



THRIVE

LEAD

DIVERSIFY

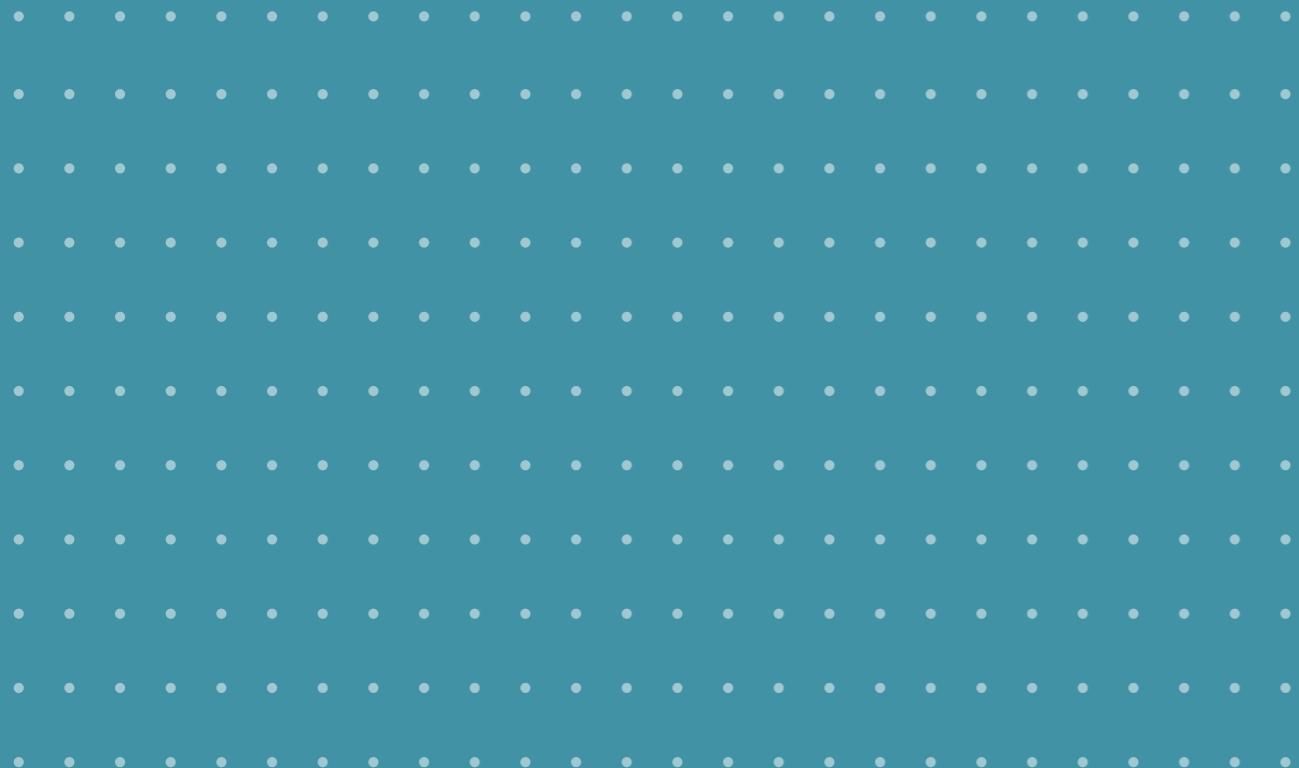
SHAPE

BUILD

Annual Report 2019

ANNUAL REPORT 2019

APICORP has continued to diversify its sector portfolio, geographical footprint and internal resources to bolster its resilience against economic headwinds and regional volatility and continue supporting the sustainable development of the MENA energy sector



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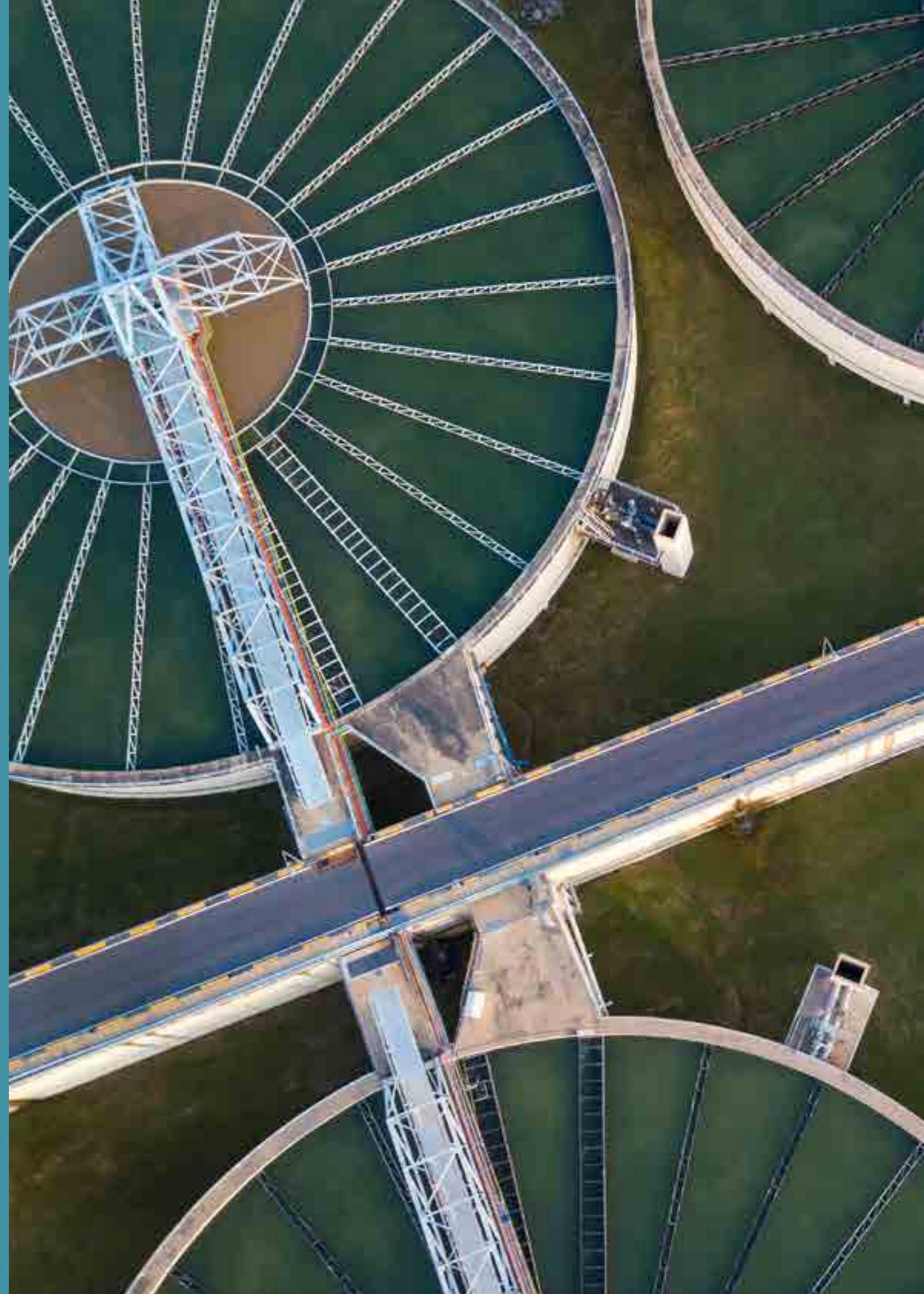
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01

APICORP AT A GLANCE

With over 40 years of experience and operational expertise in transformative energy investments across the MENA region, APICORP is uniquely positioned to stand at the forefront of the rapidly evolving energy landscape.



APICORP at a Glance

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Who We Are

The Arab Petroleum Investments Corporation (APICORP) is an energy-focused multilateral development financial institution with assets totalling USD7.35 billion in countries spanning the MENA region and beyond.

Founded in 1975 by the ten Arab oil-exporting countries and headquartered in Dammam, Saudi Arabia, APICORP is an integral pillar of the region's energy ecosystem in view of its impact in supporting sustainable development across the MENA region's wider energy spectrum.

With a strong mandate to support the sustainable economic development of our Member Countries, we focus on supporting businesses that have strong potential to sustainably

enhance the energy sector, create jobs, diversify economies, build capacity and generate positive returns, with a special focus on the Middle East and North Africa (MENA) region.

By providing debt solutions for strategic project and trade finance transactions, as well as equity participations across the energy value chain, we are spearheading the development and transformation of the Arab energy sector, a cornerstone of the region's vision for sustainable economic growth. As the partner of choice for both public and private sector entities seeking financing, strategic investment and advisory services, we are unlocking value in the region's evolving energy landscape.

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Vision

To be the trusted financial partner for the Arab energy sector.



Mission

To develop the Arab energy sector through a range of creative, value-added solutions, provided on a commercial basis, facilitating value maximisation. Our offering includes equity investment, debt financing, financial advisory and energy research services.

What We Do

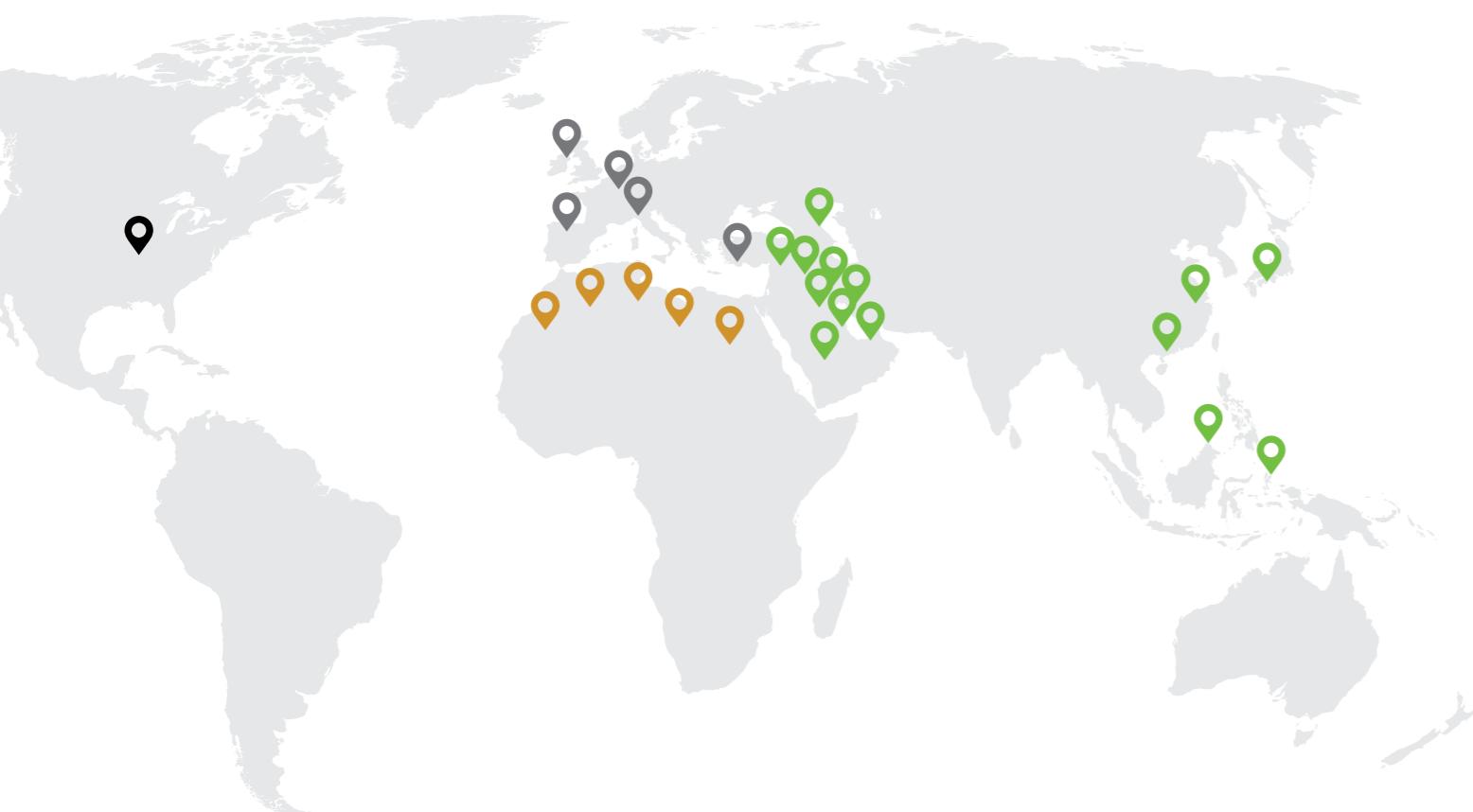
Led by a diverse multinational team of investment professionals with expertise in development finance, investment banking, private equity, treasury and capital markets, energy research and other fields of expertise, APICORP operates within the following lines of business:



Where We Operate

APICORP's diverse financing and equity portfolio spans multiple sectors and geographies, providing the Corporation with unique geographic flexibility and privilege that can maximise value for its Member Countries while serving the broader energy spectrum.

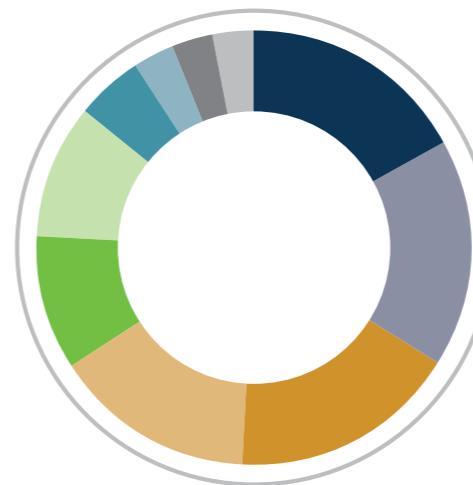
APICORP's strong track record illustrates its ability to identify and access opportunities in the energy sector. With a far-reaching strategic network of partners and relationships, APICORP has the requisite insight and risk mitigation expertise required to pursue energy development in the MENA region.



Saudi Arabia Oman Japan
UAE Bahrain Marshall Islands
Kuwait Azerbaijan Singapore
Qatar Taiwan
Jordan Vietnam

While APICORP's Member Countries and the wider MENA region remain the focus, the Corporation is expanding across multiple geographies to support the development of the regional energy sector. By expanding operations into key markets in Europe, Asia, and North America, APICORP creates value for its regional partners by supporting their international expansion plans. Moreover, investing in global firms offers strong potential for technological transfer back to the region.

Our Shareholders



Saudi Arabia	17%
Kuwait	17%
UAE	17%
Libya	15%
Iraq	10%
Qatar	10%
Algeria	5%
Bahrain	3%
Egypt	3%
Syria	3%

USD/BN
7.35
.....
total asset in countries spanning MENA and beyond

25
.....
countries makeup APICORP's network of partnerships

Our Partners

With exposure spanning more than 25 countries APICORP continues to forge partnerships with likeminded impact-focused organisations across the energy spectrum from both the public and private sector. This network of relationships helps unlock value throughout for our shareholders and business partners alike, as well as enhance and amplify our reach and impact across the region.

..... Investing Across the Energy Value Chain



Oil and Gas Development and Production



Oil and Gas Services



Refining



Chemicals and Petrochemicals



Power Generation



Renewables



Recycling



Water Treatment



Transportation and Logistics



Contracting

APICORP's 2020-2024 Strategy

APICORP's 2020-2024 Strategy is our roadmap to the future with an aim to strengthen the Corporation as a trusted financial partner to the region's energy sector through a more sustainable and innovation-driven approach.

The Pillars of APICORP's 2020-2024 Strategy



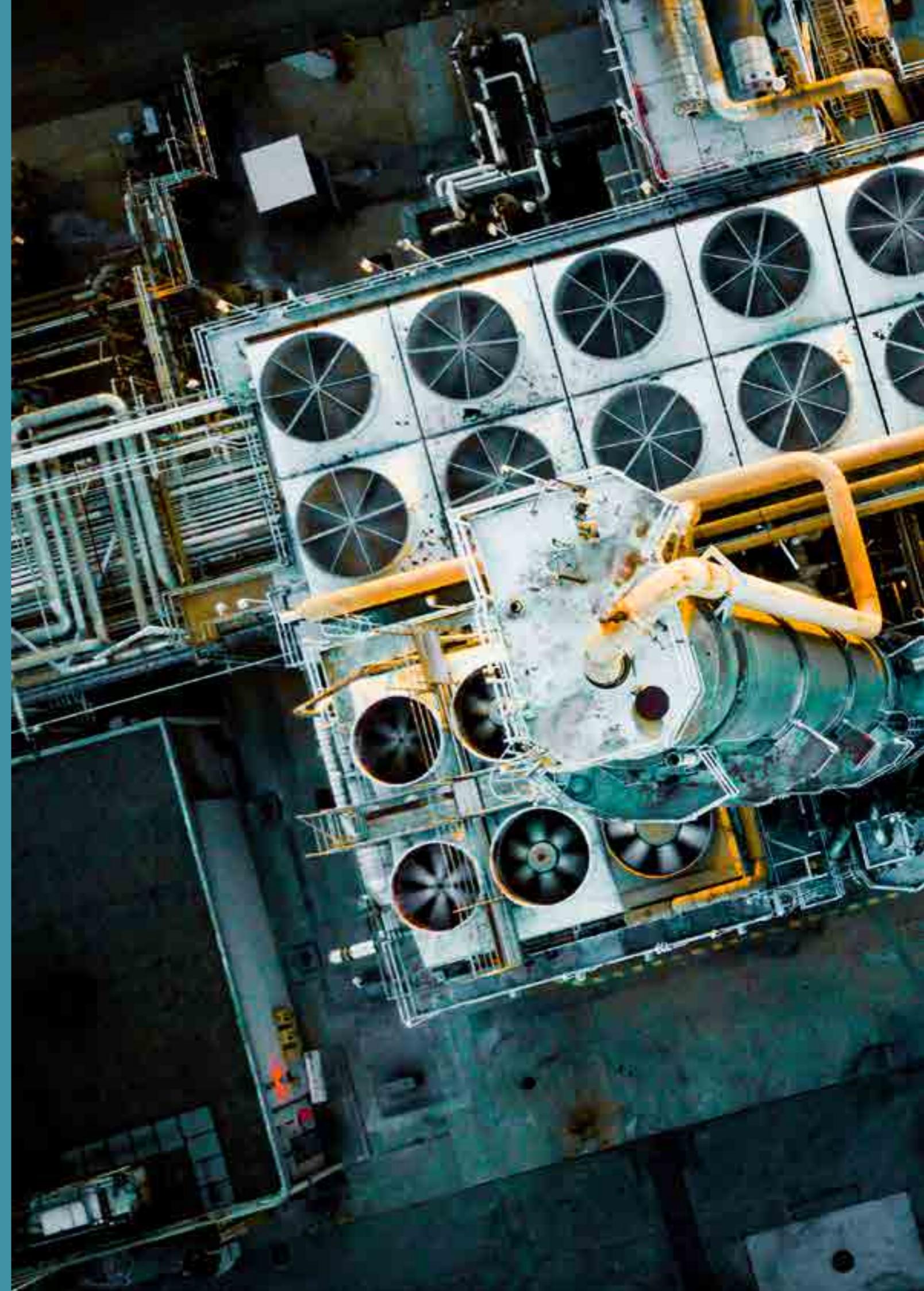
Designed with built-in ability to evolve, the strategy will be reviewed to ensure that we remain in lockstep with market needs and maximise our potential to be a catalyst for impact and sustainability in the region and in the energy and energy-related sectors.



02

APICORP LEADERSHIP

APICORP's distinguished Board of Directors and dynamic management team brings together years of industry expertise in finance and energy spanning the Arab World and beyond.



Chairman's Statement

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“ Our business lines have all exhibited exceptional resilience on the back of challenging market conditions presented by both geopolitical, financial and industry developments.”

It is my distinct honour and pleasure to present to you the annual report and consolidated financial statements of the Arab Petroleum Investments Corporation (APICORP) for the year ended 31 December, 2019. On behalf of the entire Board of Directors I would like to express my pride in the strong results that we have achieved and the growth trajectory that we have been able to maintain throughout a tumultuous year for emerging markets in general and for the energy sector in particular.

The five-year strategy launched in 2019 played a major role in enhancing APICORP's operations to align with the rapid transformation taking place in the energy sector and enable the Corporation to continue to play its vital developmental role in the regional energy landscape.

APICORP's net recurring income witnessed a 17% y-o-y increase to USD112 million, up from USD96 million in 2018. The Corporation's balance sheet growth also remained strong and resilient with

a 5.7% increase to USD7.35 billion from USD6.95 billion the previous year. We have maintained our levels of leverage (debt-to-equity ratio) at a steady rate reaching 2.13 in December 2019 compared to 2.07 in the same period last year, and capital adequacy registered a slight uptick from 29.34% in 2018 to 29.6% in 2019.

In the first quarter of 2020, APICORP's General Assembly Meeting (AGM) ratified a landmark increase in the Corporation's callable capital to USD8.5 billion as well as a significant increase in authorized and subscribed capital. Additionally, USD500 million will be transferred from APICORP's general reserves and retained earnings into its issued and fully paid capital. The capital increase is the largest in the Corporation's history and stands as a testament to the Board's long-term commitment towards APICORP's sustainable growth plans.

Together, these developments led to an upgrade by Moody's to 'Aa2' with a stable outlook from 'Aa3' in October 2019. Despite current economic conditions brought about by the unprecedented COVID-19 pandemic, Moody's has reaffirmed its credit rating and APICORP continues to be the only Aa2-rated financial institution in MENA region.

As the world navigates uncharted waters, I am reassured by the fact that we have closed out 2019 on a strong note. Our business lines have all exhibited exceptional resilience on the back of challenging market conditions presented by both geopolitical, financial and industry developments



and we are confident in our ability to continue supporting the Arab world's energy sector during a time when sustainable, impact-driven projects have never been more needed.

On behalf of the Board of Directors and the entire team at APICORP, I would like to acknowledge the governments of our member states and thank them for their ongoing support. I would also like to thank APICORP's management and their talented team members who have stepped up to the ongoing challenges and delivered results creatively and efficiently.



Dr. Aabed Al Saadoun

We count on your continued cooperation so that we may deliver on our mandate to make a sustainable positive impact on the Arab energy sector.

Board of Directors

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Kingdom of Saudi Arabia

Aabed Al-Saadoun

Chairman of the Board
Chairman of the Remuneration and
Nomination Committee
**Deputy Minister for Oil and Gas
Affairs, Ministry of Energy**



State of Libya

Salem Hnesh

Deputy Chairman of the Board
**General Manager, Libyan Arab
Foreign Investment Company**



State of Kuwait

Sheikh Nimir Fahad Al-Malik Al-Sabah*

Chairman of the Audit and
Risk Committee Member of the
Remuneration and Nomination
Committee
Undersecretary, Ministry of Oil



State of Qatar

Ebrahim Al-Mannai

Member of the Remuneration and
Nomination Committee
**Manager, Project Finance &
Controls, Qatar Petroleum**



Republic of Iraq

Alaa Al-Yasiri**

Director General, State Oil
Marketing Organization (SOMO)



Arab Republic of Egypt

Mohamed Hassan Saafan

First Undersecretary for Petroleum
Affairs, Ministry of Petroleum &
Mineral Resources



United Arab Emirates

Matar Al-Neyadi

Deputy Chairman of the Audit and
Risk Committee
**Undersecretary, Ministry of Energy
and Industry**



Kingdom of Bahrain

Mahmood Al-Kooheji

Member of the Remuneration and
Nomination Committee
**Chairman of the Board, Social
Insurance Organization (SIO)**



People's Democratic Republic of Algeria

Farid Baka

Member of the Audit and Risk
Committee
**General Manager for Budget,
Ministry of Finance**

“ APICORP’s Board of Directors is composed of 10 members representing the Corporation’s 10 members states. The membership of the Board of Directors shall be by nomination of each member state.”

*Replaced the late Sheikh Talal Naser Al-Athbi Al-Saba

** Replaced Husain Hussein Weli, General Manager of the Southern Refineries Company, in March 2019

*** Syria: currently has an empty seat

Chief Executive Officer's Note

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“The events of 2020 have made it crystal clear that the energy sector needs to reinvent itself, and APICORP is committed to being at the forefront of this change.”

Breaking New Ground

Much has happened in the past year both at APICORP and in the world around us. As we reflect on the economic, environmental and geopolitical events and developments, it is increasingly evident that we are at a crossroads that has put corporate and financial institutions worldwide in full-on revisionist mode. Many global financial leaders have even gone so far as to say that we are about to witness an essential restructuring of the financial sector into a model that recognises the need for a reallocation of capital into sustainable businesses that comprehend the very real challenges posed by climate change and inequality.

Indeed, while conversations on these topics have been ongoing for much of the past decade, the difference today is that they are now debated amongst the leaders of our industries.

At APICORP we have been fully cognizant of these challenges and take pride in our ability to evolve our business model accordingly in a manner that not only addresses the new realities but puts us at the centre of the debate regarding the transformation of the energy sector. Being a multilateral

development financial institution, we work to maintain a balance between profitability and development impact in the projects that we invest in and finance and the entities that we partner with. As the debate on climate change takes centre-stage, we now have an even more critical role to play in bridging investment and funding gaps for projects that maximise developmental impact.

We spent much of 2019 developing our new five-year strategy which incorporates all of these factors and gives us a clear roadmap on the types of investments that we want to pursue and where we want to pursue them.

We have already begun the process of diversifying our portfolio by increasing our share of the power and connectivity sectors from just 15% in 2014 to more than 29% today. We also managed to diversify geographically, with more than 31% of our portfolio now residing outside the GCC compared to just 14% in 2014. Moreover, we have committed to growing our lending in Arab countries undergoing transition in a manner that will help them implement their plans to develop and/or rebuild their energy sectors.

In short, the energy sector is reinventing itself, and APICORP is committed to being at the forefront of this change.

2019 Highlights

Our results for the year reaffirm that the transformation that we began in earnest last year to diversify our sectors, investments and sources of funding has already begun to pay off.



Our strong growth momentum was largely driven by Corporate Banking and Treasury, whose gross income increased 32% and 24% y-o-y to reach USD201 million and USD80 million, respectively.

APICORP's Corporate Banking assets increased by 5% y-o-y to reach USD3.69 billion, all while diversifying our portfolio exposure, geographically and sectorally, as well as maintaining a high quality loanbook. We are reassured that Corporate Banking will continue to perform well in the coming months with USD1.4 billion in booked commitments.

Treasury and Capital Markets continued to strengthen the Corporation's liquidity profile by working to ensure the maintenance of high liquidity ratios, coupled with the rebalancing of the treasury

portfolio towards high-grade fixed income securities. This, in addition to the improved geographical and sectoral diversification in the treasury portfolio has helped to guarantee the soundness and resilience of APICORP's financial standing.

On the strength of our growing financial performance and indicators across the board and robust business model, APICORP was one of a few institutions in the MENA region to see its credit rating upgraded by Moody's Investors Services to 'Aa2' with a stable outlook, a clear testimony to our ability in continuing to enhance our profitability within challenging market conditions.

Despite volatile geopolitical developments throughout the year, we significantly improved our

recurring income as a percentage of gross operating income which grew by 11.7% to USD334.9 million. Net profit also improved, recording a 17% increase to USD111.9 million compared to USD95.6 million in 2018 -- which excludes the USD86.7 million from the sale of our equity stake in National Petroleum Services (NPS).

Total assets, meanwhile, grew to USD7.35 billion, a 5.7% increase. We also completed 8 medium-term funding transactions worth USD1.8 billion from international markets. These outstanding achievements speak directly to the strength of our position as a trusted financial partner to the region's energy industry and the efficacy of our strategic approach to sustaining our core business.

Of course, none of these achievements would have been possible without the support of our shareholders and Board of Directors, as well as the dedication and contributions of each and every member of our team.

On the operational front, 2019 was truly a year of "firsts" for APICORP. We broke new ground in several areas in many of our Member Countries, including the first private sector equity investment for APICORP in Kuwait through Al Khorayef United Holding, an oil and gas services and facilities management company. The 24% equity stake demonstrated how we are working to increase investments in the private sector.

In Algeria, we supported the overseas expansion plans of Sonatrach by extending USD250 million in financing for the maintenance and crude import of a refinery it acquired in 2018 in Sicily, Italy. The transaction, the first large corporate banking deal in the last two decades in Algeria, is in keeping with one of our objectives to support the international development strategies of key National Oil Companies.

Moreover, we also signed our first financing facility to fund a Saudi electric manufacturer, Al Fanar, to support its quest to develop a wind farm in Spain. Indeed, Al Fanar is a clear example of how APICORP is enabling promising regional companies to expand beyond their borders in booming sectors that are now part of the global green economy.

These efforts will complement the new regulatory models coming into place throughout the region that aim to create the right ecosystems and incentives to increase higher private sector participation in the economy.

2020 Outlook

The unprecedented 2020 triple crisis — COVID-19 and its economic fallout, oil price volatility and a potentially looming financial crisis — that escalated in early 2020, led to sharp cuts in capital expenditures, practical restrictions to projects and supply chains, as well as a wider restructuring of the sector.

As an energy-focused multilateral development financial institution and the trusted financial partner of the MENA energy sector, APICORP is firmly positioned on the crossroads of this triple crisis. It is in such extraordinarily challenging times that the countercyclical role of development financial institutions such as APICORP becomes vital, stepping in where traditional lending institutions may shy away or be incapable of providing the financing needed to fuel economic growth, especially in the capital intensive energy industry. This role takes on added importance in MENA, where the energy sector has long been the cornerstone of the economies in most of the countries in our region.

Sustainability will undoubtedly continue to be a key theme for APICORP going forward. It is firmly embedded in our strategy in terms of the

transactions that we finance and part of our day-to-day operations. Environmental, Social, and Governance (ESG) standards will continue to play an increasingly important role in our assessment of the creditworthiness of any given project in 2020 and beyond.

We are also working to lead by example when it comes to becoming a greener organisation. At the end of 2019 we signed two agreements with Yellow Door Energy (YDE), one of our UAE-based investee companies that specialises in solar energy and efficiency solutions, to install solar panels at APICORP's headquarters in Dammam and retrofit the building with modern, more energy-efficient fittings. This investment will improve our energy consumption by at least 38%, reduce our carbon footprint by just over 2,000 tonnes and enable us to produce 718 megawatts of clean energy annually.

In parallel to our efforts to enhance our internal infrastructure in terms of energy efficiency and technology, we are also investing in our most valuable resource—our people. We have been building on our existing talent and investing in training and recruiting accordingly. We look forward to building on the success that has already been achieved as APICORP continues to break new ground on impactful projects that spur sustainable economic development in the region.



Dr. Ahmed Ali Attiga

38%

.....
reduction in
APICORP's energy
consumption as a
result of shift to solar

"Despite volatile geopolitical developments throughout the year, we significantly improved our recurring income as a percentage of gross operating income which grew by 11.7% to USD334.9million."

Management Team

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**Dr. Ahmed Ali Attiga**

Chief Executive Officer

**Dr. Sherif Ayoub**

Chief Financial Officer

**Bennie Burger**

Managing Director, Investments

**Dr. Leila Benali**Chief Economist – Strategy,
Energy Economics and
Sustainability**Ali Hassan Fadel**

Director, Legal

**Ajay Kumar Jha**

Director, Risk and Compliance

**Hesham Farid**Managing Director, Treasury
and Capital Markets**Nicolas Thévenot**Managing Director, Corporate
Banking**Hamdi Bata**Director, Human Resources and
Corporate Affairs**Dina Kasrawi**Director, Corporate
Communications**Mohammad Khatib**Director, Information
Technology**Basema Al Mahroos**

Director, Portfolio Management

03

2019 YEAR IN REVIEW

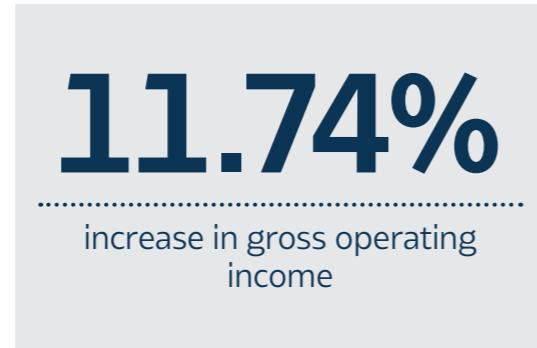
In 2019, APICORP was able to build on the strong momentum of the previous year.



Management Discussion and Analysis

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“On a recurring basis, APICORP witnessed solid performance, with recurring gross operating income increasing from USD300.7 million in 2018 to USD334.9 million in 2019.”



2019 Highlights

Going into 2019 APICORP built on the strong momentum of the previous year. On a recurring basis, APICORP witnessed solid performance, with recurring gross operating income increasing by 11.74%, from USD300.7 million in 2018 to USD334.9 million in 2019 on the back of the increase in revenues generated from APICORP’s Treasury and Capital Markets and Corporate Banking lines of business. On a non-recurring basis, gross operating income was down 13.5% in 2019 vs 2018 due to the realised capital gains by the Investments line of business of USD86.6 million following the sale of APICORP’s equity stake in National Petroleum Services (NPS) in 2018. Recurring net income increased from USD95.6 million in 2018 to USD111.9 million in 2019, accomplishing a growth of 16.7%. Moreover, APICORP’s balance sheet grew by 5.7% in 2019, driven by increases in investments as well as new loan disbursements from the Corporate Banking line of business.

APICORP’s Corporate Banking loan portfolio witnessed a y-o-y increase of 5.2%, reaching USD3.7 billion in 2019 compared to USD3.5

billion in 2018. The Corporate Banking line of business generated gross income of USD201.5 million in 2019, witnessing a 31.5% increase from USD153.3 million in 2018.

The Treasury and Capital Markets portfolio reached USD2.4 billion, an increase of 7.2% y-o-y. In addition, realised capital gains of USD16.7 million from the sale of the majority of the department’s listed equities.

As of 2019, APICORP’s Investments line of business is composed of projects with investments totalling USD1 billion, remaining stable year-on-year, and generating an income of USD53 million in 2019 versus USD168.2 million in 2018.

On the back of APICORP’s solid performance in 2019, the Corporation received a credit rating upgrade from ‘Aa3’ with a positive outlook to ‘Aa2’ with a stable outlook by Moody’s, achieving one of the highest credit ratings given in the region. The credit rating upgrade is a testament to APICORP’s continued commitment to sustainable growth and operational excellence.

Assets

APICORP’s balance sheet witnessed a growth of 5.7%, reaching USD7.3 billion in 2019 compared to USD7 billion in 2018. The growth in the Corporation’s balance sheet comes on the back of steady growth across the Corporation’s lines of business. Corporate Banking assets increased by USD184 million (+5.2% y-o-y), Treasury and Capital Markets assets increased by USD164 million (7.2% y-o-y), investments increased by USD30 million (+3% y-o-y) and other assets increased by US19 million (+12% y-o-y).

Regarding APICORP’s balance sheet earnings profile, the Corporation’s primary driver for profitability is the Corporate Banking line of business, with a yield of 5.5%, achieving the highest yield amongst all three lines of business. Investments has been a notable contributor as well, achieving a yield of 4.8% in 2019 as compared to 5.3% in 2018, with the lower yield in 2019 due to a lack of capital gains. The Corporation’s Treasury and Capital Markets income, including dividends and capital gains, achieved a yield of 3.4% -- excluding realised gains on sale of equity investments USD16.7 million.

Liabilities and Shareholder’s Equity

APICORP’s balance sheet footing reached USD7.3 billion (+5.7% y-o-y) in 2019, on account of shareholder’s equity reaching USD2.4 billion (+3.7% y-o-y), long-term external funding settling in at USD3 billion (31.3% y-o-y) and short-term external funding declining to USD2 billion (-16.3% y-o-y).

The Corporation’s funding cost is at 3.6%, composed of a mix of short-term deposits as well as an increasing share of medium-term loans and bonds/sukuk. Moreover, APICORP issued two new bonds and four

new bilateral borrowings in 2019, amounting to USD1.6 billion, as well as the repayment of medium-term borrowings amounting to USD1.3 billion.

Contribution by Line of Business

Corporate Banking

APICORP’s Corporate Banking loan portfolio witnessed steady growth in 2019, increasing by 5.2% to reach USD3.7 billion. Net transfers after drawdowns and repayments increased by 5.2%, amounting to USD184 million in 2019, with drawdowns at USD1.7 billion and repayments at USD1.5 billion.

The Corporate Banking line of business generated gross income of USD201.5 million in 2019, a 31.5% jump from USD153.2 million in 2018. Despite a lower average USD LIBOR, the line of business’s income over LIBOR and Fees was increased from USD86.1 million in 2018 to USD106.1 million in 2019, driven by the expansion in the Corporate Banking portfolio and higher yields.

Non-performing loans (NPLs) remained extremely low at USD14.75. Additionally, impairments against NPLs decreased by USD0.3 million, primarily due to a reversal of USD2.4 million against a non-performing loan.

Treasury and Capital Markets

APICORP’s Treasury and Capital Markets assets are primarily in fixed income securities with a value of USD1.8 billion and USD655 million in placements and cash, equating to a total Treasury and Capital Markets portfolio of USD2.4 billion, an increase of 7.2% compared to 2018. Fixed income securities witnessed a y-o-y increase of 21.6% and placements

“Treasury and Capital Markets assets are divided between fixed income securities with a value of USD1.8 billion, and placements and cash at a value of USD655 million.”

and cash declined by 19% on the back of APICORP's strategy of focusing on increasing the diversity of investments in highly rated fixed income securities.

Treasury and Capital Markets income increased by 23.7% y-o-y, increasing from USD64.8 million to USD80.2 million on the back of a one-off non-recurring capital gains/dividends in 2019 and an increase of USD164 million in assets. The growth was achieved despite a planned shift to highly-rated fixed income investments in accordance with the rating agencies' methodologies. Additionally, Treasury and Capital Markets realised capital gains of USD16.7 million on the sale of equity investments that were shifted from revaluation reserves to retained earnings as per accounting standards.

Investments

Investments income declined by 68.5% from USD168.2 million in 2018 to USD53 million in 2019. The dip in investment income was driven by fair value reductions and impairment losses in subsidiaries, as well as a decline in dividends. Investments witnessed a steady rise of 3% in 2019, bringing the total portfolio size to more than USD1 billion. The US30 million increase came on the back of USD123 million in new investments, a sale of USD3 million and fair value losses of USD90 million.



Operational Highlights

Corporate Banking

By providing conventional and Islamic financing solutions for an increasingly diversified client base of public and private entities operating across the energy value chain, APICORP continued to grow and diversify its portfolio, and play an integral role in supporting the growth and economic diversification goals of Member Countries, the broader MENA region and beyond.

APICORP continued to evolve its offerings with more focus on private sector-led projects, primarily in the utilities sector, including renewables, and in trade finance. Corporate Banking booked USD1.5 billion of funded and unfunded new commitments over the year and raised its asset portfolio from USD3.5 billion to USD3.69 billion from the end of 2018 to the end of 2019, continuing its steady growth.

With sustainability as a prime driver, key highlights for the year included a gradual increase in exposure to the utilities sector, in particular the renewables segment. This included a USD75 million five-year Murabaha financing facility in support of Al Fanar, a private sector Saudi manufacturer of electrical equipment and provider of engineering and O&M services with an expanding global footprint, including a 720-megawatt wind farm in Spain. APICORP also continued to build up its arranging credentials in the GCC in various strategic independent water projects and sewage treatment plants that contribute to the sustainability of the economies of the region.

We signed a USD51.3 million financing facility for Hartree Maritime Partners, the shipping subsidiary of Hartree Partners, a global merchant commodities

“APICORP continued to evolve its offerings with more focus on private sector-led projects, primarily in the utilities sector, including renewables, and in trade finance.

firm specialising in energy and energy-related industries based in New York and London. The facility helped finance the purchase of one out of four eco-friendly very large crude carriers (VLCC) featuring International Maritime Organisation 2020-compliant technologies that reduce emissions and enhance fuel consumption. The deal exemplifies our expanding reach to clients outside the MENA region as well as our increasing focus on sustainability.

As part of our ongoing support for Member Countries, Corporate Banking closed two bilateral loan facilities worth USD150 million for working capital purposes and USD100 million for medium-term maintenance of Sonatrach Raffineria Italiana, the Algerian National Oil Company's first overseas industrial investment, helping the country address its domestic energy demand as well as diversify the company's energy assets.

It was also another active year for APICORP in the Kingdom of Bahrain, with several refinancing





agreements with ALBA, Nogaholding, the Bahraini entity of National Energy Services Reunited Corporation (NESR), as well with the arranging mandate for a USD27 million bilateral working capital facility for Bahrain LNG.

On the Trade Finance front, APICORP continued to expand, notably on an unfunded basis and primarily with some of its historical clients, namely Gunvor, Mercuria, Trafigura, PUMA and Socar Trading.

Furthermore, APICORP issued LCs for a total value of USD1.2 billion, a major uptick from USD595.8 million in 2018, including a debt service reserve account (DSRA) LC for OQ Refinery owned by Oman Oil, generating a total income of USD2.8 million, an increase from USD1.5 million in 2018.

In the coming year, we will continue to leverage our strong exposure and expertise in project and trade finance, build on existing client relationships and expand our products to additional markets and sectors.

Investments

APICORP continued its prudent strategy of investing alongside like-minded investment partners in quality businesses with strong management teams and solid growth potential, with a focus on making investments in our Member Countries and the broader MENA region, and beyond. Moreover, we continued to identify and make investments with an anticipated shorter holding period to facilitate timely exits.

The APICORP Investments team managed to close a number of investments; five direct equity investments and three indirect investments, the latter of which included two investments via the Goldman Sachs Managed Account Investment Vehicle and an investment in the IFC MENA fund.

One of the landmark investments was our first direct equity investment in Kuwait, one of our Member Countries. Through this investment, we acquired a 24% direct equity stake in Al Khorayef United Holding, a leading Kuwait-based oil and gas services and facilities management company. In

partnering with Al Khorayef Petroleum Company, a subsidiary of the Saudi-based Al Khorayef Group, and United Oil Projects of Kuwait, APICORP strengthened its position as a key player in the Kuwaiti oil and gas services sector and supported the country's oil and gas production and processing facilities and capabilities.

By affirming our commitment to sustainable development and a diversification strategy to include clean energy, the year also marked our first direct equity investment in renewable energy. APICORP partnered with the IFC, Mitsui and Co., Equinor ASA and Adenium Energy Capital to acquire a stake in Yellow Door Energy (YDE), a leading provider of distributed solar and energy efficiency infrastructure to commercial and industrial businesses in the Middle East, Africa and South Asia.

We also increased our direct equity stake in Ashtead Technology to 33%, that will help us strengthen our existing partnership with UK-based Buckthorn Partners, a boutique private equity firm that

“2019 marked APICORP’s first direct equity investment in Kuwait.”

focuses on investments in oil field services. This will support Ashtead Technology’s global expansion, notably its expanding footprint in the Middle East.

The year also saw us partnering with Buckthorn Partners on another transaction, a co-investment in Coretrax, a specialist well construction and intervention investment platform that acquired Churchill Drilling Tools, a leading provider of products and services covering drilling, completion and plugging, and abandonment operations with operating bases in the U.K., U.S. and Middle East.

As part of our commitment to support our Member Countries, we also participated in the



IPO of Saudi Aramco, a major event on the global investment calendar and an essential strategic cornerstone for Saudi Arabia that will underpin several important initiatives supporting growth and economic diversification.

Looking ahead, APICORP will continue to pursue a measured and selective approach towards new equity investments to maintain a diversified and well-balanced equity portfolio. We continue to focus on projects that deliver both tangible developmental impacts and attractive potential financial returns.

Portfolio Management

With increased focus on Portfolio Management, APICORP set in place a strategy towards proactive oversight of both the debt and equity portfolios with an eye on enhancing performance, value creation, profitability and pursuing best-practice corporate governance initiatives.

We actively worked with our existing equity partners to address ongoing challenges and explore divestment opportunities. At year-end, the total equity portfolio under management stood in excess of USD1 billion across 19 direct and 3 indirect investments.

In line with APICORP's 2020-2024 strategy, we are entering 2020 with a strong focus on departmental growth and maximising synergies to strengthen collaborative management across the loan and equity portfolios, acting as a liaison between the two.

Strategy, Energy Economics, and Sustainability

APICORP's Strategy, Energy Economics, and Sustainability (SEES) continued to strengthen its role both guiding APICORP's strategic growth and externally as a leading voice on energy investment, finance and sustainability in the region.

Headlining our achievements for the year was the development of APICORP's five-year strategy (2020-2024) based on an extensive internal and external consultative, diagnostic process to evolve our core strategic model. As a result of this collaborative effort, we developed a clear, aspirational vision for the future anchored by a detailed roadmap of 25 strategic initiatives. This will strengthen APICORP as a trusted regional financial partner of the energy sector ensure agility and flexibility to deliver resilient performance and maximise competitiveness.

Moreover, we focused on enhancing APICORP's position as the region's leading authority on energy and related sectors, and expanded our presence through thought leadership, content optimisation, and community collaboration.

As part of these efforts, APICORP participated in and organised several high-profile regional and global industry events in 2019, including a strategic stakeholder roundtable entitled "Energy Transition: Reshaping Investments and Strategies: How to ensure energy investments continue to flow in a low-carbon world." Held during the World Energy Congress in Abu Dhabi in September 2019, the roundtable brought together more than 40 global decision-makers from the energy and finance sectors, including representatives from government, multilateral organisations, national and international oil companies, investors and the private sector. On the back of the event, we published a White Paper entitled "The Energy Transition: Reshaping Investments and Strategies," which identified five recommendations that collectively present an actionable and achievable roadmap for investments in the energy industry. These included enhancing energy

finance, maintaining regulatory consistency, introducing carbon pricing, bolstering energy efficiency, and busting myths and misconceptions around the hydrocarbon industry.

Furthermore, we published a series of reports detailing the investment outlook for the MENA region's energy sectors. In addition to our flagship "MENA Annual Energy Investments Outlook 2019" issued in April, we also published two detailed investment outlook reports covering the region's Power and Gas sectors in July and December 2019, respectively. Other significant contributions in the policy or strategy space included "Reflections from #FII2019: How will the energy company of the future look?" and "APICORP's Chief Economist's Top Picks for 2020," as well as an op-ed entitled "Forces to shape the energy companies in the new decade," which delved into the transformations within our industry that are reshaping the very structure of future energy companies.

In 2020, we plan to build on the momentum of our outreach efforts with the development of our sustainability framework and more engagement and peer collaboration, as well as push forward in developing our thought leadership and research initiatives. One of the

“One of the key themes for the coming year will be to assess the impact of the 2020 crisis on the transformation of the energy sector.”

key themes for the year will be to assess the impact of the 2020 crisis on the transformation of the energy and banking sectors, in terms of risks and opportunities.

Treasury and Capital Markets

Treasury and Capital Markets continues to ensure that APICORP remains well-funded in order to support its core balance sheet activities through its extensive and diversified funding base. Moreover, with a diverse investment portfolio of high-quality fixed-income securities, adhering to strict and pre-defined guidelines, we are well-positioned to mitigate the liquidity, credit and foreign exchange risks associated with our operating environment.

Implementing this successful strategy has involved extensive engagement in both the conventional and Islamic money and foreign exchange markets, with counterparties including regional and global financial institutions, governments, corporations, pension funds, agencies and other organisations.

Despite the global volatility brought about by major economic and political events, including trade tensions between the US and China, Brexit, impeachment proceedings in the US, interest rate volatility and civil unrest in various corners of the globe, equity markets had a strong year in 2019. Treasury and Capital Markets successfully navigated the uncertainty, with the liquidity portfolios performing well above expectations.

In terms of funding, APICORP had a record-breaking year, raising USD1.8 billion in new financing and successfully refinancing USD1.3 billion in maturing debt at attractive levels. Our credit rating upgrade

by Moody's Investor Service, from 'Aa3' with a positive outlook to 'Aa2' with a stable outlook, was due in large part to the steady improvement in the liquidity and funding profiles.

During the year, we pushed ahead with a concerted effort to prioritise the diversification of our funding base and successfully expanded the investor profile to include players outside the GCC, with an increased number of investors in debt capital market issuances in Asia and the US. In total, we concluded eight transactions over the course of the year, including two Formosa Bonds worth USD300 million and USD325 million issued in March and November, respectively, along with several bilateral transactions with European and Asian financial institutions.

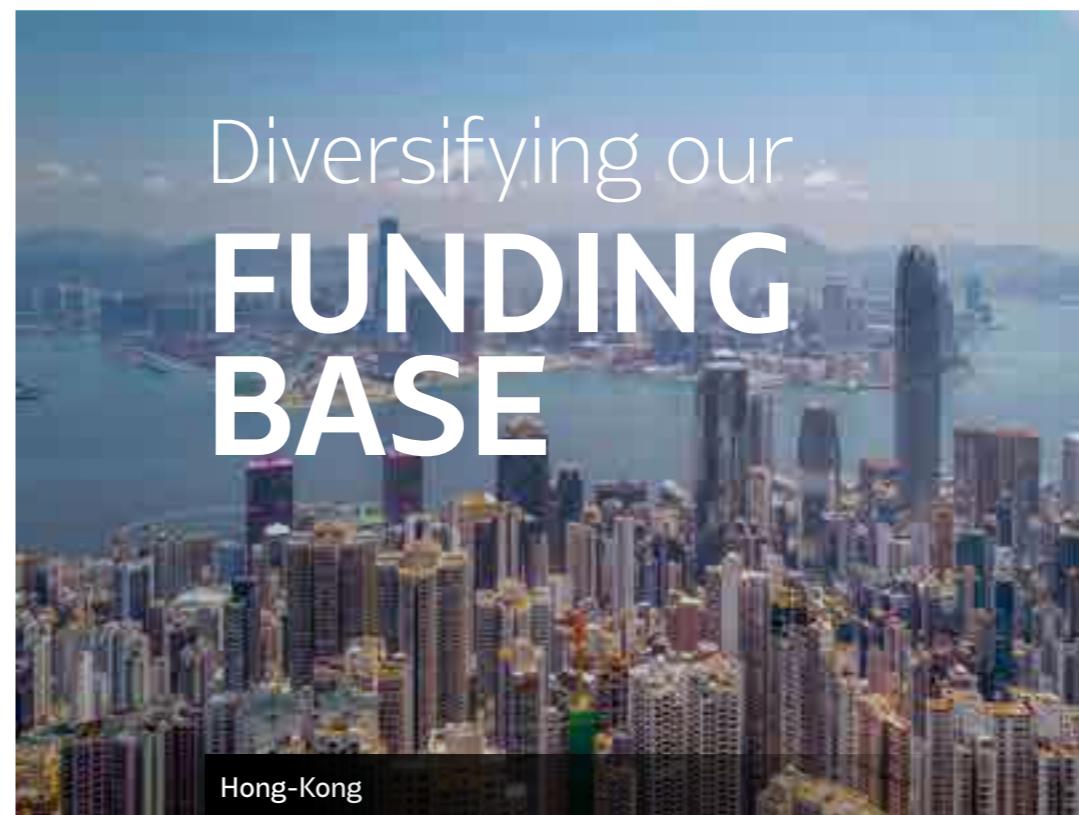
APICORP will maintain a cautious, prudent approach to navigate potential future headwinds, buoyed by the strong underlying fundamentals of low interest rates and the availability of liquidity.



New York



Riyadh



Hong-Kong



Dubai



London



Taiwan

Moody's Report Highlights

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Moody's Investor Service upgraded APICORP's long-term issuer and senior unsecured rating from 'Aa3' to 'Aa2' with a stable outlook. It also affirmed our short-term issuer rating at Prime-1. The upgrade came on the back of strong capital adequacy, robust asset quality, low levels of non-performing assets, and strong shareholder support.

Furthermore, the report notes that APICORP's liquidity and funding profile has improved substantially in recent years, as highlighted by the reduced reliance on short-term deposits for funding and an increased presence in the international debt markets. Over the past four years, APICORP has steadily improved its liquidity and funding profile by pursuing a formal programme to diversify sources of funding across geographies, issue formats, structures and currencies. In the process, the Corporation built up a well-diversified investor base in global capital markets.

The funding profile today is now better aligned with the asset profile, significantly reducing reliance on wholesale deposits to less than 10% of total liabilities in 2019 from nearly 44% in 2015. With an increase in medium-term funding, the cost of funding marginally increased and the Corporation is well-positioned to achieve target profitability spreads.

Another significant upgrade driver for Moody's was APICORP's track record of strong asset performance. Since 2015, the Corporation has maintained strong profitability that has significantly improved capital base. This reflects formation of no new

"The Moody's upgrade came on the back of strong capital adequacy, robust asset quality, low levels of non-performing assets, and strong shareholder support."

non-performing loans during the past three years and the settlement of legacy non-performing loans with high recovery rates during 2018. This, in turn, has reduced the non-performing asset ratio to 0.5% of development-related assets in 2018 from 1.2% in 2017 and 1.5% in 2015.

Moody's expects this strong asset performance to continue over the next few years, reflecting its assessment of APICORP's prudent risk management practices, the fact that more than 85% of the loan book exposure is to governments or government-related entities, and a relatively low and declining borrower concentration with the top ten largest exposures accounting for about 25% of development-related assets.

The stable outlook on APICORP's 'Aa2' rating reflects Moody's view that the creditworthiness will be maintained through evidence of our sustainability, in turn, reinforcing shareholder support.



By the end of 2019, 61% of APICORP's shares were held by countries with a Moody's rating of 'A' and above. Notably, the Board of Directors approved a proposal to increase the authorised capital and callable capital, an essential form of emergency support. APICORP's callable capital relative to total debt, Moody's key measure for contractual strength of member support, is proposed to increase by 750% in 2020, a significant uptick that reflects strong shareholder support.

As Moody's notes, while the operating environment remains rife with geopolitical turbulence, APICORP has proven resilient to external shocks and is only getting stronger as it continues to focus on diversification.

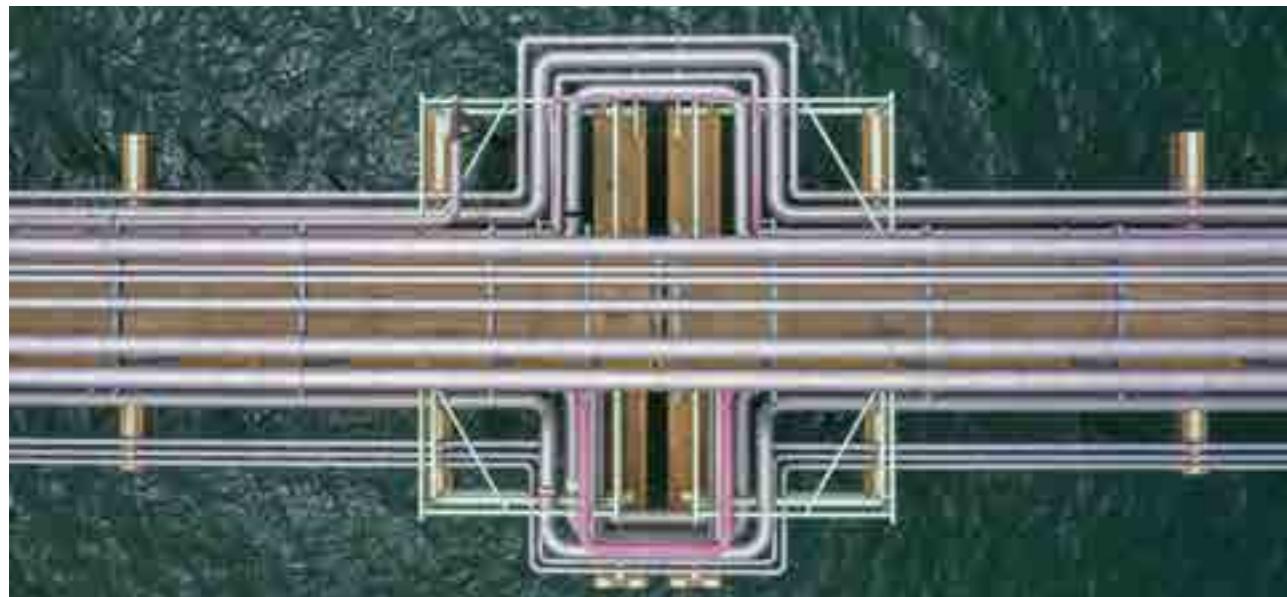
Aa2

with a stable outlook

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Moody's Investor Service Upgrade

Moving Forward with a New Strategy

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APICORP's 2020-2024 Five-Year Strategy was a collaborative effort that included a dedicated senior team from APICORP along with external experts working to develop the strategy for the future towards a more integrated, agile and flexible model that firmly embeds sustainability in all aspects of operations and delivers resilient performance and innovative products.

The strategy is an evolution that maximises APICORP's strengths as a multilateral development financial institution with a long, proven track record in the MENA energy sector on the one hand, and minimises risks as the energy landscape goes through major transitions impacted by geopolitical issues on the other.

The 2020-2024 strategy sets predefined boundaries regarding key metrics such as growth, return on equity (ROE), diversification, liquidity and funding.

“APICORP will focus on five key objectives, each of which is underpinned by a related set of activities.”

To facilitate the successful execution of the strategy, APICORP also made significant strides in improving overall workforce effectiveness by investing in digital transformation. Underpinned by a modern and secure infrastructure, the new system and its related processes will support operations in accordance with the standards of governance and management of information technology and with best practices in banks and financial institutions.

as a multilateral development financial institution in the transitioning energy world, by:

- Growing lending in Arab countries undergoing transition
- Enhancing performance of existing investments
- Pursuing balanced approach to investments with shorter exit cycle
- Expanding green energy portfolio
- Embedding ESG principles across APICORP's business

THRIVE



the financing of energy players, by:

- Institutionalising client-centric business development
- Expanding financial solutions and approaches
- Mobilising external funding for the energy sector



LEAD



DIVERSIFY

and deepen client base, by:

- Institutionalising client-centric business development
- Expanding financial solutions and approaches
- Mobilising external funding for the energy sector



SHAPE



the energy landscape in the Arab world, by:

- Advising Arab governments and stakeholders on energy policy and strategy
- Enhancing thought leadership in the energy sector

Build



an Agile and Efficient External and Internal Ecosystem, by:

- Establishing and nurturing strategic partnerships
- Strengthening the organisation internally by investing in people and corporate culture
- Enhancing internal processes and systems

04

OUR STORIES

Through our stories we are illustrating how APICORP has evolved into a true partner for the region's energy sector



A Transitioning Energy Sector

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Overview

Since the signing of the Paris Agreement in April 2016 a precedent was set towards strengthening the global response to climate change issues. Faced with the dual demands for managing rising emissions and rising energy demand globally, greenhouse gas emissions continue to rise as energy demand grows in response to growing populations and subsequent economic growth, not to mention challenges related to market realities and complexity of stakeholders' interests.

As a trusted source of analysis and insight on the regional and global energy sector and strident supporter of sustainable development, we recognise our responsibility to raise awareness of climate change, and of the energy transition amongst our key stakeholders including investors and operators in the region.

We have been working with our partners in the private and public sector alike to increase investments in renewable energy across our footprint. Over the past two years, APICORP has made several debt and equity investments in regional companies that are working to rebalance the energy mix towards cleaner technologies.

Yellow Door Energy

APICORP's first equity investment in renewables came in 2018 when we joined the International Financing Corporation (IFC), Mitsui, Equinor and Adenium in a consortium to acquire a stake in Yellow Door Energy (YDE), a UAE-based private sector solar power developer and energy efficiency solutions provider that has successfully developed a world-class platform and a growing portfolio of projects for commercial

and industrial segments. The investment in YDE will allow the company to pursue its business expansion plans beyond the MENA region into sub-Saharan Africa and South Asia and meet its target of generating around 300 megawatts of solar energy within the next two years. As of year-end 2019, YDE had generated 13,100 megawatt-hours of solar energy, with 31 solar power projects completed or under development in 5 countries, including the UAE, Jordan, Egypt, Pakistan, and most recently Saudi Arabia.

Al Fanar

APICORP extended a USD75 million, five-year Murabaha financing facility to Al Fanar, a leading Saudi-based private sector manufacturer of electrical equipment and EPC provider for clean energy projects. The loan was specifically granted

in support of Al Fanar's renewable energy projects, including a key 720-megawatt wind energy project in Spain.

APICORP's financing will bring Al Fanar closer to achieving its goal to double its existing 1.5-gigawatt global renewables portfolio within the next few years. The company is aiming to leverage its expertise as an electrical equipment manufacturer to tap into the growing global demand for renewable energy and is now fully on its way to deploy 3 gigawatts by 2022, with an intention to grow the portfolio to 4-5 gigawatts by 2025.

Supporting Private Sector Energy Players

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Overview

In the next five years, we expect approximately USD1 trillion to be invested in the energy sector across the MENA region. With the mounting pressure on countries to meet expected energy needs coupled with the global energy transition as sustainability becomes an increasingly key issue, there is an ever-growing need for the private sector to fill financing gaps that the public sector cannot meet alone.

To help expand access to financing and support Member Countries in the sustainable growth of their energy sectors, APICORP is progressively investing in early-stage private sector players across our various geographies — helping them to become more competitive in their own markets and expand their services across borders.

Al Khorayef United Holding

APICORP made its first equity investment in Kuwait when it acquired a 24% stake in Al Khorayef United Holding (AKUH), a leading private sector, Kuwait-based oil and gas services and facilities management company. APICORP views this strategic acquisition in the Kuwaiti energy sector as a key enabler that will encourage further private sector investments in line with the government's strategic vision for the oil and gas industry.

AKUH provides essential services that are helping to maintain and enhance hydrocarbon production in Kuwait through artificial lifting, a pumping method that helps to offset natural depletion in mature oil wells. With a strong commercial and operational track record, AKUH is a market leader in the provision of artificial lift solutions, particularly electrical submersible pumps.

By leveraging APICORP's regional expertise and experience, AKUH will be able to create further value and growth opportunities in the future. The investment also stands as a testament to our commitment of support to Kuwait's private sector across the broader energy spectrum.

Ashtead Technology

Investing alongside like-minded professional private sector partners is important for APICORP. We typically seek long to medium-term investments in companies where we can work towards common goals. Ashtead Technology, a global oil and gas services provider with strong potential for growth, is a leading independent provider of subsea equipment and services to the offshore oil and gas industry with operations in the UK, US, Singapore, Canada and the UAE. The investment stands as an example of a successful relationship fostered with Buckthorn Partners, a London-based boutique private equity firm that focuses on oil field services.

In 2019, we increased our effective equity stake in Ashtead to 22.4% from 33%. In an environment of low oil prices and a transitioning energy sector, producers around the world are under rising pressure to reduce their offshore recovery costs. This in turn has created a significant market opportunity for Ashtead Technology, whereby APICORP's investment will allow it to expand its service offering in the subsea inspection, repair, and maintenance sector of the industry, boosting development and transferring knowledge and skills to the region.



Forging Strategic Partnerships Across Our Geographies

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Overview

By strategically operating in sectors that benefit its Member Countries, APICORP is the preferred partner for key strategic energy projects. With our unique geographical reach, we have the ability to help our Member Countries achieve economic growth, create jobs, and improve infrastructure. As a trusted financial partner to the region's energy sector, strategic partnerships are imperative to APICORP's success.

EGYPT—EMethanex

APICORP has held a 17% equity stake in Egyptian Methanex Methanol Company S.A.E. (EMethanex) since 2011, a joint venture between Egyptian government partners: Egyptian Petrochemical Holding Company (ECHEM), Egyptian Natural Gas Holding Company (EGAS), Egyptian National Gas Company (GASCO), and Canada's Methanex Corporation, the global leader in methanol industry supply, distribution and marketing.

Located in the Mediterranean port city of Damietta, EMethanex's state-of-the-art methanol production facility is among the most energy-efficient methanol plants in the world. The plant, which can produce 1.3 million tonnes of methanol per year, supplies both the local and global methanol markets and is integrated seamlessly into Methanex's global methanol supply chain. EMethanex is also Egypt's sole producer of methanol, an essential ingredient used to produce hundreds of everyday industrial and consumer items.

17%

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APICORP equity stake
in Egypt's EMethanex

The joint venture has not only created hundreds of jobs for the local community in Damietta, it has also made a long-term commitment to spearhead grassroots sustainability initiatives in the areas of empowerment, training, health, and education in cooperation with the UN and the International Labour Organisation (ILO). We are proud to support both the business and sustainability goals of EMethanex focusing on areas where the company can make a unique and sustainable difference in Egypt.





USD/MN
113

financing for Bahrain's
Al Dur 2 Power and
Water Co.

Bahrain

APICORP continues to partner with Bahrain's government to diversify the Kingdom's economy and expand its infrastructure in line with Bahrain's Economic Vision 2030.

Aluminium Bahrain (Alba)

Aluminium Bahrain (Alba) is the world's largest single-site aluminium smelter, the primary Bahraini aluminium manufacturer and the first large-scale smelter in the GCC. With global consumption of aluminium set to grow by up to 4% year-on-year, Fitch forecasts worldwide aluminium consumption to increase to 78.6 million tonnes by 2028, thus increasing the need for global-scale manufacturers like Alba. By joining the Alba refinancing facility, APICORP continues to affirm its commitment towards highly strategic assets of the Kingdom of Bahrain.

Al Dur 2

Al Dur Power and Water Company is a flagship Independent Water and Power Project (IWPP) in the Kingdom of Bahrain with an installed contracted capacity of a 1,500 megawatts net power and a seawater desalination plant with net water capacity of 50 Million Imperial Gallons per Day.

Al Dur is the largest operational IWPP in Bahrain, accounting for approximately one-third of the country's power and water production. The project is backed by reputable local and international sponsors with significant experience in power and water projects in the Middle East and Bahrain specifically. The USD113 million financing in Al Dur 2 is a part of APICORP's ongoing commitment to support the development of critical national infrastructure in the Kingdom of Bahrain.



USD/MN
250

in loan facilities to
Algeria's Sonatrach

ALGERIA

Sonatrach

APICORP is supporting the development of Algeria's energy sector through two loan facilities valued at USD250 million to Sonatrach Petroleum Investment Corporation, a subsidiary of Sonatrach, the Algerian state-owned national oil company. The loans will be used to fund the maintenance of a refinery that Sonatrach acquired in Sicily, Italy, as well as to purchase feedstock for the refinery from Saudi Aramco.

The integrated refinery complex, which has access to major global shipping routes through the Mediterranean Sea, boasts a conversion rate of 200,000 barrels per day and can produce a wide range of downstream products, including gasoline, distillates, fuel oils, lubricants, asphalts and chemicals. Our support for this strategic

“APICORP is supporting a strategic national project in Algeria to meet domestic energy demand.”

investment stems from our commitment to support the Algerian government's efforts to diversify its energy assets and secure reliable supplies of crude oil to meet rising domestic energy demand and address imbalances in petroleum supplies to the domestic market.

Growth Through Diversity

Overview

Despite operating in a geopolitically dynamic region, APICORP has remained resilient to external shocks over the years by maintaining a diversified approach to its investments, funding and internal operations.

Geographic Diversification

Diversifying our portfolio investments as well as our funding base across multiple geographies with lower levels of concentration ensures our financial footing is on solid ground and increases our volume of available strategic investments. While the focus of our activities remains on our Member Countries, we have pursued a gradual strategy to expand the breadth of our investments and partnerships to encompass markets beyond MENA to create additional value that resonates back to the MENA region.

Treasury and Capital Markets continues to carry out its mandate to diversify APICORP's funding base and widen the range of its funding sources. Since 2014, APICORP has gradually increased its share of funding from non-GCC countries from 18% to 31%. By maintaining a diverse funding base across geographies, APICORP is able to access a wider group of investors and markets, launch specific funding programs aimed at strong foreign currencies, and enhance participation from players such as real money asset managers, commercial banks and official institutions.

Investments and Corporate Banking also continue to identify attractive opportunities, including in countries in transition, such as co-financings with other multilateral development banks (MDBs) within the context of leveraging APICORP's preferred creditor status.

Sectoral Diversification

In line with the 2024 strategy, APICORP performed an external analysis on the evolution of the broader energy and financial sectors to assess strategies to keep pace with changing sector dynamics. Currently, we invest in more than ten sectors across the energy value chain, including oil and gas development and production, oil and gas services, refining, chemicals and petrochemicals, power generation, renewables, recycling, water treatment, transportation and logistics and contracting.

With the energy transition, APICORP is diversifying towards more sustainable investments including alternative sources of energy, and with lower environmental impact, and enhanced societal and governance effect.

Diversification: Our People

Representing 20 different nationalities and a gender mix well above industry average, our team of professionals come from diverse backgrounds, a must in today's dynamic energy sector. Their combined expertise and perspective are helping us build a more integrated, agile and flexible model to continue delivering resilient performance and maximising organisational competitiveness.

Furthermore, we have implemented structural changes in line with strategic benchmarks, and made a number of policy and procedural enhancements within the Corporation as we continue to invest in the training and development of our people.



Expanding Our Global Outreach



Overview

With exposure in more than 20 countries across the broader energy spectrum, APICORP continues to solidify its position as a multilateral development financial institution with unmatched industry knowledge. To further develop and maintain our presence as a leading voice on the regional energy landscape, we are expanding our global brand by increasing our scope in energy research, thought leadership and global engagement.

Energy Research

APICORP has a well-established track record as a regional energy specialist that provides the market with thorough first-hand analysis, fact-based transparency, expertise, and sectoral knowledge. With the implementation of our 2020-2024 Strategy, APICORP will continue to strengthen its brand within the global energy sector and to energy clients through the expansion and reach of its energy research capabilities.

To this end, APICORP has steadily broadened the scope of its energy research to include key global issues and trends that affect the energy sector and related industries. Over the past year, we have enhanced our MENA Energy Investment Outlooks by including a suite of high-value sector-based reports, focused commentaries on relevant energy and energy-related issues, as well as priority sector and country investment strategies.

By providing such integrated and cross-sectoral analysis of energy investments, APICORP is maximising its value and enforcing the critical role that multilateral institutions play in bridging investment and funding gaps.

Thought Leadership

In this age of rapid energy sector transformation, greater stakeholder collaboration between leaders in energy and finance is critical. To facilitate collaboration, APICORP is developing specialist platforms for thought leadership, in turn, expanding its role in capacity building and energy policy strategy.

One of APICORP's contributions in this regard was a strategic roundtable focused on the energy transition at the World Energy Congress in Abu Dhabi held in September. The roundtable brought together more than 40 of the MENA region's top decision-makers from the energy and financial sectors, including representatives of governments, multilateral organisations, national and international oil companies and investors to deliberate how to keep energy investments flowing in the region during the energy transition.

Participants discussed the need for countries to create incentives and grow private sector participation by developing new regulatory models with higher standards of governance. This involves outlining clear and specific national and local environmental concerns, setting targets and establishing independent authorities to oversee the implementation of the entire process.

Based on these roundtable discussions, APICORP issued a White Paper, titled, "The Energy Transition: Reshaping Investments and Strategies," outlining key recommendations for sustainable growth of the MENA energy sector and providing a roadmap for the region.



These recommendations focus on enhancing financial access, improving regulations, pricing carbon, bolstering efficiency and re-educating the public on misconceptions surrounding the hydrocarbon industry.

By taking the initiative to provide such high-profile platforms for frank and open discussion, we are cultivating a community of peers that can collaborate on relevant policy discussions like economic diversification, energy security, and private sector participation, all while increasing our visibility as a leading authority on the energy sector.

Global Engagement

Along with broadening our global outreach through research and thought leadership, we are facilitating global engagement by diversifying and deepening our client base. This includes expanding lending to the private sector and developing APICORP's business with energy traders.

This expansion positions APICORP as a gateway to MENA for international energy players. Already a financing partner to six of the ten largest global

oil and gas traders, expanding business with energy traders creates opportunities to increase the share of wallet and optimise asset-liability management, while at the same time growing our platform to attract other key players.

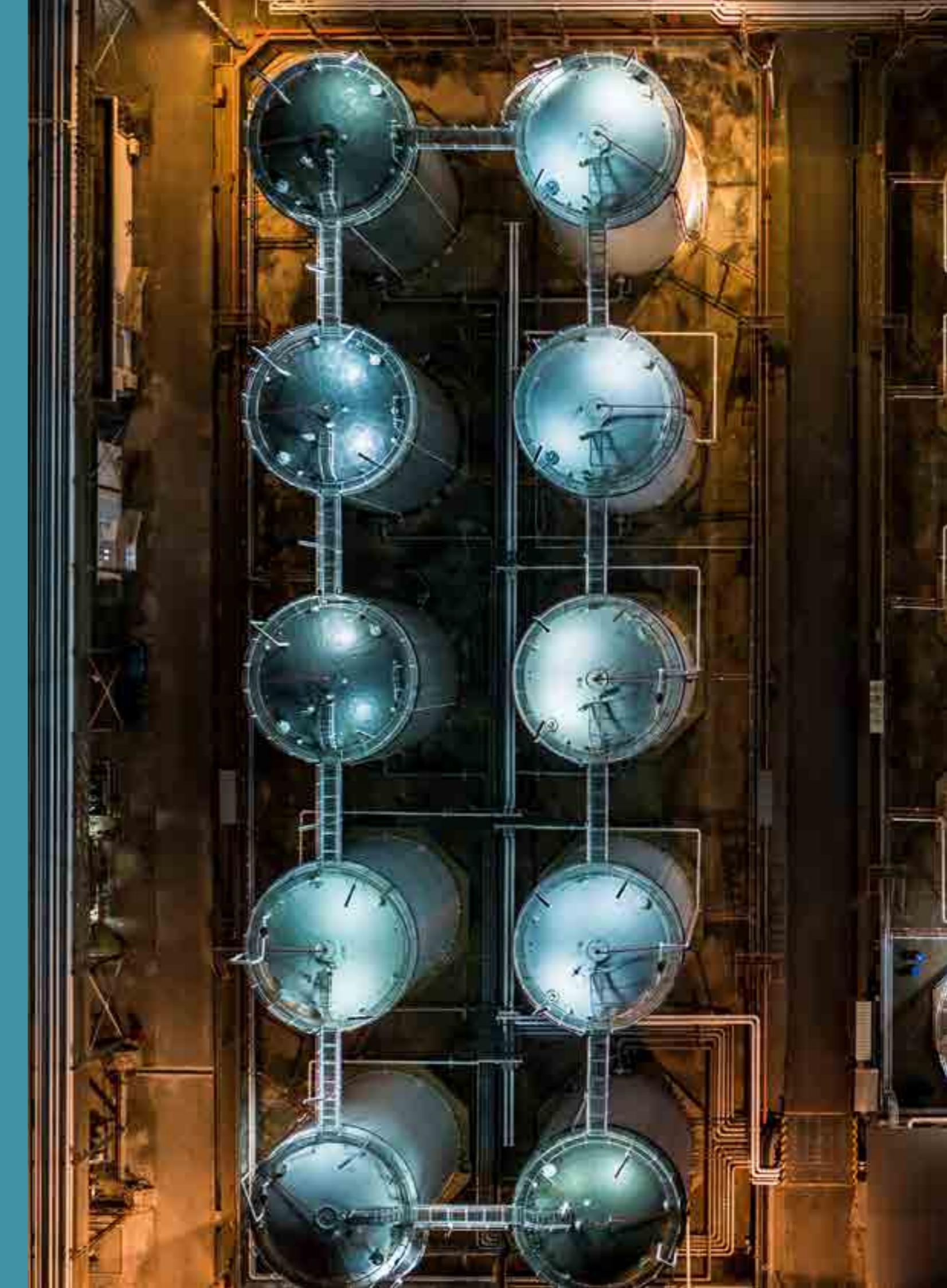
As a multilateral development financial institution, we work within our mandate across multiple markets and sectors to support our Member Countries in developing regulatory frameworks and investment climates that attract private investment. By advising regional governments and stakeholders on energy policy and strategy, we unlock business development opportunities and open doors for future partnerships.

Shaping the energy landscape requires being a respected thought leader in the sector. By providing governments, partners, clients and the public with publications and discussion platforms, APICORP is stepping up as a facilitator for the transfer of energy sector knowledge and best practices in the region. In doing so, APICORP is enabling policy advocacy, and affirming its role as a leader of the ongoing energy conversation.

05

MANAGING RISK AND COMPLIANCE

- A carefully formulated risk management framework guides and defines how risk is measured and managed at both the corporate and business levels.



Risk Management and Compliance



Overview

Risk and Compliance is an integral component of APICORP's ability to consistently maintain its operational and financial strength and resilience within an external environment characterised by sector and geopolitical volatility. A carefully formulated risk management framework guides and defines how risk is measured and managed at both the corporate and business levels.

At the corporate level, our risk management framework reflects Board and management appetite towards credit, market, liquidity and operational risk while taking into account levels of concentration risk for any given country or sector, capital adequacy ratios, cost-to-income ratios, funding profile and acceptable levels of leverage. Featuring more than 15 risk-based KPI metrics, our Risk Appetite Framework acts as the primary underpinning for risk management and ensures our strategy and business plans are aligned with the overall risk appetite at all times.

At the business level, specific policy guidelines are defined for each business arm that incorporate key areas of risk relevant to their primary activities, namely investment and financing. Independent risk reviews are also conducted for each new transaction against a framework to maintain an optimal balance of risk vis-à-vis reward at both the individual transactional and overall portfolio levels. This involves working with multiple stakeholders to address situations that may occur as a result of operational risk, such as business continuity and disaster recovery.

Risk and Compliance plays a key role in managing, maintaining, and improving our external credit rating, a strategically important aspect that affects APICORP's ability to access capital markets and raise funds. A strong credit rating also contributes towards efficient

cost of funding which, in turn, translates into the ability to ensure competitive pricing for all financing operations and offer rating-based solutions such as letters of credit, guarantees, and hedging solutions.

APICORP's Risk Appetite Framework

APICORP's comprehensive Risk Appetite Framework (RAF) enables the Corporation to maintain long-term financial resilience while assuming the acceptable risks commensurate with our development mandate, strategic objectives, and business aspirations. The framework governs all facets of our operation including business plans, KPIs, and individual business line targets and goals. The RAF uses a top-down approach that defines the high-level target risk profile and the risk tolerance limits for strategically important performance metrics for the enterprise.

2019 Operational Highlights

In 2019 Moody's upgraded APICORP's rating to 'Aa2' with a stable outlook based on an overall improvement in risk management and governance along with improvements on several performance indicators including its liquidity and funding position. A detailed assessment by Moody's found that our creditworthiness to be supported by moderate leverage, high-quality development-related assets, improvements in liquidity metrics, diversification of funding sources, a reduction in asset-liability maturity mismatches, and access to callable capital from a strong and supportive shareholder base.

As of year-end 2019, APICORP's key risk appetite metrics remained well within its approved limit bands. These metrics included our Liquidity ratios, funding profile, NPA ratio, Capital adequacy ratio, Leverage ratio, Cost to Income ratio and other risk-based profitability metrics.

The following risks are covered within the framework:



For the past seven years, we have consistently maintained strong capital adequacy positions. Total capital adequacy ratio (CAR) stood in excess of 29% in 2019. As per the new Capital Adequacy policy we developed to ensure a prudential balance between the risks assumed (both on- and off-balance sheet) and risk-bearing capacity.

Furthermore, Risk and Compliance enhanced the entire Risk Appetite Framework in line with APICORP's new 5-year strategy. The credit approval process was also re-engineered to manage credit risk through an enterprise-wide, comprehensive approach that maintains credit risk exposure within acceptable limits. Under the new transaction approval process, all prospective deals undergo a meticulous review cycle to ensure alignment with our mandate, strategy, risk appetite and limits, target returns and ESG credentials.

A new Asset Liability Management (ALM) framework was also established to define the ALM function within APICORP which covers funding and liquidity risk, interest rate risk, and foreign exchange risk. The framework defines mechanisms to address risk faced due to a mismatch between assets and liabilities and covers the full spectrum of funding instruments available (i.e., bonds/Sukuk, placements/deposits,

shareholders equity), operating assets (corporate finance, trade finance, equity investments), treasury assets (placements, repos, bonds/Sukuk, etc.) as well as hedging instruments (i.e. swaps, FRAs).

A new Leverage policy was devised to govern the total volume of borrowed funds (debt) that can be mobilised in relation to APICORP's risk-bearing capital. It establishes the maximum size of the total liabilities for a given level of risk-bearing capacity. We manage our leverage through some key Leverage Ratios which are benchmarked to best practice amongst MDBs.

2020 Outlook

APICORP plans to implement several enhancements from a policy perspective. This includes updating the Exposure Management Framework, Liquidity Risk Policy and Market Risk Policy.

An ESG Risk analysis framework is also being developed to assess, measure, and report on ESG risk, a metric that will be crucial going forward as assessing ESG credentials during a credit evaluation process is becoming essential for future sustainability and resiliency measurement.

Corporate Governance

Developing sound governance structures has been a cornerstone of APICORP's success and its ability to conduct business sustainably and responsibly



APICORP remains committed to following international best practices in corporate governance and to improving transparency and accountability in a manner that can deliver value for all its stakeholders. The corporation has established a governance framework that effectively addresses the roles and responsibilities of the board and management, as well as provides structures, policies and tools to ensure the sustainable long-term growth of the institution.

APICORP's Board of Directors provides oversight on the corporation's strategic direction, performance, and executive leadership, as well as matters related to risk management and controls, compensation, corporate structure, disclosure and transparency. APICORP's board also oversees the Corporation's environmental and social responsibility initiatives. The sound governance structure ensures that board and management roles are segregated.

At the board level, two committees undertake the board's key oversight responsibilities:

Audit and Risk Committee

The Board Audit and Risk Committee oversees APICORP's financial activities, internal controls, and risk governance. Specifically, the committee reviews APICORP's financial activities and reporting system, internal controls and risk management framework, audit functions, and legal and compliance requirements.

Remuneration and Governance Committee

The Board Remuneration and Governance Committee oversees corporate governance and employee compensation including recommending remuneration and reward policies to the board and

ensuring that human resources policies and practices are in line with applicable laws and regulations.

APICORP's senior management is split into four management committees that ensure the Corporation's business activities are consistent with approved strategy, risk appetite, and policies. All management committees are responsible for providing feedback to APICORP's Board of Directors as needed.

- Credit and Investment Committee (CIC)
- Asset-Liability Committee (ALCO)
- Risk Management Committee
- Tender and Bid Committee

Each of APICORP's board members represent one of our 10 Member Countries. Nominated by shareholders and elected by the General Assembly, directors hold four-year terms. The Board meets at least four times a year, with each meeting following a Board Audit and Risk Committee meeting.

2019 Operational Highlights

APICORP enhanced its focus on risk management effectiveness through the separation of RALCO into a dedicated Risk Management Committee and an Asset-Liability Committee. In line with the 2024 strategy, the board approved the revision of 4 key frameworks and policies: Risk Appetite Framework, Asset Liability Management Framework, Capital Adequacy Policy and Leverage. Moreover, the charters of all internal and external committees were revised as per best practices.

APICORP continued to adopt best practices seen through the Basel Framework, Moody's upgrade, outsourcing the internal audit to a leading audit firm, as well as approving a new Employee Code of Conduct.



06

SUSTAINABILITY AT APICORP

as a leading energy financier, we recognise our responsibility to be a catalyst for positive change, and to operate more responsibly, efficiently and sustainably.



Sustainability at APICORP

• •

habitat APICORP

As greenhouse gas emissions continue to rise in parallel to population and economic growth, there is mounting uncertainty over global climate governance. What is certain, however, is that climate change will bring structural, long-term impact, which is indeed happening with the ever-accelerating energy transition taking place within our own industry. Indeed, there is a universal understanding that action is required on every level. As a leading energy financier, we recognise our responsibility to be a catalyst for positive change, and to operate more responsibly, efficiently and sustainably.

In line with our efforts to promote long-term sustainability and eco-friendly initiatives, APICORP signed two agreements with Yellow Door Energy to install solar panels at our headquarters in Dammam and retrofit the building with energy-efficient technologies. The new fittings will cut APICORP's carbon emissions by 2,000 tonnes and generate up to 718 megawatts per hour of clean energy, as well as significantly reduce energy consumption by 35%.

By investing in green initiatives such as solar panels, we are affirming our commitment to lead by example and contribute to combatting the effects of climate change in a tangible and impactful way.

APICORP upholds its responsibility to its Member Countries to sustain its business practice during a time of transition within the energy sector both in the MENA region and globally. While companies, cities and industries have begun to work towards reducing emissions, the most significant change is occurring in areas where research and development, free trade, market mechanisms and government incentives drive this transition forward.

There is an understanding across the energy sector that the energy transition will require both investment and cooperation, making the role of multilateral development banks crucial in the coming period. While governments can use policies and mandates to guide the energy mix, only institutional investors such as APICORP can help with market, political and technology risks.

With ESG firmly at the core of our enhanced 2020-2024 Strategy, we are currently expanding our sustainability framework to guide every facet of our operation in the years to come.

Sustainability Framework

APICORP's sustainability framework incorporates environmental, social and governance (ESG) principles and examines how institutional investors in the energy sector can realistically align corporate strategies with climate change while evaluating risk. Within the framework, we take into consideration some major technology-based debates and trends that are driving the energy sector's corporate strategies.



Optimising the Efficient Use of Hydrocarbons

Due to incentives focused on production volume rather than optimisation, less than 20% of all hydrocarbons being produced are used efficiently, while 80% is being wasted. Part of APICORP's agenda is to help extract the maximum value out of the oil and gas that is being produced by supporting its clients, namely the national oil companies (NOCs) and international oil companies (IOCs). Considerable investments are now being put into low carbon, low emission



fuels and engines. By decreasing the carbon in the gasoline and diesel that is being burned, the internal combustion engines could potentially become more efficient and viable option over electric vehicles.



Renewables and Demand Side Management

In addition to providing equity and loans for renewable energy projects, APICORP continues to strengthen its policy advisory capacity with a focus on renewable energy. Beyond financing, APICORP is also providing clients with consultancy services on energy projects.



Industry and Related Sectors

Within the industrial sector, heat recovery is considered a "game-changer." Although the industrial sector is very difficult to decarbonise, if heat recovery decarbonisation becomes possible, the sector will change dramatically. The energy-enhancing industry is part of APICORP's client's portfolio and holds strong potential for growth in the coming period.



Investing in Sustainable Communities

The commitment to sustainability also encompasses investing in developing the human capital in the communities in which we operate to become the next generation of energy leaders. This includes being one of the sponsors of

the Saudi Petroleum Services Polytechnic (SPSP), a leading training institution with a mission to graduate quality Saudi technical workforce who will serve the needs of the petroleum services companies.

2020 Outlook

These pillars will serve as the foundation of APICORP's sustainability framework against which any future investment or loan will be cross-checked. In the future, the same criteria may even extend beyond APICORP's investee companies to governance in the region, guiding the linkages between regulators, ministries and governments.

As climate change impacts economic growth in a way that has not been seen before, companies are being driven to reshape their business models. Collaboration between governments and the private sector is necessary to make the energy transition accessible to all. While governments must lead the way in this transition, companies and investors also have a meaningful role to play.

07

OUR PEOPLE AND PRACTICES

- • • • Much of APICORP's success lies in its ability to attract and retain a talented and diverse group of highly qualified professionals who are aligned on common goals and objectives.



Enhancing Collaboration

.....

Much of APICORP's success lies in its ability to attract and retain a talented and diverse group of highly qualified professionals who are aligned on common goals and objectives that will propel the organisation into its next decade of growth. We firmly believe that human capital is our most valuable asset, and as such, we take tremendous pride in the professional and engaging work environment we provide for our team and continuously invest in further enhancing it.

Representing 20 nationalities across a team of 124 professionals, APICORP's diverse workforce reflects our commitment to excellence across the board. As of 2019, 14% of our total workforce were women, with three women holding senior executive positions, higher than the regional average for both the finance and energy sectors.

While over half our employees — 60% — are from the Arab states that make up our shareholder base, we have been also been attracting talent from outside the region and currently employ people from Europe, Africa, North America and Asia. We are also very proud of our ability to reverse the brain drain and bring Arab talent back into the region across various fields of expertise, from corporate banking to finance, private equity, marketing and research. This unique mix of nationalities, experiences, backgrounds and perspectives is what gives us our competitive advantage.

In parallel to providing development opportunities and wellness initiatives spearheaded by our newly-established Social Activity Taskforce and increasing internal awareness programmes,

employee benefit packages were reviewed and are currently considered to be best-in-practice among multilateral financial development institutions and are attractive as compared to the regional market average for the financial services sector.

In conducting a talent benchmarking exercise and review, we aimed to create individualised employee-development plans to specifically tackle core competencies and developmental needs across all departments. The plan also aims to proactively manage different talent groups within APICORP to ensure that each member of the team is able to balance their performance and achieve their potential. This includes providing employees with in-person and online training, individualised coaching and feedback, as well as direct exposure to industry trends through conference participation and tailored programmes with international strategic partners such as Goldman Sachs, the International Finance Corporation and the Oxford Institute for Energy Studies.

As fostering an inclusive work environment remains key, APICORP strives to ensure that the utmost respect is shown for diversity in individuals, perspectives, and opinions, and actively embraces and celebrates the rich multidimensionality united under the APICORP banner.



124

professionals

20

nationalities

60%

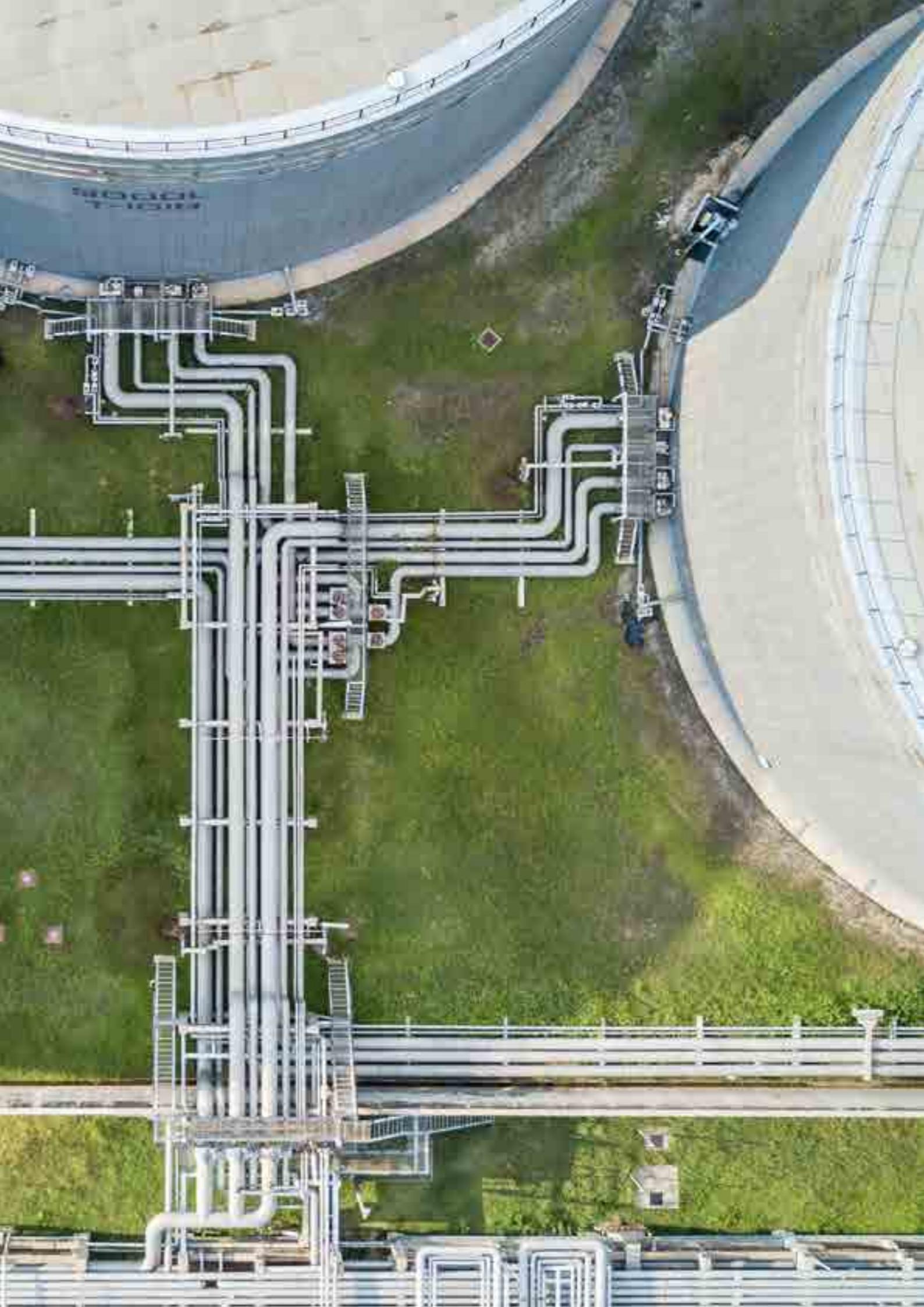
Arab nationals

14%

women

08

SUMMARY



About APICORP



About APICORP

As the energy sector transitions and evolves, APICORP is continuing to bolster its position as a leading financial partner to the region's energy sector.

Where we work

With exposure to more than 25 countries and strategic partnerships in both the public and private sector entities in the energy and finance sectors, APICORP is uniquely positioned to develop the Arab energy industry through a range of creative, value-adding solutions, provided on a commercial basis, facilitating value maximisation.

What we do

Led by a diverse multinational team of investment professionals with deep expertise in development finance, investment banking, private equity, treasury and capital markets, and energy research, APICORP operates within the following lines of business:

Corporate Banking



Provides a range of financing solutions to public and private entities through project and trade financing as well as working capital facilities to support APICORP's Member Countries and the broader MENA region. In 2019, Corporate Banking surpassed the USD200 million in gross operating income mark, with an asset portfolio that currently stands at USD3.7 billion for funded and USD300 million for unfunded projects and the Trade Finance desk issued LCs for a total value of USD948m.

Investments



Invests a portion of APICORP's capital directly in private and publicly-listed companies as well as selectively through funds. Investments acquires

meaningful minority stakes in high-quality private businesses alongside likeminded partners, with a focus on investing in businesses with clear potential for growth, value creation and developmental impact. As of year-end 2019, Investments managed assets worth over USD1 billion.

Portfolio Management



Manages APICORP's loans and investments portfolio post-disbursement while driving exit strategies and portfolio performance. At year-end the total equity portfolio under management stood at more than USD1 bn across 19 direct investments. While there were no new exits in 2019, Portfolio Management began a process of divesting one of APICORP's investee companies, which should be complete by the first half of 2020.

Strategy, Energy Economics, and Sustainability



Conducts industry research, publishes investment outlook and monitors the Corporation's sustainability aspects. In 2019, SEES oversaw the development of APICORP's new five-year strategy (2020-2024), based on the outcomes of an extensive collaborative internal and external diagnostic process. The new strategy is a significant achievement and will better position APICORP as a leading MDB in the energy sector and with increased agility and flexibility in the market as well as relevancy to clients.

Treasury and Capital Markets



Manages APICORP's liquid portfolio and ensures adequate funding through diversified sources. In 2019, Treasury and Capital Markets continued to

maintain a strong liquidity position, successfully raising APICORP's profile internationally in the global investment community by regularly conducting road shows across various global markets.

Our Expertise

With 45 years of strong performance and consistent profitability, APICORP has maintained its status as the trusted financial partner to the Arab energy industry. APICORP's successful track record illustrates that it is uniquely positioned to identify and gain access to new region-wide opportunities in the energy sector.

People and Practices

APICORP's best-in-practice governance framework propels its commitment to sustainability and improves its employee value proposition.

In 2019, APICORP enhanced focus on risk management and continued to adopt best practices seen through the Basel Framework, Moody's upgrade, outsourcing the internal audit to a leading audit firm, as well as approving a new Employee Code of Conduct, all with the mind to further embed environmental, social, and governance initiatives in APICORP's DNA.

APICORP Invests Across the Energy Value Chain



Oil and Gas Development and Production



Oil and Gas Services



Refining



Chemicals and Petrochemicals



Power Generation



Renewables



Recycling



Water Treatment



Transportation and Logistics



Contracting

09

FINANCIAL STATEMENTS

APICORP estimates that investment in the MENA energy sector could reach USD 1 trillion.



Financial Statements

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

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

Basis for opinion

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

Key audit matters

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

Impairment of loans and advances

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

Description	How the matter was addressed in our audit
<p>We focused on this area because:</p> <ul style="list-style-type: none"> loans and advances of US\$ 3,697,715 thousands make-up 50% of total assets (by value); and the determination of expected credit loss allowance (ECL) is highly subjective and judgemental. The most significant areas where we identified greater management judgment are: <ul style="list-style-type: none"> Criteria selected to identify significant increases in credit risk (SICR); Inherently judgemental complex modelling techniques used to estimate ECLs which involve determining Probabilities of Default (PD), Loss Given Default (LGD), and Exposure At Default (EAD); The need to measure ECL on a forward-looking basis, incorporating future macro-economic variables reflecting a range of future conditions; Qualitative adjustments (overlays) made to the results of ECL model to address model limitations or emerging risks and trends in underlying portfolio which are inherently judgemental. The carrying value of individually assessed stage 3 loans and advances may be materially misstated if individual impairments are not appropriately identified and estimated. The identification of impaired assets and the estimation of future cash flows and valuation of collateral require judgement. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> Understanding management's process and testing key controls over ECL, including over: <ul style="list-style-type: none"> The completeness and accuracy of data flows from source system to the ECL calculation; Model review, validation and approval; Assessment and calculation of material SICR indicators and criteria; The review and approval of assumptions used in the base case economic scenario used in ECL calculation; and The ongoing monitoring and identification of loans displaying indicators of impairment and whether they are migrating on a timely basis, to lower grades for enhanced monitoring. We involved our Financial Risk Management specialists to assist us in assessing the appropriateness of impairment models used by management. This included assessing and challenging the appropriateness of key modelling judgments (eg. the transfer criteria used to determine SICR); We assessed the appropriateness and completeness of material overlays to results of the ECL model taking into account the judgment and estimates the corporation has made through the ECL process (including macro-economic forecast). We also considered the performance of ECL model during the year and impact of assumptions used in the calculation. For all loans classified as stage 3 credit impaired loans, we: <ul style="list-style-type: none"> Obtained the Corporation's assessment of the recoverability of these exposures and challenged whether the key assumptions used for such the recovery strategies, collateral rights and ranges of potential outcomes were appropriate, given the borrower's circumstance; and Evaluated the basis on which the allowance was determined, and the evidence supporting the analysis performed by management. Evaluating the adequacy of the Group's disclosures related to ECL in the consolidated financial statements by reference to the relevant accounting standards.

Valuation of unquoted equity securities (level 3)

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

Description	How the matter was addressed in our audit
We focused on this area because:	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • unquoted equity securities of US\$ 780,941 thousands make up 11 % of total assets (by value); and • the valuation of level equity securities held at fair value through profit or loss or through other comprehensive income requires the application of valuation techniques which often involve the exercise of high degree of judgement and the use of unobservable assumptions and estimates about the performance of the investees company. <p>Our audit procedures included:</p> <ul style="list-style-type: none"> • understanding and testing key controls around valuation process including valuation governance controls; • with the support of our valuation specialists, we performed the following: <ul style="list-style-type: none"> • evaluating the appropriateness of the valuation techniques used by the independent external valuer and testing their application; • Evaluating the reasonableness of key inputs and assumptions, with reference to historic performance of the investee and market information; and • Assessing reasonableness of the valuation. • Evaluating the adequacy of the Group's disclosures related to valuation of unquoted equity securities categorised as level 3 by reference to the relevant accounting Standards.

Other Matters

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

Responsibilities of the board of directors for the consolidated financial statements

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

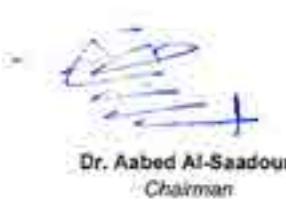
KPMG Fakhro
Partner registration number 100
23 February 2020

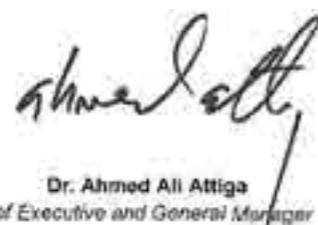
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

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

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


Dr. Aabed Al-Saadoun
Chairman


Dr. Ahmed Ali Attiga
Chief Executive and General Manager


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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

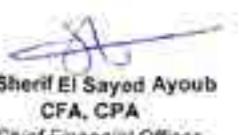
	Note	2019 (US\$000)	2018 (US\$000)
Interest income			
Interest expense		(171,248)	(134,589)
Net interest income	16	108,466	111,040
Dividend income			
Gain on sale of investments held for sale		-	86,669
Net loss on financial assets at FVTPL	18	(29,099)	(8,990)
Net fee income	19	2,008	277
Other income,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



Dr. Aabed Al-Saadoun
Chairman



Dr. Ahmed Ali Attiga
Chief Executive and General Manager


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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	(US\$000)	
	2019	2018
Profit for the year	111,901	182,272
Other comprehensive income		
Items that will not be reclassified to the statement of profit or loss		
Net change in fair value of equities at FVOCI	(37,283)	(8,010)
Items that are or may be reclassified subsequently to the statement of profit or loss		
Net change in fair value of debt securities at FVOCI	39,345	(13,843)
Reclassified to the statement of profit or loss on sale of debt securities at FVOCI	(309)	(128)
Total other comprehensive income for the year	1,753	(21,981)
Total comprehensive income for the year	113,654	160,291
Total comprehensive income for the year attributable to:		
Shareholders of the Corporation	113,338	160,825
Non-controlling interests	316	(534)
113,654	160,291	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019 (continued)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. Reporting entity

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

- participation in financing petroleum projects and industries, and in fields of activity which are derived therefrom, ancillary to, associated with, or complementary to such projects and industries; an
- giving priority to Arab joint ventures which benefit the member states and enhance their capabilities to utilise their petroleum resources and to invest their funds to strengthen their economic and financial development and potential.

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

(i) Share capital

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

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

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

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

(ii) Activities

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

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

(iii) Significant subsidiaries

The following subsidiaries are consolidated in these consolidated financial statements:

APICORP Petroleum Shipping Fund Limited

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

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

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

APICORP Sukuk Limited

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

APICORP Managed Investment Vehicle

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

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

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

2. General

(i) Statement of compliance

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

(ii) Basis of preparation

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

(iii) Foreign currency transactions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

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

3. Significant accounting policies

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

A. Basis of consolidation

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

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

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

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

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

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

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

B. Equity accounted investees

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

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

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

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

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

C. New standards issued and effective

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

(i) IFRS 16 Leases

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

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

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

Accounting policy

Leases

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

Policy applicable from 1 January 2019

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

As a lessee

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

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

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

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

Short-term leases and leases of low-value assets

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

(ii) Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The IASB has changed IFRS 9's requirements in two areas of financial instruments accounting

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

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

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

(iii) Long term interests in associates and joint venture (Amendments to IAS 28)

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

The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied.

In effect, this is a three-step annual process:

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

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

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

(iv) Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards

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

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

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

D. STANDARDS ISSUED AND NOT YET EFFECTIVE

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

(i) Amendments to References to Conceptual Framework in IFRS Standards

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

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

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

In particular, the amendments clarify:

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

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

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

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

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

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

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

E. Cash and cash equivalents

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

F. Repurchase and resale agreements

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

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

G. Property, equipment and vessels

(i) Recognition and Measurement

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

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

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

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

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

H. Financial instruments

(i) Recognition and initial measurement

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

(ii) Classification

Financial assets

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

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

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

Reclassifications

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

Assessment of whether contractual cash flows are SPPI

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

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

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

(iii) Derecognition

Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in the consolidated statement of profit or loss.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

Financial liabilities

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

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

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

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

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

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the consolidated statement of profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

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

(v) Offsetting

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

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

(vi) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

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

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

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

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

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

(vii) Foreign exchange gains and losses

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

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

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(viii) Impairment of exposures subject to credit risk

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

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

No impairment loss is recognised on equity investments.

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

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

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

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment as well as forward-looking information. The Group's accounting policy is to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk.

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

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

Definition of default

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

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

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective profit rate of the financial asset.

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

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. In absence of adequate loss history, suitable proxies as well as regulatory parameters and guidance is used to determine the LGD.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and the ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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Credit-impaired financial assets

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

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

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

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

Write-off

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- For financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- For debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in retained earnings;
- For loan commitments and financial guarantee contracts: generally, as a provision; and
- Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

(ix) Derivative financial instruments

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

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

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

(x) Financial guarantee contracts

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

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

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

(xi) Hedge accounting

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

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

- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

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

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

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Fair value hedges

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

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

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

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

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

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

I. Impairment of non-financial assets

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

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

J. Legal and general reserves

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

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

K. End of service benefits

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

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

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

L. Provisions

The Group recognises a provision when it has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

M. Critical accounting judgements and key sources of estimation uncertainty

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

(i) Judgements

Classification of financial assets

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

Significant increase of credit risk

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

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(ii) Assumptions and estimation of uncertainties

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

Impairment of financial instruments

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

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

N. Assets held for sale

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

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method.

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

4. Placements with banks

	2019	2018
With islamic financial institutions	206,087	121,617
With conventional financial institutions	397,997	530,298
Margin call accounts	-	26,687
Interest receivables	2,812	5,422
Expected credit loss impairment allowance (note 26)	(46)	(86)
606,85	683,938	

5. Loans and advances

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

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

Movement on impairment allowances is as follows:

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

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

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6. Investments

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

6.1 Debt securities at FVOCI

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

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

6.2 Equity securities at FVOCI

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

Movements during the year:

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

6.3 Investments at FVTPL

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

Movements during the year:

	2019	2018
Balance at 1 January under IAS 39	116,653	41,492
Transferred from available-for-sale on adoption of IFRS 9	-	61,389
	116,653	102,881

Additions during the year	31,639	25,109
Sold during the year	(55,759)	-
Fair value change	(32,536)	(11,337)
Balance at 31 December	59,997	116,653

7. Equity accounted investees

The movement on equity-accounted investees is given below:

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

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

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

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

8. Property, equipment and vessels

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

9. Other assets

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

10. Deposits

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

11. Bank term financing

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

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12. Sukuk and bonds issued

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

13. Other liabilities

	2019	2018
Interest payable	15,149	15,735
Dividend payable to shareholders	23,045	13,650
End of service benefits (see below)	12,621	11,080
Accrued expenses and other liabilities	23,025	14,548
Derivatives financial instruments (note 15)	28,235	28,863
Expected for credit losses for commitments and financial guarantees allowance (note 26)	14,038	7,599
	116,113	91,475
Movement on end of service benefits		
Balance as at 1 January	11,080	9,339
Charge for the year	2,477	2,161
Paid during the year	(936)	(420)
Balance as at 31 December	12,621	11,080

14 Commitments and guarantees

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

15 Derivative financial instruments

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

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

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

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

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

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

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

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

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

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for the year ended 31 December 2019

16. Net interest income

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

17. Dividend income

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

18. Net loss on financial assets at fvtpl

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

19. Net fee income

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

20. Other income, net

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

21. Operating expenses

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

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22. Impairment losses on financial instruments, net

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

23. Impairment losses , net

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

24. Appropriations

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

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

25. Related party transactions

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

Loans to related parties

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

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

Investments in related parties

	2019	2018
Investments	980,960	1,044,301
Commitments to investments	45,727	51,324
Guarantees as shareholder	7,977	8,777
Dividends received during the year	64,350	56,414
Others		
Deposits from corporates	122,453	415,213
Deposits from shareholders	117,484	113,951
Dividend payable to shareholders	23,045	13,650
Interest expense on deposits from corporates during the year	10,759	17,810
Interest expense on deposits from shareholders during the year	3,530	3,108
Balances due to key management For key management's compensation	445	355

26. Financial risk management

Financial risk management objectives

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

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

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

a) Credit risk management

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

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

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

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

Credit risk grades

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

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. These comprise the following:

- Information obtained during periodic review of customer files- e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes;
- Data from credit reference agencies, press articles, changes in external credit ratings;
- Quoted bond and credit default swap (CDS) prices for the borrower where available;

- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities;
- Payment record including overdue status as well as a range of variables about payment ratios;
- Utilisation of the granted limit;
- Requests for and granting of forbearance; and
- Existing and forecast changes in business, financial and economic conditions

The Corporation monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

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

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

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

Generating the term structure of PD

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

The Corporation employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include GDP growth.

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

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

The Corporation has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used the key indicators for the selected countries such as the interest rates and the GDP growth.

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Incorporation of forward-looking information

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

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates such as the International Monetary Fund. The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The Group has identified and documented key drivers of credit risk and credit losses of financial instruments and using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2019 included the key indicators for the selected countries such as the GDP growth.

Credit quality analysis

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

i. Placements with banks at amortised cost

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

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

ii. Investments in debt securities at measured at FVOCI

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

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

iii. Loans and Advances at amortised cost

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

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

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iv. Loans commitments and financial guarantees

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

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

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

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

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

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

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

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

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

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

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

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

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b) Liquidity risk and funding management

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

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

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

Contractual maturities of financial liabilities (including interest)

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

2019	Up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	Contractual Outflows	Carrying Value
Liabilities						
Deposits	(746,422)	(77,344)	-	-	(823,766)	(822,997)
Bank term financing	(272,076)	(881,936)	(375,000)	-	(1,529,012)	(1,446,913)
Sukuk and bonds issued	(25,045)	(80,630)	(2,245,315)	-	(2,350,990)	(2,323,386)
	(1,043,540)	(1,039,910)	(2,620,315)	-	(4,703,768)	(4,593,296)
Derivative instruments:						
Interest rate swaps	(158,237)	(596,533)	-	-	(754,770)	(619)
Cross currency swaps	-	(8,360)	(55,048)	(4,235)	(67,643)	(23,266)
Forward exchange contracts	-	(64,573)	(193,555)	-	(258,128)	(4,978)
Off-balance sheet exposures	(154,274)	(280,429)	(66,176)	(587,122)	(1,088,001)	(1,088,001)
	(312,511)	(949,895)	(314,779)	(591,357)	(2,168,542)	(1,116,864)

c) Market risk management

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

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

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

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

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

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

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

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

	2019	2018
Fixed rate instruments		
Financial assets	3,591,910	3,129,881
Financial liabilities	(2,709,135)	(2,690,801)
	882,775	439,080

Variable rate instruments

	2019	2018
Financial assets	5,318,044	5,226,468
Financial liabilities	(4,935,398)	(4,616,317)
	382,646	610,151

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

At 31 December 2019	5% strengthening of USD	5% weakening of USD
AED	28	(28)
GBP	24	(24)
KWD	24	(24)
At 31 December 2018	5% strengthening of USD	5% weakening of USD
AED	24	(24)
EUR	29	(29)
GBP	71	(71)

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

d) Operational risk

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

e) Capital management

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

27. Effective interest rates

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

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

28. Fair value hierarchy and categories of financial instruments

a) Fair value Hierarchy

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

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

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

2019	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities at FVOCI				
Treasury Bills	394,408	-	-	394,408
Fixed-rate bonds	1,303,446	-	-	1,303,446
Floating-rate bonds	69,533	-	-	69,533
Other investments at FVTPL	-	2,495	57,502	59,997
Equities at FVOCI	165,617	-	723,439	889,056
Derivative financial assets	-	43,046	-	43,046
	1,933,004	45,541	780,941	2,759,486
Financial liabilities				
Deposit from banks	-	100,516	-	100,516
Sukuk and Bonds issued	-	1,879,933	-	1,879,933
Derivative financial liabilities	-	28,235	-	28,235
	-	2,008,684	-	2,008,684
2018	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities at FVOCI				
Treasury Bills	224,958	-	-	224,958
Fixed-rate bonds	989,431	-	-	989,431
Floating-rate bonds	90,034	-	-	90,034
Other investments at FVTPL	-	56,265	60,388	116,653
Equities at FVOCI	259,093	-	757,385	1,016,478
Derivative financial assets	-	19,528	-	19,528
	1,563,516	75,793	817,773	2,457,082
Financial liabilities				
Deposit from bank	-	99,801	-	99,801
Sukuk and Bonds issued	-	1,904,271	-	1,904,271
Derivative financial liabilities	-	28,863	-	28,863
	-	2,032,935	-	2,032,935

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

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

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

Reconciliation of Level 3 fair value measurements

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

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

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

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for the year ended 31 December 2019

b) Categories of financial instruments

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

2019	Amortized cost	Designated at FVTPL	FVOCI – equity securities	FVOCI – debt securities	Total Carrying amount
Financial assets					
Cash and cash equivalents	48,620	-	-	-	48,620
Placements with banks	606,850	-	-	-	606,850
Investments	-	59,997	889,056	1,780,226	2,729,279
Loans and advances	3,650,291	47,424	-	-	3,697,715
Other Assets	28,915	43,046	-	-	71,961
Total financial and other assets	4,334,676	150,467	889,056	1,780,226	7,154,425
Financial liabilities					
Deposits	529,666	100,516	-	-	630,182
Other liabilities	87,878	28,235	-	-	116,113
Bank term financing	1,324,874	-	-	-	1,324,874
Sukuks and Bonds issued	1,047,548	1,879,933	-	-	2,927,481
Total financial and other Liabilities	2,989,966	2,008,684	-	-	4,998,650
2018	Amortized cost	Designated at FVTPL	FVOCI – equity securities	FVOCI – debt securities	Total Carrying amount
Financial assets					
Cash and cash equivalents	26,021	-	-	-	26,021
Placements with banks	783,321	-	-	-	783,321
Investments	-	116,653	1,016,478	1,312,036	2,445,167
Loans and advances	3,466,050	48,333	-	-	3,514,383
Other Assets	34,303	19,528	-	-	53,831
Total financial and other assets	4,309,695	184,514	1,016,478	1,312,036	6,822,723
Financial liabilities					
Deposits	723,196	99,801	-	-	822,997
Other liabilities	62,612	28,863	-	-	91,475
Bank term financing	1,446,913	-	-	-	1,446,913
Sukuks and Bonds issued	419,115	1,904,271	-	-	2,323,386
Total financial and other Liabilities	2,651,836	2,032,935	-	-	4,684,771

29. Maturity profile of assets and liabilities

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

	Up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	2019 Total
Assets					
Cash and cash equivalents	48,620	-	-	-	48,620
Placements with banks	606,850	-	-	-	606,850
Debt securities at FVOCI	430,276	25,459	937,145	387,346	1,780,226
Equity securities at FVOCI	-	-	-	889,056	889,056
Other investments at FVTPL	-	-	-	59,997	59,997
Equity accounted investees	-	-	-	91,904	91,904
Loans and advances	185,015	766,642	1,815,344	930,714	3,697,715
Property, equipment & vessels	-	-	-	103,092	103,092
Other assets	66,744	5,217	-	-	71,961
Total assets	1,337,505	797,318	2,752,489	2,462,109	7,349,421
Liabilities and Equity					
Deposits	(183,540)	(200,979)	(245,663)	-	(630,182)
Bank term financing	(7,157)	-	(1,317,717)	-	(1,324,874)
Sukuks and Bonds issued	(3,928)	(500,000)	(2,423,553)	-	(2,927,481)
Other liabilities	(113,880)	(2,233)	-	-	(116,113)
Equity	-	-	-	(2,348,368)	(2,348,368)
Non-controlling Interest	-	-	-	(2,403)	(2,403)
Total liabilities and equity	(308,505)	(703,212)	(3,986,933)	(2,350,771)	(7,349,421)
Maturity gap	1,029,000	94,106	(1,234,444)	111,338	-
Cumulative maturity gap	1,029,000	1,123,106	(111,338)	-	-
2018					
Total assets	1,127,880	820,457	2,508,882	2,495,510	6,952,729
Total liabilities and equity	(788,160)	(1,029,720)	(2,866,891)	(2,267,958)	(6,952,729)
Maturity gap	339,720	(209,263)	(358,009)	227,552	-
Cumulative maturity gap	339,720	130,457	(227,552)	-	-

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30. Repricing profile of financial assets and liabilities

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

2019	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Assets					
Placements with banks	604,084	-	-	-	604,084
Debt securities at FVOCI					
Floating-rate bonds	69,533	-	-	-	69,533
Loans and advances					
US\$ denominated	2,644,350	1,020,483	-	-	3,664,833
Non US\$ denominated	34,204	31,800	-	-	66,004
Liabilities					
Deposits					
US\$ denominated	(300,600)	(100,000)	-	-	(400,600)
Non US\$ denominated	(26,667)	-	-	-	(26,667)
Bank term financing	(1,325,000)	-	-	-	(1,325,000)
Sukuks and Bonds issued	(1,030,000)	-	-	-	(1,030,000)
Interest rate sensitivity gap	669,904	952,283	-	-	1,622,187
Cumulative Gap	669,904	1,622,187	1,622,187	1,622,187	
2018	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Assets					
Placements with banks	563,150	188,148	-	-	751,298
Available for sale securities					
Floating-rate bonds	90,034	-	-	-	90,034
Loans and advances					
US\$ denominated	2,472,654	895,364	-	-	3,368,018
Non US\$ denominated	101,191	86,103			187,294
Liabilities					
Deposits					
US\$ denominated	(560,972)	(75,000)	-	-	(635,972)
Non US\$ denominated	(83,620)	-	-	-	(83,620)
Bank term financing	(641,666)	(800,000)	-	-	(1,441,666)
Sukuks and Bonds issued	(405,000)	-	-	-	(405,000)
Interest rate sensitivity gap	1,535,771	294,615	-	-	1,830,386
Cumulative Gap	1,535,771	1,830,386	1,830,386	1,830,386	

31. Currency exposures

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

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

	Commitments and guarantees	2019	2018
United States dollar		1,464,866	960,256
Saudi Riyal		117,748	127,745
		1,582,614	1,088,001

GCC

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

Significant exchange rates

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

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

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

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32. Industry distribution of assets and liabilities

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

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

33. Segment analysis

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

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

34. Geographical distribution of risk

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

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

35. Comparative figures

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

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