ARAB PETROLEUM INVESTMENTS CORPORATION (APICORP)

INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Arab Petroleum Investments Corporation
Dammam, Kingdom of Saudi Arabia

Opinion
We have audited the accompanying consolidated financial statements of Arab Petroleum Investments Corporation (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances

Refer to Notes 3H(viii) and 26 (a) to the consolidated financial statements.

Description	*How the matter was addressed in our audit*
We focused on this area because: ▪ loans and advances of US$ 3,697,715 thousands make-up 50% of total assets (by value); and ▪ the determination of expected credit loss allowance (ECL) is highly subjective and judgemental. The most significant areas where we identified greater management judgment are:	Our procedures included: ▪ Understanding management's process and testing key controls over ECL, including over: ➢ The completeness and accuracy of data flows from source system to the ECL calculation; ➢ Model review, validation and approval; ➢ Assessment and calculation of material SICR indicators and criteria; ➢ The review and approval of assumptions used in the base case economic scenario used in ECL calculation; and

- Criteria selected to identify significant increases in credit risk (SICR);
- Inherently judgemental complex modelling techniques used to estimate ECLs which involve determining Probabilities of Default (PD), Loss Given Default (LGD), and Exposure At Default (EAD);
- The need to measure ECL on a forward-looking basis, incorporating future macro-economic variables reflecting a range of future conditions;
- Qualitive adjustments (overlays) made to the results of ECL model to address model limitations or emerging risks and trends in underlying portfolio which are inherently judgemental.
- The carrying value of individually assessed stage 3 loans and advances may be materially misstated if individual impairments are not appropriately identified and estimated. The identification of impaired assets and the estimation of future cash flows and valuation of collateral require judgement.

  - ➢ The ongoing monitoring and identification of loans displaying indicators of impairment and whether they are migrating on a timely basis, to lower grades for enhanced monitoring.

- We involved our Financial Risk Management specialists to assist us in assessing the appropriateness of impairment models used by management. This included assessing and challenging the appropriateness of key modelling judgments (eg. the transfer criteria used to determine SICR);
- We assessed the appropriateness and completeness of material overlays to results of the ECL model taking into account the judgment and estimates the corporation has made through the ECL process (including macro-economic forecast). We also considered the performance of ECL model during the year and impact of assumptions used in the calculation.
- For all loans classified as stage 3 credit impaired loans, we:
  - ➢ Obtained the Corporation's assessment of the recoverability of these exposures and challenged whether the key assumptions used for such the recovery strategies, collateral rights and ranges of potential outcomes were appropriate, given the borrower's circumstance; and
  - ➢ Evaluated the basis on which the allowance was determined, and the evidence supporting the analysis performed by management.
- Evaluating the adequacy of the Group's disclosures related to ECL in the consolidated financial statements by reference to the relevant accounting standards.

Valuation of unquoted equity securities (level 3)

Refer to Notes 3H(vi) and 28(a) to the consolidated financial statements.

Descriptions	*How the key audit matter was addressed in our audit*

We focused on this area because:

- unquoted equity securities of US$ 780,941 thousands make up 11 % of total assets (by value); and
- the valuation of level equity securities held at fair value through profit or loss or through other comprehensive income

Our audit procedures included:

- understanding and testing key controls around valuation process including valuation governance controls;
- with the support of our valuation specialists, we performed the following:
  - ➢ evaluating the appropriateness of the valuation techniques used by the independent external valuer and testing their application;

requires the application of valuation techniques which often involve the exercise of high degree of judgement and the use of unobservable assumptions and estimates about the performance of the investees company.

- ➢ Evaluating the reasonableness of key inputs and assumptions, with reference to historic performance of the investee and market information; and
- ➢ Assessing reasonableness of the valuation.

- Evaluating the adequacy of the Group's disclosures related to valuation of unquoted equity securities categorised as level 3 by reference to the relevant accounting Standards.

Other Matters
The consolidated financial statements of the Group as at and for the year ended 31 December 2018 were audited by another auditor whose report thereon dated 13 April 2019 expressed an unmodified opinion.

Responsibilities of the board of directors for the consolidated financial statements
The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board of directors is responsible for assessing the Group'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 the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.

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

- Conclude on the appropriateness of the board of directors' 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Company/Bank/Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors 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.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Jalil AlAali.

KPMG

KPMG Fakhro
Partner registration number 100
23 February 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 December 2019 (US$000)

	Note	2019	2018
ASSETS			
Cash and cash equivalents		48,620	26,021
Placements with banks	4	606,850	683,938
Securities purchased under agreements to re-sell		-	99,383
Loans and advances	5	3,697,715	3,514,383
Investments	6	2,729,279	2,445,167
Equity accounted investees	7	91,904	27,823
Property, equipment and vessels	8	103,092	102,183
Other assets	9	71,961	53,831
Total assets		**7,349,421**	6,952,729
LIABILITIES			
Deposits	10	484,519	672,237
Securities sold under agreements to repurchase		145,663	150,760
Bank term financing	11	1,324,874	1,446,913
Sukuk and bonds issued	12	2,927,481	2,323,386
Other liabilities	13	116,113	91,475
Total liabilities		**4,998,650**	4,684,771
EQUITY			
Share capital		1,000,000	1,000,000
Legal reserve	24	235,000	223,000
General reserve	24	464,016	331,085
Fair value reserve		531,794	546,700
Retained earnings		117,558	165,086
Total equity attributable to shareholders of the Corporation		**2,348,368**	2,265,871
Non-controlling interests		2,403	2,087
Total equity		**2,350,771**	2,267,958
Total liabilities and equity		**7,349,421**	6,952,729

The consolidated financial statements, were approved by the Board of Directors on 22 February 2020 and signed on its behalf by:

Dr. Aabed Al-Saadoun
Chairman

Dr. Ahmed Ali Attiga
Chief Executive Officer

Dr. Sherif El Sayed Ayoub
CFA, CPA
Chief Financial Officer

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2019 **(US$000)**

	Note	**2019**	2018
Interest income		279,714	245,629
Interest expense		(171,248)	(134,589)
Net interest income	16	**108,466**	111,040
Dividend income	17	67,651	56,414
Gain on sale of investments held for sale		-	86,669
Net loss on financial assets at FVTPL	18	(29,099)	(8,990)
Net fee income	19	2,008	277
Other income, net	20	14,732	7,323
Total income		**163,758**	252,733
Operating expenses	21	(47,918)	(44,789)
Impairment reversal / (losses) on financial instruments, net	22	1,800	(20,672)
Impairment losses on other assets, net	23	(5,739)	(5,000)
PROFIT FOR THE YEAR		**111,901**	182,272
Profit for the year attributable to:			
Shareholders of the Corporation		111,585	182,806
Non-controlling interests		316	(534)
		111,901	182,272
Per share information			
Basic and diluted earnings per share		US $ 112	US $ 182
Net asset value per share		US $ 2,351	US $ 2,268
Weighted average number of shares (in thousand)		1,000	1,000

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019 **(US$000)**

	2019	2018
Profit for the year	**111,901**	182,272
Other comprehensive income		
Items that will not be reclassified to the statement of profit or loss		
Net change in fair value of equities at FVOCI	(37,283)	(8,010)
Items that are or may be reclassified subsequently to the statement of profit or loss		
Net change in fair value of debt securities at FVOCI	39,345	(13,843)
Reclassified to the statement of profit or loss on sale of debt securities at FVOCI	(309)	(128)
Total other comprehensive income for the year	***1,753***	(21,981)
Total comprehensive income for the year	**113,654**	160,291

Total comprehensive income for the year attributable to:		
Shareholders of the Corporation	113,338	160,825
Non-controlling interests	316	(534)
	113,654	160,291

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019 **(US$000)**

2019	**Total Equity attributable to Shareholders of the Corporation**							
	Share capital	**Legal reserve**	**General reserve**	**Fair value reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2019	1,000,000	223,000	331,085	546,700	165,086	2,265,871	2,087	2,267,958
Comprehensive income								
Profit for the year	-	-	-	-	111,585	111,585	316	**111,901**
Other comprehensive income								
- Transfer to retained earnings on derecognition of equity instruments at FVOCI	-	-	-	(16,659)	16,659	-	-	**-**
- Net change in fair value of debt Investments at FVOCI	-	-	-	39,036	-	39,036	-	**39,036**
- Net change in fair value of equity investments at FVOCI	-	-	-	(37,283)	-	(37,283)	-	**(37,283)**
Total other comprehensive income	-	-	-	(14,906)	16,659	1,753	-	**1,753**
Total comprehensive income for year	**-**	**-**	**-**	**(14,906)**	**128,244**	**113,338**	**316**	**113,654**
Transfer to legal reserve	-	12,000	-	-	(12,000)	-	-	-
Dividend declared	-	-	-	-	(30,841)	(30,841)	-	**(30,841)**
Transfer to general reserve	-	-	132,931	-	(132,931)	-	-	-
Balance as at 31 December 2019	**1,000,000**	**235,000**	**464,016**	**531,794**	**117,558**	**2,348,368**	**2,403**	**2,350,771**

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019 (continued) **(US$000)**

2018	Total Equity attributable to Shareholders of the Corporation							
	Share capital	Legal reserve	General reserve	Fair value reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2018	1,000,000	204,500	279,317	570,761	93,136	2,147,714	2,621	2,150,335
Transition adjustments on adoption of IFRS 9	-	-	-	(1,300)	(11,368)	(12,668)	-	(12,668)
Balance at 1 January 2018, restated	1,000,000	204,500	279,317	569,461	81,768	2,135,046	2,621	2,137,667
Comprehensive income								
Profit for the year	-	-	-	-	182,806	182,806	(534)	182,272
Other comprehensive income								
- Transfer to retained earnings on derecognition of equity instruments at FVOCI	-	-	-	(780)	780	-	-	-
- Net change in fair value of debt investments	-	-	-	(13,971)	-	(13,971)	-	(13,971)
- Net change in fair value of equity investments	-	-	-	(8,010)	-	(8,010)	-	(8,010)
Total other comprehensive income	-	-	-	(22,761)	780	(21,981)	-	(21,981)
Total comprehensive income for year	-	-	-	(22,761)	183,586	160,825	(534)	160,291
Transfer to legal reserve	-	18,500	-	-	(18,500)	-	-	-
Dividend declared	-	-	-	-	(30,000)	(30,000)	-	(30,000)
Transfer to general reserve	-	-	51,768	-	(51,768)	-	-	-
Balance as at 31 December 2018	1,000,000	223,000	331,085	546,700	165,086	2,265,871	2,087	2,267,958

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2019 **(US$000)**

	2019	2018
OPERATING ACTIVITIES		
Profit for the year	**111,901**	182,272
Adjustment for:		
Depreciation	6,782	7,326
End-of-service benefits	2,477	2,161
Interest expense	171,248	134,589
Share of gain from associates	(893)	(319)
Gain on sale of investment held for sale	-	(86,669)
Loss on sale of investments	309	128
Net loss on investments designated at FVTPL	29,099	8,990
Dividend income	(67,651)	(56,414)
Impairment, net	3,939	25,672
Net amortisation of transaction fee	(2,191)	(1,342)
Changes in operating assets and liabilities		
Loans and advances drawdown	(1,708,655)	(1,537,530)
Loans and advances repaid by customers	1,530,730	993,188
Placements with banks	147,214	(318,179)
Other assets	(21,477)	(44,058)
Other liabilities	14,096	1,110
	216,928	(689,075)
End-of-service benefits paid	(936)	(420)
Net cash from / (used in) operating activities	**215,992**	(689,495)
INVESTING ACTIVITIES		
Purchase of investments	(1,541,864)	(834,373)
Sale and redemptions of investments	1,154,630	796,877
Sale of investment held for sale	-	197,315
Purchase of property, equipment and vessels	(3,040)	(2,525)
Dividends received	67,359	56,414
Net cash (used in) / from investing activities	**(322,915)**	213,708
FINANCING ACTIVITIES		
Proceeds from deposits	4,962,627	3,356,374
Repayment of deposits	(5,154,951)	(4,032,248)
Proceeds from bank term financing	950,000	375,000
Repayment of bank term financing	(1,066,666)	-
Proceeds from Sukuk and bonds	699,412	862,607
Repayment of Sukuk and bonds	(66,666)	-
Dividend paid	(21,446)	(14,400)
Finance charges paid	(172,788)	(110,929)
Net cash from financing activities	**129,522**	436,404
Net increase/ (decrease) in cash and cash equivalents for the year	22,599	(39,383)
Cash and cash equivalents at 1 January	26,021	65,404
Cash and cash equivalents at 31 December	**48,620**	26,021

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements

1 REPORTING ENTITY

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

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

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

The establishing agreement states that APICORP is exempt from taxation in respect of its operations in the member states.

(i) Share capital

As of 31 December 2019, and 2018, the Corporation's authorised capital is US $ 2,400 million, subscribed capital is US $ 2,000 million, issued & paid up capital is US $ 1,000 million, whereas the remainder of US $ 1,000 million is callable capital. The Corporation does not have ultimate parent company nor controlling interest.

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

(US$000)

	Authorised capital	Subscribed capital	Issued and fully paid	Callable capital	Percentage
United Arab Emirates	408,000	340,000	170,000	170,000	17%
Kingdom of Bahrain	72,000	60,000	30,000	30,000	3%
Democratic and Popular Republic of Algeria	120,000	100,000	50,000	50,000	5%
Kingdom of Saudi Arabia	408,000	340,000	170,000	170,000	17%
Syrian Arab Republic	72,000	60,000	30,000	30,000	3%
Republic of Iraq	240,000	200,000	100,000	100,000	10%
State of Qatar	240,000	200,000	100,000	100,000	10%
State of Kuwait	408,000	340,000	170,000	170,000	17%
Libya	360,000	300,000	150,000	150,000	15%
Arab Republic of Egypt	72,000	60,000	30,000	30,000	3%
	2,400,000	**2,000,000**	**1,000,000**	**1,000,000**	**100%**

During 2019, the Board of Directors approved and recommended to the General Assembly the increase of the paid-up capital from US$1 billion to US$1.5 billion by transferring US$500 million from reserves; the subscribed capital from US$2 billion to US$10 billion; and the authorized capital from US$2.4 billion to US$20 billion.

(ii) Activities

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

Currently, the Corporation's financing activities take the form of loans, equity investments, project & trade financing and fund investments, as well as treasury investments. These activities are funded by shareholders' equity, medium-bank term financing, Sukuk, bonds, deposits from governments, corporates and short-term deposits from banks.

1 REPORTING ENTITY (continued)

(iii) Significant subsidiaries

The following subsidiaries are consolidated in these consolidated financial statements:

APICORP Petroleum Shipping Fund Limited
A close-ended fund incorporated in Cayman Islands in 2012 for the purposes of investment in a series of IMO II/III MR Tankers ("commercial marine vessels"). The Fund is 94% owned by the Corporation.

The Fund has a 100% subsidiary (the 'Charter Company'), a special purpose vehicle to act as a conduit for the usage and leasing of ships and has also set up 100% special purpose entities (SPEs) to own the vessels for the beneficial interest of the Fund.

In 2017, the board of directors of the Fund had resolved to continue the Fund (originally established in 2012 as 5 years closed-ended fund) for a further period of 3 years.

APICORP Sukuk Limited
The Corporation set up a special purpose vehicle in 2015, APICORP Sukuk Limited, incorporated in the Cayman Islands. It is a 100% owned subsidiary with the primary activity to issue Sukuk.

APICORP Managed Investment Vehicle
A special purpose vehicle set up in 2017 in the Cayman Islands as a 100% owned subsidiary that seeks to provide long-term capital gains and regular yield through the creation of a diversified, global portfolio of energy-related investments (CP VII Funds and the Energy Partners Funds) in equity and equity-related and similar securities or instruments, including debt or other securities or instruments with equity-like returns.

The consolidated financial statements include the financial statements of APICORP and its subsidiaries (together "the Group").

The Corporation's functional and presentation currency is the United States dollars (US $) because it is a supranational financial institution and its capital, the majority of its transactions and assets are denominated in that currency.

2 GENERAL

(i) Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

(ii) Basis of preparation
The consolidated financial statements have been prepared on the historical cost basis except for the measurement at fair value of derivatives, financial instruments held at Fair Value through Profit and Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI). In addition, financial assets and liabilities that are hedged in a fair value hedging relationship, are adjusted to record changes in fair value attributable to the risk that are being hedged.

(iii) Foreign currency transactions
Transactions in currencies other than US dollars (foreign currencies) are translated at the exchange rates ruling at the date of the transaction. All monetary assets and liabilities, denominated in foreign currencies, are translated into US dollars at rates prevailing at the reporting date. Differences arising from changes in exchange rates are recognised in the consolidated statement of profit or loss.

Investments (non-monetary assets) denominated in foreign currencies that are stated at fair value are translated to US dollars at reporting date. Differences arising from changes in rates are included in the fair value reserve in equity for FVOCI investments and in statement of profit or loss for FVTPL investments. All other non-monetary assets and liabilities are stated at the historical rates of exchange.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in the consolidated financial statements and have been consistently applied the by the Group except if mentioned otherwise (see note 3(c))

A. BASIS OF CONSOLIDTAION

"Subsidiaries" are entities controlled by the Group. The Group controls an entity if it is exposed to, or has rights, to variable returns from its involvement with the investee company, and has the ability to influence the returns through its power over the entity.

Special Purpose Entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the acquisition of shipping vessels as well as the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group: 1) the Corporation has power over the SPE and is exposed to or has rights to variable returns from its involvement with the SPE; 2) the Corporation has the ability to use its power over the SPE at inception; and 3) the Corporation can subsequently affect the amount of its return, the Corporation concludes that it controls the SPE. The assessment of whether the Corporation has control over a SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Corporation and the SPE, except whenever there is a change in the substance of the relationship between the Corporation and a SPE.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date on which control ceases. When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All significant intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated on consolidation.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interest (NCI) are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the NCI is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners' equity of the Group

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resultant gain or loss is recognised in the consolidated statement of profit or loss. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, or when appropriate, the cost on initial recognition of an equity accounted investee.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

B. EQUITY ACCCOUNTED INVESTEES

The Group's interest in equity accounted investees comprise interests in associates. An associate is an entity over which the Group has significant influence but not control or joint control over the financial and operating policies.

Interests in associates are accounted for using the equity method of accounting. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of profit or loss and OCI of equity accounted investees until the date on which significant influence ceases.

Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the investee arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Intra-group gains on transactions between the Group and its equity accounted associates are eliminated to the extent of the Group's interest in the investees.

The carrying amount of the equity accounted investment is tested for impairment in accordance with the policy.

C. NEW STANDARDS ISSUED AND EFFECTIVE

The following standards, amendments and interpretations, which became effective as of 1 January 2019, are relevant to the Group:

(i) IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019.

The Group initially applied IFRS 16 Leases from 1 January 2019. The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

for the year ended 31 December 2019 (US$000)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

On transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities. The impact on transition is summarised below:

	1 January 2019
Right-of-use assets	1,743
Lease liability	1,743

Accounting policy

Leases
The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019
At inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

As a lessee
At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from in its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

Short-term leases and leases of low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(ii) Prepayment Features with Negative Compensation (Amendments to IFRS 9)
The IASB has changed IFRS 9's requirements in two areas of financial instruments accounting

- Financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.
- Companies that have modified or exchanged fixed rate financial liabilities face a significant change in the accounting for non-substantial modifications that do not result in derecognition.

The amendment is effective for annual periods beginning on or after 1 January 2019.

The adoption of this amendment had no significant impact on the consolidated financial statements

(iii) Long term interests in associates and joint venture (Amendments to IAS 28)
An amendment to IAS 28 *Investments in Associates and Joint Ventures* will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment, which addresses equity-accounted loss absorption by LTI, involves the dual application of IAS 28 and IFRS 9 *Financial Instruments.*

The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied.
In effect, this is a three-step annual process:

- Apply IFRS 9 independently
- True up past allocations
- Book current year equity share

The amendment applies for annual periods beginning on or after 1 January 2019.

The adoption of this amendment had no significant impact on the consolidated financial statements

(iv) Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards
As part of its process to make non-urgent but necessary amendments to IFRS, the IASB has issued the Annual Improvements to IFRS Standards 2015–2017 Cycle.

The amendments are effective for annual reporting periods beginning on or after 1 January 2019.

The adoption of these amendments had no significant impact on the consolidated financial statements

D. STANDARDS ISSUED AND NOT YET EFFECTIVE
Several new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing these consolidated financial statements:

(i) Amendments to References to Conceptual Framework in IFRS Standards
The main changes to the Framework's principles have implications for how and when assets and liabilities are recognised and derecognised in the financial statements. Some of the concepts in the revised Framework are entirely new – such as the 'practical ability' approach to liabilities. As they have not been tested as part of any recent standard-setting process, it is unclear what challenges the Board will encounter when using them to develop standards in the future. It is also unclear what challenges preparers of financial statements will face after those future standards become effective.

The Group is still in the process of estimating the impact of adoption of amendments on the consolidation financial statements.

The amendment applies for annual periods beginning on or after 1 January 2020.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Definition of Material – Amendments to IAS 1 and IAS 8

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of ‘primary users of general purpose financial statements’ to whom those financial statements are directed, by defining them as ‘existing and potential investors, lenders and other creditors’ that must rely on general purpose financial statements for much of the financial information they need.

The amendments are not expected to have an impact to the Group.

The amendment applies for annual periods beginning on or after 1 January 2020.

(iii) Definition of a Business – Amendments to IFRS 3

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term ‘outputs’ is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

The amendments are not expected to have an impact to the Group.

The amendment applies for annual periods beginning on or after 1 January 2020.

E. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and bank balances with original maturities of less than 3 months from the acquisition date, which are subject to insignificant risk of fluctuation in their realisable value.

F. REPURCHASE AND RESALE AGREEMENTS

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

G. PROPERTY, EQUIPMENT AND VESSELS

(i) Recognition and Measurement

Items of property, equipment and vessels are stated at cost less accumulated depreciation and impairment losses, if any. Where items of property, equipment and vessels comprise significant components having different useful lives, these components are accounted for as separate items of property, equipment and vessels.

Any gain or loss on disposal of an item of property, equipment and vessels (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in the consolidated statement of profit or loss.

(ii) Subsequent expenditure

An expenditure incurred subsequently to replace a major component of an item of property, equipment and vessels that is accounted for separately is capitalised if it increases the future economic benefits expected to accrue from the item of property, equipment and vessels. All other expenditure, for example on maintenance and repairs, is expensed in the consolidated statement of profit or loss as incurred.

(iii) Depreciation

Depreciation is charged to the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives of the items of property, equipment and vessels. Land is not depreciated.

The estimated useful lives of the Group's property, equipment and vessels are as follows:

Buildings	40 years
Computers, Furniture & Equipment	3 to 10 years
Vessels	25 years from the date built

The property, equipment and vessels residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. The effects of any revision of the residual value, useful life and depreciation method are included in the consolidated statement of profit or loss for the year in which the changes arise.

H. FINANCIAL INSTRUMENTS

(i) Recognition and initial measurement

The Group initially recognises loans and advances, deposits, debt securities and Sukuk on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or a financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Transaction costs on financial instruments at FVTPL are expensed in the consolidated statement of profit or loss. The fair value of a financial instrument at initial recognition is generally its transaction price.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)
H. FINANCIAL INSTRUMENTS (continued)

(ii) Classification

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

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 SPPI.

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

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)
H. FINANCIAL INSTRUMENTS (continued)

Assessment of whether contractual cash flows are SPPI
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group 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 Group considers:

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

(iii) Derecognition

Financial assets
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also (iv)), 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 Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) 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 recognised in OCI is recognised in the consolidated statement of profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in the consolidated statement of profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Group 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 Group continues to recognise 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)
H. FINANCIAL INSTRUMENTS (continued)

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Group 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 derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in the consolidated statement of profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in the consolidated statement of profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred, and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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 interest income calculated using the effective interest rate method.

Financial liabilities

The Group derecognises 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 recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the consolidated statement of profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in the consolidated statement of profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)
H. FINANCIAL INSTRUMENTS (continued)

(v) Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(vi) Fair value measurement
'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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

If a market for a financial instrument is not active or there is no market, the Group establishes fair value using well-recognised valuation techniques that may include recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flows or market multiples for similar instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

In determining fair valuation, the Group in many instances relies on the financial data of investees and on estimates by the management of the investee companies as to the effect of future developments.

Although the Group uses its best judgment, there are inherent limitations in any estimation technique. The fair value estimates presented herein are not necessarily indicative of an amount the Group could realise in a current transaction. Future confirming events will also affect the estimates of fair value. The effect of such events on the estimates of fair value, including the ultimate liquidation of investments, could be material to the consolidated financial statements.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)
H. FINANCIAL INSTRUMENTS (continued)

(vii) Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in the consolidated statement of profit or loss in the ‘other income’ line item;

- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in the consolidated statement of profit or loss in the ‘other income’ line item. Other exchange differences are recognised in OCI in the investment revaluation reserve;

- for financial assets measured at FVTPL that are not part of a designated hedge accounting relationship, exchange differences are recognised in the consolidated statement of profit or loss; and

- for equity instruments measured at FVTOCI, exchange differences are recognised in OCI in the investment revaluation reserve.

(viii) Impairment of exposures subject to credit risk

The Group recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents
- Placements with banks
- Securities purchased under agreements to re-sell;
- Debt securities;
- Loans and advances;
- Loan commitments issued; and
- Financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

The Group measures ECL through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or

- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)
H. FINANCIAL INSTRUMENTS (continued)

Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group 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 Group's historical experience and expert credit assessment as well as forward-looking information. The Group's accounting policy is to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk.

In determining whether credit risk has increased significantly since initial recognition, the following criteria are considered:

- Downgrade in risk rating according to the approved ECL policy;
- Facilities restructured during previous twelve months;
- Qualitative indicators; and
- Facilities overdue by 30 days as at the reporting date subject to rebuttal in deserving circumstances

Definition of default
The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material obligation to the Group; or
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligation.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured 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 Group expects to receive). ECLs are discounted at the effective profit rate of the financial asset.

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

- Probability of default (PD);
- Loss given default (LGD);
- 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. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)
H. FINANCIAL INSTRUMENTS (continued)

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. 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. In absence of adequate loss history, suitable proxies as well as regulatory parameters and guidance is used to determine the LGD.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. 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.

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 derecognised and the 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; and
- 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 interest rate of the existing financial asset.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)
H. FINANCIAL INSTRUMENTS (continued)

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default includes unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more.

Write-off
Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

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:

- For financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments 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 allowance is disclosed and is recognised in retained earnings;
- For loan commitments and financial guarantee contracts: generally, as a provision; and
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)
H. FINANCIAL INSTRUMENTS (continued)

(ix) Derivative financial instruments

The Group enters into a variety of derivative financial instruments held to manage its exposure to interest rate risk; credit risk; and foreign exchange rate risk. Derivatives held include foreign exchange forward contracts, interest rate swaps, cross currency interest rate swaps and credit default swaps.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain/loss is recognised in the consolidated statement of profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities (fair value hedges).

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

(x) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of: 1) the amount of the loss allowance determined in accordance with IFRS 9; and 2) the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the consolidated statement of financial position and the remeasurement is presented in other revenue. The Group has not designated any financial guarantee contracts as at FVTPL.

(xi) Hedge accounting

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges. The Group does not apply fair value hedge accounting of portfolio hedges of interest rate risk. In addition, the Group uses the exemption to continue using IAS 39 hedge accounting rules.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument;

- The effect of credit risk does not dominate the value changes that result from that economic relationship; and

- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)
H. FINANCIAL INSTRUMENTS (continued)

The Group rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases, discontinuation may apply to only part of the hedging relationship. For example, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of a hedging relationship, hence hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Fair value hedges
The fair value change on qualifying hedging instruments is recognised in the consolidated statement of profit or loss except when the hedging instrument hedges an equity instrument designated at FVOCI in which case it is recognised in OCI. The Group has not designated fair value hedge relationships where the hedging instrument hedges an equity instrument designated at FVOCI.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in the consolidated statement of profit or loss. For debt instruments measured at FVOCI, the carrying amount is not adjusted as it is already at fair value, but the part of the fair value gain or loss on the hedged item associated with the hedged risk is recognised in the consolidated statement of profit or loss instead of OCI. When the hedged item is an equity instrument designated at FVOCI, the hedging gain/loss remains in OCI to match that of the hedging instrument.

Where hedging gains/losses are recognised in the consolidated statement of profit or loss, they are recognised in the same line as the hedged item.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of hedged items for which the Effective Interest Rate (EIR) method is used (i.e. debt instruments measured at amortised cost or at FVOCI) arising from the hedged risk is amortised to profit or loss commencing no later than the date when hedge accounting is discontinued.

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. There is uncertainty as to the timing and the methods of transition for replacing existing benchmark interbank offered rates (IBORs) with alternative rates.

As a result of these uncertainties, significant accounting judgement is involved in determining whether certain hedge accounting relationships that hedge the variability of foreign exchange and interest rate risk due to expected changes in IBORs continue to qualify for hedge accounting as at 31 December 2019. IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. Therefore, the Group believes the current market structure supports the continuation of hedge accounting as at 31 December 2019.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

I. IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Recoverable amount is the higher of fair value less costs to sell and value in use. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the consolidated statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation, if no impairment loss had been recognised. A reversal of an impairment loss is recognised immediately in the consolidated statement of profit or loss.

J. LEGAL AND GENERAL RESERVES

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

Article 35 also permits the creation of other reserves such as a General Reserve. The General Reserve may be applied as is consistent with the objectives of the Corporation, and as may be decided by the General Assembly, on the recommendation of the Board of Directors. The General Reserve is provided for based on the recommendation of the Board of Directors.

K. END OF SERVICE BENEFITS

The corporation has a defined benefit plan. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the statement of financial position in respect of defined benefit gratuity plans is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated periodically by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligation.

Past-service costs are recognised immediately in the consolidated statement of profit or loss, unless the changes to the gratuity plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

The Corporation provides end of service benefits for its employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

L. PROVISIONS

The Group recognises a provision when it 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

M. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(i) Judgements

Classification of financial assets
Assessment of the business model within which the assets are held and assessment of whether contractual terms of the financial assets are SPPI on the principal amount outstanding. Refer Note 3H

Significant increase of credit risk
Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approvals of models used to measure ECL.

(ii) Assumptions and estimation of uncertainties

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

Impairment of financial instruments
Determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information. Refer Note 26.

Measurement of fair value of financial instruments with significant unobservable inputs *(level 3)****.*** Refer note 28***.***

N. Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.
When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method.

The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

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4 PLACEMENTS WITH BANKS

	2019	2018
With islamic financial institutions	206,087	121,617
With conventional financial institutions	397,997	530,298
Margin call accounts	-	26,687
Interest receivables	2,812	5,422
Expected credit loss impairment allowance (note 26)	(46)	(86)
	606,850	683,938

5 LOANS AND ADVANCES

	2019	2018
Islamic loans at amortised cost	1,364,028	1,491,383
Conventional loans		
a) at amortised cost	2,366,809	2,063,929
b) at FVTPL	47,424	48,333
Interest receivable	26,167	21,454
	3,804,428	3,625,099
Unamortized participation and upfront fees	(55,220)	(55,028)
Expected credit loss impairment allowance (note 26)	(51,493)	(55,688)
	3,697,715	3,514,383

	2019	2018
Movement during the year		
Balance at 1 January	3,603,645	3,054,471
Adoption of IFRS 9	-	2,466
Balance at 1 January (restated)	3,603,645	3,056,937
Draw-downs	1,708,655	1,537,530
Repayments by customers	(1,533,130)	(993,188)
Fair value change	(909)	2,347
Foreign currency movement	-	19
Gross loan balance	**3,778,261**	3,603,645
Interest receivable	26,167	21,454
Balance at 31 December	**3,804,428**	3,625,099

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5 LOANS AND ADVANCES (continued)

Movement on impairment allowances is as follows:

2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January 2019	4,566	38,643	12,479	**55,688**
Net movement between stages	(54)	52	2	**-**
Net reversal for the year	(874)	(3,031)	(290)	**(4,195)**
At 31 December 2019	**3,638**	**35,664**	**12,191**	**51,493**

2018	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	5,061	15,270	12,479	32,810
Net movement between stages	-	-	-	-
Net charge for the year	(495)	23,373	-	23,373
At 31 December 2018	4,566	38,643	12,479	55,688

6 INVESTMENTS

		2019	2018
Debt securities at FVOCI	6.1	1,780,226	1,312,036
Equity securities at FVOCI	6.2	889,056	1,016,478
Other investments at FVTPL	6.3	59,997	116,653
		2,729,279	2,445,167

6.1 Debt securities at FVOCI

	2019	2018
Treasury bills	394,408	224,958
Fixed-rate bonds	1,303,446	989,431
Floating-rate bonds	69,533	90,034
Interest receivable	14,123	12,901
Expected credit loss impairment allowance (note 26)	(1,284)	(5,288)
	1,780,226	1,312,036

Securities sold under agreements to repurchase: The Group enters into collateralised borrowing transactions (repurchase agreements) in the ordinary course of its financing activities. Collateral is provided in the form of securities held within the investment at FVOCI (debt). At 31 December 2019, the fair value of investment at FVOCI (debt) that had been pledged as collateral under repurchase agreements was US $185,196 thousands (2018: US $179,554 thousands). These transactions are conducted under the terms that are usual and customary to standard securities borrowings and lending activities.

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6. INVESTMENTS (continued)

6.2 Equity securities at FVOCI

	2019	2018
Unlisted equities	723,439	757,385
Listed equities	165,617	259,093
	889,056	1,016,478

Movements during the year:	**2019**	2018
Balance at 1 January	1,016,478	926,772
Classified to investment at FVTPL on adoption of IFRS 9	-	(2,540)
Classified from available-for-sale on adoption of IFRS 9	-	79,849
	1,016,478	1,004,081
Additions during the year	46,960	39,174
Sold during the year	(98,850)	(18,767)
Transferred to equity accounted investee (note 7)	(16,596)	-
Fair value change	(58,936)	(8,010)
Balance at 31 December	**889,056**	1,016,478

6.3 Investments at FVTPL

	2019	2018
Managed funds and others	5,772	59,541
Unlisted equities	54,225	57,112
	59,997	116,653

Movements during the year:	**2019**	**2018**
Balance at 1 January under IAS 39	116,653	41,492
Transferred from available-for-sale on adoption of IFRS 9	-	61,389
	116,653	102,881
Additions during the year	31,639	25,109
Sold during the year	(55,759)	-
Fair value change	(32,536)	(11,337)
Balance at 31 December	**59,997**	116,653

7 EQUITY ACCOUNTED INVESTEES

The movement on equity-accounted investees is given below:

	2019	2018
Balance at 1 January	27,823	27,499
Transferred from equity securities at FVOCI (note 6.2)	16,596	-
Additions during the year	51,611	-
Share of profit for the year	893	319
Impairment charge for the year	(10,390)	-
Change in foreign exchange value	5,371	5
Balance at 31 December	**91,904**	27,823

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7 *EQUITY ACCOUNTED INVESTEES (continued)*

Name	Country of incorporation	% holding 2019	% holding 2018	Nature of business
Falcon Cement Company BSC	Kingdom of Bahrain	30	30	Manufacturing and trading of cement
(Ashtead Technology) BP INV2B BIDCO LIMITED	United Kingdom	32.9	23	Oil and gas services and facilities management company
Al Khorayef United Holding	State of Kuwait	24	-	Oil and gas services and facilities management company
GC-16 JV	State of Kuwait	24	-	Oil and gas services and facilities management company

Summarised financial information of associates that have been equity-accounted not adjusted for the percentage ownership held by the Group (based on most recent management accounts):

	2019	2018
Total assets	362,882	98,369
Total liabilities	137,336	39,901
Total revenues	227,046	33,822
Total net results	4,976	1,371

8 PROPERTY, EQUIPMENT AND VESSELS

	Land	Building	Vessels	Computers, Furniture & Equipment	Total
Cost					
Balance at 1 January 2018	4,004	55,519	117,254	20,102	196,879
Additions	-	131	-	2,394	2,525
Balance at 31 December 2018	4,004	55,650	117,254	22,496	199,404
Additions	-	408	-	2,632	3,040
Disposal	-	-	-	(769)	(769)
Balance at 31 December 2019	**4,004**	**56,058**	**117,254**	**24,359**	**201,675**
Accumulated depreciation and impairment					
Balance at 1 January 2018	-	43,569	24,724	16,602	84,895
Depreciation for the year	-	933	5,344	1,049	7,326
Impairment for the year	-	-	5,000	-	5,000
Balance at 31 December 2018	-	44,502	35,068	17,651	97,221
Depreciation for the year	-	934	4,978	870	6,782
Disposal for the year	-	-	-	(769)	(769)
Impairment reversed (note 23)	-	-	(4,651)	-	(4,651)
Balance at 31 December 2019	**-**	**45,436**	**35,395**	**17,752**	**98,583**
Carrying Amount					
Balance at 31 December 2019	**4,004**	**10,622**	**81,859**	**6,607**	**103,092**
Balance at 31 December 2018	4,004	11,148	82,186	4,845	102,183

for the year ended 31 December 2019 (US$ 000)

9 OTHER ASSETS

	2019	2018
Interest receivable	23,078	24,499
Derivative financial instruments (note 15)	43,046	19,528
Employee loans and advances	771	1,020
Dividends receivable	292	314
Other receivables and advance payments	4,774	8,470
	71,961	53,831

10 DEPOSITS

	2019	2018
Deposits from banks	242,182	139,468
Deposits from corporates	122,453	415,213
Deposits from shareholders	117,484	113,951
Interest payable	2,400	3,605
	484,519	672,237

11 BANK TERM FINANCING

	2019	2018
SAR 1,000 million loan 2014 – 2019 – fully drawn	-	266,666
SAR 3,000 million loan 2014 – 2019 – fully drawn	-	800,000
US$ 150 million loan 2018 - 2021 - fully drawn	150,000	150,000
US$ 150 million loan 2018 - 2021 - fully drawn	150,000	150,000
US$ 75 million loan 2018 - 2021 - fully drawn	75,000	75,000
US$ 50 million loan 2019 – 2022 – fully drawn	50,000	-
SAR 1,500 million loan 2019 – 2024 – fully drawn	400,000	-
SAR 1,500 million loan 2019 – 2024 – fully drawn	400,000	-
US$ 100 million loan 2019 – 2024 – fully drawn	100,000	-
Interest payable	7,157	8,350
Unamortised front-end fee	(7,283)	(3,103)
	1,324,874	1,446,913

for the year ended 31 December 2019 (US$ 000)

12 SUKUK AND BONDS ISSUED

	2019	2018
US $ 3 billion Sukuk programme (partially drawn)		
Series 1:- US $ 500 million bonds 2015 – 2020 profit rate: 2.383% p.a.	498,168	488,494
Series 2:- US $ 500 million bonds 2017 – 2022 profit rate: 3.141% p.a.	506,641	492,140
US $ 3 billion GMTN programme (partially drawn)		
Series 1:- US $ 750 million bonds 2018 – 2022 profit rate: 4.125% p.a.	783,244	762,338
SAR 250 million Sukuk 2016 – 2019 (fully drawn) profit rate: 3.50%	-	66,635
US $ 300 million floating rate bond 2016 – 2021 (fully drawn) LIBOR plus margin 1.15%	300,000	300,000
US$ 105 million floating rate bond 2017 – 2022 (fully drawn) LIBOR plus margin 1.10%	105,000	105,000
CNH 630 million bond 2018 – 2021 (fully drawn) coupon rate: 4.7% p.a.	91,880	94,664
US $ 300 million floating rate bond 2019 – 2024 (fully drawn) LIBOR plus margin 105%	300,000	-
US $ 325 million floating rate bond 2019 – 2024 (fully drawn) LIBOR plus margin 90%	325,000	-
Interest payable	19,742	18,298
Unamortised front-end fee	(2,194)	(4,183)
	2,927,481	2,323,386

13 OTHER LIABILITIES

	2019	2018
Interest payable	15,149	15,735
Dividend payable to shareholders	23,045	13,650
End of service benefits (see below)	12,621	11,080
Accrued expenses and other liabilities	23,025	14,548
Derivatives financial instruments (note 15)	28,235	28,863
Expected for credit losses for commitments and financial guarantees allowance (note 26)	14,038	7,599
	116,113	91,475

Movement on end of service benefits		
Balance as at 1 January	11,080	9,339
Charge for the year	2,477	2,161
Paid during the year	(936)	(420)
Balance as at 31 December	**12,621**	11,080

14 COMMITMENTS AND GUARANTEES

	2019	2018
Commitments to underwrite and fund loans	1,527,096	1,021,016
Commitments to subscribe capital to investments	45,727	51,324
Guarantees to bank on loans of investee companies	7,977	8,777
Fixed assets commitments	-	1,909
Other Commitments	1,814	4,975
	1,582,614	1,088,001

for the year ended 31 December 2019 (US$ 000)

15 DERIVATIVE FINANCIAL INSTRUMENTS

Fair value hedges The Group uses interest rate swaps to hedge its exposure to changes in fair value, of certain investments and borrowings in fixed rate bonds, attributable to changes in market interest rates. It also includes cross currency swaps to hedge the currency risks of investments and borrowings which are denominated in currencies other than US dollar (the functional currency). Fair values of the interest rate swap agreements are estimated based on the prevailing market rates of interest.

Other derivatives held for risk management The Group uses derivatives, not designated in qualifying accounting hedge relationship, to manage its exposure to market risks. The Group enters into foreign exchange forward contracts to manage against foreign exchange fluctuations. Fair values of the forward currency contracts are estimated based on the prevailing market rates of interest and forward rates of the related foreign currencies, respectively.

The derivatives are valued based on observable inputs (refer note 28). The fair values of derivative financial instruments held by the Group as at 31 December are provided below:

	2019		2018	
	Asset	**Liabilities**	Asset	Liabilities
Interest rate swaps (Fair value hedges)	**43,002**	**18,488**	19,357	23,266
Cross currency swaps (Fair value hedges)	**-**	**8,829**	-	4,978
Foreign exchange contracts (Other derivatives held for risk management)	**44**	**918**	171	619
At 31 December	**43,046**	**28,235**	19,528	28,863

The notional amount of derivative financial instruments held by the Group as at 31 December are provided below:

	2019	2018
Interest rate swaps (Fair value hedges)	2,709,135	2,690,801
Cross currency swaps (Fair value hedges)	199,135	265,801
Foreign exchange contracts (Other derivatives held for risk management)	629,564	754,820
At 31 December	**3,537,834**	3,711,422

The contractual maturity analysis of the derivative instruments are included as part of liquidity risk information in note 26.

The net hedge ineffectiveness gain/ losses recognized in the consolidated income statement are as follows:

	2019	2018
(Losses) / Gains on the hedged items attributable to risk hedged	(8,551)	8,939
Gains / (Losses) on the hedging instruments	8,830	(9,218)
Net hedge ineffectiveness gain/(loss)	**279**	(279)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019 **(US$ 000)**

16 NET INTEREST INCOME

Interest income	2019	2018
Cash and bank balances	318	449
Placements with banks – Islamic banks	4,807	5,255
– Conventional banks	21,615	18,004
Debt securities at FVOCI (net)	45,663	40,691
Loans and advances – Islamic banks	55,625	58,437
– Conventional banks	116,425	74,917
Loan designated at FVTPL	11,583	31,776
Amortisation of loan participation and upfront fees	23,678	16,100
Total interest income	**279,714**	245,629
Interest expense		
Deposits from banks – Islamic banks	374	453
– Conventional banks	9,524	5,653
Securities sold under agreement to repurchase	5,889	4,875
Deposits from corporates & shareholders – Islamic institutions	6,084	6,888
– Conventional	8,204	14,030
Others	180	354
Bank term financing	42,590	38,528
Sukuk and bonds issued	92,936	58,752
Amortisation of front-end fees on bank term financing, Sukuk and bond issued	5,467	5,056
Total interest expense	**171,248**	134,589
Net interest income	**108,466**	111,040

17 DIVIDEND INCOME

Equity securities at FVOCI	2019	2018
- Listed	12,325	11,956
- Unlisted	55,326	44,458
	67,651	56,414

18 NET LOSS ON FINANCIAL ASSESTS AT FVTPL

	2019	2018
Loan designated at FVTPL	(909)	2,347
Investments at FVTPL	(28,190)	(11,337)
	(29,099)	(8,990)

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19 NET FEE INCOME

	2019	2018
Agency, advisory and other services	2,008	277
	2,008	277

20 OTHER INCOME, NET

	2019	2018
Exchange gains, net	2,634	149
Fair value hedge ineffectiveness (note 15)	279	(279)
Loss on derecognition of financial assets at FVOCI	(309)	(128)
Rental income	420	1,005
Income from vessels	10,669	4,980
Share of profit from associates	893	319
Others	146	1,277
	14,732	7,323

21 OPERATING EXPENSES

	2019	2018
Staff cost	19,230	21,331
End of service benefits	2,405	2,094
Premises costs, including depreciation	14,043	11,543
Equipment and communications costs	2,327	2,049
Key Management's and Board benefits, fees and charges	4,281	4,661
Consultancy and legal fee	2,690	1,644
Others	2,942	1,467
	47,918	44,789

22 IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS, NET

	2019	2018
Charge for the year		
Loan commitments and financial guarantees	(6,439)	-
Placements	-	(31)
Loans and advances (note 5)	-	(22,878)
	(6,439)	(22,909)
Reversal for the year		
Loans and advances (note 5)	4,195	-
Placements	40	-
Debt securities at FVOCI (note (6.1))	4,004	1,861
Loan commitments and financial guarantees	-	376
	8,239	2,237
	1,800	(20,672)

23 IMPAIRMENT LOSSES , NET

	2019	2018
Charge for the year		
Equity accounted investees (note 7)	(10,390)	-
Property, equipment and vessels (note 8)	-	(5,000)
	(10,390)	(5,000)
Reversal for the year		
Property, equipment and vessels (note 8)	4,651	-
	(5,739)	(5,000)

for the year ended 31 December 2019 (US$ 000)

24 APPROPRIATIONS

	2019	2018
Legal reserve	12,000	18,500
General reserve	132,931	51,768
Dividends	30,841	30,000

During the Annual General Meeting held on April 14, 2019, the shareholders' approved the above appropriation for the year 2018.

25 RELATED PARTY TRANSACTIONS

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

Loans to related parties	**2019**	2018
Loans outstanding at 31 December – gross	2,498,757	2,382,278
Commitments to underwrite and fund loans at 31 December	681,528	539,320
Interest income from loans during the year	132,011	103,008
Loan fees received during the year	1,858	2,249

Loans to related parties are made at prevailing market interest rates and subject to normal commercial negotiation as to terms. The majority of loans to related parties are syndicated, which means that participation and terms are negotiated by a group of arrangers, of which the Group may, or may not, be a leader. No loans to related parties were written off in 2019 and 2018.

Investments in related parties	**2019**	2018
Investments	980,960	1,044,301
Commitments to investments	45,727	51,324
Guarantees as shareholder	7,977	8,777
Dividends received during the year	64,350	56,414

Others

Deposits from corporates	122,453	415,213
Deposits from shareholders	117,484	113,951
Dividend payable to shareholders	23,045	13,650
Interest expense on deposits from corporates during the year	10,759	17,810
Interest expense on deposits from shareholders during the year	3,530	3,108
Balances due to key management For key management's compensation	445	355

26 FINANCIAL RISK MANAGEMENT

Financial risk management objectives

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board of Directors has established the Risk Management Committee, which is responsible for developing and monitoring risk management policies.

The risk management policies are established to identify and analyse the risks, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation, through its training as well as management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Corporation, The Audit and Risk Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

a.) Credit risk management

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

Proposed loans and investments at FVOCI (equity) are subject to systematic investigation, analysis and appraisal before being reviewed by the Credit and Investments Committee (consisting of the General Manager and Senior Managers of the Corporation), which makes appropriate recommendations to the Board of Directors, who have the ultimate authority to sanction commitments. These procedures, plus the fact that most of the loans are backed by sovereign guarantees and commitments and export credit agency cover, limit the Corporation's exposure to credit risk.

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

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

26 *FINANCIAL RISK MANAGEMENT (continued)*

Credit risk grades

The Corporation 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 judgement. 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.

Each 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. These comprise the following:

- Information obtained during periodic review of customer files- e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes;
- Data from credit reference agencies. press articles, changes in external credit ratings;
- Quoted bond and credit default swap (CDS) prices for the borrower where available;
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities;
- Payment record including overdue status as well as a range of variables about payment ratios;
- Utilisation of the granted limit;
- Requests for and granting of forbearance; and
- Existing and forecast changes in business, financial and economic conditions

The Corporation 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 Corporation uses credit risk grades as a primary input into the determination of the term structure of the PD for exposure.

The Corporation collects performance and default information about its credit exposure analysed by jurisdiction or region and by type of product and borrower as well as credit risk grading. The information used is based on the internally generated rating model. The internal credit grade system is not intended to replicate external credit grades but factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a higher internal credit grade. Lower grades are indicative of a lower likelihood of default. Credit ratings are used by the Corporation to decide the maximum lending amount per amount group and also to set minimum pricing thresholds.

26 *FINANCIAL RISK MANAGEMENT (continued)*

The Corporation monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Corporation will measure the loss allowance based on lifetime rather than 12-month ECL.

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 Corporation collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Corporation employs statistical models to analyse 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 changes in key 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 growth.

Based on advice from the Risk Management Department and economic experts and consideration of a variety of external actual and forecast information, the Corporation formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Corporation then uses these forecasts to adjust its estimates of PDs.

The base case represents a most-likely outcome and is aligned with information used by the Corporation for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

The Corporation 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 the key indicators for the selected countries such as the interest rates and the GDP growth.

Incorporation of forward-looking information

The Group 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 advice from the RALCO and economic experts and consideration of a variety of external actual and forecast information, the Group 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.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates such as the International Monetary Fund. The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The Group has identified and documented key drivers of credit risk and credit losses 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 key indicators for the selected countries such as the GDP growth.

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26 FINANCIAL RISK MANAGEMENT (continued)

Credit quality analysis

The following table sets out information about credit quality of financial assets measured at amortised cost and debt investment securities at FVOCI. For loan commitments and financial guarantee contracts, the amounts in the table represents the amounts committed or guaranteed respectively.

i. Placements with banks at amortised cost

2019	Stage 1	Stage 2	Stage 3	**Total**
AAA to AA-	50,000	-	-	**50,000**
A+ to A-	387,522	-	-	**387,522**
BBB to BBB-	169,374	-	-	**169,374**
BB+ to B-	-	-	-	**-**
Gross amount	606,896	-	-	**606,896**
ECL Allowance	(46)	-	-	**(46)**
Carrying Amount	**606,850**	**-**	**-**	**606,850**

2018	Stage 1	Stage 2	Stage 3	Total
AAA to AA-	174,383	-	-	174,383
A+ to A-	318,357	-	-	318,357
BBB to BBB-	290,667	-	-	290,667
BB+ to B-	-	-	-	-
Gross amount	783,407	-	-	783,407
ECL Allowance	(86)	-	-	(86)
Carrying Amount	783,321	-	-	783,321

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26 FINANCIAL RISK MANAGEMENT (continued)

ii. Investments in debt securities at measured at FVTOCI

2019	Stage 1	Stage 2	Stage 3	**Total**
AAA to AA-	799,843	-	-	**799,843**
A+ to A-	684,247	42,890	-	**727,137**
BBB to BBB-	119,303	5,060	-	**124,363**
BB+ to B-	-	130,167	-	**130,167**
Gross amount	1,603,393	178,117	-	**1,781,510**
ECL Allowance	(371)	(913)	-	**(1,284)**
Carrying Amount	**1,603,022**	**177,204**	**-**	**1,780,226**

2018	Stage 1	Stage 2	Stage 3	Total
AAA to AA-	532,779	116,455	-	649,234
A+ to A-	179,412	105,232	-	284,644
BBB to BBB-	-	-	-	-
BB+ to B-	-	383,446	-	383,446
Gross amount	712,191	605,133	-	1,317,324
ECL Allowance	(208)	(5,080)	-	(5,288)
Carrying Amount	711,983	600,053	-	1,312,036

for the year ended 31 December 2019 (US$ 000)

26 FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK MANAGEMENT (continued)

iii. Loans and Advances at amortised cost

2019	Stage 1	Stage 2	Stage 3	**Total**
AAA to AA-	598,655	-	-	**598,655**
A+ to A-	1,342,311	-	-	**1,342,311**
BBB to BBB-	778,411	79,093	-	**857,504**
BB+ to C	402,661	541,896	-	**944,557**
D	-	-	13,977	**13,977**
Gross amount	3,122,038	620,989	13,977	**3,757,004**
ECL Allowance	(3,756)	(35,546)	(12,191)	**(51,493)**
Carrying Amount	**3,118,282**	**585,443**	**1,786**	**3,705,511**

2018	Stage 1	Stage 2	Stage 3	Total
AAA to AA-	489,911	-	-	489,911
A+ to A-	1,430,520	538	-	1,431,058
BBB to BBB-	589,749	202,652	-	792,401
BB+ to C	471,398	379,519	-	850,917
D	-	-	12,479	12,479
Gross amount	2,981,578	582,709	12,479	3,576,766
ECL Allowance	(4,566)	(38,643)	(12,479)	(55,688)
Carrying Amount	2,977,012	544,066	-	3,521,078

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26 FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK MANAGEMENT (continued)

iv. Loans commitments and financial guarantees

2019	Stage 1	Stage 2	Stage 3	**Total**
AAA to AA-	19,328	-	-	**19,328**
A+ to A-	175,486	-	-	**175,486**
BBB to BBB-	491,387	158,610	-	**649,997**
BB+ to C	191,222	491,063	-	**682,285**
D	-	7,977	-	**7,977**
Gross amount	877,423	657,650	-	**1,535,073**
ECL Allowance	(1,796)	(12,242)	-	**(14,038)**
Carrying Amount	**875,627**	**645,408**	**-**	**1,521,035**

2018	Stage 1	Stage 2	Stage 3	Total
AAA to AA-	9,285	-	-	9,285
A+ to A-	112,828	-	-	112,828
BBB to BBB-	512,275	136,294	-	648,569
BB+ to C	76,604	182,507	-	259,111
D	-	-	-	-
Gross amount	710,992	318,801	-	1,029,793
ECL Allowance	(546)	(7,053)	-	(7,599)
Carrying Amount	710,446	311,748	-	1,022,194

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26 FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK MANAGEMENT (continued)

The following tables show reconciliations from the opening to the closing balance of the loss allowance: 12-***month ECL (Stage 1), Lifetime ECL not credit-impaired (Stage 2), Lifetime ECL and credit-impaired (Stage 3).***

2019	Stage 1	Stage 2	Stage 3	Total
at 1 January	5,406	50,776	12,479	**68,661**
Net movement between stages	(54)	52	2	**-**
Net reversal for the year	619	(2,129)	(290)	**(1,800)**
at 31 December	**5,971**	**48,699**	**12,191**	**66,861**

Break down of ECL by category of assets in the statement of financial position and off-balance sheet commitments:

	Stage 1	Stage 2	Stage 3	Total
Placements with financial institutions	46	-	-	**46**
Loans and advances	3,756	35,546	12,191	**51,493**
Debt securities at amortised cost	371	913	-	**1,284**
Loan commitments and financial guarantees	1,796	12,242	-	**14,038**
	5,969	**48,701**	**12,191**	**66,861**

2018	Stage 1	Stage 2	Stage 3	Total
at 1 January	7,299	28,211	12,479	47,989
Net movement between stages	-	-	-	-
Net charge for the year	(1,893)	22,565	-	20,672
at 31 December	5,406	50,776	12,479	68,661

Break down of ECL by category of assets in the statement of financial position and off-balance sheet commitments:

	Stage 1	Stage 2	Stage 3	Total
Placements with financial institutions	86	-	-	86
Loans and advances	4,566	38,643	12,479	55,688
Debt securities at amortised cost	208	5,080	-	5,288
Loan commitments and financial guarantees	546	7,053	-	7,599
	5,406	50,776	12,479	68,661

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26 *FINANCIAL RISK MANAGEMENT (continued)*

CREDIT RISK MANAGEMENT (continued)

The Corporation monitors concentration of credit risk by sector and by geographic location. An analysis of concentration of risk at the reporting date is shown below (also refer note 32 and 34).

	Loans and Advances (note 5)		**Placements with banks (note 4)**		**Debt securities at FVOCI (note 6.1)**	
	2019	2018	**2019**	2018	**2019**	2018
Concentration of credit risk by sector						
Energy	1,600,930	1,405,574	-	-	312,388	317,752
Materials	958,029	923,050	-	-	63,093	75,667
Financials	-	-	606,850	683,938	433,639	376,638
Utilities	840,725	776,800	-	-	92,036	82,569
Industrials	298,031	358,986	-	-	78,755	82,594
Sovereign & Public Finance	-	49,973	-	-	800,315	376,816
Carrying amount at 31 December	**3,697,715**	3,514,383	**606,850**	683,938	**1,780,226**	1,312,036

	Loans and Advances (note 5)		**Placements with banks (note 4)**		**Debt securities at FVOCI (note 6.1)**	
	2019	2018	**2019**	2018	**2019**	2018
Concentration of credit risk by location						
Kingdom of Saudi Arabia	1,094,345	989,503	198,366	76,744	299,096	233,815
State of Qatar	490,901	436,636	-	-	108,078	135,297
Other Gulf Cooperation Council states	1,167,940	1,154,782	408,484	573,671	444,289	379,804
Egypt and North Africa	328,923	431,108	-	-		-
Total Arab World	**3,082,109**	3,012,029	**606,850**	650,415	**851,463**	748,916
Europe	347,268	188,553	-	27,199	139,214	66,696
Asia and Oceania	96,580	175,052	-	6,324	61,111	17,757
United States	171,758	138,749	-	-	728,438	478,667
Carrying amount at 31 December	**3,697,715**	3,514,383	**606,850**	683,938	**1,780,226**	1,312,036

for the year ended 31 December 2019 (US$ 000)

26 *FINANCIAL RISK MANAGEMENT (continued)*

b.) Liquidity risk and funding management

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Corporation.

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

Daily liquidity position monitoring and regular stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies are subject to review and approval by ALCO. Liquidity controls are provided for an adequately diversified deposit base in terms of maturities and the range of counter-parties. The asset and liability maturity profile based on estimated repayment terms is set out in note 29.

Contractual maturities of financial liabilities (including interest)

2019	Up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	Contractual Outflows	Carrying Value
Liabilities						
Deposits	(264,084)	(253,790)	(254,145)	-	**(772,019)**	**(630,182)**
Bank term financing	(12,838)	(67,594)	(1,325,000)	-	**(1,405,432)**	**(1,324,874)**
Sukuk and bonds issued	(28,030)	(514,073)	(2,369,246)	-	**(2,911,349)**	**(2,927,481)**
	(304,952)	**(835,457)**	**(3,948,391)**	-	**(5,088,800)**	**(4,882,537)**
Derivative instruments:						
Forward exchange contracts	(594,456)	(74,005)	-	-	**(668,461)**	**(918)**
Interest rate swaps	(1,671)	(1,345)	(63,777)	(15,026)	**(81,819)**	**(18,488)**
Cross currency swaps	-	(3,408)	(9,797)	-	**(13,205)**	**(8,829)**
Off-balance sheet exposures	(248,877)	(346,402)	(368,825)	(618,510)	**(1,582,614)**	**(1,582,614)**
	(845,004)	**(425,160)**	**(442,399)**	**(633,536)**	**(2,346,099)**	**(1,610,849)**

2018	Up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	Contractual Outflows	Carrying Value
Liabilities						
Deposits	(746,422)	(77,344)	-	-	(823,766)	(822,997)
Bank term financing	(272,076)	(881,936)	(375,000)	-	(1,529,012)	(1,446,913)
Sukuk issued	(25,045)	(80,630)	(2,245,315)	-	(2,350,990)	(2,323,386)
	(1,043,540)	(1,039,910)	(2,620,315)	-	(4,703,768)	(4,593,296)
Derivative instruments						
Interest rate swaps	(158,237)	(596,533)	-	-	(754,770)	(619)
Cross currency swaps	-	(8,360)	(55,048)	(4,235)	(67,643)	(23,266)
Forward exchange contracts	-	(64,573)	(193,555)	-	(258,128)	(4,978)
Off-balance sheet exposures	(154,274)	(280,429)	(66,176)	(587,122)	(1,088,001)	(1,088,001)
	(312,511)	(949,895)	(314,779)	(591,357)	(2,168,542)	(1,116,864)

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26 *FINANCIAL RISK MANAGEMENT (continued)*

c.) Market risk management

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

The Corporation holds (but currently does not actively trade) debt and equity securities. Treasury activities are controlled by the ALCO and are also subject to a framework of Board-approved currency, industry and geographical limits and ratings by credit rating agencies.

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

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

Exposure to interest rate risk is restricted by permitting only a limited mismatch between the re-pricing of the main components of the Corporation's assets and liabilities. The re-pricing profile of assets and liabilities is set out in note 30.

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

	100 bp parallel increase		**100 bp parallel decrease**	
	Profit/loss	Equity	Profit/loss	Equity
At 31 December 2019	**1,591**	**397**	**(1,591)**	**(397)**
At 31 December 2018	1,183	296	(1,183)	(296)

At reporting date, the interest rate profile of the Corporation's interest bearing financial instruments was:

	2019	2018
Fixed rate instruments		
Financial assets	3,591,910	3,129,881
Financial liabilities	(2,709,135)	(2,690,801)
	882,775	439,080
Variable rate instruments		
Financial assets	5,318,044	5,226,468
Financial liabilities	(4,935,398)	(4,616,317)
	382,646	610,151

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26 FINANCIAL RISK MANAGEMENT (continued)

c.) Market risk management (continued)

Currency risk is minimised by regular review of exposures to currencies other than United States dollars to ensure that no significant positions are taken, which may expose the Corporation to undue risks. Currently, there is no trading in foreign exchange. The Corporation's net currency exposures are set out in note 31. The Corporation's exposures in the currencies other than US dollar is also hedged by entering into forward contracts. An analysis of the Corporation's consolidated statement of profit or loss sensitivity to 5% strengthening or 5% weakening of US dollar against major un-pegged foreign currencies is shown below. This analysis assumes that all other variables, in particular interest rates, remain same.

At 31 December 2019	5% strengthening of USD	5% weakening of USD
AED	28	(28)
GBP	24	(24)
KWD	24	(24)

At 31 December 2018	5% strengthening of USD	5% weakening of USD
AED	24	(24)
EUR	29	(29)
GBP	71	(71)

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

d.) Operational risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing. A framework and methodology has been developed to identify and control the various operational risks. While operational risk cannot be entirely eliminated, it is managed and mitigated by ensuring that the appropriate infrastructure, controls, systems, procedures, and trained and competent people are in place throughout the Corporation. A strong internal audit function makes regular, independent appraisals of the control environment in all identified risk areas. Adequately tested contingency arrangements are also in place to support operations in the event of a range of possible disaster scenarios.

e.) Capital management

The Corporation manages its capital to ensure that entities in the Corporation will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balances. The Corporation's overall strategy remains unchanged from 2018. The capital structure of the Corporation consists of net debt and equity of the Corporation. The Corporation is not subject to any externally imposed capital requirements.

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27 EFFECTIVE INTEREST RATES

The weighted average effective interest rates of the Group's financial instruments at the reporting date were:

	2019	2018
Interest-bearing financial assets		
Fixed-rate bonds	3.91%	4.67%
Floating-rate bonds	3.29%	3.63%
Placements with banks	2.48%	3.13%
Loans and advances	4.08%	4.75%
US dollar denominated	4.03%	4.76%
Non-US dollar denominated	4.14%	4.73%
Interest-bearing financial liabilities		
Deposits from banks	3.06%	3.18%
US dollar denominated	2.25%	2.42%
Non-US dollar denominated	3.11%	3.23%
Deposits from corporates	2.52%	2.98%
Deposits from shareholders	2.26%	3.27%
Borrowings under repurchase agreements	2.93%	3.83%
Bank term financing	3.06%	3.42%
Sukuk and Bonds	4.17%	4.88%
US$ LIBOR at 31 December was:		
One-month	1.76%	2.50%
Three-month	1.91%	2.80%
Six-month	1.91%	2.88%

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28 FAIR VALUE HIERARCHY AND CATEGORIES OF FINANCIAL INSTRUMENTS

a. *Fair value Hierarchy*

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
Level 3 inputs are unobservable inputs for the asset or liability.

The table below analyses financial instruments, measured at fair value as at the end of the year, by level in the fair value hierarchy into which the fair value measurement is categorized:

2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Debt securities at FVOCI				
Treasury Bills	394,408	-	-	**394,408**
Fixed-rate bonds	1,303,446	-	-	**1,303,446**
Floating-rate bonds	69,533	-	-	**69,533**
Other investments at FVTPL	-	2,495	57,502	**59,997**
Equities at FVOCI	165,617	-	723,439	**889,056**
Derivative financial assets	-	43,046	-	**43,046**
	1,933,004	**45,541**	**780,941**	**2,759,486**
Financial liabilities				
Deposit from banks	-	100,516	-	**100,516**
Sukuk and Bonds issued	-	1,879,933	-	**1,879,933**
Derivative financial liabilities	-	28,235	-	**28,235**
	-	**2,008,684**	**-**	**2,008,684**

2018	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities at FVOCI				
Treasury Bills	224,958	-	-	224,958
Fixed-rate bonds	989,431	-	-	989,431
Floating-rate bonds	90,034	-	-	90,034
Other investments at FVTPL	-	56,265	60,388	116,653
Equities at FVOCI	259,093	-	757,385	1,016,478
Derivative financial assets	-	19,528	-	19,528
	1,563,516	75,793	817,773	2,457,082
Financial liabilities				
Deposit from bank	-	99,801	-	99,801
Sukuk and Bonds issued	-	1,904,271	-	1,904,271
Derivative financial liabilities	-	28,863	-	28,863
	-	2,032,935	-	2,032,935

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28 *FAIR VALUE HIERARCHY AND CATEGORIES OF FINANCIAL INSTRUMENTS (continued)*

The potential effect of using reasonable possible alternative assumptions for fair valuing equity investments classified as level 3 are summarised below:

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2019	Weighted average input	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
Market multiples approach	Illiquidity discount	94,690	8%-12%	+/- 1%	950 / (950)
Discounted cash flow	Cost of equity and terminal growth rate	628,749	9%-16% 1%-3%	+/- 1%	6,287/ (6,278)
		723,439			

The management believes that the fair value of the Corporation's financial assets which are carried at amortised cost are not materially different from the carrying value due to the instruments are subject to floating rate interest and maturity of short term and also these financial assets are fair valued at level 2 of fair value hierarchy.

Reconciliation of Level 3 fair value measurements

	2019	2018
Balance at 1 January	757,385	783,562
Total gains or losses:		
in other comprehensive income	(37,561)	(11,237)
Purchases	20,211	29,092
Transfer out/in level 3	(16,596)	(44,032)
Balance at 31 December	**723,439**	757,385

The Group's derivatives are classified as Level 2 as they are valued using inputs that can be observed in the market.

The above assets and liabilities are carried at fair value at the balance sheet date. Other financial assets and liabilities carry floating interest rate and therefore the management believes that the fair values approximate their carrying values and are not materially different from their carrying values.

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28 FAIR VALUE HIERARCHY AND CATEGORIES OF FINANCIAL INSTRUMENTS (continued)

b) Categories of financial instruments

The following table summarizes the balances of financial assets and financial liabilities by measurement category in the consolidated statement of financial position as of 31 December 2019:

2019	Amortized cost	Designated at FVTPL	FVOCI – equity securities	FVOCI – debt securities	Total Carrying amount
Financial assets					
Cash and cash equivalents	48,620	-	-	-	**48,620**
Placements with banks	606,850	-	-	-	**606,850**
Investments	-	59,997	889,056	1,780,226	**2,729,279**
Loans and advances	3,650,291	47,424	-	-	**3,697,715**
Other Assets	28,915	43,046	-	-	**71,961**
Total financial and other assets	**4,334,676**	**150,467**	**889,056**	**1,780,226**	**7,154,425**
Financial liabilities					
Deposits	529,666	100,516	-	-	**630,182**
Other liabilities	87,878	28,235	-	-	**116,113**
Bank term financing	1,324,874	-	-	-	**1,324,874**
Sukuks and Bonds issued	1,047,548	1,879,933	-	-	**2,927,481**
Total financial and other Liabilities	**2,989,966**	**2,008,684**	**-**	**-**	**4,998,650**

2018	Amortized cost	Designated at FVTPL	FVOCI – equity securities	FVOCI – debt securities	Total Carrying amount
Financial assets					
Cash and cash equivalents	26,021	-	-	-	26,021
Placements with banks	783,321	-	-	-	783,321
Investments	-	116,653	1,016,478	1,312,036	2,445,167
Loans and advances	3,466,050	48,333	-	-	3,514,383
Other Assets	34,303	19,528	-	-	53,831
Total financial and other assets	4,309,695	184,514	1,016,478	1,312,036	6,822,723
Financial liabilities					
Deposits	723,196	99,801	-	-	822,997
Other liabilities	62,612	28,863	-	-	91,475
Bank term financing	1,446,913	-	-	-	1,446,913
Sukuks and Bonds issued	419,115	1,904,271	-	-	2,323,386
Total financial and other Liabilities	2,651,836	2,032,935	-	-	4,684,771

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29 MATURITY PROFILE OF ASSETS AND LIABILITIES

The maturity profile of the Group's assets and liabilities, based on management's estimate of its realizations, is set out below.

	Up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	2019 Total
Assets					
Cash and cash equivalents	48,620	-	-	-	**48,620**
Placements with banks	606,850	-	-	-	**606,850**
Debt securities at FVOCI	430,276	25,459	937,145	387,346	**1,780,226**
Equity securities at FVOCI	-	-	-	889,056	**889,056**
Other investments at FVTPL	-	-	-	59,997	**59,997**
Equity accounted investees	-	-	-	91,904	**91,904**
Loans and advances	185,015	766,642	1,815,344	930,714	**3,697,715**
Property, equipment & vessels	-	-	-	103,092	**103,092**
Other assets	66,744	5,217	-	-	**71,961**
Total assets	1,337,505	797,318	2,752,489	2,462,109	**7,349,421**
Liabilities and Equity					
Deposits	(183,540)	(200,979)	(245,663)	-	**(630,182)**
Bank term financing	(7,157)	-	(1,317,717)	-	**(1,324,874)**
Sukuks and Bonds issued	(3,928)	(500,000)	(2,423,553)	-	**(2,927,481)**
Other liabilities	(113,880)	(2,233)	-	-	**(116,113)**
Equity	-	-	-	(2,348,368)	**(2,348,368)**
Non-controlling Interest	-	-	-	(2,403)	**(2,403)**
Total liabilities and equity	(308,505)	(703,212)	(3,986,933)	(2,350,771)	**(7,349,421)**
Maturity Gap	1,029,000	94,106	(1,234,444)	111,338	**-**
CUMULATIVE MATURITY GAP	1,029,000	1,123,106	(111,338)	-	

2018					
Total assets	1,127,880	820,457	2,508,882	2,495,510	6,952,729
Total liabilities and equity	(788,160)	(1,029,720)	(2,866,891)	(2,267,958)	(6,952,729)
Maturity gap	339,720	(209,263)	(358,009)	227,552	-
Cumulative maturity gap	339,720	130,457	(227,552)	-	

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30 REPRICING PROFILE OF FINANCIAL ASSETS AND LIABILITIES

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

2019 **ASSETS**	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	**Total**
Placements with banks	604,084	-	-	-	**604,084**
Debt securities at FVOCI					
Floating-rate bonds	69,533	-	-	-	**69,533**
Loans and advances					
US$ denominated	2,644,350	1,020,483	-	-	**3,664,833**
Non US$ denominated	34,204	31,800	-	-	**66,004**
LIABILITIES					
Deposits					
US$ denominated	(300,600)	(100,000)	-	-	**(400,600)**
Non US$ denominated	(26,667)	-	-	-	**(26,667)**
Bank term financing	(1,325,000)	-	-	-	**(1,325,000)**
Sukuks and Bonds issued	(1,030,000)	-	-	-	**(1,030,000)**
Interest rate sensitivity gap	**669,904**	**952,283**	**-**	**-**	**1,622,187**
Cumulative Gap	**669,904**	**1,622,187**	**1,622,187**	**1,622,187**	

2018 ASSETS	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	**Total**
Placements with banks	563,150	188,148	-	-	751,298
Available for sale securities					
Floating-rate bonds	90,034	-	-	-	90,034
Loans and advances					
US$ denominated	2,472,654	895,364	-	-	3,368,018
Non US$ denominated	101,191	86,103			187,294
LIABILITIES					
Deposits					
US$ denominated	(560,972)	(75,000)	-	-	(635,972)
Non US$ denominated	(83,620)	-	-	-	(83,620)
Bank term financing	(641,666)	(800,000)	-	-	(1,441,666)
Sukuks and Bonds issued	(405,000)	-	-	-	(405,000)
Interest rate sensitivity gap	1,535,771	294,615	-	-	1,830,386
Cumulative Gap	1,535,771	1,830,386	1,830,386	1,830,386	

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31 CURRENCY EXPOSURES

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

	Assets	Liabilities and equity	2019 Net Exposure	2018 Net exposure
ASSETS, LIABILITIES AND EQUITY				
United States dollar	6,803,524	(6,340,902)	462,622	362,259
Euro	96	-	96	5,722
Other OECD currencies	48,922	-	48,922	44,172
Arab currencies				
GCC	496,879	(1,008,519)	(511,640)	(412,153)
	7,349,421	**(7,349,421)**	-	-

	2019	2018
COMMITMENTS AND GUARANTEES		
United States dollar	1,464,866	960,256
Saudi Riyal	117,748	127,745
	1,582,614	1,088,001

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

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

		2019	2018
Euro	EUR 1=US$	1.1223	1.1468
Saudi riyal	SAR 1=US$	0.2666	0.2666
Swiss franc	CHF 1=US$	1.0343	1.0167
British pound	GBP 1=US$	1.3194	1.2765
Egyptian pound	EGP 1=US$	0.0623	0.0557

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

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32 INDUSTRY DISTRIBUTION OF ASSETS AND LIABILITIES

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

	2019	2018
ASSETS		
Energy	2,339,898	2,294,636
Materials	1,607,703	1,629,524
Financials	1,212,472	1,272,663
Utilities	972,350	844,602
Industrials	416,680	484,515
Sovereign & Public Finance	800,318	426,789
Total assets at 31 December	**7,349,421**	6,952,729
LIABILITIES AND EQUITY		
Energy	170,634	407,798
Financials	1,950,156	2,015,998
Sovereign & Public Finance	2,877,860	2,260,975
Equity	2,350,771	2,267,958
Total liabilities and equity at 31 December	**7,349,421**	6,952,729
COMMITMENTS AND GUARANTEES		
Energy	793,145	486,499
Materials	87,630	110,961
Financials	460,530	334,673
Utilities	152,616	113,500
Industrials	63,693	42,368
Sovereign & Public Finance	25,000	-
Total commitments and guarantees at 31 December	**1,582,614**	1,088,001

33 SEGMENT ANALYSIS

Information reported to the Board of directors for the purposes of resource allocation and assessment of segment performance focuses as a single reportable segment. The directors of the Group have chosen to organise the Group as one operating segment.

Assets, liabilities, income and expenses are disclosed in the relevant notes to the consolidated financial statements of the Group.

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34 GEOGRAPHICAL DISTRIBUTION OF RISK

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

	2019	2018
ASSETS		
Kingdom of Saudi Arabia	2,359,111	2,239,952
State of Qatar	599,735	574,636
Other Gulf Cooperation Council states	2,097,549	2,256,457
Egypt and North Africa	520,918	570,244
Total GCC and North Africa	**5,577,313**	5,641,289
Europe	492,952	372,807
Asia and Oceania	207,147	199,131
United States	693,661	423,512
Other North and South America	378,348	315,990
Total assets	**7,349,421**	6,952,729
LIABILITIES AND EQUITY		
Kingdom of Saudi Arabia	3,457,574	4,271,662
State of Qatar	240,734	226,796
Other Gulf Cooperation Council states	1,149,548	1,124,402
Other Middle East states	348,918	332,816
Egypt and North Africa	641,933	612,350
Total GCC and North Africa	**5,838,707**	6,568,026
Europe	380,303	225,587
Asia and Oceania	145,663	151,000
Other North and South America	984,748	8,116
Total liabilities and equity	**7,349,421**	6,952,729
COMMITMENTS AND FINANCIAL GUARANTEES		
Kingdom of Saudi Arabia	293,303	186,519
State of Qatar	13,861	144,843
Other Gulf Cooperation Council states	418,879	405,181
Other Middle East states	232,218	35,000
Egypt and North Africa	193,185	146,028
Total GCC and North Africa	**1,151,446**	917,571
Europe	303,845	144,238
Asia and Oceania	110,396	15,772
United States	16,927	10,420
	1,582,614	1,088,001

35 COMPRATIVE FIGURES

The comparative figures have been regrouped in order to conform with the presentation for current year. Such regrouping did not affect previously reported profit, comprehensive income for the year or total equity.