USD 25 million, as well as repayment of some loans that were not redeployed due to re-pricing and/or higher credit risk-related considerations.

Facilities Provided during the Year
164
USD Million

Loans Repaid during the Year
181
USD Million

Outstanding Loans
81
USD Million

Non-Performing Loans
5
USD Million

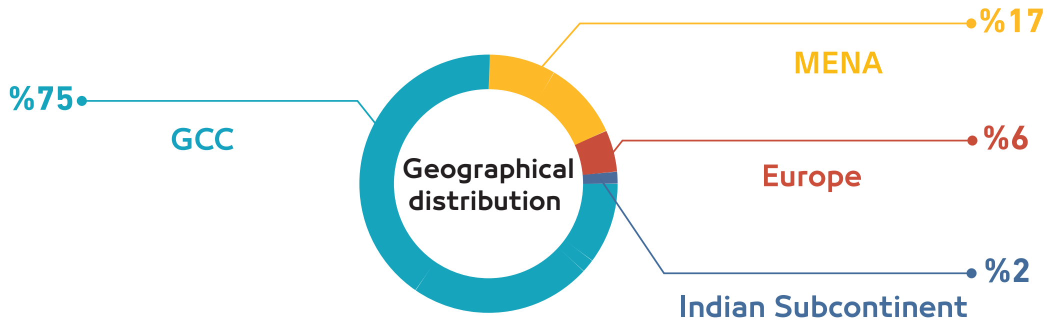
The outstanding balance of non-performing loans declined by 45% over the previous year, to USD 5 million, due to a recovery of USD 4.1 million. Provisions against non-performing loans are maintained at a coverage ratio of 100%.

Distribution of Credit Facilities Portfolio by Clients

Credit facilities extended to financial institutions primarily dominated the loan portfolio with 62% of total gross loan exposure. The balance was split between government institutions and commercial companies.

Geographical Distribution for Credit Facilities Portfolio

The Gulf Cooperation Council GCC ranked first with 75% of gross loan portfolio, while the balance was distributed between MENA, Europe and Indian Subcontinent.



Development of

Supporting Services

In 2019, the Company started to implement its approved programs for support services in the area of developing IT systems and human resources, in order to serve the working environment and achieve its future goals and aspirations.

1 Information Technology Systems

The year 2019 saw TAIC's implementation of several reviews and improvements of its systems to keep abreast of ongoing developments in information technology and security, which have strengthened controls, quality and alignment with best policies and practices.

As part of improving the cloud infrastructure, TAIC upgraded the operating systems of its virtual servers, increased its storage capacity, and installed the latest internal communication equipment, which accelerated the processing of daily transaction data and increased the reliability of the Company's business activities.

The Company completed the upgrade of its main banking system (MIDAS), which is designed to support all banking activities, mainly loans, bank documents, accounts and financial statements, as well as linking with the systems used in human resources, risk management, treasury management and financial analysis. In addition, the Company upgraded the financial systems associated to MIDAS, such as the interbank telecommunication system (SWIFT) and the financial reporting system (STORQM) to the latest version.

The Company also reviewed its information security infrastructure and updated it with security systems and equipment, in addition to implementing IT policy and procedures manual after its approval by the Board of Directors.

2 Human Resources

TAIC has paid great attention to its human resources by providing them with training, building their skills, and motivating them to perform their roles, as well as attracting specialized competencies. In addition, it strengthened its ongoing partnerships with international training centers to provide leadership and specialized programs.

In this regard, the Company approved in 2019 a package of programs for the development of employees, ranging from internal and external training programs as well as on-site training. 39 employees from all the Company's departments (representing about 46% of the company's total employees) participated in a number of specialized courses, training programs and workshops related to the Company's activities.

The most important of these programs was the IFC Asset Management Training Program for Strategic Partners held in Singapore, in addition to a variety of courses and conferences including the areas of investment, international accounting standards, digital transformation and information security, Basel 3 application, financial crimes, asset and liability management, treasury operations, compliance with FATCA requirements, financial products and international finance.

Succession plan was also developed, in order to strengthen the principle of business continuity and perform duties with the required flexibility and efficiency. In addition, job vacancies were filled with qualified competencies using the best specialized employment offices and houses of expertise in this field.

Number of Company Employees

Total Number of Company Employees
85
Employees

Headquarters
46
Employees

Bahrain Branch
39
Employees

Strengthening

Institutional Management

The institutional management of The Arab Investment Company constitutes the hard core behind all its activities, guided by the principles of corporate governance, the Board of Directors' resolutions, and the directives of the supervisory and regulatory bodies.

1

Corporate Governance

Over a period of more than four decades, TAIC has been committed to the principles and standards of good governance, which constitute an integral part of its culture and philosophy, as a cornerstone to achieve the Company's vision, mission, and shareholders' aspirations.

In this regard, the Company has developed a general framework for its governance, including a set of regulations and policies through which the roles and responsibilities are defined and how decisions are made, implemented, and overseen.

The Board of Directors monitors the application of governance systems to verify the integrity and accuracy of implementation and ensure compliance with best governance practices and that the best international systems are adopted and enforced, so as to guarantee the rights of employees, shareholders, and stakeholders alike.

The Board has also established internal committees with varying powers, operating under its supervision to facilitate the Company's operations, organize the functions of its different managements, and implement the requirements of governance and institutional work.

2

Risk Management

Risk is an integral part of TAIC's business activities and decision-making process. TAIC's sustainable performance depends on its ability to manage risk at all levels.

In this regard a robust risk management governance structure and framework has been implemented that acts as a growth platform and ensures a crucial balance between risk and reward to support TAIC's strategic objectives.

This framework consists of a comprehensive set of policies, standards, procedures, processes and systems designed to identify, measure, monitor, mitigate and report risk in a consistent and effective manner across TAIC.

TAIC continuously updates Risk Management Framework to reduce potential risks, mainly Credit, Market, Liquidity and Operational. The business and risk management strategy is tailored and regularly reviewed in line with the risk appetite.

The Governance Framework defines the responsibilities and competencies of both the Board of Directors and Executive Management regarding the effectiveness of the risk management framework, how it is implement, and ensure that the results are followed up and appropriate corrective actions are taken, in addition to its continued update in line with the requirements of regulatory bodies and best business practices.

Risk Governance

The risk governance structure ensures central oversight and clear control with accountability and ownership of risk.

The Board of Directors ("the Board") have the ultimate responsibility for setting-up of risk appetite, establishment and oversight of the Risk Management Framework. For this purpose, a Board Risk and Compliance Committee (RCC) has been constituted which ensures effective implementation and oversight of Risk Management Framework in line with Regulatory guidelines / best industry practices through an independent Risk Management Department.

The Company adopts Three Lines of Defense model where the Business Departments are "the First Line of Defense". "The Second Line of Defense" includes the support managements, such as Risk and Compliance Management and Legal management. Internal Audit acts as "Third Line of Defense".

Risk Framework

Over the last few years, TAIC has invested in developing a comprehensive and robust risk management infrastructure. This includes well defined Policies for managing - Credit, Market, Operational, Liquidity and Reputational risks among others, emanating from various business activities.

These Policies are reviewed annually so as to ensure their compliance to Regulatory guidelines and industry best practices.

Furthermore, the said Policies are supplemented with Risk Management Models namely – Asset & Liability / Market Risk Management System, Internal Credit Risk Rating Systems and Capital Assessment Platform.

The endurance test is an integral part of the Company's Risk Management Framework, where endurance testing provides a forward-looking assessment of key risk exposures during critical conditions, and enables the Company to develop appropriate plans to mitigate such risks and manage any anticipated risks efficiently.

The main risks, among others, managed by Risk Management are as follows:

- **Credit Risk:**

The main objectives of credit risk management are to maintain a strong culture of responsible lending, in line with the credit policies approved by the Board. The Company works diligently to ensure compatibility between credit risks it's willing to take and its businesses activities. In this regard, a detailed examination of all potential business opportunities is conducted.
The Internal credit risk rating system ensures the timely identification of any credit risk deterioration and the implementation of resulting corrective actions. The risk ratings assigned to each customer are reviewed annually.

TAIC follows strict criteria in determining credit limits for countries, customers and counterparties. In addition, it has applicable procedures and regulations to issue the necessary alerts in case of account overrun. Strict classification procedures are followed for all overrides. The Company applies precise criteria for monitoring non-performing loans, based on the International Financial Reporting Standards (IFRS9).

- **Market Risk:**

The Company's market-risk business is governed by the policies and regulations approved by the Board, and requires full compliance with the controls and limits between the functions of business and operations management, all of which is explained in the periodic reports prepared in this regard.

- **Operational risks:**

The Company has developed regular procedures for operational risk management to identify, evaluate, process, monitor and report risks.

Operational risk is measured using the Risk and Control Self-Assessment (RCSA) process, monitored using Key Risk Indicators (KRIs), and managed primarily by business and functional managers, who identify and assess risks, implement controls and monitor their effectiveness using the Operational Risk Management Framework (ORMF). The Operational Risk Department independently oversees the effective implementation of operational risk management framework.

- **Liquidity risk:**

Liquidity risk management ensures the availability of the Company's funds at all times to meet finance requirements, and that the Company's assets and liabilities management ensures compliance with various liquidity standards, such as minimum level of liquid assets, gap limits, ratio of liquid assets to total assets and other criteria.

The Company aims to effectively manage a mix of assets and liabilities by selectively positioning them to take advantage of short-term changes in interest rate levels.

The Asset and Liability Committee (ALCO) is responsible for effective management of liquidity risk, liquidity position, liquidity gap, financing requirements, Certified Financial Planner (CFP), and pricing.

- **Reputation risks:**

Reputation risk management is an inherent feature of the Company's business culture and is an integral part of internal control systems. The Company maintains the highest level of professional standards in conducting its business, and attaches utmost importance to its reputation in terms of honesty, integrity and ethical standards.

- **Business Continuity:**

The Business Continuity Policy provides supervision and guidance for business continuity management, including periodic testing to ensure its adequacy and effectiveness.

Risk culture:

The Company continues to promote a robust risk culture in order to ensure that all business activities are implemented ethically.

The risk culture is closely related to the Company's comprehensive culture of doing business, which includes general awareness of employees, specifically their attitudes and behavior towards risks and how they are managed. The risk profile approved by the Board reinforces the risk culture through the concept of governance, which explain the level of risk taking.

Risk and Return Trade-off:

Since the risks associated with the business activities cannot be mitigated completely, the function of Risk Management aims at ensuring effective management of these risks in order to achieve competitive returns which commensurate with the perceived degree of risk. Risk assessment is based on potential effects on the profitability and value of assets, taking into account the changes in the political and economic conditions in the markets as well as the creditworthiness of customers.

3 Regulatory Compliance and Anti-Money Laundering / Combating the Financing of Terrorism (AML/CFT):

TAIC is committed to comply with all applicable laws, regulations and global sanctions requirements. Consequently, it has implemented robust regulatory frameworks for risk management, AML/CFT and sanctions.

Given the increasing requirements and expectations of key stakeholders such as regulators and correspondent banks, the Company has invested heavily in compliance risk management by continuously enhancing its capacity at all levels.

The compliance function is independent and submit its reports regularly to the Risk and Asset Committee (RAC) of the board. The regulatory compliance, AML/ CFT and sanction policies are reviewed and approved by the Board of Directors annually.

Compliance with these policies are reviewed quarterly by the Internal Audit, who reports to the Audit Committee of the Board.

The external auditor annually conducts an independent review of compliance with the AML policy and procedures and submit his report to the Board of Directors and Regulator.

Regulatory Compliance:

The Compliance framework approved by the Board reflects the principles for promoting sound compliance practices. The role of the Compliance function is to assist senior management to ensure that the activities are conducted in conformity with applicable laws, regulations and international best practices. TAIC has implemented a robust compliance program in line with board approved policy, which covers regular monitoring, timely reporting of regulatory requirements, compliance testing and periodic reporting to the board RAC.

Anti-Money Laundering /Combatting the Financing of Terrorism (AML/CFT):

The AML/CFT policies and procedures are compliant with FATF international standards on combating money laundering and terrorism financing. Systems and processes are in place to ensure sound customer due diligence, daily transaction monitoring, screening transactions against the local and international sanctions list; procedures for identifying / reporting suspicious transactions, comprehensive employee training programs and record keeping as per regulatory requirements.

Compliance with Foreign Account Tax Compliance Act (FATCA):

The compliance framework is committed to comply with the US Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standards (CRS), which together make up the Automatic Exchange of Information (AEOI). The AEOI policy duly approved by the Board of Directors is in place. The FATCA and CRS reports are submitted annually to the regulator.

In conclusion, the Board of Directors of The Arab Investment Company, in presenting its annual report, is pleased to express its thanks and gratitude to the shareholding Arab governments for their continued and unlimited support for the Company. The Board extends special thanks to the Government of the Kingdom of Saudi Arabia, which hosts TAIC's headquarters, and the Government of the Kingdom of Bahrain, which hosts its banking branch, for the excellent facilities and care provided by the two countries to the Company through their various institutions. The Board of Directors also expresses its thanks to TAIC's public and private clients, affirming that the Company takes pride and appreciates their confidence. The Board also thanks the Executive Management and all the employees of the Company and congratulates them on the results achieved in 2019, and looking forward to exert more organized collective efforts and action to achieve the Company's goals and future aspirations.

FINANCIAL STATEMENTS

31 December 2019

Building a better working world

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

Opinion

We have audited the financial statements of The Arab Investment Company (the "Company"), which comprise the statement of financial position as 31 December 2019, and the statements of income, comprehensive income, changes in shareholders equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and the Company's By-Laws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Building a better working world

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

Auditor´s Responsibilities for the Audit of the Financial Statements (continued)
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of inernal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management´s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are require to draw attention in our auditor´s report to related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statement represent the underlying transactions and events in a manner that achieves fair presentation.

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

For Ernst & Young

Waleed G. Tawfiq
Certified Public Accountant
License No. 437

Riyadh: 3 Ramadhan 1441H
(26 April 2020G)

STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2019

All amounts in United States Dollars thousands

	Notes	2019	2018
ASSETS			
Cash and deposits with banks	5	**421,949**	403,419
Investments:			
Securities	6	**762,657**	655,847
Equity participations	7	**275,758**	256,880
Loans and advances	8	**243,594**	254,740
Other assets	9	**19,239**	14,153
Property and equipment	10-1	**15,116**	13,083
Investment property	10-2	**7,792**	7,930
TOTAL ASSETS		**1,746,105**	1,606,052

	Notes	2019	2018
LIABILITIES			
Deposits	11	**415,488**	368,271
Other liabilities	13	**31,599**	19,536
TOTAL LIABILITIES		**447,087**	387,807
SHAREHOLDERS' EQUITY			
Share capital	15-1	**1,050,000**	800,000
Subscription in share capital	15-2	**-**	123,249
Statutory reserve	16	**114,864**	109,973
General Reserve	17	**22,799**	22,799
Retained earnings		**166,067**	249,246
Fair value reserve	18	**(54,712)**	(87,022)
TOTAL SHAREHOLDERS' EQUITY		**1,299,018**	1,218,245
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,746,105**	1,606,052

Financial Affairs	Chief Executive Officer	Chairman
Mr. Magdi M. Elkafrawy	**Mr. Ibrahim H. AlMazyad**	**H.E. Mr. Abdulaziz Salih Alfuraih**

STATEMENT OF INCOME

For the year ended 31 December 2019

All amounts in United States Dollars thousands

	Notes	2019	2018
INCOME			
Interest income	19	**49,680**	44,511
Interest expense	19	**(9,594)**	(8,570)
NET INTEREST INCOME		**40,086**	35,941
Dividends		**10,922**	9,354
Net fees and commissions	20	**965**	976
Net gain on financial securities	21	**5,103**	4,536
Net foreign exchange gain (loss)		**17**	(1,616)
Rental income		**4,620**	4,741
Other income, net	22	**2,077**	3,573
TOTAL OPERATING INCOME		**63,790**	57,505
EXPENSES			
General and administrative	23	**(19,167)**	(17,919)
Provision written back, net	24	**4,290**	2,193
TOTAL OPERATING EXPENSES		**(14,877)**	(15,726)
NET INCOME FOR THE YEAR		**48,913**	41,779

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

All amounts in United States Dollars thousands

	Notes	2019	2018
NET INCOME FOR THE YEAR		**48,913**	41,779
Other comprehensive income			
Items that may be reclassified to statement of profit or loss in subsequent periods:			
Debt investment at fair value through other comprehensive income:			
Net fair value movement during the year		**29,371**	(19,443)
Recycling of gain to the statement of income		**(28)**	(786)
		29,343	(20,229)
Items that will not be reclassified to statement of income in subsequent periods:			
Net fair value movement on equity investment measured at fair value through other comprehensive income		**3,757**	(20,706)
Remeasurement of defined benefit obligation	13	**(790)**	(5)
		2,967	(20,711)
Total other comprehensive income (loss) for the year		**32,310**	(40,940)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**81,223**	839

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2019

All amounts in United States Dollars thousands

	Notes	Share Capital	Subscription for share capital	Statutory Reserve	General reserve	Retained Earnings	Fair value reserve	Total
Balance at 1 January 2018		**800,000**	93,839	105,795	22,799	212,095	(46,082)	1,188,446
Net income for the year		**-**	-	-	-	41,779	-	41,779
Other comprehensive loss		**-**	-	-	-	-	(40,940)	(40,940)
Total comprehensive income		**-**	-	-	-	41,779	(40,940)	839
Transfer to statutory reserve	16	**-**	-	4,178	-	(4,178)	-	-
Board of directors' bonuses paid		**-**	-	-	-	(450)	-	(450)
Contribution for share capital increase	15-1	**-**	29,410	-	-	-	-	29,410
Balance at 31 December 2018		**800,000**	123,249	109,973	22,799	249,246	(87,022)	1,218,245
Net income for the year		**-**	-	-	-	48,913	-	48,913
Other comprehensive income		**-**	-	-	-	-	32,310	32,310
Total comprehensive income		**-**	-	-	-	48,913	32,310	81,223
Transfer to statutory reserve	16	**-**	-	4,891	-	(4,891)	-	-
Board of directors' bonuses paid		**-**	-	-	-	(450)	-	(450)
Transfer to share capital	15-1	**250,000**	(123,249)	-	-	(126,751)	-	-
Balance at 31 December 2019		**1,050,000**	-	114,864	22,799	166,067	(54,712)	1,299,018

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2019

All amounts in United States Dollars thousands

	Notes	2019	2018
OPERATING ACTIVITIES			
Net income for the year		**48,913**	41,779
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision written back, net	24	**(4,290)**	(2,193)
Gain on sale of investments		**(2,606)**	(3,240)
Amortisation of discount		**19**	1
Loss on revaluation of lands		**212**	237
Unrealized (gain) loss in FVTPL investment		**(27)**	901
Depreciation	10	**770**	768
		42,991	38,253
Changes in operating assets and liabilities:			
Deposits with banks with maturities longer than 3 months		**37,431**	(52,491)
Financial assets at fair value through statement of income		**(5,540)**	14,009
Loans and advances, net		**18,170**	22,739
Other assets		**(5,086)**	1,760
Deposits		**47,217**	(52,325)
Derivative financial instruments		**51**	(158)
Other liabilities		**11,113**	(332)
Net cash from (used in) operating activities		**146,347**	(28,545)

	Notes	2019	2018
INVESTING ACTIVITIES			
Sale and purchase of investment securities, net		**(87,898)**	(96,852)
Proceeds from disposal/refund of equity participations		**600**	-
Property and equipment and investment properties	10	**(2,877)**	(288)
Net cash used in investing activities		**(90,175)**	(97,140)
FINANCING ACTIVITIES			
Board of director's bonuses paid		**(450)**	(450)
Subscription in capital increase		**-**	29,410
Net cash (used in) from financing activities		**(450)**	28,960
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**55,722**	(96,725)
Cash and cash equivalents, beginning of the year	5	**298,212**	394,937
Cash and cash equivalents at the end of the year	5	**353,934**	298,212
Supplemental non-cash information			
Net change in fair value reserve	18	**32,310**	(40,940)
Operational cash flows from interest and dividends			
Interest income received		**47,547**	44,544
Interest expense paid		**(32,367)**	(26,463)
Dividends received		**10,691**	10,819

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 Branch include trade financing, commercial lending, treasury services and Islamic banking.
The Kingdom of Saudi Arabia (the host country) exempts gross profits, dividends and reserves of the Company from all taxes, fees and royalties throughout the duration of the Company. Additionally, the Bahrain branch is also exempted from all taxes in accordance with the laws of the Kingdom of Bahrain.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 - Basis of preparation

The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").
The financial statements have been prepared under the historical cost convention, except for the measurement at fair value of derivatives, FVOCI, FVTPL financial assets and liabilities and employee benefits which are stated at present value of their obligation. In addition, as explained fully in the related notes, financial assets and liabilities that are hedged under a fair value hedging relationship are adjusted to record changes in fair value attributable to the risks that are being hedged.
The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2.2 - Adoption of new standards

The accounting policies adopted and methods of computation followed are consistent with those of the previous financial year, except for the application of IFRS 16 (Leases) for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.
There were several other new and amendments to standards and interpretations which are applicable for the first time in 2019, but either not relevant or do not have an impact on the financial statements of the Company. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Leases

Effective 1 January 2019 the Company has adopted IFRS 16 and the impact of the adoption of this standard is explained below:
IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.
Lessor accounting under IFRS 16 is, however, substantially unchanged from present accounting under IAS 17. Lessors continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating leases and finance leases. One exception is that IFRS 16 requires the intermediate lessor to classify the sublease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. However, this change does not have an impact on the Company's classification of the subleases. Therefore, IFRS 16 does not have an impact for leases where the Company is the lessor.

Below is the Company's accounting policies in accordance with the application of IFRS 16, which is effective from the date of initial application:

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
2.2 Adoption of new standards (continued)
Leases (continued)

revenue in the statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.
The Company has entered into operating leases on its investment property portfolio consisting of residential buildings. These leases have terms of between one and 25 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. Rental income recognised in the statement of income by the company during the period ended 31 December 2019 is USD 4,620 Thousand (31 Dec 2018: USD 4,741 Thousand).

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

A) Financial assets and financial liabilities
1) Classification of financial assets
On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.

Financial Asset at amortised cost
A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial Asset at FVOCI
A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity Instruments: On initial recognition, for an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Financial Asset at FVTPL
All other financial assets are classified as measured at FVTPL.
In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Business model assessment
The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning mark up revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
A) Financial assets and financial liabilities (Continued)
1) Classification of financial assets (Continued)

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.
Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessments whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Interest' is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.
In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

Reclassification
The Company reclassifies the financial assets between FVTPL, FVOCI and amortized cost if and only if under rare circumstances its business model objective for its financial assets changes so its previous business model assessment would no longer apply.

2) Classification of financial liabilities
The Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost.
Deposits are initially recognized at fair value less transaction costs.
Subsequently, financial liabilities are measured at amortized cost, unless they are required to be measured at fair value through profit or loss.

3) Derecognition
a - Financial assets
The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.
On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in statement of income.
From 1 January 2018, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in statement of income on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability.
In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

b - Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A) Financial assets and financial liabilities (Continued)

4) Modifications of financial assets and financial liabilities

a - Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in statement of income. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as profit income.

b - Financial liabilities

The Company derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in statement of income.

5) Impairment

The Company recognizes loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition

The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Company expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition .This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
A) Financial assets and financial liabilities (Continued)
5) Impairment (Continued)

Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.
Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.
In making an assessment of whether an investment in sovereign debt is credit-impaired, the Company considers the following factors:
- the market's assessment of creditworthiness as reflected in the bond yields.
- the rating agencies' assessments of creditworthiness.
- the country's ability to access the capital markets for new debt issuance.
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- the international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL are presented in the statement of financial position as follows:
- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- debt investments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss is disclosed and recognised in the fair value reserve.
- where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-off
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

6) Financial guarantees and loan commitments
'Financial guarantees' are contracts that require the Company to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.
'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.
Financial guarantees issued or commitments to provide a loan at a below-market profit rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, they are measured as follows:
- from 1 January 2018: at the higher of this amortized amount and the amount of loss allowance; and
- Before 1 January 2018: at the higher of this amortized amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Company has issued no loan commitments that are measured at FVTPL. For other loan commitments:
- from 1 January 2018: the Company recognizes loss allowance;
- Before 1 January 2018: the Company recognizes a provision in accordance with IAS 37 if the contract was considered to be onerous.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) 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.

(d) Determination of fair value

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

The fair value of an asset or a liability is measured using assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest. The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or dealer price quotations.

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 3.6 (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 3.6 (b))

C) 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.

D) Derivative financial instruments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) 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.

F) 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.

G) 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.

H) Property and equipment

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

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

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

- 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.

I) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) 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.

K) 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.

L) 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 Branch's Employee By-laws and in accordance with the local statutory requirements.

The calculation of obligations in respect of the defined benefit plan are performed by qualified actuaries using the projected unit credit method. The Company's net obligation is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting the amount in order to determine the present value of the defined benefit obligation, and deducting the fair value of the plan assets (if any). The Company's defined benefit plan is presently unfunded, and consequently, there are no plan assets.

Re-measurement of the net defined benefit liability or asset, which comprise actuarial gains and losses, the return of plan assets (excluding interest) are recognized immediately in the other comprehensive income (OCI). The Company determines the net interest expense or income on the net defined benefit liability or assets for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the opening net defined liability or asset. Net interest expense and other service cost are recognized in the statement of profit and loss.

2.3 New standards and amendments issued but not yet effective

The following is an overview of accounting standard changes that the Company will be required to adopt in future years. The Company continues to assess the impact of these standards on the financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. This standard is not applicable to the Company.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Company will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.
The amendments to the definition of material is not expected to have a significant impact on the Company's financial statements.

3. FINANCIAL RISK MANAGEMENT

Risk is inherent in banking Branch's business activities and is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls. The Company is exposed to Credit, Liquidity, Market and Operational as well as other forms of risk inherent in its financial operations.
The Company regularly reviews its risk management policies and systems to reflect changes in markets, products, regulatory requirements and emerging best practices. The Company has independent Risk management Function reporting directly to the Board's Risk and Compliance Committee ("RCC"). The RCC defines risk appetite, risk tolerance standards and risk policies.

3.1 Credit risk

Credit Risk represents the potential financial loss as a consequence of a customer's inability to honor the terms and conditions of the credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items. The Company has well laid out procedures, not only to appraise but also to regularly monitor credit risk. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented.
The Company follows stringent risk based criteria in setting credit limits for countries and financial institutions. Prudent norms have also been implemented to govern the Company's investment activities. Not only are regular appraisals conducted to judge the credit worthiness of the counterparty but day-to-day monitoring of financial developments across the globe ensures timely identification of any event affecting the risk profile.
Concentration of credit risk arises when the counterparties are engaged in similar business activities or conducting activities in the same geographic region. The risk associated with such concentration is that the exposure would be substantial in the event of a common trend affecting that industry/geographic. To mitigate this risk, the Company spreads its exposure, to the extent possible, over the various types of counterparties. However, where concentration is inevitable, the Company takes more than adequate precautions to reduce this additional risk to acceptable levels.

i) ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information.
For the Company's non-retail portfolio, the Company shall assess for significant increase in credit risk (SICR) at a counterparty level as internal rating is currently carried out at a counterparty level and no internal rating is assigned at facility level. The Company shall maintain a facility level rating being the counterparty's internal rating at date of facility origination and date of assessment.
The Company applies the Low Credit Risk expedient on its investment in debt securities when their external rating is investment grade or above.

ii) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Company uses its internal credit risk grading system, external risk ratings, quantitative changes in PDs, delinquency status of accounts, expert credit judgement and, where possible, relevant historical experience.
The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's quantitative modelling:
Using its expert credit judgment and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.
As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

3. FINANCIAL RISK MANAGEMENT (Continued)
3.1 Credit risk (Continued)
ii) Determining whether credit risk has increased significantly (Continued)

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

The Company classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below: -

Stage 1: For financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Company recognises an allowance based on the 12-month ECL. All accounts at origination would be classified as Stage 1 only exceptions are Purchased or Originated Credit Impaired ("POCI") assets

Stage 2: For financial instruments where there has been a significant increase in credit risk since initial recognition, but they are not credit-impaired, the Company recognises an allowance for the lifetime ECL.
For non-retail portfolio, there are various triggers which are used for moving the exposures to stage 2, these mainly include accounts with Obligor Risk Rating ("ORR") of greater than or equal to 7, DPD 30 or more as of 31 December 2019.
In addition to above, the account tagged as watch list / restructured as of 31 December 2019 including those which has been restructured over the last 12 being restructured in last 12 months, are classified in stage 2. Additionally, in case of sovereign exposures, the Company considers the Sovereign Debt Provisions Matrix prescribed by the Central Bank of Bahrain. Accordingly, sovereigns having a total score of below 10 may be considered under stage 2 on a case-to-case basis.

Stage 3: For credit-impaired financial instruments, the Bank recognises the lifetime ECL. Default identification process i.e. DPD of 90 more is used as stage 3.

iii) Credit risk grades
An internal credit rating system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action. The Company's internal ratings are based on a 7-point scale for non-defaulted borrowers that takes into account the financial strength of a borrower as well as qualitative aspects, to arrive at a comprehensive snapshot of the risk of default associated with the borrower. These Ratings scales are further sub-divided into categories which reflect estimates of the potential maximum loss if default occurs. Risk Ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Company to exit accounts that evidence deterioration in risk profile. The Company also uses the ratings by established rating agencies, viz., Moody's, Standard & Poor and Fitch as part of the appraisal process while considering exposures to rated entities. The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.
Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.
Each non retail exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of non-retail exposure involves use of the following data.

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections.
- Data from credit reference agencies, press articles, changes in external credit ratings
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

iv) Generating the term structure of PD
Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading. The Company employs statistical models to analyze the data collected and generate

3. FINANCIAL RISK MANAGEMENT (Continued)
3.1 Credit risk (Continued)
iv) Generating the term structure of PD (Continued)

estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.
This analysis includes the identification and calibration of relationships between changes in default rates and macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP, Investments, Savings, Inflation, Net Lending, Net Debt, Government expenditure and Unemployment rates.
Based on consideration of a variety of external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (i.e. on incorporation of forward-looking information). The Company then uses these forecasts to adjust its estimates of PDs.

v) Definition of 'Default'
The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Company. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default. The Company considers indicators that are:

- qualitative- e.g. breaches of covenant;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

vi) Incorporation of forward-looking information
The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.
Externally available macroeconomic forecast from International Monetary Fund (IMF) are used for making base case forecast. For other scenarios, adjustment are made to base case forecast based on expert judgement. The Company uses multiple scenarios and probabilities are assigned to each scenario based on expert judgement. Adjustments to the base case macro-economic forecasts are subject to TAIC Credit Committee approval.
The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.
The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2018 included the following ranges of key indicators.

• GDP	• Investments	• Savings	• Inflation Net Lending
• Net Debt	• Government expenditure	• Unemployment rates	

vii) Modified financial assets
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy.
The Company renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities' to maximize collection opportunities and minimize the risk of default. Under the Company's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.
The revised terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants.
For financial assets modified as part of the Company's forbearance policy, the estimate of

3. FINANCIAL RISK MANAGEMENT (Continued)
3.1 Credit risk (Continued)
vii) Modified financial assets (Continued)

PD reflects whether the modification has improved or restored the Company's ability to collect profit and principal and the Company's previous experience of similar forbearance action. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.
Forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/in default. A customer needs to demonstrate consistently good payment behavior over a period of 12 months before the exposure is no longer considered to be credit-impaired/ in default.

viii) Measurement of ECL
The key inputs into the measurement of ECL are the term structure of the following variables:
i. probability of default ("PD");
ii. loss given default ("LGD");
iii. exposure at default ("EAD").

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.
PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures.
The Company uses Through the Cycle ("TTC") PDs as per the external rating agencies and macroeconomic adjustment is made to convert TTC PDs to Point in Time ("PiT") PDs.
LGD is the magnitude of the likely loss if there is a default. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.
For LGD estimation as of 31 December 2018, the Company used regulatory LGD estimate of 60% for unsecured exposure.
EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.
The period of exposure limits the period over which possible defaults are considered and thus affects the determination of PDs and measurement of ECLs (especially for Stage 2 accounts with lifetime ECL).
For non retail portfolio, as of 31 December 2018, CCF estimate of 100% has been used.
Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

3.2 Credit quality analysis
a) The following table sets out information about the credit quality of financial assets measured at amortized cost, FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (Continued)
3.2 Credit quality analysis (Continued)

Cash and Deposits with Banks

31 December 2019	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Investment grade	315,679	-	-	315,679
Non-investment grade	106,309	-	-	106,309
Individually impaired	-	-	662	662
Total	**421,988**	**-**	**662**	**422,650**

Loans and advances to customers at amortized cost

31 December 2019	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Standard	229,162	-	-	229,162
Watch list	-	**19,425**	-	19,425
Loss	-	-	5,000	5,000
Total	**229,162**	**19,425**	**5,000**	**253,587**

Interest receivable and other assets

31 December 2019	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Standard	7,563	-	-	7,563
Watch list	-	52	-	52
Total	**7,563**	**52**	**-**	**7,615**

Debt investment securities at amortized cost

31 December 2019	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Investment grade	48	-	-	48
Total	48	-	-	48

Debt investment securities at FVOCI

31 December 2019	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Standard	724,403	-	-	724,403
Watch list	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	11,690	11,690
Total	**724,403**	**-**	**11,690**	**736,093**

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (Continued)
3.2 Credit quality analysis (Continued)

Non-Retail Loan Risk Profile by Probability of default is explained below

31 December 2019	Non-retail-unsecured Gross carrying amount		Non-retail -secured Gross carrying amount	
	12-months ECL	Lifetime ECL	12-months ECL	Lifetime ECL
0.00 - 0.10	836,807	-	-	-
0.11 - 0.40	50,490	-	-	-
0.41 - 1.00	158,356	-	-	-
1.01 - 3.00	44,488	15,003		4,473
3.01 - 6.00	282,882	-	-	-
6.01 - 11.00	10,093	-	-	-
11.01-17.00	-	-	-	-
17.0 -25.00	-	-	-	-
25.01-50.00	48	-	-	-
0.00 - 0.10	-	-	-	-
50.01+	-	-	-	-
Total	**1,383,164**	**15,003**	**-**	**4,473**

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

Some specific control and mitigation measures are outlined below:

(a) Collateral

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is obtaining security against funds advanced. The Company implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation.

(b) Master netting arrangements

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

3.2.2 Maximum exposure to credit risk without taking account of any collateral or other credit enhancements
The table shows the Company's maximum exposure to credit risk for the components of on and off statement of financial position exposures. The maximum exposure shown is before the effect of mitigation through the use of master netting and collateral arrangements, but net of any provision for impairment.

	Maximum Exposure	
	2019	2018
Credit risk exposures relating to funded exposures are as follows:		
Deposits and cash with banks and treasury bills	**421,937**	403,417
Loans and advances to banks	**160,000**	243,043
Loans and advances to non-banks	**93,587**	27,669
Investment debt securities	**725,798**	627,264
Interest receivable and other assets	**8,554**	6,064
	1,409,876	1,307,457
Credit risk exposures relating to non-funded exposures are as follows:		
Contingent liabilities		
Loan commitments	**80,838**	-
	80,838	-
At 31 December	**1,490,714**	1,307,457

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2.2 Maximum exposure to credit risk without taking account of any collateral or other credit enhancemen (Continued)

The above table represents a worst-case scenario of credit risk exposure of the Company as at 31 December 2019 and 2018, without taking into account any collateral held or other credit enhancements attached. For on statement of financial position assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position net of any impairment

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Company resulting from both its loans and advances portfolio and debt securities based on the following:

- 90% of the overdrafts, loans and advances portfolio is categorized under Standard Assets as per approved Credit Policy (31 December 2018: 67%);
- 98% of the overdrafts, loans and advances portfolio are considered to be neither past due nor impaired (31 December 2018: 97%); and
- Approximately 26% (31 December 2018: 37%) of the debt securities have at least A- credit rating.

3.2.3 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	
	Regular	Watch			Total
31 December 2019					
Deposits and cash with banks and treasury bills	421,937	-	-	-	421,937
Debt securities (including trading)	724,452	-	-	11,690	736,142
Loans and advances					
- Loans and advances to banks	140,000	15,000	-	5,000	160,000
- Loans and advances to non-banks	89,162	4,425	-	-	93,587
Interest receivable and other assets	8,554	-	-	-	8,554
	1,384,105	19,425	-	16,690	1,420,220
31 December 2018					
Deposits and cash with banks and treasury bills	403,417	-	-	-	403,417
Debt securities (including trading)	624,872	-	-	11,690	636,562
Loans and advances					
- Loans and advances to banks	159,978	74,000	-	9,065	243,043
- Loans and advances to non-banks	21,401	6,288	-	-	27,689
Interest receivable and other assets	6,064	-	-	-	6,064
	1,215,732	80,288	-	20,755	1,316,775

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (Continued)
3.2.3 Credit quality of financial assets (Continued)

Total impairment provision for overdraft, loans and advances as at 31 December 2019 is US$ 9,993 thousand (31 December 2018: US$ 15,971 thousand). Further information of the impairment allowance for overdrafts, loans and advances is provided in (note 8). Total impairment provision for debt securities as at 31 December 2019 is US$ 10,307 thousand (31 December 2018: US$ 9,262 thousand).

3.2.4 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 & USA	Total
Deposits with banks and treasury bills	351,893	16	32,565	37,463	421,937
Loans and advances	189,029	39,011	4,970	10,584	243,594
Debt securities	217,720	64,658	40,204	403,253	725,835
Interest receivable and other assets	4,527	2,348	111	1,568	8,554
At 31 December 2019	**763,169**	**106,033**	**77,850**	**452,868**	**1,399,920**
At 31 December 2018	631,874	26,865	104,414	528,368	1,291,521
Non-funded exposures:					
At 31 December 2019	**70,000**	**10,838**			**80,838**
At 31 December 2018	-	-	-	-	-

3.3 Market risk

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

(a) Interest rate risk

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

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

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

The following table depicts the sensitivity to a reasonable change in interest rates, with other variables held constant, on the Company's statement of income. The sensitivity of the income is the effect of the assumed changes in interest rates on the floating rate non-trading financial assets and financial liabilities and fixed rate financial assets and liabilities that are re-measured to fair value held at 31 December. If market interest rates increase by the amounts shown in the table, net income and head office funds will be affected as mentioned below. A similar decrease in the rates will result in an equal but opposite effect.

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Interest rate risk (Continued)

	USD	EUR	AED	SAR	BHD	GBP	
	100BP	100BP	100BP	100BP	100BP	100BP	Total
Interest rate risk		-	-	-	-	-	
31 December 2019							
Financial assets:							
Deposit with banks and Treasury bills	2,105	-	8	43	1,048	-	3,204
Overdrafts, loans and advances	2,442	-	-	44	-	-	2,486
Debt securities	4,297	533	-	-	-	-	4,830
Impact of Financial ssets	8,844	533	8	87	1,048	-	10,520
Financial liabilities:							
Deposits	(3,580)	-	(6)	-	-	-	(3,586)
Impact of Financial Liabilities	(3,580)	-	(6)	-	-	-	(3,586)
Impact on the results of the Company	5,264	533	2	87	1,048	-	6,934

	USD	EUR	AED	SAR	BHD	GBP	
	100BP	100BP	100BP	100BP	100BP	100BP	Total
Interest rate risk		-	-	-	-	-	
31 December 2018							
Financial assets:							
Deposit with banks and treasury bills	1,866	-	8	141	1,458	-	3,473
Overdrafts, loans and advances	2,554	-	-	-	-	-	2,554
Debt securities	5,024	544	-	-	-	-	5,568
Impact of Financial Assets	9,444	544	8	141	1,458	-	11,595
Financial liabilities:							
Deposits	(3,096)	-	(6)	-	-	-	(3,102)
Impact of Financial Liabilities	(3,096)	-	(6)	-	-	-	(3,102)
Impact on the results of the Company	6,348	544	2	141	1,458	-	8,493

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Equity Position risk

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

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

2019

Equity classification	Change in equity price/ fund NAV %	Effect on net income	Effect on equity
Trading equity	±10	1,706	-
Available for sale equity	±10	-	64
Investment fund FVTPL	±10	1,618	-
Equity participations - quoted	±10	-	10,981

2018

Equity classification	Change in equity price/ fund NAV %	Effect on net income	Effect on equity
Trading equity	±10	160	-
Available for sale equity	±10	-	678
Investment fund FVTPL	±10	1,708	-
Equity participations - quoted	±10	-	9,085

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$ 166 million (2018: US$ 166 million).

(c) Foreign exchange risk

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

The Company identifies foreign exchange risks at two levels: (a). Transaction, and (b). Structural. Transaction risk arises when Company extends exposure or borrows in foreign currency i.e. other than its reporting / base currency. Structural risk occurs when there is mismatch between respective foreign currency denominated cash inflows and outflows.

The Structural foreign exchange risk is measured by identification of Currency-wise gaps between assets and liabilities bucketed in various time-bands according to their maturities, across the Company.

The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intraday positions, which are monitored daily.

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

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (Continued)

Concentrations of currency risk - financial instruments:

As at 31 December 2019	USD	EUR	AED	SAR	BHD	GBP	Others	Total
Deposits with banks and treasury bills	247,593	3,626	904	62,712	106,254	118	742	421,949
Financial assets at FVTPL	4,584	-	-	15,353	1,347	-	14,898	36,182
Investments securities:								
-Available for sale	672,202	53,596	-	-	-	-	640	726,438
-Held to maturity	-	-	-	-	-	-	37	37
Overdrafts, loans and advances	239,169	-	-	4,425	-	-	-	243,594
Equity participation	88,600	-	-	95,353	-	-	91,805	275,758
Property, plant and equipment and Investments in property:	22,869	-	-	-	39	-	-	22,908
Other assets	9,022	36	1	9,424	753	3	-	19,239
Total financial assets	**1,284,039**	**57,258**	**905**	**187,267**	**108,393**	**121**	**108,122**	**1,746,105**
Deposits	(358,190)	(56,417)	(846)	(28)	-	(7)	-	(415,488)
Other liabilities	13,956	(309)	-	(25,667)	(4,294)	(9)	(15,276)	(31,599)
Total financial liabilities	**(344,234)**	**(56,726)**	**(846)**	**(25,695)**	**(4,294)**	**(16)**	**(15,276)**	**(447,087)**
Fair value reserve	18,339	(273)	-	(11,087)	-	-	47,734	54,713
Net open position	**958,144**	**259**	**59**	**150,485**	**104,099**	**105**	**140,580**	**1,353,731**
As at 31 December 2018								
Total financial assets	1,149,830	55,546	869	141,555	148,398	132	109,722	1,606,052
Total financial liabilities	(314,790)	(57,904)	(840)	(10,643)	(3,615)	(15)	-	(387,807)
Fair value reserve	47,211	2,833	-	(9,872)	-	-	46,850	87,022
Net open position	882,251	475	29	121,040	144,783	117	156,572	1,305,267

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)

3.4 Liquidity risk

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

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

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

3.4.1 Maturity analysis of assets and liabilities

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

As at 31 December 2019	Less than 12 months	Over 12 months	No fixed Maturity	Total
ASSETS				
Cash and deposits with banks	421,949	-	-	**421,949**
Investments:				
Securities	38,032	703,950	20,675	**762,657**
Equity participations	-	-	275,758	**275,758**
Loans and advances	128,594	115,000	-	**243,594**
Property and equipment	-	-	15,116	**15,116**
Investment property	-	-	7,792	**7,792**
Other assets	9,021	429	9,789	**19,239**
TOTAL ASSETS	597,596	819,379	329,130	**1,746,105**
LIABILITIES				
Deposits	415,488	-	-	**415,488**
Other liabilities	5,593	-	26,006	**31,599**
TOTAL LIABILITIES	421,081	-	26,006	**447,087**
NET	176,515	819,379	303,124	**1,299,018**
Cumulative liquidity gap	176,515	995,894	1,299,018	**-**

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (Continued)

3.4.1 Maturity analysis of assets and liabilities (Continued)

As at 31 December 2018	Less than 12 months	Over 12 months	No fixed maturity	Total
ASSETS				
Cash and deposits with banks	403,419	-	-	403,419
Investments:				
Securities	41,558	602,786	11,503	655,847
Equity participations	-	-	256,880	256,880
Loans and advances	143,472	111,268	-	254,740
Property and equipment	-	-	13,083	13,083
Investment property	-	-	7,930	7,930
Other assets	5,473	1,461	7,219	14,153
TOTAL ASSETS	593,922	715,515	296,615	1,606,052
LIABILITIES				
Deposits	368,271	-	-	368,271
Derivative financial instruments	-	-	-	-
Other liabilities	5,524	-	14,012	19,536
TOTAL LIABILITIES	373,795	-	14,012	387,807
NET	220,127	715,515	282,603	1,218,245
Cumulative liquidity gap	220,127	935,642	1,218,245	-

3.4.2 Non-derivative cash flows

The table below presents the cash flows payable by the Company under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows:

As at 31 December 2019	1-3 months	3-12 months	Total
Liabilities			
Deposits	**414,916**	**572**	**415,488**
Other liabilities	**5,071**	**12,636**	**17,707**
Total liabilities (contractual maturity dates)	**419,987**	**13,208**	**433,195**
As at 31 December 2018			
Liabilities			
Deposits	263,363	104,908	368,271
Other liabilities	3,568	3,459	7,027
Total liabilities (contractual maturity dates)	266,931	108,367	375,298

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

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (Continued)

3.4.3 Derivative cash flows

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

As at 31 December 2019	Up to 1 month	1-3 Months	3-12 months	1-5 years	Total
Derivatives designated as fair value through profit or loss					
Foreign exchange derivatives:					
Outflow	3,845	15,276	-	-	19,121
Inflow	3,845	15,225	-	-	19,070
Total outflow	**3,845**	**15,276**	**-**	**-**	**19,121**
Total inflow	**3,845**	**15,225**	**-**	**-**	**19,070**
As at 31 December 2018					
Derivatives held for trading					
Foreign exchange derivatives:					
Outflow	5,639	17,096	-	-	22,735
Inflow	5,640	17,097	-	-	22,737
Total outflow	**5,639**	**17,096**	**-**	**-**	**22,735**
Total inflow	**5,640**	**17,097**	**-**	**-**	**22,737**

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

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

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

31 December 2019	No later than 1 year	1-5 year	Total
Loan commitments	40,838	40,000	80,838
Guarantees, acceptances an other financial facilities	-	-	-
Total	**40,838**	**40,000**	**80,838**
31 December 2018			
Loan commitments	-	-	-
Guarantees, acceptances and other financial facilities	-	-	-
Total	-	-	-

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$ 47.9 million as at 31 December 2019 (31 December 2018: US$ 28.5 million)

3.5 Stress Testing

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

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (Continued)

3.5 Stress Testing (Continued)

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

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

3.6 Fair value of financial assets and liabilities

(a) Financial instruments measured at fair value

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

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

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

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

(b) Fair value hierarchy

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

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

Assets and liabilities measured at fair value

31 December 2019	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
- Equity securities	**17,064**	**-**	**-**	**17,064**
- Investment Funds	**-**	**-**	**19,118**	**19,118**
Financial assets at FVOCI				
- Equity securities	**640**	**-**	**-**	**640**
- Debt securities	**724,404**	**1,394**	**-**	**725,798**
- Equity participations	**109,809**	**-**	**165,950**	**275,759**
Total assets	**851,917**	**1,394**	**185,068**	**1,038,379**
Financial liabilities at FVTPL				
- Derivative financial instruments	**-**	**51**	**-**	**51**
Total liabilities	**-**	**51**	**-**	**51**

All amounts in United States Dollars thousands

3. FINANCIAL RISK MANAGEMENT (Continued)
3.6 Fair value of financial assets and liabilities (Continued)
(b) Fair value hierarchy (Continued)

31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
- Equity securities	7,875	-	-	7,875
- Investment Funds	-	-	20,162	20,162
Financial assets at FVOCI				
- Equity securities	510	-	-	510
- Debt securities	624,824	2,440	-	627,264
- Equity participations	90,851	-	166,029	256,880
Total assets	724,060	2,440	186,191	912,691
Financial liabilities at FVTPL				
- Derivative financial instruments	-	2	-	2
Total liabilities	-	2	-	2

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

Reconciliation of fair value measurements of Level 3 financial instruments
The Company has classified unquoted equity shares within the fair value hierarchy. A reconciliation of the beginning and closing balances of the unquoted equity participation including movements is summarised below:

	2019	2018
1 January	**166,029**	165,468
Addition	**-**	4,318
Liquidation	**(600)**	-
Total gains and (losses) recognised in other comprehensive income	**521**	(3,757)
31 December	**165,950**	166,029

(c) Financial instruments not measured at fair value
At 31 December 2019, the fair value of debt instruments carried at amortised cost of US$ nil million (31 December 2018: US$ Nil million) was determined to be US$ nil million (31 December 2018: US$ Nil million). The estimated fair value of the other financial assets and liabilities including loans and advances was not significantly different from their respective carrying values.

3.7 Capital management
The Company's objectives when managing capital, which is a broader concept than 'equity' are:
• To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
• To maintain a strong capital base to support the development of its business.

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

Impairment losses on financial assets
The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.
The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

All amounts in United States Dollars thousands

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

Impairment losses on financial assets (Continued)

Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's internal credit grading model, which assigns PDs to the individual grades
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Going concern

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

5. CASH AND DEPOSITS WITH BANKS

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

	2019	2018
Cash and cash equivalents:		
Cash on hand and in banks-net	**17,346**	15,499
Deposits with banks with original maturities of three months or less – net	**231,752**	205,319
Treasury bills maturing within three months of acquisition	**104,836**	77,394
Cash and cash equivalents	**353,934**	298,212
Deposits with banks with original maturities of more than three months - net	**68,065**	36,815
Treasury Bills with original maturities of more than three months	**-**	68,446
Less: impairment (Stage 1)	**(50)**	(54)
Total	**421,949**	403,419

6. INVESTMENTS SECURITIES

Investment securities as of 31 December comprise of the following:

		2019	2018
a)	**Financial assets at FVTPL**		
	Equity securities	**17,064**	7,875
	Investment funds	**19,118**	20,162
	Total	**36,182**	28,037
b)	**Financial assets at FVOCI**		
	Debt securities		
	AA- to AA+	**20,092**	20,217
	A- to A+	**174,330**	214,498
	BBB- to BBB+	**335,356**	330,824
	BB- to BB+	**47,002**	14,938
	B- to B+	**147,624**	44,347
	Unrated	**11,690**	11,690
		736,094	636,514
	Equity securities	**640**	510
	Less: ECL allowance - stage 3	**(10,296)**	(9,250)
	Total	**726,438**	627,774
c)	**Financial assets at AC**		
	Debt securities	**48**	48
	Less: impairment (Stage 1)	**(11)**	(12)
	Total	**37**	36
	Total investments	**762,657**	655,847

As at 31 December 2019, US$ 724 thousand debt securities are classified as stage 1 (2018: US$ 625 thousand) except for US$ 11 thousand classified as stage 3 (2018: US$ 11 thousand).

All amounts in United States Dollars thousands

6. INVESTMENTS SECURITIES (Continued)

Equity investment securities designated as at FVOCI
At 1 January 2019, the Company designated certain investments amounting to US $ 640 thousand (2018: US$ 510 thousand) as equity instrument as at FVOCI. The FVOCI designation was made because the investments are not held for trading.

The movement in investment securities is summarised below:

	FVTPL	FVOCI	Amortised Cost	Total 2019	Total 2018
At 1 January 2019	28,037	627,774	36	**655,847**	595,580
Exchange differences	17	(1,105)	-	**(1,086)**	(910)
Additions	73,368	179,294	-	**252,662**	285,095
Disposals (sale, maturity and redemption)	(64,981)	(107,219)	-	**(172,200)**	(203,375)
Change in fair value	(259)	27,713	1	**27,453**	(20,543)
Accretion of discount	-	(19)	-	**(19)**	-
At 31 December	**36,182**	**726,438**	**37**	**762,657**	655,847

Investments in debt securities of US$ 117,253 thousand (2018: US$ 116,620 thousand) are pledged under repurchase agreements with banks and financial institutions.

7. INVESTMENTS IN EQUITY PARTICIPATIONS

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

	2019	2018
Quoted	**109,809**	90,851
Unquoted	**165,949**	166,029
Total	**275,758**	256,880

2019	Quoted Shares	Fair value of participation	Percentage Of Shareholding
Country / Project			
Kingdom of Morocco			
Société Ryad Soualem S.A.		**1,168**	**33.00**
Maroc Leasing Company	Quoted	**7,148**	**5.74**
Asma Club Plus Company		**12,189**	**40.00**
		20,505	
Kingdom of Saudi Arabia			
Middle East Financial Investment Company		**16,242**	**15.00**
National Trigeneration CHP Company		**3,220**	**9.94**
Bidaya Home Finance		**27,904**	**11.11**
Samba Financial Group	Quoted	**31,940**	**0.18**
Saudi Arabian Oil Co.	Quoted	**16,047**	**0.0009**
		95,353	

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (Continued)

2019

Country / Project	Quoted Shares	Fair value of participation	Percentage Of Shareholding
Republic of Sudan			
Kenana Sugar Company		6,391	6.99
Sudatel Group for Communication	Quoted	3,141	2.18
Financial Investment Bank	Quoted	1,248	20.80
Berber Cement Company		2,275	16.40
The Arab Leasing Company		4,587	30.00
		17,642	
Arab Republic of Egypt			
Arab International Company for Hotels and Tourism		10,772	13.62
Egyptian Propylene and Polypropylene Company		39,322	10.00
International Company for Leasing		3,863	10.00
		53,957	
Peoples' Democratic Republic of Algeria			
Arab Banking Corporation		4,934	4.18
Arab Leasing Corporation		10,666	25.00
		15,600	
The Hashemite Kingdom of Jordan			
Arab Jordan Investment Bank	Quoted	28,408	10.25
Arab International Hotels Company	Quoted	3,169	8.36
		31,577	
Kingdom of Bahrain			
Arab Banking Corporation	Quoted	6,087	0.42

2019

Country / Project	Quoted Shares	Fair value of participation	Percentage Of Shareholding
State of Qatar			
Arab Jordan Investment Bank		9,784	15.00
Sultanate of Oman			
Taageer Finance Company	Quoted	12,621	18.79
Pan-Arab			
The Arab Company for Livestock Development		3,648	1.67
Arab Trade Financing Program		5,011	0.44
Arab Mining Company		3,973	1.10
		12,632	
Total		275,758	

2018

Country / Project	Quoted Shares	Fair value of participation	Percentage Of Shareholding
Kingdom of Morocco			
Société Ryad Soualem S.A.		1,149	33.00
Maroc Leasing Company	Quoted	7,669	5.74
Asma Club Plus Company		12,281	40.00
		21,099	

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (Continued)

2018			
Country / Project	Quoted Shares	Fair value of participation	Percentage Of Shareholding
Kingdom of Saudi Arabia			
Middle East Financial Investment Company		16,050	15.00
National Trigeneration CHP Company		3,220	9.94
Bidaya Home Finance		27,552	11.11
Samba Financial Group	Quoted	30,907	0.18
		77,729	
Republic of Sudan			
Kenana Sugar Company		6,454	6.99
Sudatel Group for Communication	Quoted	2,795	2.18
Financial Investment Bank	Quoted	997	20.80
Berber Cement Company		2,524	16.40
The Arab Leasing Company		4,588	30.00
		17,358	
Arab Republic of Egypt			
Arab International Company for Hotels and Tourism		10,772	13.62
Egyptian Propylene and Polypropylene Company		37,987	10.00
International Company for Leasing		4,353	10.00
		53,112	
Peoples' Democratic Republic of Algeria			
Arab Banking Corporation		5,395	4.18
Arab Leasing Corporation		11,373	25.00
		16,768	

2018			
Country / Project	Quoted Shares	Fair value of participation	Percentage Of Shareholding
The Hashemite Kingdom of Jordan			
Arab Jordan Investment Bank	Quoted	27,734	10.25
Arab International Hotels Company	Quoted	3,619	8.36
		31,353	
Kingdom of Bahrain			
Arab Banking Corporation	Quoted	5,375	0.42
State of Qatar			
Arab Jordan Investment Bank		9,599	15.00
Sultanate of Oman			
Taageer Finance Company	Quoted	11,755	18.79
Pan-Arab			
The Arab Company for Livestock Development		3,713	1.67
Arab Trade Financing Program		5,010	0.44
Arab Mining Company		4,009	1.10
		12,732	
Total		256,880	

All amounts in United States Dollars thousands

8. LOANS AND ADVANCES

Loans and advances as of 31 December comprise of the following:

	2019	2018
Loans and advances (8.1)	**253,587**	270,711
Provision for impairment on loans and advances (8.2)	**(9,993)**	(15,971)
Loans and advances, net	**243,594**	254,740

8.1) The following table shows reconciliations from the opening to the closing gross carrying amount of the loans and advances:

31 December 2019					
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total	2018
At 1 January	181,378	80,268	9,065	**270,711**	293,450
Loan disbursed during the year	164,162	-	-	**164,162**	115,000
Loans recovered	(116,401)	(60,843)	(4,065)	**(181,309)**	(137,938)
Other movements	23	-	-	**23**	199
	229,162	**19,425**	**5,000**	**253,587**	270,711

During the year ended 31 December 2019, the Company recovered principal amount of US$ 735 thousand (2018: US$ 2,195 thousand) related to facilities written off following Board of Director approval in 2014.

8.2) The following table shows reconciliations from the opening to the closing balance of the ECL allowance:

31 December 2019					
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total	2018
At 1 January	6,067	839	9,065	**15,971**	18,021
Transfer to lifetime ECL not credit –impaired- stage 2	(3,581)	3,581	-	-	1,039
Exchange adjustments and other movements	-	-	-	-	(350)
Recoveries of amounts previously provided for	(1,913)	-	(4,065)	**(5,978)**	(2,739)
	573	**4,420**	**5,000**	**9,993**	15,971
Specific impairment provision				**5,000**	9,065
ECL / Collective impairment provision				**4,993**	6,906
				9,993	15,971

All amounts in United States Dollars thousands

9. OTHER ASSETS

Other assets as of 31 December comprise of the following:

	2019	2018
Accrued income	**15,849**	11,236
Other receivables	**3,390**	2,917
Total	**19,239**	14,153

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 equipment	Total 2019	Total 2018
Cost:					
At 1 January	6,973	19,446	14,376	**40,795**	40,785
Impairment	(212)	-	-	**(212)**	(237)
Additions during the year	-	-	2,805	**2,805**	264
Disposals during the year	-	-	(2,700)	**(2,700)**	(17)
At 31 December	6,761	19,446	14,481	**40,688**	40,795
Accumulated depreciation:					
At 1 January	-	14,262	13,450	**27,712**	27,165
Charge for the year	-	244	316	**560**	563
Relating to disposals	-	-	(2,700)	**(2,700)**	(16)
At 31 December	-	14,506	11,066	**25,572**	27,712
Net book value:					
At 31 December 2019	**6,761**	**4,940**	**3,415**	**15,116**	
At 31 December 2018	6,973	5,184	926		13,083

10.2 Investment property:

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

	2019	2018
Cost:		
At 1 January	**33,851**	33,826
Additions during the year	**72**	25
At 31 December	**33,923**	33,851
Accumulated depreciation:		
At 1 January	**25,921**	25,716
Charge for the year	**210**	205
At 31 December	**26,131**	25,921
Net book value:	**7,792**	7,930

The fair value of investment property at 31 December 2019 amounted to approximately US$ 20.9 million (31 December 2018: US$ 14.8 million).

11. DEPOSITS

Deposits as of 31 December comprise the following:

	2019	2018
Deposits by banks	**338,150**	288,540
Deposits by non-banks	**77,338**	79,731
Total	**415,488**	368,271

Included in the above are deposits raised under repurchase agreements whose carrying value as at 31 December 2019 is US$ 105.1 million (31 December 2018: US$ 104.3 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.

31 December 2019

	Contract/ Notional Amount	Fair value	
		Assets	Liabilities
Held for trading			
Foreign exchange derivatives:			
Currency swaps	**38,192**	-	**51**
		-	**51**

31 December 2018

	Contract/ Notional Amount	Fair value	
		Assets	Liabilities
Held for trading			
Foreign exchange derivatives:			
Currency swaps	45,472	2	-
		2	-

13. OTHER LIABILITIES

Other liabilities as of 31 December comprise the following:

	2019	2018
Employees' benefits (see table below)	**11,908**	10,303
Due to related party (note 14)	**9,758**	-
Accounts payable and accrued expenses	**6,755**	5,628
Deferred income	**1,932**	2,208
Interest payable	**1,195**	1,397
Derivative financial instruments (note 12)	**51**	-
Total	**31,599**	19,536

Employees' benefits as of 31 December comprise of the following:

	Employees saving schemes	Provision for end of service indemnity	Provision for leave	Total	
				2019	2018
At 1 January	1,201	8,006	1,096	**10,303**	10,482
Addition for the year	106	924	540	**1,570**	1,719
Provisions utilised	(103)	(328)	(273)	**(704)**	(1,818)
Staff contributing to saving scheme	68	-	-	**68**	65
Actuarial loss recognised in OCI	-	790	-	**790**	5
Other movement	-	-	(119)	**(119)**	(150)
At 31 December	**1,272**	**9,392**	**1,244**	**11,908**	10,303

All amounts in United States Dollars thousands

13. OTHER LIABILITIES (Continued)

The amount recognised in the statement of financial position is analysed as follows

	2019	2018
Present value of defined benefit obligations	**9,350**	7,962
Net defined benefit liability in the statement of financial position	**9,350**	7,962

The principal actuarial assumptions used for actuarial valuation were as follows:

	2019	2018
Discount rate	**2.9%**	4.15%
Salary increase rate (short term)	**4.0%**	4.00%
Long term salary increase rate	**4.0%**	4.15%
Mortality rate according to world health organization- SA	**0.16-0.75**	0.15-0.75
Rate of employee Turnover	**Light**	Light

Sensitivity information

The present value of the net defined benefit liability was calculated based on certain actuarial assumptions. In case any one of the key assumptions change by an amount that is probable while holding the other assumptions unchanged, the present value of the defined benefit liability would change as follows:

	2019	2018
Discount rate + 0.5%	**9,084**	7,742
Discount rate – 0.5%	**9,631**	8,195
Long term salary increases + 0.5%	**9,378**	8,778
Long term salary increases – 0.5%	**9,313**	8,509

The movement in the present value of defined benefit obligation were as follows:

	2019	2018
At 1 January	**8,006**	8,054
Net periodic expense recognised in the statement of income	**924**	1,121
Payments paid to outgoing employees	**(328)**	(1,174)
Re measurement in OCI during the year	**790**	5
At 31 December	**9,392**	8,006

14. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

	2019	2018
Executive management personnel:		
End of service benefit	**3,166**	2,886

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

	2019	2018
Board of directors' expenses	**731**	622
Board of directors' bonuses paid	**450**	450
Salaries and short-term employee benefits	**824**	783
End of service benefits	**280**	546

All amounts in United States Dollars thousands

14. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Amounts due to related party as at the year-end is as follows:

Name of related parties	Nature of relationship	Nature of transaction	2019	2018
The State of Libya	Shareholder	Funding received	**9,758**	-

15. SHARE CAPITAL

15.1 Authorized and paid

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

	2019		2018	
	No. of Shares	**Amount**	No. of Shares	Amount
Authorised	**1,200,000**	**1,200,000**	1,200,000	1,200,000
Fully paid	**1,050,000**	**1,050,000**	800,000	800,000

On 8 June 2013, the Extraordinary General Assembly approved an increase in the authorised share capital from US$ 800 million to US$ 1.2 billion, and paid-up capital from US$ 700 million to US$ 1,050 million through the capitalization of US$ 175 million from retained earnings over the next five years and the balance through payment by willing member states in five annual instalments beginning on 1 April 2014. (See note 15.2)

On 22 June 2019, The Extraordinary General Assembly approved the capitalisation of subscription in share capital amounted to US$ 123.2 million, and the transfer of the remaining amount of US$ 126.8 million from retained earnings.

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

	Ownership (%) Percentage			
	2019	2018	**2019**	2018
Kingdom of Saudi Arabia	**16.56**	15.68	**173,848**	125,422
State of Kuwait	**16.56**	15.68	**173,848**	125,422
United Arab Emirates (Abu (Dhabi	**13.58**	15.68	**142,641**	125,422
Republic of Iraq	**11.07**	10.48	**116,243**	83,871
State of Qatar	**8.65**	8.19	**90,841**	65,543
Arab Republic of Egypt	**7.36**	6.97	**77,268**	55,743
Syrian Arab Republic	**6.04**	6.97	**63,396**	55,743
The State of Libya	**6.30**	6.97	**66,170**	55,743
Republic of Sudan	**2.83**	2.68	**29,696**	21,421
Kingdom of Bahrain	**1.81**	1.71	**18,960**	13,679
Republic of Tunisia	**1.81**	1.71	**18,960**	13,679
Kingdom of Morocco	**1.81**	1.71	**18,960**	13,679
Sultanate of Oman	**1.61**	1.71	**16,918**	13,679
Republic of Lebanon	**1.70**	1.61	**17,875**	12,899
People's Democratic Republic of Algeria	**1.70**	1.61	**17,875**	12,899
The Hashemite Kingdom of Jordan	**0.34**	0.32	**3,569**	2,578
Republic of Yemen	**0.27**	0.32	**2,932**	2,578
Total	**% 100**	% 100	**1,050,000**	800,000

All amounts in United States Dollars thousands

15. SHARE CAPITAL (Continued)

15.2 Contribution to share capital increase

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

	2019	2018
Kingdom of Saudi Arabia	-	27,440
State of Kuwait	-	27,440
(United Arab Emirates (Abu Dhabi	-	-
Republic of Iraq	-	18,340
State of Qatar	-	14,332
Arab Republic of Egypt	-	12,198
Syrian Arab Republic	-	-
The State of Libya	-	2,440
Republic of Sudan	-	4,690
Kingdom of Bahrain	-	2,992
Republic of Tunisia	-	2,992
Kingdom of Morocco	-	2,992
Sultanate of Oman	-	1,197
Republic of Lebanon	-	2,818
People's Democratic Republic of Algeria	-	2,818
The Hashemite Kingdom of Jordan	-	560
Republic of Yemen		-
Total	-	123,249

16. 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.

	2019	2018
Movement of statutory reserve:		
Balance, beginning of the year	**109,973**	105,795
Additions for the year	**4,891**	4,178
Balance, end of the year	**114,864**	109,973

17. GENERAL RESERVE

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

18. FAIR VALUE RESERVE

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

	2019	2018
Equity participations		
At beginning of year	**(71,456)**	30,285
Impact of adopting IFRS 9	**-**	(80,999)
Change in fair value	**3,627**	(20,742)
At end of year	**(67,829)**	(71,456)
FVOCI Securities / available-for-sale		
At beginning of year	**(15,561)**	6,913
Impact of adopting IFRS 9	**-**	(2,281)
Change in fair value	**29,473**	(20,193)
At end of year	**13,912**	(15,561)
Employees benefits IAS 19		
At beginning of year	**(5)**	-
Change in fair value	**(790)**	(5)
At end of year	**(795)**	(5)
Total fair value reserve	**(54,712)**	(87,022)

All amounts in United States Dollars thousands

19. INTEREST INCOME AND EXPENSE

	2019	2018
Interest income on:		
Deposits with banks and treasury bills	**11,781**	10,868
Investment securities	**26,136**	20,807
Loans and advances	**11,763**	12,836
Net fees and commissions	**49,680**	44,511

	2019	2018
Interest expense on:		
Deposits by banks and financial institutions	**7,465**	5,179
Deposits by non-banks	**2,129**	3,391
	9,594	8,570

20. NET FEES AND COMMISSIONS

	2019	2018
Loans	**475**	733
Trade finance	**1**	8
Islamic banking	**502**	252
Others	**(13)**	(17)
Net fees and commissions	**965**	976

21. NET GAIN ON FINANCIAL SECURITIES

	2019	2018
Equities	**1,412**	2,298
Debt securities	**28**	790
Unit Trust Funds	**3,663**	1,448
Total	**5,103**	4,536

22. OTHER INCOME, NET

	2019	2018
Recovery of loans previously written off	**1,837**	3,281
Remuneration for attending Projects' Board of Directors	**373**	477
Others	**(133)**	(185)
Total	**2,077**	3,573

23. GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
Salaries and related benefits	**12,968**	12,291
Professional and consultancy	**1,659**	1,265
Board of directors' expenses	**731**	622
Others	**3,809**	3,741
Total	**19,167**	17,919

All amounts in United States Dollars thousands

24. PROVISIONS WRITTEN BACK, NET

	2019	2018
Securities	**(1,536)**	(546)
Loans and advances written back, net (note 8)	**5,978**	2,739
Others	**(152)**	-
Total	**4,290**	2,193

25. POLITICAL UNREST

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

26. SUBSEQUENT EVENT

A novel strain of coronavirus (COVID-19) was first identified at the end of December 2019, subsequently in March 2020 was declared as a pandemic by the World Health Organization (WHO). COVID-19 continues to spread throughout in nearly all regions around the world including the Kingdom of Saudi Arabia and Bahrain which resulted in travel restrictions and curfew in the cities that resulted in a slowdown of economic activities and shutdowns of many sectors at global and local levels.

The extent to which coronavirus pandemic impacts the Company's business, operations, and financial results, is uncertain and depends on many factors and future developments, that the Company may not be able to estimate reliably during the current period. These factors include the virus transmission rate, the duration of the outbreak, precautionary actions that may be taken by governmental authorities to reduce the spread of the epidemic and the impact of those actions on economic activity, the impact to the businesses of the Company's customers and partners and other factors.

Thus far and as of the date of preparation of the financial statements for the year ended 31 December 2019, the Company's operations have not incurred significant impact from the COVID-19 outbreak. The Company will continue to evaluate the nature and extent of the impact on its business and financial results.

27. APPROVAL OF FINANCIAL STATEMENTS

The accompanying financial statements were approved by the Board of Directors of the Company on 15 Sha'ban 1441H (corresponding to 8 April 2020).

الشركة العربية للاستثمار ش.م.ع.

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