THE ARAB INVESTMENT COMPNAY S.A.A.

ANNUAL REPORT

2020

THE ARAB INVESTMENT COMPNAY S.A.A.

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About the Company

The Arab Investment Company (TAIC) was established in July 1974 as a Pan-Arab joint-stock company. Its prime objective, according to the terms stipulated in its Memorandum of Association, is to "invest Arab funds to develop Arab resources by initiating investment projects in agricultural, industrial, commercial, transportation and service sectors, based on sound economic and commercial criteria, in a manner that would support and develop the Arab economy". The Company enjoys all guarantees and concessions granted by the national, Pan-Arab and foreign investment codes in the respective shareholding countries, including free movement of capital and immunity against nationalization and expropriation.

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

Headquarter

Kingdom of Saudi Arabia

Banking Branch

Kingdom of Bahrain

Authorized Capital

1,200

USD Million

Paid - up Capital

1,050

USD Million

Vision

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

Message

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

Board of Directors

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

Mr. Yusuf Abdullah Humood
Vice-Chairman
Kingdom of Bahrain

Mr. Nael Mohamed Al Homoud
Board Member
State of Kuwait

Dr. Abdullah Abdulrahman Alnamlah
Board Member
Kingdom of Saudi Arabia

Mr. Ahmed Abdulla Al Mehairi
Board Member
United Arab Emirates

Mrs. Taif Sami AL Shakarchi
Board Member
Republic of Iraq

Mr. Mahmoud Montaser Ibrahim
Board Member
Arab Republic of Egypt

Mr. Abdelali Eddebbagh
Board Member
Kingdom of Morocco

Mr. Abdullah Ali Al Kuwari
Board Member
State of Qatar

Mr. Khalid H. Alomar
Board Member
State of Kuwait

Mr. Mohamed Fahed Almazrouei
Board Member
United Arab Emirates

Eng. Mustafa T. Khattabi
Board Member
State Of Libya

Board Committees

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

Supreme Investment Committee

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

Audit Committee

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

Risk and Compliance Committee

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

Nominations and Compensation Committee

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

Executive Management

Mr. Ibrahim H. Al Mazyad
Chief Executive Officer

Head Office - Riyadh

Mr. Fahad A. Al Haqbani
Financial & Administration Affairs

Mr. Magdi M. Elkafrawy
Financial Affairs

Eng. Abdullah M. Al Subaie
Information Technology

Mr. Dakheel A. Al Zahrani
Investment

Mr. Abdulaziz A. Al Fureih
Human Resources & Administration

Mr. Khalid S. Al-Zugaibi
Legal Advisor

Mr. Raeed A. ALjalajel
Internal Audit

Banking Branch - Bahrain

Mr. Ibrahim M. Zletni
Branch General Manager

Mr. Mahmood Salman
Administration & Finance

Mr. Mohammadine H. Menjra
Operations

Mr. Nitin Gupta
Risk Management

Mr. Lalit Bakhru
Internal Audit

Mr. Marc Dondi
Treasury & Capital Market

Mr. Shelly Jose
Compliance Officer

Mr. Masoud Murad
Information Technology

Mr. Samir Medjiba / Mr. Isam Khalid
Credit Department

Dr. Osama A. Mukhtar
Legal Advisor

Financial Highlights

31 December 2021

1.7% Return on Average Assets

2.3% Return on Average Shareholder's Equity

Total Revenue	Net Income	Total Assets	Shareholder's Equity
38.9 USD million	29.3 USD million	1,775 USD million	1,313 USD million

Size of Investment in Projects

364 USD million

These Investments are distributed over:

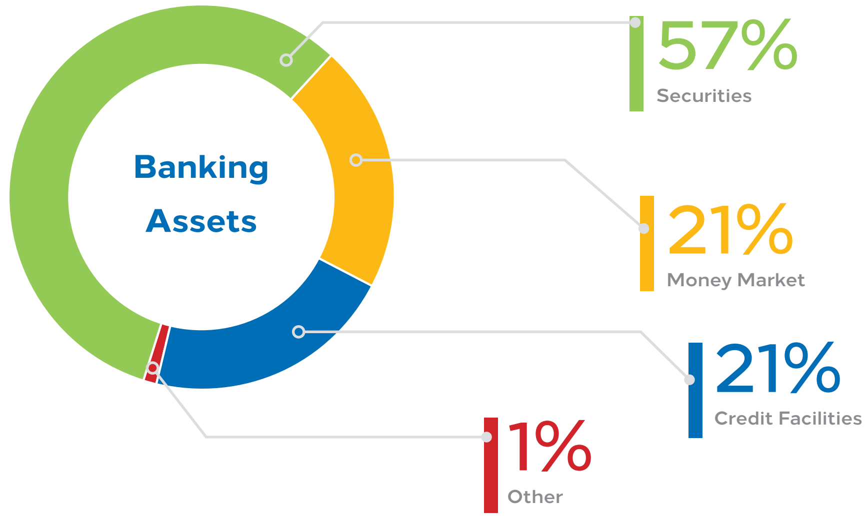
26 Investment Projects

10 Arab Countries

Banking Assets

1,370 USD million

These assets are distributed over:



H.E. Mr. Abdulaziz Salih Alfuraih

Chairman

Chairman's Statement

Dear Shareholders,

On behalf of my colleagues, members of the Board of Directors, I am pleased to present to you the annual report of the Arab Investment Company, which presents the most important achievements of the company during the fiscal year 2020 in areas of equity projects and providing financial services, in addition to the financial accounts for the year ended on 31 December 2020.

Over the past 46 years, the Arab Investment Company continued its pioneering role as a catalyst for investment and development in the Arab world, also it continued to pursue efforts to develop its activities and diversify its investment and financial instruments, in parallel, seeks to achieve sustainability and growth in profits as well as meet the aspirations and ambitions of the shareholding countries.

Despite the sudden economic turmoil caused by the widespread coronavirus (COVID-19) and the paralysis that afflicted the global economy during 2020, which left a clear imprint in the economies and mobilized all regional and international efforts to confront this crisis and limit its spread.

The Company was able to maintain sustainability and achieve profits, as net profit reached to USD 29.3 Million. This performance confirms the Company's ability to respond to market conditions, deal with risks and instability.

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

Thanks are extended to my colleagues, members of the Board of Directors, for their effective contribution in shaping the company's policies and overseeing its implementation. Also, I would like to thank my colleagues in the Executive Management and all employees of the Company on the strenuous efforts they have made during the year in difficult extreme circumstances, looking forward to further progress and prosperity in the coming years.

May Allah Grant Success ...

Mr. Ibrahim H. Al Mazyad
Chief Executive Officer

CEO's Statement

The 2020 was an exceptional year, full of unprecedented challenges on the business environment, with the turmoil and repercussions of the outbreak of coronavirus (COVID-19) pandemic, as well as many fluctuations in the global economy due to imposed strict measures and restrictions by many countries to control and limit the spread of the virus.

Nevertheless, The Arab Investment Company succeeded in dealing with these challenges and difficult circumstances, helped by its financial and operational flexibility, diversification of its assets and activities, and its ability to adapt to various economic conditions. The Company also benefited from the strength of its infrastructure in information technology, which enabled the Company to adapt quickly to the repercussions of the pandemic and to perform remote work tasks.

Despite these exceptional circumstances, the Company succeeded in achieving good results in 2020, with a net profit of USD 29.3 million. The Company's total assets increased 1.7%, to USD 1,775 million, and shareholders' equity grew 1.1% to reach USD 1,313 million. These results would not have been achieved without concerted efforts, carrying out burdens and responsibilities to the fullest, and integration of roles between Shareholding Countries, Board of Directors, and Executive Management.

In terms of investment activity, the Company rushed to provide support to its existing projects, since the emergence of the pandemic, to enhance ability of these projects to continue its operational processes and to overcome the repercussions and the unprecedented decline in economic activity. The Company's portfolio at the end of 2020, consist of 26 investment projects, geographically distributed across 10 countries in 9 different sectors. These projects are distinguished by their support to Arab economic and social development through creating job opportunities and integrating various economic sectors.

As the level of banking activity, banking assets grew 4% in 2020. Moreover, the Company managed to secure the necessary funding for its business lines activities and held on to its fixed income and equities positions throughout the crisis, while focus was on capital conservation and risk mitigation through diversified and high-quality portfolios.

In conclusion, I am pleased to take this opportunity to express my sincere appreciation to the governments of the Arab shareholding countries for their continuous support. Also, I would like to thank His Excellency the Chairman of the Board of Directors, and the members, for their wise opinions and guidance, as well as my colleagues at the company—in their various positions, for their individual and collective efforts, overcoming all challenges of 2020. I look forward with much optimism to achieve more successes in the future.

Directors' Report

1 Investment Climate

2 Financial Results

3 Company Management

4 Investment in Projects

5 Providing Financial Services

6 Supporting Services

7 Enhancing Institutional Management

Investment Climate in 2020

The global economy has witnessed unprecedented challenges, due to the widespread of Coronavirus (COVID-19) pandemic, which caused severe damage and cessation of economic activity, as well as declining levels of production, consumption, investment, manufacturing, trade, tourism, and international capital flows to the lowest level, which led to deflation of global economic and losses of USD 8 to 12 trillion during the years 2020-2021.

Once the World Health Organization declared that the Coronavirus (COVID-19) is a global pandemic, countries around the world took immediate measures and imposed strict closures and restrictions on freedom of movement and travel in response to the pandemic, aiming to mitigate and contain the virus.

The pandemic also had negative impacts on the Arab economies that led to decrease level of activities in oil and non-oil sectors. Affected sectors by the complete or partial closure are contributing about 70% of the gross domestic product (GDP) of Arab countries. Moreover, the Small and Medium Enterprises (SMEs) sector has been severely affected by the current crisis, which contributes about 45% of the gross domestic product.

In light of these developments, GDP of Arab countries recorded a contraction of 4% in 2020, a 7 basis points below what was expected before the spread of the virus. On the other hand, a gradual recovery for Arab economies is expected in 2021, achieving a GDP growth of 2.6%. With the aim of immediate confronting the ongoing negative repercussions of the pandemic, as well as preventing the global economy from falling into a spiral of stagnation, international institutions, especially the G20 institutions, have adopted unprecedented scale rescue packages– in the form of direct measures on both the tax and spending sides, as well as injections of capital, loans and guarantees, with an estimated value of about USD 14 trillion. Central banks reinforced this support through cutting interest rates, expanding asset purchase programs, and providing sizable liquidity to banks.

Arab governments also enacted stimulus packages that exceeded USD 230 billion, to ease financial conditions and support economic activities, including a range of measures and interventions, to boost public health expenditures, help economic sectors and affected groups, and enhance recovery paths.

GDP Growth of Arab Countries

2020

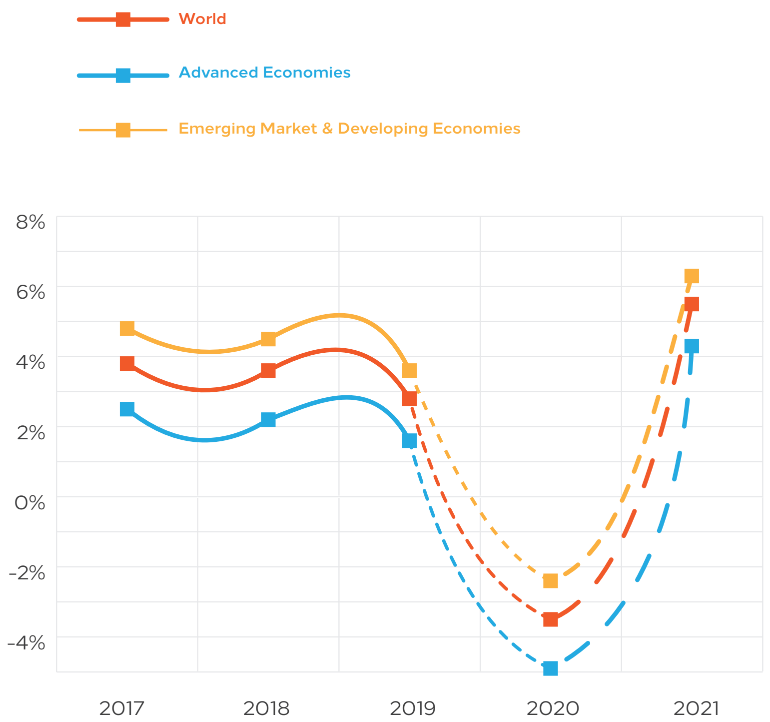
-4%

2021
Expected

2.6%

Global Economic Outlook Growth Projections

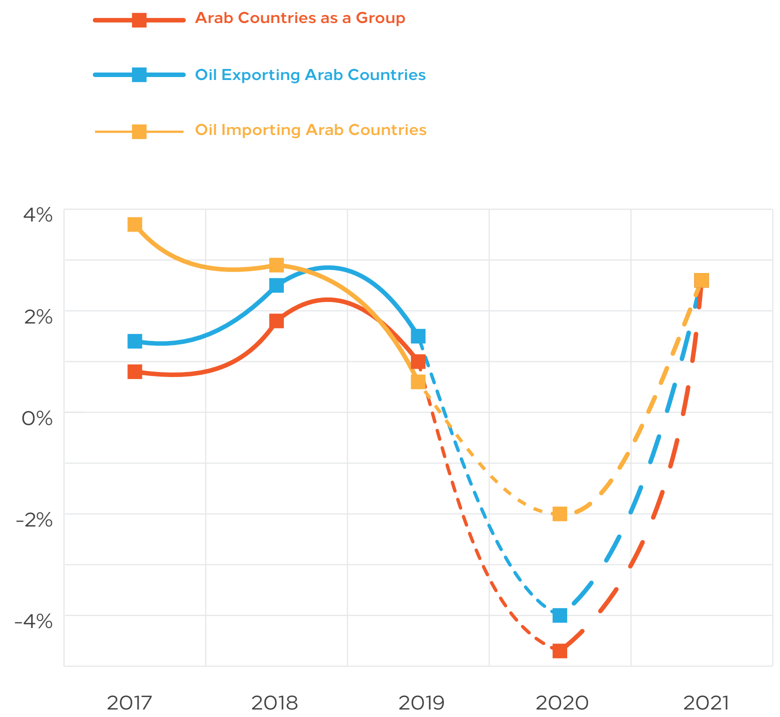
Reflects an unprecedented contraction, with an expected gradual recovery driven by vaccine-powered strengthening of activity and additional policy support in a few large economies.



Source: International Monetary Fund (Global Economic Outlook –January 2021)

Arab Economic Outlook Growth Projections

Reflects a significant impact on the oil-exporting countries and a lesser contraction in the oil-importing countries.



Source: Arab Monetary Fund (Arab Economic Outlook –August 2020)

The Company's Financial Results for 2020

- The Company achieved a net profit of USD 29.3 million in 2020, a decrease by 40% from the previous year's profit of USD 48.9 million, due to a decline in interest income, a decrease in dividend profits, and revaluation losses. The unprecedented decline in economic activities caused by the pandemic had a significant impact on the company's investment projects..

- The total operating income generated by the Company's various operations reached about USD 38.9 million in 2020, compared to USD 63.8 million, a decrease of 39% from the previous year's revenue.

- The Company's total assets increased by 1.7% to reach USD 1,775 million in 2020, compared to USD 1,746 million a year earlier, largely due to the growth of accepted deposits and current year's profits.

- Total shareholders' equity increased from USD 1,299 million in 2019 to about USD 1,313 million at the end of 2020, representing an increase of 1.1%, after adding this year's net profits.

Net Income

40% 29.3

USD million

Total Revenue

39% 38.9

USD million

Total Assets

1.7% 1,775

USD million

Shareholder's Equity

1.1% 1,313

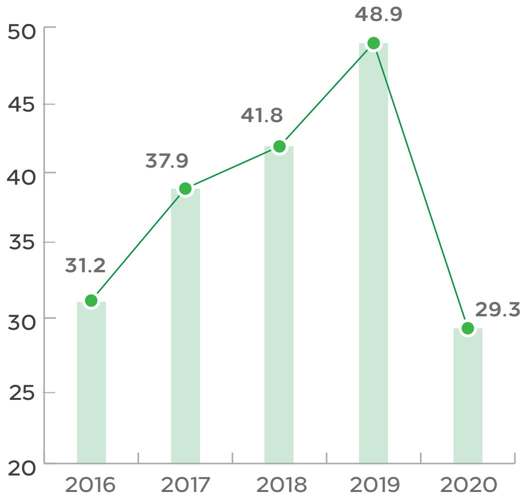
USD million

Performance Indicators

	Return on Average Equity (ROAE)	Return on Capital (ROC)	Return on Average Assets (ROAA)	Capital Adequacy Ratio
2020	2.3%	2.8%	1.7%	91%
2019	3.9%	4.7%	2.9%	87%

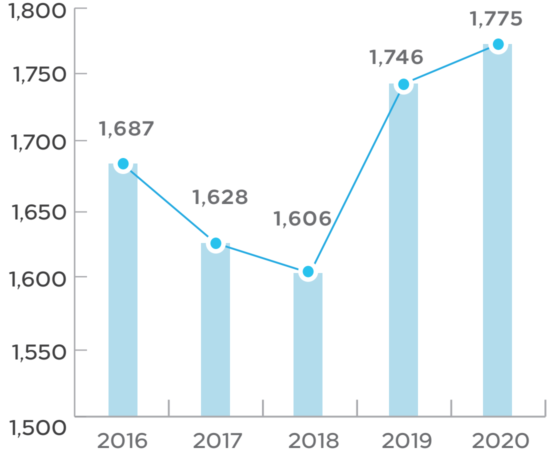
Net Profit

USD million



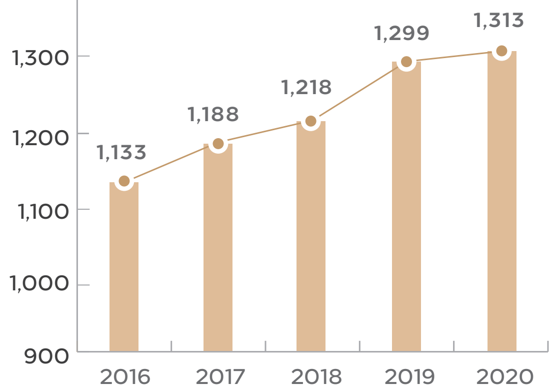
Total Assets

USD million



Shareholder's Equity

USD million



In The Field of Company Management

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

Despite the repercussions of coronavirus (COVID-19) pandemic and the subsequent outbreak of social and economic negative impacts, the Board of Directors and the Board Committees held meetings exceptionally via video conference. This complies with the supervisory directives that calls for the necessity of applying precautionary measures, the most important of which is physical distancing, to preserve the health of the company’s employees at the head office and at its branch in the Kingdom of Bahrain.

This important pioneering role played by the Board is in line with the conditions of the current stage, which necessitated limiting movement, suspending travel, and closing borders between countries. As a result, the Company achieved its set objectives through an operating plan, which enabled the Company to manage its projects remotely, and to hold meetings of the boards of directors in invested projects via virtual communications channels.

During the year, the Company's operations were subject to periodic reviews by the Internal Audit Unit, to verify the adequacy, transparency, and effectiveness of the internal control systems objectively and independently. Moreover, management systems, policies, and procedures were regularly updated, to enhance the Company’s governance in line with the regulatory authorities' requirements and the frameworks prevailing in labor markets.

In The Field of Investment in Projects

Investment in projects represents the main focus of the Company's activity. Over the past years, the Company has invested heavily in projects that support the Arab economic and social development.

In 2020, the Company's existing projects received the priority and focus, in order to enhance its sustainability and continuing operations to overcome the unprecedented repercussions and decline in economic activity due to the coronavirus pandemic, which imposed major challenges to health systems, and led to lockdowns and disruptions in the movement of global trade, supply chains, and travel.

The Company has taken the initiative to unite efforts to overcome obstacles and challenges faced by the projects, through cooperation and coordination with the respective management of such projects and other parties and shareholders participating in them.

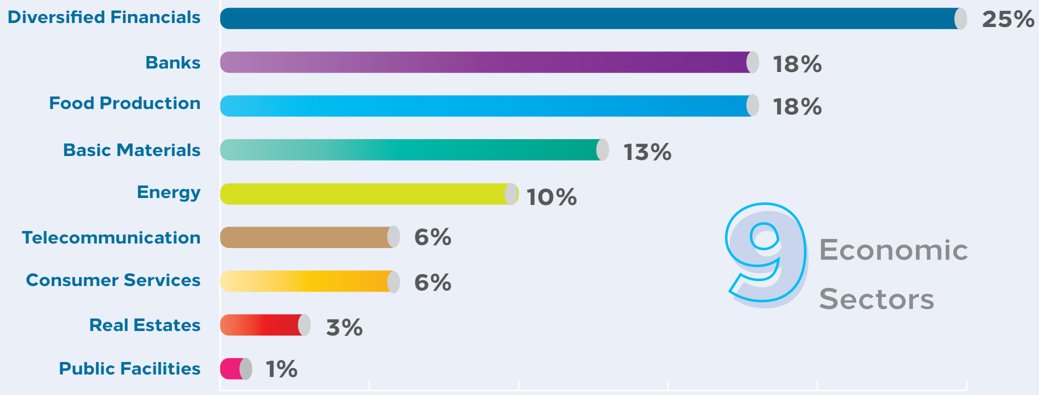
The Company looks forward with keen interest to promising new investment opportunities in Arab countries, to expand its cooperation and strategic alliances with regional and international institutions, to draw up investment plans and attract capital, in order to develop the economies of the region, achieve Arab economic integration, and boost trade exchange between Arab countries.

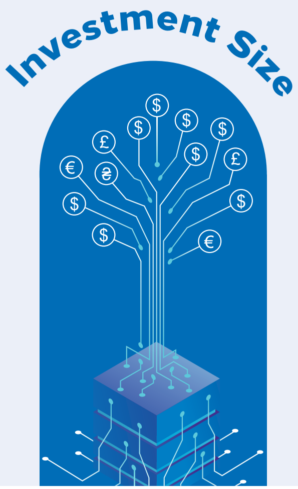
Overview

Investment in Projects Portfolio

The Company's investment in projects portfolio reached **USD 364 million** at the end of 2020, representing **35%** of its paid-up capital. The portfolio includes **26 investment projects**, distributed geographically over **10 Arab countries** and distributed across **9 different sectors**. The total paid-up capital of the projects in targeted sectors amounted to approximately **USD 29 billion**, while the total shareholders' equity exceeded **USD 300 billion**. These figures highlight the importance of the company's role as a major catalyst in mobilizing financial resources and encouraging the private sector to contribute to investment projects across Arab countries.

Sectoral Distribution of Projects Portfolio According to Historical Cost





364

USD million

These investments are distributed over:

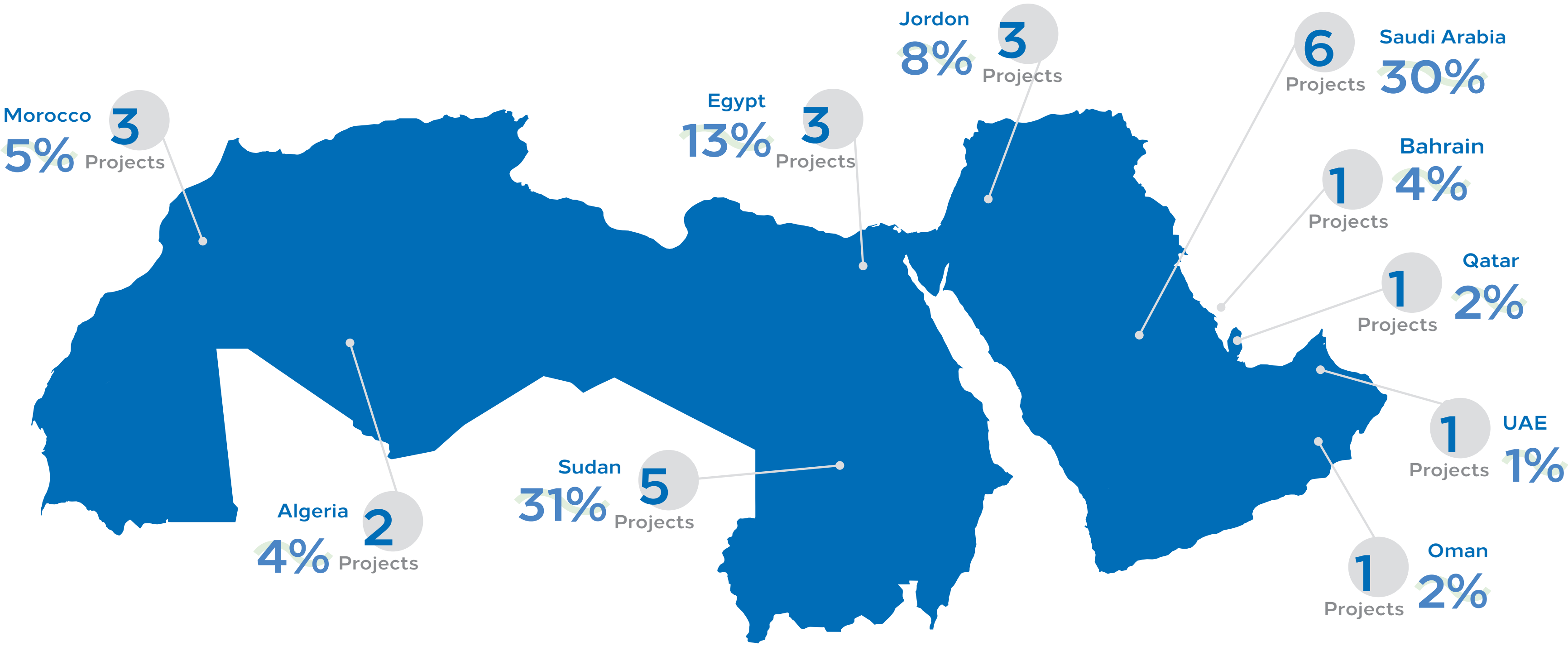
26 Investment Projects

10 Arab Countries

9 Economic Sectors

Geographic Distribution of Projects Portfolio According to Historical Cost

% of Total Historical Cost as at the end of 2020



In the Field of Providing Financial Services

The Company provides a wide range of integrated financial services through its bank branch in the Kingdom of Bahrain, which operates as a conventional wholesale bank under license and supervision of the Central Bank of Bahrain.

The Company's banking activity includes treasury services, securities investments, granting loans, credit facilities and trade finance.

In 2020, the banking branch's efforts focused mainly on resource mobilization, liquidity management, close monitoring of its credit and investment portfolios, and selective approach in deal sourcing in proportion to the challenges caused by the adverse impact emanating from the global outbreak of the Coronavirus (COVID-19) pandemic on global economy and financial markets, and in line with the company's objectives.

Despite these circumstances, and stopped economic activity as a result of the imposed strict restrictions by many countries, the Company managed to maintain the necessary funding for its business lines activities and held on to its fixed income and equities positions throughout the crisis, while emphasis was on capital conservation and risk mitigation through diversified and high quality portfolios.

The Company syndicated to provide credit facilities to customers directly or through participation in syndicated facilities in partnership with regional and international financial institutions. The Company also managed to recover the totality of its outstanding balance of non-performing loans, bringing the ratio of NPLs to zero, hence improving the asset quality metrics of the loan portfolio.

Restructuring of the credit activity continued to be of a paramount importance to the Company, which intensified efforts towards building a sustainable loan portfolio based on a sound redistribution of risks across different geographies and redefinition of customer base through adequate risk mitigation tools.

Overview

Components and Percentages of Banking Assets (2020)

Total banking assets amounted to **USD 1,370 million** at the end of 2020, against **USD 1,319 million** in the previous year, reflecting an increase of **4%**.

Banking Assets

1,370

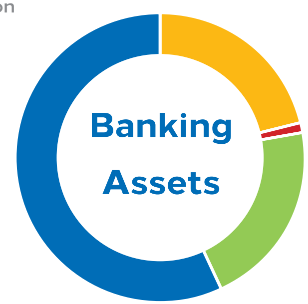
USD million

21% Credit Facilities

57% Securities

1% Others

21% Money Market



Overview

Treasury and Capital Market Portfolio (2020)

The investment securities portfolio increased 5% over the previous year, to reach USD 784 million at the end of 2020, reflecting the Company's move towards investment in high-rated bonds. Money market portfolio (placements with banks and treasury bills) decreased by 11% from 2019, to USD 282 million in 2020, due to refrained lending to banks and financial institutions. While, Accepted deposits from clients, financial institutions, and Government entities grew 4%, to USD 431 million at the end of 2020, an excellent performance despite difficulties to secure funding in a crisis environment.

Securities Portfolio

5% 784
USD million

Money Market Portfolio

11% 282
USD million

Accepted Deposits

4% 431
USD million

Overview

Credit Facilities Portfolio (2020)

Outstanding net loans and credit facilities provided to clients increased 20% in 2020, to reach USD 293 million, mainly driven by new credit facilities totaling USD 204 million booked during the year, as opposed to loan repayments worth USD 164 million. Credit facilities extended to financial institutions dominated the loan portfolio with 48% of total gross loan exposure. In terms of geographical distribution, the Gulf Cooperation Council (GCC) ranked first with 63% of gross loan portfolio.

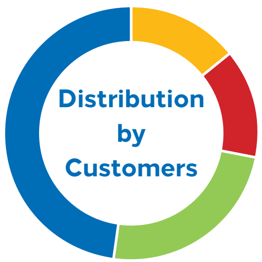
Distribution of Credit Facilities Portfolio

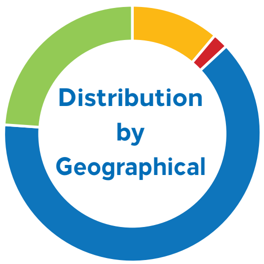
%48 Financial Institutions

%24 Government Institutions

%14 Export Credit Agencies

%14 Commercial Companies





%11 Middle East and North Africa Region

%63 Gulf Cooperation Council (GCC)

%2 Indian Subcontinent

%24 Sovereign Institutions

Credit Facilities Portfolio

20% 293
USD million

Facilities provided during the year

204
USD million

Loan repayments during the year

164
USD million

Development of Supporting Services

During 2020, the Company continued to implement its approved programs for support services in the areas of developing IT systems and human resources, in order to serve the working environment and achieve its objectives, goals and future aspirations.

Information Technology Systems

The Company's IT systems are designed to comply with the best local and international standards. The Company continuously invests in information technology & security solutions to enhance security, interconnectivity and automation, and the latest technology standards to improve the company's business process.

In 2020, the Company completed the implementation and development of the backup systems for its virtual servers, which increased the reliability of the Company's business activities and provided additional support to backup encryption for information security.

As part of improving its banking system, which is designed to support all banking activities, mainly loans, bank documents, accounts and financial statements, the Company upgraded its financial systems such as the interbank telecommunication system (SWIFT) to the latest version.

The Company also implemented and activated virtual and online communication system, in line with the precautionary measures during the coronavirus (Covid-19) pandemic, in addition to enabling the remote work mechanism.

Number of Company Employees (2020)

Total Number of Company Employees

86

Employees

Head Office

47

Employees

Bahrain Branch

39

Employees

Human Resources

The Coronavirus (Covid-19) pandemic prompted most of companies in the region and the world to adjust and change plans and approach to managing their personnel affairs during 2020, throughout taking many new measures, including remote work, reducing working hours, and changing policies used in the recruitment process.

The company's role in the shadow of the pandemic was effective by ensuring safety and security in the workplace, providing alternative work methods, such as telecommuting and flexible hours, managing emergency response and facilitating employee communication.

As part of the company's continuous endeavor to develop competencies and capabilities of its employees, the company provided employees with a number of specialized courses and training programs related to the company's investment and banking activities.

Despite the challenges imposed by the pandemic, 17 employees participated in these programs, representing about 20% of the company's total employees.

Among the most important of these programs were the IFC Asset Management Training Program for Strategic Partners held online, and a Professional Project Management (PPM) program, in addition to a variety of courses and conferences in the field of asset and liability management, treasury operations, asset valuation, operational risk, compliance with FATCA requirements, Basel Model (3) application.

Enhancing Institutional Management

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

Corporate Governance

Since the establishment of the Company, it has been committed to the principles and standards of good governance, which constitute an integral part of its culture and philosophy, as a cornerstone to achieve the Company's vision, mission, and shareholders' aspirations.

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

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

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

Risk Management

The banking and financial sectors continue to grow with increasing complexity, sophistication, changes in regulatory landscape and operating environment. With this dynamic environment, Risk Management Framework at the company continues to evolve and adapt to these changes.

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

In the course of doing its regular business activities, the company is exposed to multiple risks, notably Credit, Market, Liquidity, Operational and other risks like Compliance, Reputational, etc. To manage these risks effectively, a robust Risk Management Framework has been implemented that ensures a crucial balance between risk and reward.

The Risk management tone is set at the top from the Board of Directors ("the Board") and is implemented through well-defined risk management Policies, Processes and Systems.

Enhancing Institutional Management

Risk Governance

The risk governance structure ensures central oversight & control with clear accountability and ownership of risk. The Board has the ultimate responsibility for setting-up of risk appetite and establish / oversee the Risk Management Framework. For this purpose, a Board Risk and Compliance Committee (RCC) is in place which ensures effective implementation and oversight of Risk Management Framework in line with Regulatory guidelines/best industry practices through an independent Risk Management Department.

The company has adopted Three Lines of Defense model where the Business Departments are the "First Line of Defense", the support functions, such as Risk Management, Compliance, Legal, etc. forms the "Second Line of Defense" and Internal Audit acts as "Third Line of Defense".

Risk Framework

The company has over the years developed risk management into a core competence and remains well positioned to meet any challenges emanating from its day to day business activities. The company has Board approved Risk Appetite and tolerance levels set, for all its material risks.

The robust Risk Management Framework at the company includes well defined Policies for managing - Credit, Market, Liquidity, Operational and Reputational risks, etc. 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 Systems / Models namely – Asset & Liability Management, Market Risk, Internal Credit Risk Rating and Capital Assessment Platform.

Stress Testing is also an integral part of the company's risk management framework. Stress testing exercise provides a forward-looking assessment of risk exposures under stressed conditions and estimating potential financial losses/impact on the company. it further enables the company in developing appropriate risk-mitigating strategies and contingency plans across a range of stressed conditions.

The key risks, among others, which are managed by the Risk Management, are as under:

Credit Risks

The principal objectives of credit risk management are to maintain a strong culture of responsible lending and strong assets quality, in line with Board approved Credit Policies.

Risk Management Department oversees that business activities are aligned with the company's Board approved risk appetite. In this regard detailed scrutiny is undertaken for all prospective business opportunities.

An Internal Credit Risk Rating System ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action. Risk rating assigned to each customer is reviewed at least on an annual basis.

The company follows stringent criteria in setting credit limits for countries and customers / counterparties. The company has implemented IFRS 9 and other Basel Practices for classification, provisioning and monitoring of performing/non-performing assets.

Market Risks

The company's business activities that are exposed to market risks are governed through Board approved policies, stringent adherence to controls / limits, segregation of front and back office operations and regular reporting of positions. Among the key market risks pertinent to the company's operations are the Interest Rate and Foreign Exchange risks.

Operational Risks

The Operational Risk Management Framework (ORMF) at the company aims to integrate the management of Operational Risk in daily business activities by providing an appropriate balance between operational risk, rewards and costs. It facilitates better risk management practices and fully complies with all applicable Regulatory guidelines.

In this regard, a well-defined & comprehensive Board approved Operational Risk Policy together with a systematic process for managing Operational Risk are in place for risk identification, assessment, treatment, monitoring and reporting, on an on-going basis.

Operational risk is measured periodically using the Risk & Control Self-Assessment (RCSA) process; monitored using Key Risk Indicators (KRIs) and managed primarily by Business, Operations and Support Department managers, who identify risks, assess risks and ensure robust mitigating controls are implemented. The Operational Risk Management function is independent of the risk generating business lines, responsible for the design, maintenance, ongoing development of the ORMF and provides necessary support to business and support departments in ensuring adherence to ORMF. In addition, there is an effective Internal Loss Data (ILD) collection and analysis process, which provides meaningful information for assessing exposure to operational risk and effectiveness of internal controls.

Enhancing Institutional Management

Liquidity Risks

Liquidity risk management ensures the availability of funds at all times to meet the funding/ financing requirements of the company. The Asset and Liability management is governed by the Board approved Asset and Liability Management Policy, which ensures that various liquidity criteria are complied with, such as, minimum level of liquid assets, gap limits, ratio of liquid assets to total assets, etc.

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. At the company Asset and Liability Management Committee (ALCO) is responsible for effective management of Liquidity Risk / Liquidity Position, Liquidity gap limits, Funding requirements, Contingency Funding Plan (CFP), Pricing, etc.

Reputational Risks

Management of reputational risk is an inherent feature of the company's corporate culture and is embedded as an integral part of the internal control systems. The company maintains the highest level of professional standards in conducting its business and places paramount importance on its reputation through honesty, integrity, and ethical standards.

Business Continuity

The Business Continuity Planning (BCP) and execution at the company is managed as per the Board approved Business Continuity Policy, which complies with all applicable Regulatory guidelines. The BCP policy stipulates the roles and responsibilities of all key stakeholders and provides essential guidelines for sound business continuity, including periodic testing for ensuring its adequacy and effectiveness.

Risk Culture

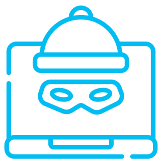
The company continues to inculcate a strong risk culture to ensure that all business activities are undertaken in an ethical manner. The Risk culture is closely intertwined with the overall corporate culture and encompasses the general awareness, attitudes and behavior of employees towards risk and how it is managed within the company.

The Board approved Risk Appetite Statement reinforces the risk culture through 'tone from the top', articulating the risks the company is willing to accept.

Risk and Return trade-off

Since the risks associated with the business activities cannot be mitigated completely, the Risk Management Framework 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.

Regulatory Compliance, Anti-Money Laundering, and Combating the Financing of Terrorism



The company is committed to comply with all applicable laws, regulations, international guidelines and global sanctions requirements and accordingly has implemented robust Regulatory Compliance, AML/CFT and Sanction Risk Management Frameworks.

In view of the increasing requirements and expectations of key stakeholders such as Regulators, Correspondent banks, etc., the company has invested significantly in managing compliance risks by continuously enhancing its capacity and capabilities across the company.

The Compliance function independently reports to Board Risk and Compliance Committee (RCC).

The Regulatory Compliance, AML/CFT and Sanction Policies are reviewed and approved by the Board of Directors annually. Compliance with these Policies are reviewed periodically by the Internal Audit function, which reports to Board Audit Committee. The External Auditors annually conduct an independent review of compliance with the AML Policy and Procedures. The External Auditors report is presented to the Board of Directors and also submitted to the Regulator.

Enhancing Institutional Management

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 in ensuring that all business & operational activities are conducted in conformity with applicable laws, regulations and industry best practices.

The company has implemented a robust Compliance program in line with Board approved Policy which covers regular monitoring, timely submission of Regulatory reports / requirements, compliance testing and periodic reporting to the Board RCC.

Anti-Money Laundering & Combating the Financing of Terrorism (AML/CFT)

The AML/CFT Policies and Procedures are compliant with Financial Action Task Force (FATF) 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.

Commitment to Tax Compliance

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.

Finally, the Board of Directors of the Arab Investment Company, in presenting its annual report, is pleased to express its deep thanks and gratitude to the shareholding countries for their relentless and continuous support to the Company. The Board extends special thanks to the Government of the Kingdom of Saudi Arabia (the host country), and the Government of the Kingdom of Bahrain (which hosts the banking branch), for the excellent facilities and care provided by the two countries to the Company through their various government institutions. The Board of Directors also expresses its thanks to the Company's clients in both the public and private sectors, ensuring its pride for their trust. The Board also extends its sincere thanks to the Executive Management and all employees of the company, and congratulates them on the results achieved during the fiscal year 2020. The Board looks forward for further individual and collective efforts to achieve the company's goals and future aspirations.

Best Wishes...

FINANCIAL STATEMENTS

31 DECEMBER 2020

1 Independent Auditor's Report

2 Statement Of Financial Position

3 Statement Of Income

4 Statement Of Comprehensive Income

5 Statement Of Changes In Shareholders' Equity

6 Statement Of Cash Flows

7 Notes To The Financial Statements

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Building a better working world

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 2020, 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 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Building a better working world

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

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the financial statements, 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: 7 Ramadan 1442H
(19 April 2021G)

شركة إرنست ويونغ وشركاهم (محاسبون قانونيون)
EY
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENSE No. 45
ERNST & YOUNG & Co. (CERTIFIED PUBLIC ACCOUNTANTS)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

All amounts in United States Dollars thousands

	Notes	2020	2019
ASSETS			
Cash and deposits with banks	5	**374,170**	421,949
Investments:			
Securities	6	**795,478**	762,657
Equity participations	7	**273,192**	275,758
Loans and advances	8	**292,709**	243,594
Other assets	9	**16,601**	18,535
Property and equipment	10-1	**10,955**	10,998
Investment property	10-2	**9,869**	10,114
Intangible assets	11	**2,093**	2,500
TOTAL ASSETS		**1,775,067**	1,746,105

	Notes	2020	2019
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits	12	**431,332**	415,488
Other liabilities	14	**30,625**	31,599
TOTAL LIABILITIES		**461,957**	447,087
SHAREHOLDERS' EQUITY			
Share capital	16	**1,050,000**	1,050,000
Statutory reserve	17	**117,790**	114,864
General Reserve	18	**22,799**	22,799
Retained earnings		**191,861**	166,067
Fair value reserve	19	**(69,340)**	(54,712)
TOTAL SHAREHOLDERS' EQUITY		**1,313,110**	1,299,018
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,775,067**	1,746,105

The accompanying notes form an integral part of these financial statements

STATEMENT OF INCOME

For the year ended 31 December 2020

All amounts in United States Dollars thousands

	Notes	2020	2019
INCOME			
Interest income	20	**37,070**	49,680
Interest expense	20	**(5,067)**	(9,594)
NET INTEREST INCOME		**32,003**	40,086
Dividends		**4,548**	10,922
Net fees and commissions	21	**620**	965
Net (loss) gain on financial securities	22	**(3,091)**	5,103
Net foreign exchange (loss) gain		**(388)**	17
Rental income		**4,413**	4,620
Other income, net	23	**840**	2,077
TOTAL OPERATING INCOME		**38,945**	63,790
EXPENSES			
General and administrative	24	**(17,163)**	(19,167)
Provision written back, net	25	**7,478**	4,290
TOTAL OPERATING EXPENSES		**(9,685)**	(14,877)
NET INCOME FOR THE YEAR		**29,260**	48,913

The accompanying notes form an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

All amounts in United States Dollars thousands

	Notes	2020	2019
NET INCOME FOR THE YEAR		**29,260**	48,913
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		**10,038**	29,371
Recycling of gain to the statement of income		**(1,145)**	(28)
		8,893	29,343
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		**(22,664)**	3,757
Recycling of fair value movement on Equity investment measured at fair value through other comprehensive income into retained earning		**90**	-
Remeasurement of defined benefit obligation	14	**(1,038)**	(790)
		(23,612)	2,967
Total other comprehensive (loss) income for the year		**(14,719)**	32,310
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**14,541**	81,223

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2020

All amounts in United States Dollars thousands

	Notes	Share capital	Subscription for share capital	Statutory reserve	General reserve	Retained earnings	Fair value reserve	Total
Balance at 1 January 2019		800,000	123,249	109,973	22,799	249,246	(87,022)	1,218,245
Net income for the year		-	-	-	-	48,913	-	48,913
Other comprehensive income		-	-	-	-	-	32,310	32,310
Total comprehensive income		-	-	-	-	48,913	32,310	81,223
Transfer to statutory reserve	16	-	-	4,891	-	(4,891)	-	-
Board of directors' bonuses paid		-	-	-	-	(450)	-	(450)
Contribution for share capital increase	15	250,000	(123,249)	-	-	(126,751)	-	-
Balance at 31 December 2019		1,050,000	-	114,864	22,799	166,067	(54,712)	1,299,018
Net income for the year		-	-	-	-	29,260	-	29,260
Other comprehensive loss		-	-	-	-	(90)	(14,628)	(14,718)
Total comprehensive income		-	-	-	-	29,170	(14,628)	14,542
Transfer to statutory reserve	16	-	-	2,926	-	(2,926)	-	-
Board of directors' bonuses paid		-	-	-	-	(450)	-	(450)
Balance at 31 December 2020		1,050,000	-	117,790	22,799	191,861	(69,340)	1,313,110

The accompanying notes form an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

All amounts in United States Dollars thousands

	Notes	2020	2019
OPERATING ACTIVITIES			
Net income for the year		**29,260**	48,913
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision written back, net	25	**(7,479)**	(4,290)
Gain on sale of investments		**(2,245)**	(2,606)
Amortisation of discount		**473**	19
Loss on revaluation of lands		**84**	212
Unrealized (gain) loss in FVTPL investment		**1,943**	(27)
Depreciation	10	**702**	696
Amortisation	11	**415**	255
		23,153	43,172
Changes in operating assets and liabilities:			
Deposits with banks with maturities longer than 3 months		**7,141**	37,431
Financial assets at fair value through statement of income		**13,733**	(5,540)
Loans and advances, net		**(40,549)**	18,170
Other assets		**1,934**	(5,267)
Deposits		**10,700**	47,217
Derivative financial instruments		**-**	51
Other liabilities		**(1,846)**	11,113
Net cash from operating activities		**14,266**	146,347

	Notes	2020	2019
INVESTING ACTIVITIES			
Sale and purchase of investment securities, net		**(33,305)**	(87,898)
Proceeds from disposal/refund of equity participations		**(20,646)**	600
Property and equipment, investment properties and intangible assets	10,11	**(506)**	(2,877)
Net cash used in investing activities		**(54,457)**	(90,175)
FINANCING ACTIVITIES			
Board of director's bonuses paid		**(450)**	(450)
Net cash (used in) financing activities		**(450)**	(450)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(40,641)**	55,722
Cash and cash equivalents at the beginning of the year		**353,934**	298,212
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**313,293**	353,934
Supplemental non-cash information			
Net change in fair value reserve	19	**(14,628)**	32,310
Operational cash flows from interest and dividends			
Interest income received		**39,115**	47,547
Interest expense paid		**(22,516)**	(32,367)
Dividends received		**6,702**	10,691

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

All amounts in United States Dollars thousands

1. GENERAL

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

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

P.O. Box 4009

Riyadh 11491

Kingdom of Saudi Arabia

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation.

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

The financial statements have been prepared under the historical cost convention, except for the measurement at fair value of derivatives, FVOCI, FVTPL financial assets and liabilities and employee benefits which are stated at present value of their obligation. In addition, as explained fully in the related notes, financial assets and liabilities that are hedged under a fair value hedging relationship are adjusted to record changes in fair value attributable to the risks that are being hedged.

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

2.2 Adoption of new standards

The accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of annual financial statements for the year ended 31 December 2019 except for the policies explained below:

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations, and amendments

Below standards, interpretations, and amendments became applicable for annual reporting periods beginning on or after January 1, 2020. The Company has assessed that these amendments have no significant impact on the Company's financial statements:

- Amendments to IFRS 3 – Definition of a Business;
- Amendments to IAS 1 and IAS 8 - Definition of Material;
- Amendments to References to the Conceptual Framework in IFRS Standards; and
- Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform.

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

A) Financial assets and financial liabilities

1) Classification of financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.

Financial Asset at amortised cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated 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 and 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A) Financial assets and financial liabilities (continued)

1) Classification of financial assets (continued)

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.

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:

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A) Financial assets and financial liabilities (continued)

1) Classification of financial assets (continued)

- 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 2019, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in statement of income on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

b- Financial liabilities

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

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4) Modifications of financial assets and financial liabilities (continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5) Impairment (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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A) Financial assets and financial liabilities (continued)

5) Impairment (continued)

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:

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

Write-off

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

6) Financial guarantees and loan commitments

‹Financial guarantees› are contracts that require the Company to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. ‹Loan commitments› are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market profit rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or the commitment. Subsequently, they are measured as follows:

- from 1 January 2019: at the higher of this amortized amount and the amount of loss allowance; and
- Before 1 January 2019: 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 2019: the Company recognizes loss allowance;
- Before 1 January 2019: the Company recognizes a provision in accordance with IAS 37 if the contract was considered to be onerous.

B) Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the “functional currency”). The financial statements are presented in United States Dollars, which is the Company’s presentation currency. The figures shown in the financial statements are stated in USD thousands, except when indicated otherwise.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B) Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency of the Company using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income. Translation differences on non-monetary items, such as equities held as trading securities, are treated as part of fair value gain or loss in the statement of income. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets are included in comprehensive income.

(c) Sale and repurchase agreements

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

(d) Determination of fair value

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between the levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. (See Note 3.6 (b))

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy. (See Note 3.6 (b))

C) Offsetting financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D) Derivative financial instruments

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

E) Interest income and expense

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

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

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

F) Fees and commission income

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

G) Dividend income

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

H) Property and equipment

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

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost

of the item can be measured reliably. All other repairs and maintenance are charged to operating expenses during the financial period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H) Property and equipment (continued)

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

- Building and its improvements: 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.

I) Investment property

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

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

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

J) Intangible assets

The Company's intangible assets consist of software, acquired separately and are measured at cost upon initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

The useful lives of intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Amortisation of intangible assets is calculated on a straight-line basis over the useful life of the asset of ten years.

K) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L) 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.

M) Employee benefits

a) Compensation costs

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

b) Savings scheme

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

c) Termination benefits

The staff indemnity provision is made based on an actuarial valuation of the Company›s liability under the Branch›s Employee By-laws and in accordance with the local statutory requirements.

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

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

2.3 New standards and amendments issued but not yet effective

The Company has chosen not to early adopt the following new standards and amendments to IFRS which have been issued but not yet effective for the Company's accounting years beginning on or after January 1, 2021.

- COVID 19 – Related Rent Concessions (Amendments to IFRS 16);
- IFRS 17 – Insurance Contracts, applicable for periods beginning on or after January 1, 2023;
- Amendments to IAS 1 – "Classification of Liabilities as Current or Non-current", applicable for the period beginning on or after January,1, 2022;
- Onerous contracts – Cost of Fulfilling a contract (Amendments to IAS 37);
- Interest Rate Benchmark Reform – IBOR Transition – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16); and
- Reference to Conceptual Framework (Amendments to IFRS 3).

The Company does not anticipate that these will have a significant impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT

Risk is inherent in banking Branch's business activities and is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls. The Company is exposed to Credit, Liquidity, Market and Operational as well as other forms of risk inherent in its financial operations.

The Company regularly reviews its risk management policies and systems to reflect changes in markets, products, regulatory requirements and emerging best practices.

The Company has independent Risk management Function reporting directly to the Board's Risk and Compliance Committee ("RCC"). The RCC defines risk appetite, risk tolerance standards and risk policies.

3.1 Credit risk

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

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

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

Concentration of credit risk arises when the counterparties are engaged in similar business activities or conducting activities in the same geographic region. The risk associated with such concentration is that the exposure would be substantial in the event of a common trend affecting that industry/geographic. To mitigate this risk, the Company spreads its exposure, to the extent possible, over the various types of counterparties. However, where concentration is inevitable, the Company takes more than adequate precautions to reduce this additional risk to acceptable levels.

i) ECL – Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company›s historical experience and expert credit assessment and including forward-looking information.

For the Company's non-retail portfolio, the Company shall assess for significant increase in credit risk (SICR) at a counterparty level as internal rating is currently carried out at a counterparty level and no internal rating is assigned at facility level. The Company shall maintain a facility level rating being the counterparty's internal rating at date of facility origination and date of assessment.

The Company applies the Low Credit Risk expedient on its investment in debt securities when their external rating is investment grade or above.

ii) Determining whether credit risk has increased significantly

In determining whether credit risk has increased significantly since initial recognition, the Company uses its internal credit risk grading system, external risk ratings, quantitative changes in PDs, delinquency status of accounts, expert credit judgement and, where possible, relevant historical experience.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

ii) Determining whether credit risk has increased significantly (continued)

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 2020.
In addition to above, the account tagged as watch list / restructured as of 31 December 2020 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

iii) Credit risk grades (continued)

These Ratings scales are further sub-divided into categories which reflect estimates of the potential maximum loss if default occurs. Risk Ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Company to exit accounts that evidence deterioration in risk profile. The Company also uses the ratings by established rating agencies, viz., Moody's, Standard & Poor and Fitch as part of the appraisal process while considering exposures to rated entities.

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each non-retail exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of non-retail exposure involves use of the following data.

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

iv) Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analyzed by type of product and borrower as well as by credit risk grading.

The Company employs statistical models to analyze the data collected and generate 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

v) Definition of 'Default'

The Company considers a financial asset to be in default when:

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

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

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

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

vi) Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external actual and forecast information, the Company formulates a ‹base case› view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

Externally available macroeconomic forecast from International Monetary Fund (IMF) are used for making base case forecast. For other scenarios, adjustment is 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 2019 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

vii) Modified financial assets (continued)

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.

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 2019, 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 2019, CCF estimate of 100% has been used.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

viii) Measurement of ECL (continued)

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

3.2 Credit quality analysis

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit quality analysis (continued)

Cash and Deposits with Banks

	31 December 2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	**Total**
Investment grade	210,390	-	-	210,390
Non-investment grade	163,822	-	-	163,822
Individually impaired	-	-	542	542
Total	**374,212**	**-**	**542**	**374,754**

Loans and advances to customers at amortized cost

	31 December 2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	**Total**
Standard	294,136	-	-	294,136
Total	**294,136**	**-**	**-**	**294,136**

Interest receivable and other assets

	31 December 2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	**Total**
Standard	6,488	-	-	6,488
Total	**6,488**	**-**	**-**	**6,488**

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit quality analysis (continued)

Debt investment securities at amortized cost				
	31 December 2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	**Total**
Investment grade	48	-	-	48
Total	**48**	**-**	**-**	**48**

Debt investment securities at FVOCI				
	31 December 2020			
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	**Total**
Standard	773,831	-	-	773,831
Loss	-	-	11,690	11,690
Total	**773,831**	**-**	**11,690**	**785,521**

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit quality analysis (continued)

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

Non-Retail Loan Risk Profile by Probability of default				
December 2020	Non-retail-unsecured Gross carrying amount		Non-retail -secured Gross carrying amount	
	12-months ECL	Lifetime ECL	12-months ECL	Lifetime ECL
0.00 - 0.10	826,230	-	-	-
0.11 - 0.40	54,675	-	-	-
0.41 - 1.00	-	-	-	-
1.01 - 3.00	478,822	-	-	-
3.01 - 6.00	88,938	-	-	-
6.01 - 11.00	-	-	-	-
11.01 - 17.00	-	-	-	-
17.01 - 25.00	-	-	-	-
25.01 - 50.00	48	-	-	-
50.01+	-	-	-	-
Total	**1,448,713**	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

Credit risk exposures relating to funded exposures are as follows:

	Maximum Exposure	
	2020	**2019**
Deposits and cash with banks and treasury bills	**374,165**	421,937
Loans and advances to banks	**140,000**	160,000
Loans and advances to non-banks	**154,136**	93,587
Investment debt securities	**773,831**	725,798
Interest receivable and other assets	**7,244**	8,554
	1,449,376	1,409,876

Credit risk exposures relating to non-funded exposures are as follows:

Contingent liabilities		
Loan commitments	-	80,838
	-	80,838
At 31 December	**1,449,376**	1,490,714

The above table represents a worst-case scenario of credit risk exposure of the Company as at 31 December 2020 and 2019, 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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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:

- 100% of the overdrafts, loans and advances portfolio is categorized under Standard Assets as per approved Credit Policy (31 December 2019: 90%);
- 100% of the overdrafts, loans and advances portfolio are considered to be neither past due nor impaired (31 December 2019: 98%); and
- Approximately 30% (31 December 2019: 26%) 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
31 December 2020	Regular	Watch			
Deposits and cash with banks and treasury bills	374,164	-	-	-	374,164
Debt securities (including trading)	773,879	-	-	11,690	785,569
Loans and advances					
- Loans and advances to banks	140,000	-	-	-	140,000
- Loans and advances to non-banks	154,136	-	-	-	154,136
	1,442,179	**-**	**-**	**11,690**	**1,453,869**

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit quality analysis (continued)

3.2.3 Credit quality of financial assets (continued)

	Neither past due nor Impaired		Past due but not Impaired	Individually Impaired	Total
31 December 2019					
Deposits and cash with banks and treasury bills	421,937	-	-	-	421,937
Debt securities (including trading)	724,452	-	-	11,690	736,142
Loans and advances					
- Loans and advances to banks	140,000	15,000	-	5,000	160,000
- Loans and advances to non-banks	89,162	4,425	-	-	93,587
Interest receivable and other assets	8,554	-	-	-	8,554
	1,384,105	**19,425**	**-**	**16,690**	**1,420,220**

Total provision for expected credit loss for overdraft, loans and advances as at 31 December 2020 is US$ 1,427 thousand (31 December 2019: US$ 9,993 thousand). Further information of the impairment allowance for overdrafts, loans and advances is provided in (note 8). Total provision for expected credit loss for debt securities for stage 1 and 2 is US$ 1,069 (31 December 2019: US$ 1,205) and stage 3 of US$ 11,690 thousand (31 December 2019: US$ 10,296 thousand).

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit quality analysis (continued)

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	348,410	16	25,006	733	374,165
Loans and advances	229,183	58,640	4,886	-	292,709
Debt securities	276,800	48,398	40,313	408,360	773,871
Interest receivable and other assets	4,751	1,686	50	757	7,244
At 31 December 2020	**859,144**	**108,740**	**70,255**	**409,850**	**1,447,989**
At 31 December 2019	763,169	106,033	77,850	452,868	1,399,920
Non-funded exposures:					
At 31 December 2020	**-**	**-**	**-**	**-**	**-**
At 31 December 2019	70,000	10,838	-	-	80,838

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk

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

(a) Interest rate risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Interest rate risk (continued)

Interest rate risk 31 December 2020	USD 100BP	EUR 100BP	AED 100BP	SAR 100BP	BHD 100BP	Total
Financial assets:						
Deposit with banks and Treasury bills	1,232	-	8	232	1,653	3,125
Overdrafts, loans and advances	2,941	-	-	-	-	2,941
Debt securities	4,050	583	-	-	-	4,633
Impact of Financial Assets	8,223	583	8	232	1,653	10,699
Financial liabilities:						
Deposits	(3,688)	-	(6)	-	-	(3,694)
Impact of Financial Liabilities	(3,688)	-	(6)	-	-	(3,694)
Impact on the results of the Company	4,535	583	2	232	1,653	7,005

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

(a) Interest rate risk (continued)

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

(b) Equity Position risk

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

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

Equity classification	2020			2019		
	Change in equity price/ fund NAV %	Effect on net income	Effect on equity	Change in equity price/ fund NAV %	Effect on net income	Effect on equity
Trading equity	±10	1,028	-	±10	1,706	-
Available for sale equity	±10	-	-	±10	-	64
Investment fund FVTPL	±10	907		±10	1,618	-
Equity participations - quoted	±10	-	10,131	±10	-	10,981

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$ 150.4 million (2019: US$ 166 million).

(c) Foreign exchange risk

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

The Company identifies foreign exchange risks at two levels: (a) Transaction, and (b) Structural. Transaction risk arises when Company extends exposure or borrows in foreign currency i.e. other than its reporting / base currency. Structural risk occurs when there is mismatch between respective foreign currency denominated cash inflows and outflows. The Structural foreign exchange risk is measured by identification of Currency-wise gaps between assets and liabilities bucketed in various time-bands according to their maturities, across the Company.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

(c) Foreign exchange risk (continued)

Concentrations of currency risk - financial instruments:

	USD	EUR	AED	SAR	BHD	GBP	Others	Total
As at 31 December 2020								
Deposits with banks and treasury bills	149,561	135	913	56,319	165,452	100	1,690	374,170
Financial assets at FVTPL	2,992	-	-	8,994	1,293	-	8,327	21,606
Investments securities:								
-Available for sale	715,145	58,686	-	-	-	-	-	773,831
-Held to maturity	-	-	-	-	-	-	41	41
Overdrafts, loans and advances	292,709	-	-	-	-	-	-	292,709
Equity participation	78,844	-	-	111,174	-	-	83,174	273,192
Property, plant and equipment and	20,824	-	-	-	-	-	-	20,824
Investments in property:	2,093	-	-	-	-	-	-	2,093
Intangible assets	7,558	35	1	8,406	598	3	-	7,558
Total financial assets	1,269,726	58,856	914	184,893	167,343	103	93,232	1,775,067
Deposits	(368,870)	(61,574)	(861)	(27)	-		-	(431,332)
Other liabilities	7,963	(338)	-	(21,817)	(3,941)	-	(12,492)	(30,625)
Total financial liabilities	(360,907)	(61,912)	(861)	(21,844)	(3,941)	-	(12,492)	(461,957)
Fair value reserve	19,530	(320)	-	(5,505)	-	-	55,635	69,340
Net open position	928,349	(3,376)	53	157,544	163,402	103	136,375	1,382,450

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 2019								
Total financial assets	1,284,039	57,258	905	187,267	108,393	121	108,122	1,746,105
Total financial liabilities	(344,234)	(56,726)	(846)	(25,695)	(4,294)	(16)	(15,276)	(447,087)
Fair value reserve	18,339	(273)	-	(11,087)	-	-	47,734	54,713
Net open position	958,144	259	59	150,485	104,099	105	140,580	1,353,731

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

As at 31 December 2020	Less than 12 months	Over 12 months	No fixed Maturity	Total
ASSETS				
Cash and deposits with banks	374,170	-	-	374,170
Investments:				
Securities	65,466	717,439	12,573	795,478
Equity participations	-	-	273,192	273,192
Loans and advances	122,260	170,449	-	292,709
Property and equipment	-	-	10,955	10,955
Investment property	-	-	9,869	9,869
Intangible assets	-	-	2,093	2,093
Other assets	6,720	-	9,881	16,601
TOTAL ASSETS	**568,616**	**887,888**	**318,563**	**1,775,067**
LIABILITIES				
Deposits	431,332	-	-	431,332
Other liabilities	4,535	-	26,090	30,625
TOTAL LIABILITIES	**435,867**	**-**	**26,090**	**461,957**
NET	132,749	887,888	292,473	1,313,110
Cumulative liquidity gap	132,749	1,020,637	1,313,110	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

3.4.1 Maturity analysis of assets and liabilities (continued)

As at 31 December 2019	Less than 12 months	Over 12 months	No fixed Maturity	Total
ASSETS				
Cash and deposits with banks	421,949	-	-	421,949
Investments:				
Securities	38,032	703,950	20,675	762,657
Equity participations	-	-	275,758	275,758
Loans and advances	128,594	115,000	-	243,594
Property and equipment	-	-	10,998	10,998
Investment property	-	-	10,114	10,114
Intangible assets	-	-	2,500	2,500
Other assets	8,317	429	9,789	18,535
TOTAL ASSETS	**596,892**	**819,379**	**329,834**	**1,746,105**
LIABILITIES				
Deposits	415,488	-	-	415,488
Other liabilities	5,593	-	26,006	31,599
TOTAL LIABILITIES	**421,081**	**-**	**26,006**	**447,087**
NET	175,811	819,379	303,828	1,299,018
Cumulative liquidity gap	175,811	995,190	1,299,018	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

3.4.2 Non-derivative cash flows

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

As at 31 December 2020	1-3 months	3-12 months	Total
Liabilities			
Deposits	326,201	105,131	431,332
Other liabilities	3,410	11,898	15,308
Total liabilities (contractual maturity dates)	329,611	117,029	446,640
As at 31 December 2019			
Liabilities			
Deposits	414,916	572	415,488
Other liabilities	5,071	12,636	17,707
Total liabilities (contractual maturity dates)	419,987	13,208	433,195

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Liquidity risk (continued)

3.4.3 Derivative cash flows

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

As at 31 December 2020	Up to 1 month	1-3 Months	Total
Derivatives designated as fair value through profit or loss			
Foreign exchange derivatives:			
Outflow	12,492	-	12,492
Inflow	12,445	-	12,445
Total outflow	12,492	-	12,492
Total inflow	**12,445**	**-**	**12,445**
As at 31 December 2019			
Derivatives designated as fair value through profit or loss			
Foreign exchange derivatives:			
Outflow	3,845	15,276	19,121
Inflow	3,845	15,225	19,070
Total outflow	**3,845**	**15,276**	**19,121**
Total inflow	**3,845**	**15,225**	**19,070**

NOTES TO THE FINANCIAL STATEMENTS (continued)

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:

31 December 2020	No later than 1 year	1-5 year	Total
Loan commitments	-	-	-
Total	**-**	**-**	**-**
31 December 2019			
Loan commitments	40,838	40,000	80,838
Total	**40,838**	**40,000**	**80,838**

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 represent 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$ 15.3 million as at 31 December 2020 (31 December 2019: US$ 47.9 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

31 December 2020	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
- Equity securities	10,287	-	-	10,287
- Investment Funds	-	-	11,320	11,320
Financial assets at FVOCI				
- Debt securities	773,831	-	-	773,831
- Equity participations	122,770	-	150,422	273,192
Total assets	906,888	-	161,742	1,068,630
Financial liabilities at FVTPL				
- Derivative financial instruments	-	47	-	47
Total liabilities	-	47	-	47

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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:

	2020	2019
1 January	165,950	166,029
Liquidation	-	(600)
Total gains and (losses) recognised in other comprehensive income	(15,528)	521
31 December	150,422	165,950

(c) Financial instruments not measured at fair value

At 31 December 2020, the fair value of debt instruments carried at amortised cost of US$ nil million (31 December 2019: US$ Nil million) was determined to be US$ nil million (31 December 2019: US$ Nil million). The estimated fair value of the other financial assets and liabilities including loans and advances was not significantly different from their respective carrying values.

3.7 Capital management

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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

Going concern

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

5. CASH AND DEPOSITS WITH BANKS

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

	2020	2019
Cash and cash equivalents:		
Cash on hand and in banks-net	8,361	17,346
Deposits with banks with original maturities of three months or less – net	141,110	231,752
Treasury bills maturing within three months of acquisition	163,822	104,836
deposits with banks:	313,293	353,934
Deposits with banks with original maturities of more than three months but less than a year - net	60,924	68,065
Less: impairment (Stage 1)	(47)	(50)
Total	**374,170**	**421,949**

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. INVESTMENTS SECURITIES

Investment securities as of 31 December comprise of the following:

	2020	2019
a) Financial assets at FVTPL		
Equity securities	10,287	17,064
Investment funds	11,320	19,118
Total	21,607	36,182
b) Financial assets at FVOCI		
Debt securities		
AA- to AA+	23,419	20,092
A- to A+	211,144	174,330
BBB- to BBB+	362,289	335,356
BB- to BB+	46,391	47,002
B- to B+	130,588	147,624
Unrated	11,690	11,690
	785,521	**736,094**
Equity securities	-	640
Less: ECL allowance - stage 3	(11,690)	(10,296)
Total	**773,831**	**726,438**
c) Financial assets at AC		
Debt securities	48	48
Less: impairment (Stage 1)	(8)	(11)
Total	**40**	**37**
Total investments	**795,478**	**762,657**

As at 31 December 2020, US$ 774 thousand debt securities are classified as stage 1 (2019: US$ 724 thousand) except for US$ 11.7 thousand classified as stage 3 (2019: US$ 11.7 thousand).

Equity investment securities designated as at FVOCI

At 1 January 2020, the Company designated certain investments amounting to US nil thousand (2019: US$ 640 thousand) as equity instrument as at FVOCI. The FVOCI designation was made because the investments are not held for trading.

The movement in investment securities is summarised below:

	FVTPL	FVOCI	Amortised Cost	2020	2019
At 1 January 2020	36,182	726,438	37	762,657	655,847
Exchange differences	(70)	5,055	-	4,985	(1,086)
Additions	28,312	152,541	-	180,853	252,662
Disposals (sale, maturity and redemption)	(37,207)	(118,091)	-	(155,298)	(172,200)
Change in fair value	(5,610)	8,361	3	2,754	27,453
Accretion of discount	-	(473)	-	(473)	(19)
At 31 December	21,607	773,831	40	795,478	762,657

Investments in debt securities of US$ 116,439 thousand (2019: US$ 117,253 thousand) are pledged under repurchase agreements with banks and financial institutions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. INVESTMENTS IN EQUITY PARTICIPATIONS

Fair value of equity participations

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

	2020	2019
Quoted	122,770	109,809
Unquoted	150,422	165,949
Total	**273,192**	**275,758**

2020 Country / Project	Quoted / Unquoted Shares	Fair value of participation	Percentage Of Shareholding
Kingdom of Morocco			
Société Ryad Soualem S.A.	Unquoted	1,041	33.00
Maroc Leasing Company	Quoted	7,930	5.74
Asma Club Plus Company	Unquoted	11,635	40.00
		20,606	
Kingdom of Saudi Arabia			
Middle East Financial Investment Company	Unquoted	13,464	15.00
National Trigeneration CHP Company	Unquoted	2,421	9.94

2020 Country / Project	Quoted / Unquoted Shares	Fair value of participation	Percentage Of Shareholding
Bidaya Home Finance	Unquoted	27,829	11.11
Samba Financial Group	Quoted	30,070	0.18
Saudi Arabian Oil Company	Quoted	37,390	0.002
		111,174	
Republic of Sudan			
Kenana Sugar Company	Unquoted	5,467	6.99
Sudatel Group for Communication	Quoted	2,947	2.18
Financial Investment Bank	Quoted	1,176	20.80
Berber Cement Company	Unquoted	1,752	16.40
The Arab Leasing Company	Unquoted	5,267	30.00
		16,609	
Arab Republic of Egypt			
Arab International Company for Hotels and Tourism	Unquoted	7,575	13.62
Egyptian Propylene and Polypropylene Company	Unquoted	35,296	10.00
International Company for Leasing	Unquoted	3,431	10.00
		46,302	

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

2020 Country / Project	Quoted / Unquoted Shares	Fair value of participation	Percentage Of Shareholding
Peoples' Democratic Republic of Algeria			
Arab Banking Corporation	Unquoted	4,487	4.18
Arab Leasing Corporation	Unquoted	8,636	25.00
		13,123	
The Hashemite Kingdom of Jordan			
Arab Jordan Investment Bank	Quoted	25,806	10.25
Arab International Hotels Company	Quoted	3,282	8.36
		29,088	
Kingdom of Bahrain			
Arab Banking Corporation	Quoted	3,886	0.42
State of Qatar			
Arab Jordan Investment Bank	Unquoted	9,395	15.00

2020 Country / Project	Quoted / Unquoted Shares	Fair value of participation	Percentage Of Shareholding
Sultanate of Oman			
Taageer Finance Company	Quoted	10,283	18.79
Pan-Arab			
The Arab Company for Livestock Development	Unquoted	3,518	1.67
Arab Trade Financing Program	Unquoted	5,235	0.44
Arab Mining Company	Unquoted	3,973	1.10
		12,726	
		273,192	

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

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

2019 **Country / Project**	Quoted / Unquoted Shares	Fair value of participation	Percentage Of Shareholding
Republic of Sudan			
Kenana Sugar Company	Unquoted	6,391	6.99
Sudatel Group for Communication	Quoted	3,141	2.18
Financial Investment Bank	Quoted	1,248	20.80
Berber Cement Company	Unquoted	2,275	16.40
The Arab Leasing Company	Unquoted	4,587	30.00
		17,642	
Arab Republic of Egypt			
Arab International Company for Hotels and Tourism	Unquoted	10,772	13.62
Egyptian Propylene and Polypropylene Company	Unquoted	39,322	10.00
International Company for Leasing	Unquoted	3,863	10.00
		53,957	

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. INVESTMENTS IN EQUITY PARTICIPATIONS (continued)

2019 Country / Project	Quoted / Unquoted Shares	Fair value of participation	Percentage Of Shareholding
Peoples' Democratic Republic of Algeria			
Arab Banking Corporation	Unquoted	4,934	4.18
Arab Leasing Corporation	Unquoted	10,666	25.00
		15,600	
The Hashemite Kingdom of Jordan			
Arab Jordan Investment Bank	Quoted	28,408	10.25
Arab International Hotels Company	Quoted	3,169	8.36
		31,577	
Kingdom of Bahrain			
Arab Banking Corporation	Quoted	6,087	0.42
State of Qatar			
Arab Jordan Investment Bank	Unquoted	9,784	15.00

2019 Country / Project	Quoted / Unquoted Shares	Fair value of participation	Percentage Of Shareholding
Sultanate of Oman			
Taageer Finance Company	Quoted	12,621	18.79
Pan-Arab			
The Arab Company for Livestock Development	Unquoted	3,648	1.67
Arab Trade Financing Program	Unquoted	5,011	0.44
Arab Mining Company	Unquoted	3,973	1.10
		12,632	
		275,758	

8. LOANS AND ADVANCES

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

	2020	2019
Loans and advances (8.1)	294,136	253,587
Provision for impairment on loans and advances (8.2)	(1,427)	(9,993)
Loans and advances, net	**292,709**	**243,594**

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. LOANS AND ADVANCES (continued)

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

	31 December 2020				2019
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total	
At the beginning of the year	229,162	19,425	5,000	**253,587**	270,711
Loan disbursed during the year	204,136	-	-	**204,136**	164,162
Loans recovered	(139,162)	(19,425)	(5,000)	**(163,587)**	(181,309)
Other movements	-	-	-	**-**	23
At the beginning of the year	**294,136**	-	-	**294,136**	253,587

During the year ended 31 December 2020, the Company recovered principal amount of US$ Nil thousand (2019: US$ 735 thousand) related to facilities written off following Board of Director approval in 2014.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 2020				2019
	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total	
At the beginning of the year	573	4,420	5,000	**9,993**	15,971
Net measurement of loss allowance	854	-	-	**854**	-
Recoveries of amounts previously provided	-	(4,420)	(5,000)	**(9,420)**	(5,978)
	1,427	-	-	**1,427**	9,993
Specific impairment provision				**-**	5,000
ECL / Collective impairment provision				**1,427**	4,993
At the beginning of the year				**1,427**	9,993

9. OTHER ASSETS

Other assets as of 31 December comprise of the following:

	2020	2019
Accrued income	12,950	15,849
Rent receivables *	933	-
Other receivables	2,718	2,686
Total	**16,601**	**18,535**

The rent receivables as at 31 December 2020 are more than 6 months old but less than a year, which are past due but not impaired, as these unimpaired trade receivable are expected, on the basis of past experience, to be fully recoverable.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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	Work in Progress	2020	2019
Cost:						
At 1 January	4,439	19,446	8,705	1,134	**33,724**	33,320
Additions during the year	-	-	71	377	**448**	1,395
Disposals during the year	-	(53)	(514)	-	**(567)**	(991)
Reclassification	-	1,195	316	(1511)	**-**	-
At 31 December	4,439	20,588	8,578	-	**33,605**	33,724
Accumulated depreciation:						
At 1 January	-	14,506	8,220	-	**22,726**	23,231
Charge for the year	-	299	192	-	**491**	486
Relating to disposals	-	(53)	(514)	-	**(567)**	(991)
At 31 December	-	14,752	7,898	-	**22,650**	22,726
Net Book Value:						
At 31 December 2020	**4,439**	**5,836**	**680**	**-**	**10,955**	
At 31 December 2019	4,439	4,940	485	1,134		10,998

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. PROPERTY AND EQUIPMENT AND INVESTMENT PROPERTY (continued)

10.2 Investment property:

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

				Total	
	Land	Building and its equipment	Furniture and Equipment	2020	2019
Cost:					
At 1 January	6,011	27,803	2,431	**36,245**	36,385
Additions during the year	-	8	42	**50**	72
Impairment during the year	(84)			**(84)**	(212)
Disposals during the year	-	(151)	(812)	**(963)**	-
At 31 December	5,927	27,660	1,661	**35,248**	36,245
Accumulated depreciation:					
At 1 January	-	23,865	2,266	**26,131**	25,921
Charge for the year	-	147	64	**211**	210
Relating to disposals	-	(151)	(812)	**(963)**	-
At 31 December	-	23,861	1,518	**25,379**	26,131
Net book value:					
At 31 December 2020	**5,927**	**3,799**	**143**	**9,869**	
At 31 December 2019	6,011	3,938	165		10,114

The fair value of investment property at 31 December 2020 amounted to approximately US$ 20.5 million (31 December 2019: US$ 24.6 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. INTANGIBLE ASSETS

	Software	Work in Progress	Total 2020	Total 2019
Cost:				
At 1 January	5,170	1,282	**6,452**	6,750
Additions during the year	8	-	**8**	1,411
Disposals during the year	(405)	-	**(405)**	(1,709)
Reclassification	1,282	(1,282)	**-**	-
At 31 December	6,055	-	**6,055**	6,452
Accumulated Amortization:				
At 1 January	3,952	-	**3,952**	5,406
Charge for the year	415	-	**415**	255
Relating to disposals	(405)	-	**(405)**	(1,709)
At 31 December	3,962	-	**3,962**	3,952
Net Book Value:				
At 31 December 2020	**2,093**	**-**	**2,093**	
At 31 December 2019	1,218	1,282		2,500

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. DEPOSITS

Deposits as of 31 December comprise the following:

	2020	2019
Deposits by banks	**354,699**	338,150
Deposits by non-banks	**76,633**	77,338
Total	**431,332**	415,488

Included in the above are deposits raised under repurchase agreements whose carrying value as at 31 December 2020 is US$ 104.6 million (31 December 2019: US$ 105.1 million).

13. 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 2020		
	Contract/Notional Amount	Fair value	
Held for trading		Assets	Liabilities
Foreign exchange derivatives:			
Currency swaps	32,923	-	47

	31 December 2019		
	Contract/Notional Amount	Fair value	
Held for trading		Assets	Liabilities
Foreign exchange derivatives:			
Currency swaps	38,192	-	51

14. OTHER LIABILITIES

Other liabilities as of 31 December comprise the following:

	2020	2019
Employees' benefits (see table below)	**13,439**	11,908
Due to related party (note 15)	**9,855**	9,758
Accounts payable and accrued expenses	**5,029**	6,755
Deferred income	**1,830**	1,932
Interest payable	**425**	1,195
Derivative financial instruments (note 13)	**47**	51
Total	**30,625**	31,599

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. OTHER LIABILITIES (continued)

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

	Employees saving schemes	Provision for end of service indemnity	Provision for leave	Total 2020	Total 2019
At 1 January	1,272	9,392	1,244	**11,908**	10,303
Addition for the year	83	861	565	**1,509**	1,570
Provisions utilised	(105)	(543)	(282)	**(930)**	(704)
Staff contributing to saving scheme	66	-	-	**66**	68
Actuarial loss recognised in OCI	-	1,038	-	**1,038**	790
Other movement	-	-	(152)	**(152)**	(119)
At 31 December	**1,316**	**10,748**	**1,375**	**13,439**	11,908

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

	2020	2019
Present value of defined benefit obligations	10,705	9,350
Net defined benefit liability in the statement of financial position	10,705	9,350

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. OTHER LIABILITIES (continued)

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

	2020	2019
Discount rate	**1.55%**	2.9%
Salary increase rate (short term)	**4.0%**	4.0%
Long term salary increase rate	**1.55%**	4.0%
Mortality rate according to world health organization- SA	**0.16-0.75**	0.16-0.75
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:

	2020	2019
Discount rate + 0.5%	**8,010**	9,084
Discount rate – 0.5%	**8,498**	9,631
Long term salary increases + 0.5%	**8,310**	9,378
Long term salary increases – 0.5%	**8,166**	9,313

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

	2020	2019
At 1 January	**9,392**	8,006
Net periodic expense recognised in the statement of income	**861**	924
Payments paid to outgoing employees	**(543)**	(328)
Re measurement in OCI during the year	**1,038**	790
At 31 December	**10,748**	9,392

15. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

Executive management personnel:	2020	2019
End of service benefit	**3,468**	3,166

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

	2020	2019
Board of directors' expenses	**360**	731
Board of directors' bonuses paid	**450**	450
Salaries and short-term employee benefits	**865**	824
End of service benefits	**302**	280

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

Name of related parties	Nature of relationship	Nature of transaction	2020	2019
The State of Libya	Shareholder	Funding received	**9,855**	9,758

16. SHARE CAPITAL

Authorized and paid

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

	2020		2019	
	No. of Shares	Amount	No. of Shares	Amount
Authorised	**1,200,000**	**1,200,000**	1,200,000	1,200,000
Fully paid	**1,050,000**	**1,050,000**	1,050,000	1,050,000

On 8 June 2013, the Extraordinary General Assembly approved an increase in the authorised share capital from US$ 800 million to US$ 1.2 billion, and paid-up capital from US$ 700 million to US$ 1,050 million through the capitalization of US$ 175 million from retained earnings over the next five years and the balance through payment by willing member states in five annual instalments beginning on 1 April 2014. (See note 16.2)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. SHARE CAPITAL (continued)

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

	Ownership Percentage (%)			
	2020	2019	2020	2019
Kingdom of Saudi Arabia	**16.56**	16.56	**173,848**	173,848
State of Kuwait	**16.56**	16.56	**173,848**	173,848
United Arab Emirates (Abu Dhabi)	**13.58**	13.58	**142,641**	142,641
Republic of Iraq	**11.07**	11.07	**116,243**	116,243
State of Qatar	**8.65**	8.65	**90,841**	90,841
Arab Republic of Egypt	**7.36**	7.36	**77,268**	77,268
Syrian Arab Republic	**6.04**	6.04	**63,396**	63,396
The State of Libya	**6.30**	6.30	**66,170**	66,170
Republic of Sudan	**2.83**	2.83	**29,696**	29,696
Kingdom of Bahrain	**1.81**	1.81	**18,960**	18,960
Republic of Tunisia	**1.81**	1.81	**18,960**	18,960
Kingdom of Morocco	**1.81**	1.81	**18,960**	18,960
Sultanate of Oman	**1.61**	1.61	**16,918**	16,918
Republic of Lebanon	**1.70**	1.70	**17,875**	17,875
People's Democratic Republic of Algeria	**1.70**	1.70	**17,875**	17,875
The Hashemite Kingdom of Jordan	**0.34**	0.34	**3,569**	3,569
Republic of Yemen	**0.27**	0.27	**2,932**	2,932
Total	**100 %**	100 %	**1,050,000**	1,050,000

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. 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.

Movement of statutory reserve:	2020	2019
At the beginning of the year	**114,864**	109,973
Additions during the year	**2,926**	4,891
At the end of the year	**117,790**	114,864

18. 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.

19. FAIR VALUE RESERVE

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

	2020	2019
Equity participations		
At beginning of year	**(67,829)**	(71,456)
Change in fair value	**(23,212)**	3,627
At end of year	**(91,041)**	(67,829)
FVOCI Securities / available-for-sale		
At beginning of year	**(13,912)**	(15,561)
Change in fair value	**37,447**	29,473
At end of year	**23,535**	13,912
Employees benefits IAS 19		
At beginning of year	**(795)**	(5)
Change in fair value	**(1,039)**	(790)
At end of year	**(1,834)**	(795)
Total fair value reserve	**(69,340)**	(54,712)

20. INTEREST INCOME AND EXPENSE

	2020	2019
Interest income on:		
Investment securities	**22,927**	26,136
Loans and advances	**8,981**	11,763
Deposits with banks and treasury bills	**5,162**	11,781
	37,070	49,680
Interest expense on:		
Deposits by banks and financial institutions	**4,251**	7,465
Deposits by non-banks	**816**	2,129
	5,067	9,594

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. NET FEES AND COMMISSIONS

	2020	2019
Loans	**311**	475
Trade finance	**-**	1
Islamic banking	**315**	502
Others	**(6)**	(13)
Net fees and commissions	**620**	965

22. NET GAIN ON FINANCIAL SECURITIES

	2020	2019
Equities	**1,124**	1,412
Debt securities	**1,146**	28
Unit Trust Funds	**(5,361)**	3,663
Total	**(3,091)**	5,103

23. OTHER INCOME, NET

	2020	2019
Remuneration for attending Projects' Board of Directors	**412**	373
Cancellation of rent agreement	**237**	-
Sale of project previously written off	**168**	-
Recovery of loans previously written off	**62**	1,837
Others	**(39)**	(133)
Total	**840**	2,077

24. GENERAL AND ADMINISTRATIVE EXPENSES

	2020	2019
Salaries and related benefits	**11,612**	12,968
Professional and consultancy	**1,215**	1,659
Board of directors' expenses	**360**	731
Others	**3,976**	3,809
Total	**17,163**	19,167

25. PROVISIONS WRITTEN BACK, NET

	2020	2019
Securities	**(1,251)**	(1,536)
Loans and advances written back, net (note 8)	**8,566**	5,978
Others	**163**	(152)
Total	**7,478**	4,290

26. 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).

NOTES TO THE FINANCIAL STATEMENTS (continued)

27. SIGNIFICAT EVENT

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

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

Thus far and as of the date of preparation of the financial statements for the year ended 31 December 2020, the Company's operations have not incurred significant impact from the COVID-19 outbreak. The Company will continue to evaluate the nature and extent of the impact on its business and financial results.

28. SUBSEQUENT EVENT

On 21 February 2021, the central bank of Sudan announced that the official rate and the parallel rate are to be unified to a one new exchange rate at 375 Sudanese pound, and began a flexible management of the currency by establishing an indicative rate on a daily basis, whilst committing to trade within a range of no more than 5 percent above or below the daily rates announced by the Central Bank based on the supply and demand, and the profit margin shall not exceed a range of no more than 5 percent above or below the selling or purchasing price. And due to the existence of some investment in Republic of the Sudan, this should reflect a decline in the fair value of the investment amounting to USD 14,169 thousands due to the devaluation of the Sudanese Pound against the US Dollar from 55 to 375 Sudanese Pound. However, the change in the fair value of the portfolio of the Sudan Projects due to the flotation of the Sudanese pound will be recorded prospectively after the period ended 31 December 2020.

The management believes that, other than the above mentioned subsequent event, there are no significant subsequent events that would have a material impact on the financial position nor the financial performance of the company.

29 COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform to the presentation in the current year.

30. APPROVAL OF FINANCIAL STATEMENTS

The accompanying financial statements were approved by the Board of Directors of the Company on 14 Sha'aban 1442H (corresponding to 27 March 2021).

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