THEARABINVESTMENTCOMPANYS.A.A.

Annual Report 2021

بسم الله الرحمن الرحيم

Contents

About the Company

The Arab Investment Company S.A.A (TAIC) was established in the middle of 1974, as a Pan-Arab joint-stock company under an international agreement. Its prime objective, according to the terms stipulated in its Memorandum of Association, is to «invest the Arab funds to develop the Arab resources through the participation in the investment projects in the sectors of agriculture, industry, trade, transportation and services on sound economic and commercial basis, in a manner that would support and develop the Arab economy». The Company enjoys all guarantees and concessions provided by the investment laws prevailing in the shareholding countries, including the guarantee of complete freedom to the movement of funds and its immunity against nationalization and confiscation.

TAIC is wholly owned by the governments of (17) Arab countries, with an authorized capital of $1,200 million and a paid-up capital of $1,050 million, distributed among the shareholding countries. The Company conducts its investment activities in two main lines of business, namely, the project equity and the banking services, from its Head Office in Riyadh, Kingdom of Saudi Arabia and from its banking branch in the Kingdom of Bahrain respectively.

Head Office
Kingdom of Saudi Arabia

Banking Branch
Kingdom of Bahrain

The Company Vision:

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

The Company Mission:

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

Paid-up capital	Authorized capital
1,050	**1,200**
US Dollars (MM)	US Dollars (MM)

Board of Directors


His Excellency Mr. Abdulaziz bin Saleh Al-Furaih
Chairman
Kingdom Saudi Arabia


His Excellency Mr. Youssef Abdullah Hammoud
Deputy Chairman
Kingdom of Bahrain


His Excellency Mr. Abdullah bin Abdul Rahman Al-Namlah
Member
Kingdom Saudi Arabia


His Excellency Mr. Abdullah Salem Al-Harthy
Member
Sultanate of Oman


Her Excellency Mrs. Taif Sami Al Shukrji
Member
The Republic of Iraq


His Excellency Mr. Khaled Hussein Al-Omar
Member
State of Kuwait

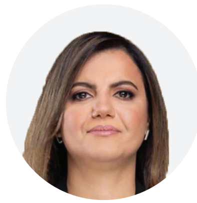

His Excellency Mr. Abdullah Ali Al-Kuwari
Member
State of Qatar


His Excellency Mr. Ashraf Mohamed Mohamed Negm
Member
Arabic Republic of Egypt


His Excellency Mr. Sultan Ahmed Al Junaibi
Member
United Arab Emirates


His Excellency Mr. Majid Khamis Al Darmaki
Member
United Arab Emirates


His Excellency Mr. Mishaal Salem Al-Otaibi
Member
State of Kuwait


Her Excellency Dr. Naglaa Mohammed Al-Manqoush
Member
State of Libya

Board Committees

Higher Investment Committee:

His Excellency Mr. Abdulaziz bin Saleh Al-Furaih...................... Chairman

Her Excellency Dr. Naglaa Muhammad Al-Manqoush................ Member

Mr. Abdullah Salem Al-Harthy.. Member

Mr. Mishaal Salem Al-Otaibi... Member

Mr. Majid Khamis Al Darmaki... Member

Risk and Compliance Committee:

Mr. Abdullah Salem Al-Harthy... Chairman

Mr. Ashraf Mohamed Mohamed Negm... Member

Mr. Abdullah Ali Al-Kuwari.. Member

The Audit Committee:

Dr. Abdullah bin Abdul Rahman Al-Namla................................ Chairman

Mr. Sultan Ahmed Al Junaibi.. Member

Ms. Taif Sami Al Shukrji.. Member

Nominations & Remuneration Committee:

Mr. Youssef Abdullah Hammoud.. Chairman

Mr. Khaled Hussein Al-Omar.. Member

Mr. Majid Khamis Al Darmaki... Member

Executive Management

Head Office: Riyadh

Mr. Ibrahim H. Al-Mazyad
Chief Executive Officer

Mr. Fahad Abdullah Al-Haqbani
Financial and Administrative Affairs

Mr. Dakheel Allah Abdullah Al Zahrani
Investment

Mr. Magdi M. Elkafrawy
Financial Affairs

Mr. Abdulaziz A. Al-Furaih
Human Resources and Administration

Mr. Sayed Mahmoud Osman
Information Technology

Mr. Khalid Saleh Al-Zugaibi
Legal Counsel

Mr. Yousif Sami Yousif
Internal Audit

Banking Branch: Bahrain

Mr. Ibrahim Milad Zletni
General Manager

Mr. Mahmood Salman
Administration & Finance

Mr. Marc Dondi
Treasury & Capital Market

Mr. Samir Medjiba / Mr. Isam Khalid
Credit Department

Mr. Mohammadine H. Menjra
Operation

Mr. Nitin Gupta
Risk Management

Dr. Osama Mukhtar
Legal Advisor

Mr. Lalit Bakhru
Internal Audit

Mr. Shelly K. Jose
Compliance Officer

Mr. Masoud Murad
Information Technology


THE ARAB INVESTMENT COMPANY
الشركة العربية للاستثمار

Chairman's Statement

His Excellency Mr. Abdulaziz bin Saleh Al-Furaih

Dear Shareholders,

On behalf of my colleagues, members of the Board of Directors, I am pleased to present before your hands the annual report of the Arab Investment Company (TAIC) for the fiscal year 2021, which reflects the company's financial results during the past year according to its performance, in addition to the development of the workflow of its projects, that is evidenced by the stable and gradual realization of financial returns in a growing and tangible manner, at a time when the successive economic crisis have closed a number of companies around the world, the Arab Investment Company (TAIC) continued its nearly 50 years of success and stability with the unlimited support it enjoys from the shareholding countries.

Despite the economic challenges accompanied the Corona Pandemic that almost paralyzed the global economy entirely, the Arab Investment Company (TAIC) continued its march with defiance and insistence, and achieved profits of USD 30.2 Million, maintaining the approach it follows, and in line with the requirements of the current circumstances, as it has also capably proven its ability to gain the confidence of its shareholders by maintaining the strength of its financial position.

We, at the Arab Investment Company (TAIC) are looking forward anticipating the promising future at a steady pace according to specific and deliberated strategies adopted by the Board of Directors and those in charge of the Company who have the professional capabilities to snipe the investment opportunities of rewarding returns.

In conclusion, I, on my own self and on behalf of my colleagues, the members of the Board of Directors and employees of Company, extend the deepest thanks, appreciation and gratitude to the governments of the shareholding countries, particularly the Government of the Kingdom of Saudi Arabia, which hosts the Company headquarter, and not to miss mentioning the Government of the Kingdom of Bahrain, which hosts the banking branch of the Company, for providing their support, interest and perseverance at various levels.

I would like to extend my thanks to all of my colleagues, members of the Board of Directors, the Executive Management and all employees, appreciating their outstanding efforts throughout the year in order to meet the aspirations of the shareholders, wishing the company further progress and success.

May Allah grant success,,,

CEO's Statement

Mr. Ibrahim H. Al-Mazyad

Dear Shareholders,

In the light of the successive changes witnessed in 2021, with the beginning of the global economy as a whole and the Arab economy in particular, to recover from the effects of the Corona pandemic, the Arab Investment Company (TAIC) was keen to enhance its revenues from its fixed incomes to support its performance in the markets in which it operates and we were able to maintain a steady pace in the Company's operational revenues resulting from its investments, and increasing its direct and indirect revenues to maintain its followed business model to suit the circumstances of the phase and reinforces the company's development mission.

The Company has worked, as much as possible, to update the procedures and overcome the challenges and negative impacts that the region's markets undergone as a result of the spread of the Covid-19 pandemic, by taking a number of strategies, measures and alternative plans, through which we were able to reach a safer and more stable level.

As one teamwork, we exerted tremendous effort to enhance the optimal exploitation of the available income generating investment opportunities and entered in new projects as well as exited some non-performing ones.

It is pertinent to mention that the Company was able to achieve good operating revenues despite the surrounding circumstances, through the enlightening by the Board of Directors guidance and the efforts of the Company's specialized teams work.

The Company achieved during 2021, net profit of USD 30.2 million with an increase of 3% of the realised profits in 2020 and the total assets amounted to about USD 1,815,691 with an increase of 2.3% compared to 2020, The total shareholders' equity increased to USD 1,363,744 with an increase of 3.9% compared to the previous year. The volume of investments in projects and investment funds amounted to USD434.6 million, which accommodated 28 projects in ten Arab countries, spread over nine sectors, including investment, finance, banking, food production, basic materials, communications, energy, consumer services, real estate, and public utilities. On the other hand, the Company has enhanced its investment portfolio by way of concluding contracts with other companies as part of its expansion plans to diversify sources of income, among that entering into an investment with Aqua Power in the field of water and energy in the Kingdom of Saudi Arabia at an amount of

$25 million, in addition to E-finance for Digital and Financial Investments Group, in the Arab Republic of Egypt, with an amount of $32 million.

During 2021, the Company was keen to continue implementing its policy of paying attention and care to the development of its human capital, by enrolling its employees in a number of internal and external courses and training programs to enhance their skills and develop their capabilities, and a number of various training courses were attended internally and externally including asset management, compliance, auditing, anti-money laundering/combating the financing of terrorism, risk management, information technology and others.

In the field of technology, the Company has been keen to coupe with financial technology developments in its dealings, to provide an advanced and safe work environment by upgrading its financial system to support the Risk Free interest Rate, and upgrading the treasury technical systems to the latest versions. It has also implemented, during 2021, the project of the technological transition to the Alternative Reference Rate as supporter to the Company's digital transformation plan, upgrading the core banking system to cope with the changes that may result from the transition to the Alternative Reference Rates.

We affirm the Company's commitment to its mission, which includes building and strengthening partnerships and possible cooperation relationships with local and global customers and partners, that would enhance its business portfolio and achieve better positive returns for its shareholders. The Company will continue to focus its efforts in order to implement the goals for which it has been established, parallelly with its strategic directions laid in accordance the Board of Directors vision and the programs suitable to its workflow mechanism.

In conclusion, I would like to extend my sincere thanks to His Excellency the Chairman of the Board of Directors, and the esteemed members, for their unlimited support which contributes to the advancement of the company to a higher level of growth and success. I would also like to thank all the company's employees for their strenuous efforts and hard work in achieving success during the fiscal year 2021 despite the difficulties and challenges. I further would like to express my sincere thanks and appreciation to all related counterparties and partners for their understanding and trust.

Shareholding countries share in the company'S capital

Country	Share Amount (in USD)	%
Kingdom Saudi Arabia	173,848	16.56
State of Kuwait	173,848	16.56
United Arab Emirates - Abu Dhabi	142,641	13.58
The Republic of Iraq	116,243	11.07
State of Qatar	90,841	8.65
Arabic Republic of Egypt	77,268	7.36
Syrian Arab Republic	63,396	6.04
State of Libya	66,170	6.30
Republic of Sudan	29,696	2.83

Country	Share Amount (in USD)	%
Kingdom of Bahrain	18,960	1.81
Republic of Tunisia	18,960	1.81
The Kingdom of Morocco	18,960	1.81
Republic of Lebanon	17,875	1.70
People's Democratic Republic of Algeria	17,875	1.70
Sultanate of Oman	16,918	1.61
the Hashemite Kingdom of Jordan	3,569	0.34
Republic of Yemen	2,932	0.27
Total	**1,050,000**	**100.00**

Summary of TAIC Financial Results in 2021

The Company achieved net profits at the end of the fiscal year 2021 of USD 30,187 thousand, compared to USD 29,260 thousand at the end of the fiscal year 2020, with an increase of 3%. The total operating income from the Company's various activities for the fiscal year 2021 amounted to about USD 47,968 thousand, compared to USD 38,945 thousand for the fiscal year 2020, with an increase of 23%. The general and administrative expenses for the fiscal year 2021 amounted to USD 18,643 thousand, compared to USD 17,163 thousand at the end of the fiscal year 2020, with an increase of USD 1,480 thousand, or 9%. The Company's both investment and banking activities have contributed to achieving these results despite the difficult economic conditions witnessed in the fiscal year 2021 as a result of the ongoing Corona Virus (Covid-19) pandemic.

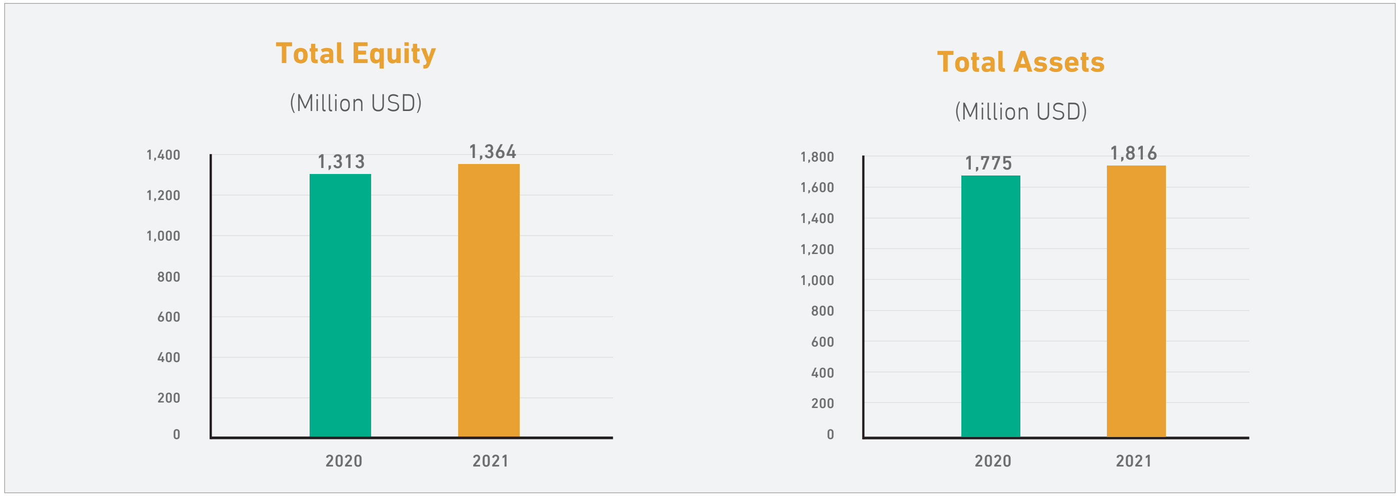
The Company's total assets at the end of the fiscal year 2021 amounted to about USD 1,815,691 thousand, compared to USD 1,775,067 thousand at the end of the fiscal year 2020, with an increase of USD 40,624 thousand, or 2.3%.

The total shareholders' equity at the end of the fiscal year 2021 amounted to about USD 1,363,744 thousand, compared to USD 1,313,110 thousand achieved at the end of the fiscal year 2020, with an increase of 3.9%.

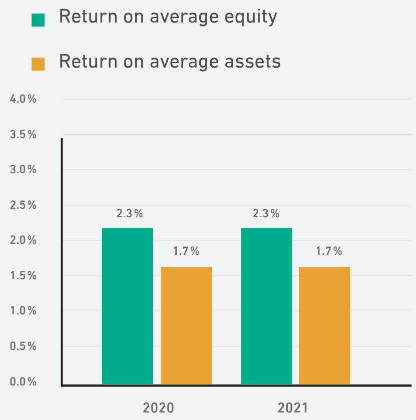
The Company achieved a return on average assets of 1.7%, while the return on average shareholders' equity reached 2.3% at the end of the fiscal year 2021. The following table shows the Company's key performance indicators for the fiscal year 2021, compared to 2020:

General and administrative expenses	Total shareholder's equity	Total operating income	Total assets	Net profit
18,643	**1,363,744**	**47,968**	**1,815,691**	**30,187**
US Dollars (MM)	US Dollars (MM)	US Dollars (MM)	US Dollars (MM)	US Dollars (MM)

The key performance indicators of the Company during the two years (2020 - 2021)

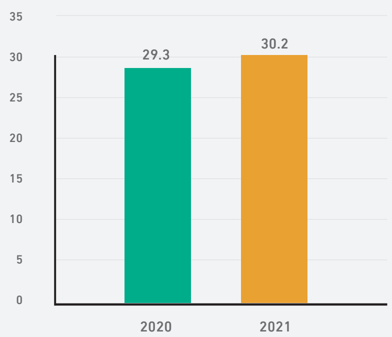


The following graphs show the assets of TAIC shareholders' equity, the return on average assets, the return on shareholders' equity, and net profits during (2020 - 2021) in millions of USD:



Annual net income

(Million USD)



Managing the Company:

The Company's confident steps towards achieving its investment and development mission is considered as the fundamental pillar upon which it relies, to satisfy the needs and aspirations of its shareholding countries to support and develop the Arab economy. The Company's management is committed to achieving this through its application of the best practices and the latest and most effective systems in the field of management, investment and asset management, always emphasizing that achieving sustainable development in the countries of the Arab region and continuing success is at the forefront of its priorities.

Within its organizational framework, the Company's general assembly approved the formation of the board of directors for its new 16th session, and the board, for its part, re-formed its specialized committees to support in carrying out its duties effectively.

The Board of Directors continued its supervisory and monitoring role entrusted to it in accordance with the Company's regulations, holding (5) periodic meetings during 2021, and issued number of decisions specifying accordingly the mechanism of workflow and its implementation steps in line with the regulatory requirements, according to the best practices and standards applicable in this regard. In the same context, the Board's specialized committees carried out their duties and responsibilities. The Board of Directors, through its meetings, the reports of its specialized committees, and the reports of the executive management, was assured of the progress and performance of the Company and its success in achieving good results. In addition, the Company has accomplished most of the quantitative and qualitative objectives included in its annual operating plan, within the framework of its general policies, directives and decisions of the Board of Directors, which contributed to maintaining the Company's distinguished position among the joint Arab companies.

The Company's business during 2021 was also subjected to periodic reviews by the Internal Audit Department approved by the Audit Committee, to objectively and independently verify the adequacy and effectiveness of the internal control systems for all operations and activities of the Company, and to evaluate its compliance with legal and regulatory requirements.

Undoubtedly the Company faced many challenges, perhaps most notably the repercussions of the Corona pandemic (Covid-19), which dictates the Company to intensify its efforts to serve the Arab economy, despite the obstacles facing its way, as the management is currently working on preparing a new strategic plan for the Company's investment and banking activities, to meet the Company's ambitions and its development and future directions.

Developing the Support Services:

In light of the continuous efforts of the Company's management to develop the institutional work to serve the work environment and achieve the desired goals and future aspirations, the Company implemented, during the fiscal year 2021, its approved programs to back up the support services in both areas of the information technology systems development and the human resources development.

The Information Technology systems:

The Company's management intensified its continuous efforts to develop its capabilities and competences in the field of information technology to serve the work environment, achieve the desired goals and future aspirations, and keep pace with the continuous developments. During the fiscal year 2021, a set of the Company's technical systems were developed to cope with the best local and international standards.

As a part of improving the Company's banking system, which is designed to support all banking operations, especially the loans, banking documents, accounts and financial statements, the Company has upgraded the Core Banking System to cope with changes that might result from the transition to the Alternative Reference Rates. Furthermore, the Treasury technical systems have also been upgraded to the latest versions. In addition, the technical transition project to the Alternative Reference Rates has also been implemented and all its requirements have been fulfilled. In support of the Company's digital transformation plan, the network infrastructure has been developed by modernizing the routers and distributors systems, as the new system provides high efficiency and advanced technical capabilities.

The Human Resources:

The Company is generally working on achieving the optimal use of human resources through a strategy that includes a set of multiple policies and practices in a way that conforms with the Company's directions, mission and vision and in accordance with the annual action plan and its developments. The company's interest in developing its human capital comes in the forefront of its priorities, as it pays great attention to this through developing and motivating its capabilities, addressing the challenges that may affect its productivity or its inability to sustain it, for maintaining a positive, motivating and productive work environment.

During the year, the Company continued to develop and train its human cadres by developing their capabilities and competencies in a way that suits the prevailing circumstances and the Company's current and future needs and the requirements of the supervisory authorities, by participating in some training programs and on-the-job training. During 2021 a number of the Company's employees participated in internal and external training programs and workshops covering: Asset and Liability Management, Auditing, Anti-Money Laundering, Terrorist Financing, Operational Risk, Risk and Compliance Management, Loans, Compliance, Information Technology.

Enhancing the Institutional Work:

The institutional work is the main pillar of the Company, as the Company abides in all its activities by the applicable laws and regulations, guided by the principles of governance and transparency, the decisions of the Board of Directors, and the directives of the regulatory authorities, which gives its activities more flexibility and suitability with work requirements and its developments.

Prudent Management and Governance Systems:

In commitment to the principles and standards of good governance as part of the Company's philosophy to achieve its future aspirations and implement its promising plans, the Company has developed a package of measures and policies through which it defines roles and distribute the responsibilities, to create an organized work environment that can carry out its activities with all the accuracy and comfort, taking into account the technical aspects and the requirements of the regulatory authorities. The Board of Directors follows up the implementation of governance systems in line with the requirements of the regulatory authorities and the needs of the labour market, in order to verify the correctness and accuracy of the application of the systems and to ensure adherence to the best practices of governance and transparency. Therefore, the Board has established several permanent Boards committees namely: the Higher Investment Committee, the Audit Committee, the Risk and Compliance Committee, and the Nominations & Compensation Committee. There are also permanent internal committees related to the executive management, the most important of which are: the Investment Committee, the Credit Committee, the Securities Committee, and the Assets and Liabilities Committee. All of these committees are entrusted with varying tasks and powers in order to organize institutional work with high professionalism.

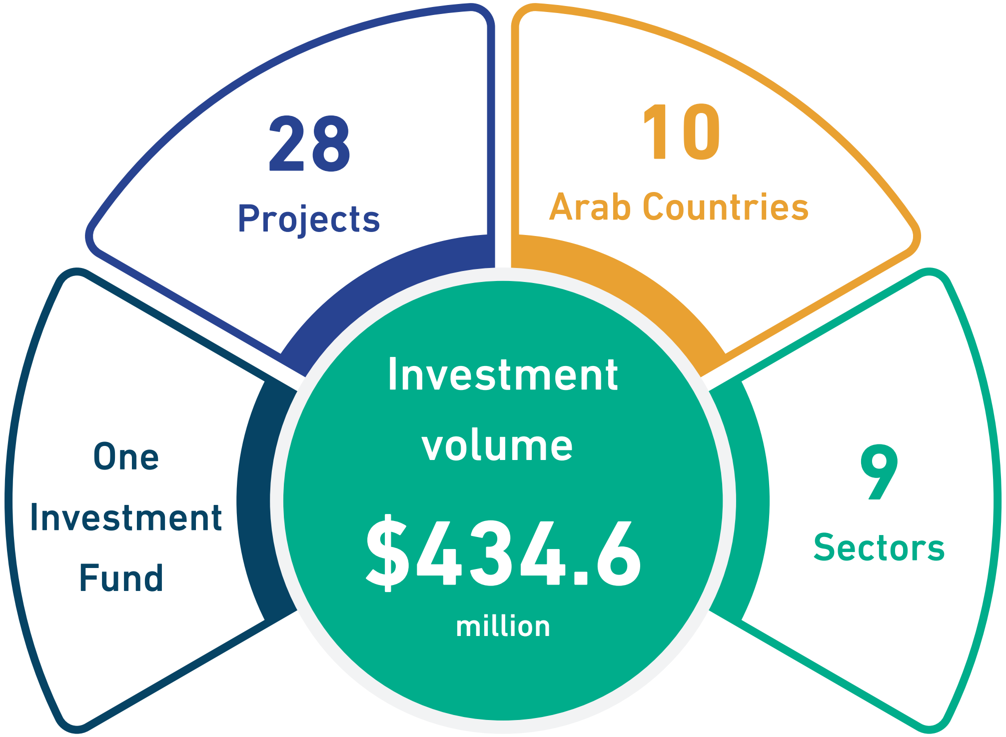
Investing in Projects

Despite the economic volatility and the continuing state of uncertainty that prevailed in a number of Arab countries that led to foggy environment in the investment, and the varying circumstances that faced the investment climate regionally and globally, the Company was able to achieve good financial results by overcoming the challenges it faced in investing in projects. The Company continued to support the development process and work to achieve the goals for which it has been established, by investing in projects that contribute to the development of Arab resources, and paying attention to joint projects that support the Arab cooperation and economic integration.

In this context, the Company continued to follow up and evaluate the positions of the existing projects portfolio, exiting some of the non-performing and written-off participations, searching for promising investment opportunities in the targeted countries and sectors, and following up and enhancing the Company's investments in the portfolio of Arab funds and equities. The Company also reviewed and updated its investment policy which governs the function of the investment department, in light of the Company's experience derived from implementing the policy and the change in investment requirements and conditions.

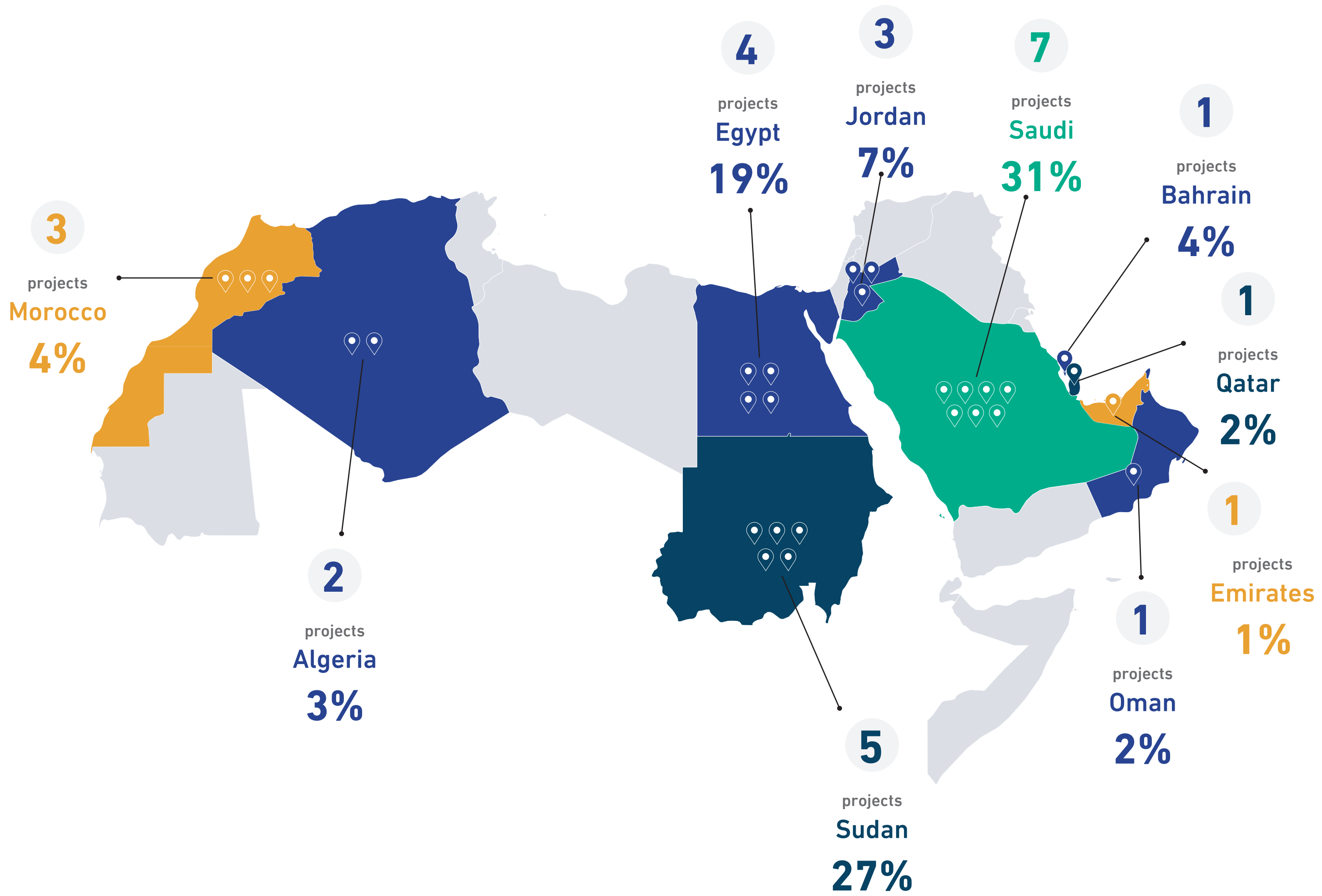
In alignment with the Company's objectives to search for promising investment opportunities in the targeted countries and sectors, the Company's management intensified its follow-up on the developments witnessed in the investment fields in the Arab region. In this context, the Company has studied and followed up on many of the available investment opportunities, some of which were abandoned due to its non-feasible evaluation results. The Company succeeded in investing in two promising investment opportunities, one of which is in the field of energy and water in the Kingdom of Saudi Arabia, namely (ACWA Power) a company for Power and Water Projects listed in the Saudi Exchange, Tadawul All Share Index (TASI) for an amount of USD 25 million, and the other one linked to the digital transformation and electronic payments sector in the Arab Republic of Egypt, namely (EFIH) e-Finance for Digital & Financial Investments SAE Group, listed on the Egyptian Stock Exchange for an amount of USD 32 million.

The Company's total investments in the both fields of investment in projects and funds, as of 31/ 12/ 2021, amounted to approximately USD 434,559 thousands, representing 41% of the Company's paid-up capital, with an increase of about 15% over the Company's total investments in 2020. The Company's projects portfolio included 28 investment projects with a total investment amounted to about USD 421,546 thousand, in addition to the investment in the International Finance Corporation (IFC) Fund for the Middle East and North Africa for an amount of approximately USD 13,013 thousand.



The Company's total investments in projects were geographically distributed across (10) Arab countries, and sectoral in (9) sectors in various fields, including investment and finance, banking, food production, basic materials, communications, consumer services, real estate, public utilities, and energy.

Geographical distribution of portfolio projects:



The Company was keen to participate in the meetings held by the projects managements and their general assemblies through exerting distinguished efforts to address the problems and overcome the obstacles faced by some of the projects, in addition to recommending the utilization of opportunities in coordination with project departments and with other contributing parties through Company representatives in the projects Boards of Directors and the specialized committees. The Company also devoted its efforts to exploring the investment opportunities in various sectors, where it conducted an evaluation and studies of promising investment opportunities in the Arab world.

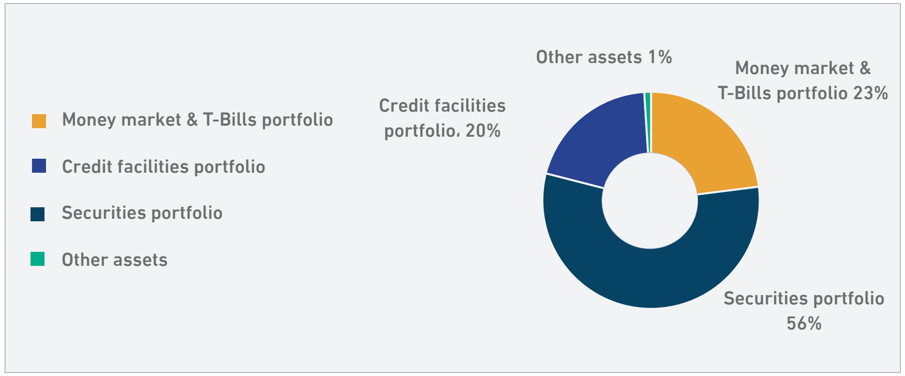
Providing Financial Services

In addition to the its main activity in the field of projects investment, the Company also provides a wide range of financial services through its banking branch in the Kingdom of Bahrain, which operates as a conventional wholesale bank licensed by the Central Bank of Bahrain. The Banking activities is considered as one of the most important fields of business as it plays a key role in enhancing the investment activities in projects by achieving additional income to be reinvested to provide more support to meet the financing needs of the shareholding countries, thus enhancing the role of the Arab Investment Company as a catalyst for the investment in the Arab world. The banking branch provides its clients from government and semi-governmental agencies and private sector, including corporates, with a variety of financial services. The banking branch also enjoys a wide network of banking relationships with a large number of banks and financial institutions in many countries of the world, supported by qualified banking competencies with professional expertise in various fields of banking business, and equipped with modern and advanced technologies in an effort to raise to the best levels of banking practices. Despite the prevailing economic conditions at the global and regional levels, the branch continued its efforts to manage its banking services to achieve the desired goals of the Company, by adopting a sound and prudent approach in dealing with the challenges and continuing negative effects on the global economy and financial markets due to the Corona Virus (Covid-19) pandemic. The efforts of banking activities during the fiscal year 2021 were mainly focused on mobilizing resources, managing liquidity, adopting a selective approach towards business opportunities, and closely monitoring the banking asset portfolio in accordance with regulatory guidelines, best market practices and the requirements of International Financial Reporting Standards (IFRS). Total banking assets at the end of fiscal year 2021 amounted to USD 1,324 million, compared to USD 1,370 million at the end of fiscal year 2020, with a decrease of 3%. The following table shows the components and percentage of the banking assets portfolio at the end of the fiscal year 2021:

Components of the banking assets portfolio as at 31/ 12/ 2021

Other assets	Credit facilities portfolio	Securities portfolio	Money Market &T-Bills portfolio
12	269	742	301
US Dollars (MM)	US Dollars (MM)	US Dollars (MM)	US Dollars (MM)

Components of the banking assets portfolio at the end of the fiscal year 2021 (%):



The portfolio of assets has been distributed among the various activities of the business departments as follows:

Treasury and Investment In Securities:

During the fiscal year 2021, central banks and governments continued to provide continuous support through monetary and fiscal policies that had a positive impact and contributed to a rapid and strong economic recovery in a number of economies. However, the increasing demand that was not fully satisfied due to the significant disruption in supply chains as a result of Corona pandemic lockdowns have resulted in inflationary pressure globally adding to the volatility in global markets.

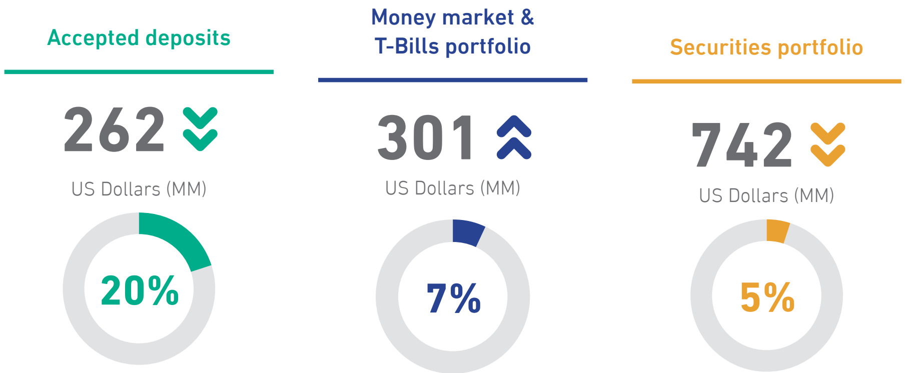
The treasury department has maintained the liquidity and financing required for business departments activities and contributed to the Company's profitability through its management of the assets and liabilities and its investments in equities and fixed-income securities.

The securities portfolio amounted to USD 742 million at the end of fiscal year 2021 compared to USD 784 million at the end of 2020, reflecting a decrease of 5% after revaluation and rebalancing of the fixed-rate and floating-rate bond portfolios.

The Money market & T-Bills portfolio (deposits with banks and treasury bonds issued by the Central Bank of Bahrain) amounted to USD 301 million at the end of the fiscal year 2021 compared to USD 282 million at the end of 2020, reflecting an increase of 7% due to the high level of liquidity at the end of the year.

Accepted deposits from customers, financial institutions and government entities amounted to USD 262 million at the end of fiscal year 2021 compared to USD 327 million at the end of 2020, which led to a decrease of 20% as a result of the repayments of the non-bank deposits in the fourth quarter of 2021 without being able to replace it with new deposits before the end of the year, but its impact was mitigated by increasing liquidity levels by activating repo agreements.

The Company has proactively managed the project of transition from the reference rate of interest (Libor), and it also upgraded the core banking system during the fiscal year 2021 to cope with the changes that may result from the transition to the alternative reference interest rates.



Credit Facilities:

Global markets showed signs of recovery from the turmoil associated with the Corona pandemic (Covid-19) during fiscal year 2021, reflecting the strength of strong monetary and fiscal measures initiated by governments and central banks around the world. The surplus capital, coupled with the readiness and appetite of investors to take on investment risks in a low or negative interest rate environment, contributed in the recovery of the credit market in various markets such as the USA, Europe, Asia and the Middle East and North Africa region (MENA).

In MENA region, the volume of credit facilities showed a growth during the fiscal year 2021 compared to the previous year as large deals were arranged for the benefit of Sovereign Entities (Sovereigns) and Government Related Entities (GREs), which are representing the main borrowers in the first place. These deals were characterized by their low prices and imposing on investors to commit in large volume participations, which led to limiting the activities of Tier 2 regional banks (with the exception of countries rated below investment grade, where regional banks played an important role). International lenders continued to represent the majority of liquidity providers to the MENA region during fiscal year 2021. International lenders focused on strengthening their relationships with the first-tier sovereign and government entities in the region, in addition to the financial institutions, and played a major role in the most important issuances in the region.

In the midst of these challenges, TAIC, through its banking branch in Bahrain, continued to provide credit facilities to customers directly or through participating in syndicated facilities in partnership with regional and international financial institutions, and was always keen to seize the best opportunities in the market in line with its credit standards stipulated in the credit policy for banking activities and the level of credit risk appetite approved by the Board of Directors.

At the end of fiscal year 2021, the net portfolio of outstanding loans and credit facilities amounted to USD 269 million, compared to USD 293 million at the end of 2020, with a decrease of 8%. This decrease was mainly due to the maturity of some loans, in addition to the pre-maturing in the repayment of some other loans before their due date. The total repaid loans amounted to USD 107 million, compared to new loans granted during the fiscal year 2021, with a total value of USD 82 million.

Credit facilities granted to sovereign entities dominated the loan portfolio with 44% of the total portfolio, followed by regional institutions for insurance of investment and export credit with 34%, and then financial institutions with 22%. In terms of geographical distribution, the GCC topped the list with 48% of the total loan's portfolio, followed by regional institutions with 34%, MENA with 15%, and finally the Indian subcontinent in the last place with 3%.

new loans

82

US Dollars (MM)

repaid loans

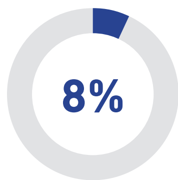
107

US Dollars (MM)

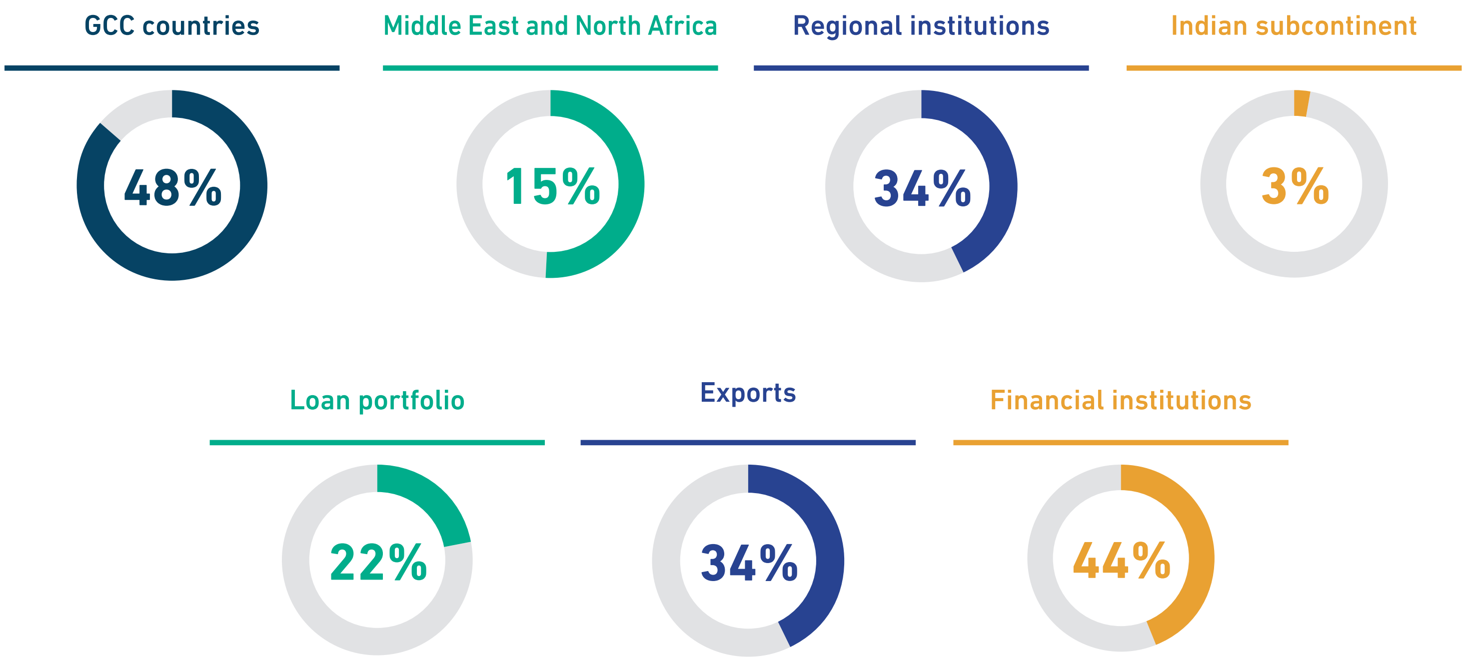
loans and credit facilities

269

US Dollars (MM)



Geographical Distribution



In addition to granting credit facilities, the Company, through its banking branch in Bahrain, provides trade finance services, with a special focus on the markets of shareholding countries, despite the difficult regulatory requirements that generally affected business activity. Trade finance services include issuance, advising, confirmation and refinancing of letters of credit, discounting of commercial papers and financing of pre-export activity.

Improving asset quality metrics is of paramount importance to the executive management of the Company, which has remained committed to exert its efforts to build up a sustainable loans portfolio based on the sound redistribution of risks across different geographies, and to manage exposure to high-risk assets and markets by putting in place adequate and appropriate tools to mitigate risks, and strict compliance with the policies approved by the Board of Directors.

Risk Management and Compliance

Risk Management:

Risk management represents an integral part of the Company's business activities and decision-making processes. Maintaining the sustainability of the Company's performance depends on its ability to manage risks at all levels. In this regard, the Company has built a robust risk management structure and framework that ensures the appropriate balance between risks and returns. This framework consists of a comprehensive set of policies, standards, procedures, processes, and systems designed to identify, measure, monitor, mitigate, and report risks in a consistent and effective manner across the Company's divisions. This framework is necessary to support the strategic goals of the Company and serves as a platform for growth.

In light of the continued growth witnessed by the banking and financial sectors accompanied by a steady increase in complexity and professional development, in addition to the continuous changes in the regulatory rules and the operational environment, the Company has been keen to continue updating its risk management framework to accommodate these variables and reduce the multiple potential risks that the Company faces through practicing its regular activities, the most important of which are credit risk, market risk, liquidity risk, operational risk and other risks such as compliance risk and reputational risk. The business strategy and risk management process are designed and reviewed in line with the level of risk appetite. The governance framework adopted by the Company defines the responsibilities and functions of both the Board of Directors and the executive management with regard to the effectiveness of the risk management framework and how it is implemented, ensuring that the results are followed up and taking appropriate corrective actions while continuing to update it in line with the requirements of the regulatory authorities and the best practices followed.

Risk Management Governance:

The risk governance structure ensures that there is a centralized control process with a clear system of accountability and ownership of risks. The Board of Directors is responsible for determining the appetite for risks exposure, as well as for establishing and monitoring the risk management framework. To this end, the Board's Risk and Compliance Committee (RCC) is responsible for the effective implementation and monitoring of the risk management framework in line with the regulatory authorities' directives, and in consistency with industry best practices through an independent risk department. The Company adopts the three lines of defence model, where business departments represent the «first line of defence», while supporting departments such as risk & compliance department and legal department represent the «second line of defence», and the internal audit department constitutes the «third line of defence».

Risk Management Framework:

The Company has worked over the past years to develop a comprehensive and robust risk management structure, including setting clear policies for managing credit risk, market risk, operational risk, liquidity risk and reputational risk arising from various business activities. These policies are subject to annual review to ensure that they are in line with regulatory authorities' directives and best practices in the banking industry. The risk management policies are complemented by risk management models that include the asset liability management system and market risk, the credit risk internal rating system and the capital adequacy assessment platform.

The stress test is considered as an integral part of the Company's risk management framework providing stress test training under critical conditions with forward-looking assessment of the potential risks that it may be exposed to during similar circumstances and extrapolation of potential financial losses or potential impacts on the Company. This virtual training enables the Company to develop appropriate contingency plans to mitigate those risks and helps manage any anticipated risks efficiently.

The main risks are as follows:

Credit Risk:

The primary objectives of credit risk management lies in maintaining a strong culture of responsible lending and high quality of assets, in accordance with the provisions of the credit policy for banking activities approved by the Board of Directors, which is subject to periodic review by the Executive Management and the Risk and Compliance Committee of the Board, and is re-approved annually by the Board of Directors to ensure its compliance with best practices and regulatory guidelines. The Risk Management Department works to ensure consistency between business activities and the level of risk appetite approved by the Board of Directors. In this regard, a detailed examination of all potential business opportunities is carried out.

The credit risk internal rating system ensures the quantitative assessment of credit risk, which facilitates the process of making informed lending decisions, identifying any deterioration in credit risk, and the consequent application of corrective measures, and the risk rating of each client is reviewed at least annually.

The Company manages and controls the credit risk by setting internal limits for the acceptable risk volume for clients, business sectors and countries in accordance with the credit policy for banking activities approved by the Board of Directors. The Company also follows strict standards in setting credit limits for countries, customers and counterparties, and the credit risk limits are approved according to the matrix of powers set on risks basis or the delegated powers stipulated in the credit policy for banking activities.

The Company has also applied the International Financial Reporting Standard (IFRS 9) and other rules of the Basel Committee to monitor, classify and provide provisions for performing and non-performing assets.

Market risk:

The Company's activities that are exposed to market risks are subject to the provisions contained in the policies and regulations approved by the Board of Directors, which require full compliance with controls and limits, segregation of duties between the functions of business departments and operations department, and the submission of periodic reports on the outstanding positions. The Market Risk Policy is periodically reviewed by the Executive Management and the Risk & Compliance Committee and approved annually by the Board of Directors.

Among the most prominent market risks to which the Company's activities are exposed are interest rate risks and foreign exchange rate risks. The Company measures market risk through interest rate sensitivity analysis, price value per basis point (PVBP) analysis, and Modified Duration analysis through the daily reports provided by the market risk model. The Company does not hold open FX positions significantly and adopts a hedging approach to offset its open FX positions via currency swaps agreements.

Operational Risks:

The Operational Risk Management Framework (ORMF) applied in the Company aims to integrate the operational risk management into the Company's day-to-day activities by finding an appropriate balance between operational risk, return and cost providing a better risk management practice that fully complies with all applicable regulatory guidelines.

In this regard, the Company applies a comprehensive and detailed policy of operational risks approved by the Board of Directors that works in conjunction with a systematic process of operational risk management including identification, assessment, treatment, monitoring and reporting of risks on an ongoing basis. Operational risk management requirements and practices are appropriately incorporated into all business and operations procedures manuals and considered when making decisions. Operational risks in the Company are measured periodically using the Risk & Control Self-Assessment (RCSA) process, which is monitored using Key Risk Indicators (KRIs) and managed primarily by business managers and support departments, who identify, evaluate and ensure the implementation of effective controls to mitigate those risks. The Operational Risk Management Unit operates independently of the business departments related to operational risks, and is responsible for the design, maintenance and continuous development of the Operational Risk Framework (ORMF) and provides the necessary support to business departments and support departments to ensure compliance with the requirements of the Operational Risk Framework and the regulatory guidelines. Moreover, the Company applies an effective mechanism to collect and analyse the Internal Loss Data (ILD) for the purpose of providing the information necessary to assess the level of exposure to operational risks and the effectiveness of internal controls. The Company also applies clear procedures to mitigate any potential risks arising from dealing with new or modified products and services, and the arrangements related to dealing with third-parties to obtain services through outsourcing.

Liquidity Risk:

Liquidity risk management ensures that the funds necessary to meet the Company's financing requirements are available at all times, whether under normal conditions or under pressure of critical conditions, at reasonable prices. The Board of Directors and its Risk and Compliance Committee are responsible for managing the liquidity, while the day-to-day liquidity supervision has been delegated to the Asset and Liability Management Committee (ALCO), which exercises its duties in accordance with the provisions of the Asset and Liability Management Policy approved by the Board of Directors to ensure compliance with various liquidity standards, such as Minimum Liquid Assets Level, Gap Limits, the Ratio of Liquid Assets to Total Assets and so on. The Asset and Liability Management Policy is also subject to periodic review by the Executive Management and the Risk and Compliance Committee before being approved annually by the Board of Directors.

The Company's Asset and Liability Management system provides various liquidity reports on a daily basis, which facilitates timely measurement of liquidity risks and effective decision making. The Company aims to achieve a stable rate of profit growth by actively managing the mix of Asset and Liability Management while selectively positioning itself to benefit from the near-term changes in interest rate levels. The Company maintains a portfolio of diversified assets of highly saleable that can be easily liquidated in the event of an unexpected cash flows disruption. The liquidity position is evaluated and managed according to a variety of scenarios, which consider the stress factors related to both the market in general and the Company in particular. The Company's Asset and Liability Management Committee, in addition to its other functions, is responsible for the effective management of liquidity risks and liquidity position, liquidity gap limits, funding requirements, Contingency Funding Plan (CFP), and asset and liability pricing.

Business Continuity:

The Business Continuity Plan in the Company is managed in accordance with the Business Continuity Plan policy approved by the Board of Directors and in compliance with all applicable regulatory directives. This policy clearly defines the roles and responsibilities of all key stakeholders and provides the necessary guidance for sound business continuity, including the periodic testing to ensure its adequacy and effectiveness.

In the event of a specific disaster or any business disruption, the Company operates in accordance with the provisions of the Business Continuity Plan (BCP) Policy and its associated procedures aimed at protecting lives and minimizing any losses that may result from it such as financial loss, infrastructure loss, reputation loss, etc., as well as to ensure timely resumption of work for critical and important operations and activities.

Reputational Risk:

Managing reputational risk is considered as an inherent feature of the Company's work culture and forms an integral part of its internal control systems. The Company maintains the highest level of professional standards in conducting its business, and places the utmost importance on its reputation for honesty, integrity and ethical standards.

Culture Of Risk:

The Company continues to inculcate a robust culture of risks to ensure that all work is carried out with an ethical approach. The culture of risk is closely related to the comprehensive culture of doing business in the Company and includes the general awareness of employees, specifically their conduct and behaviour towards risks and how they are managed in the Company. The Board-approved Risk Appetite Statement (RAS) reinforces the culture of risk through the concept of governance system, which outlines the level of risks the Company is willing to accept.

The Trade-off between Risks and Returns:

Since the risks associated with business cannot be completely excluded, the risk management framework aims to ensure the effective management of these risks in order to achieve competitive returns commensurate with the degree of risk expected. The risk assessment is based on the potential effects on profitability and assets value taking into consideration the changes in political and economic conditions in the markets as well as the creditworthiness of clients.

Regulatory Compliance and Anti-Money Laundering and Terrorist Financing

Regulatory Compliance and Anti-Money Laundering and Terrorist Financing:

The Company is committed to complying with all applicable laws and regulations, international principles and guidelines and the requirements of international sanctions laws. Accordingly, the Company has implemented robust regulatory frameworks to manage money laundering and terrorist financing risks and sanctions. In view of the increasing requirements and expectations of key stakeholders such as regulators and correspondent banks, the Company has invested heavily in managing compliance risks through the continuous development and enhancement of its capabilities at all levels.

The Company's Compliance department enjoys complete independence and reports to the Board's Risk and Compliance Committee (RCC) of the Board of Directors, which in turn periodically reviews the compliance regulations, anti-money laundering and terrorist financing policies and sanctions, for onward submission to the Board of Directors for approval annually. Compliance with these policies is subject to the periodic review carried out by the Internal Audit Unit which submits its report to the Audit Committee emanating from the Board of Directors. Compliance is also subject to annual review by the Company's external auditor, who conducts an independent review of compliance with the anti-money laundering policy and procedures annually and submits its report to the Board of Directors and regulatory authorities.

Regulatory Compliance:

The Compliance Framework approved by the Board reflects the principles for enhancing sound compliance practices. The role of the Compliance Department is to assist senior management to ensure that all activities in the Company are practiced and managed in accordance with applicable laws and regulations and best professional practices in the banking industry. The Company has implemented a robust compliance program in line with the policy approved by the Board of Directors which includes regular monitoring and timely reporting of regulatory requirements, compliance testing and periodic reporting to the Board's Risk and Compliance Committee (RCC).

Anti-Money Laundering and Terrorist Financing:

Anti-money laundering and terrorist financing policies and procedures are consistent with the Financial Action Task Force (FATF) international standards on combating money laundering and terrorist financing. Appropriate systems and procedures have been put in place to ensure proper due diligence of clients, including daily monitoring of transactions, checking transactions against local and international sanctions lists, detecting and reporting suspicious transactions procedures, comprehensive training programs for employees, and record keeping in accordance with regulatory requirements.

Compliance with FATCA:

The Compliance Framework is fully compliant with the Foreign Account Tax Compliance Act (FATCA) as well as the Common Reporting Standards (CRS), which together constitute the Automatic Exchange of Information (AEOI) related to the payment of taxes. The Automatic Exchange of Information (AEOI) regulation has been approved by the Board of Directors. FATCA and CRS reports are also submitted annually to the regulators.

Transition to the Alternative Reference Interest Rates:

Following the decision of the global regulatory authorities to stop using the interest rate (LIBOR) and replace it with Alternative Reference Rates (ARR), the Company formed a specialized committee to coordinate and supervise the plan and program of the transition project to from LIBOR. The committee consisted of representatives from the departments of business, financial affairs, risk and compliance, operations, information technology and legal affairs. The main objectives of this committee included assessing the need to amend existing contracts for loans, commitments and liabilities linked to LIBOR rates that need to be modified as a result of the transition to Alternative Reference Rates (ARR). The committee also undertakes the task of evaluating the financial and accounting impact of these amendments to existing contracts, and continuous communication about the transition from LIBOR with relevant parties inside and outside the Company. During the fiscal year 2021, the Company upgraded the core banking system to accommodate the requirements for implementing Alternative Reference Rates, and developed detailed plans and procedures that support the transition.

Following the progress made during fiscal year 2021, the Company is fully confident that it has the operational capability to manage the transition to Alternative Reference Rates of the benchmarks of interest rates, such as the USD LIBOR rate, which is scheduled to be discontinued on 30, June 2023.

In conclusion, the Board of Directors of The Arab Investment Company (TAIC), as it presents its annual report, is pleased to express its great thanks and gratitude to the governments of the shareholding Arab countries for their ccontinuous and strong support for the Company. The Board thanks in particular the government of the Kingdom of Saudi Arabia, which hosts the Company's headquarters, and the government of the Kingdom of Bahrain, which hosts its banking branch, for the facilities and distinguished care provided by the two countries to the Company through its various institutions. The Board of Directors also expresses its thanks to the Company's clients in the public and private sectors, stressing its proudness of and pride in their confidence in it. The Board also extends his sincere thanks to the executive management and all the Company's employees, each in his position, congratulating everyone for the harvest of the fiscal year, and the results achieved during the fiscal year 2021, looking forward to making more efforts to achieve the Company's goals and future aspirations.

Allah grants success,

FINANCIAL STATEMENTS

31 DECEMBER 2021

Building a better working world

Ernst & Young Professional Services (Professional LLC)
Paid-up capital (SR 5,500,000 - Five million five hundred thousand Saudi Riyal)
Head Office
Al Faisaliah Office Tower, 14th Floor
King Fahad Road
P.O. Box 2732
Riyadh 11461
Kingdom of Saudi Arabia

C.R. No. 1010383821

Tel: +966 11 215 9898
+966 11 273 4740
Fax: +966 11 273 4730

ey.ksa@sa.ey.com
ey.com

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 2021, 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 2021 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
To the Shareholders of The Arab Investment Company
(Arab Joint Stock Company) (continued)

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
Professional Services

Saad M. Al-Khathlan
Certified Public Accountant
License No. 509

Riyadh: 17 Ramadhan 1443H
(18 April 2022G)

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C.R. 1010383821
Ernst & Young Professional Services (Professional LLC)

Statement of financial position

As at 31 December 2021

All amounts in United States Dollars thousands

	Notes	2021	2020
ASSETS			
Cash and deposits with banks	5	388,988	374,170
Investments			
Securities	6	752,601	795,478
Equity participations	7	369,203	273,192
Loans and advances	8	268,682	292,709
Other assets	9	13,372	16,601
Property and equipment	1-10	10,737	10,955
Investment properties	2-10	9,619	9,869
Intangible assets	11	2,489	2,093
TOTAL ASSETS		1,815,691	1,775,067
LIABILITIES AND SHAREHOLDERS' EQUITY			

	Notes	2021	2020
LIABILITIES			
Deposits	12	420,541	431,332
Other liabilities	14	31,406	30,625
TOTAL LIABILITIES		451,947	461,957
SHAREHOLDERS' EQUITY			
Share capital	16	1,050,000	1,050,000
Statutory reserve	17	120,809	117,790
General Reserve	18	22,799	22,799
Retained earnings	19	218,579	191,861
Fair value reserve	20	(48,443)	(69,340)
TOTAL SHAREHOLDERS' EQUITY		1,363,744	1,313,110
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,815,691	1,775,067

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

Statement of income

As at 31 December 2021

All amounts in United States Dollars thousands

	Notes	2021	2020
INCOME			
Interest income	21	27,806	37,070
Interest expense	21	(1,618)	(5,067)
NET INTEREST INCOME		26,188	32,003
Dividends		6,165	4,548
Net fees and commissions	22	1,313	620
Net gain (loss) on financial securities	23	6,715	(3,091)
Net foreign exchange (loss) gain		(713)	(388)
Rental income		4,261	4,413
Other income, net	24	4,039	840
TOTAL OPERATING INCOME		47,968	38,945
EXPENSES			
General and administrative	25	(18,643)	(17,163)
Provision written back, net	26	862	7,478
TOTAL OPERATING EXPENSES		(17,781)	(9,685)
NET INCOME FOR THE YEAR		30,187	29,260

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

Statement of comprehensive income

As at 31 December 2021

All amounts in United States Dollars thousands

	Notes	2021	2020
NET INCOME FOR THE YEAR		**30,187**	**29,260**
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		(12,794)	10,038
Recycling of gain to the statement of income	23	(4,593)	(1,145)
		(17,387)	8,893
Items that will not be reclassified to statement of income in subsequent periods:			
Net fair value movement on equity investment measured at fair value through other comprehensive income	20	38,698	(22,664)
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	(414)	(1,038)
		38,284	(23,612)
Total other comprehensive income (loss) for the year		20,897	(14,719)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		51,084	14,541

Statement of changes in shareholders' equity

As at 31 December 2021

All amounts in United States Dollars thousands

	Notes	Share capital	Statutory reserve	General reserve	Retained earnings	Fair value reserve	Total
Balance at 1 January 2020		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 income		-	-	(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
Net income for the year	19	-	-	-	30,187	-	30,187
Other comprehensive loss		-	-	-	-	20,897	20,897
Total comprehensive income		-	-	-	30,187	20,897	51,084
Transfer to statutory reserve	16	-	3,019	-	(3,019)	-	-
Board of directors' bonuses paid		-	-	-	(450)	-	(450)
Balance at 31 December 2021		1,050,000	120,809	22,799	218,579	(48,443)	1,363,744

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

Statement of cash flows

As at 31 December 2021

All amounts in United States Dollars thousands

	Notes	2021	2020
OPERATING ACTIVITIES			
Net income for the year		30,187	29,260
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision written back, net	26	(862)	(7,479)
Gain on sale of investments		(4,737)	(2,245)
Amortisation of discount		726	473
Loss on revaluation of lands		111	84
Unrealized (gain) loss in FVTPL investment		(40)	1,943
Depreciation	10	729	702
Amortisation	11	484	466
Foreign Exchange Movement		4,765	(5,055)
		31,363	18,149
Changes in operating assets and liabilities:			
Deposits with banks with maturities longer than 3 months		20,103	7,141
Financial assets at fair value through statement of income		8,009	13,733
Loans and advances, net		24,775	(40,549)
Other assets		2,970	1,883
Deposits		(10,792)	15,755
Derivative financial instruments		-	-
Other liabilities		367	(1,846)
Net cash from operating activities		76,795	14,266
INVESTING ACTIVITIES			
Sale and purchase of investment securities, net		20,430	(33,305)
Proceeds from disposal/refund of equity participations		(57,313)	(20,646)
Property and equipment, investment properties and intangible assets	11,10	(991)	(506)
Net cash used in investing activities		(37,874)	(54,457)
FINANCING ACTIVITIES			
Board of director's bonuses paid		(450)	(450)
Net cash used in financing activities		(450)	(450)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		38,471	(40,641)
Cash and cash equivalents at the beginning of the year		313,293	353,934
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		351,764	313,293
Supplemental non-cash information			
Net change in fair value reserve	20	20,898	(14,628)
Operational cash flows from interest and dividends			
Interest income received		26,439	39,115
Interest expense paid		(4,612)	(22,516)
Dividends received		8,686	6,702

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

Notes to the financial statements (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.

Notes to the financial statements(continued)

2. Summary of significant accounting policies(continued)

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 2020 except for the policies explained below:

New standards, interpretations, and amendments

Below standards, interpretations, and amendments became applicable for annual reporting periods beginning on or after 1, January 2021. The Company has assessed that these amendments have no significant impact on the Company's financial statements:

- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
- Covid-19-Related Rent Concessions - Amendment to IFRS 16

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.

Notes to the financial statements(continued)

2. Summary of significant accounting policies(continued)

2.2 Adoption of new standards(continued)

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.

Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

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

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.

2. Summary of significant accounting policieS(continued)

2.2 Adoption of new standards(continued)

Assessments whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‹principal› is the fair value of the financial asset on initial recognition. ‹Interest› is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

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

Reclassification

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

2) Classification of financial liabilities

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

3) Derecognition

a- Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Notes to the financial statements(continued)

2. Summary of significant accounting policies(continued)

2.2 Adoption of new standards(continued)

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 2020, 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.

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.

Notes to the financial statements(continued)

2. Summary of significant accounting policies(continued)

2.2 Adoption of new standards(continued)

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)

2.2 Adoption of new standards(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.

2. Summary of significant accounting policies(continued)

2.2 Adoption of new standards(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:

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

Write-off

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

6) Financial guarantees and loan commitments

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

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

- from 1 January 2020: at the higher of this amortized amount and the amount of loss allowance; and
- Before 1 January 2020: 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 2020: the Company recognizes loss allowance;
- Before 1 January 2020: the Company recognizes a provision in accordance with IAS 37 if the contract was considered to be onerous.

Notes to the financial statements(continued)

2. Summary of significant accounting policies(continued)

2.2 Adoption of new standards(continued)

B) Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Sale and repurchase agreements

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

(d) Determination of fair value

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

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

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

Notes to the financial statements(continued)

2. Summary of significant accounting policies(continued)

2.2 Adoption of new standards(continued)

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

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

C) Offsetting financial instruments

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

D) Derivative financial instruments

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

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.

Notes to the financial statements(continued)

2. Summary of significant accounting policies(continued)

2.2 Adoption of new standards(continued)

F) Fees and commission income

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

G) Dividend income

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

H) Property and equipment

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

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

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

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

- Building and its improvements: 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.

Notes to the financial statements(continued)

2. Summary of significant accounting policies(continued)

2.2 Adoption of new standards(continued)

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)

2.2 Adoption of new standards(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. Summary of significant accounting policies(continued)

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 1, January 2021.

- IFRS 17 – Insurance Contracts, applicable for periods beginning on or after 1, January 2023;
- Amendments to IAS 1 – "Classification of Liabilities as Current or Non-current", applicable for the period beginning on or after, 1, January 2024;
- Onerous contracts – Cost of Fulfilling a contract (Amendments to IAS 37);
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities;
- Definition of Accounting Estimates - Amendments to IAS 8;
- 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.

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.

Notes to the financial statements(continued)

3. Financial risk management(continued)

3.1 Credit risk(continued)

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.

1) 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.

2) Determining whether credit risk has increased significantly

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

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's quantitative modelling:

Using its expert credit judgment and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Notes to the financial statements(continued)

3. Financial risk management(continued)

3.1 Credit risk(continued)

2) Determining whether credit risk has increased significantly (continued)
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.

Notes to the financial statements(continued)

3. Financial risk management(continued)

3.1 Credit risk(continued)

3) Credit risk grades

An internal credit rating system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action. The Company's internal ratings are based on a 7-point scale for non-defaulted borrowers that takes into account the financial strength of a borrower as well as qualitative aspects, to arrive at a comprehensive snapshot of the risk of default associated with the borrower.

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

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

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

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

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

4) 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.

3. Financial risk management(continued)

3.1 Credit risk(continued)

4) Generating the term structure of PD(continued)

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.

5) 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.

Notes to the financial statements(continued)

3. Financial risk management(continued)

3.1 Credit risk(continued)

6) 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	**Inflation**	**Government expenditure**
Investments	**Net Lending**	**Unemployment rates**
Savings	**Net Debt**	

7) Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy.

The Company renegotiates loans to customers in financial difficulties (referred to as ‹forbearance activities› to maximize collection opportunities and minimize the risk of default. Under the Company's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

3. Financial risk management(continued)

3.1 Credit risk(continued)

7) Modified financial assets(continued)

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.

8) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

1. probability of default ("PD");
2. loss given default ("LGD");
3. 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.

Notes to the financial statements(continued)

3. Financial risk management(continued)

3.1 Credit risk(continued)

8) Measurement of ECL(continued)

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.

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 2021			
	month 12 ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Investment grade	198,089	-	-	198,089
Non-investment grade	190,908	-	-	190,908
Individually impaired	-	-	68	68
Total	388,997	-	68	389,065

Loans and advances to customers at amortized cost

	31 December 2021			
	month 12 ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Standard	269,360	-	-	269,360
Total	269,360	-	-	269,360

Notes to the financial statements(continued)

3. Financial risk management(continued)

3.2 Credit quality analysis (continued)

Interest receivable and other assets

	31 December 2021			
	month 12 ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Standard	7,840	-	-	7,840
Total	7,840	-	-	7,840

Debt investment securities at amortized cost

	31 December 2021			
	month 12 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 2021			
	month 12 ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total
Standard	735,339	-	-	735,339
Loss	-	-	11,690	11,690
Total	735,339	-	11,690	747,029

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 2021 31	Non-retail-unsecured Gross carrying amount		Non-retail -secured Gross carrying amount	
	12-months ECL	Lifetime ECL	12-months ECL	Lifetime ECL
0.10 - 0.00	514,056	-	-	-
0.40 - 0.11	283,953	-	-	-
3.00 - 0.41	595,930	-	-	-
6.00 - 3.01	7,500	-	-	-
50.00 - 25.01	48	-	-	-
50.01+	-	-	-	-
Total	1,401,487	-	-	-

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.

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

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	
	2021	**2020**
Deposits and cash with banks and treasury bills		374,165
Loans and advances to banks	58,000	140,000
Loans and advances to non-banks	211,360	154,136
Investment debt securities	735,339	773,831
Interest receivable and other assets	7,840	7,244
	1,401,523	1,449,376

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

Contingent liabilities		
Loan commitments	-	-
At 31 December	1,401,523	1,449,376

The above table represents a worst-case scenario of credit risk exposure of the Company as at 31 December 2021 and 2020, 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 2020: 100%);
- 100% of the overdrafts, loans and advances portfolio are considered to be neither past due nor impaired (31 December 2020: 100%); and
- Approximately 29% (31 December 2020: 30%) of the debt securities have at least A- credit rating.

3.2.3 Credit quality of financial assets

The credit exposure as at 31 December is summarised below. These amounts are shown gross without the related impairment provision:

	Neither past due nor Impaired		Past due but not Impaired	Individually Impaired	Total
	Regular	Watch			
31 December 2021					
Deposits and cash with banks and treasury bills	388,994	-	-	68	389,062
(Debt securities (including trading	735,339	-	-	11,690	747,029
Loans and advances					
Loans and advances to banks -	58,000	-	-	-	58,000
Loans and advances to non-banks -	211,360	-	-	-	211,360
.Interest Receivable and other assets	7,840	-	-	-	7,840
	1,401,533	-	-	11,758	1,413,291

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
	Regular	Watch			
31 December 2021					
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

Total provision for expected credit loss for overdraft, loans and advances as at 31 December 2021 is US$ 678 thousand (31 December 2020: US$ 1,427 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$ 981 thousand (31 December 2020: US$ 1,061 thousand) and stage 3 of US$ 11,690 thousand (31 December 2020: US$ 11,690 thousand).

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	331,737	34	56,203	1,010	388,984
Loans and advances	219,822	41,360	7,500	-	268,682
Debt securities	245,204	60,663	40,256	389,256	735,379
Interest receivable and other assets	5,028	2,094	82	635	7,839
At 31 December 2021	801,791	104,151	104,041	390,901	1,400,884
At 31 December 2021	859,144	108,740	70,255	409,850	1,447,989

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)

3.3 Market risk (continued)

(a) Interest rate risk (continued)

Interest rate risk 31 December 2020	USD 25BP	EUR 25BP	AED 25BP	SAR 25BP	BHD 25BP	GBP 25BP	Total
Financial assets:							
Deposit with banks and Treasury bills	353	-	2	20	414	-	789
Overdrafts, loans and advances	673	-	-	-	-	-	673
Debt securities	876	142	-	-	-	-	1,018
Impact of Financial Assets	1,902	142	2	20	414	-	2,480
Financial liabilities: Deposits	(907)	-	(1)	-	-	-	(908)
Impact of Financial Liabilities	(907)	-	(1)	-	-	-	(908)
Impact on the results of the Company	995	142	1	20	414	-	1,572

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 2020	USD 25BP	EUR 25BP	AED 25BP	SAR 25BP	BHD 25BP	GBP 25BP	Total
Financial assets:							
Deposit with banks and Treasury bills	308	-	2	58	413	-	781
Overdrafts, loans and advances	735	-	-	-	-	-	735
Debt securities	1,013	146	-	-	-	-	1,159
Impact of Financial Assets	2,056	146	2	58	413	-	2,675
Financial liabilities: Deposits	(922)	-	(2)	-	-	-	(924)
Impact of Financial Liabilities	(922)	-	(2)	-	-	-	(924)
Impact on the results of the Company	1,134	146	-	58	413	-	1,751

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	2021			2020		
	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	752	-	± 10	1,028	-
Fair value through OCI- equity	± 10	-	-	± 10	-	-
Investment fund FVTPL	± 10	712	-	± 10	907	-
Equity participations - quoted	± 10	-	21,743	± 10	-	10,131

The non-trading equity price risk arising from unquoted equity participations classified as fair value through OCI cannot be easily quantified. Fair value attributed to unquoted equity participation included within equity at the year-end amounted to US$ 151.8 million (2020: US$ 150.4 million) (note 7).

(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.

Notes to the financial statements(continued)

3. Financial risk management(continued)

3.3 Market risk (continued)

(c) Foreign exchange risk (continued)

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

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

Concentrations of currency risk - financial instruments:

	USD	EUR	AED	SAR	BHD	GBP	Others	Total
As at 31 December 2021								
Deposits with banks and treasury bills	176,573	70	906	45,218	165,859	83	279	388,988
Financial assets at FVTPL	2,830	-	-	7,520	-	-	6,872	17,222
Investments securities:								
-Fair value through OCI	677,954	57,385	-	-	-	-	-	735,339
-Held to maturity	-	-	-	-	-	-	40	40
Overdrafts, loans and advances	268,682	-	-	-	-	-	-	268,682
Equity participation	126,671	-	-	163,539	-	-	78,993	369,203
Property, plant and equipment and Investments in property:	20,356	-	-	-	-	-	-	20,356
Intangible assets	2,489	-	-	-	-	-	-	2,489
Other assets	7,856	21	-	5,076	415	4	-	13,372
Total financial assets	1,283,411	57,476	906	221,353	166,274	87	86,184	1,815,691

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
Deposits	(362,879)	(56,786)	(861)	(14)	-	-	-	(420,540)
Other liabilities	(5,692)	(311)	-	(12,542)	(4,310)	-	(8,551)	(31,406)
Total financial liabilities	(368,571)	(57,097)	(861)	(12,556)	(4,310)	-	(8,551)	(451,946)
Fair value reserve	23,315	(422)	-	(34,266)	-	-	59,815	48,442
Net open position	938,155	(43)	45	174,531	161,964	87	137,448	1,412,187
As at 31 December 2020								
Total financial assets	1,269,726	58,856	914	184,893	167,343	103	93,232	1,775,067
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

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.

Notes to the financial statements(continued)

3. Financial risk management(continued)

3.4 Liquidity risk

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

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

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

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 2021	Less than 12 months	Over 12 months	No fixed Maturity	Total
ASSETS				
Cash and deposits with banks	388,988	-	-	388,988
Investments:				
Securities	40,407	702,050	10,144	752,601
Equity participations	-	-	369,203	369,203
Loans and advances	174,394	94,288	-	268,682
Property and equipment	-	-	10,737	10,737
Investment property	-	-	9,619	9,619
Intangible assets	-	-	2,489	2,489
Other assets	7,840	-	5,532	13,372
TOTAL ASSETS	611,629	796,338	407,724	1,815,691

As at 31 December 2021	Less than 12 months	Over 12 months	No fixed Maturity	Total
LIABILITIES				
Deposits	420,540	-	-	420,540
Other liabilities	4,220	113	27,073	31,406
TOTAL LIABILITIES	424,760	113	27,073	451,946
NET	186,869	796,225	380,651	1,363,745
Cumulative liquidity gap	186,869	983,094	1,363,745	

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 2021	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	

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 2021	1-3 months	3-12 months	Total
Liabilities			
Deposits	261,913	158,628	420,541
Other liabilities	3,145	12,110	15,255
Total liabilities (contractual maturity dates)	265,058	170,738	435,796
As at 31 December 2020			
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

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 flow

The table below shows the Company's maturity to the contracted cash flows of the derivatives:

As at 31 December 2021	Up to 1 month	1-3 month	Total
Derivatives designated as fair value through profit or loss			
Foreign exchange derivatives:			
Outflow	8,551	-	8,551
Inflow	8,543	-	8,543
Total outflow	8,551	-	8,551
Total inflow	8,543	-	8,543
As at 31 December 2020			
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

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

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 4.5 as at 31 December 2021 (31 December 2020: US$ 15.3 million)

Notes to the financial statements(continued)

3. Financial risk management(continued)

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.

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.

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

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

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

Assets and liabilities measured at fair value

31 December 2021	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
- Equity securities	7,520	-	-	7,520
- Investment Funds	-	-	9,701	9,701
Financial assets at FVOCI				
- Debt securities	735,339	-	-	735,339
- Equity participations	217,434	-	151,769	369,203
Total assets	960,293	-	161,470	1,121,763
Financial liabilities at FVTPL				
- Derivative financial instruments	-	8	-	8
Total liabilities	-	8	-	8

Notes to the financial statements(continued)

3. Financial risk management(continued)

3.6 Fair value of financial assets and liabilities (continued)

31 December 2021	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

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:

	2021	2020
January 1	150,422	165,950
Liquidation	-	-
Total gains and (losses) recognised in other comprehensive income	1,347	(15,528)
31 December	151,769	150,422

(c) Financial instruments not measured at fair value

At 31 December 2021, the fair value of debt instruments carried at amortised cost of US$ Nil million (31 December 2020: US$ Nil million) was determined to be US$ Nil million (31 December 2020: 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:

- 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.

Notes to the financial statements(continued)

5. Cash and deposits with banks

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

	2021	2020
Cash and cash equivalents:		
Cash on hand and in banks	6,954	8,361
Deposits with banks with original maturities of three months or less	179,263	141,110
Treasury bills maturing within three months of acquisition	165,547	163,822
deposits with banks:	351,764	313,293
Deposits with banks with original maturities of more than three months but less than a year	37,237	60,924
Less: impairment (Stage 1)	(13)	(47)
Total	388,988	374,170

6. Investments securities

Investment securities as of 31 December comprise of the following:

		2021	2020
(a	**Financial assets at FVTPL**		
	Equity securities	7,520	10,287
	Investment funds	9,701	11,320
	Total	17,221	21,607
b)	**Financial assets at FVOCI**		
	Debt securities		
	+AA- to AA	3,257	23,419
	+A- to A	216,451	211,144
	+BBB- to BBB	313,189	362,289
	+BB- to BB	32,081	46,391
	+B- to B	170,361	130,588
	Unrated	11,690	11,690
		747,029	785,521
	Equity securities	-	-
	Less: ECL allowance - stage 3	(11,690)	(11,690)
	Total	735,339	773,831

6. Investments securities(continued)

		2021	2020
c)	**Financial assets at AC**		
	Debt securities	48	48
	(Less: impairment (Stage 1	(7)	(8)
	Total	41	40
	Total investments	752,601	795,478

As at 31 December 2021, US$ 735,339 thousand debt securities are classified as stage 1 (2020: US$ 773,831 thousand) except for US$ 11,690 thousand classified as stage 3 (2020: US$ 11,690 thousand).

The movement in investment securities is summarised below:

	FVTPL	FVOCI	Amortised Cost	2021	2020
At 1 January 2021	21,607	773,831	40	795,478	762,657
Exchange differences	48	(4,765)	-	(4,717)	4,985
Additions	137,074	87,789	-	224,863	180,853
Disposals (sale, maturity and redemption)	(138,865)	(103,482)	-	(242,347)	(155,298)
Change in fair value	(2,643)	(17,308)	1	(19,950)	2,754
Accretion of discount	-	(726)	-	(726)	(473)
At 31 December	17,221	735,339	41	752,601	795,478

Investments in debt securities of US$ 171,657 thousand (2020: US$ 116,439 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:

	2021	2020
Quoted	217,434	122,770
(Unquoted (note 4	151,769	150,422
Total	369,203	273,192

Below is the movement in investments in equity participations:

	2021	2020
At the beginning of the year	273,192	275,759
Additions during the year	57,313	20,645
Change in fair value	38,698	(23,212)
At the end of the year	369,203	273,192

2021 Country / Project	/ Quoted Unquoted Shares	Fair value of participation	Percentage of Shareholding
Kingdom of Morocco			
Société Ryad Soualem S.A.	Unquoted	965	33.00
Maroc Leasing Company	Quoted	6,887	5.74
Asma Club Plus Company	Unquoted	11,707	40.00
		19,559	
Kingdom of Saudi Arabia			
Middle East Financial Investment Company	Unquoted	13,580	15.00
National Trigeneration CHP Company	Unquoted	2,490	9.94
Bidaya Home Finance	Unquoted	30,965	11.11
Saudi National Bank	Quoted	46,844	0.18
Saudi Arabian Oil Company	Quoted	38,245	0.002
International Company for Water and Power Projects (Acwa Power)	Quoted	31,416	0.19
		163,540	
Republic of Sudan			
Kenana Sugar Company	Unquoted	804	6.99
Sudatel Group for Communication	Quoted	387	2.18
Financial Investment Bank	Quoted	148	20.80

Notes to the financial statements(continued)

7. Investments in equity participations (continued)

2021 Country / Project	/ Quoted Unquoted Shares	Fair value of participation	Percentage of Shareholding
Berber Cement Company	Unquoted	1,026	16.40
The Arab Leasing Company	Unquoted	776	30.00
		3,141	
Arab Republic of Egypt			
Arab International Company for Hotels and Tourism	Unquoted	8,982	13.62
Egyptian Propylene and Polypropylene Company	Unquoted	43,709	10.00
International Company for Leasing	Unquoted	3,542	10.00
E Finance Investment group	Quoted	45,821	2.03
		102,054	
Peoples' Democratic Republic of Algeria			
Arab Banking Corporation	Unquoted	4,129	3.65
Arab LeasingCorporation	Unquoted	7,968	25.00
		12,097	
The Hashemite Kingdom of Jordan			
Arab Jordan Investment Bank	Quoted	30,576	10.25
Arab International Hotels Company	Quoted	3,358	8.17

2021 Country / Project	/ Quoted Unquoted Shares	Fair value of participation	Percentage of Shareholding
		33,934	
Kingdom of Bahrain			
Arab Banking Corporation	Quoted	4,844	0.42
State of Qatar			
Arab Jordan Investment Bank	Unquoted	8,399	15.00
Sultanate of Oman			
Taageer Finance Company	Quoted	8,909	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	
		369,203	

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
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
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

2020 Country / Project	/ Quoted Unquoted Shares	Fair value of participation	Percentage of Shareholding
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	
Peoples' Democratic Republic of Algeria			
Arab Banking Corporation	Unquoted	4,487	3.65
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			

7. Investments in equity participations (continued)

2020 Country / Project	/ Quoted Unquoted Shares	Fair value of participation	Percentage of Shareholding
Arab Banking Corporation	Quoted	3,886	0.42
State of Qatar			
Arab Jordan Investment Bank	Unquoted	9,395	15.00
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	

8. Loans and advances

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

	2021	2020
Loans and advances (8.1)	269,360	294,136
Provision for impairment on loans and advances (8.2)	(678)	(1,427)
Loans and advances, net	268,682	292,709

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 2021				2020
	month ECL 12	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total	
At the beginning of the year	294,136	-	-	294,136	253,587
Loan disbursed during the year	82,372	-	-	82,372	204,136
Loans recovered	(107,148)	-	-	(107,148)	(163,587)
At the end of the year	269,360	-	-	269,360	294,136

During the year ended 31 December 2021, the Company recovered principal amount of US$ 3,035 thousand (2020: US$ Nil thousand) related to facilities written off.

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

	31 December 2021				2020
	month ECL 12	Life time ECL not credit impaired	Lifetime ECL credit impaired	Total	
At the beginning of the year	1,427	-	-	1,427	9,993
Net measurement of loss allowance	(749)	-	-	(749)	854
Recoveries of amounts previously provided	-	-	-	-	(9,420)
	678	-	-	678	1,427
Specific impairment provision					-
ECL / Collective impairment provision				678	1,427
At the beginning of the year				678	1,427

9. Other assets

Other assets as of 31 December comprise of the following:

	2021	2020
Accrued income	11,219	12,950
Rent receivables *	105	933
Other receivables	2,048	2,718
Total	13,372	16,601

* The rent receivables as at 31 December 2021 are collected at January 2022.

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	2021	2020
Cost:						
At 1 January	4,439	20,588	8,578	-	33,605	33,724
Additions during the year	-	26	64	713	803	448
Disposals during the year	-	-	-	-	-	(567)
Reclassification	-	162	-	(673)	(511)	-
At 31 December	4,439	20,776	8,642	40	33,897	33,605
Accumulated depreciation:						
At 1 January	-	14,752	7,898	-	22,650	22,726
Charge for the year	-	306	204	-	510	491
Relating to disposals	-	-	-	-	-	(567)
At 31 December	-	15,058	8,102	-	23,160	22,650
Net Book Value:						
At 31 December 2021	4,439	5,718	540	40	10,737	
At 31 December 2020	4,439	5,836	680	-		10,955

Notes to the financial statements(continued)

10. Property and equipment and investment propertys (continued)

10.2 Investment properties:

Property and equipment as of 31 December comprise the following:

					Total	
	Land	Building and its equipment	Furniture and Equipment	Work in Progress	2021	2020
Cost:						
At 1 January	5,927	27,660	1,643	18	35,248	36,245
Additions during the year	-	-	44	36	80	50
Impairment during the year	(111)	-	-	-	(111)	(84)
Disposals during the year	-	-	-	-	-	(963)
Reclassification	-	54	-	(54)	-	-
At 31 December	5,816	27,714	1,687	-	35,217	35,248
Accumulated depreciation:						
At 1 January	-	23,861	1,518	-	25,379	26,131
Charge for the year	-	150	69	-	219	211
Relating to disposals	-	-	-	-	-	(963)
At 31 December	-	24,011	1,587	-	25,598	25,379
Net Book Value:						
At 31 December 2021	5,816	3,703	10	-	9,619	
At 31 December 2020	5,927	3,799	125	18		9,869

The fair value of investment property at 31 December 2021 amounted to approximately US$ 19.3 (31 December 2020: US$ 20.5 million).

11. Intangible assets

	Software	Work in Progress	Total 2021	Total 2020
Cost:				
At 1 January	6,055	-	6,055	6,452
Additions during the year	619	-	619	8
Impairment during the year	(1,567)	-	(1,567)	(405)
Reclassification	499	-	499	-
At 31 December	5,606	-	5,606	6,055
Accumulated Amortization:				
At 1 January	3,962	-	3,962	3,952
Charge for the year	484	-	484	415
Relating to disposals	(1,567)	-	(1,567)	(405)
Reclassification	238	-	238	
At 31 December	3,117	-	3,117	3,962
Net Book Value:				
At 31 December 2021	2,489	-	2,489	
At 31 December 2020	2,093	-		2,093

12. Deposits

Deposits as of 31 December comprise the following:

	2021	2020
Deposits by banks	395,905	354,699
Deposits by non-banks	24,636	76,633
Total	420,541	431,332

Included in the above are deposits raised under repurchase agreements whose carrying value as at 31 December 2021 is US$ 158.1 million (31 December 2020: US$ 104.6 million).

Notes to the financial statements(continued)

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 2021		
	Contract/Notional Amount	Fair value	
Held for trading		Assets	Liabilities
Foreign exchange derivatives:			
Currency swaps	17,094	-	8
	31 December 2021		
	Contract/Notional Amount	Fair value	
Held for trading		Assets	Liabilities
Currency swaps	32,923	-	47

14. Other liabilities

Other liabilities as of 31 December comprise the following:

	2021	2020
Employees' benefits (see table below)	14,078	13,439
Due to related party (note 15)	9,865	9,855
Accounts payable and accrued expenses	5,231	5,029
Deferred income	2,066	1,830
Interest payable	158	425
Derivative financial instruments (note 13)	8	47
Total	31,406	30,625

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 2021	Total 2020
At 1 January	1,316	10,748	1,375	13,439	11,908
Addition for the year	80	881	627	1,588	1,509
Provisions utilised	-	(859)	(369)	(1,228)	(930)
Staff contributing to saving scheme	67	-	-	67	66
Actuarial loss recognised in OCI	-	414	-	414	1,038
Other movement	-	-	(202)	(202)	(152)
At 31 December	1,463	11,184	1,431	14,078	13,439

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

	2021	2020
Present value of defined benefit obligations	11,141	10,705
Net defined benefit liability in the statement of financial position	11,141	10,705

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

	2021	2020
Discount rate	1.90%	1.55%
(Salary increase rate (short term	4.0%	4.0%
Long term salary increase rate	1.9%	1.55%
Mortality rate according to world health organization-SA	0.75-0.19	0.75-0.16
Rate of employee Turnover	Light	Light

Notes to the financial statements(continued)

14. Other liabilities (continued)

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:

	2021	2020
Discount rate + 0.5%	8,282	8,010
Discount rate – 0.5%	8,710	8,498
Long term salary increases + 0.5%	8,592	8,310
Long term salary increases – 0.5%	8,371	8,166

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

	2021	2020
At 1 January	10,748	9,392
Net periodic expense recognised in the statement of income	881	861
Payments paid to outgoing employees	(859)	(543)
Re measurement in OCI during the year	414	1,038
At 31 December	11,184	10,748

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.

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

Executive management personnel:	2021	2020
End of service benefit	3,799	3,468

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

	2021	2020
Board of directors' expenses	529	360
Board of directors' bonuses paid	450	450
Salaries and short-term employee benefits	909	865
End of service benefits	331	302

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

Name of related parties	Nature of relationship	Nature of transaction	2021	2020
The State of Libya	Shareholder	Funding received	9,865	9,855

Notes to the financial statements(continued)

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:

	2021		2020	
	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.

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 (%)			
	2021	2020	2021	2020
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

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:	2021	2020
At the beginning of the year	117,790	114,864
Additions during the year	3,019	2,926
At the end of the year	120,809	117,790

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. Proposed diviends

The Board of Directors in their meeting held on 23 Sha'ban 1443H (corresponding to 26 March 2022) proposed to distribute cash dividends to the Company's shareholders for the year ended 31 December 2021 amounting to US$ 26.25 million (US$ 25 per share) with a ratio of 2.5% of the Company's paid-up capital. The proposed dividend is subject to the Extraordinary General Assembly approval to cancel the 5% distribution limit stipulated in Article (52) paragraph (A/2) of the Company's By-Law in its next meeting scheduled on 25 June 2022.

Notes to the financial statements(continued)

20. Fair value reserve

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

	2021	2020
Equity participations		
At beginning of year	(91,041)	(67,829)
Change in fair value	38,698	(23,212)
At end of year	(52,343)	(91,041)
FVOCI Securities / available-for-sale		
At beginning of year	23,535	(13,912)
Change in fair value	(17,387)	37,447
At end of year	6,148	23,535
Employees benefits IAS 19		
At beginning of year	(1,834)	(795)
Change in fair value	(414)	(1,039)
At end of year	(2,248)	(1,834)
Total fair value reserve	(48,443)	(69,340)

21. Interest income and expense

	2021	2020
Interest income on:		
Investment securities	19,150	22,927
Loans and advances	5,564	8,981
Deposits with banks and treasury bills	3,092	5,162
	27,806	37,070

	2021	2020
Interest expense on:		
Deposits by banks and financial institutions	1,375	4,251
Deposits by non-banks	243	816
	1,618	5,067

22. Net fees and commissions

	2021	2020
Loans	216	311
Commercial finance	1	-
Islamic banking	1,103	315
Others	(7)	(6)
Net fees and commissions	1,313	620

23. Net gain (loss) on financial securities

	2021	2020
Equities	4,279	1,124
Debt securities	4,593	1,146
Unit Trust Funds	(2,157)	(5,361)
Total	6,715	(3,091)

24. Other income, net

	2021	2020
Remuneration for attending Projects' Board of Directors	459	412
Cancellation of rent agreement	-	237
Sale of project previously written off	144	168
Recovery of loans previously written off	3,035	62
Others	401	(39)
Total	4,039	840

25. General and administrative expenses

	2021	2020
Salaries and related benefits	12,392	11,612
Professional and consultancy	1,272	1,215
Board of directors' expenses	529	360
Others	4,450	3,976
Total	18,643	17,163

26. Provisions written back, net

	2021	2020
Securities, recovered	34	(1,251)
Loans and recovered advances written back, net (note 8)	749	8,566
Others	79	163
Total	862	7,478

Notes to the financial statements(continued)

27. 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).

28. 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 2021, 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.

29. Subsequent event

At the end of February 2022, the crisis between Russia and Ukraine developed that led the United States of America, the European Union, and the United Kingdom to impose sanctions on Russia, and the sanctions included Russian individuals and companies.

The impact of these subsequent events may have multiple implications, nevertheless, the Company is committed to applying all international and regional sanctions and complying with all compliance rules. The company has direct but limited exposure to debt investments in Russia, and may be affected by recent or potential developments in the future. It is expected that the extent of the impact on the company, its business, and financial results will be limited and immaterial. It is also likely that recent developments will have an impact on global macroeconomic developments, as the measures taken will directly affect global trade and logistics business, and thus economic growth at this stage. It is very difficult to predict the effect on the macro economy in the long-term.

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.

30. Approval of financial statements

The accompanying financial statements were approved by the Board of Directors of the Company on 23 Sha'ban 1443H (corresponding to 26 March 2022).

Contact Us

Head office:

The Arab Investment Company S. A. A.

P. O. Box 4009

Riyadh 11491

Kingdom of Saudi Arabia

Telephone: +966 11 476 0601

Fax: +966 11 476 0514

Bahrain branch (wholesale bank):

The Arab Investment Company - Bahrain Branch
P. O. Box 5559
Manama
Kingdom of Bahrain
Telephone: +973 17588945
Fax: +973 17588983

THEARABINVESTMENTCOMPANYS.A.A.