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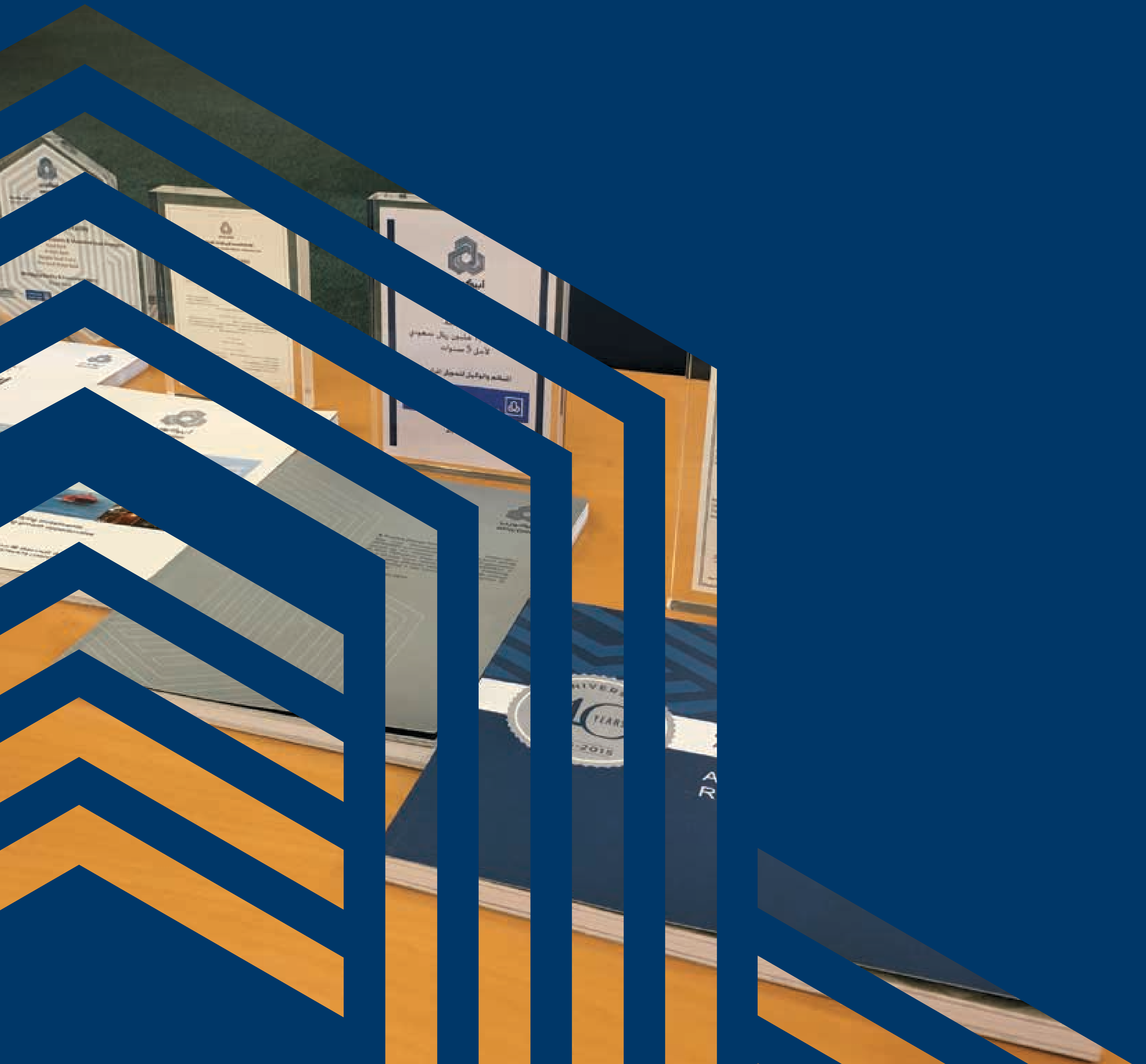
APICORP

ARAB PETROLEUM INVESTMENTS CORPORATION

Annual Report & Accounts 2016

THREE YEARS INTO OUR FIVE YEAR STRATEGIC BUSINESS PLAN WE ARE WELL PLACED TO BETTER SERVE THE ARAB ENERGY INDUSTRIES, AND DELIVER LONG-TERM, SUSTAINABLE PROFITABILITY TO OUR STAKEHOLDERS.

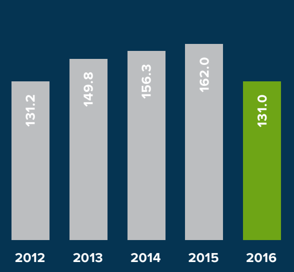


WE ARE APICORP, A MULTILATERAL DEVELOPMENT BANK ESTABLISHED TO FOSTER THE DEVELOPMENT OF THE ARAB ENERGY INDUSTRY. WE DRIVE OUR OPERATIONS THROUGH THE FOUR MAIN ACTIVITIES: INVESTMENTS, CORPORATE FINANCE, TREASURY AND CAPITAL MARKETS, AND ENERGY RESEARCH. SINCE OUR FOUNDING, WE HAVE MADE SIGNIFICANT CONTRIBUTIONS TO THE EVOLUTION OF THE REGION'S ENERGY INDUSTRY. APICORP IS A TESTAMENT TO THE POSSIBILITIES OF THE ARAB UNITY. WE ARE AS COMMITTED TODAY AS WE WERE MORE THAN FORTY YEARS AGO TO UNDERPINNING AND SUPPORTING THE REGION'S ENERGY SECTOR IN EVERY WAY POSSIBLE, VITAL AS IT IS FOR THE MIDDLE EAST AND GLOBAL ECONOMIES.

2016 HIGHLIGHTS

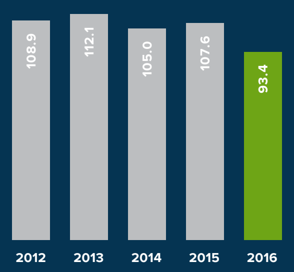
Gross Income (US$ Million)

131.00



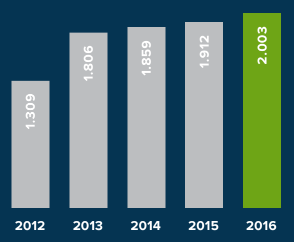
Net Income (US$ Million)

93.42



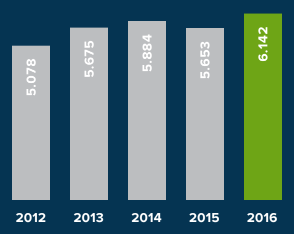
Shareholder Equity (US$ Billion)

2.00



Total Assets (US$ Billion)

6.14



Assets Breakdown

17%
Investments (US$ 0.99bn)

49%
Corporate Finance (US$ 2.95bn)

34%
Treasury and Capital Markets (US$ 2.04bn)

Aa3

MOODY'S RATING
SEPTEMBER 2016

172%

LIQUIDITY
COVERAGE RATIO

OUR VISION IS TO BE THE TRUSTED FINANCIAL PARTNER TO THE ARAB ENERGY INDUSTRY.

WHAT WE DO

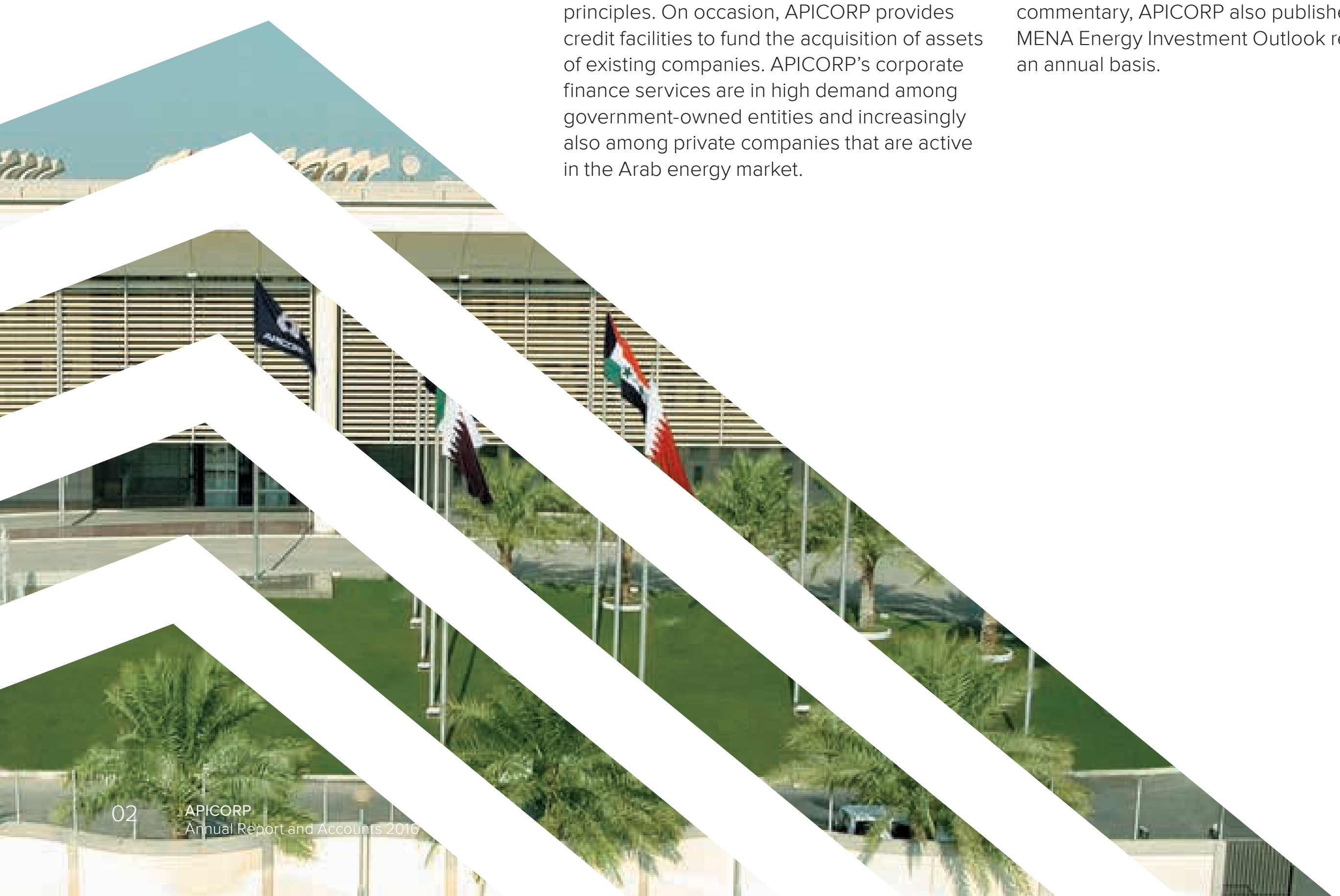
APICORP has grown and evolved as an organization since its formation in 1975, but its core mandate has remained constant: to facilitate the development of the Arab energy industry.

To this end, APICORP drives its operations through four areas, namely, Investments, Corporate Finance, Treasury and Capital Markets, and Research.

Investments

As an important part of its mandate, APICORP makes direct equity investments in companies that show clear potential for growth and value creation.

APICORP actively participates in the strategic and operational development of its investee companies, seeking to contribute to their growth by leveraging its extensive networks, knowledge and experience.



Over the years, APICORP has steadily broadened its exposure to also include investments in the private sector. To ensure a well-rounded and diversified investment portfolio, the Corporation is increasingly investing in midstream sectors in the hydrocarbon industry, including shipping and refining, and is also extending its geographic reach.

Corporate Finance

APICORP is a leading provider of financing solutions to the Arab energy industry through its Corporate Finance business line. Its purpose is to finance the investments and the trade of local, regional and international sponsors in the energy sector of the Arab world through funded and unfunded credit. The product range encompasses credit in the form of project finance, asset based finance, trade and commodity finance as well as corporate facilities and financial advisory services.

APICORP provides mainly medium-term and long-term credits, often with a length of more than twelve years. The credits are typically used for new investments and export or import of hydrocarbon products and can be issued under conventional or Islamic principles. On occasion, APICORP provides credit facilities to fund the acquisition of assets of existing companies. APICORP's corporate finance services are in high demand among government-owned entities and increasingly also among private companies that are active in the Arab energy market.

APICORP's participation in transactions is often highly valued due to the track record and reputation of the Corporation.

Treasury and Capital Markets

The key task of the Treasury and Capital Markets department is to proactively manage APICORP's liquidity, ensuring that APICORP is adequately funded to sustain and grow its investment activities to support the realization of APICORP's strategy in any economic environment.

Treasury engages in both conventional and Islamic banking activities, dealing with a diverse range of counterparties. The department also manages a well-diversified investment portfolio to ensure a steady and stable income stream to complement APICORP's revenues.

Research

APICORP seeks to be recognized as a world-class professional institution and the leading source of research on the Arab energy industry. Its range of specialized research products caters to the needs of energy professionals in the private and public sectors and the wider financial community around the globe.

In addition to the monthly Energy Research commentary, APICORP also publishes its MENA Energy Investment Outlook report on an annual basis.

OUR MISSION IS TO DEVELOP THE ARAB ENERGY SECTOR THROUGH A RANGE OF CREATIVE, VALUE ADDING SOLUTIONS, PROVIDED ON A COMMERCIAL BASIS, FACILITATING VALUE MAXIMISATION. OUR OFFERING INCLUDES EQUITY INVESTMENT, DEBT FINANCING, FINANCIAL ADVISORY AND ENERGY RESEARCH SERVICES.

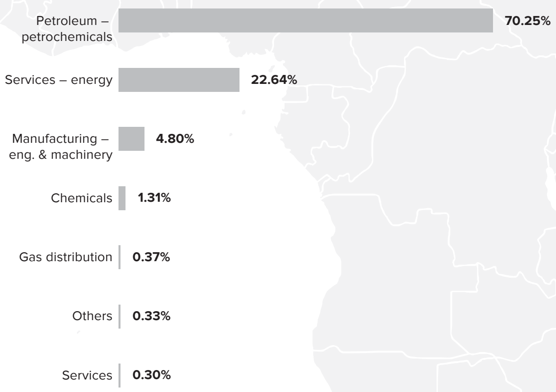
We will achieve our strategic goals by

- MAXIMISING LONG-TERM VALUE CREATION WHILE MAINTAINING DEVELOPMENT MANDATES.
- ATTRACTING AND RETAINING INDUSTRY LEADING TALENT.
- CREATING AND MAINTAINING STRATEGIC PARTNERSHIPS AND ALLIANCES.
- OPTIMALLY LEVERAGING THE APICORP BRAND TO CREATE OPPORTUNITIES.
- SECURING BEST-IN-CLASS TECHNOLOGIES AND OPERATING SYSTEMS.

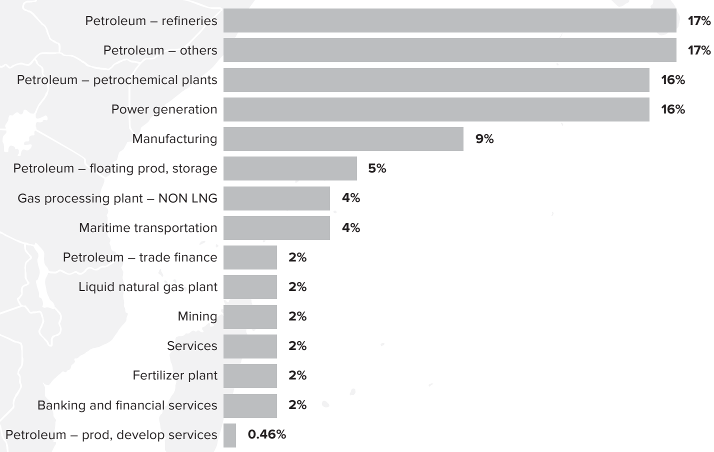
Our shareholders

APICORP is wholly owned by the member states of the Organization of Arab Petroleum Exporting Countries (OAPEC).

Distribution of assets by sector



Corporate Finance Loans by sector



BOARD OF DIRECTORS

KINGDOM OF SAUDI ARABIA

Dr Aabed Al Saadoun

Chairman of the Board

Chairman of the Remuneration & Nomination Committee

LIBYA

Mr Khaled Amr Al Qunsul

Deputy Chairman of the Board

Deputy Chairman of the Remuneration & Nomination Committee

STATE OF KUWAIT

Sheikh Talal Naser A. Al-Sabah

Chairman of the Audit & Risk Committee

Member of the Remuneration & Nomination Committee

UNITED ARAB EMIRATES

Dr Matar Al Neyadi

Deputy Chairman of the Audit & Risk Committee

KINGDOM OF BAHRAIN

Mr Mahmood Hashim Al Kooheji

Member of the Remuneration & Nomination Committee

PEOPLE'S DEMOCRATIC REPUBLIC OF ALGERIA

Mr Farid Baka

Member of the Audit & Risk Committee

STATE OF QATAR

Mr Ebrahim Ahmad Al-Mannai

Member of the Audit & Risk Committee

REPUBLIC OF IRAQ

Engineer Husam Hussein Weli

ARAB REPUBLIC OF EGYPT

Engineer Sherin Ahmed Mohamed

SYRIAN ARAB REPUBLIC

Syria has not nominated a member to the Board of Directors since 2015.

EXECUTIVE MANAGEMENT

Back row, left to right:

Mr Hamdi Bata

Head of Human Resources & Corporate Services

Mr Ali Hassan Fadel

Head of Legal, General Counsel & Board Secretary

Mr Mohammed Al Mubarak

Head of Operations

Mr Ajay Kumar Jha

Head of Risk & Compliance

Mr Hesham Farid

Head of Treasury & Capital Markets

Front row, left to right:

Mr Nicolas Thévenot

Head of Corporate Finance

Dr Raed Al Rayes

Deputy Chief Executive & General Manager

Mr Bennie Burger

Head of Corporate Strategy & Acting Head of Investments

Dr Ahmed Ali Attiga

Chief Executive and General Manager

From April 2017

Ayman Zeyada, Head of Finance (Till 25 January 2017)
Raed Sirhan, Head of IT (Till 25 January 2017)

CHAIRMAN'S STATEMENT

ON BEHALF OF THE BOARD OF DIRECTORS, I AM HONOURED TO PRESENT THE ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS OF THE ARAB PETROLEUM INVESTMENTS CORPORATION (APICORP) FOR THE YEAR ENDED 31ST DECEMBER 2016.

Dr Aabed al Saadoun
Chairman

For another successive year, APICORP was able to achieve growth and create sustainable value for its shareholders and the Arab energy market in a challenging environment.

We performed solidly towards delivering on our financial targets, achieving a net profit before provisions of US$ 95.53 million. The value of our total assets increased by 8.7%, reaching US$ 6.14 billion, compared to US$ 5.65 billion at the end of the previous year. Shareholder equity increased to US$ 2.00 billion from US$ 1.91 billion at the end of 2015. In anticipation of continued economic and political instability in the region, we have added US$ 2.10 million to our provisions.

Our mission as a multilateral development bank for the Arab world is to develop the energy sector through creative, value-adding solutions, facilitating value maximisation. One of our outstanding achievements in 2016 in alignment with this mission was the launch of a shipping fund in partnership with the National Shipping Company of Saudi Arabia (Bahri), which is set to reduce the country's dependence on external crude carriers, while at the same time advancing the local economy. The fund's target is to acquire approximately 15 very large crude carriers (VLCCs) over three phases with total investments of up to US$ 1.5 billion composed of debt and equity.

As part of our strategic focus on diversifying funding sources, assets and investments, APICORP also acquired a controlling interest in Ashtead Technology, in partnership with UK based private equity firm Buckthorn Partners. Ashtead Technology is a leading independent provider of subsea equipment and rental services to the offshore oil and gas industry, with operations in the UK, Houston and Singapore.

At the end of 2016, our Corporate Finance portfolio had increased to US$ 3.47 billion from US$ 3.02 billion in 2015. Over the course of the year, APICORP played a vital role in more than 40 transactions, supporting projects across the Arab region with tailored financing solutions.

In Treasury and Capital Markets, the year 2016 saw APICORP build strong relationships with new investors based on our outstanding achievements. As part of our US$ 3 billion Sukuk programme aimed at diversifying our funding sources and reducing the overall cost of financing announced in 2015, we successfully listed our US$ 500 million Sukuk at Nasdaq Dubai, followed by a SAR 250 million Murabaha Sukuk in 2016. We also issued a US$ 300 million 5-year floating rate note as the first Formosa bond out of Saudi Arabia targeting Taiwanese investors.

APICORP's resilience and achievements have been recognized by the credit rating agency Moody's. In September 2016, Moody's affirmed its long term Aa3 issuer rating for APICORP and maintained its stable outlook, noting that the increase in callable capital and improvements in the asset and liability maturity mismatch support APICORP's credit profile.

I am delighted to welcome Dr Ahmed Ali Attiga to the Board as our new Chief Executive and General Manager. As one of the most high-profile professionals in the regional industry, Dr Attiga has an outstanding track record of accelerating growth and driving transformation. We have placed the next chapter of APICORP's continued successful development in his experienced hands and are certain the corporation will benefit from his leadership.

On behalf of the Board of Directors and all APICORP employees, I would like to extend our deepest gratitude to the governments of our ten member states, who have been supporting our Corporation since inception. Special thanks go to the government of the Kingdom of Saudi Arabia for their continued trust and collaboration.

Dr Aabed Al Saadoun
Chairman

Our mission as a multilateral development bank for the Arab world is to develop the energy sector through creative, value-adding solutions, facilitating value maximisation

US$ 95.53m

NET PROFIT FOR THE YEAR BEFORE PROVISIONS.

ACHIEVEMENTS

APICORP IS A TESTAMENT TO THE POSSIBILITIES OF ARAB UNITY. ITS PROUD HISTORY OF ACHIEVEMENTS SINCE ITS INCEPTION IN 1975 EVIDENCES ITS ABILITY TO SUPPORT THE VITAL DEVELOPMENT OF THE REGION'S ENERGY SECTOR.

A PROUD HISTORY OF ACHIEVEMENTS

1975
Commenced operations with total assets of US$ 183.5 million

1976
Started to offer loan facilities to petroleum companies in the Arab region

1976
First loan financing US$ 100 million to Arab Petroleum Pipelines Company (SUMED)

1978
First equity participation in Bahrain National Gas (Banagas)

1980
US$ 300 million loan to Bahrain Petroleum Company (BAPCO)

1982
First loan to a non-Arab company – US$ 200 million to Petroleum Authority of Thailand

1982
Shareholder's equity passes US$ 500 million

1984
Equity participation in Saudi European Petrochemical Company (Ibn Zahr)

1986
Total assets reached US$ 1 billion

1986
Established Treasury department

1987
Started to offer trade financing for hydrocarbon projects

1993
First Islamic financing deal executed, a Murabaha facility in Pakistan

2001
Head office moved to newly constructed APICORP building

2001
Board approved the financing of Power projects.

2003
Total assets reached US$ 2 billion

2006
Opened offices in Bahrain

2008
Established Research department

2009
Total assets reached US$ 4 billion

2009
Shareholders' equity passes the US$ 1 billion mark

2010
Rated A1 by Moody's for long-term debt

2011
Net income crosses US$ 100 million

2012
Upgraded to Aa3 by Moody's for long-term debt

2012
Established Letters of Credit Desk offering range of trade finance products

2012
First APICORP Symposium hosted in Bahrain

2012
Strategic partnership (co-operation agreement) with International Finance Corporation (IFC)

2013
Launched US$ 150 million Petroleum Shipping Fund to facilitate hydrocarbon exports

2014
Co-investment agreement with ACWA Power, facilitating energy investments in renewable and conventional power plants

2015
Hosted first APICORP Energy Forum, bringing together the region's energy industry leaders

2015
Launched debut US$ 500 million three-year Sukuk under US$ 3 billion Sukuk programme

2016
Three landmark investments and three medium term issuances

2016
Completed Al Jafr agricultural redevelopment project in partnership with Jordan's Ministry of Agriculture, providing up to 10,000 people with easy access to water for irrigation

2016
Total assets reached US$ 6 billion

US$ 300m

IN 2016 APICORP ISSUED A US$ 300 MILLION FORMOSA BOND IN THE TAIWANESE MARKET.

APICORP'S STRATEGIC GOALS – PROGRESS MADE IN 2016

Maximising long-term value creation while maintaining development mandates

- Corporate Finance booked 40 transactions in 2016
- Three landmark equity investments
- Three medium term issuances with combined value in excess of US$ 400 million
- Continued focus on value creation through commercial approach

Read more about APICORP's Corporate Finance on Page 14.

Attracting and retaining industry leading talent

- Continued focus on recruitment and retention of talent
- Development of performance based culture
- Significant investment in training and development
- Further refinements of Employee Value Proposition

Read more about APICORP's employee initiatives on Page 22.

Creating and maintaining strategic partnerships and alliances

- Creation of US$ 1.5 billion shipping fund in partnership with Bahri
- Prepared the ground for Investment Partnership Vehicle with Goldman Sachs
- Strengthening and developing a number of strategic partnerships and alliances

Read more about APICORP's shipping fund in partnership with Bahri on Page 12.

Optimally leveraging the APICORP brand to create opportunities

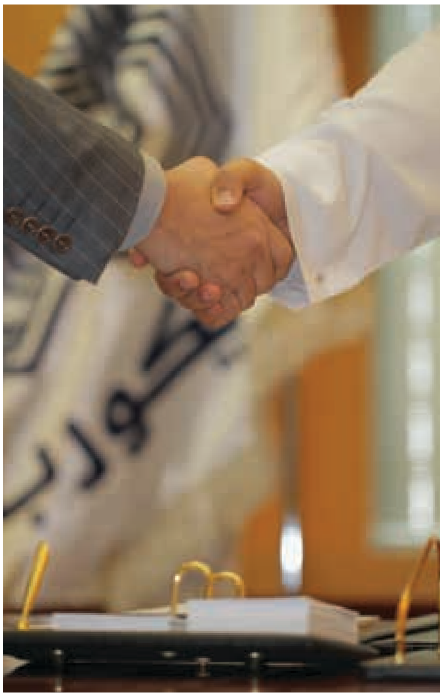
- APICORP brand remains respected
- Brand and networks continue to add value to the business
- Thought leadership through quality energy research and publications
- Participation in a number of key industry seminars and conferences

Read more about APICORP's world-class research publications on Page 18.

Securing best-in-class technologies and operating systems

- Continued focus on implementing best practice across the business
- Continuous refinement of policies and procedures
- Upgraded a number of core IT systems
- Implementation of IT and physical security enhancements
- Implementation of new risk appetite framework
- Revision of compliance framework

Read more about APICORP's risk appetite framework on Page 20.



APICORP HAS ENJOYED ANOTHER TWELVE MONTHS OF NOTABLE ACHIEVEMENTS. DESPITE CHALLENGING MARKET CONDITIONS RESULTING FROM THE FALL IN OIL PRICES, THE CORPORATION PERFORMED STRONGLY, ACHIEVING HEALTHY LEVELS OF PROFITABILITY AND CONTINUING TO GROW AT A FASTER PACE THAN THE OVERALL MARKET.

APICORP's performance benefitted from the countless improvements made over the past financial year. Thanks to its proven culture of forward-thinking adaptability, far-reaching initiatives such as the risk appetite framework were introduced and quickly gained traction. Some of these initiatives have already generated significant results, as evident in APICORP's strong capital adequacy position, the increasing diversity of its investments and sources of funding, as well as the moderate balance sheet gearing.

The five-year business plan, approved in 2013, is at the heart of APICORP's efforts. Striving to lead the Corporation toward global best practice and innovation, three years into the implementation of the business plan APICORP has caught up with international standards and assumed a prominent role regionally.

FINANCIAL RESULTS

As of 31 December 2016, net profit reached US$ 93.42 million compared to US$ 107.60 million at the end of 2015. Net profit before provisions came in at US$ 95.53 million compared to US$ 124.38 million in 2015. As a consequence of possible continued political and economic instabilities in the region, US$ 2.10 million were added to the investment provisions as of 31 December 2016. Total assets have reached US$ 6.14 billion compared to US$ 5.65 billion at the end of 2015. Shareholder equity increased to US$ 2.00 billion at the end of 2016, up by 4.8% from US$ 1.91 billion year-on-year. Earning per share reached US$ 93.42 as of 31 December 2016, compared to US$ 107.60 at the end of 2015. APICORP's achievements were also recognized by Moody's, who reaffirmed APICORP's long-term issuer rating of Aa3 and short-term issuer rating of P-1 with stable outlook.

INVESTMENTS

In 2016, APICORP's investment performance revolved around a clear objective to achieve further diversification, in terms of geographic markets as well as portfolio composition. The Corporation also continued its focus on implementing best practice, specifically in terms of a more proactive approach to portfolio management and corporate governance.

One of the landmark investments of the year was the launch of a shipping fund by APICORP in partnership with the National Shipping Company of Saudi Arabia (Bahri) in July 2016, to acquire approximately 15 Very Large Crude Carriers (VLCCs) over three phases with total investments of up to US$ 1.5 billion composed of debt and equity. The unique financial engineering initiative exemplifies APICORP's ability to provide financing solutions that meet the demands of the energy sector, and to take advantage of market opportunities, such as the recent changes in the regional maritime oil logistics market. The fund is set to reduce Saudi Arabia's dependence on external crude carriers, making Bahri the biggest VLCC operator internationally, while at the same time advancing the local economy. APICORP expects this distinctive investment opportunity to yield attractive returns.

Another important investment was made in the United Kingdom, where APICORP acquired a stake in oil services company Ashtead Technology in partnership with UK private equity firm Buckthorn Partners. In addition to facilitating geographical portfolio rebalancing, the investment has tremendous future growth potential in the region and represents an important contribution towards APICORP's mandate to transform the Arab energy industry through cutting-edge thinking and advanced technologies.

In December, APICORP announced the acquisition of a 30% stake in Bahrain's Falcon Cement Company (FCC), the largest and only integrated cement producer in Bahrain.

CORPORATE FINANCE

In 2016, amidst difficult market conditions, APICORP maintained strong momentum of its lending activities. The Corporate Finance team worked on a broad range of opportunities involving a wide range of countries, industry segments and obligors' profiles and confirmed the Corporation's leading role in the region in both project finance and trade and commodity finance. Growth of the portfolio was moderate from US$ 3.02 billion to US$ 3.47 billion for funded and unfunded assets. The net yield of the portfolio has continued to improve while its risk profile has remained stable in the high A range despite the downgrades of several countries in the region.

The share of Islamic finance assets in the portfolio, which had shown considerable growth over the past years, was further expanded to 40% at the end of 2016.

Corporate Finance booked 40 transactions in 2016 and was mandated to arrange and structure eight transactions, amongst which the following ones illustrate the commitment of the Corporation to support a well-diversified client portfolio and fulfill its developmental role wherever possible.

An innovative Sharia-compliant financing facility was completed for Oil Recovery Services SAL in Algeria. The financing was arranged in conjunction with Paris-based oil and gas private equity firm 4D Global Energy Advisors. It's worth to note that this facility was the first of its kind for APICORP in the Algerian market and is testimony to the Corporation's determination to diversify its clients base.

APICORP also arranged three-year US$ 100 million Murabaha Financing Facility for Egyptian General Petroleum Corporation (EGPC). This important funding milestone sees APICORP continuing its support of the petroleum industry in Egypt, which also contributes to the stability and security of supply of energy to the Egyptian people.

Furthermore, the Corporation structured a SAR300 million (US$ 80 million) capital expenditure and working capital Murabaha for Global Environmental Management Services LLC (GEMS), a KSA-based integrated hydrocarbon waste management and recycling company. The funds were used for the expansion of GEMS in Saudi Arabia.

As well, the Corporation supported the Kingdom of Bahrain in the financing of its LNG Terminal. APICORP played the role of pathfinder bank, mandated lead arranger as well as modelling and technical bank.

While the head winds are expected to persist, the backlog for APICORP will remain solid on account of a promising pipeline.

TREASURY AND CAPITAL MARKETS

In Treasury and Capital Markets, APICORP's efforts were directed at diversifying its funding sources and reducing the overall cost of financing. After the inaugural issuance of a five-year US$ 500 million Sukuk in 2015, APICORP concluded two additional medium-term financing facilities from new investors in 2016. During the year, APICORP raised SAR250 million (US$ 67 million) in Saudi Arabia through a three-year Murabaha Sukuk. This was followed by the successful issuance of a US$ 300 million five-year floating rate note in the Taiwanese market. APICORP's 'Formosa' bond was the first such issue from the Kingdom of Saudi Arabia, targeting the Taiwanese investor base.

RESEARCH

APICORP's annual MENA Energy Investment Outlook Report has undergone a comprehensive enhancement in 2016. Now providing more depth and accuracy, the annual report, alongside the Corporation's monthly APICORP Energy commentaries, is of great value to stakeholders looking to monitor the development and the key trends shaping the energy sector in the region. Richer insights into the dynamics of the regional markets and a greater level of detail are an asset to many recipients, as well as a conduit to new commercial opportunities.

The overhaul is part of APICORP's ambition to strengthen its research solutions. The Corporation's research team under the supervision of Dr Bassam Fattouh, Director of the Oxford Institute for Energy Studies, has acknowledged and acted upon an increasing need for individual, bespoke research. APICORP is fully geared to introduce further new products and enhancements in 2017.

RISK AND GOVERNANCE

In risk management, APICORP continued on the conservative path it had been pursuing in the last years. Risk management is an on-going process that is always evolving and updated regularly to reflect leading market trends and economic challenges. The Corporation successfully implemented further fundamental internal improvements in 2016 in line with its quest for achieving excellence in risk management and corporate governance.

The risk appetite framework, which the Board of Directors has put in place to instill a culture of risk awareness throughout the organization, was one of APICORP's most notable achievement in 2016. The framework details APICORP's optimal risk/return profile, sets organizational risk limits and ensures the Board and senior management are always able to gain a detailed picture of overall organizational economic health.

The Corporation also conducted a thorough review of its liquidity risk management and developed a liquidity risk policy which is on par with best practice in global banking industry. Having enabled APICORP to benchmark its liquidity position, this is an important step that is expected to have positive effects on the business. Another achievement in 2016 was the strengthening of the stress test framework for both liquidity risk and credit risk.

APICORP sees the full integration of risk management into all business and commercial processes as a key success factor in today's world.

In corporate governance, APICORP had already made significant progress in 2015, but did not allow its focus to deviate in the past 12 months. The process by which all APICORP representatives on boards of investee companies are evaluated and selected, as well as the framework under which they report, were further enhanced.

HR

APICORP also made great strides towards its goal of anchoring its reputation as a leading employer in the region. The Corporation is continuously enhancing organizational development processes and strengthening its offering of custom-built internal training sessions to maximize the potential of every employee. At the heart of these endeavors is APICORP's 'Employee Value Proposition', which is utilized to structure initiatives in the field of human resources.

OUTLOOK AND ACKNOWLEDGMENTS

APICORP has continuously realized profitable growth even in the face of high volatility in some key markets. The Corporation strives to fulfill its mandate to promote cooperation and economic integration in the Arab hydrocarbon and petrochemical industry with more rigor than ever in 2017. The continuous development of strategic partnerships with some of the most renowned names in the industry has helped APICORP form one of the most comprehensive and resilient networks in the industry. For the years to come, the focus will remain on identifying mutually beneficial opportunities in the region and beyond, which APICORP will endeavor to leverage despite persisting uncertainties over the direction of the global economy.

40%

SHARE OF ISLAMIC FINANCE ASSETS IN APICORP'S PORTFOLIO EXPANDED TO 40% AT THE END OF 2016.

OPERATIONAL REVIEW

INVESTMENTS

AT THE END OF 2016, APICORP'S PORTFOLIO OF 16 DIRECT AND 3 INDIRECT EQUITY INVESTMENTS WAS VALUED AT US$ 1.0 BILLION, AN INCREASE OF US$ 65 MILLION ON 2015. AGAINST THE BACKDROP OF CHALLENGING MARKET ENVIRONMENTS, THE DIVIDEND INCOME GENERATED BY THE PORTFOLIO AMOUNTED TO US$ 58.26 MILLION, COMPARED TO US$ 91.21 MILLION AT THE END OF 2015.

In line with APICORP's strategic objective to diversify the equity investments portfolio to include assets that are not directly involved in the extraction or refinement of hydrocarbons, the Corporation committed to three landmark equity transactions in 2016.

Launch of shipping fund in partnership with Bahri

In July 2016, APICORP announced the launch of a shipping fund in partnership with the National Shipping Company of Saudi Arabia (Bahri). The framework agreement containing the key terms for the creation of the fund was signed in Riyadh by members of the executive management of both Bahri and APICORP, in the presence of His Excellency Eng. Khalid Al-Falih, Minister of Energy, Industry and Mineral Resources for the Kingdom of Saudi Arabia and Chairman of Saudi Aramco.

The fund aims to acquire approximately 15 Very Large Crude Carriers (VLCCs) over three phases with total investments of up to US$ 1.5 billion composed of debt and equity. APICORP will be the main investor and fund manager, whilst Bahri will be the exclusive commercial and technical manager. APICORP will invest 85% of the required equity with Bahri contributing the remaining 15%. The fund has been set up with a closed-end structure and a life period of 10 years and is expected to deliver attractive investment returns from the commercial employment of the VLCCs. By enabling Bahri to increase its VLCC fleet, the company is set to evolve as the biggest operator in the market segment globally. The fund will ultimately reduce Saudi Arabia's dependence on external crude carriers, while at the same time advancing the local economy.

30% stake in largest cement producer in Bahrain acquired

In December 2016, APICORP acquired a 30% stake in Bahrain's Falcon Cement Company (FCC), the largest and only integrated cement producer in Bahrain. The closed joint stock company provides cement used in large scale projects for public and private customers. The acquisition capitalized on major industrial and infrastructure projects that are spurring activity in Bahrain's construction sector. The Kingdom's total project pipeline, including long-term undertakings such as the US$ 3 billion King Hamad Causeway set to be completed around 2025, amounts to US$ 72.7 billion, up 4.7% year-on-year.

US$ 1.0bn

AT THE END OF 2016, APICORP'S PORTFOLIO OF 16 DIRECT AND 3 INDIRECT EQUITY INVESTMENTS WAS VALUED AT US$ 1.0 BILLION.

Controlling interest in Ashtead Technology acquired

Earlier in the year, in partnership with UK based private equity firm Buckthorn Partners, APICORP also acquired a controlling interest in Ashtead Technology, a leading independent provider of subsea equipment and rental services to the offshore oil and gas industry, with operations in the UK, Houston and Singapore. In the current environment of low oil prices, producers around the world are under increasing pressure to reduce their offshore recovery costs. Ashtead's innovative subsea equipment helps them to achieve this, and the investment by APICORP will allow the company to expand its service offering in the subsea IRM (inspection, repair and maintenance) sector of the oil and gas industry. The investment will also enable Ashtead to expand its geographical reach, with the Middle East being an area of particular interest and focus. For APICORP, the acquisition marks another milestone in its efforts to help transform the Arab energy industry through innovation. It is also in line with its stated strategy to rebalance and diversify the investment portfolio by making value adding equity investments in the broader energy sector.

The three new equity investments exemplify the continued successful implementation of APICORP's objective to increase co-investment with strategic partners, while also underlining its commitment to increase geographical and subsector portfolio diversification.

APICORP takes an active interest in the performance of its equity investments. A proactive approach is enforced through a detailed annual formal review of each investee company, followed by the execution of appropriate action plans, which are dynamically adjusted to prevailing conditions. APICORP takes pride in maintaining good corporate governance at its investee companies and strives to empower talented management teams, assisting them by bringing in experienced, knowledgeable and dedicated investment professionals where appropriate.

INVESTMENTS PORTFOLIO

Arab Drilling and Workover Company (ADWOC)	Arab Geophysical Exploration Services Company	Arab Company for Detergent Chemicals (ARADET)	Ashtead Technology	Egyptian Bahraini Gas Derivative Company (EBGDCO)
Egyptian Methanex Methanol Company (EMethanex)	Falcon Cement Company (FCC)	The Arabian Industrial Fibers Company (IBN RUSHD)	Saudi European Petrochemical Company (IBN ZAHR)	Misr Oil Processing Company (MOPCO)
National Petroleum Services (NPS)	Saudi Mechanical Industries (SMI)	Tankage Mediterranee (TANKMED)	The Industrialization & Energy Services Company (TAQA)	Yanbu National Petrochemical Company (YANSAB)

OPERATIONAL REVIEW

CORPORATE FINANCE

NOTWITHSTANDING PERSISTENT STRONG HEADWINDS, 2016 WAS ANOTHER RECORD YEAR FOR APICORP'S CORPORATE FINANCE DEPARTMENT. THE CORPORATE FINANCE PORTFOLIO OF FUNDED AND UNFUNDED ASSETS REACHED A VALUE OF US$ 3.47 BILLION, AND INCOME NET OF LIBOR WAS US$ 56.57 MILLION IN 2016.

The average maturity of Corporate Finance assets remained around 5 years, its all-in-yield net of US$ Libor continued to move closer to 200 bps p.a., and its rating was kept in the high A range despite downgrades of many countries in the region. 40% of the portfolio is now composed of Islamic finance assets, a reflection of the growing share of Sharia compliant finance in the market. Last, none of the assets in APICORP's portfolio went into default or had to be restructured.

Playing an instrumental role in high-profile transactions

In addition, Corporate Finance played an instrumental role in several high-profile transactions, confirming its strong position in the project finance market. The highlights included two shipping transactions for National Chemical Carriers (Saudi Arabia), and three transactions for Nogaholding (Bahrain), in particular the Bahrain LNG terminal facility, in which APICORP acted as pathfinder bank, mandated arranger, and technical and modelling bank.

Demonstrating a leading position in trade finance

In trade finance, despite persistent depressed market conditions due to the low oil price, APICORP had the opportunity to demonstrate its leading position in the market through a landmark transaction for Egyptian General Petroleum Corporation (EGPC) and its continued involvement in the financings of the largest international commodity traders of petroleum products.

A willingness and capability to support the private sector

Finally, Corporate Finance took further steps towards expanding into new territories in 2016. As part of this effort, the Corporation structured a secured facility to support a company that had been awarded a service contract by Sonatrach in Algeria. At a time of increased openness to foreign borrowings, the expertise gained is expected to be of high value for future projects in the country. The Corporation also structured a secured facility in favor of a Saudi Arabia-based integrated waste management and recycling company to fund expansion projects in the Kingdom. Through such transactions, APICORP demonstrates its willingness and capability to support the private sector in activities that are ancillary to the energy value chain.

US$ 3.47bn

THE CORPORATE FINANCE PORTFOLIO OF FUNDED AND UNFUNDED ASSETS REACHED A VALUE OF US$ 3.47 BILLION.

The achievements of 2016 illustrate that APICORP is in an excellent position to leverage the corporate finance opportunities opening up in the region. The Corporation's solid diversification adds to its resilience and strengthens its ability to weather turbulences in the project finance as well as in the trade and commodity finance markets.

OPERATIONAL REVIEW

TREASURY AND CAPITAL MARKETS

IN A YEAR DEFINED BY POLITICAL SURPRISES, RISING GLOBAL GDP GROWTH AND INFLATION, AND STEADILY INCREASING OIL AND COMMODITY PRICES COUPLED WITH VOLATILE FINANCIAL AND FOREX MARKETS, APICORP'S BALANCE SHEET REMAINED ROBUST AS A RESULT OF A PROGRESSIVE TREASURY STRATEGY SUPPORTING THE CORPORATION'S CORE INVESTMENT ACTIVITIES.

The management's proactive approach to funding and investment operations in Treasury and Capital Markets has had a positive impact on funding costs and overall performance of the Corporation.

US$ 48.3m

IN 2016, TREASURY AND CAPITAL MARKETS OPERATIONS ACHIEVED A GROSS INCOME OF US$ 48.3 MILLION.

US$ 2.04bn

THE TREASURY AND CAPITAL MARKETS ASSET BASE REMAINED STEADY, STANDING AT US$ 2.04 BILLION AS AT 31ST DECEMBER 2016.

Maintaining a focus on high quality investments

The department has maintained its focus on high quality investments to ensure strong liquidity and stable returns. In 2016, Treasury and Capital Markets operations achieved a gross income of US$ 48.3 million, compared to US$ 41.2 million for the year 2015.

Liquidity at a healthy level

Interbank liquidity was tight for most part of the year with three-month Saudi Interbank offer rates (SAIBOR) reaching levels of 2.386% in October 2016. Despite the challenging conditions, the Corporations' liquidity as measured by its interbank placements and cash equivalents was at a healthy level of US$ 838.6 million as at 31st December 2016.

Substantial headway in increasing medium-term funding

APICORP's strategy during 2016 was focused on prioritizing liquidity management and minimizing funding risks. The treasury team has made substantial headway in its endeavor to increase the medium-term funding and diversity of the investor base. After the successful issuance of a five-year US$ 500 million Sukuk in 2015, APICORP concluded two additional medium term financing facilities in 2016. During the year, APICORP raised SAR250 million (US$ 67 million) through a three-year Murabaha Sukuk, followed by the issuance of US$ 300 million five-year floating rate note in the Taiwanese market, the first 'Formosa' bond from the Kingdom of Saudi Arabia targeting the Taiwanese investor base.

A strong credit profile

The Treasury and Capital Markets asset base remained steady, standing at US$ 2.04 billion as at 31st December 2016, compared to US$ 2.06 billion as at 31st December 2015. The fixed-income securities portfolio had a strong credit profile and an average rating of A as at 31st December 2016.

OPERATIONAL REVIEW

RESEARCH

WITH A WORLD-CLASS OFFERING CATERING TO THE NEEDS OF ENERGY PROFESSIONALS IN THE PRIVATE AND PUBLIC SECTORS AND THE WIDER FINANCIAL COMMUNITY AROUND THE GLOBE, THE APICORP RESEARCH UNIT HAS BEEN SUCCESSFUL IN PURSUING ITS AMBITION TO EVOLVE AS A THOUGHT LEADER AND A TRUSTED AND AUTHORITATIVE SOURCE OF KNOWLEDGE.

The highly specialized APICORP research team works under the supervision of Dr Bassam Fattouh, Director of the Oxford Institute for Energy Studies, who was brought on board as an external advisor in 2015.

Analysing key issues and trends shaping the energy industry

The APICORP Energy Research commentaries analyze the key issues and trends shaping the energy landscape in the Middle East and North Africa and have been distributed monthly since 2015. The list of subscribers and ad-hoc receivers, among them some of the most renowned industry experts as well as media professionals, has been growing continuously. In 2016, amongst the topics covered by the research team were:

- Energy price reform in the GCC
- Renewables in the Arab world
- MENA Investment Outlook
- MENA as LNG's top growth target
- Growing reliance on IPPs in GCC power markets
- Competition stiffens for MENA LNG exporters
- Egypt's power sector
- Iran's impressive return following the lifting of sanctions

APICORP'S annual MENA Energy Investment Outlook offers insight to key decision makers around the world

APICORP'S annual MENA Energy Investment Outlook enjoys an even higher degree of attention, offering insight to key decision makers around the world into the region's most strategically important industry. A significant development in 2016 was the comprehensive enhancement of the report. In its new format, it contains additional data and a greater level of detail about investment opportunities in the MENA energy sector. The enhanced report has found favor with energy professionals and members of the financial and investment community. In particular, the recipients appreciate in-depth information on the dynamics of the regional markets as an ideal tool for planning, forecasting and decision making. APICORP's MENA Energy Investment Outlook relies on estimates for planned investments and committed investments, thus delivering unique data that offer a more accurate indication of the execution likelihood of a given project.

In addition to disseminating the report worldwide, APICORP hosts an exclusive media roundtable every year, offering media and analysts the opportunity to engage with the research experts and conduct one-on-one interviews.

In its latest issue, APICORP's MENA Energy Investment Outlook calls for cautious optimism for 2017 as the region is expected to push through a number of critical energy projects. While global investments in oil and gas fell by 24% in 2016, thus continuing their decline, the APICORP research team expects the MENA region to continue investing heavily as major energy-exporting countries seek to expand the size of their sector and strengthen their positions in global markets. In spite of uncertainties and low oil prices that have been clouding the regional outlook over the past two years, a total of US$ 337 billion has already been committed to projects under execution as the year drew to a close. An additional US$ 662 billion worth of developments was in the planning stage at the end of 2016. The Kingdom of Saudi Arabia is well positioned to lead the drive and is expected to make sizeable investments across the energy value chain. Iran and Iraq will follow suit, determined to realize their ambitious plans in the oil and gas sector against the backdrop of a variety of local challenges. Two other countries with a promising outlook are Algeria and Egypt, with the former having vowed to make heavy investments into the upstream sector and the latter facing the challenge to meet rapidly rising power demand. Renewable-energy projects will be at the forefront of efforts to meet power demand that is also increasing in Morocco, Tunisia and Jordan.

US$ 337bn

ACROSS THE MENA REGION, A TOTAL OF US$ 337 BILLION HAS ALREADY BEEN COMMITTED TO PROJECTS UNDER EXECUTION AT THE END OF 2016.

Strengthened industry thought leadership

Strengthened industry thought leadership is a highly creditable accomplishment of APICORP's research experts. The team is committed to identifying and leveraging opportunities created from the regular distribution of its publications and was very successful over the past twelve months. Frequent participation in events and conferences, complemented by regular quotes, placements and features in media worldwide, has helped to carve out APICORP's position as a forward thinker. The exceptional quality of APICORP's publications and contributions has been fundamental in bolstering its authoritative role in the energy industry and its reputation as a reliable source for industry analysis and commentary.

In acknowledgment of research as a core function of its mandate as a development bank for the Arab energy industry, APICORP will strive to further expand the range of bespoke research solutions, which were in high demand in 2016.

RISK AND GOVERNANCE

SEEKING TO ACHIEVE EXCELLENCE IN RISK MANAGEMENT AND CORPORATE GOVERNANCE AND CONFORM TO THE HIGHEST STANDARDS OF INTERNATIONAL BEST PRACTICE, APICORP HAS PUT SUSTAINED EFFORTS INTO FURTHER IMPROVING PROCESSES INTERNALLY, AS WELL AS IN ITS INVESTEE COMPANIES.

A number of far-reaching initiatives started within the last two years were successfully completed in 2016. The highlights included consolidating risk appetite, strengthening the liquidity risk and operational risk policies, revising the compliance framework and streamlining procurement processes.

The risk appetite framework developed in the previous year obtained Board approval in early 2016 and was then rolled out. The framework details APICORP's optimal risk/return profile, sets organizational risk limits and provides crucial information on the overall economic health of the Corporation.

Building on the policy to manage liquidity risk formulated in the previous year, APICORP took a deep dive into its liquidity risk practice in 2016 to evaluate the need for further refinement. The policy enables the Corporation to benchmark its liquidity position and proactively manage liquidity mismatches. Significantly strengthening the Corporation's liquidity and funding profile, it is also expected to yield positive effects on APICORP's performance in the mid to long-term by improving its ability to sustain liquidity shocks from future market disruptions. Comprehensive stress tests to evaluate and prepare for different scenarios are on-going.

The operational risk policy which was also introduced in 2015 underwent a more comprehensive revision. The online portal offering a convenient channel for staff to report operational risk incidents was seamlessly integrated into the Corporation's workflows. Throughout the year, it proved its value in the effective management, assessment and control of the risks reported.

On the corporate governance side, the successful revision of the compliance framework marked a milestone for APICORP in 2016. Originally established in 2007, the framework required updates to make it more robust and prepare the ground for the next phase of implementing APICORP's five-year strategy. Anti-money-laundering policies and know-your-customer processes, which are an essential part of the risk management practice to avoid legal and reputational risks, were two areas of focus in the past twelve months. To bring know-your-customer processes into line with best practice, APICORP has subscribed to Thomson Reuters Screening Resolution Service, enabling the methodical screening of all counterparties with whom the Corporation engages.

Governance was also enhanced by updating the selection process of APICORP board members for investee companies, as well as revising the framework under which they report. These were important steps towards empowering the executive management of the asset or fund, whilst at the same time making sure there is highly capable supervision, based on mutual trust.

On the corporate governance side, the successful revision of the compliance framework marked a milestone for APICORP in 2016.

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MEASURABLE METRICS IN 5 AREAS OF APICORP'S RISK APPETITE FRAMEWORK

APICORP's risk appetite framework

APICORP's risk appetite framework focuses on optimizing its risk/return profile and ensures that new strategies and business decisions are moving the Corporation toward its desired risk profile.

The framework determines the amount and type of risk the APICORP management is willing to accept in pursuit of its business objectives, measured by 13 metrics across the five categories financial performance, asset quality, liquidity profile, funding profile, capital adequacy and leverage.

OPERATIONAL REVIEW

THE PEOPLE BEHIND APICORP

IN 2016, APICORP MADE GREAT STRIDES TOWARDS ITS GOAL OF ANCHORING ITS REPUTATION AS A LEADING EMPLOYER IN THE REGION, BUILDING ON THE BELIEF THAT ITS EMPLOYEES CONSTITUTE THE MOST SUSTAINABLE COMPETITIVE ADVANTAGE.

In recognition of this goal, the focal point for APICORP's human resources team has been on becoming a business partner and enhancing organizational development processes through exceling at its service delivery on a strategic level.

One of the initial outputs of this endeavor is the Employee Value Proposition formulated in 2015 on the basis of a thorough review of internal and external stakeholders' needs and expectations. Encompassing six anchoring pillars, the Employee Value Proposition provides a robust framework for structuring initiatives in the field of human resources, simultaneously ensuring that all efforts are aligned with the broader strategy of APICORP.

Offering custom-built internal training sessions for employees

Seeking to maximize the potential of every employee, APICORP has given top priority to offering highly targeted and custom-built internal training sessions, focusing on the development of leadership skills and soft skills, complemented by technical and functional training. The Corporation has established a strict professional development policy, ensuring that every employee participates in at least one training module per year. In many instances, employees concluded multiple training sessions in acknowledgment of their broad role profile and responsibilities. Over the past twelve months, APICORP professionals attended an average of three training sessions. In total, the corporation provided 68 days of training across all categories.

Driving the organisation's long-term success by attracting and retaining the industry's leading talent

One of APICORP's key ambitions is to drive the organisation's long-term success through the proactive retention and recruitment of the industry's leading talent. The employee engagement survey conducted in the previous year provided valuable insights into employee perceptions. The findings have informed APICORP's approach to further strengthening employee engagement in 2016, aiming to maximize the contribution of every single member of staff. To this end, APICORP has set out to build an environment that fosters a sense of unity and reinforces the common purpose, and launched several impactful initiatives. Among else, the Corporation hosted an employee day, which brought together all employees for an inspiring day of discussion and exchange of ideas to ensure its continuing success. Having celebrated its 40th anniversary the previous year, it was fitting that such a day should take place to mark the next stage of the company's journey.

APICORP also initiated monthly 'Learning Lunches'. Led by employees, these get-togethers are aimed at improving internal communication and fostering an environment of learning in a less formal setting. Another example is the 'Wellness Day', and initiative that focuses on employee health and wellbeing, which was also introduced in 2016. Offering complimentary consultations with a medical provider, the event invited staff members to dedicate time to getting their vital signs checked and to receive professional advice about healthy living.

The popularity of the initiatives is a testament to APICORP's successful efforts to increase employee engagement, which is set to further improve their commitment and willingness to go the proverbial 'extra mile'.

In recruitment, APICORP follows rigorous selection processes. For each vacancy, a large pool of suitable candidates is assessed with utmost care, ensuring that all available and interested talent is appropriately considered. The Corporation has a policy of employing the best available talent and applies anti-discrimination best practice throughout the selection process. APICORP follows a screening procedure in which the assessment of work experience is complemented by a thorough evaluation of soft skills, seeking to recruit high-calibre talent that are a perfect fit for the corporate culture.

PUSHING PERFORMANCE BOUNDARIES

APICORP is evolving as an organization with a strong performance culture, where innovation and talent are cultivated. In an effort to compensate its employees fairly and based on individual contributions, APICORP's reward framework is continuously evaluated to ensure that the Corporation remains competitive, which in turn enables it to attract and retain the best available talent. The second phase of improvements of the performance management system was successfully implemented in 2016, and further amendments are planned for 2017.

APICORP also completed a wide range of improvements on the physical working environment, including workplace safety and security, over the course of the year.

EMPLOYEE VALUE PROPOSITION

The Employee Value Proposition outlines APICORP's characteristic and compelling range of policies, benefits, rewards and aspirations in the field of human resources. It is built around six anchoring pillars: promising future, sense of purpose, development opportunities, enabling environment, market-competitive practices, and recognition for contribution. The Employee Value Proposition acts as a key driver of engagement and staff retention, while also safeguarding the Corporation's continuous progress towards strengthening its reputation as a leading employer in the region.

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To,
The Shareholders
Arab Petroleum Investments Corporation
Dammam, Kingdom of Saudi Arabia

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Arab Petroleum Investments Corporation ("the Corporation"), and its subsidiaries (together "the Group") which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of income and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's 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) together with the other ethical requirements that are relevant to our audit of the Group's consolidated financial statements in Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities. 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 of the current period. 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.

Key audit matters	How our audit addressed the key audit matters.
1. Impairment assessment on Available-for-Sale (AFS) Investments We focused on the impairment assessment of AFS investments because of subjective judgements involved over timing of recognition of impairment and estimation of the extent of any such impairment. The management performs impairment assessment on the following investments: • Direct Equity Investments (DEI) • AFS securities (Fixed and floating rate bonds and Mutual Funds) Impairment assessment for AFS investments is undertaken by the management using judgmental factors such as: • Significant decline in the market value of an asset or a prolonged decline; • Significant changes with adverse effect on the entity which have taken place or likely to take place in the future; • Economic performance of an asset is not as expected. The reliance is taken from internal reporting; • Market rates of return and interest rates on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially; • The carrying amount of the net assets of the entity is more than its market capitalization;	We assessed and tested the design and operating effectiveness of the key controls supporting the measurement and oversight of the impairment risk of the investments. Our audit procedures included: Direct Equity Investments (DEI) According to APICORP policy on impairment (refer B.1.7) we reviewed the APICORP management analysis on selected DEI (refer to note 3 for details) based on materiality and ensured that management analyzed all the DEI securities based on following criteria: • Ensured that there is no other objective evidence of impairment exists, (e.g., if significant changes with an adverse effect have taken place in the technological, market, economic environment in which the issuer operates and indicates that the carrying value of the investment may not be recovered). These factors and information are reflected in fair value assessments. • Assessed the deterioration in value based on qualitative and quantitative factors (financial condition and performance etc.) • Assessed the management impairment testing to identify whether a "significant or prolonged" decline in the fair value of an investment has occurred at the financial position date. • Reviewed the valuation methodology and related inputs used in the valuation of the DEI.

Key audit matters	How our audit addressed the key audit matters.
	Direct Equity Investments (DEI) According to APICORP policy on impairment (refer B.1.7) we reviewed the APICORP management analysis on the Bonds and Mutual Funds (refer to note 2 for details) and ensured that the management analyzed all the AFS securities based on following criteria: • Ensured that there is no other objective evidence of impairment exists, (e.g. if significant changes with an adverse effect have taken place in the technological, market, economic environment in which the Issuer operates and indicates that the carrying value of the investment may not be recovered). These factors and information are already reflected in the fair value assessments. • Assessed the management impairment testing to identify whether a "significant or prolonged" decline in the fair value of an investment has occurred at the financial position date. • Assessed the deterioration in value based on qualitative and quantitative factors (financial condition and performance etc.) • Involved our valuation experts in the review of the valuation and related valuations methodology and related inputs used in valuation of the DEI. • We reasonably assured that appropriate impairment provision is maintained in the books of accounts of the Corporation.
2. Impairment of Syndicated and direct loans We focused on impairment assessment of Syndicated and direct loans because of subjective judgements over both timing of recognition of impairment and the estimation of the size of such impairment. The management performs periodic reviews of loans based on which the impairment assessment is made by considering objective evidence of a decrease in value. The objective evidence which triggers impairment though not limited are the following: • Substantial financial difficulty of the borrower; • Breach of contract, such as default or delinquency in interest or principal payments; • Concessions granted from the Group to the borrower that the Group would not have considered normally; • High probability of insolvency; • Recognition of an impairment loss on the loan in a previous reporting period; Impairment provisions required on the loans based on the above objective factors are categorized into two groups namely: • **Collective impairment:** A collective impairment is maintained for the assets (loans) classified as Standard watchlist on historical default rate subject to a minimum of 0.50% which is considered optimal considering wholesale nature and historical composition of the portfolio which consists largely of secured assets with guarantee from government/ government owned entities. • **Specific provision:** Specific provision is maintained for specific assets if there is objective or subjective evidence of impairment appears. In addition to the above, we considered the impact of the lower oil, gas and commodity prices on the creditworthiness of relevant counterparties.	We assessed and tested the design and operating effectiveness of the controls over impairment data and calculations. These controls included those over identification of which syndicated and direct loans (refer to note 4 for details) were impaired. According to APICORP policy on impairment (refer B.1.7) we reviewed and tested collective impairment model used to calculate both unidentified and identified impairment. Where impairment was individually calculated, we tested controls over the timely identification of potentially impaired loans. We determined that we could rely on these controls for the purposes of our audit. We also tested a sample of syndicated and direct loans to ascertain whether the loss event (that is the point at which impairment is recognized) had been identified in a timely manner. Where impairment had been identified, we examined the forecasts of future cash flows prepared by management to support the calculations of the impairment, challenging the assumptions and comparing estimates to external evidence where available. We found no material exceptions in these tests. We examined a sample of syndicated and direct loans which had not been identified by management as potentially impaired and formed our own judgement as to whether that was appropriate using external evidence in respect of the relevant counterparties. We found no material exceptions in these tests. We also focused towards the syndicated and direct loans under watchlist, we individually assessed for impairment including those customers identified on the watchlist and those that remained in the 'good book'. In case of some impairment provisions, we formed a different view from that of management, but in our view the differences were within a reasonable range of outcomes in the context of overall syndicated and direct loans and the uncertainties disclosed in the consolidated financial statements.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management 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, management 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

As part of an audit in accordance with ISA's, we exercise professional judgement 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 risk, 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidenced 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 auditor's 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 auditor's report. However, future events or conditions may cause the 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 represents the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law and regulations preclude 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.

Deloitte & Touche

Deloitte & Touche – Middle East
Partner Registration No. 157
Manama, Kingdom of Bahrain
May 7, 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016 (US$000)

	Note	2016	2015
ASSETS			
Cash and cash equivalents		**21,822**	22,958
Placements with banks	1	**816,753**	972,110
Available-for-sale securities	2	**1,203,518**	1,068,980
Direct equity investments	3a	**879,974**	816,101
Investment in an associate	3b	**107,275**	106,429
Syndicated and direct loans	4	**2,951,598**	2,510,060
Property, equipment and vessels	5	**117,356**	122,097
Other assets	6	**43,438**	33,953
TOTAL ASSETS		**6,141,734**	5,652,688
LIABILITIES, EQUITY AND NON-CONTROLLING INTERESTS			
LIABILITIES			
Deposits from banks	7	**286,863**	172,000
Deposits from corporates		**1,133,581**	1,383,156
Deposits from shareholders		**108,811**	107,463
Securities sold under agreements to repurchase		**157,774**	–
Other liabilities	8	**76,137**	67,971
Bank term financing	9	**1,520,158**	1,526,198
Sukuk and Bond issued	10	**855,146**	484,197
Total liabilities		**4,138,470**	3,740,985
EQUITY			
Share capital	21	**1,000,000**	1,000,000
Legal reserve		**194,000**	184,500
General reserve		**195,495**	138,984
Fair value reserve on available-for-sale investments		**527,427**	489,290
Retained earnings		**83,822**	96,511
Total equity attributable to shareholders of the Corporation		**2,000,744**	1,909,285
Non-controlling interests		**2,520**	2,418
Total equity and non-controlling interests		**2,003,264**	1,911,703
TOTAL LIABILITIES, EQUITY AND NON-CONTROLLING INTERESTS		**6,141,734**	5,652,688
OFF-BALANCE SHEET EXPOSURES	11	**1,018,956**	831,288

The consolidated financial statements, which consist of pages 28 to 66 were approved by the Board of Directors on 6 May 2017 and signed on its behalf by:

ahmed attiga

Dr. Aabed Al-Saadoun
Chairman

Dr. Ahmed Ali Attiga
Chief Executive and General Manager

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016 (US$000)

	Note	2016	2015
Interest income		**125,758**	106,662
Interest expense		**(71,944)**	(61,755)
Net interest income	13	**53,814**	44,907
Net fee income	14	**117**	1,218
Dividend income	15	**59,379**	90,883
Realized (loss)/gain on sale of available-for-sale portfolio	16	**(3,067)**	3,343
Other income	19	**20,758**	21,690
Total income		**131,001**	162,041
Operating expenses	17	**(35,474)**	(37,664)
Impairment, net	18	**(2,103)**	(16,775)
PROFIT FOR THE YEAR		**93,424**	107,602
Profit for the year attributable to:			
Shareholders of the Corporation		**93,322**	107,511
Non-controlling interests		**102**	91
		93,424	107,602
Per share information	21		
Basic and diluted earnings per share		**US$ 93**	US$ 108
Net asset value per share		**US$ 2,000**	US$ 1,909
Weighted average number of shares (in thousands)		**1,000**	1,000

The consolidated financial statements consist of pages 28 to 66.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016 (US$000)

	2016	2015
Profit for the year	**93,424**	107,602
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to consolidated statement of income:		
Realized gain on available-for-sale investments recycled to profit or loss	**–**	(3,806)
Change in fair value of available-for-sale investments, net	**15,309**	(20,491)
Change in fair value of direct equity investments, net (note 3)	**22,828**	(30,912)
Total other comprehensive income/(loss) for the year	**38,137**	(55,209)
Total comprehensive income for the year	**131,561**	52,393
Total comprehensive income for the year attributable to:		
Shareholders of the Corporation	**131,459**	52,302
Non-controlling interests	**102**	91
	131,561	52,393

The consolidated financial statements consist of pages 28 to 66.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016 (US$000)

	Total Equity attributable to Shareholders of the Corporation									
				Available-for-sale investments fair value reserve						
2016	Share Capital	Legal reserve	General reserve	Securities	Direct equity investments	Total	Retained earnings	Total	Non-controlling interests	Total equity and non-controlling interests
Balance at 1 January 2016	1,000,000	184,500	138,984	(10,686)	499,976	489,290	96,511	1,909,285	2,418	1,911,703
Comprehensive income for the year: Profit for the year	–	–	–	–	–	–	93,322	93,322	102	93,424
Other comprehensive income – Net change in fair value of available-for-sale securities/direct equity investments	–	–	–	15,309	22,828	38,137	–	38,137	–	38,137
Total other comprehensive income	–	–	–	15,309	22,828	38,137	–	38,137	–	38,137
Total comprehensive income for the year	–	–	–	15,309	22,828	38,137	93,322	131,459	102	131,561
Transfer to legal reserve during 2016	–	9,500	–	–	–	–	(9,500)	–	–	–
Transfer to general reserve during 2016	–	–	56,511	–	–	–	(56,511)	–	–	–
Dividend (note 23)	–	–	–	–	–	–	(40,000)	(40,000)	–	(40,000)
Balance as at 31 December 2016	1,000,000	194,000	195,495	4,623	522,804	527,427	83,822	2,000,744	2,520	2,003,264

The consolidated financial statements consist of pages 28 to 66.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2015 (US$000)

	Total Equity attributable to Shareholders of the Corporation									
				Available-for-sale investments fair value reserve						
2015	Share Capital	Legal reserve	General reserve	Securities	Direct equity investments	Total	Retained earnings	Total	Non-controlling interests	Total equity and non-controlling interests
Balance at 1 January 2015	1,000,000	173,500	45,031	13,611	530,888	544,499	93,953	1,856,983	2,237	1,859,220
Comprehensive income for the year:										
Profit for the year	–	–	–	–	–	–	107,511	107,511	91	107,602
Other comprehensive income										
– Realized gain on available-for-sale investments recycled to profit or loss	–	–	–	(3,806)	–	(3,806)	–	(3,806)	–	(3,806)
– Net change in fair value of available-for-sale securities/direct equity investments	–	–	–	(20,491)	(30,912)	(51,403)	–	(51,403)	–	(51,403)
Total other comprehensive income	–	–	–	(24,297)	(30,912)	(55,209)	–	(55,209)	–	(55,209)
Total comprehensive income for the year	–	–	–	(24,297)	(30,912)	(55,209)	107,511	52,302	91	52,393
Transfer to legal reserve during 2015	–	11,000	–	–	–	–	(11,000)	–	–	–
Transfer to general reserve during 2015	–	–	93,953	–	–	–	(93,953)	–	–	–
Equity contributed by non-controlling interest shareholders	–	–	–	–	–	–	–	–	90	90
Balance as at 31 December 2015	1,000,000	184,500	138,984	(10,686)	499,976	489,290	96,511	1,909,285	2,418	1,911,703

The consolidated financial statements consist of pages 28 to 66.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016 (US$000)

	2016	2015
OPERATING ACTIVITIES		
Profit for the year	**93,424**	107,602
Adjustment		
Depreciation	**6,561**	6,708
Employees' end-of-service benefits	**1,226**	1,272
Interest expense	**71,944**	61,755
Gain on sales of available-for-sale investments	**3,067**	(3,343)
Dividend income	**(59,379)**	(90,883)
Impairment, net	**2,103**	16,775
Amortisation of transaction fee	**2,529**	874
Changes in operating assets and liabilities		
Direct and Syndicated loans	**(442,513)**	173,183
Placements with banks	**155,357**	(54,206)
Other assets	**(9,935)**	(3,844)
Other liabilities	**(10,060)**	3,217
	(185,676)	219,110
Finance charges paid	**(65,213)**	(61,053)
Employees' end-of-service benefits paid	**(472)**	(4,385)
Net cash (used in)/from operating activities	**(251,361)**	153,672
INVESTING ACTIVITIES		
Net change in available-for-sale investments	**(122,296)**	91,453
Net change in direct equity investments	**(47,019)**	(92,485)
Purchase of property and equipment, net	**(1,820)**	(187)
Dividends	**59,829**	90,883
Net cash (used in)/from investing activities	**(111,306)**	89,664
FINANCING ACTIVITIES		
Repayment of deposits from banks, net	**108,863**	(42,867)
Repayment from deposits from corporates, net	**(249,575)**	(145,886)
Proceeds from deposits from shareholders	**1,348**	1,020
Change in securities sold under agreements to repurchase	**157,774**	(177,460)
Proceeds from term financing	**(9,360)**	796,923
Repayment of bank term financing	**–**	(675,125)
Proceeds from Sukuk	**381,281**	491,252
Repayment of Bonds	**–**	(533,333)
Movement in non-controlling interests	**–**	90
Dividend payment	**(28,800)**	–
Net cash from/(used in) financing activities	**361,531**	(285,386)
Net decrease in cash and cash equivalents for the year	**(1,136)**	(42,050)
Cash and cash equivalents at 1 January	**22,958**	65,008
Cash and cash equivalents at 31 December	**21,822**	22,958

Supplementary cash flow information (note 23).

The consolidated financial statements consist of pages 28 to 66.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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.

DOMICILE AND TAXATION
The Corporation is an international entity, and operates from its registered head office in Dammam, Kingdom of Saudi Arabia. The establishing agreement states that APICORP is exempt from taxation in respect of its operations in the member states.

SHARE CAPITAL
As of December 31, 2016 and 2015, the Corporation's authorised capital is US$ 2,400 million, subscribed capital is US$ 2,000 million (2015: US$ 1,500 million), issued & paid up capital is US$ 1,000 million, whereas the remainder of US$ 1,000 million (2015: US$ 500 million) is callable capital.

During the year, the subscribed capital was increased to US$ 2,000 million from US$ 1,500 million based on the shareholders' approval in an extra-ordinary general meeting held on 10 April 2016.

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%

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 its Banking Unit in Manama, Kingdom of Bahrain.

Currently the Corporation's project-financing activities take in the form of loans, direct equity investments in projects and close-ended fund. These activities are funded by shareholders' equity, medium-bank term financing, Sukuk, deposits from governments, corporates and short-term deposits from banks.

The Corporation has set up the APICORP Petroleum Shipping Fund Limited ("the Fund" or "the subsidiary"), a 5 years close-ended fund. The Fund is established 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. Assets and liabilities and results of operations of the Fund have been included in the consolidated financial statements of the Corporation. The Fund has a 100% subsidiary (the 'Charter Company'), a special purpose vehicle to act as a conduit for leasing of ships and has also set up 100% special purpose entities (SPEs) to own the vessels for the beneficial interest of the Fund.

SIGNIFICANT ACCOUNTING POLICIES
A General
A-1 Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to the presented years, unless otherwise stated.

A-2 Basis of preparation
The consolidated financial statements have been prepared on the historical cost convention except for the measurement at fair value of available-for-sale securities, certain direct equity investments, sukuk and derivative financial instruments.

Historical cost is generally based on the fair value of the consideration given.

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

A General continued

A-2 Basis of preparation continued

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurement are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement In its entirety, which are described as follows:

- 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 consolidated financial statements include the financial statements of APICORP and its subsidiaries (together the “Group”). The subsidiaries represent “APICORP Petroleum Shipping Fund Limited” and “APICORP Sukuk Limited” which are registered in Cayman Island.

The Group’s functional and presentation currency is United States dollars (US$) because it is a supranational organisation with its capital and the majority of its transactions and assets denominated in that currency.

a) Subsidiaries

The consolidated financial statements comprise the financial statements of the Corporation and entities (including special purpose entities) controlled by the Corporation and its subsidiaries. Control is achieved when the Corporation:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the acquisition of shipping vessels and 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 Corporation and the risks and rewards transferred by the SPE, the Corporation concludes that it controls the SPE. The assessment of whether the Corporation has control over an 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.

i. Basis of Consolidation

The Corporation 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.

When the Corporation has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Corporation considers all relevant facts and circumstances in assessing whether or not the Corporation’s voting rights in an investee are sufficient to give it power, including:

- the size of the Corporation’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Corporation, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Corporation has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders’ meetings.

Consolidation of a subsidiary begins when the Corporation obtains control over the subsidiary and ceases when the Corporation loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Corporation gains control until the date when the Corporation ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Corporation and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Corporation and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. In the event of change in ownership interest in a subsidiary, but the Company does not ceases to have a control then impact of such change is classified in equity.

When necessary, adjustments are made to the 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.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between

- the aggregate of the fair value of the consideration received and the fair value of any retained interest and
- the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

A General continued

A-2 Basis of preparation continued

i. Basis of Consolidation continued

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). 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 IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

ii. Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial information using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no re-measurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

A General continued

A-2 Basis of preparation continued

iii. New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2016, have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- IFRS 14 Regulatory Deferral Accounts
- Amendments to IAS 1 Presentation of Financial Statements relating to Disclosure initiative
- Amendments to IFRS 11 Joint arrangements relating to accounting for acquisitions of interests in joint operations
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets relating to clarification of acceptable methods of depreciation and amortisation
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Bearer Plants
- Amendments to IAS 27 Separate Financial Statements relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint Ventures relating to applying the consolidation exception for investment entities
- Annual Improvements to IFRSs 2012 – 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34

iv. New and revised IFRS in issue but not yet effective

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1, IFRS 12 and IAS 28	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017
Amendments to IAS 12 Income Taxes relating to the recognition of deferred tax assets for unrealised losses	1 January 2017
Amendments to IAS 7 Statement of Cash Flows to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017
IFRIC 22 Foreign Currency Transactions and Advance Consideration The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.	1 January 2018
Amendments to IFRS 2 Share Based Payment regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 Insurance Contracts: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018
Amendments to IAS 40 Investment Property: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 7 Financial Instruments: Disclosures relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2016

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

A General continued

A-2 Basis of preparation continued

iv. New and revised IFRS in issue but not yet effective continued

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments (revised versions in 2009, 2010, 2013 and 2014) IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas: • Classification and measurement: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. • Impairment: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised • Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. • Derecognition: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.	1 January 2018
IFRS 15 Revenue from Contracts with Customers In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 (Construction Contracts) and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition: • Step 1: Identify the contract(s) with a customer. • Step 2: Identify the performance obligations in the contract. • Step 3: Determine the transaction price. • Step 4: Allocate the transaction price to the performance obligations in the contract. • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	1 January 2018
Amendments to IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	1 January 2018
IFRS 16 Leases IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

A General continued

A-2 Basis of preparation continued

iv. New and revised IFRS in issue but not yet effective continued

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

Management anticipates that IFRS 15 and IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2018 and that IFRS 16 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2019. The application of IFRS 15 and IFRS 9 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of revenue from contracts with customers and the Group's consolidated financial assets and financial liabilities and the application of IFRS 16 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of its leases.

However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Group performs a detailed review.

A-3 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 income.

Available-for-sale equity 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. All other non-monetary assets and liabilities are stated at the historical rates of exchange.

B Financial Instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction cost directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit and loss.

B-1 Financial Assets

B.1.1 Classification

The Group classifies financial assets to the following IAS 39 categories:

Financial assets are classified into available-for-sale' (AFS) financial assets, trading securities (FVTPL), held to maturity and loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Trading securities (FVTPL) are those that the Group acquires or incurs principally for the purpose of gains over the near-term or if it is a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These consist of listed equity securities.

Available-for-sale investments are non-derivative financial assets that are not classified as held for trading or loans provided by the Group or held to maturity. Available-for-sale investments include certain debt securities, equity securities and managed funds.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group does not intend to sell immediately or in the near term.

B.1.2 Recognition

Available-for-sale and held for trading (FVTPL) financial assets are recognized on a trade date basis.

Loans are recognised on the day on which they are drawn down by the borrower.

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

B Financial Instruments continued

B-1 Financial Assets continued

B.1.3 Measurement

Financial assets are initially measured at fair value plus direct transaction costs except for financial assets held for trading (FVTPL) where transaction costs are recognised in the consolidated statement of income.

Subsequent to initial recognition, all trading (FVTPL) and available-for-sale investments are re-measured to fair value, except in case of certain unlisted available-for-sale direct equity investments, where a reliable measure of fair value is not available and hence are carried at cost less impairment allowances, if any. Loans are subsequently measured at amortised cost using the effective interest method, less allowance for impairment, if any. The unamortised portion of deferred participation and upfront fees received is deducted from the carrying values of the loans.

Gains and losses arising from a change in the fair value of trading securities (FVTPL) and derivative instruments not designated as an accounting hedge are recognised in the consolidated statement of income in the period in which it arises. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and presented in a fair value reserve as a separate component of equity. When the assets are sold, collected or otherwise disposed of, or are impaired, the cumulative gain or loss previously recognised in other comprehensive income, and presented in the fair value reserve in equity, is transferred to the consolidated statement of income.

B.1.4 Amortization

Where financial assets, mainly bonds, have been purchased at a premium or a discount, the premiums and discounts are amortised, using the effective interest method, through the consolidated statement of income over the period from the date of purchase to the date of maturity.

B.1.5 Fair value measurement principles

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, regardless of whether that price is directly observable or estimated using another valuation technique. For financial assets traded in active markets, fair value is based on their quoted closing bid market prices or dealer price quotations at the reporting date without any deduction for transaction costs. For investments in managed funds, the net asset values quoted by the fund managers are considered representative of fair value of those investments.

B.1.6 De-recognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

B.1.7 Impairment

All financial assets that are not carried at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset or a group of financial association is impaired only if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that financial asset or group of financial assets that can be estimated reliably.

Assets carried at amortised cost

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a borrower or an issuer will enter bankruptcy, or the disappearance of an active market for a security.

The Group considers evidence of impairment, for loans and other financial assets carried at amortised cost, at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in consolidated statement of income and reflected in an allowance account against receivables. If an asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Interest on the impaired asset continues to be recognised through the unwinding of the discount.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised in consolidated statement of income, then the impairment loss is reversed, with the amount of the reversal recognised in consolidated statement of income.

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

B Financial Instruments continued

B-1 Financial Assets continued

B.1.7 Impairment continued

Assets classified as available-for-sale

In case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of security below its cost is objective evidence of impairment.

Debt instruments, classified as available-for-sale, are considered as impaired, if objective evidence indicates that a loss event has occurred after the initial recognition of the instrument, and that the loss event had a negative effect on the estimated future cash flows of that instrument that can be estimated reliably.

If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in consolidated statement of income, is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are reversed directly through consolidated statement of comprehensive income. For debt instruments classified as available-for-sale, if in a subsequent period, the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

B-2 Financial Liabilities and Equity Instruments

B.2.1 Classification as debt or equity

Debt and equity instrument issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

B.2.2 Equity Instrument

An equity instrument is any contract that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Equity instrument issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchased, sale, issue or cancellation of the Company's own equity instruments.

B.2.3 Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

B.2.4 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instrument that the Group manages together and has recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on the basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

B.2.5 Initial recognition and measurement

The Group has the following non-derivative financial liabilities: deposits from banks, deposits from corporates, deposits from shareholders, bank term financing, financing received under repurchase agreements for securities and bonds issued. Financial liabilities are initially recognized, on the trade date at which the Group becomes a part to the contractual provisions of the instrument, at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

Borrowing costs directly attributable to the acquisition of qualifying assets are capitalised as part of the cost of those assets. Other borrowing costs are recognised as an expense in the year in which they are incurred.

B.2.6 Subsequent measurement

All financial liabilities are classified as non-trading liabilities and are measured at amortised cost using the effective interest rate method.

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

B Financial Instruments continued

B-2 Financial Liabilities and Equity Instruments

B.2.7 De-recognition

Financial liabilities are derecognised when the Group's contractual obligations are discharged, cancelled or expire.

C Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash balances 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.

D 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.

E Property, Equipment and Vessels

E-1 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 income.

E-2 Subsequent expenditure

Expenditure incurred subsequently to replace a major component of an item of property, equipment and vessels that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when 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 income as incurred.

E-3 Depreciation

Depreciation is charged to the consolidated statement of income 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 5 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 consolidated statement of income for the year in which the changes arise.

E-4 Impairment of non-financial assets

The carrying amounts of the non-financial assets are reviewed for impairment (or reversal of impairment) at each reporting date, and whenever there is indication that the assets may have changed in value. If any such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss or reversal of impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, although the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in consolidated statement of income.

F Employees' End of Service Benefits

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service subject to the completion of a minimum service period. Provision for the unfunded commitment (which is a defined benefit scheme under IAS 19) has been made by calculating the liability, had all the employees left at the reporting date.

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

G Income Recognition

G-1 Interest income and expenses

Interest income and interest expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the consolidated statement of income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial assets and liabilities. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. Fees, including loan origination less any early redemption fees are included in the calculation of the effective interest rate to the extent that they are considered to be an integral part of the effective interest rate.

G-2 Dividend income

Dividend income is recognized in the consolidated statement of income when the Group's right to receive payment is established.

G-3 Fee income

Fee income arises from financial services provided by the Group including project and structured finance transactions, for example advising on underwriting and arranging syndicated loan facilities, and is recognised when the service is provided.

Fees that are analogous to interest and are considered to be part of the overall yield on loans, specifically participation and upfront fees are initially deferred and then amortised over the lives of the related loans. The amortised income is included in interest income.

G-4 Other income

Rent income is recognised in the consolidated statement of income on a time apportionment basis. Bareboat charter income is recognised on straight-line basis over the period of the contractual lease term. Call option premiums in the form of a flat fee are treated as an advance and amortized to income over the charter period.

H Derivative Financial Instruments

Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments and include interest rate swaps and forward currency contracts. The Group holds derivative financial instruments to hedge its interest rate risk exposures.

The Group designates interest rate swaps ("hedging instruments") as fair value hedges to hedge the interest rate risk on its fixed income securities ("hedged items") classified as available-for-sale securities. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the consolidated statement of income as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below:

H-1 Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect consolidated statement of income, changes in the fair value of the derivative are recognised immediately in consolidated statement of income together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the consolidated statement of income as the hedged item).

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortised to consolidated statement of income as part of the recalculated effective interest rate of the item over its remaining life.

H-2 Other non-trading derivatives

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in consolidated statement of income as a component of other income.

H-3 Fair value

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using Zero Coupon curve (based on LIBOR). The fair value of interest rate swaps is determined by discounting estimated future cash flows based on the terms and maturity of each contract and the same Zero Coupon curve at the measurement date. Fair values recognized reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and counterparty when appropriate.

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

I Financial Guarantee

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the guarantee has become probable.

J 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. Actual results may differ from these estimates. 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.

J-1 Critical judgements in applying accounting policies

In the process of applying the Group's accounting policies, the management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Impairment of available-for-sale investments

The Group considers available for sale equity investments that are at fair value, as impaired, when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. In addition, objective evidence for impairment may be deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

Operating leases

The Group has entered into a bareboat charter hire agreement for its vessels. The management considers that not all significant risks and rewards incidental to ownership of the vessels have been transferred to the lessee at the inception, during or at the end of the charter hire agreement, and accordingly, has classified the lease of the vessels as an operating lease. In determining significant risks and rewards of ownership, the management considered, among others, the significance of the lease term as compared with the estimated useful life of the vessels as well as the attractiveness or otherwise of a purchase option given to the sub-bareboat charter.

Residual value of the commercial marine vessels

The depreciable amount of the commercial marine vessels comprise of the cost of the vessel less an estimated residual value. Industry steel price will be used to determine the residual value of the vessel as at each reporting date. Changes in industry steel price could impact the residual value of the vessel; thereby having an impact on the depreciation charge in subsequent reporting periods.

No significant influence over direct equity investments

The Group has no significant influence over Falcon Cement Company B.S.C. and Asthead Technology by virtue over their participation in the policy-making process and provision of essential technical information related to above mentioned entity.

J-2 Key sources of estimation uncertainty

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:

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of the Company has set up a valuation department, which is headed up by the Head of Investment Department of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages in-house qualified valuers in Investments division to perform the valuation.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in note 10 and 26.

Impairment losses on loans and advances

The Group reviews its loans portfolio at every reporting period to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by Group is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on loans and advances

In addition to specific provisions against individually significant loans and advances, the Group also makes a collective impairment provision against loans and advances which although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. The amount of the provision is based on the historical loss pattern for loans within each category and is adjusted to reflect current economic changes. The loans are categorised based on various credit risk characteristics of the loans.

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SIGNIFICANT ACCOUNTING POLICIES CONTINUED

J Critical accounting judgements and key sources of Estimation Uncertainty continued

J-2 Key sources of estimation uncertainty continued

Fair value measurement

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group's Investments division perform the valuation. The Group's in-house qualified valuers in Investments division works closely with the management to establish the appropriate valuation techniques and inputs to the model.

K Provisions

The Group recognizes 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.

L 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 Group, and as may be resolved 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.

M Offsetting Financial Instruments

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

N Operating Leases

Leases, where substantially all risk and rewards incidental to ownership are retained by the owner are classified as operating lease. Rental income/expense from operating leases is recognised in consolidated statement of comprehensive income on a straight line basis over the lease period.

1 PLACEMENTS WITH BANKS

	2016	2015
With Islamic financial institutions	**320,000**	291,847
With conventional financial institutions	**490,453**	648,533
Reverse repurchase agreements	**–**	26,000
Margin call accounts on securities sold under agreements to repurchase	**6,300**	5,730
	816,753	972,110

Reverse repurchase agreements: The Group enters into collateralised placement transactions (Reverse repurchase agreements) in the ordinary course of its financing activities. At 31 December 2016, the fair value of securities that had been obtained as collateral under resale agreements was Nil (2015: US$ 26,094 thousands). These transactions are conducted under the terms that are usual and customary to standard securities lending and borrowings activities.

2 AVAILABLE-FOR-SALE SECURITIES

	2016	2015
Fixed-rate bonds	**924,201**	681,922
Floating-rate bonds	**192,880**	209,828
Managed funds	**86,437**	177,230
	1,203,518	1,068,980

	2016	2015
Movement on allowance for impairment:		
Balance at 1 January	**–**	295
Net reversal for the year	**–**	(295)
Balance at 31 December	**–**	–

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 available-for-sale portfolio. At 31 December 2016, the fair value of available-for-sale securities that had been pledged as collateral under repurchase agreements was US$ 189,420 thousands (2015: US$ Nil). These transactions are conducted under the terms that are usual and customary to standard securities borrowings and lending activities.

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3 EQUITY INVESTMENTS

3a DIRECT EQUITY INVESTMENTS

	2016	2015
Available-for-sale investments		
Unlisted equities – (see below)		
Kingdom of Saudi Arabia		
Saudi European Petro Co. (Ibn Zahr)	**459,482**	464,476
The Industrialization and Energy Services Company (TAQA)	**97,496**	94,004
Saudi Mechanical Industries (SMI)	**46,134**	42,485
Kingdom of Bahrain		
Falcon Cement Company B.S.C.	**25,526**	–
Libya		
Arab Drilling and Workover Co. (Adwoc)	**2,921**	5,843
Arab Geophysical Exploration Svcs Co. (Agesco)	**–**	594
Arab Republic of Egypt		
Egyptian Methanex Methanol Co.	**109,027**	107,642
Non-shareholder countries		
Tankage Mediterranean (Tankmed), Tunisia	**3,593**	1,112
IFC Middle East and North Africa, LLP	**3,128**	1,770
Asthead Technology	**12,958**	–
	760,265	717,926
Listed equities – carried at fair value		
Kingdom of Saudi Arabia		
Yanbu National Petrochemical Company (Yansab)	**107,073**	64,264
Arab Republic of Egypt		
MISR Oil Processing Company SAE (note 26)	**12,636**	33,911
	879,974	816,101

3b INVESTMENT IN AN ASSOCIATE

	2016	2015
Investment in an associate		
United Arab Emirates		
NPS Holding Limited (2016:29.12% and 2015: 28.33% owned)	**107,275**	106,429
Total equity investments	**987,249**	922,530

	2016	2015
Movements during the year:		
Balance at 1 January	**922,530**	865,957
Additions during the year	**48,848**	91,427
Share of (loss)/gain from associate	**(1,829)**	1,058
Impairment during the year	**(5,128)**	(5,000)
Change in fair value during the year	**22,828**	(30,912)
Balance at 31 December	**987,249**	922,530

	2016	2015
Movements on allowance for impairment on Direct Equity investments:		
Balance at 1 January	**102,200**	97,200
Impairment charge for the year	**5,128**	5,000
Balance at 31 December	**107,328**	102,200

Available-for-sale investments are re-measured to fair value, except in case of certain unlisted available-for-sale direct equity investments, where a reliable measure of fair value is not available and hence are carried at cost less impairment allowances, if any.

Companies in which the Group holds 20% or more of the equity are not treated as associates under IAS 28 – Investments in Associates because the Group's philosophy is that it should act in a fiduciary and advisory capacity and not exercise significant influence over the management and operations of the companies. These investments primarily include private equity investments in closely held project companies where the Group intends to exit these investments principally by means of strategic buy outs by an existing shareholder or through initial public offerings. The investment committee regularly evaluates exit opportunities. Accordingly, these investments are classified as available-for-sale assets.

As of 31 December 2016, all the Group's shares in Egyptian Bahraini Gas Derivative Co. of US$ 5,000 thousand are pledged as security in favour of a bank to guarantee a loan issued to Egyptian Bahraini Gas Derivative Co.

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3 DIRECT EQUITY INVESTMENTS CONTINUED

The share in total assets, liabilities, net assets of the associate (NPS Holding Company) as of December 31, 2016 were US$ 168,451, US$ 61,679, US$ 106,772 thousands respectively (2015: US$ 166,600 thousands US$ 61,100 thousands and US$ 105,500 thousands). Also, the share of net (loss)/income in the associate was (US$ 1,829 thousand) (2015: US$ 1,000 thousands) for the year then ended.

	2016	2015
Commitments – uncalled share capital		
Balance at 1 January	**98,259**	4,649
Additional commitment during the year	**15,149**	95,380
Commitments fulfilled /expired	**(44,711)**	(1,770)
Commitments at 31 December	**68,697**	98,259

	2016	2015
Commitments – Guarantees		
Balance at 1 January	**12,980**	19,300
Additional /commitments /expired during the year	**(1,988)**	(6,320)
Commitments at 31 December	**10,992**	12,980

4 SYNDICATED AND DIRECT LOANS

	2016	2015
Unimpaired loans		
– With Islamic institution	**1,214,672**	830,552
– Conventional	**1,817,532**	1,750,707
Unamortized participation and upfront fees	**(54,711)**	(46,279)
Collective impairment allowance	**(25,175)**	(24,200)
Impaired loans		
Non-performing loans (see below)	**63,627**	63,627
Allowance for specific impairments	**(18,847)**	(22,847)
Dividends due to the Government of Iraq, offset against defaulted loans (see (a) below)	**(45,500)**	(41,500)
At 31 December	**2,951,598**	2,510,060

(a) Impaired loans to companies fully owned by the Government of Iraq

As a result of the 1990-1991 second Gulf war, certain Government of Iraq controlled companies defaulted on loans amounting to US$ 51,848 thousand (2015: US$ 51,848 thousands) from the Corporation.

With effect from 1998, the Corporation reduced the related impairment allowances against the defaulted loans by the amount of the unpaid dividends, while still carrying the dividends as liabilities in the consolidated statement of financial position up to 2003.

In May 2003, APICORP Board of Directors adopted a resolution authorizing management, in cases where no settlement is reached, to set-off bad debts owed to the Corporation by companies and public corporations fully owned by any of APICORP's shareholder governments, against accounts held by the Corporation belonging to such bodies and governments including dividends, provided all legal requirements are satisfied and complied with.

Accordingly, and until negotiation is undertaken with the Government of Iraq, the Corporation starting from 2003, has made a primary offset of the unpaid dividends due to the Government of Iraq, against the principal amounts of the defaulted loans due from the Government of Iraq controlled companies.

Accordingly dividends of US$ 45,500 thousand (2015: US$ 41,500 thousand) due to the Government of Iraq (a shareholder in APICORP) have not been paid.

Since the beginning of default during 1990-92, the Corporation had kept memorandum record for contractual interest and fee on the defaulted Iraqi loans. Total contractual uncharged interest and fee on these impaired Iraqi loans as at 31 December 2016 amounts to US$ 151,656 thousands (2015: US$ 145,319 thousands).

	2016	2015
Unimpaired loans movement during the year		
Balance at 1 January	**2,581,259**	2,745,586
Draw-downs on new and existing loans	**1,127,859**	849,557
Repayments during the year	**(677,053)**	(1,013,886)
Exchange rate movements	**139**	2
Unimpaired loans outstanding at 31 December	**3,032,204**	2,581,259

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4 SYNDICATED AND DIRECT LOANS CONTINUED

(a) Impaired loans to companies fully owned by the Government of Iraq continued

	2016	2015
Undrawn loan commitments and guarantees		
Balance at 1 January	**713,569**	709,644
Additional underwriting and commitment during the year	**2,112,541**	1,148,069
Drawdowns during the year	**(1,127,859)**	(849,557)
Expired commitments and other movements – net	**(765,400)**	(294,587)
Undrawn commitments at 31 December	**932,851**	713,569

	2016	2015
Allowance for specific impairment		
Balance at 1 January	**22,847**	42,447
Charge for the year	**–**	560
Reversal	**(4,000)**	(3,600)
Write off	**–**	(16,560)
Balance at 31 December – net	**18,847**	22,847

	2016	2015
Allowance for collective impairment		
Balance at 1 January	**24,200**	13,600
Additional allowance during the year	**975**	10,600
Balance at 31 December	**25,175**	24,200

5 PROPERTY, EQUIPMENT AND VESSELS

	Land	Building	Vessels	Computers, Furniture & Equipment	Total
Cost					
Balance at 1 January 2015	4,004	55,519	117,254	16,833	193,610
Additions	–	–	–	190	190
Disposal	–	–	–	(7)	(7)
Balance at 31 December 2015	**4,004**	**55,519**	**117,254**	**17,016**	**193,793**
Additions	–	–	–	1,820	1,820
Balance at 31 December 2016	**4,004**	**55,519**	**117,254**	**18,836**	**195,613**
Accumulated Depreciation					
Balance at 1 January 2015	–	40,551	9,365	15,076	64,992
Depreciation for the year	–	1,160	4,886	662	6,708
Disposal	–	–	–	(4)	(4)
Balance at 31 December 2015	**–**	**41,711**	**14,251**	**15,734**	**71,696**
Depreciation for the year	–	929	5,129	503	6,561
Balance at 31 December 2016	**–**	**42,640**	**19,380**	**16,237**	**78,257**
Carrying Amount					
Balance at 31 December 2016	**4,004**	**12,879**	**97,874**	**2,599**	**117,356**
Balance at 31 December 2015	4,004	13,808	103,003	1,282	122,097

The Group has five commercial marine vessels. All the five vessels have been leased to Hess Energy Trading Company, LLC in the capacity of bareboat charterer for a non-cancellable period of 5 years. The bareboat charterer has entered into a Call Option Agreement affording it the right to buy the vessel declarable at any time but not exercisable before the 1st anniversary of the acquisition of the relevant vessel (the relevant "Exercise Date"). These vessels are mortgaged against the term loan facilities (note 9).

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6 OTHER ASSETS

	2016	2015
Accrued interest receivable	**28,357**	23,406
Dividends receivable	**1,900**	2,350
Employee loans and advances	**1,756**	1,767
Derivatives at fair value (note 12)	**8,757**	2,644
Other receivables and advance payments	**2,668**	3,786
	43,438	33,953

7 DEPOSITS FROM BANKS

	2016	2015
Short-term deposits from conventional banks		
US dollar currency	**175,000**	21,000
Non US dollar currencies	**10,610**	49,333
Short-term Murabaha financing from Islamic financial institutions		
US dollar currency	**98,600**	75,000
Non US dollar currencies	**2,653**	26,667
	286,863	172,000

8 OTHER LIABILITIES

	2016	2015
Accrued interest payable	**23,364**	16,633
Dividend payable to shareholders	**2,550**	1,350
Employees' end of service benefits	**9,901**	9,147
Accrued expenses and other liabilities	**8,832**	14,537
Derivatives at fair value (note 12)	**24,182**	20,656
Call liabilities	**7,308**	5,648
	76,137	67,971
Movement on employees' end of service benefits		
Balance as at 1 January	**9,147**	12,260
Charge for the year	**1,226**	1,272
Paid during the year	**(472)**	(4,385)
Balance as at 31 December	**9,901**	9,147

9 BANK TERM FINANCING

	2016	2015
SAR 500 million loan 2012 – 2017 – fully drawn	**133,333**	133,333
SAR 440 million loan 2012 – 2017 – fully drawn	**117,333**	117,333
US$ 105 million loan 2012 – 2018 – fully drawn (see below*)	**58,233**	67,594
SAR 1,000 million loan 2014 – 2019 – fully drawn	**266,666**	266,666
US$ 150 million loan 2014 – 2017 – fully drawn	**150,000**	150,000
SAR 3,000 million loan 2014 – 2019 – fully drawn	**800,000**	800,000
Unamortised front-end fee	**(5,407)**	(8,728)
	1,520,158	1,526,198

The Corporation borrows at margins ranging from 55 basis points to 88 basis points (2015: 55 basis points to 88 basis) over the Saudi riyal interbank or London interbank offered rate (depending on the facility currency).

The Corporation's bank term financing are subject to the following financial covenants, with which the Corporation has complied:

- The ratio of total shareholders' funds to total assets shall at all times be equal to or greater than 16.67%; and
- The amount of total shareholders' funds shall at all times be greater than US$ 800 million.

* Represents the subsidiary of the Group facility borrowed at 3 months LIBOR plus margin of 3.25% (2015: 3 months LIBOR plus margin of 3.25%) per annum.

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10 SUKUK AND BOND ISSUED

	2016	2015
US$ 500 million bonds Series 1 of US$ 3 billion Sukuk programme 2015 – 2020 Profit rate:2.383%	**490,191**	485,386
SAR 250 million bond 2016 – 2019 – fully drawn Profit rate:3.50%	**66,935**	–
US$ 300 million floating rate Bond 2016 – 2021 – fully drawn LIBOR Plus Margin 1.15%	**300,000**	–
Unamortised front-end fee	**(1,980)**	(1,189)
	855,146	484,197

US$ 3 billion Sukuk Programme (2015 – 2020); US$ 500 million Sukuk is part of US$ 3 billion Sukuk programme announced during July 2015. The Sukuk issued to outside participants of US$ 500 million (2015: US$ 493 million). The Sukuk carrys profit rate of 2.383% per annum.

Goldman Sachs International and Standard Chartered Bank acted as Global Coordinators for the Sukuk issuance. Sukuk is listed on the Irish Stock Exchange followed by Nasdaq Dubai, and is rated Aa3 by Moody's Investor Services.

The Group owns as a result of the sukuk transaction structure, 100% stake of APICORP Sukuk Limited, an exempted company incorporated in the Cayman Islands with limited liability and is consolidated in these consolidated financial statements.

The Group uses interest rate swaps to hedge its exposure to changes in fair value, of borrowing through fixed rate Sukuk, attributable to changes in market interest rate. Fair values of the interest rate swap agreements and underlying instruments are estimated based on the prevailing market rates of interest.

SAR 250 million Sukuk (2016 – 2019); During the year the Group has issued SAR 250 million Sukuk for 3 years and having maturity in 2019. The Sukuk carrys profit rate of 3.50% per annum. The Group uses interest rate swaps to hedge its exposure to changes in fair value, of borrowing through fixed rate Sukuk, attributable to changes in market interest rate. Fair values of the interest rate swap agreements and underlying instruments are estimated based on the prevailing market rates of interest.

US$ 300 million Floating Rate Bond (2016 – 2021); During the year the Group successfully launched US$ 300 million floating rate bond for 5 years having maturity in 2021. It carrys profit rate of Libor plus 1.15%. This is the first "Formosa" bond out of the Kingdom of Saudi Arabia, targeting the Taiwanese investor base. In order to appeal to the local investor base, the Formosa bond, also known as a Taiwan foreign-denominated international bond, is listed on the International Board of the Taipei Stock Exchange. Credit Agricole CIB acted as the lead manager on the trade.

11 OFF-BALANCE SHEET EXPOSURES

	2016	2015
Commitments to underwrite and fund loans (refer note 4)	**932,851**	713,569
Commitments to subscribe capital to available-for-sale direct equity investments (refer note 3)	**68,697**	98,259
Guarantees to bank on loans of investee companies (refer note 3)	**10,992**	12,980
Fixed Assets commitments	**1,660**	–
Other Commitments	**4,756**	6,480
	1,018,956	831,288

12 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 rate. 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 fair values of derivative financial instruments held by the Group as at 31 December are provided below:

	2016		2015	
	Asset	Liabilities	Asset	Liabilities
Interest rate swaps (Fair value hedges)	**5,167**	**15,153**	1,896	16,855
Foreign exchange contracts (Other derivatives held for risk management)	**3,590**	**9,029**	748	3,801
At 31 December	**8,757**	**24,182**	2,644	20,656

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12 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

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

	2016	2015
Interest rate swaps (Fair value hedges)	**1,134,233**	1,123,129
Foreign exchange contracts (Other derivatives held for risk management)	**1,278,058**	1,594,563
At 31 December	**2,412,291**	2,717,692

The contractual maturity analysis of the derivative instruments are included as part of liquidity risk information in note 24.

13 NET INTEREST INCOME

	2016	2015
Interest income		
Cash and bank balances	**1**	5
Placements with banks – Islamic financial institution	**5,326**	2,978
Placements with banks – Conventional	**11,277**	8,184
Available-for-sale securities (net)	**34,206**	31,417
Syndicated and direct loans – With Islamic institution	**24,932**	15,112
Syndicated and direct loans – Conventional	**37,534**	31,752
Amortisation of loan participation and upfront fees	**12,482**	17,214
Total interest income	**125,758**	106,662
Interest expense		
Deposits from banks and other cost – Islamic institution	**(218)**	(359)
Deposits from banks and other cost – Conventional	**(3,619)**	(1,808)
Securities sold under agreement to repurchase deposits	**(1,633)**	(86)
Deposits from corporates & shareholders – Islamic institution	**(6,718)**	(6,991)
Deposits from corporates & shareholders – Conventional	**(10,797)**	(6,633)
Interest rate swaps	**(6,828)**	(10,706)
Bank term financing	**(28,582)**	(21,822)
Sukuk and bond issued	**(10,686)**	(10,495)
Amortisation of front end fees on bank term financing, Sukuk and bond issued	**(2,863)**	(2,855)
Total interest expense	**(71,944)**	(61,755)
Net interest income	**53,814**	44,907

14 NET FEE INCOME

	2016	2015
Fee income		
Agency, advisory and other services	**734**	1,735
Fee expense		
Custody fees and other charges paid to banks	**(617)**	(517)
Net fee income	**117**	1,218

15 DIVIDEND INCOME

	2016	2015
Available-for-sale securities	**2,090**	5,212
Available-for-sale direct equity investments	**57,289**	85,671
	59,379	90,883

16 REALIZED (LOSS)/GAIN ON SALE OF AVAILABLE-FOR-SALE PORTFOLIO

	2016	2015
Available-for-sale securities	**(3,067)**	3,343
	(3,067)	3,343

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17 OPERATING EXPENSES

	2016	2015
Staff costs	**15,473**	18,060
Employees' end of service benefits	**1,609**	1,622
Premises costs, including depreciation	**9,178**	7,337
Equipment and communications costs	**3,158**	3,354
Key Management's and Board benefits, fees and expense	**4,189**	3,451
Donations	**227**	379
Consultancy and legal fee	**1,381**	1,129
Other corporate expenses	**259**	2,332
	35,474	37,664

18 IMPAIRMENT, NET

	2016	2015
Charge for the year		
Syndicated and direct loans (note 4):		
Specific impairment allowance	**–**	560
Collective impairment allowance	**975**	10,600
Available-for-sale direct equity investments (note 3)	**5,128**	5,000
Accrued interest receivable	**–**	4,510
	6,103	20,670
Less: recoveries		
Syndicated and direct loans (note 4)	**(4,000)**	(3,600)
Available-for-sale securities (note 2)	**–**	(295)
	(4,000)	(3,895)
	2,103	16,775

19 OTHER INCOME

	2016	2015
Exchange losses, net	**3,130**	(1,769)
Fair value hedge ineffectiveness	**50**	1
Rent – head office building and housing compound	**1,869**	2,402
Bareboat charter income (see (a) below)	**14,062**	14,023
Share of (loss)/ gain from an associate	**(1,829)**	1,058
Others	**3,476**	5,975
	20,758	21,690

(a) As at December 31, the future minimum lease payments under non-cancellable leases are receivable as follows:

	2016	2015
Less than one year	**13,676**	13,714
Between one and five years	**3,110**	16,786

20 APPROPRIATIONS

	2016	2015
Legal reserve	**9,500**	11,000
Retained earnings	**56,511**	93,953
Dividends	**40,000**	–

During the year, the shareholders of the Corporation resolved to distribute a dividend of SAR 40 million (2015: Nil).

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21 SHARE CAPITAL AND PER SHARE INFORMATION

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

22 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	2016	2015
Loans outstanding at 31 December – gross	**2,265,178**	1,829,549
Allowance for specific impairments outstanding at 31 December	**(18,847)**	(22,847)
Dividends due to Government of Iraq, offset against defaulted loans at 31 December	**(45,500)**	(41,500)
Commitments to underwrite and fund loans at 31 December	**524,624**	445,444
Interest from loans during the year	**43,601**	36,790
Loan fees received during the year	**6,074**	13,226
Allowance for specific impairments during the year	**(1,128)**	(4,509)

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 2016 and 2015.

Available-for-sale direct equity investments in related parties	2016	2015
Investments	**987,249**	922,560
Commitments to invest	**73,453**	104,739
Guarantees as shareholder	**10,992**	12,980
Dividends received during the year	**57,739**	85,671

Others		
Deposits from corporates	**1,133,581**	997,190
Deposits from shareholders	**108,811**	107,463
Dividend payable to shareholders	**2,550**	1,350
Interest expense on deposits from corporates during the year	**15,821**	6,589
Interest expense on deposits from shareholders during the year	**1,353**	1,020

Balances due to key management	**318**	300

For key management's compensation, refer note 17.

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23 SUPPLEMENTARY CASH FLOW INFORMATION

Following the details of non-cash transactions:

	2016	2015
Change in available-for-sale investments fair value reserve	**38,137**	(55,209)
Transfer of Dividend payment to deposit	**6,000**	–
Dividends due to the Government of Iraq, offset against defaulted loans	**4,000**	–
Changes in fair value of Sukuk issued	**9,541**	7,614

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk management objectives

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

The Group's risk management policies are established to identify and analyses the risks faced by the Group, 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 Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit 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 Group, The Group Audit 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 Group Audit Committee.

Credit risk management

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

Proposed loans and available-for-sale direct equity investments are subject to systematic investigation, analysis and appraisal before being reviewed by the Credit 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 Group's exposure to credit risk.

The Group 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 action 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 Risk, Assets and Liabilities Committee ("RALCO").

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24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

Credit risk management continued

The maximum exposure to credit risk on cash and bank balances is their carrying amount. Details of credit risk exposure on other financial instruments are as follows:

	Syndicated and direct loans (note 4)		Placements with banks (note 1)		Bonds classified Available-for-sale (note 2)	
	2016	2015	**2016**	2015	**2016**	2015
Impaired individually						
Grade F	**51,147**	51,147	–	–	–	–
Grade E	**700**	700	–	–	–	–
Grade C	**11,780**	11,780	–	–	–	–
Gross amount	**63,627**	63,627	**–**	–	–	–
Unpaid dividends and interest due to Government of Iraq	**(45,500)**	(41,500)	–	–	–	–
Allowance for impairment	**(18,847)**	(22,847)	**–**	–	**–**	–
Carrying amount	**(720)**	(720)	**–**	–	**–**	–
Neither past due nor impaired						
Accounts without renegotiable terms						
Grade B	**28,296**	33,668	**–**	–	**–**	–
Grade A	**3,003,908**	2,547,591	**–**	–	**–**	–
Subtotal neither past due nor impaired	**3,032,204**	2,581,259	**–**	–	**–**	–
Bank placements in OECD* countries Rated A-	**–**	–	**–**	35,000	**–**	–
Banks placement in non-OECD countries						
Rated A to AAA	**–**	–	**686,580**	807,821	**–**	–
Rated B to BBB	**–**	–	**50,173**	99,289	**–**	–
Not Rated	**–**	–	**80,000**	30,000	**–**	–
Externally rated (investment-grade) available-for-sale investments						
Financial institutions						
Rated A to AAA	**–**	–	**–**	–	**298,574**	342,586
Rated B to BBB	**–**	–	**–**	–	**159,673**	131,286
Governments and public sector						
Rated A to AAA	**–**	–	**–**	–	**140,090**	154,282
Rated B to BBB	**–**	–	**–**	–	**109,245**	57,952
Others sectors						
Rated A to AAA	**–**	–	**–**	–	**279,274**	160,282
Rated B to BBB	**–**	–	**–**	–	**83,634**	–
Not Rated available-for-sale investments	**–**	–	**–**	–	**46,591**	45,362
Subtotal total	**3,031,484**	2,580,539	**816,753**	972,110	**1,117,081**	891,750
Collective impairment allowance	**(25,175)**	(24,200)	**–**	–	**–**	–
Unamortised participation and commitment	**(54,711)**	(46,279)	**–**	–	**–**	–
Total carrying amount at 31 December	**2,951,598**	2,510,060	**816,753**	972,110	**1,117,081**	891,750

* OECD (Organisation for Economic Co-operation and Development countries)

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24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

Credit risk management continued

The Group 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 30, 31 and 32).

	Syndicated and direct loans (note 4)		Placements with banks (note 1)		Bonds classified Available-for-sale (note 2)	
	2016	2015	**2016**	2015	**2016**	2015
Concentration of credit risk by sector						
Oilfield production development services	**347,014**	343,040	**–**	–	**22,250**	5,000
Floating production, storage and offloading Facilities	**136,527**	147,055	**–**	–	**–**	–
Liquefied Natural Gas (LNG) Plants	**130,111**	–	**–**	–	**–**	37,046
Petroleum and petrochemicals	**480,906**	519,204	**–**	–	**–**	–
Maritime transportation	**128,650**	26,334	**–**	–	**60,120**	45,362
Refineries	**559,716**	517,347	**–**	–	**–**	–
Power generation	**482,874**	448,864	**–**	–	**6,804**	68,907
Other petroleum	**519,700**	477,917	**–**	–	**56,955**	–
Banks and financial institutions	**105,769**	30,299	**816,753**	972,110	**469,106**	460,205
Governments and public sector	**–**	–	**–**	–	**302,807**	225,901
Other industries	**60,331**	–	**–**	–	**199,039**	49,329
Carrying amount at 31 December	**2,951,598**	2,510,060	**816,753**	972,110	**1,117,081**	891,750

	Syndicated and direct loans (note 4)		Placements with banks (note 1)		Bonds classified Available-for-sale (note 2)	
	2016	2015	**2016**	2015	**2016**	2015
Concentration of credit risk by location						
Kingdom of Saudi Arabia	**1,083,248**	1,054,756	**–**	172,230	**212,540**	177,075
State of Qatar	**633,886**	650,614	**275,000**	323,591	**106,224**	109,556
Other Gulf Cooperation Council states	**823,203**	516,465	**528,613**	476,289	**524,168**	469,491
Egypt and North Africa	**211,688**	140,583	**173**	–	**–**	–
Total Arab World	**2,752,025**	2,362,418	**803,786**	972,110	**842,932**	756,122
Europe	**104,044**	42,299	**12,967**	–	**64,888**	44,568
Asia pacific	**62,891**	61,665	**–**	–	**7,743**	–
United States	**32,638**	43,678	**–**	–	**201,518**	91,060
Carrying amount at 31 December	**2,951,598**	2,510,060	**816,753**	972,110	**1,117,081**	891,750

Liquidity risk and funding management

Liquidity risk is the risk that the Group 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 Group.

The Group's liquidity management policies are designed to ensure that even under adverse conditions, the Group has access to adequate funds to meet its obligations, and to service it 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.

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24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

Liquidity risk and funding management continued

Daily liquidity position is monitored 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 RALCO. 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 27.

Contractual maturities of financial liabilities (including interest)

2016	**Up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**5 years and over**	**Contractual Outflows**	**Carrying value**
Liabilities						
Deposits from banks	**(264,354)**	**(24,076)**	**–**	**–**	**(288,430)**	**(286,863)**
Deposits from corporates	**(1,083,958)**	**(13,657)**	**(42,007)**	**–**	**(1,139,622)**	**(1,133,581)**
Deposits from shareholders	**–**	**–**	**(111,119)**	**–**	**(111,119)**	**(108,811)**
Securities sold under agreement to repurchase	**(158,530)**	**–**	**–**	**–**	**(158,530)**	**(157,774)**
Bank term financing	**(3,956)**	**(494,766)**	**(1,066,667)**	**–**	**(1,565,389)**	**(1,520,158)**
Sukuk and bond issued	**(1,645)**	**(8,383)**	**(866,667)**	**–**	**(876,695)**	**(864,687)**
	(1,512,443)	**(540,882)**	**(2,086,460)**	**–**	**(4,139,785)**	**(4,071,874)**
Derivative instruments:						
Interest rate swaps	**(3,871)**	**(1,343)**	**(26,233)**	**(7,568)**	**(39,015)**	**(15,153)**
Forward exchange contracts	**(256,526)**	**(964,104)**	**–**	**–**	**(1,220,630)**	**(9,029)**
Off-balance sheet exposures	**(54,238)**	**(372,096)**	**(514,336)**	**(78,286)**	**(1,018,956)**	**(1,018,956)**
	(314,635)	**(1,337,543)**	**(540,569)**	**(85,854)**	**(2,278,601)**	**(1,043,138)**

2015	Up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	Contractual Outflows	Carrying Value
Liabilities						
Deposits from banks	(96,374)	(76,625)	–	–	(172,999)	(172,000)
Deposits from corporates	(1,362,038)	(27,637)	–	–	(1,389,675)	(1,383,156)
Deposits from shareholders	(107,569)	–	–	–	(107,569)	(107,463)
Bank term financing	(1,364)	(12,928)	(1,539,935)	–	(1,554,227)	(1,526,198)
Sukuk issued	315	(5,848)	(485,386)	–	(490,919)	(484,197)
	(1,567,030)	(123,038)	(2,025,321)	–	(3,715,389)	(3,673,014)
Derivative instruments						
Interest rate swaps	(3,936)	(1,732)	(15,886)	(11,372)	(32,926)	(16,855)
Forward exchange contracts	(1,061,310)	(186,426)	–	–	(1,247,736)	(3,801)
Off-balance sheet exposures	–	(195,563)	(383,414)	(252,311)	(831,288)	(831,288)
	(1,065,246)	(383,721)	(399,300)	(263,683)	(2,111,950)	(851,944)

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 Group'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 Group holds (but currently does not actively trade) debt and equity securities. Treasury activities are controlled by the Assets and Liabilities Committee and are also subject to a framework of Board-approved currency, industry and geographical limits and ratings by agencies including Standard & Poor's.

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.

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24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

Market risk management continued

Interest rate risk: Syndicated and direct loans are normally denominated in United States dollars, as is the Group's funding, and interest rates for both are normally linked to LIBOR. The Group'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 Group's assets and liabilities. The re-pricing profile of assets and liabilities is set out in note 28.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group'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 25 basis point (bp) parallel fall or 100 basis point (bp) rise in all yield curves worldwide. An analysis of sensitivity of the Group's consolidated statement of income 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		25 bp parallel decrease	
	Profit/loss	Equity	Profit/loss	Equity
At 31 December 2016	**1,026**	**85**	**(256)**	**(85)**
At 31 December 2015	915	35	(288)	(25)

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

	2016	2015
Fixed rate instruments		
Financial assets	**1,491,531**	1,225,441
Financial liabilities	**(1,134,233)**	(1,107,326)
	357,298	118,115
Variable rate instruments		
Financial assets	**4,578,313**	3,648,474
Financial liabilities	**(4,093,084)**	(3,188,817)
	485,229	459,657

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 Group to undue risks. Currently there is no trading in foreign exchange. The Group's net currency exposures are set out in note 29. The Group's exposures in the currencies other than US$ is also hedged by entering into forward contracts. An analysis of the Group's consolidated statement of income sensitivity to 5% strengthening or 5% weakening of US$ 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 2016	5% strengthening of US$	5% weakening of US$
EUR	**819**	**(819)**
GBP	**30**	**(30)**
CHF	**(1)**	**1**
KWD	**–**	**–**
JPY	**426**	**(426)**

At 31 December 2015	5% strengthening of US$	5% weakening of US$
EUR	973	(973)
GBP	(4,439)	4,439
CHF	1	(1)
KWD	(2,792)	2,792
JPY	2	(2)
EGP	–	–

FOR THE YEAR ENDED 31 DECEMBER 2016 (US$000)

24 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

Market risk management continued

Equity prices risk is the risk that Groups 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 RALCO. Periodical listed equity prices movements are reviewed by executive management and RALCO. Group's exposure to listed equities is insignificant hence sensitivity to equity prices risk is not significant.

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 Group. 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.

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from 2015.

The capital structure of the Group consists of net debt and equity of the Group. The Company is not subject to any externally imposed capital requirements.

25 EFFECTIVE INTEREST RATES

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

	2016	2015
Interest-bearing financial assets		
Fixed-rate bonds	**4.60%**	4.85%
Floating-rate bonds	**3.10%**	1.89%
Placements with banks	**2.12%**	1.74%
Syndicated and direct loans	**2.58%**	1.88%
US dollar denominated	**2.56%**	1.89%
Non-US dollar denominated	**3.52%**	–
Interest-bearing financial liabilities		
Deposits from banks	**1.55%**	1.08%
US dollar denominated	**1.56%**	0.91%
Non-US dollar denominated	**1.41%**	1.29%
Deposits from corporates	**1.24%**	1.23%
Deposits from shareholders	**1.52%**	1.17%
Securities sold under agreement to repurchase	**1.88%**	–
Bank term financing	**3.06%**	2.09%
Sukuk Bonds	**3.16%**	2.51%
US$ LIBOR at 31 December was:		
One-month	**0.77%**	0.43%
Three-month	**1.00%**	0.61%
Six-month	**1.32%**	0.85%

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26 FAIR VALUE HIERARCHY AND CATEGORIES

i. Valuation of financial instruments

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:

2016	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Fixed-rate bonds	**924,201**	**–**	**–**	**924,201**
Floating-rate bonds	**192,880**	**–**	**–**	**192,880**
Managed funds	**–**	**86,437**	**–**	**86,437**
Available-for-sale direct equity investments	**119,709**	**–**	**718,860**	**838,569**
Derivative financial assets	**–**	**8,757**	**–**	**8,757**
	1,236,790	**95,194**	**718,860**	**2,050,844**
Derivative financial liabilities	**–**	**24,182**	**–**	**24,182**

2015	Level 1	Level 2	Level 3	Total
Available-for-sale securities				
Fixed-rate bonds	681,922	–	–	681,922
Floating-rate bonds	209,828	–	–	209,828
Managed funds	–	177,230	–	177,230
Available-for-sale direct equity investments	64,264	–	745,400	809,664
Derivative financial assets	–	2,644	–	2,644
	956,014	179,874	745,400	1,881,288
Derivative financial liabilities	–	20,656	–	20,656

The table below sets out the allocation of financial assets and financial liabilities into various IAS 39 categories and the carrying amounts and fair values of the financial assets and liabilities (excluding interest).

2016	Fair value through profit or loss	Loans and receivables	AFS investments	Others at amortised cost	Carrying amount	Fair values
Cash and bank balances	**–**	**21,822**	**–**	**–**	**21,822**	**21,822**
Placements with banks	**–**	**816,753**	**–**	**–**	**816,753**	**816,753**
Available for sale securities	**–**	**–**	**1,203,518**	**–**	**1,203,518**	**1,203,518**
Direct equity investments (see below)	**–**	**–**	**879,974**	**–**	**879,974**	**879,974**
Syndicated and direct loans *(Fair value – based on discounted cash flows at current market prices)*	**–**	**–**	**–**	**2,951,598**	**2,951,598**	**2,951,598**
Other assets	**8,757**	**1,756**	**–**	**32,925**	**43,438**	**43,438**
Total assets	**8,757**	**840,331**	**2,083,492**	**2,984,523**	**5,917,103**	**5,917,103**
Deposits from banks	**–**	**–**	**–**	**286,863**	**286,863**	**286,863**
Deposits from corporates	**–**	**–**	**–**	**1,133,581**	**1,133,581**	**1,133,581**
Deposits from shareholders	**–**	**–**	**–**	**108,811**	**108,811**	**108,811**
Securities sold under agreement to repurchase	**–**	**–**	**–**	**157,774**	**157,774**	**157,774**
Other liabilities	**24,182**	**–**	**–**	**51,955**	**76,137**	**76,137**
Bank term financing *(Fair value – based on current market rates for similar remaining maturity)*	**–**	**–**	**–**	**1,520,158**	**1,520,158**	**1,520,158**
Sukuk issued *(Fair value – based on current market rates for similar remaining maturity)*	**555,146**	**–**	**–**	**300,000**	**855,146**	**855,146**
Total liabilities	**579,328**	**–**	**–**	**3,559,142**	**4,138,470**	**4,138,470**

Certain unquoted available-for-sale direct equity investments are carried at cost in the absence of reliable measure of fair value. The fair value of these investments cannot be reliably measured due to lack of information from the investee companies, which is primarily due to lack of influence of the Group on the investee companies.

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26 FAIR VALUE HIERARCHY AND CATEGORIES CONTINUED

i. Valuation of financial instruments continued

2015	Fair value through profit or loss	Loans and receivables	AFS investments	Others at amortised cost	Carrying amount	Fair values
Cash and bank balances	–	22,958	–	–	22,958	22,958
Placements with banks	–	972,110	–	–	972,110	972,110
Available for sale securities	–	–	1,068,980	–	1,068,980	1,068,980
Direct equity investments (see below)	–	–	816,101	–	816,101	816,101
Syndicated and direct loans *(Fair value – based on discounted cash flows at current market prices)*	–	–	–	2,510,060	2,510,060	2,510,060
Other assets	2,644	1,767	–	29,542	33,953	33,953
Total assets	2,644	996,835	1,885,081	2,539,602	5,424,162	5,424,162
Deposits from banks	–	–	–	172,000	172,000	172,000
Deposits from corporate	–	–	–	1,383,156	1,383,156	1,383,156
Deposits from shareholders	–	–	–	107,463	107,463	107,463
Other liabilities	20,656	–	–	47,315	67,971	67,971
Bank term financing *(Fair value – based on current market rates for similar remaining maturity)*	–	–	–	1,526,198	1,526,198	1,526,198
Sukuk issued *(Fair value – based on current market rates for similar remaining maturity)*	484,197	–	–	–	484,197	484,197
Total liabilities	504,853	–	–	3,236,132	3,740,985	3,740,985

Unquoted available-for-sale direct equity investments are carried at cost in the absence of reliable measure of fair value. The fair value of these investments cannot be reliably measured due to lack of information from the investee companies, which is primarily due to lack of influence of the Group on the investee companies.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis, some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/financial liabilities	Fair value as at 2016	Fair value as at 2015	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of Unobservable inputs to fair value
1) Interest rate swap (refer note 12)	**Asset 5,167 Liabilities 15,153**	Asset 1,896 Liabilities 16,855	Level 2	Discounted Future cash flows based on interest rates from observable yield curves at the end of the reporting period and contract interest rates.	N/A	N/A
2) Foreign currency forward contracts (refer note 12)	**Asset 3,590 Liabilities 9,029**	Asset 748 Liabilities 3,801	Level 2	Future cash flows based on forward exchange rates from observable forward exchange rates at the end of the reporting period and contract forward rates.	N/A	N/A
3) Available-for-sale direct equity investments (refer note 3)	**Saudi European Petro Co. (Ibn Zahr) Asset 459,482**	Saudi European Petro Co. (Ibn Zahr) Asset 464,476	Level 3	Free cash flow to equity	Cost of equity and terminal growth rate	Higher cost of equity and lower terminal growth rate/the lower the fair value
4) Available-for-sale direct equity investments (refer note 3)	**Egyptian Methanex Methanol Co. Asset 109,027**	Egyptian Methanex Methanol Co. Asset 107,642	Level 3	Free cash flow to firm	WACC and terminal growth rate	Higher cost of equity and lower terminal growth rate/the lower the fair value
5) Available-for-sale direct equity investments (refer note 3)	**The Industrialization and Energy Services Company (TAQA) Asset 97,496**	The Industrialization and Energy Services Company (TAQA) Asset 94,004	Level 3	Market multiples	Illiquidity discount due to lack of marketability	The higher the market multiples, the higher the fair value

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26 FAIR VALUE HIERARCHY AND CATEGORIES CONTINUED

i. Valuation of financial instruments continued

Financial assets/financial liabilities	Fair value as at 2016	Fair value as at 2015	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of Unobservable inputs to fair value
6) Available-for-sale direct equity investments (refer note 3)	**IFC Middle East and North Africa, LLP Asset 3,128**	IFC Middle East and North Africa, LLP Asset 1,770	Level 3	Market multiples	Illiquidity discount due to lack of marketability	The higher the market multiples, the higher the fair value
7) Available-for-sale direct equity investments (refer note 3)	**Tankage Mediterranean (Tankmed), Tunisia Asset 3,593**	Tankage Mediterranean (Tankmed), Tunisia Asset 1,112	Level 3	Market multiples	Illiquidity discount due to lack of marketability	The higher the market multiples, the higher the fair value
8) Available-for-sale direct equity investments (refer note 3)	**Saudi Mechanical Industries (SMI) Asset 46,134**	Saudi Mechanical Industries (SMI) Asset 42,485	Level 3	Market multiples	Illiquidity discount due to lack of marketability	The higher the market multiples, the higher the fair value
9) Available-for-sale direct equity investments (refer note 3)	**MISR Oil Processing Company SAE MOPCO Asset 12,636**	MISR Oil Processing Company SAE MOPCO Asset 33,911	Level 1 (see below ii)	Quoted price in active market	–	–
10) Available-for-sale direct equity investments (refer note 3)	**Yanbu National Petrochemic al Company (Yansab) Asset 107,703**	Yanbu National Petrochemic al Company (Yansab) Asset 64,264	Level 1	Quoted price in active market	–	–

ii. Level 3 fair values

Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balance to the closing balance for Level 3 fair value.

	Available-for-sale unlisted shares
Balance at 1 January 2016	745,400
Total gains or losses:	
– in other comprehensive income	3,859
Purchases	3,512
Transfers out of Level 3	(33,911)
Balance at 31 December 2016	**718,860**

The Group holds an investment equity on MISR Oil Processing Company SAE, which is classified as available-for-sale, with fair value of US$ 33.9 million at 31 December 2016. The fair value of this investment was categorized as Level 3 at 31 December 2015 (for information on the valuation technique, see (i) above). This was because the shares were not listed on an exchange and there were no recent observable arm's length transactions in the share.

During 2016, MISR Oil Processing Company SAE listed its equity shares on an exchange and there are currently actively traded in that market. Because the equity shares now have published price quotation in an active market, the fair value measurement was transferred from Level 3 to Level 1 of the fair value hierarchy at 31 December 2016.

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27 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. The apparent significant short-term mismatch between maturities of assets and liabilities is substantially reduced in practice because the majority of deposits from banks are routinely rolled over on maturity.

	Up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	**2016 Total**
Assets					
Cash and cash equivalents	21,822	–	–	–	**21,822**
Deposits with banks	816,753	–	–	–	**816,753**
Available-for-sale securities	62,825	82,574	622,548	435,571	**1,203,518**
Direct equity investments	–	–	–	879,974	**879,974**
Investments in an associate	–	–	–	107,275	**107,275**
Syndicated and direct loans	149,436	353,780	1,433,897	1,014,485	**2,951,598**
Property and equipment	–	–	–	117,356	**117,356**
Other assets	41,212	2,226	–	–	**43,438**
Total assets	1,092,048	438,580	2,056,455	2,544,661	**6,141,734**
Liabilities and Equity					
Deposits from banks	(263,263)	(23,600)	–	–	**(286,863)**
Corporate Deposits	(1,080,012)	(13,569)	(40,000)	–	**(1,133,581)**
Deposits from Shareholders	–	–	(108,811)	–	**(108,811)**
REPOs	(157,774)	–	–	–	**(157,774)**
Other liabilities	(27,532)	(21,396)	(6,724)	(20,485)	**(76,137)**
Term financing – ATL	5,408	(409,718)	(1,115,848)	–	**(1,520,158)**
SUKUK and Bond	1,980	–	(857,126)	–	**(855,146)**
Equity	–	–	–	(2,000,744)	**(2,000,744)**
Non-controlling Interest	–	–	–	(2,520)	**(2,520)**
Total liabilities and equity	(1,521,193)	(468,283)	(2,128,509)	(2,023,749)	**(6,141,734)**
Maturity Gap	(429,145)	(29,703)	(72,064)	530,912	**–**
CUMULATIVE MATURITY GAP	(429,145)	(458,848)	(530,912)	–	
2015					
Total assets	1,018,367	469,987	1,624,535	2,539,799	5,652,688
Total liabilities and equity	(1,592,237)	(176,943)	(1,951,361)	(1,932,147)	(5,652,688)
Maturity gap	(573,870)	293,044	(326,826)	607,652	–
Cumulative maturity gap	(573,870)	(280,826)	(607,652)	–	

28 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:

2016	**Up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
ASSETS					
Placements with banks	**816,753**	**–**	**–**	**–**	**816,753**
Available for sale securities					
Floating-rate bonds	**156,963**	**35,917**	**–**	**–**	**192,880**
Syndicated and direct loans					
US$ denominated	**1,996,902**	**936,711**	**–**	**44,220**	**2,977,833**
Non US$ denominated	**2,160**	**52,211**	**–**	**–**	**54,371**
LIABILITIES					
Deposits from banks					
US$ denominated	**(250,000)**	**(23,600)**	**–**	**–**	**(273,600)**
Non US$ denominated	**(13,263)**	**–**	**–**	**–**	**(13,263)**
Deposits from corporate	**(1,120,011)**	**(13,569)**	**–**	**–**	**(1,133,580)**
Deposits from shareholders	**(108,811)**	**–**	**–**	**–**	**(108,811)**
Securities sold under agreement to repurchase	**(157,774)**	**–**	**–**	**–**	**(157,774)**
Bank term financing	**(667,333)**	**(849,201)**	**–**	**–**	**(1,516,534)**
Sukuk Bond	**(300,000)**	**(566,667)**	**–**	**–**	**(866,667)**
Interest rate sensitivity gap	**355,586**	**(428,198)**	**–**	**44,220**	**(28,392)**
Cumulative Gap	**355,586**	**(72,612)**	**(72,612)**	**(28,392)**	

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28 REPRICING PROFILE OF FINANCIAL ASSETS AND LIABILITIES CONTINUED

2015	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
ASSETS					
Placements with banks	858,110	114,000	–	–	972,110
Available for sale securities					
Floating-rate bonds	174,591	35,237	–	–	209,828
Syndicated and direct loans					
US$ denominated	1,423,012	1,118,616	7,171	44,220	2,593,019
Non US$ denominated	–	–	–	–	–
LIABILITIES					
Deposits from banks					
US$ denominated	(96,000)	–	–	–	(96,000)
Non US$ denominated	–	(76,000)	–	–	(76,000)
Deposits from corporate	(1,355,853)	(27,304)	–	–	(1,383,157)
Deposits from shareholders	(107,463)	–	–	–	(107,463)
Securities sold under agreement to repurchase	–	–	–	–	–
Bank term financing	(550,000)	(984,927)	–	–	(1,534,927)
Sukuk Bond	–	(485,386)	–	–	(485,386)
Interest rate sensitivity gap	346,397	(305,764)	7,171	44,220	92,024
Cumulative Gap	346,397	40,633	47,804	92,024	–

29 CURRENCY EXPOSURES

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

	Assets	Liabilities and equity	**2016 Net Exposure**	2015 Net exposure
ASSETS, LIABILITIES AND EQUITY				
United States dollar	5,660,204	(4,489,696)	**1,170,508**	974,950
Euro	13,422	(177,183)	**(163,761)**	19,456
Other OECD currencies (see below)	13,178	(82,280)	**(69,102)**	(88,700)
Arab currencies				
GCC (see below)	454,756	(1,392,575)	**(937,819)**	(905,706)
Egypt and North Africa	174	–	**174**	–
	6,141,734	(6,141,734)	**–**	–

	2016	2015
COMMITMENTS AND GUARANTEES		
United States dollar	**963,521**	822,128
Saudi Riyal	**53,918**	9,160
Arab currencies		
GCC (see below)	**1,517**	–
	1,018,956	831,288

Other OECD currencies

The other member countries of the Organisation for Economic Co-operation and Development, excluding the United States and the European Monetary Union countries are: Australia, Canada, Czech Republic, Denmark, Hungary, Iceland, Japan, Mexico, New Zealand, Norway, Poland, South Korea, Sweden, Switzerland, Turkey and the United Kingdom.

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.

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29 CURRENCY EXPOSURES CONTINUED

Significant exchange rates

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

		2016	2015
Euro	EUR 1=US$	**1.0537**	1.0941
Saudi riyal	SAR 1=US$	**0.2666**	0.2666
Swiss franc	CHF 1=US$	**0.9797**	0.9885
British pound	GBP 1=US$	**1.2285**	1.4820
Egyptian pound	EGP 1=US$	**0.0552**	0.1277

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.

30 INDUSTRY DISTRIBUTION OF ASSETS AND LIABILITIES

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

	2016	2015
ASSETS		
Petroleum and petrochemicals		
Refineries	**562,260**	517,347
Oilfield production development and services	**447,753**	533,693
Floating production, storage and offloading facilities	**136,720**	147,055
Liquefied natural gas (LNG) plants	**132,379**	34,127
Petrochemical plants	**1,160,542**	1,189,550
Maritime transportation	**256,428**	144,464
Power generation	**704,953**	518,632
Other petroleum	**620,369**	618,968
Total petroleum and petrochemicals	**4,021,404**	3,703,836
Banks and financial institutions	**1,508,202**	1,036,187
Other industries	**305,924**	49,329
Governments and public sector institutions	**306,204**	863,336
Total assets at 31 December	**6,141,734**	5,652,688
LIABILITIES AND EQUITY		
Banks and financial institutions	**3,971,878**	3,251,023
Other petroleum and petrochemicals	**166,592**	489,961
Equity	**2,003,264**	1,911,704
Total liabilities and equity at 31 December	**6,141,734**	5,652,688
COMMITMENTS AND GUARANTEES		
Petroleum and petrochemicals		
Oilfield production development and services	**167,854**	258,105
Liquefied natural gas (LNG) plants	**101,779**	56,656
Petrochemicals plants	**123,687**	70,967
Maritime transportation	**48,067**	48,066
Banks and financial institutions	**217,502**	113,441
Power generation	**321,998**	57,405
Other petroleum	**38,069**	226,648
Total commitments and guarantees at 31 December	**1,018,956**	831,288

31 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 Corporation 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 Corporation.

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32 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:

	2016	2015
ASSETS		
Kingdom of Saudi Arabia	**2,145,267**	2,161,444
State of Qatar	**1,020,497**	1,087,641
Other Gulf Cooperation Council states	**2,017,456**	1,575,690
Egypt and North Africa	**337,073**	289,457
Total Arab World	**5,520,293**	5,114,232
Europe	**233,661**	217,044
Asia pacific	**71,139**	62,886
United States	**162,441**	65,770
Other North and South America	**154,200**	192,756
Total assets	**6,141,734**	5,652,688
LIABILITIES AND EQUITY		
Kingdom of Saudi Arabia	**2,592,133**	3,072,889
State of Qatar	**224,002**	191,170
Other Gulf Cooperation Council states	**1,871,081**	1,573,291
Other Middle East states	**306,007**	291,100
Egypt and North Africa	**545,719**	517,650
Total Arab World	**5,538,942**	5,646,100
Europe	**496,009**	5,219
Asia pacific	**106,783**	1,369
Total liabilities and equity	**6,141,734**	5,652,688
COMMITMENTS AND GUARANTEES		
Kingdom of Saudi Arabia	**251,110**	353,535
State of Qatar	**–**	30,510
Other Gulf Cooperation Council states	**231,966**	82,853
Other Middle East states	**38,297**	–
Egypt and North Africa	**173,493**	114,635
Total Arab World	**694,866**	581,533
Europe	**228,658**	162,024
Asia pacific	**47,365**	39,665
Other North and South America	**48,067**	48,066
	1,018,956	831,288

CORPORATE INFORMATION

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