الشركة العربية للاستثمار ش.م.ع.

THE ARAB INVESTMENT COMPANY S.A.A.

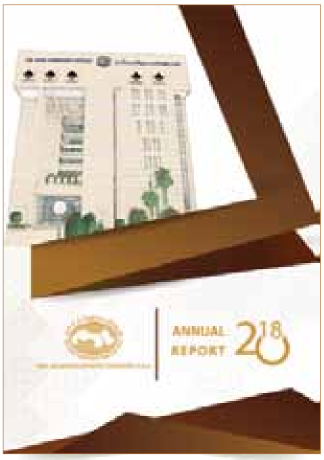
THE ARAB INVESTMENT COMPANY S.A.A.

ANNUAL REPORT 2018

THE ARAB INVESTMENT COMPANY S.A.A.

ANNUAL REPORT 2018

CONTENTS


ANNUAL
REPORT

THE ARAB INVESTMENT COMPANY OVERVIEW

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

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

The Company is wholly owned by the governments of 17 Arab states with an authorized capital of USD 1,200 million and a paid-up capital of USD 800 million, shared by member countries. TAIC conducts its two main lines of business, i.e. project equity and banking, from its Head Office in Riyadh, Saudi Arabia and its banking branch in the Kingdom of Bahrain.

TAIC Conducts Two Main Lines of Business

Project Equity

Head Office - Riyadh

Banking

Bahrain Branch

Vision

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

SUBSCRIPTION OF MEMBER COUNTRIES

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

Mission

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

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. Mohamed Khattabi
Board Member
The State Of Libya

Board Committees

In exercising its duties, TAIC's Board of Directors is assisted by a number of specialized committees as follows:

Higher Investment Committee

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

H.E. Mr. Abdulaziz Salih Alfuraih	Chairman
Mr. Nael Mohamed Al Homoud	Member
Mr. Abdelali Eddebbagh	Member
Eng. Mustafa T. Mohamed Khattabi	Member
Mr. Mohamed Fahed Almazrouei	Member

Risk and Asset Committee

The Risk and Asset Committee is charged with assisting the Board of Directors in assuming its supervisory tasks relating to the risks inherent to the Company's activities. It also evaluates and reviews equity investment and banking risks. This committee is composed of Four Board members as follows:

Dr. Abdullah Abdulrahman Alnamlah	Chairman
Mr. Mahmoud Montaser Ibrahim	Member
Mr. Mohamed Fahed Almazrouei	Member
Mr. Abdulla Ali Al-Kuwari	Member

Audit Committee

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

Mr. Nael Mohamed Al Homoud	Chairman
Dr. Abdullah Abdulrahman Alnamlah	Member
Mrs. Taif Sami Al Shakrachi	Member

Nominations and Compensation Committee

The Nominations and Compensation Committee is charged with the responsibility of assisting the Board of Directors in fulfilling its responsibilities pertinent to employees' nominations and compensations in such a way to help safeguard the interests of the Company and achieve its objectives. This committee is composed of three Board members as follows:

Mr. Yusuf Abdullah Humood	Chairman
Mr. Khalid H Alomar	Member
Mr. Ahmed Abdulla Al Mehairi	Member

EXECUTIVE MANAGEMENT

Chief Executive Officer
Mr. Ibrahim H. AlMazyad

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. Youssef S. Salem
Internal Audit

Bahrain Branch (Wholesale Bank)

Mr. Ibrahim M. Zletni
Branch General Manager

Mr.Mohammadine 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

Ms. Sudha Tilani
Compliance Officer

Dr. Osama Mukhtar
Legal Advisor

Mr.Masoud Murad
Information Technology

Mr. Lalit Bakhru
Internal Audit

FINANCIAL HIGHLIGHTS as of 31-12-2018

3.5 %
Return on Average Shareholders' Equity

2.5 %
Return on Average Assets

57.5
USD Million
Total Revenue

41.8
USD Million
Net Income

1,606
USD Million
Total Assets

1,218
USD Million
Shareholders' Equity

352.7
USD Million
Size of Investment in Peojects

These Investments Are Distributed Over

25
Investment Projects

10
Arab Countries

1,237
USD Million
Banking Assets

These Assets Are Distributed Over

52 %
Investment Securities

21 %
Credit Facilities

26 %
Money Market

1 %
Other

Chairman's Statement

Dear Shareholders,

I am pleased to present you on behalf of the Board of Directors of The Arab Investment Company, the annual report for 2018, which reviews the Company's investment activity in the areas of projects equity and the provision of financial services in addition to its financial results for the year ended 31 December 2018.

The Company continued its successful journey by improving its activities, consolidating its financial position, and maintaining its developmental role through the diversification of its investments, which encompassed large parts of the Arab world. The Company succeeded in dealing with the political and economic instability prevailing in some Arab countries during 2018.

In 2018, the Company completed the implementation of most of the quantitative and qualitative objectives included in its annual operating plan, which contributed to maintaining its position among the Arab joint companies. Through efficient management of resources and rationalization of expenses, the Company has achieved a 10% growth in profits to reach a net profit of USD 41.8 million, recording its highest profit in the last five years, surpassing the constraints and challenges it faced.

In terms of the Company's organizational framework, the General Assembly approved, in 2018, the formation of a new Board of Directors during its fifteenth session. The Board of Directors reconstituted its specialized committees to enable its members carry out their functions effectively, namely the Higher Investment Committee, the Risk and Asset Committee, the Audit Committee, and the Nominations and Compensations Committee.

In conclusion, as we are bidding farewell to a financial year and standing in the middle of another one full of solemnity and commitment, I cannot afford extending my heartfelt thanks and gratitude on behalf of my colleagues and members of the Board of Directors 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 play its role and fulfill its responsibilities and duties. Thanks are extended to my colleagues on the Board of Directors for their efforts and effective contribution 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, each in his/her position, which helped to achieve the results in 2018, hoping to achieve far better results in the future.

Chairman

Abdulaziz S. Al Furaih

CEO's Statement

Based on its investment role to support and develop the Arab economy, as set out in its Memorandum of Association and Statutes, The Arab Investment Company has been keen to carry out this role efficiently, despite the uncertainty that dominates the investment climate in the Arab region in particular. The Company continued its clear approach by consolidating its regional role in support of Arab development as well as its work as a catalyst in the establishment of projects designed to develop and integrate Arab resources. In order to achieve its strategic objectives, the Company harnessed all available resources and exploited them optimally, while taking advantage of its strong capital position and expertise as well as the flexibility of regulations and policies governing work, in addition to encouraging the shareholders' countries and backing the Board of Directors to extend their support to the Company's Management.

With respect to investment in Project Equity, the portfolio of which included 25 projects and one investment fund spread geographically over ten Arab countries and distributed over eight economic sectors with an investment volume reaching more than USD 352 million, the Company continued to monitor its existing projects in order to enhance its ability to compete and survive in exceptional conditions facing the investment climate regionally and globally. The Company was keen to participate in the Boards of Directors' and General Assemblies' meetings held by these projects, and has made significant efforts to address the problems and overcome the obstacles faced by some projects, in cooperation and coordination with the Management of these projects and other shareholders. It continued to exert effort and search for promising investment opportunities in various Arab countries that are consistent with the Company's objectives and investment criteria.

In the banking sector, the Company continued to provide its services through its branch in the Kingdom of Bahrain through economic partnerships with financial institutions and the private sector, within a professional work environment that takes into account the circumstances of the Arab region, and that is characterized by clarity and transparency through resource mobilization and asset management as well as adoption of best practices prevailing in the banking industry and application of international accounting standards, while ensuring full compliance with the requirements of the supervisory and regulatory authorities.

The Company was also keen to develop the capabilities of its human resources by strengthening the skills of its employees through their enrollment in training courses and participation in workshops in order to develop methods of work and increase performance efficiency.

In terms of financial results, the Company was able to achieve a net profit of USD 41.8 million in 2018, a 10% increase over the previous year performance where the Company posted a net profit of USD 37.9 million. Shareholders' equity increased from USD 1,188 million at the end of 2017 to USD 1,218 million at the end of 2018, up by 2.6%.

Taking the opportunity of the publication of the Company's annual report, I would like to thank all the Arab shareholding countries for their support. Also, I would like to thank the Board of Directors for the trust and confidence they have placed upon me to lead the Company as well as the care and attention they have displayed towards me by providing help, advice, and constructive criticism in the interests of the Company and its further improvement. In addition, I would like to take this opportunity to thank my colleagues in the Company both at the headquarters in Saudi Arabia and the branch level in the Kingdom of Bahrain, and urge them to deliver more efforts and continue their dedication to work, so that The Arab Investment Company remains in the ranks of the major Arab companies and meets the shareholders' expectations.

Chief Executive Officer

Ibrahim H. Al Mazyad

DIRECTORS' REPORT 2018

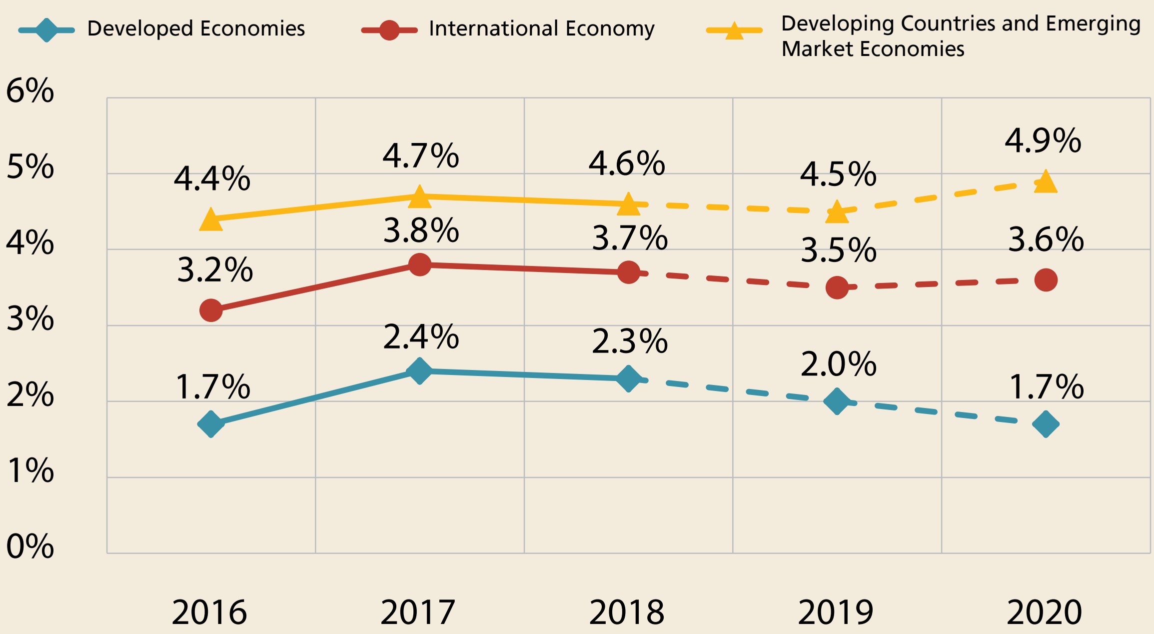
Investment Climate in 2018

Global Economic Developments

Global economic growth fell slightly in 2018 to 3.7%, affected by the decline in growth rates of the euro area and Japan and the implications of trade tensions between the United States and China, in addition to the adverse impact of the tightened US monetary policy on global financing and the growth of emerging economies. Global economic growth faces a number of risks and challenges including, the negative effects of US-China tariff increases, the introduction of new automobile fuel emission standards in Germany, the concerns about sovereign and financial risks in Italy, the contraction of the Turkish and Argentine economies, and the concerns about China's economic outlook. The IMF expects global growth to slow to 3.5% in 2019 and then slightly increase in 2020 to about 3.6%.

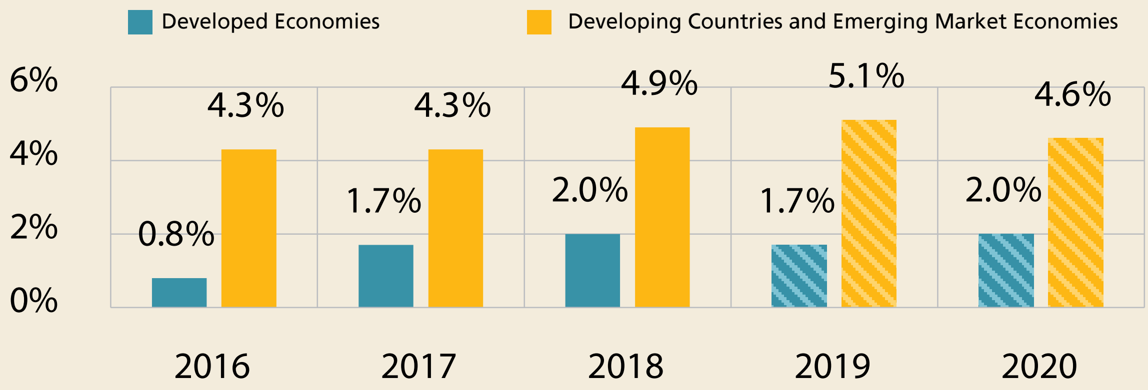
Chart | **Economic Growth Outlook**

A semi-stable global growth supported by the growth of the economies of developing countries and emerging markets, and affected by an expected decline in the growth rate of developed economies.



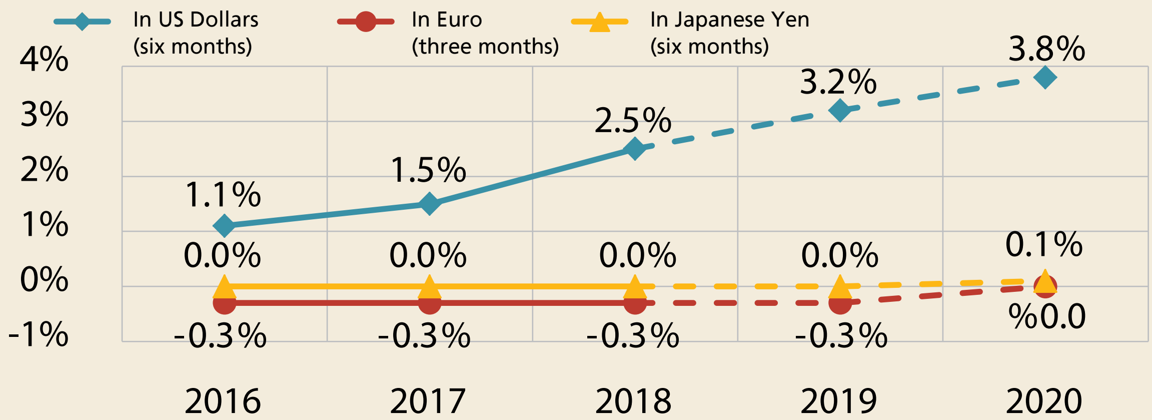
* Source: International Monetary Fund - World Economic Outlook (January 2019)

Chart
Inflation Rate
Some central banks in the developed countries are preparing to go back to traditional monetary policies in light of the relatively high inflation rates.



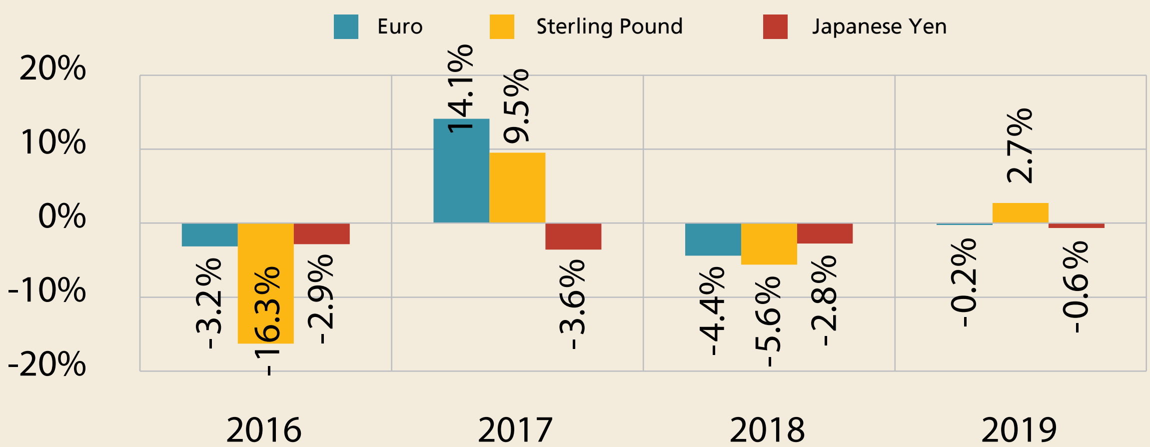
* Source: International Monetary Fund - World Economic Outlook (January 2019)

Chart
Deposit Interest Rates
In the light of rising interest rates, the economies of developing countries and emerging markets are expected to be affected, and foreign capital would continue to flow out of these countries.



* Source: International Monetary Fund - World Economic Outlook (January 2019)

Chart
Change in Prices of Most Important Currencies against the US Dollar
Increased uncertainty surrounding Brexit, slowing growth, and fears about the situation in Italy led to the decline of the most important currencies against the dollar.



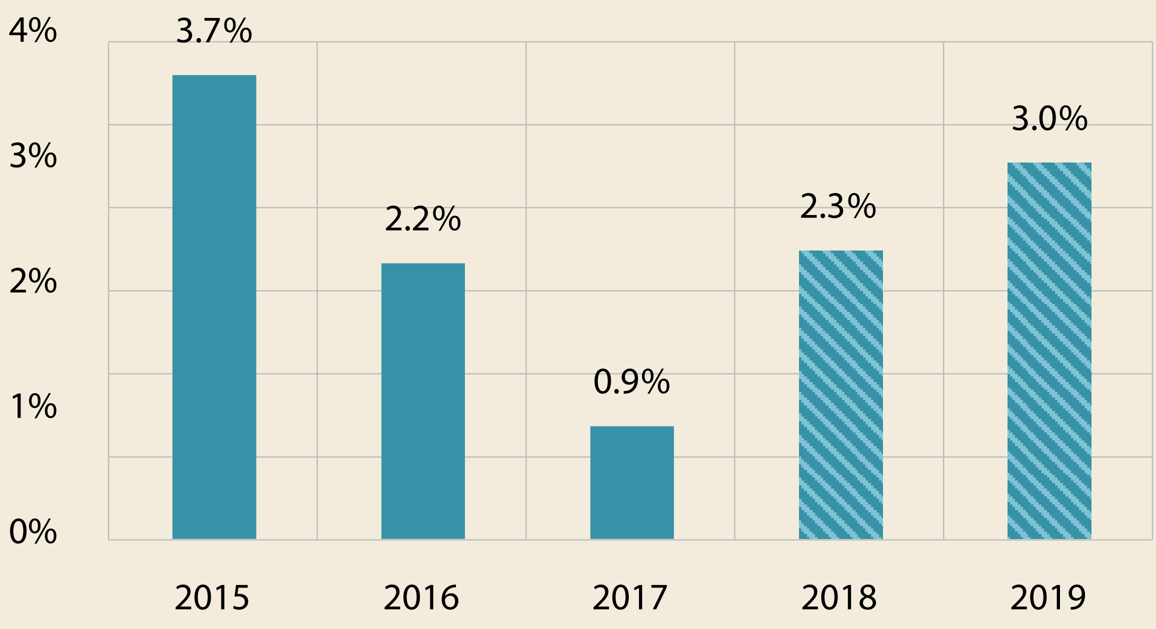
* Source: Bloomberg

Economic Developments in the Arab World

The Arab economy witnessed several positive developments during the year. The most important of which was the rise in oil prices and the increase in external demand. Further, positive results of the economic reform programs implemented by some Arab countries started to manifest, which is expected to improve the growth rate of the Arab economy to 2.3% in 2018. However, the Arab countries face a number of challenges; foremost of which is the need to raise the pace of economic growth in order to reduce unemployment rates, achieve fiscal discipline and financial sustainability, and adopt structural and institutional reforms to enhance productivity and competitiveness of Arab countries, in addition to the importance of promoting regional integration. The Arab countries' economic growth rate in 2019 is expected to be around 3%, while inflation is expected to fall from 11.4% in 2018 to about 8.3% in 2019.

Chart | **Economic Growth Outlook of Arab Countries as a Group**

The expansion of growth reflects the positive impact of the relative improvement in the financial situation of the oil-exporting countries and the improvement of internal and external demand in oil-importing countries.

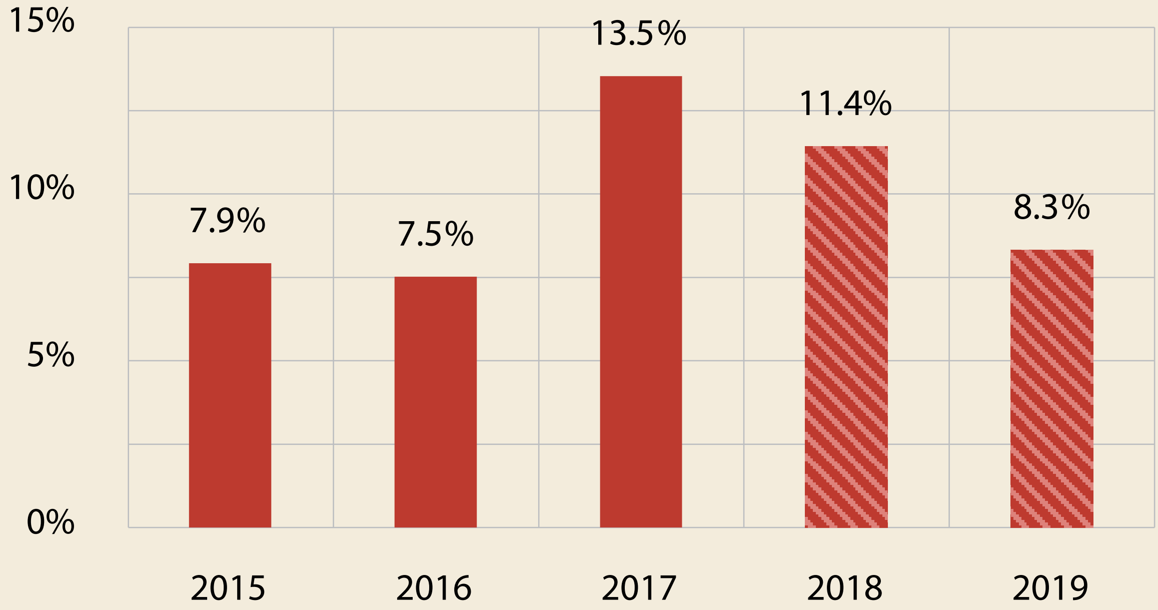


* Source: Arab Monetary Fund - Arab Economic Outlook (September 2018)

Chart

Inflation Rate in Arab Countries as a Group

Inflation rate is expected to be affected by the increase in aggregate demand levels as economic performance improves, in addition to raising interest rates and higher world oil prices.

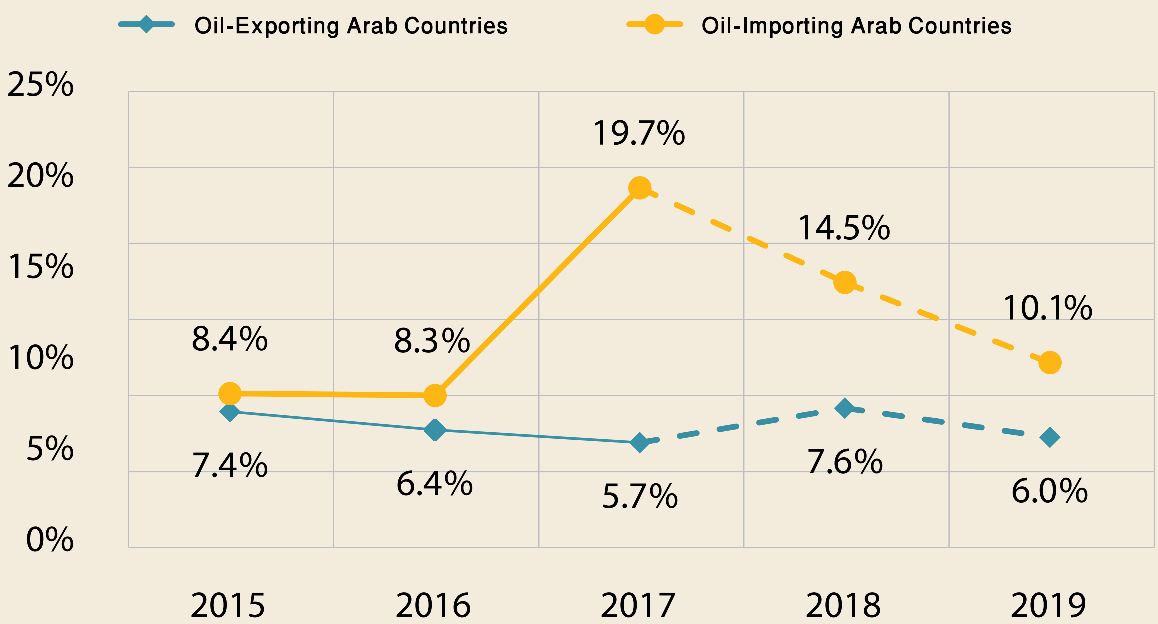


* Source: Arab Monetary Fund - Arab Economic Outlook (September 2018)

Chart

Inflation Rate in Groups of Major Arab Countries

Amid different trends in the development of prices between oil-exporting and oil-importing countries.



* Source: Arab Monetary Fund - Arab Economic Outlook (September 2018)

TAIC's Activity in 2018

TAIC's main focus is to invest Arab funds in order to develop Arab resources. During 2018, TAIC continued to perform its investment role as per its Memorandum of Association and Articles of Association. While adhering to its policy on maintaining proper balance between increasing returns and minimizing risk, TAIC's efforts during the year focused on managing its existing investments, the search for promising investment opportunities, and the provision of financial services as well as the development of support services and the strengthening of the institutional work, based on the support received from the shareholding States. At the end of the year, TAIC was able to achieve good financial results; recording its highest profits over the past five years, surpassing the constraints and challenges it faced.

Moreover, while maintaining its commitment to the best investment practices, TAIC continued to strengthen ties with Arab joint companies and institutions, investment guarantee institutions, Arab chambers of commerce, industry and agriculture, and investors in various countries in the region to try to enhance integration with these parties and to take advantage of available investment opportunities to achieve its objectives.

The following is a review of TAIC's performance in these areas and its financial results in 2018:

TAIC Management

TAIC's confident steps towards achieving its investment and development mission are a fundamental pillar upon which it relies to meet the objectives and aspirations of the shareholding States to support and develop the Arab economy. TAIC's management is committed to fulfilling this mission by applying the best practices and latest and most effective management, investment, and asset management systems, while ensuring that sustainable development in the Arab region remain at the forefront of its priority.

In terms of the Company's organizational framework, the General Assembly approved, in 2018, the formation of a new Board of Directors during its fifteenth session.

The Board of Directors reconstituted its specialized committees to enable its members carry out their functions effectively, namely the Higher Investment Committee, the Risk and Asset Committee, the Audit Committee, and the Nominations and Compensations Committee.

TAIC's Board of Directors continued its supervisory role in accordance with the Company's regulations and in 2018, the Board held five meetings. In the same context, the specialized committees of the Board exercised their functions and responsibilities. Through its meetings, reports of its specialized committees, and executive management reports, the Board of Directors reviewed the Company's progress and performance, which indicated success and good results.

Moreover, TAIC has implemented most of the quantitative and qualitative objectives included in its annual operating plan, within the framework of its general policies, directives, and resolutions of the Board of Directors, which contributed to maintaining the Company's distinguished position among the Arab joint companies.

TAIC's operations during the year were subject to periodic review by Internal Audit, which was approved by the Audit Committee, to objectively and independently verify the adequacy and effectiveness of internal control systems for all operations and activities of the Company and to assess its compliance with legal and regulatory requirements.

There is no doubt that there are many challenges expected during the year 2019 and beyond, which requires TAIC to intensify its efforts to serve the Arab economy. The Management is currently developing a new strategic plan for investing in projects to meet the Company's aspirations toward its development & investment role.

TAIC Financial Results in 2018

- The Company achieved a net profit of USD 41.8 million in 2018, a 10% increase over the previous year's profit of USD 37.9 million. This increase was driven by the net interest income growth and higher equity portfolio earnings.
- The total operating income from the Company's operations reached USD 57.5 million in 2018, compared to USD 54.9 million, an increase of 5% over the previous year's revenues.
- Total assets decreased from USD 1,628 million in 2017 to USD 1,606 million in 2018, down slightly by 1.4%. The assets represent (4.1:1) of the total liabilities of USD 388 million in the same year, confirming the Company's ability to meet its obligations.
- Total shareholders' equity increased from USD 1,188 million in 2017 to USD 1,218 million at the end of 2018, an increase of 2.6%, after the addition of this year's net profit and the fifth installment of the capital increase of USD 29.4 million.

The following table shows the main performance indicators of the Company during the years (2017-2018):

Table | Key Performance Indicators

	2018	2017
Return on Average Equity	**3.5%**	3.3%
Return on Average Assets	**2.5%**	2.3%
Expenses to Revenue Ratio	**31.2%**	32.2%
Capital Adequacy Ratio	**98%**	88%

Important Figures

Net Income
41.8
USD Million
10% ▲

Total Revenue
57.5
USD Million
5% ▲

Total Assets
1,606
USD Million
1.4% ▼

Shareholders' Equity
1,218
USD Million
2.6% ▲

The following charts illustrate the growth in net profits, assets, and shareholders' equity during the years (2014-2018) in USD millions:

Chart | **Net Profit**
(USD Million)

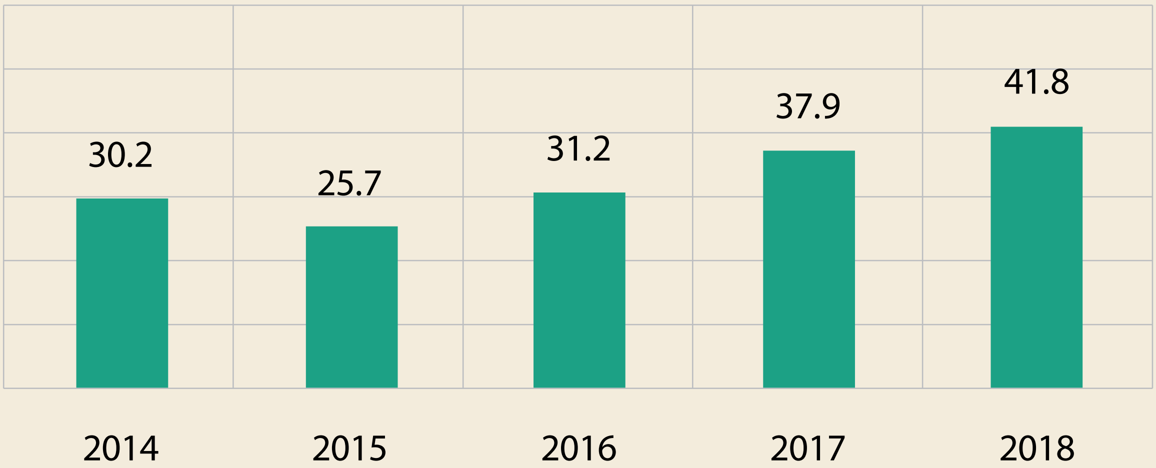


Chart | **Total Assets**
(USD Million)

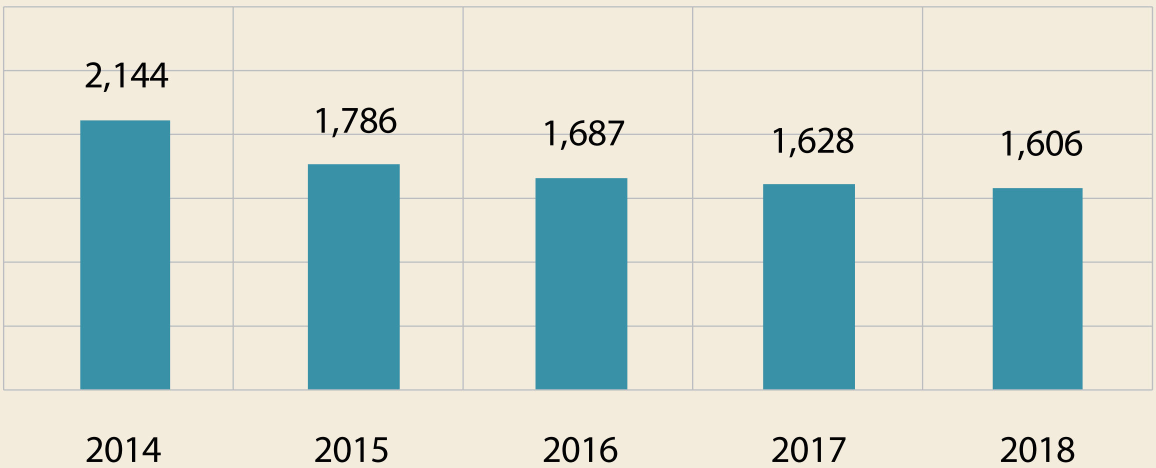
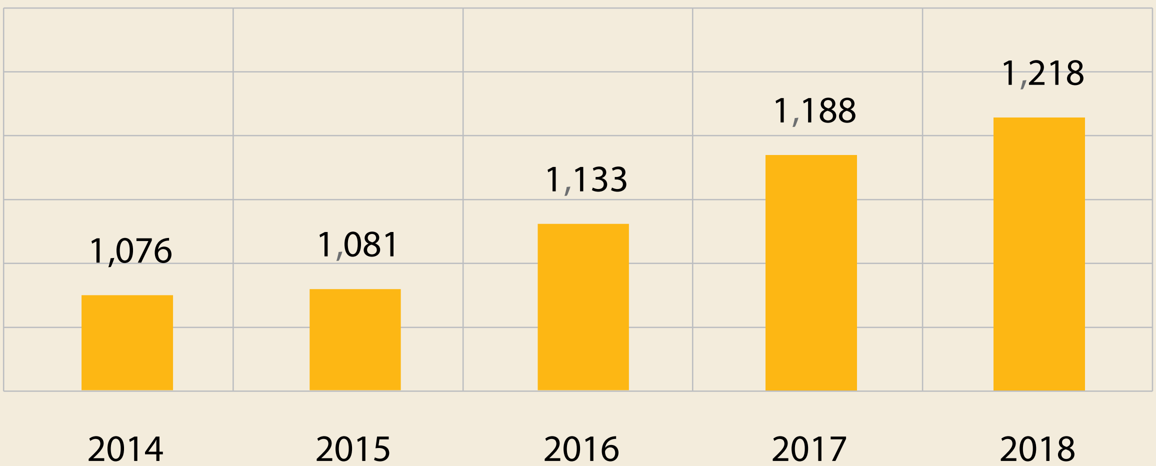


Chart | **Shareholders' Equity**
(USD Million)



Investment in projects

Investment in projects is the main focus of TAIC's activity. The Company is dedicated to constantly seeking promising investment opportunities in various sectors, which help develop and integrate Arab resources, create producer surplus to stimulate Arab trade, and achieve sustainable development in the Arab world. The Company is also keen to maintain balance in geographical and sectoral distribution and to utilize available benefits. At the same time, the Company endeavors to reach out to and cooperate with relevant parties, thus helping to overcome all obstacles to the development of the Arab economy.

In 2018, TAIC continued to monitor its existing projects in order to enhance their abilities to compete and survive in the exceptional circumstances that faced the investment climate regionally and globally. The Company was keen to participate in the meetings held by the boards of directors of these projects and their general assemblies and made significant efforts to address problems and overcome obstacles encountered in some projects, through cooperation and coordination with the managements of these projects and with other shareholders. The Company also continued its search for promising new projects, in this regard, it has completed evaluating more than twenty investment opportunities throughout the Arab region in the industrial, energy, financial, educational, services, and information technology sectors.

Projects Investment Portfolio as of 31-12-2018

TAIC's total investment in projects and investment funds reached around USD 352.7 million by the end of 2018, representing 44% of its paid-up capital. The projects portfolio includes 25 investment projects as well as investments in the IFC Middle East and North Africa Fund. The Company's investments are geographically spread over 10 Arab countries and are distributed across 8 sectors in different fields.

Size of Investments
352.7
USD Million

These investments are distributed over:

25	1	10	8
Projects	Investment Fund	Arab Countries	Economic Sectors

Chart | Sectoral Distribution Percentages for Portfolio Projects According to Historical Cost

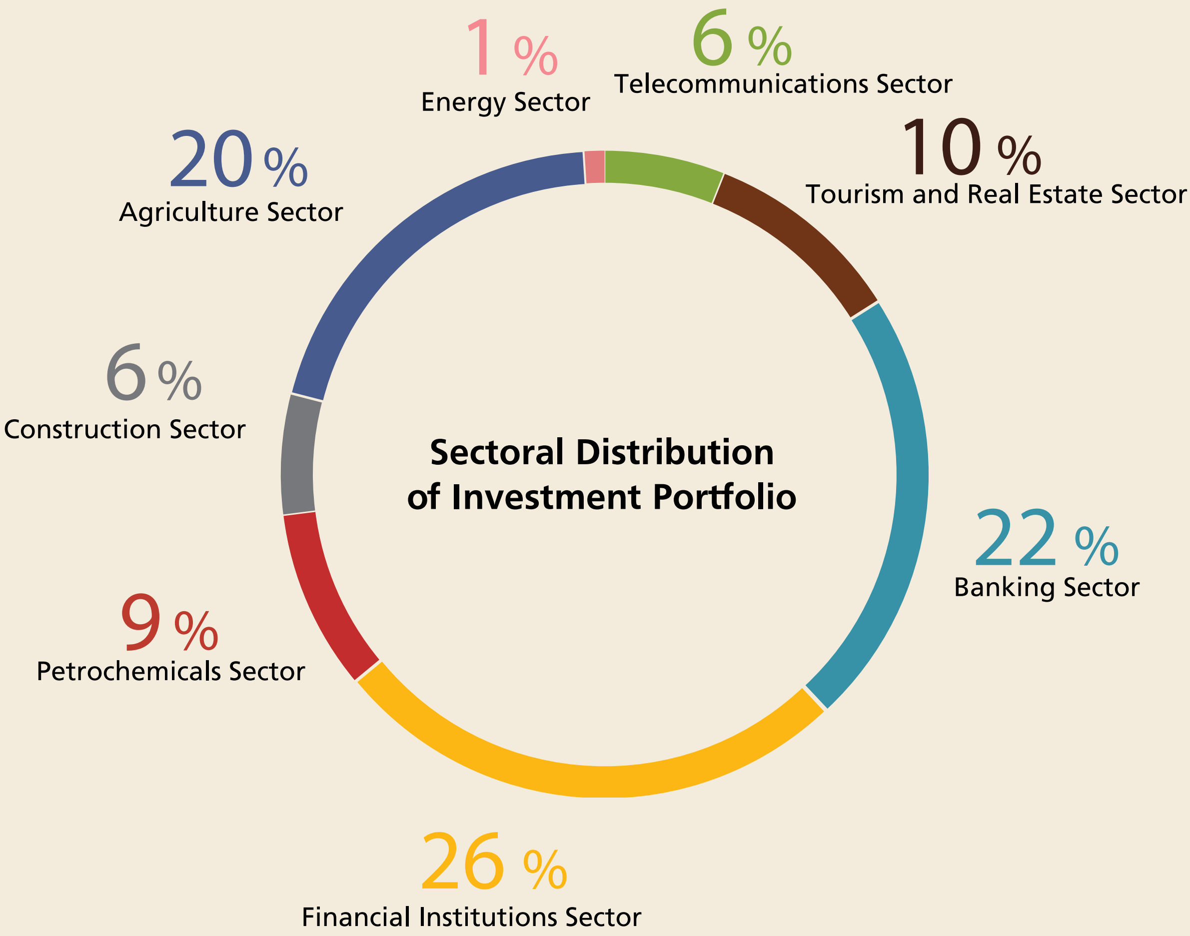
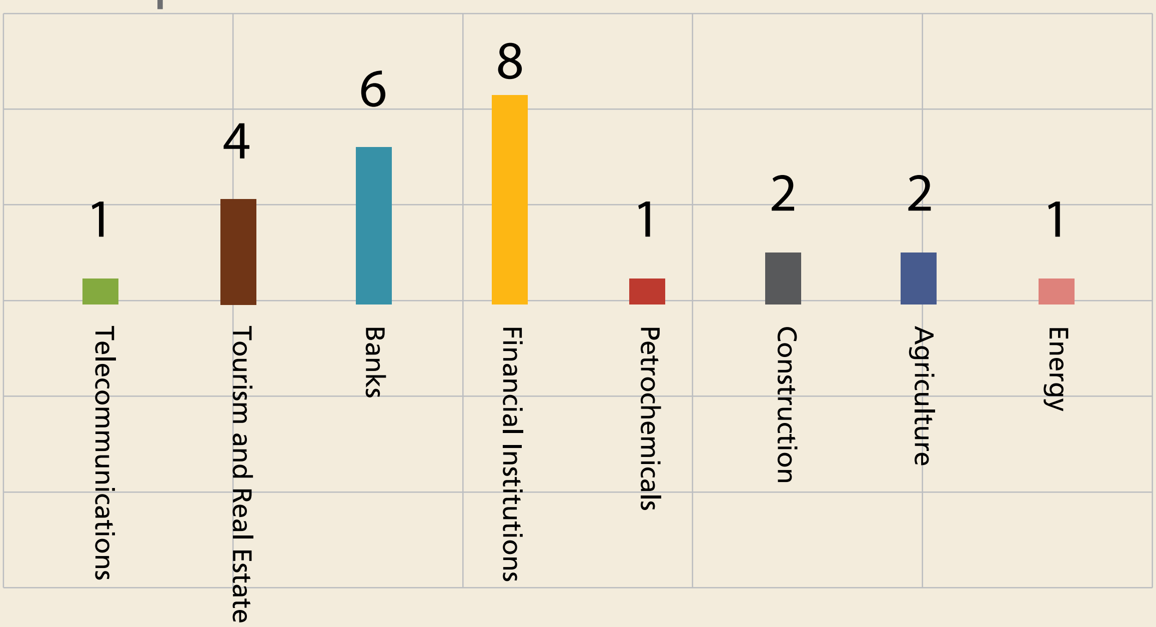
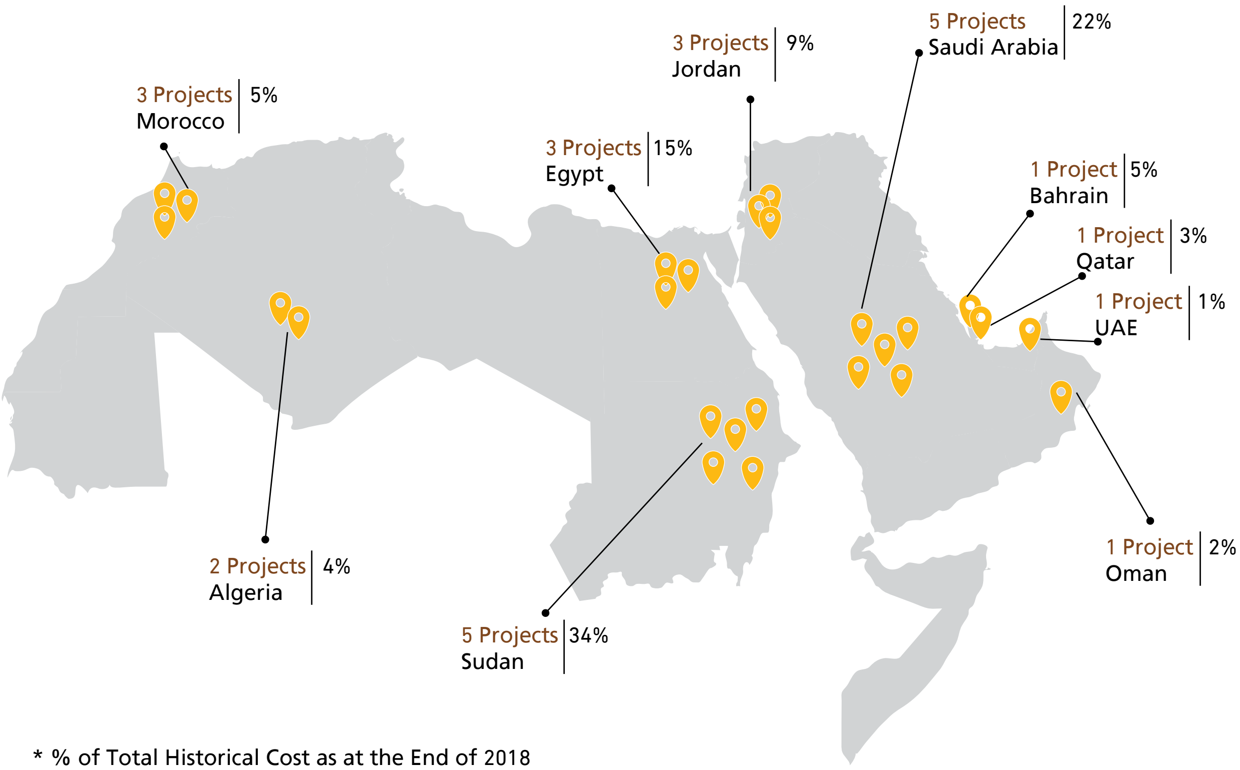


Chart | Number of Existing Portfolio Projects per Sector



The Company concentrated investment in projects that support the Arab economic and social development, which provide products and services to the local and regional markets, in addition to their role in stimulating inter-Arab trade, creating job opportunities, integrating various economic sectors, and localizing advanced technology. Investment in non-oil Arab countries accounts for 63% of its investment portfolio.

Chart | Geographical Distribution for Portfolio Projects According to Historical Cost



* % of Total Historical Cost as at the End of 2018

The total paid up capital of the projects in the above countries is about USD 12.4 billion, while the total shareholders' equity exceeds USD 21 billion. These figures highlight the importance of the Company's role as a catalyst in mobilizing financial resources and encouraging the private sector to contribute to investment projects throughout the Arab countries.

It is worth mentioning that the role of TAIC is not limited to financial contribution to the project, but also extends to include support functions, such as finalization of incorporation procedures, participation in the preparation of task forms for designs and consulting works, planning and follow-up of the implementation processes, and follow-up of the operation through the Company's representatives in the boards of directors and specialized committees.

TAIC's Projects Portfolio Summary

Project or Company	Company Participation USD Million	(%)	Major Shareholders
▪ Banking Sector	72.26		
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	8.70	15.00%	• The Arab Jordan Investment Bank
Financial Investment Bank Sudan	4.44	20.80%	• Central Bank of Sudan • Tadhamon International Islamic Bank • Hospico Company
Arab Banking Corporation (ABC) Algeria	3.17	4.18%	• Arab Banking Corporation (Bahrain)
▪ Telecommunications Sector	20.73		
Sudatel Telecom Group Ltd. Sudan	20.73	2.18%	• The Government of Sudan
▪ Tourism and Real Estate Sector	32.98		
Arab International Company for Hotels and Tourism Egypt	12.70	13.62%	• Arab International Bank • Kuwait Investment Authority • Abu Dhabi Investment Authority
Asma Club Plus Real Estate Company Morocco	12.29	40.00%	• Saudi Moroccan Development Investment Company
Arab International Hotels Company Jordan	7.79	8.36%	• Jordan Ahli Bank • Jordan Worsted Mills Company • Al-Nabeel Trading Company
Société Riad Swalem Morocco	0.20	33%	• Saudi Moroccan Development Investment Company

Project or Company	Company Participation USD Million	(%)	Major Shareholders
▪ **Financial Institutions Sector**	86.26		
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
Arab Trade Financing Program Joint Company	3.33	0.44%	• Arab Monetary Fund • Arab Fund for Economic & Social Development
▪ **Agriculture Sector**	65.96		
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 Joint Company	3.56	1.67%	• Arab Joint Company
▪ **Energy Sector**	3.98		
National Tri-generation CHP Company Saudi Arabia	3.98	9.94%	• General Authority for Awqaf • Al Anoud Charity Foundation
▪ **Construction Sector**	18.56		
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
The Arab Mining Company Joint Company	2.16	1.10%	• Arab Joint Company

Project or Company	Company Participation USD Million	(%)	Major Shareholders
▪ **Petrochemicals Sector**	27.63		
Egyptian Propylene and Polypropylene Company Egypt	27.63	10.00%	• The Egyptian Petrochemicals Holding Company • Egyptian Natural Gas Company • Hail Saeed Group • Oriental Weavers

Investment Funds Portfolio

The fund's portfolio consists of a Company's contribution of USD 24.4 million in a single investment fund, representing 7% of the Company's investments, in partnership with regional and international institutions, including (IFC), the Arab Fund for Economic and Social Development, 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 financial and industrial sectors in the MENA region and Turkey. By the end of 2018, which is the second investment year, the fund's investments amounted to USD 52.5 million.

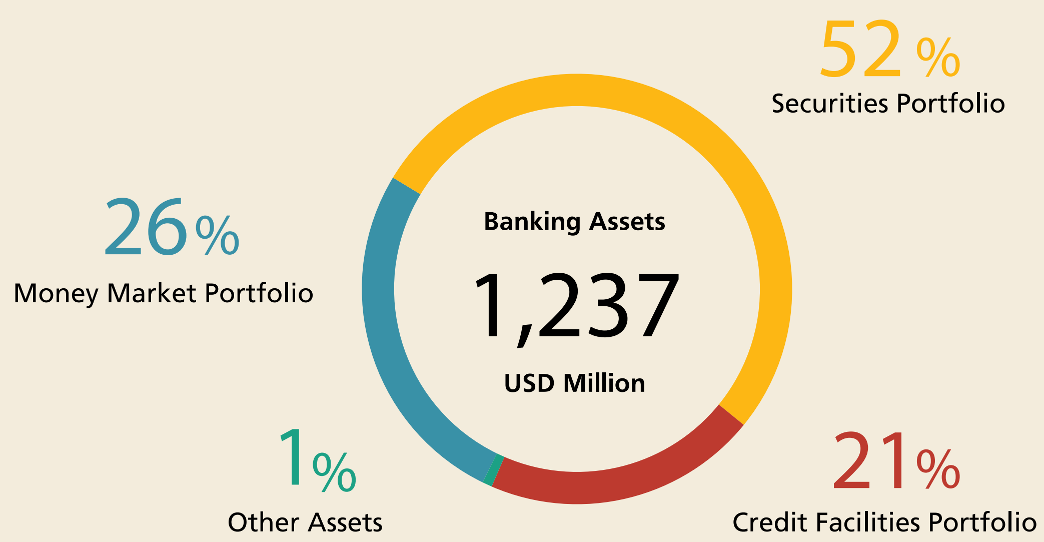
Name of Fund	Fund's Size Million USD	Company Participation Million USD	Investment Field
▪ **Investment Funds Portfolio**			
IFC Middle East and North Africa Fund	162.4	24.4	Growth Companies

TAIC's Investment Activities in Financial Services

In addition to its main activity of investment in equity projects, TAIC provides wide ranging and full-fledged financial services through its Branch in the Kingdom of Bahrain, which is licensed as a Conventional Wholesale Bank by the Central Bank of Bahrain. The banking activity constitutes an important and stable source of income and is instrumental in enhancing project equity by generating additional income for reinvestment across the shareholders' countries, hence consolidating the role of TAIC as an investment catalyst in the Arab world. The Branch provides various financial services to its customers comprising of public, semi-public and private institutions. The branch also has a network of relationships with a large number of banks and financial institutions in many countries in the world.

At the end of the year, total banking assets amounted to USD 1,237 million against USD 1,246 million at the end of previous fiscal year, reflecting a marginal decrease of 1%. During the year, the efforts of the banking activity primarily focused on resource mobilization, liquidity management and close monitoring of its credit and investment portfolios in accordance with the directives of regulatory authorities, best market practices and the requirements of International Financial Reporting Standards, and following an objective approach in managing the banking assets to cope with the challenges facing the banking industry at global level, current market conditions, and the requirements to achieve the goals of the Company.

Chart | Components and Percentages of Banking Assets as at the End of 2018



Treasury and Capital Market Portfolio

The Year 2018 has been characterized by an increase of volatility in global markets caused by tighter monetary policy in USA and Europe and by an increase of political risk worldwide. Treasury deployed USD 1 billion of available funds through fixed income, mutual funds, equities and money market activities with particular focus to minimize the interest rate and credit risk while keeping the portfolios diversified.

The investment securities portfolio stood at USD 646 million at the end of the 2018 from USD 579 million in the previous year, reflecting an increase of 12%, which is due to investing additional funds in high quality papers carrying a good return.

Money market portfolio (Placements with banks and Treasury Bills) amounted to USD 327 million against USD 384 million in 2017; a decrease of 15%, which is line with the drop in accepted deposits. Despite the challenges faced in the market, Treasury maintained adequate liquidity position throughout the year while delivering good revenues for the bank.

Accepted deposits from clients, financial institutions and Government entities amounted to USD 368 million at the end of the year against USD 421 million in 2017, reflecting a decrease of 13% caused by compression of government lending due to regional deficits after the fall in oil prices.

Total Allocated Funds

973

USD Million

Securities Portfolio

646

USD Million

12% ▲

Money Market Portfolio

327

USD Million

15% ▼

Accepted Deposits

368

USD Million

13% ▼

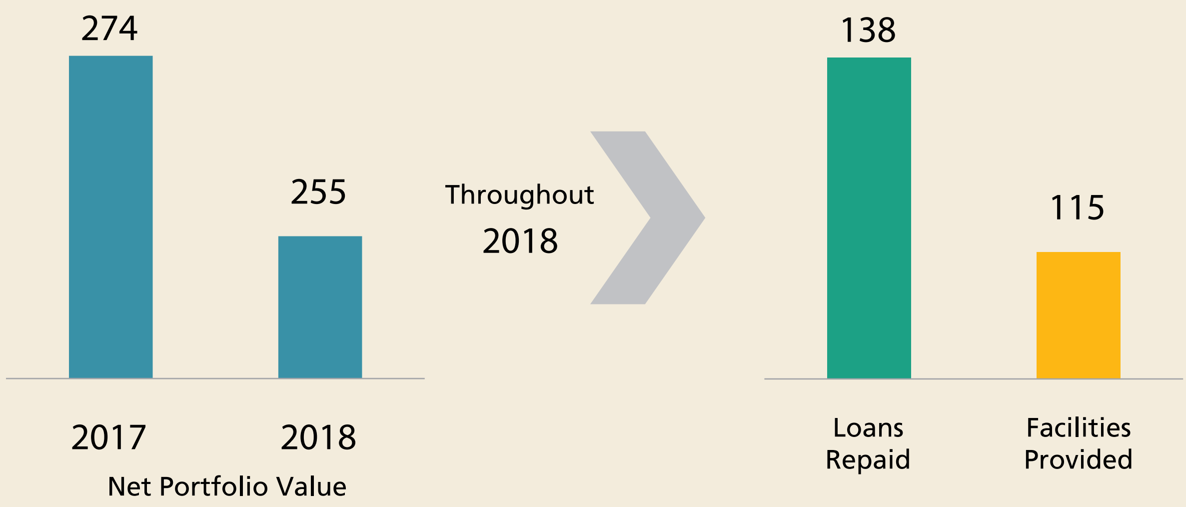
Credit Facilities

The volatility of emerging markets coupled with the rise of the Federal Reserve interest rate together with tight spreads, availability of liquidity and strict regulatory requirements as a result of the implementation of the International Financial Reporting Standard (IFRS 9) as of January 2018 were the most challenging issues faced by the credit activity at the Branch level.

Despite these challenges, The Arab Investment Company, through its branch in Bahrain, continued to offer credit facilities to its customers either directly or through participating in joint facilities in partnership with regional and international financial institutions. The Bahrain Branch is also engaged in the provision of Trade Services, namely in the shareholders' countries despite challenging compliance requirements, which have affected the Trade Finance Business. Trade services include opening, advising, confirming and refinancing letters of credit, discounting commercial papers and financing pre-export activity.

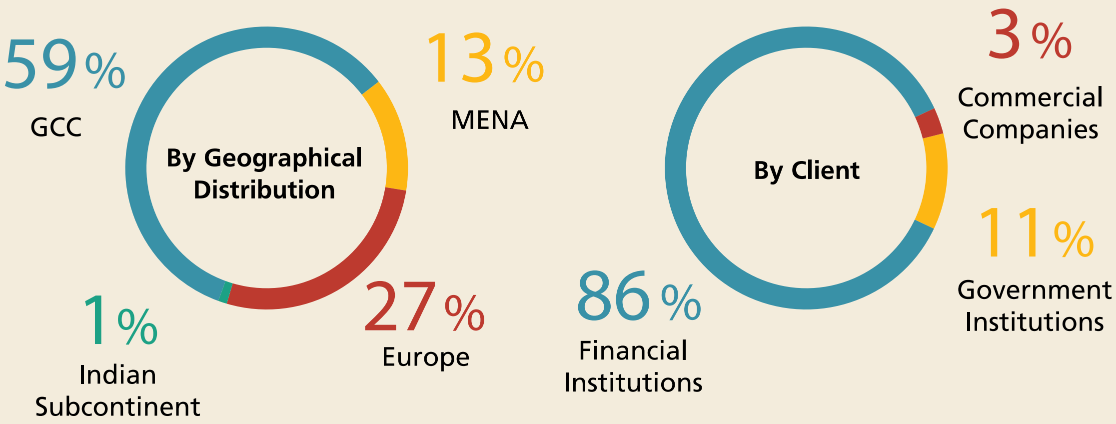
At the year-end, outstanding net loans and facilities reached USD 255 million against USD 274 million as at the end of 2017, representing a decline of around 7%. The drop in the loan portfolio was mainly the result of early repayments of credit facilities totalling USD 75 million. New loans disbursed during the year 2018 amounted to USD 115 million, where total loans repayments during the year totalled USD 138 million.

Chart | **Credit Facilities Portfolio (USD Million)**



Credit facilities extended to financial institutions primarily dominated the loan portfolio with 86% of total gross loan exposure. The balance was split between government institutions (11%) and corporate bodies (3%). In terms of geographical distribution, the Gulf Cooperation Council (GCC) ranked first with 59% of credit concentration, followed by Europe (27%), MENA (13%) and finally Indian Subcontinent (1%).

Chart | Distribution of Credit Facilities Portfolio



During the year, the outstanding balance of non-performing loans declined by 23% to USD 9.1 million, compared to USD 11.8 million at the end of 2017, due to a recovery of USD 2.7 million. Provisions against non-performing loans are maintained at a coverage ratio of 100%.

Restructuring of the credit activity is of a paramount importance to the Executive Management, who intensified efforts towards building a sustainable loan portfolio based on a sound redistribution of risks across different geographies, redefinition of the customer base, and improvement of asset quality metrics by minimising exposure to high credit risks through adequate risk mitigation tools, as and when required.

Non-Performing Loans

9.1

USD Million

23 % ▼

Development of Supporting Services

In light of the continuous efforts of the Company's management to develop institutional work to serve the working environment and achieve the desired goals and future aspirations, the Company started during the year 2018 to implement its approved programs for support services in the field of developing IT systems and human resources.

Information Technology Systems

The Company increased its efforts in 2018 to develop its capabilities and capacities in the field of information technology. It has taken many effective measures to keep abreast of ongoing developments in this field, including but not limited to:

01 Preparing the accounting system for applying VAT, issuing its reports, and creating an electronic billing program to meet the requirements of the VAT system.

02 Preparing an accounting system for the implementation of IFRS9, making the necessary adjustments to accommodate the new requirements, and generating reports on the implementation of the new standard.

03 Working with the consultant to establish a policy and procedures manual for the Company's IT, and to develop a plan for its application and implementation after its approval by the Board of Directors.

04 Upgrading servers, e-mail, and programs operating systems to recent releases to improve performance, security, and features to meet current and future business and user requirements.

05 Upgrading the core banking system (MIDAS) and associated financial systems such as the interbank telecommunication system (SWIFT), the financial reporting system (STORQM) and the account settlement system (IntelliMatch).

Human Resources

TAIC has paid great attention to its human resources by providing training, building skills, and motivation, as well as developing human resources policies, procedures, and systems to contribute to enhancing performance and raising productive efficiency of the Company. The Human Resources Department also played an active role in cooperation with all departments in the Company to improve the efficiency and effectiveness of the working environment.

Additionally, the Company approved a number of specialized programs and workshops and participated in some conferences and meetings related to the Company's activities, aiming at refining the skills and developing the capabilities and helping the employees of the Company to assume their growing responsibilities. TAIC is continuously working to attract specialized competencies, maintain the distinguished human resources, and plan their career paths in a manner that raises efficiency and ensures that they are competent to fill all positions in the Company. The number of employees at the end of 2018 is 88 employees, 47 of whom are in the head office in Riyadh and 41 are at the Company's branch in the Kingdom of Bahrain.

88 Employees

Total Number of Company Employees

Institutional Management

The institutional management of The Arab Investment Company is the driving force behind all its activities, guided by the principles of corporate governance, the Board of Directors' resolutions, and the directives of supervisory and regulatory bodies. The Company also seeks to spread the culture of institutional work among the projects in which it participates, believing in its role in establishing transparency and applying the best international systems for doing business within the Arab economy and implementing its general objectives stipulated in its Memorandum of Association and Articles of Association.

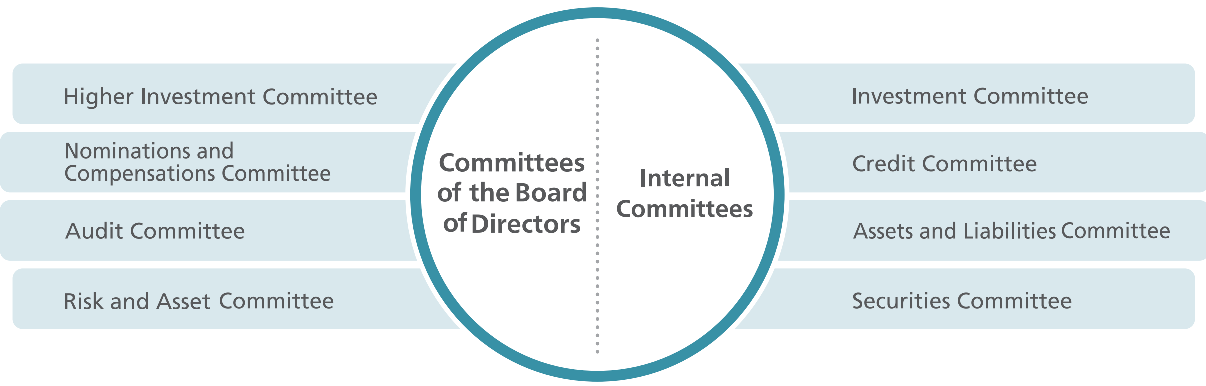
Corporate Governance

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 of 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 also created special internal committees with varying powers to facilitate the Company's work, organize the functions of its various departments, and implement the requirements of governance and institutional work.

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 ensures a crucial balance between risk and reward. 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. The framework is essential to support TAIC's strategic objectives and acts as a platform for growth.

The Company's business operations are exposed to certain key risks mainly Credit, Market, Liquidity and Operational. The business and risk management strategy is tailored and regularly reviewed in line with the risk appetite.



Risk Governance:

The risk governance structure ensures central oversight and control with clear 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 Asset Committee (RAC) 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.

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, Liquidity, Operational 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 Measurement Models namely – Asset & Liability / Market Risk Management System, Internal Credit Risk Rating Systems and Capital Assessment Platform.

The key features of Risk Management Framework are:

- Implementation of Industry Best Practices and Regulatory Requirements.
- Adoption of Three Lines of Defense model where the Business Departments are the First Line of Defense. The Second Line of Defense includes the support functions, such as Risk Management, Compliance, Legal, etc. Internal Audit acts as Third Line of Defense.
- Well defined country and cross-border risk management to enable the measurement and tracking of country exposures against Board-approved limits.
- Adopting Risk Based Approach in contrast to subjective credit risk assessment, enhancing credit process efficiency, improving credit quality and reducing credit losses.
- A systematic Operational Risk Management process comprising of risk assessment, risk treatment, risk monitoring, and risk communication and reporting. The process is challenged and reviewed regularly to ensure its effectiveness and appropriateness.
- Designing and implementation of appropriate controls with adequate reporting in place to monitor their ongoing effectiveness to safeguard Company's interests.
- Providing oversight and Policy guidelines for Business Continuity Management and its regular testing so as to ensure its adequacy and effectiveness.
- Ensuring that all employees are sufficiently trained and have access to appropriate tools to ensure risk-taking is controlled and is in line with the risk appetite.
- Strong liquidity controls to manage the Company's liquidity and funding risk in a robust manner.
- Effective market risk management through defined risk limits.
- Periodic Stress Testing to assess the overall risk appetite.
- Continue to improve the frameworks for risk identification to ensure timely early-warning indicators and decision making.

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.

To a large extent, this reflects the work done by the Company in establishing a sound governance structure, ensuring a strong control mechanism through Three Lines of Defense, promoting a unified risk culture and risk based performance management, establishing a robust risk infrastructure for effective decision making and adopting zero tolerance for non-compliance to Regulations.

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, and adopt industry best practices in regulatory compliance, AML/CFT and sanction risk management.

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 function, which reports to the Audit Committee of the Board. The external auditors annually conduct an independent review of compliance with the AML policy and procedures and submit their report to the Board of Directors. The external auditor report is also submitted to the 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 2018 - looking forward to exert more individual and collective efforts to achieve the Company's goals and future aspirations.

FINANCIAL STATEMENTS
31 DECEMBER 2018

Building a better working world

Ernst & Young & Co. (Certified Public Accountants)
General Partnership
Head Office
Al Faisaliah Office Tower - 14th floor
King Fahad Road
PO Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

Registration No. 45/11/323
C.R. No. 1010383821
Tel: +966 11 215 9898
+966 11 273 4740
Fax: +966 11 273 4730
riyadh@sa.ey.com
www.ey.com/mena

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

Opinion
We have audited the financial statements of The Arab Investment Company (the "Company"), which comprise the statement of financial position as at 31 December 2018, 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 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing 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 audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Saudi Arabia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and 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

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)

material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

For Ernst & Young

Waleed G. Tawfiq
Certified Public Accountant
License No. 437

Riyadh: 4 Sha'ban 1440 H
(9 April 2019)

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

STATEMENT OF FINANCIAL POSITION
As of 31 DECEMBER 2018
All amounts in United States Dollars thousands

	Notes	2018	2017
ASSETS			
Cash and deposits with banks	5	**403,419**	447,707
Investments:			
Securities	6	**655,847**	595,580
Equity participations	7-1	**256,880**	273,304
Loans and advances	8	**254,740**	273,858
Other assets	9	**14,153**	15,914
Property and equipment	10-1	**13,083**	13,620
Investment property	10-2	**7,930**	8,110
TOTAL ASSETS		**1,606,052**	1,628,093
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits	11	**368,271**	420,596
Derivative financial instruments	12		158
Other liabilities	13	**19,536**	19,762
TOTAL LIABILITIES		**387,807**	440,516
SHAREHOLDERS' EQUITY			
Share capital	14-1	**800,000**	800,000
Subscription in share capital	14-2	**123,249**	93,839
Statutory reserve	15	**109,973**	105,795
General Reserve	16	**22,799**	22,799
Retained earnings		**249,246**	127,946
Fair value reserve	17	**(87,022)**	37,198
TOTAL SHAREHOLDERS' EQUITY		**1,218,245**	1,187,577
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,606,052**	1,628,093

Director of Finance	Chief Executive Officer	Chairman of the Board
Magdi Mohamed El Kafrawy	Ibrahim Hammoud Al-Mazyad	Abdulaziz Saleh Al-Furaih

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

STATEMENT OF INCOME
Year ended 31 December 2018
All amounts in United States Dollars thousands

	Notes	2018	2017
INCOME			
Interest income		**44,511**	35,510
Interest expense		**(8,570)**	(6,275)
Net interest income		**35,941**	29,235
Gain on sale of equity participations	7-2		7,057
Dividends		**9,354**	9,282
Net fees and commissions	18	**976**	1,179
Net gain (loss) on financial securities	19	**4,536**	(277)
Net foreign exchange loss		**(1,616)**	(50)
Rental income		**4,741**	4,699
Other income, net	20	**3,573**	3,753
Total operating income		**57,505**	54,878
EXPENSES			
General and administrative	21	**(17,919)**	(17,689)
Writeback (impairment) provision, net	22	**2,193**	755
Total operating expenses		**(15,726)**	(16,934)
NET INCOME FOR THE YEAR		**41,779**	37,944

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

STATEMENT OF COMPREHENSIVE INCOME
As of 31 DECEMBER 2018
All amounts in United States Dollars thousands

	Notes	2018	2017
Profit for the year		**41,779**	37,944
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		**(19,443)**	-
Recycling of gain to the statement of income		**(786)**	-
		(20,229)	-
Available for sale financial assets:			
Net fair value movement during the year		**-**	9,534
Recycling of gain to the statement of profit or loss		**-**	(10,499)
		(20,229)	(965)
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		**(20,706)**	-
Remeasurement of defined benefit obligation	13	**(5)**	-
		(20,711)	-
Total other comprehensive loss for the year		**(40,940)**	(965)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**839**	36,979

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Year ended 31 December 2018
All amounts in United States Dollars thousands

	Notes	Share Capital	Subscription for share capital	Statutory Reserve	General reserve	Retained Earnings	Fair value reserve	Total
Balance at 31 December 2016		800,000	75,399	102,001	22,799	94,246	38,163	1,132,608
Net income for the year		-	-	-	-	37,944	-	37,944
Other comprehensive income		-	-	-	-	-	(965)	(965)
Total comprehensive income		-	-	-	-	37,944	(965)	36,979
Transfer to statutory reserve	15	-	-	3,794	-	(3,794)	-	-
Board of directors' bonuses paid		-	-	-	-	(450)	-	(450)
Contribution for share capital increase (note 14.2)		-	18,440	-	-	-	-	18,440
Balance at 31 December 2017		800,000	93,839	105,795	22,799	127,946	37,198	1,187,577
Impact of adopting IFRS 9 and IFRS 15		-	-	-	-	84,149	(83,280)	869
Restated balance at 1 January 2018 (restated)		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 income		-	-	-	-	-	(40,940)	(40,940)
Total comprehensive income		-	-	-	-	41,779	(40,940)	839
Transfer to statutory reserve	15	-	-	4,178	-	(4,178)	-	-
Board of directors' bonuses paid		-	-	-	-	(450)	-	(450)
Contribution for share capital increase (note 14.2)		-	29,410	-	-	-	-	29,410
Balance at 31 December 2018		**800,000**	**123,249**	**109,973**	**22,799**	**249,246**	**(87,022)**	**1,218,245**

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

STATEMENT OF CASH FLOWS
As of 31 DECEMBER 2018
All amounts in United States Dollars thousands

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**41,779**	37,944
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of equity participations	7-2	**-**	(7,057)
(writeback) Impairment provision, net	22	**(2,193)**	(755)
(Gain) loss on sale of investments		**(3,240)**	2,762
Amortisation of discount (premium)		**1**	10
Loss on valuation of lands		**237**	206
Unrealized loss in FVTPL investment		**901**	-
Depreciation	10	**768**	760
		38,253	33,870
Changes in operating assets and liabilities:			
Deposits with banks with maturities longer than 3 months		**(52,491)**	182,013
Financial assets at fair value through income statement		**14,009**	5,639
Loans and advances, net		**22,739**	(24,452)
Other assets		**1,760**	623
Deposits		**(52,325)**	(116,499)
Derivative financial instruments		**(158)**	126
Other liabilities		**(332)**	2,780
Net cash (used in) from operating activities		**(28,545)**	84,100
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale and purchase of investment securities, net		**(96,852)**	(42,511)
Proceeds from disposal/refund of equity participations		**-**	26,119
Property and equipment and investment properties	10	**(288)**	(685)
Net cash used in investing activities		**(97,140)**	(17,077)
CASH FLOWS FROM FINANCING ACTIVITIES			
Board of directors' bonuses paid		**(450)**	(450)
Subscription in capital increase		**29,410**	18,440
Net cash from financing activities		**28,960**	17,990
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(96,725)**	85,013
Cash and cash equivalents, beginning of the year	5	**394,937**	309,924
CASH AND CASH EQUIVALENTS, END OF THE YEAR	5	**298,212**	394,937
Supplemental non cash information			
Net change in fair value reserve	17	**(40,940)**	(965)
Operational cash flows from interest and dividends			
Interest income received		**44,544**	36,089
Interest expense paid		**(26,463)**	(16,905)
Dividends received		**10,819**	11,929

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

1- GENERAL

The Arab Investment Company S.A.A. ("the Company") is an Arab joint stock company formed in July 1974 and owned by 17 Arab states. The Company's primary objective is the encouragement of investment and development in the Arab world through participation in commercially and economically viable projects. The Company has been granted all guarantees and concessions applicable to national, Arab and foreign investments by the laws of shareholder countries. In particular, its assets are granted full freedom of movement and are guaranteed against nationalisation, expropriation and other non-commercial risks.

The Company's head office is located at the following address:

P.O. Box 4009

Riyadh 11491

Kingdom of Saudi Arabia

The Company has a branch which operates as a wholesale bank in the Kingdom of Bahrain ("the Branch") under a license granted by the Central Bank of Bahrain ("the CBB"). The principal activities of the Company include trade financing, commercial lending, treasury services and Islamic banking.

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

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2-1 Basis of preparation

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

The financial statements have been prepared under the historical cost convention, except for the 1- 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.

Adoption of New Standards

Effective 1 January 2018 the Company has adopted following accounting standards and the impact of the adoption of these standards is explained below:

Adoption of IFRS 15 – Revenue from contracts with customers

The Company adopted IFRS 15 'Revenue from Contracts with Customers' resulting in a change in the revenue recognition policy of the Company in relation to its contracts with customers.

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRSs. It established a new five-step model that applies to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard. Modified retrospective application also requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at 1 January 2018 in Shareholders' equity.

Adoption of IFRS 9 – Financial instruments

The Company has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarized below.

IFRS 7 (revised) Financial instruments: Disclosures (IFRS 7R)

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial instruments: Disclosures was updated and the Company has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in note 3.

Reconciliations from opening to closing ECL allowances are presented in note 3.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). This classification is generally based, except equity instrument and derivatives, on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in statement of income, under IFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in statement of income.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Under IFRS 9, credit losses are recognized earlier than under IAS 39.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied using the modified retrospective approach, which requires the recognition of the cumulative impact of adoption in equity.

- Comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

i. The determination of the business model within which a financial asset is held.

ii. The designation and revocation of previous designated financial assets and financial liabilities as measured at FVTPL.

iii. The designation of certain investments in equity instruments not held for trading as FVOCI.

It is assumed that the credit risk has not increased significantly for those debt securities which carry low credit risk at the date of initial application of IFRS 9.

All amounts in United States Dollars thousands

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A) Financial assets and financial liabilities

i) Re-classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying value under IAS 39	New carrying value under IFRS 9
Financial assets				
Cash and Deposits with Banks	Amortised cost	Amortised cost	447,707	447,281
Investments				
a) Financial Assets at fair value through Profit and Loss (FVTPL) - Equity Securities	FVTPL	FVTPL	6,043	6,043
b) Available for Sale / FVOCI Securities				
- Equity Securities	AFS	FVOCI	481	481
	AFS	FVTPL	4,825	4,825
- Debt Securities	AFS	FVOCI	551,056	551,056
- Investment Funds	AFS	FVTPL	29,626	29,626
Provision for impairment				
c) Held-to-maturity securities				
- Debt Securities	HTM	Amortised cost	3,549	3,536
Equity participation	AFS	FVOCI	273,304	273,304
Loans and advances	Amortised cost	Amortised cost	273,858	275,429
			1,590,449	1,591,581
Financial liabilities				
Deposits	Amortised cost	Amortised cost	420,596	420,596
Derivative financial instruments	FVTPL	FVTPL	158	158
Other liabilities	Amortised cost	Amortised cost	19,762	20,024
			440,516	440,778

All amounts in United States Dollars thousands

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii) Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount as at 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount as at 1 January 2018
Financial assets				
Amortized cost				
Cash and Deposits with Banks:				
Opening balance	447,707	-	-	447,707
Remeasurement (ECL allowance) **(Note 1)**	-	-	(426)	(426)
Closing balance	447,707	-	(426)	447,281
Investments				
Opening balance	3,549	-	-	3,549
Remeasurement (ECL allowance) **(Note 1)**	-	-	(13)	(13)
Closing balance	3,549	-	(13)	3,536
Loans and advances				
Opening balance	273,858	-	-	273,858
Remeasurement (ECL allowance) **(Note 1)**	-	-	1,571	1,571
Closing balance	273,858	-	1,571	275,429
Total financial assets	725,114	-	1,132	726,246

Note 1: Impairment allowance is (increase) / decrease due to change from incurred to expected credit loss (ECL).

All amounts in United States Dollars thousands

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii) Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9 (Continued)

	IAS 39 carrying amount as at 31 December 2017	Reclassification	Re-measurement	IFRS 9 carrying amount as at 1 January 2018
Financial assets				
Available for sale				
Investment:				
Opening balance	859,292	(859,292)	-	-
Transferred to:				
FVOCI – equity **(Note 1)**	-	273,785	-	273,785
FVOCI – debt	-	551,056	-	551,056
FVTPL **(Note 2)**	-	34,451	-	34,451
Closing balance	859,292	-	-	859,292
FVTPL				
Investment:				
Opening balance	6,043	-	-	6,043
From available for sale **(Note 2)**	-	34,451	-	34,451
Total FVTPL	6,043	34,451	-	40,494
Financial liabilities				
At Amortized cost				
Deposits	420,596	-	-	420,596
Other liabilities	19,762	-	262	20,024
Total Financial liabilities	440,358	-	262	440,620

Note 1: The Company has elected to irrevocably designate equity investments of US$ 273,785 million in a portfolio of non trading equity securities at FVOCI as permitted under IFRS 9. These securities were previously classified as available-for-sale. Upon disposal of equity investment, any balances within the OCI reserve (fair value movement) for these investments will no longer be reclassified to statement of income.

Note 2: The Company holds a portfolio of investment funds that failed to meet the solely payments of principal and interest (SPPI) requirement for Amortized cost / FVOCI classification under IFRS 9. As a result, these investment funds which amounted to US$ 29,626 million were classified as FVTPL from the date of initial application. Moreover, equity securities amounting to USD4,825 million were classified as FVTPL.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii) Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9 (Continued)

Note 3: The Company has classified these debt investments at FVOCI because these are held under a business model "Hold to Collect and Sell" and they pass SPPI test. These securities were previously classified as available-for-sale. Upon disposal of these debt investments, any balance within OCI reserve (fair value movement) will be reclassified to statement of income.

iii) Impact on retained earnings and other reserves

	Retained earnings	Fair value reserve
Closing balance under IAS 39 (31 December 2017)	127,946	37,198
Reclassifications under IFRS 9	84,228	(84,228)
Recognition of expected credit losses under IFRS 9	(79)	948
Opening balance under IFRS 9 (1 January 2018)	212,095	(46,082)

The following table reconciles the provision recorded as per the requirements of IAS 39 to that of IFRS 9:

- The closing impairment allowance for financial assets in accordance with IAS 39; to
- The opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	31 December 2017 (IAS 39)	Reclassification	Re-measurement	1 January 2018 (IFRS 9)
	US$ in '000'			
Loans and receivables (IAS 39)/Financial assets at amortised cost (IFRS-9)				
Cash and Deposits with Banks	-		426	426
Investments	-	-	13	13
Loans and advances	19,592	-	(1,571)	18,021
Total	19,592	-	(1,132)	18,460

All amounts in United States Dollars thousands

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

iv) The following table provides carrying value of financial assets and financial liabilities in the statement of financial position.

	31 December 2018					
	Mandatorily at FVTPL	Designated as at FVTPL	FVOCI – debt instruments	FVOCI – equity investments	Amortized cost	Total carrying amount
Financial assets						
Cash and deposits with Banks		-	-		403,419	403,419
a) Financial Assets at fair value through Profit and Loss (FVTPL) - Equity Securities	20,162	7,875	-	-	-	28,037
b) Available for Sale / FVOCI Securities						
- Equity Securities	-	-	-	510	-	510
- Debt Securities	-	-	627,264	-	-	627,264
- Investment Funds	-	-	-	-	-	-
c) Held-to-Maturity						
- Debt Securities	-	-	-	-	36	36
Equity Participation	-	-	-	256,880	-	256,880
Loans and advances	-	-	-	-	254,740	254,740
Total financial assets	**20,162**	**7,875**	**627,264**	**257,390**	**658,195**	**1,570,886**
Financial liabilities						
Deposits	**-**	**-**	**-**	**-**	**368,271**	**368,271**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**
Other liabilities	**-**	**-**	**-**	**-**	**19,536**	**19,536**
Total financial liabilities	**-**	**-**	**-**	**-**	**387,807**	**387,807**

All amounts in United States Dollars thousands

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

iv) The following table provides carrying value of financial assets and financial liabilities in the statement of financial position (Continued)

	31 December 2017							
	Note	Trading	Designated as at FVTPL	Held to maturity	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount
Financial assets								
Cash and Deposits with Banks		-	-	-	447,707	-	-	447,707
Investments								
a) Financial Assets at fair value through Profit and Loss (FVTPL) - Equity Securities		6,043	-	-	-	-	-	6,043
b) Available for Sale Securities								
- Equity Securities		-	-	-	-	5,306	-	5,306
- Debt Securities		-	-	-	-	551,056	-	551,056
- Investment Funds		-	-	-	-	29,626	-	29,626
c) Held-to-Maturity Securities								
- Debt Securities		-	-	3,549	-	-	-	3,549
Equity Participation		-	-	-	-	273,304	-	273,304
Loans and Advances		-	-	-	273,858	-	-	273,858
Total financial assets		6,043	-	3,549	721,565	859,292	-	1,590,449
Financial liabilities								
Deposits		-	-	-	-	-	420,596	420,596
Derivative financial Instruments		-	158	-	-	-	-	158
Other liabilities		-	-	-	-	-	19,762	19,762
Total financial liabilities		-	158	-	-	-	440,358	440,516

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) POLICIES APPLICABLE FROM 1 JANUARY 2018

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; and
- 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.

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.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) POLICIES APPLICABLE FROM 1 JANUARY 2018 (Continued)

1) Classification of financial assets (Continued)

Business model assessment (Continued)

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.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) POLICIES APPLICABLE FROM 1 JANUARY 2018 (Continued)

b- Financial liabilities

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

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.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) POLICIES APPLICABLE FROM 1 JANUARY 2018 (Continued)

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.

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.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5) Impairment (Continued)

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.

C) POLICIES APPLICABLE BEFORE 1 JANUARY 2018

Financial assets

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

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

(a) Financial assets at fair value through Profit and Loss ("FVTPL")

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

Financial assets held for trading

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

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

Financial assets designated at fair value through income statement

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

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis
- The assets and liabilities are part of a group of financial assets and liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) POLICIES APPLICABLE BEFORE 1 JANUARY 2018 (Continued)

- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

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

(b) Loans and receivables

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

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

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

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

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

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

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

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

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

Financial liabilities

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

(a) Financial liabilities at fair value through income statement

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

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

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Other liabilities measured at amortised cost

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

Derecognition of financial assets and financial liabilities

(a) Financial assets

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

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

When the Company has transferred its rights to receive cash flows from the asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and reward of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the assets and the maximum amount of consideration that the Company could be required to repay.

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in statement of income.

Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Assets carried at amortised cost (Continued)

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial

asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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

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

(b) Assets classified as available-for-sale

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

(c) Renegotiated loans

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

2.2 Summary of significant accounting policies

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

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.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between the levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. (See Note 3.5 (b))

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy. (See Note 3.5 (b))

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.

Derivative financial instruments

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

Interest income and expense

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

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

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fees and commission income

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

Dividend income

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

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: 550- years,

• Furniture and equipment: 35- years.

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

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

Investment property

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

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

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

Cash and cash equivalents

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

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

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

Employee benefits

(a) Compensation costs

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

(b) Savings scheme

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

(c) Termination benefits

The staff indemnity provision is made based on an actuarial valuation of the Company's liability under the 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.

Accounting for leases

(a) Where the Company is the lessee

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

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

(b) Where the Company is the lessor

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

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

2.3 New standards and amendments issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 16 Leases

IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The standard is not expected to have any impact on the Company.

For other Standards, amendments or interpretations effective for annual periods beginning on or after 1 January 2019, the Company does not anticipate that these will have a material 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 Asset Committee (RAC). The RAC defines risk appetite, risk tolerance standards and risk policies.

3,1 Credit risk

Credit Risk represents the potential financial loss as a consequence of a customer's inability to honor the terms and conditions of the credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Company has well laid out procedures, not only to appraise but also to regularly monitor credit risk. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented.

The Company follows stringent risk based criteria in setting credit limits for countries and financial institutions. Prudent norms have also been implemented to govern the Company's investment activities. Not only are regular appraisals conducted to judge the credit worthiness of the counterparty but day- to-day monitoring of financial developments across the globe ensures timely identification of any event affecting the risk profile.

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.

3.FINANCIAL RISK MANAGEMENT (Continued)

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.

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, 2018.

In addition to above, the account tagged as watch list / restructured as of 31 December 2018 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.

3.FINANCIAL RISK MANAGEMENT (Continued)

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 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

3.FINANCIAL RISK MANAGEMENT (Continued)

vi) Incorporation of forward looking information (Continued)

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 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.

3.FINANCIAL RISK MANAGEMENT (Continued)

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

All amounts in United States Dollars thousands

3.FINANCIAL RISK MANAGEMENT (Continued)

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.

	31 December 2018			
Cash and Deposits with Banks	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Investment grade	125,493	-	-	125,493
Non-investment grade	278,213	-	-	278,213
Individually impaired	-	-	628	628
Total	**403,706**	**-**	**628**	**404,334**

	312018 ديسمبر			
Loans and advances to customers at amortized cost	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Investment grade	181,378	-		181,378
Watch list	-	80,268		80,268
Substandard	-	-		-
Doubtful	-	-		-
Loss	-	-	9,065	9,065
Total	**181,378**	**80,268**	**9,065**	**270,711**

	31 December 2018			
Interest receivable and other assets	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Watch list	-	301	-	301
Substandard	4,941	-	-	4,941
Total	**4,941**	**301**	**-**	**5,242**

All amounts in United States Dollars thousands

3.FINANCIAL RISK MANAGEMENT (Continued)

3.2 Credit quality analysis (Continued)

	31 December 2018			
Debt investment securities at amortized cost (2017: Held to maturity)	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Investment grade	48	-	-	48
Total	48	-	-	48

	31 December 2018			
Debt investment securities at FVOCI (2017: Available for sale)	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Investment grade	-	-	-	-
Watch list	624,824	-	-	624,824
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	11,690	11,690
Total	624,824	-	11,690	636,514

Non-retail loan risk profile by probability of default is explained below

Non-Retail Loan Risk Profile by Probability of default				
31 December 2018	Non-retail-unsecured Gross carrying amount		Non-retail -secured Gross carrying amount	
	Lifetime ECL	12-months ECL	Lifetime ECL	12-months ECL
0.00 – 0.10	742,342	-	-	-
0.11 – 0.40	171,596	-	-	-
0.41 – 1.00	3	-	-	-
1.01 – 3.00	61,419	74,000	-	6,268
3.01 – 6.00	231,145	-	-	-
6.01 – 11.00	3,402	-	-	-
11.01 – 17.00	-	-	-	-
17.01 – 25.00	-	-	-	-
25.01 – 50.00	49	-	-	-
0.00 – 0.10	-	-	-	-
50.01+	-	-	-	-
Total	1,209,956	74,000	-	6,268

All amounts in United States Dollars thousands

3.FINANCIAL RISK MANAGEMENT (Continued)

3.2 Credit quality analysis (Continued)

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	
	2018	2017
Credit risk exposures relating to funded exposures are as follows:		
Deposits and cash with banks and treasury bills	**403,417**	447,702
Loans and advances to banks	**243,043**	228,514
Loans and advances to non-banks	**27,669**	45,344
Investment debt securities	**627,264**	554,558
Interest receivable and other assets	**6,064**	6,288
	1,307,457	1,282,406
Credit risk exposures relating to non-funded exposures are as follows:		
Contingent liabilities		
Loan commitments	**-**	4,031
Letters of credit commitments	**-**	13,333
	-	17,364
At 31 December	**1,307,457**	1,299,770

The above table represents a worst-case scenario of credit risk exposure of the Company as at 31 December 2018 and 2017, 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.

All amounts in United States Dollars thousands

3.FINANCIAL RISK MANAGEMENT (Continued)

3.2 Credit quality analysis (Continued)

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

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:

- 94% of the overdrafts, loans and advances portfolio is categorized under Standard Assets as per approved Credit Policy (31 December 2017: 93%);
- 97% of the overdrafts, loans and advances portfolio are considered to be neither past due nor impaired (31 December 2017: 96%); and
- Approximately 37% (31 December 2017: 22%) 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	Total
	Regular	Watch			
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**

	Neither past due nor Impaired		Past due but not Impaired	Individually Impaired	Total
	Regular	Watch			
31 December 2017					
Deposits and cash with banks and treasury bills	447,702	-	-	-	447,702
Debt securities (including trading)	551,818	-	-	13,266	565,084
Loans and advances					
- Loans and advances to banks	218,302	-	-	11,805	230,107
- Loans and advances to non-banks	63,344	-	-	-	63,344
Interest receivable and other assets	6,288	-	-	-	6,288
	1,287,454	-	-	25,071	1,312,525

All amounts in United States Dollars thousands

3.FINANCIAL RISK MANAGEMENT (Continued)

3.2 Credit quality analysis (Continued)

3.2.3 Credit quality of financial assets (Continued)

Total impairment provision for overdraft, loans and advances as at 31 December 2018 is US$ 15,971 thousand (31 December 2017: US$ 19,592 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 2018 is US$ 9,262 thousand (31 December 2017: US$ 10,478 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 and USA	Total
Deposits with banks and treasury bills	372,496	15	23,014	7,892	403,417
Loans and advances	127,340	26,400	2,000	99,000	254,740
Debt securities	129,085	36	79,069	419,110	627,300
Interest receivable and other assets	2,953	414	331	2,366	6,064
At 31 December 2018	**631,874**	**26,865**	**104,414**	**528,368**	**1,291,521**
At 31 December 2017	679,212	112,945	42,191	448,106	1,282,454
Non-funded exposures:					
At 31 December 2018					
At 31 December 2017	-	17,364	-	-	17,364

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

All amounts in United States Dollars thousands

3.FINANCIAL RISK MANAGEMENT (Continued)

3.3 Market risk (Continued)

(a) Interest rate risk (Continued)

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.

	USD	EUR	AED	SAR	BHD	GBP	Total
	100BP	100BP	100BP	100BP	100BP	100BP	
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	(5)	-	(6)	-	-	-	(11)
Impact of Financial Liabilities	(5)	-	(6)	-	-	-	(11)
Impact on the results of the Company	9,439	544	2	141	1,458	-	11,584

All amounts in United States Dollars thousands

3.FINANCIAL RISK MANAGEMENT (Continued)

3.3 Market risk (Continued)

(a) Interest rate risk (Continued)

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

(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:

	2018			2017		
Equity classification	**Change in equity price/ fund NAV %**	**Effect on net income**	**Effect on equity**	Change in equity price/ fund NAV %	Effect on net income	Effect on equity
Trading equity	**10±**	**160**	**-**	10±	604	-
Available for sale equity	**10±**	**-**	**678**	10±	-	3,572
Investment fund FVTPL	**10±**	**1,708**	**-**	10±	-	-
Equity participations - quoted	**10±**	**-**	**9,085**	10±	-	10,784

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 (2017: US$ 165.5 million).

All amounts in United States Dollars thousands

3.FINANCIAL RISK MANAGEMENT (Continued)

3.3 Market risk (Continued)

(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.

Concentrations of currency risk - financial instruments:

	USD	EUR	AED	SAR	BHD	GBP	Others	Total
As at 31 December 2018								
Deposits with banks and treasury bills	206,900	3,899	868	44,411	146,786	129	426	403,419
Financial assets at FVTPL	4,819	-	-	6,273	975	-	15,970	28,037
Investments securities:								
- Available for sale	575,667	51,596	-	-	-	-	511	627,774
- Held to maturity	-	-	-	-	-	-	36	36
Overdrafts, loans and advances	248,472	-	-	6,268	-	-	-	254,740
Equity participation	86,372	-	-	77,729	-	-	92,779	256,880
Property, plant and equipment and investment in property	21,013	-	-	-	-	-	-	21,013
Other assets	6,587	51	1	6,874	637	3	-	14,153
Total financial assets	**1,149,830**	**55,546**	**869**	**141,555**	**148,398**	**132**	**109,722**	**1,606,052**
Deposits	(309,811)	(57,586)	(840)	(28)	-	(6)	-	(368,271)
Other liabilities	(4,979)	(318)	-	(10,615)	(3,615)	(9)	-	(19,536)
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**

All amounts in United States Dollars thousands

3.FINANCIAL RISK MANAGEMENT (Continued)

3.3 Market risk (Continued)

(c) Foreign exchange risk (Continued)

	USD	EUR	AED	SAR	BHD	GBP	Others	Total
As at 31 December 2017								
Total financial assets	1,217,839	66,665	848	114,014	80,327	15,007	133,393	1,628,093
Total financial liabilities	(363,462)	(60,859)	(837)	(12,041)	(3,311)	(7)	-	(440,517)
Fair value reserve	(10,743)	(368)	-	4,494	-	-	(30,581)	(37,198)
Net open position	843,634	5,438	11	106,467	77,016	15,000	102,812	1,150,379

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

3.4 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.

All amounts in United States Dollars thousands

3.FINANCIAL RISK MANAGEMENT (Continued)

3.4 Liquidity risk (Continued)

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.

	Less than 12 months	Over 12 months	No fixed Maturity	Total
As at 31 December 2018				
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	**-**

All amounts in United States Dollars thousands

3.FINANCIAL RISK MANAGEMENT (Continued)

3.4 Liquidity risk (Continued)

3.4.1 Maturity analysis of assets and liabilities (Continued)

	Less than 12 months	Over 12 months	No fixed Maturity	Total
As at 31 December 2017				
ASSETS				
Deposits with banks and treasury bills	447,707	-	-	447,707
Investments:				
Securities	32,596	556,461	6,523	595,580
Equity participations	-	-	273,304	273,304
Loans and advances	83,039	190,819	-	273,858
Property and equipment	-	-	13,620	13,620
Investment property	-	-	8,110	8,110
Other assets	13,895	1,603	416	15,914
TOTAL ASSETS	577,237	748,883	301,973	1,628,093
LIABILITIES				
Deposits	420,596	-	-	420,596
Derivative financial instruments	158	-	-	158
Other liabilities	7,484	9,130	3,148	19,762
TOTAL LIABILITIES	428,238	9,130	3,148	440,516
NET	148,999	739,753	298,825	1,187,577
Cumulative liquidity gap	148,999	888,752	1,187,577	-

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:

	1-3 months	3-12 months	Total
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**
As at 31 December 2017			
Liabilities			
Deposits	318,122	102,474	420,596
Other liabilities	3,934	2,905	6,839
Total liabilities (contractual maturity dates)	322,056	105,379	427,435

All amounts in United States Dollars thousands

3.FINANCIAL RISK MANAGEMENT (Continued)

3.4 Liquidity risk (Continued)

3.4.2 Non-derivative cash flows (Continued)

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.

3.4.3 Derivative cash flows

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

	Up to 1 month	1-3 Months	3-12 months	1-5 years	Total
As at 31 December 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
As at 31 December 2017					
Derivatives held for trading					
Foreign exchange derivatives:					
Outflow	33,947	5,648	-	-	39,595
Inflow	33,832	5,607	-	-	39,439
Total outflow	33,947	5,648	-	-	39,595
Total inflow	33,832	5,607	-	-	39,439

All amounts in United States Dollars thousands

3.FINANCIAL RISK MANAGEMENT (Continued)

3.4 Liquidity risk (Continued)

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:

	No later than 1 year	1-5 year	Total
31 December 2018			
Loan commitments	-	-	-
Guarantees, acceptances and other financial facilities	-	-	-
Total	**-**	**-**	**-**
31 December 2017			
Loan commitments	4,031	-	4,031
Guarantees, acceptances and other financial facilities	-	13,333	13,333
Total	4,031	13,333	17,364

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$ 28.5 million as at 31 December 2018 (31 December 2017: US$ 86 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.

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.

3.FINANCIAL RISK MANAGEMENT (Continued)

3.6 Fair value of financial assets and liabilities (Continued)

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

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.

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)

Assets and liabilities measured at fair value

	Level 1	Level 2	Level 3	Total
31 December 2018				
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

	Level 1	Level 2	Level 3	Total
31 December 2017				
Financial assets at FVTPL				
- Equity securities	6,042	-	-	6,042
- Investment Funds				
Financial assets at FVOCI	5,305	-	-	5,305
- Equity securities	548,269	-	-	548,269
- Debt securities	-	-	29,626	29,626
- Equity participations	107,836	-	165,468	273,304
Total assets	667,452	-	195,094	862,546
Financial liabilities at FVTPL				
- Derivative financial instruments	-	158	-	158
Total liabilities	-	158	-	158

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)

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:

	2018	2017
1 January	**165,468**	155,861
Addition	**4,318**	-
Written off	**-**	(5,068)
Total gains and (losses) recognised in other comprehensive income	**(3,757)**	14,675
31 December	**166,029**	165,468

(c) Financial instruments not measured at fair value

At 31 December 2018, the fair value of debt instruments carried at amortised cost of US$ NIL million (31 December 2017: US$ 3.50 million) was determined to be US$ NIL million (31 December 2017: US$ 3.49 million). The estimated fair value of the other financial assets and liabilities including loans and advances was not significantly different from their respective carrying values. These would qualify for Level 2 disclosure in the table above.

3.7 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. 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

All amounts in United States Dollars thousands

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

Impairment losses on financial assets (Continued)

- 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 the following:

	2018	2017
Cash and cash equivalents:		
Cash on hand and in banks	**15,499**	13,621
Deposits with banks with original maturities of three months or less	**205,319**	357,829
Treasury bills maturing within three months of acquisition	**77,394**	23,487
Cash and cash equivalents	**298,212**	394,937
Deposits with banks with original maturities of more than three months	**36,815**	797
Treasury Bills with original maturities of more than three months	**68,446**	51,973
Less: impairment (Stage 1)	**(54)**	-
Total	**403,419**	447,707

All amounts in United States Dollars thousands

6. INVESTMENTS

Investment securities as of 31 December comprise the following:

	2018	2017
a) Financial assets at FVTPL		
Equity securities	**7,875**	6,043
Investment funds	**20,162**	-
Total	**28,037**	6,043
b) Financial assets at FVOCI		
Debt securities		
AA- to AA+	**20,217**	19,884
A- to A+	**214,498**	98,404
BBB- to BBB+	**330,824**	289,387
BB- to BB+	**14,938**	80,882
B- to B+	**44,347**	59,711
Unrated	**11,690**	13,266
	636,514	561,534
Investment in funds	**-**	29,625
Equity securities	**510**	6,755
Less: ECL allowance - stage 3	**(9,250)**	(11,926)
Total	**627,774**	585,988
c) Financial assets at AC		
Debt securities	**48**	3,549
Less: impairment (Stage 1)	**(12)**	-
Total	**36**	3,549
Total investments	**655,847**	595,580

Equity investment securities designated as at FVOCI

At 1 January 2018, the Company designated certain investments amounting to US $510 thousand (2017: US $482 thousand) as equity instrument as at FVOCI. In 2017, these investments were classified as available-for-sale. The FVOCI designation was made because the investments are not held for trading nor it is expected to be sold in the near term.

The company did not make any sale out of this investment during 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

All amounts in United States Dollars thousands

6. INVESTMENTS (Continued)

The movement in investment securities is summarised below:

	FVTPL	FVOCI	Amortised Cost	Total 2018	Total 2017
At 1 January	6,043	585,988	3,549	**595,580**	586,087
Reclassification due to adoption of IFRS 9	34,450	(34,450)	-	**-**	-
At 1 January 2018	40,493	551,538	3,549	**595,580**	586,087
Exchange differences	(48)	(862)	-	**(910)**	5,773
Additions	47,746	237,349	-	**285,095**	237,493
Disposals (sale, maturity and redemption)	(59,346)	(140,528)	(3,501)	**(203,375)**	(239,741)
Change in fair value	(808)	(19,723)	(12)	**(20,543)**	4,978
Accretion of discount					(10)
Write back of provision	-	-	-	**-**	1,000
At 31 December	28,037	627,774	36	**655,847**	595,580

Investments in debt securities of US$ 116,620 thousand (2017: US$ 112,879 thousand) are pledged under repurchase agreements with banks and financial institutions.

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS

7.1 Fair value of equity participations

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

	2018	2017
Quoted	90,851	107,836
Unquoted	166,029	165,468
Total	256,880	273,304

2018	Quoted Shares	Fair value of participation	Percentage Of Shareholding
Country / Project			
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	
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	

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (Continued)

7.1 Fair value of equity participations (Continued)

2018 (Continued)	Quoted Shares	Fair value of participation	Percentage Of Shareholding
Country / Project			
Peoples' Democratic Republic of Algeria			
Arab Banking Corporation		5,395	4.18
Arab Leasing Corporation		11,373	25.00
		16,768	
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

7. INVESTMENTS IN EQUITY PARTICIPATIONS (Continued)

7.1 Fair value of equity participations (Continued)

2017	Quoted Shares	Fair value of participation	Percentage of Shareholding
Country / Project			
Kingdom of Morocco			
Société Ryad Soualem S.A.		198	33.0
Maroc Leasing Company	Quoted	6,993	5.7
Asma Club Plus Company		8,555	40.0
		15,746	
Kingdom of Saudi Arabia			
Middle East Financial Investment Company		16,000	15.0
National Trigeneration CHP Company		3,975	9.9
Bidaya Home Finance		24,914	11.1
Samba Financial Group	Quoted	23,131	0.18
		68,020	
Republic of Sudan			
Kenana Sugar Company		14,696	7.0
Sudatel Group for Communication	Quoted	11,800	2.2
Financial Investment Bank	Quoted	4,967	20.8
Berber Cement Company		16,397	16.4
The Arab Leasing Company		6,235	30
		54,095	
Arab Republic of Egypt			
Arab International Company for Hotels and Tourism		12,126	13.7
Egyptian Propylene and Polypropylene Company		27,630	10.0
International Company for Leasing		3,127	10.0
		42,883	

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (Continued)

7.1 Fair value of equity participations (Continued)

2017 (Continued)	Quoted Shares	Fair value of participation	Percentage of Shareholding
Country / Project			
Peoples' Democratic Republic of Algeria			
Arab Banking Corporation		3,171	4.2
Arab Leasing Corporation		10,694	25.0
		13,865	
The Hashemite Kingdom of Jordan			
Arab Jordan Investment Bank	Quoted	37,949	10.3
Arab International Hotels Company	Quoted	4,452	8.4
		42,401	
Kingdom of Bahrain			
Arab Banking Corporation	Quoted	3,821	0.4
State of Qatar			
Arab Jordan Investment Bank		8,700	15.0
Sultanate of Oman			
Taageer Finance Company	Quoted	14,723	18.8
Pan-Arab			
The Arab Company for Livestock Development		3,559	1.7
Arab Trade Financing Program		3,335	0.4
Arab Mining Company		2,156	1.1
		9,050	
Total		273,304	

All amounts in United States Dollars thousands

7. INVESTMENTS IN EQUITY PARTICIPATIONS (Continued)

7.2 Gain on sale of equity participations

The gain on sale of equity participations during the year ended 31 December 2018 US$ nil (2017: US$ 7,057 thousands) consist of the following:

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

8. LOANS AND ADVANCES

Loans and advances as of 31 December comprise the following:

	2018	2017
Loans and advances (8.1)	**270,711**	293,450
Total loans and advances (8.2)	**270,711**	293,450
Provision for impairment on loans and advances	**(15,971)**	(19,592)
Loans and advances, net	**254,740**	273,858

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

	31 December 2018				
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total	2017
At 1 January	190,271	91,374	11,805	293,450	268,997
Loan disbursed during the year	100,000	15,000	-	115,000	139,969
Loans recovered	(190,093)	(26,106)	(2,739)	(137,938)	(116,441)
Other movements	200	-	(1)	199	925
	181,378	80,268	9,065	270,711	293,450

During the year ended 31 December 2018, the Company recovered principal amount of US$ 2,195 thousand (2017: US$ 1,865 thousand) related to facilities written off following Board of Director approval in 2014.

All amounts in United States Dollars thousands

8. LOANS AND ADVANCES (Continued)

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

	31 December 2018				
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total	2017
At 1 January	6,191	25	11,805	18,021	21,124
Transfer to lifetime ECL not credit –impaired	(212)	212			
Net re-measurement of loss allowance	437	602	-	1,039	1,150
Exchange adjustments and other movements	(349)		(1)	(350)	-
Recoveries of amounts previously provided for	-	-	(2,739)	(2,739)	(2,682)
	6,067	839	9,065	15,971	19,592
Specific impairment provision				9,065	11,805
ECL / Collective impairment provision				6,906	7,787
				15,971	19,592

9. OTHER ASSETS

Other assets as of 31 December comprise the following:

	2018	2017
Accrued income	**11,236**	12,473
Other receivables	**2,917**	3,441
Total	**14,153**	15,914

All amounts in United States Dollars thousands

10. PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY

10.1 Property and equipment:

Property and equipment as of 31 December comprise the following:

				Total	
	Land	Building and its equipment	Furniture and equipment	**2018**	2017
Cost:					
At 1 January	7,210	19,424	14,151	**40,785**	40,706
Impairment	(237)	-	-	**(237)**	(206)
Additions during the year	-	22	242	**264**	285
Disposals during the year	-	-	(17)	**(17)**	-
At 31 December	6,973	19,446	14,376	**40,795**	40,785
Accumulated depreciation:					
At 1 January	-	14,020	13,145	**27,165**	26,581
Charge for the year	-	242	321	**563**	584
Relating to disposals	-	-	(16)	**(16)**	-
At 31 December	-	14,262	13,450	**27,712**	27,165
Net book value:					
At 31 December 2018	6,973	5,184	926	**13,083**	
At 31 December 2017	7,210	5,404	1,006		13,620

10.2 Investment property:

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

	2018	2017
Cost:		
At 1 January	**33,826**	33,425
Additions during the year	**25**	401
At 31 December	**33,851**	33,826
Accumulated depreciation:		
At 1 January	**25,716**	25,540
Charge for the year	**205**	176
At 31 December	**25,921**	25,716
Net book value:	**7,930**	8,110

The fair value of investment property at 31 December 2018 amounted to approximately US$ 14.8 million (31 December 2017: US$ 19 million).

All amounts in United States Dollars thousands

11. DEPOSITS

Deposits as of 31 December comprise the following:

	2018	2017
Deposits by banks	**288,540**	296,535
Deposits by non-banks	**79,731**	124,061
Total	**368,271**	420,596

Included in the above are deposits raised under repurchase agreements whose carrying value as at 31 December 2018 is US$ 104,3 million (31 December 2017: US$ 101.9 million).

12. DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Company enters into various types of transactions that involve derivative financial instruments. The table below shows the positive (assets) and negative (liabilities) fair values of derivative financial instruments together with their notional amounts. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

	31 December 2018		
	Contract Notional Amount	**Fair value**	
		Assets	**Liabilities**
Held for trading			
Foreign exchange derivatives:			
Currency swaps	**45,472**	**2**	**-**
		2	**-**

	31 December 2017		
	Contract Notional Amount	Fair value	
		Assets	Liabilities
Held for trading			
Foreign exchange derivatives:			
Currency swaps	79,034	2	158
		2	158

All amounts in United States Dollars thousands

13. OTHER LIABILITIES

Other liabilities as of 31 December comprise the following:

	2018	2017
Accounts payable and accrued expenses	**5,628**	5,910
Deferred income	**2,208**	2,707
Employees' benefits (see table below)	**10,303**	10,217
Interest payable	**1,397**	928
Total	**19,536**	19,762

Employees' benefits as of 31 December comprise the following:

	Employees saving schemes	Provision for end of service indemnity	Provision for leave	Total	
				2018	2017
At 1 January	1,077	8,054	1,086	**10,217**	9,637
Addition for the year	101	1,121	762	**1,984**	1,769
Provisions utilised	(42)	(1,174)	(602)	**(1,818)**	(1,259)
Staff contributing to saving scheme	65	-	-	**65**	70
Actuarial loss recognised in OCI	-	5	-	**5**	-
Other movement	-	-	(150)	**(150)**	-
At 31 December	1,201	8,006	1,096	**10,303**	10,217

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

	2018	2017
Present value of defined benefit obligations	**7,962**	8,054
Net defined benefit liability in the statement of financial position	**7,962**	8,054

All amounts in United States Dollars thousands

13. OTHER LIABILITIES (Continued)

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

	2018	2017
Discount rate	**4.15 %**	3.30 %
Salary increase rate (short term)	**4 %**	4 %
Long term salary increase rate	**4.15 %**	3.30 %
Mortality rate according to world health organization- SA	**0.15-0.75**	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:

	2018	2017
Discount rate + 0.5%	**7,742**	8,050
Discount rate – 0.5%	**8,195**	8,516
Long term salary increases + 0.5%	**8,778**	8,900
Long term salary increases – 0.5%	**8,509**	8,634

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

	2018	2017
At 1 January	**8,054**	7,627
Net periodic expense recognised in the statement of income	**1,121**	948
Payments paid to outgoing employees	**(1,174)**	(521)
Re measurement in OCI during the year	**5**	-
At 31 December	**8,006**	8,054

All amounts in United States Dollars thousands

14. SHARE CAPITAL

14.1 Authorized and paid

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

	2018		2017	
	No. of Shares	**Amount**	No. of Shares	Amount
Authorised	**1,200,000**	**1,200,000**	1,200,000	1,200,000
Fully paid	**800,000**	**800,000**	800,000	800,000

On 8 June 2013, the Extraordinary General Assembly Meeting approved an increase in the authorised share capital from 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 14.2).

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

	Ownership Percentage (%)	2018	2017
Kingdom of Saudi Arabia	15.68	**125,422**	125,422
State of Kuwait	15.68	**125,422**	125,422
United Arab Emirates (Abu Dhabi)	15.68	**125,422**	125,422
Republic of Iraq	10.48	**83,871**	83,871
State of Qatar	8.19	**65,543**	65,543
Arab Republic of Egypt	6.97	**55,743**	55,743
Syrian Arab Republic	6.97	**55,743**	55,743
The State of Libya	6.97	**55,743**	55,743
Republic of Sudan	2.68	**21,421**	21,421
Kingdom of Bahrain	1.71	**13,679**	13,679
Republic of Tunisia	1.71	**13,679**	13,679
Kingdom of Morocco	1.71	**13,679**	13,679
Sultanate of Oman	1.71	**13,679**	13,679
Republic of Lebanon	1.61	**12,899**	12,899
People's Democratic Republic of Algeria	1.61	**12,899**	12,899
The Hashemite Kingdom of Jordan	0.32	**2,578**	2,578
Republic of Yemen	0.32	**2,578**	2,578
Total	100.00	**800,000**	800,000

All amounts in United States Dollars thousands

14. SHARE CAPITAL (Continued)

14.2 Contribution to share capital increase

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

	Ownership Percentage (%)	2018	2017
Kingdom of Saudi Arabia	15.68	**27,440**	16,464
State of Kuwait	15.68	**27,440**	21,952
United Arab Emirates (Abu Dhabi)	15.68	**-**	-
Republic of Iraq	10.48	**18,340**	14,672
State of Qatar	8.19	**14,332**	11,466
Arab Republic of Egypt	6.97	**12,198**	9,758
Syrian Arab Republic	6.97	**-**	-
The State of Libya	6.97	**2,440**	2,439
Republic of Sudan	2.68	**4,690**	3,752
Kingdom of Bahrain	1.71	**2,992**	2,394
Republic of Tunisia	1.71	**2,992**	2,394
Kingdom of Morocco	1.71	**2,992**	2,394
Sultanate of Oman	1.71	**1,197**	1,197
Republic of Lebanon	1.61	**2,818**	2,254
People's Democratic Republic of Algeria	1.61	**2,818**	2,255
The Hashemite Kingdom of Jordan	0.32	**560**	448
Republic of Yemen	0.32	**-**	-
Total	100.00	**123,249**	93,839

15. STATUTORY RESERVE

In accordance with the Company's Articles of Association, 10% of the net income is transferred annually to the statutory reserve until the reserve equals 100% of the paid-up capital.

	2018	2017
Movement of statutory reserve:		
Balance, beginning of the year	**105,795**	102,001
Additions for the year	**4,178**	3,794
Balance, end of the year	**109,973**	105,795

All amounts in United States Dollars thousands

16. 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.

17. FAIR VALUE RESERVE

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

	2018	2017
Equity participations		
At beginning of year	**30,285**	36,522
Impact of adopting IFRS 9	**(80,999)**	-
Change in fair value	**(20,742)**	(6,237)
At end of year	**(71,456)**	30,285
FVOCI Securities / available-for-sale		
At beginning of year	**6,913**	1,641
Impact of adopting IFRS 9	**(2,281)**	-
Change in fair value	**(20,193)**	5,272
At end of year	**(15,561)**	6,913
Employees benefits IAS 19		
At beginning of year	**-**	-
Change in fair value	**(5)**	-
At end of year	**(5)**	-
Total fair value reserve	**(87,022)**	37,198

18. NET FEES AND COMMISSIONS

	2018	2017
Loans	**733**	736
Trade finance	**8**	30
Islamic banking	**252**	414
Others	**(17)**	(1)
Net fees and commissions	**976**	1,179

All amounts in United States Dollars thousands

19. NET GAIN (LOSS) ON FINANCIAL SECURITIES

	2018	2017
Equities	**2,298**	(1,490)
Debt securities	**790**	460
Unit Trust Funds	**1,448**	753
Total	**4,536**	(277)

20. OTHER INCOME, NET

	2018	2017
Recovery of loans previously written off	**3,281**	2,110
Remuneration for attending Projects' Board of Directors	**477**	250
Others	**(185)**	1,393
Total	**3,573**	3,753

21. GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
Salaries and related benefits	**12,291**	11,944
Professional and consultancy	**1,265**	1,466
Board of directors' expenses	**622**	760
Others	**3,741**	3,519
Total	**17,919**	17,689

22. WRITEBACK (IMPAIRMENT) PROVISIONS

	2018	2017
Securities	**(546)**	(777)
Loans and advances written back, net (note 8)	**2,739**	1,532
Total	**2,193**	755

All amounts in United States Dollars thousands

23. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

	2018	2017
Executive management personnel:		
End of service benefit	**2,886**	2,340

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

	2018	2017
Board of directors' expenses	**622**	760
Board of directors' bonuses paid	**450**	450
Salaries and short-term employee benefits	**783**	672
End of service benefits	**546**	220

24. COMPARATIVE INFORMATION

Certain comparative figures have been reclassified where necessary to conform to the presentation adopted in the financial statements at 31 December 2018.

25. POLITICAL UNREST

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

26. APPROVAL OF FINANCIAL STATEMENTS

The accompanying financial statements were approved by the Board of Directors of the Company on 23 Rajab 1440H (corresponding to 30 March 2019).

الشركة العربية للاستثمار ش.م.ع.

THE ARAB INVESTMENT COMPANY S.A.A.

Company's Addresses

HEAD OFFICE
Kingdom of Saudi Arabia
King Abdulaziz Road
P.O. Box. 4009
Riyadh 11491 - Saudi Arabia
Telephone: +(966) 114760601
Fax: +(966) 114760514

BAHRAIN BRANCH (Wholesale Bank)
TAIC Building
Al Seef District, P.O. Box. 5559,
Manama - Kingdom of Bahrain
Telephone (general): +(973) 17588888
Telephone (dealing): +(973) 17588999
Fax (general): +(973) 17588885
Fax (dealing): +(973) 17588988

Web Site: www.taic.com

الشركة العربية للإستثمار ش.م.ع.

THE ARAB INVESTMENT COMPANY S.A.A.

www.taic.com