

**ARAB PETROLEUM INVESTMENTS  
CORPORATION (APICORP)**

**INDEPENDENT AUDITORS' REPORT AND  
CONSOLIDATED FINANCIAL  
STATEMENTS**

**31 DECEMBER 2020**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2020**

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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS**

Arab Petroleum Investments Corporation  
 Dammam, Kingdom of Saudi Arabia

*Opinion*

We have audited the accompanying consolidated financial statements of Arab Petroleum Investments Corporation (the "Corporation") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 International Code of Ethics for Professional Accountants (including International Independence Standards) (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 of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Impairment of loans and advances**

*(refer to accounting policy in Note 3H(viii) and disclosures relating to management of credit risk in Note 26 (a))*

**Description**

*How the matter was addressed in our audit*

We focused on this area because:

Our procedures included:

- Of the significance of loans and advances representing 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 level of management judgment are:

- Understanding management's process and testing the relevant key controls over ECL, including over:
  - The completeness and accuracy of data flows from source system to the ECL calculation;
  - Model review, validation and approval;
  - Assessment and calculation of material SICR indicators and criteria;
  - The review and approval of assumptions used in the base case economic scenario used in ECL calculation; and

- Criteria selected to identify significant increases in credit risk (SICR);
- Use of inherently judgemental complex models 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 economic conditions;
- Qualitative adjustments (overlays) made to ECL results to address model limitations or emerging risks and trends in underlying portfolio which are inherently judgemental especially in the current COVID-19 environment.
- The carrying value of individually assessed stage 3 loans and advances may be materially misstated if individual impairments are not appropriately identified and estimated. The identification of impaired assets and the estimation of future cash flows and valuation of collateral require judgement.
- The ongoing monitoring and identification of loans displaying indicators of impairment and whether they are migrating on a timely basis, to lower grades for enhanced monitoring.
- We involved our credit risk specialists to assist us in:
  - evaluating the appropriateness of Group's impairment methodology;
  - evaluating the appropriateness and reasonableness of key modelling judgments (eg. the transfer criteria used to determine SICR);
  - evaluating the appropriateness of material management overlays to results of the ECL model taking into account the judgment and estimates the Group 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:
  - evaluated the Group's assessment of the recoverability of these exposures and assessed whether the key assumptions used in 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 on loan and advances in the consolidated financial statements by reference to the relevant accounting standards.

### Valuation of unquoted equity securities

(refer to accounting policy in Note 3H(vi) and disclosures relating to fair value of financial instruments in Note 28(a))

#### Descriptions

#### How the key audit matter was addressed in our audit

We focused on this area because:

Our audit procedures included:

- unquoted equity securities make up 9% of total assets (by value); and
- the valuation of unquoted equity securities requires the application of valuation techniques which often involve the exercise of high degree of judgement and the use of unobservable
- understanding and testing relevant key controls over valuation process including valuation governance controls;
- with the support of our valuation specialists, we performed the following:
  - evaluating the appropriateness of the valuation techniques used by management and testing their application;



assumptions and estimates about the performance of the investees company.

- evaluating the reasonableness of key inputs and assumptions, with reference to historic performance of the investee and market information; and
  - evaluating the overall reasonableness of the valuation.
- Evaluating the adequacy of the Group's disclosures related to valuation of unquoted equity securities by reference to the relevant accounting Standards.

*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 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, actions taken to eliminate threats or safeguards applied.

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 of the current period 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  
28 February 2021

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 December 2020**

(US\$000)

	Note	2020	2019
<b>ASSETS</b>			
Cash and bank balances		57,613	48,620
Placements with banks	4	374,692	606,850
Loans and advances	5	3,914,216	3,697,715
Investments	6	3,220,735	2,729,279
Equity accounted investees	7	114,211	91,904
Property, equipment and vessels	8	100,401	103,092
Other assets	9	110,947	71,961
<b>Total assets</b>		<b>7,892,815</b>	<b>7,349,421</b>
<b>LIABILITIES</b>			
Deposits	10	137,887	484,519
Securities sold under agreements to repurchase		352,147	145,663
Bank term financing	11	1,171,871	1,324,874
Sukuk and bonds issued	12	3,602,053	2,927,481
Other liabilities	13	187,448	116,113
<b>Total liabilities</b>		<b>5,451,406</b>	<b>4,998,650</b>
<b>EQUITY</b>			
Share capital	1	1,500,000	1,000,000
Legal reserve	24	247,000	235,000
General reserve	24	81,574	464,016
Investments fair value reserve		483,228	531,794
Retained earnings		126,662	117,558
<b>Total equity attributable to shareholders of the Corporation</b>		<b>2,438,464</b>	<b>2,348,368</b>
<b>Non-controlling interests</b>		<b>2,945</b>	<b>2,403</b>
<b>Total equity</b>		<b>2,441,409</b>	<b>2,350,771</b>
<b>Total liabilities and equity</b>		<b>7,892,815</b>	<b>7,349,421</b>

The consolidated financial statements, were approved by the Board of Directors on 28 February 2021 and signed on its behalf by:



**Dr. Aabed Al-Saadoun**  
Chairman



**Dr. Ahmed Ali Attiga**  
Chief Executive Officer

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**for the year ended 31 December 2020**
**(US\$000)**

	Note	2020	2019
Interest income		197,711	279,714
Interest expense		(114,639)	(171,248)
<b>Net interest income</b>	16	<b>83,072</b>	108,466
Dividend income	17	47,046	67,651
Net loss on financial assets at FVTPL	18	(23,124)	(29,099)
Net gain / (loss) on derecognition of financial assets at FVOCI		45,673	(309)
Share of profit from associates		1,701	893
Net fee income	19	3,532	2,008
Other income, net	20	19,087	14,148
<b>Total income</b>		<b>176,987</b>	163,758
Operating expenses	21	(47,659)	(47,918)
Impairment (loss) / reversal on financial instruments, net	22	(14,256)	1,800
Impairment losses on other assets, net	23	-	(5,739)
<b>PROFIT FOR THE YEAR</b>		<b>115,072</b>	111,901
<b>Profit for the year attributable to:</b>			
Shareholders of the Corporation		114,530	111,585
Non-controlling interests		542	316
		<b>115,072</b>	111,901
<b>Per share information</b>			
Basic and diluted earnings per share		US \$ 85	US \$ 82
Net asset value per share		US \$ 1,792	US \$ 1,725
Weighted average number of shares (in thousand)		1,361	1,361

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2020**

(US\$000)

	<b>2020</b>	2019
<b>Profit for the year</b>	<b>115,072</b>	111,901
<b>Other comprehensive income</b>		
<i>Items that will not be reclassified to the statement of profit or loss</i>		
Net change in fair value of equities at FVOCI	1,905	(37,283)
<i>Items that are or may be reclassified subsequently to the statement of profit or loss</i>		
Net change in fair value of debt securities at FVOCI	19,336	38,727
Reclassified to profit or loss on sale of debt securities at FVOCI	(45,673)	309
<b>Total other comprehensive income for the year</b>	<b>(24,432)</b>	1,753
<b>Total comprehensive income for the year</b>	<b>90,640</b>	113,654
<b>Total comprehensive income for the year attributable to:</b>		
Shareholders of the Corporation	90,098	113,338
Non-controlling interests	542	316
	<b>90,640</b>	113,654

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the year ended 31 December 2020

(US\$000)

	Total Equity attributable to Shareholders of the Corporation					Total	Non-controlling interests	Total equity
	Share capital	Legal reserve	General reserve	Investments fair value reserve	Retained earnings			
2020								
Balance at 1 January 2020	1,000,000	235,000	464,016	531,794	117,558	2,348,368	2,403	2,350,771
<b>Comprehensive income</b>								
Profit for the year	-	-	-	-	114,530	114,530	542	<b>115,072</b>
<b>Other comprehensive income</b>								
- Transfer to retained earnings on sale of equity instruments at FVOCI	-	-	-	(24,132)	24,132	-	-	-
- Net change in fair value of debt investments at FVOCI/Realized gain on sale	-	-	-	(26,339)	-	(26,339)	-	<b>(26,339)</b>
- Net change in fair value of equity investments at FVOCI	-	-	-	1,905	-	1,905	-	<b>1,905</b>
Total other comprehensive income	-	-	-	(48,566)	24,132	(24,434)	-	<b>(24,434)</b>
<b>Total comprehensive income for year</b>	-	-	-	<b>(48,566)</b>	<b>138,662</b>	<b>90,096</b>	<b>542</b>	<b>90,638</b>
Transfer to legal reserve	-	12,000	-	-	(12,000)	-	-	-
Transfer from general reserve	-	-	117,558	-	(117,558)	-	-	-
Transfer to share capital	500,000	-	(500,000)	-	-	-	-	-
<b>Balance as at 31 December 2020</b>	<b>1,500,000</b>	<b>247,000</b>	<b>81,574</b>	<b>483,228</b>	<b>126,662</b>	<b>2,438,464</b>	<b>2,945</b>	<b>2,441,409</b>

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 31 December 2020 (continued)**
**(US\$000)**

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

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**for the year ended 31 December 2020**

(US\$000)

	<b>2020</b>	2019
<b>OPERATING ACTIVITIES</b>		
<b>Profit for the year</b>	115,072	111,901
<b>Adjustment for:</b>		
Depreciation	6,925	6,782
End-of-service benefits	1,757	2,477
Net interest income	(83,072)	(108,466)
Share of profit from associates	(1,701)	(893)
Net hedge ineffectiveness loss/(gain)	590	(279)
(Gain)/Loss on sale of investments	(45,673)	309
Net loss on investments designated at FVTPL	23,124	29,099
Dividend income	(47,046)	(67,651)
Impairment, net	16,656	3,939
Net amortisation of transaction fee	1,399	(2,191)
<b>Changes in operating assets and liabilities</b>		
Interest received	215,901	277,810
Loans and advances drawdown	(1,620,453)	(1,708,655)
Loans and advances repaid by customers	1,376,149	1,530,730
Placements with banks	237,132	144,124
Other assets	2,329	(19,294)
Other liabilities	60,376	14,096
	259,465	213,838
End-of-service benefits paid	(1,066)	(936)
<b>Net cash from operating activities</b>	<b>258,399</b>	212,902
<b>INVESTING ACTIVITIES</b>		
Purchase of investments	(6,387,183)	(1,541,864)
Sale and redemptions of investments	5,892,881	1,154,630
Purchase of property, equipment and vessels	(4,234)	(3,040)
Dividends received	41,246	67,359
<b>Net cash used in investing activities</b>	<b>(457,290)</b>	(322,915)
<b>FINANCING ACTIVITIES</b>		
Proceeds from deposits	3,048,676	4,962,627
Repayment of deposits	(3,186,580)	(5,154,951)
Proceeds from bank term financing	-	950,000
Repayment of bank term financing	(150,000)	(1,066,666)
Proceeds from Sukuk and bonds	1,132,099	699,412
Repayment of Sukuk and bonds	(500,000)	(66,666)
Dividend paid	-	(21,446)
Finance charges paid	(129,204)	(172,788)
<b>Net cash from financing activities</b>	<b>214,991</b>	129,522
<b>Net increase in cash and cash equivalents for the year</b>	<b>16,100</b>	19,509
Cash and cash equivalents at 1 January	171,513	152,004
<b>Cash and cash equivalents at 31 December</b>	<b>187,613</b>	171,513
Cash and bank balance	57,613	48,620
Placement with less than three months maturity (Note 4)	130,000	122,893
<b>Cash and cash equivalents</b>	<b>187,613</b>	171,513

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2020**

**1 REPORTING ENTITY**

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

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

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

**(i) Share capital**

As of 31 December, 2020, the Corporation’s authorised capital is US \$ 20,000 million (2019: US \$ 2,400 million), subscribed capital US \$ 10,000 million (2019: US \$ 2,000 million) and issued and paid up capital is US \$ 1,500 million (2019: US \$ 1,000 million), whereas the remainder of US \$ 8,500 million (2019: US \$ 1,000 million ) is callable capital.

In April 2020, the General assembly upon recommendation of the Board of Directors approved the increase of the authorized capital from US\$2.4 billion to US\$20 billion, subscribed capital from US\$2 billion to US\$10 billion, Paid-up capital was increased from US\$1 billion to US\$1.5 billion by transferring US\$500 million from general reserves.

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	3,400,000	1,700,000	255,000	1,445,000	17%
Kingdom of Bahrain	600,000	300,000	45,000	255,000	3%
Democratic and Popular Republic of Algeria	1,000,000	500,000	75,000	425,000	5%
Kingdom of Saudi Arabia	3,400,000	1,700,000	255,000	1,445,000	17%
Syrian Arab Republic	600,000	300,000	45,000	255,000	3%
Republic of Iraq	2,000,000	1,000,000	150,000	850,000	10%
State of Qatar	2,000,000	1,000,000	150,000	850,000	10%
State of Kuwait	3,400,000	1,700,000	255,000	1,445,000	17%
Libya	3,000,000	1,500,000	225,000	1,275,000	15%
Arab Republic of Egypt	600,000	300,000	45,000	255,000	3%
	<b>20,000,000</b>	<b>10,000,000</b>	<b>1,500,000</b>	<b>8,500,000</b>	<b>100%</b>

**(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 through a banking branch 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 and corporates and short-term deposits from banks.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)****1 REPORTING ENTITY (continued)****(iii) Significant subsidiaries**

The following subsidiaries are consolidated in these consolidated financial statements:

**APICORP Petroleum Shipping Fund Limited**

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

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

During 2020, the board of directors of the Fund had resolved to continue the Fund (originally established in 2012 as 5 years closed-ended fund and subsequently extended during 2017 for 3 years) for a further period of 1 year.

**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.

**APICORP Sukuk Limited**

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

**APICORP Private Sukuk Limited**

The Corporation has set up a special purpose vehicle in 2016, APICORP Private Sukuk Limited, incorporated in Cayman Islands. It is a 100% owned subsidiary with the primary activity to issue Sukuk and related products.

**APICORP Trading SPV Limited**

The Corporation has set up a special purpose vehicle in 2019, APICORP Trading SPV Limited, incorporated in Cayman Islands. It is set up primarily for the purpose of holding interest rate swap, foreign exchange and repurchase agreement deals.

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

The Group'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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)****2 GENERAL (continued)****(iii) Foreign currency transactions**

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

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

**3 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in the consolidated financial statements and have been consistently applied 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****B. EQUITY ACCOUNTED INVESTEEES**

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 in Note J.

**C. NEW STANDARDS ISSUED AND EFFECTIVE**

The following standards, amendments and interpretations, which became effective as of 1 January 2020, are relevant to the Group:

**(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 adoption of this amendment had no significant impact on the consolidated financial statements.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****(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 adoption of this amendment 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 on or after 1 January 2021 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) Classification of liabilities as current or non-current (amendment to IAS 1)**

Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional '*right to defer*' settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the requirement for a right to be unconditional has been removed and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. This assessment may require management to exercise interpretive judgement.

Further, '*a right to defer*' exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date. This new requirement may change how companies classify rollover facilities, with some becoming non-current.

The amendments state that settlement of a liability includes transferring a company's own equity instruments to the counterparty. When classifying liabilities as current or non-current a company can ignore only those conversion options that are recognized as equity. Therefore, companies may need to reassess the classification of liabilities that can be settled by the transfer of the company's own equity instruments – e.g. convertible debt.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023.

The Group does not expect a significant impact on its consolidated financial statements from adopting this amendment.

**(ii) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).**

When a parent loses control of a subsidiary in a transaction with an associate or joint venture (JV), there is a conflict between the existing guidance on consolidation and equity accounting. Under the consolidation standard, the parent recognizes the full gain on the loss of control. But under the standard on associates and JVs, the parent recognizes the gain only to the extent of unrelated investors' interests in the associate or JV. In either case, the loss is recognized in full if the underlying assets are impaired. The amendments require the full gain to be recognized when the assets transferred meet the definition of a 'business' under IFRS 3 Business Combinations.

The effective date for these changes has now been postponed until the completion of a broader review.

The Group does not expect a significant impact on its consolidated financial statements from adopting these amendments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****(iii) Interest Rate Benchmark Reform-Phase 2 (Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16)**

The amendments made to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16 provide certain reliefs in relation to interest rate benchmark reforms. The post-IBOR reform is when the uncertainty goes away, and companies update the rates in their contracts and the details of their hedging relationships. The amendments are effective for annual reporting periods beginning on or after 1 January 2021.

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate.

The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

**a. Change in basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities;**

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

**b. Hedge accounting**

The amendments provide exceptions to the hedge accounting requirements in the following areas:

- Allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform.
- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, the hedged items are allocated sub-groups based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

The Group plans to apply the amendments from 1 January 2021. Application will not impact amounts reported for 2020 or prior periods.

The Group has started an initial assessment of the potential impact on its consolidated financial statements of adopting these amendments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2020**

(US\$000)

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

**E. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash on hand, bank balances and placements with financial institution 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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****G PROPERTY, EQUIPMENT AND VESSELS (continued)**

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.

**Capital work in progress**

Assets under construction are classified as Capital work in progress. The Capital work in progress comprises expenditure incurred on the acquisition and installation of assets which is transferred to the appropriate category of asset and depreciated after it is put to commercial or intended use.

**Leases**

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.

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 and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability.

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 Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****G PROPERTY, EQUIPMENT AND VESSELS (continued)**

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

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 a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in consolidated statement of profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in property, plant and equipment and lease liabilities as separate line item on face of the consolidated statement of financial position.

***Extension and termination options***

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

***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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)**3 *SIGNIFICANT ACCOUNTING POLICIES (continued)***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.

**(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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)**

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

***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).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)**

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

**(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.

***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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)****3 SIGNIFICANT ACCOUNTING POLICIES (continued)**  
**H. FINANCIAL INSTRUMENTS (continued)**

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****H. FINANCIAL INSTRUMENTS (continued)****(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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)**

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

**(vii) Foreign exchange gains and losses**

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

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

**(viii) Impairment of exposures subject to credit risk**

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

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

No impairment loss is recognised on equity investments.

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)**

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

**Significant increase in credit risk**

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

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

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

**Definition of default**

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

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

**Measurement of ECLs**

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

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

- Probability of default (PD);
- Loss given default (LGD); and
- 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****H. FINANCIAL INSTRUMENTS (continued)**

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

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

**Restructured financial assets**

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

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

**Credit-impaired financial assets**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)****3 SIGNIFICANT ACCOUNTING POLICIES (continued)**  
**H. FINANCIAL INSTRUMENTS (continued)**

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)**

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

**(ix) Derivative financial instruments**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)****3 SIGNIFICANT ACCOUNTING POLICIES (continued)**  
**H. FINANCIAL INSTRUMENTS (continued)**

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

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

**Fair value hedges**

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

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

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

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

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

As a result of these uncertainties, significant accounting judgement is involved in determining whether certain hedge accounting relationships that hedge the variability of foreign exchange and interest rate risk due to expected changes in IBORs continue to qualify for hedge accounting as at 31 December 2020. 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 2020.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****I. REVENUE RECOGNITION***(i) Interest income and expense*

Interest income and expense is recognised in consolidated profit or loss, using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest

*Amortised cost and gross carrying amount*

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

*(ii) Dividend income*

Dividend income is recognized when the right to receive income is established. This is usually when approved by the shareholders.

*(iii) Income from vessel charter*

Income from vessel charter is recognized over the term of the contract with charter of vessels.

**J. 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****K. LEGAL AND GENERAL RESERVES**

Under Article 35 of APICORP's establishment agreement and statute, 10% of profit for the year is to be appropriated 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 on the recommendation of the directors and approval of the shareholders. 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.

**L. 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.

**M. 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****N. USE OF JUDGEMENTS AND ESTIMATES**

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(i)

***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. (refer Note 3H(viii) and Note 26(a))

***COVID-19 impact***

COVID-19 was declared a worldwide pandemic by the World Health Organisation in March 2020. COVID-19 and related measures to slow the spread of the virus have since had a significant impact on the local and global economy, supply chains and financial markets.

The Group has considered the impact of COVID-19 and related market volatility in preparing these consolidated financial statements. While the methodologies and assumptions applied in the measurement of various items within the financial statements remain unchanged from those applied in the 2019 financial statements, the impact of COVID-19 has resulted in the application of further judgement and the incorporation of estimates and assumptions specific to the impact of COVID-19.

Principally this has resulted in updates to the Group's economic assumptions used in determining expected credit losses (ECL) and the impairment assessment for other non-financial assets.

The Group's risk and capital management framework continues to be applied and the Group continues to monitor the impact of COVID-19 on the Group's risk and capital profile. Non-financial risks reemerging from local and global movement restrictions, and remote working by staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of the Group's Risk Management Framework.

***Impairment allowance on loans and advances at amortised cost***

In determining the appropriate level of expected credit losses (ECLs) the Group considered the macro-economic outlook, customer credit quality, the type of collateral held, exposure at default, and the effect of payment deferral options as at the reporting date.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****N. USE OF JUDGEMENTS AND ESTIMATES (continued)**

The ECL methodology, significant increase in credit risk (SICR) thresholds, and definition of default remain consistent with those used as at 31 December 2019.

The model inputs, including forward-looking information, scenarios and associated weightings, were revised to reflect the current outlook. Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of how the social and economic consequences of COVID-19 will materialize, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.

The Group's models are calibrated to consider past performance and macroeconomic forward-looking variables as inputs. The IASB and global regulators have issued guidance consistent with IFRS 9, to consider the exceptional circumstances of the COVID-19 pandemic. This includes consideration of significant government support and the high degree of uncertainty around historic long-term trends used in determining reasonable and supportable forward-looking information as well as the assessment of underlying credit deterioration and migration of balances to progressive stages.

The Group considers both qualitative and quantitative information in the assessment of significant increase in credit risk. The Group continues to assess borrowers for other indicators of unlikelihood to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or longer term.

**(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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2020**
**(US\$000)****4 PLACEMENTS WITH BANKS**

	<b>2020</b>	2019
With Islamic financial institutions	50,000	183,117
With conventional financial institutions	158,400	298,074
Margin call accounts	35,659	-
Interest receivables	748	2,812
Expected credit loss impairment allowance (note 26)	(115)	(46)
	<b>244,692</b>	<b>483,957</b>
Maturity less than three months	<b>2020</b>	2019
With Islamic financial institutions	80,000	22,970
With conventional financial institutions	50,000	99,923
	<b>130,000</b>	<b>122,893</b>
<b>Balance at 31 December</b>	<b>374,692</b>	<b>606,850</b>

**5 LOANS AND ADVANCES**

	<b>2020</b>	2019
Islamic loans at amortised cost	1,371,658	1,364,028
Conventional loans		
a) at amortised cost	2,603,484	2,366,809
b) at FVTPL	47,367	47,424
Interest receivable	13,250	26,167
	<b>4,035,759</b>	<b>3,804,428</b>
Unamortized participation and upfront fees	(53,288)	(55,220)
Expected credit loss impairment allowance (note 26)	(68,255)	(51,493)
	<b>3,914,216</b>	<b>3,697,715</b>
<b>Movement during the year</b>	<b>2020</b>	2019
Balance at 1 January	3,778,261	3,603,645
Drawdowns	1,620,453	1,708,655
Repayments by customers	(1,376,149)	(1,533,130)
Fair value change	(56)	(909)
	<b>4,022,509</b>	<b>3,778,261</b>
Interest receivable	13,250	26,167
	<b>4,035,759</b>	<b>3,804,428</b>
<b>Balance at 31 December</b>	<b>4,035,759</b>	<b>3,804,428</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2020**

(US\$000)

## 5 LOANS AND ADVANCES (continued)

Movement on impairment allowances is as follows:

2020	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	3,756	35,546	12,191	<b>51,493</b>
Net movement between stages	-	9,217	(9,217)	-
Net charge for the year	5,338	(1,436)	12,860	<b>16,762</b>
<b>At 31 December 2020</b>	<b>9,094</b>	<b>43,327</b>	<b>15,834</b>	<b>68,255</b>

  

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	(756)	(3,149)	(290)	(4,195)
At 31 December 2019	3,756	35,546	12,191	51,493

## 6 INVESTMENTS

		2020	2019
Debt securities at FVOCI	6.1	2,324,826	1,780,226
Equity securities at FVOCI	6.2	859,720	889,056
Other investments at FVTPL	6.3	36,189	59,997
		<b>3,220,735</b>	<b>2,729,279</b>

## 6.1 Debt securities at FVOCI

	2020	2019
Treasury bills	374,932	394,408
Fixed-rate bonds	1,867,535	1,303,446
Floating-rate bonds	67,869	69,533
Interest receivable	15,302	14,123
Expected credit loss impairment allowance (note 26)	(812)	(1,284)
	<b>2,324,826</b>	<b>1,780,226</b>

**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 2020, the fair value of investment at FVOCI (debt) that had been pledged as collateral under repurchase agreements was US \$383,157 thousands (2019: US \$185,196 thousands). These transactions are conducted under the terms that are usual and customary to standard securities borrowings and lending activities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2020**

**(US\$000)**6. *INVESTMENTS (continued)***6.2 Equity securities at FVOCI**

	<b>2020</b>	2019
Unlisted equities	710,796	723,439
Listed equities	148,924	165,617
	<b>859,720</b>	889,056

**Movements during the year:**

	<b>2020</b>	2019
Balance at 1 January	889,056	1,016,478
Additions during the year	-	46,960
Sold during the year	(30,429)	(98,850)
Transferred to equity accounted investee (note 7)	-	(16,596)
Net fair value change	1,093	(58,936)
<b>Balance at 31 December</b>	<b>859,720</b>	889,056

**6.3 Investments at FVTPL**

	<b>2020</b>	2019
Managed funds and others	3,602	5,772
Unlisted equities	32,587	54,225
	<b>36,189</b>	59,997

**Movements during the year:**

	<b>2020</b>	<b>2019</b>
Balance at 1 January	59,997	116,653
Additions during the year	2,285	31,639
Sold during the year	(3,024)	(55,759)
Net fair value change	(23,069)	(32,536)
<b>Balance at 31 December</b>	<b>36,189</b>	59,997

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2020**

**(US\$000)****7 EQUITY ACCOUNTED INVESTEEES**

The movement on equity-accounted investees is given below:

	<b>2020</b>	2019
Balance at 1 January	91,904	27,823
Additions during the year	24,908	51,611
Share of profit for the year	1,701	893
Dividend received	(5,286)	-
Impairment charge for the year (note 23)	-	(10,390)
Transferred from equity securities at FVOCI (note 6.2)	-	16,596
Change in foreign exchange value	984	5,371
<b>Balance at 31 December</b>	<b>114,211</b>	<b>91,904</b>

Name	Country of incorporation	% holding		Nature of business
		2020	2019	
Falcon Cement Company BSC	Kingdom of Bahrain	30	30	Manufacturing and trading of cement
(Ashtead Technology) BP INV2B BIDCO LIMITED	United Kingdom	32.9	32.9	Oil and gas services and facilities management company
Al Khorayef United Holding	State of Kuwait	24	24	Oil and gas services and facilities management company
GC-16 JV	State of Kuwait	24	24	Oil and gas services and facilities management company
Intra Taf Holding	Luxembourg	40	-	Holding and 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):*

	<b>2020</b>	2019
Total assets	406,827	362,882
Total liabilities	162,888	137,336
Total revenues	85,758	227,046
Total net results	14,308	4,976

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**8 PROPERTY, EQUIPMENT AND VESSELS**

	Land	Building	Vessels	Computer, Furniture & Equipment	Capital work in progress	Total
<b>Cost</b>						
Balance at 1 January 2019	4,004	54,793	117,254	22,496	857	199,404
Additions	-	-	-	938	2,102	3,040
Disposal	-	-	-	(769)	-	(769)
<b>Balance at 31 December 2019</b>	<b>4,004</b>	<b>54,793</b>	<b>117,254</b>	<b>22,665</b>	<b>2,959</b>	<b>201,675</b>
Additions	-	-	-	333	3,901	4,234
<b>Balance at 31 December 2020</b>	<b>4,004</b>	<b>54,793</b>	<b>117,254</b>	<b>22,998</b>	<b>6,860</b>	<b>205,909</b>
<b>Accumulated depreciation and impairment</b>						
Balance at 1 January 2019	-	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)
<b>Balance at 31 December 2019</b>	<b>-</b>	<b>45,436</b>	<b>35,395</b>	<b>17,752</b>	<b>-</b>	<b>98,583</b>
Depreciation for the year	-	935	5,360	630	-	6,925
<b>Balance at 31 December 2020</b>	<b>-</b>	<b>46,371</b>	<b>40,755</b>	<b>18,382</b>	<b>-</b>	<b>105,508</b>
<b>Carrying Amount</b>						
<b>Balance at 31 December 2020</b>	<b>4,004</b>	<b>8,422</b>	<b>76,499</b>	<b>4,616</b>	<b>6,860</b>	<b>100,401</b>
Balance at 31 December 2019	4,004	9,357	81,859	4,913	2,959	103,092

**9 OTHER ASSETS**

	2020	2019
Interest receivable	18,690	23,078
Derivative financial instruments (note 15)	80,895	43,046
Employee loans and advances	825	771
Dividends receivable	7,752	292
Other receivables and advance payments	2,785	4,774
	<b>110,947</b>	<b>71,961</b>

**10 DEPOSITS**

	2020	2019
Deposits from banks	-	242,182
Deposits from corporates	18,664	122,453
Deposits from shareholders	119,067	117,484
Interest payable	156	2,400
	<b>137,887</b>	<b>484,519</b>

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**11 BANK TERM FINANCING**

	2020	2019
US\$ 150 million loan 2018 - 2021 - fully drawn	-	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	50,000
SAR 1,500 million loan 2019 – 2024 – fully drawn	400,000	400,000
SAR 1,500 million loan 2019 – 2024 – fully drawn	400,000	400,000
US\$ 100 million loan 2019 – 2024 – fully drawn	100,000	100,000
Interest payable	1,952	7,157
Unamortised front-end fee	(5,081)	(7,283)
	<b>1,171,871</b>	<b>1,324,874</b>

**12 SUKUK AND BONDS ISSUED**

	2020	2019
US \$ 3 billion Sukuk programme (partially drawn)		
<u>Series 1</u> :- US \$ 500 million bonds 2015 – 2020		
profit rate: 2.383% p.a.	-	498,168
<u>Series 2</u> :- US \$ 500 million bonds 2017 – 2022		
profit rate: 3.141% p.a.	517,687	506,641
US \$ 3 billion GMTN programme (partially drawn)		
<u>Series 1</u> :- US \$ 750 million bonds 2018 – 2023		
profit rate: 4.125% p.a.	803,952	783,244
US \$ 3 billion GMTN programme (partially drawn)		
<u>Series 2</u> :- US \$ 1,000 million bonds 2020 – 2025		
profit rate: 1.46% p.a.	1,002,247	-
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.	96,568	91,880
US \$ 300 million floating rate bond 2019 – 2024 (fully drawn)		
LIBOR plus margin 1.05%	300,000	300,000
US \$ 325 million floating rate bond 2019 – 2024 (fully drawn)		
LIBOR plus margin 0.90%	325,000	325,000
GBP 100 million fixed rate bond 2020 – 2023 (fully drawn)		
coupon rate: 0.71% p.a.	137,401	-
Interest payable	17,195	19,742
Unamortised front-end fee	(2,997)	(2,194)
	<b>3,602,053</b>	<b>2,927,481</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**13 OTHER LIABILITIES**

	<b>2020</b>	2019
Interest payable	10,580	15,149
Dividend payable to shareholders	23,045	23,045
End of service benefits (see below)	13,312	12,621
Derivatives financial instruments (note 15)	47,107	28,235
Accrued expenses and other liabilities	12,920	13,600
Call account liability	68,549	9,425
Expected credit losses for commitments and financial guarantees allowance (note 26)	11,935	14,038
	<b>187,448</b>	116,113

**Movement on end of service benefits**

Balance as at 1 January	12,621	11,080
Charge for the year	1,757	2,477
Paid during the year	(1,066)	(936)
<b>Balance as at 31 December</b>	<b>13,312</b>	12,621

**14 COMMITMENTS AND GUARANTEES**

	<b>2020</b>	2019
Commitments to underwrite and fund loans	1,820,553	1,527,096
Commitments to subscribe capital to investments	45,402	45,727
Guarantees to bank on loans of investee companies	7,977	7,977
Fixed assets commitments	4,922	-
Other Commitments	-	1,814
	<b>1,878,854</b>	1,582,614

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**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:

	2020		2019	
	Asset	Liabilities	Asset	Liabilities
Interest rate swaps (Fair value hedges)	72,916	44,539	43,002	18,488
Cross currency swaps (Fair value hedges)	7,548	2,566	-	8,829
Foreign exchange contracts (Other derivatives held for risk management)	431	2	44	918
<b>At 31 December</b>	<b>80,895</b>	<b>47,107</b>	43,046	28,235

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

	2020	2019
Interest rate swaps (Fair value hedges)	2,060,000	2,709,135
Cross currency swaps (Fair value hedges)	186,985	199,135
Foreign exchange contracts (Other derivatives held for risk management)	394,498	629,564
<b>At 31 December</b>	<b>2,641,483</b>	3,537,834

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:

	2020	2019
Losses on the hedged items attributable to risk hedged, net	(30,471)	(8,551)
Gains on the hedging instruments, net	29,881	8,830
<b>Net hedge ineffectiveness (loss)/gain</b>	<b>(590)</b>	279

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**(US\$000)****16 NET INTEREST INCOME**

	<b>2020</b>	2019
<b>Interest income</b>		
Cash and bank balances	297	318
Placements with banks – Islamic banks	2,773	4,807
– Conventional banks	7,797	21,615
Debt securities at FVOCI (net)	47,680	45,663
Loans and advances – Islamic banks	42,715	55,625
– Conventional banks	69,602	116,425
Loan designated at FVTPL	5,989	11,583
Amortisation of loan participation and upfront fees	20,858	23,678
<b>Total interest income</b>	<b>197,711</b>	279,714
<b>Interest expense</b>		
Deposits from banks – Islamic banks	48	374
– Conventional banks	4,727	9,524
Securities sold under agreement to repurchase	2,720	5,889
Deposits from corporates & shareholders – Islamic institutions	1,156	6,084
– Conventional	2,835	8,204
Others	4,243	180
Bank term financing	23,690	42,590
Sukuk and bonds issued	71,461	92,936
Amortisation of front-end fees on bank term financing, Sukuk and bond issued	3,759	5,467
<b>Total interest expense</b>	<b>114,639</b>	171,248
<b>Net interest income</b>	<b>83,072</b>	108,466

**17 DIVIDEND INCOME**

	<b>2020</b>	2019
Equity securities at FVOCI		
- Listed	7,747	12,325
- Unlisted	39,299	55,326
	<b>47,046</b>	67,651

**18 NET LOSS ON FINANCIAL ASSETS AT FVTPL**

	<b>2020</b>	2019
Loan designated at FVTPL	(56)	(909)
Investments at FVTPL	(23,068)	(28,190)
	<b>(23,124)</b>	(29,099)

**19 NET FEE INCOME**

	<b>2020</b>	2019
Agency, advisory and other services	3,532	2,008
	<b>3,532</b>	2,008

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**(US\$000)****20 OTHER INCOME, NET**

	<b>2020</b>	2019
Exchange gains, net	2,119	2,634
Net hedge ineffectiveness (loss)/gain (note 15)	(590)	279
Rental income	422	420
Income from vessels	17,136	10,669
Others	-	146
	<b>19,087</b>	<b>14,148</b>

**21 OPERATING EXPENSES**

	<b>2020</b>	2019
Staff cost	23,014	19,230
End of service benefits	1,757	2,405
Premises costs, including depreciation	13,533	14,043
Equipment and communications costs	2,661	2,327
Key Management's and Board benefits, fees and charges	3,689	4,281
Consultancy and legal fee	2,731	2,690
Others	274	2,942
	<b>47,659</b>	<b>47,918</b>

**22 IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS, NET**

	<b>2020</b>	2019
<b>Charge for the year</b>		
Placements	(69)	-
Loans and advances	(18,987)	-
Loan commitments and financial guarantees	-	(6,439)
	<b>(19,056)</b>	<b>(6,439)</b>
<b>Reversal for the year</b>		
Placements	-	40
Debt securities at FVOCI	472	4,004
Loans and advances	2,225	4,195
Loan commitments and financial guarantees	2,103	-
	<b>4,800</b>	<b>8,239</b>
	<b>(14,256)</b>	<b>1,800</b>

**23 IMPAIRMENT LOSSES ON OTHER ASSETS, NET**

	<b>2020</b>	2019
<b>Charge for the year</b>		
Equity accounted investees (note 7)	-	(10,390)
	<b>-</b>	<b>(10,390)</b>
<b>Reversal for the year</b>		
Property, equipment and vessels (note 8)	-	4,651
	<b>-</b>	<b>(5,739)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**24 APPROPRIATIONS**

	2020	2019
Legal reserve	12,000	12,000
General reserve	117,558	132,931
Dividends	-	30,841

During the Annual General Meeting held on April 12, 2020, the shareholders' approved the above appropriation for the year 2019.

**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.

<b>Loans to related parties</b>	2020	2019
Loans outstanding at 31 December – gross	2,860,536	2,498,757
Commitments to underwrite and fund loans at 31 December	799,752	681,528
Interest income from loans during the year	91,671	132,011
Loan fees received during the year	1,174	1,858

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 2020 and 2019.

<b>Investments in related parties</b>	2020	2019
Investments	969,359	980,960
Commitments to investments	45,727	45,727
Guarantees as shareholder	7,977	7,977
Dividends received during the year	46,946	64,350

**Others**

Deposits from corporates	18,664	122,453
Deposits from shareholders	119,067	117,484
Dividend payable to shareholders	23,045	23,045
Interest expense on deposits from corporates during the year	2,343	10,759
Interest expense on deposits from shareholders during the year	1,649	3,530
Balances due to key management	165	119

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)****26 FINANCIAL RISK MANAGEMENT*****Financial risk management objectives***

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

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

The Board 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 Board 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 Board 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 detailed due diligence, analysis and appraisal before being reviewed by the Credit and Investments Committee (consisting of the CEO 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 sponsored by sovereign and semi sovereign entities 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, the United States and major European and Asian 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").

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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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).

Additionally, during the year the Group assessed borrowers for other indicators of unlikeliness to pay taking into consideration the underlying cause of seasonal difficulty, temporary or long term due to COVID-19.

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 lower internal credit grade. Lower grades are indicative of a higher likelihood of default. Credit ratings are used by the Corporation to decide the maximum lending amount per transaction and also to set minimum pricing thresholds.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
for the year ended 31 December 2020****(US\$000)****26 FINANCIAL RISK MANAGEMENT (continued)**

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

**Generating the term structure of PD**

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

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

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

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

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

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

**Incorporation of forward-looking information**

The Corporation 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 ALCO 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.

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## 26 FINANCIAL RISK MANAGEMENT (continued)

The economic uncertainties caused by COVID-19 and volatility in oil prices impacting regional economic forecast have required the Corporation to update input and assumptions used for determination of ECL. Accordingly, the Corporation's ECL estimates are inherently uncertain and actual results may differ from those estimates.

The Corporation has stressed financing exposure with regards to specific countries which are expected to be most impacted by COVID-19 and oil price volatility. The Corporation has also given higher weightage to stressed scenario in assessing the ECL due to likely near term impact of COVID-19.

**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

2020	Stage 1	Stage 2	Stage 3	Total
AAA to AA-	234,060	-	-	<b>234,060</b>
A+ to A-	110,610	-	-	<b>110,610</b>
BBB to BBB-	30,137	-	-	<b>30,137</b>
BB+ to B-	-	-	-	-
Gross amount	374,807	-	-	<b>374,807</b>
ECL Allowance	(115)	-	-	<b>(115)</b>
<b>Carrying Amount</b>	<b>374,692</b>	-	-	<b>374,692</b>

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

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**(US\$000)**26 *FINANCIAL RISK MANAGEMENT (continued)*ii. Investments in debt securities at measured at FVOCI

<b>2020</b>	Stage 1	Stage 2	Stage 3	<b>Total</b>
AAA to AA-	1,192,930	-	-	<b>1,192,930</b>
A+ to A-	853,573	66,873	-	<b>920,446</b>
BBB to BBB-	50,864	5,154	-	<b>56,018</b>
BB+ to B-	48,427	107,817	-	<b>156,244</b>
Gross amount	2,145,794	179,844	-	<b>2,325,638</b>
ECL Allowance	(394)	(418)	-	<b>( 812)</b>
<b>Carrying Amount</b>	<b>2,145,400</b>	<b>179,426</b>	-	<b>2,324,826</b>

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

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## 26 FINANCIAL RISK MANAGEMENT (continued)

## CREDIT RISK MANAGEMENT (continued)

iii. Loans and Advances at amortised cost

2020	Stage 1	Stage 2	Stage 3	Total
AAA to AA-	643,667	-	-	<b>643,667</b>
A+ to A-	1,460,161	-	-	<b>1,460,161</b>
BBB to BBB-	776,445	79,261	-	<b>855,706</b>
BB+ to C	277,141	727,347	-	<b>1,004,488</b>
D	-	7,845	16,525	<b>24,370</b>
Gross amount	3,157,414	814,453	16,525	<b>3,988,392</b>
ECL Allowance	(9,094)	(43,327)	(15,834)	<b>(68,255)</b>
<b>Carrying Amount</b>	<b>3,148,320</b>	<b>771,126</b>	<b>691</b>	<b>3,920,137</b>

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

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**(US\$000)**26 *FINANCIAL RISK MANAGEMENT (continued)**CREDIT RISK MANAGEMENT (continued)*iv. Loans commitments and financial guarantees

<b>2020</b>	Stage 1	Stage 2	Stage 3	<b>Total</b>
AAA to AA-	-	-	-	-
A+ to A-	83,833	-	-	<b>83,833</b>
BBB to BBB-	1,275,914	30,428	-	<b>1,306,342</b>
BB+ to C	91,852	305,165	-	<b>397,017</b>
D	-	7,977	33,362	<b>41,339</b>
Gross amount	1,451,599	343,570	33,362	<b>1,828,531</b>
ECL Allowance	(2,349)	(4,592)	(4,994)	<b>(11,935)</b>
<b>Carrying Amount</b>	<b>1,449,250</b>	<b>338,978</b>	<b>28,368</b>	<b>1,816,596</b>

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

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## 26 FINANCIAL RISK MANAGEMENT (continued)

## CREDIT RISK MANAGEMENT (continued)

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

2020	Stage 1	Stage 2	Stage 3	Total
At 1 January	5,719	44,166	16,976	<b>66,861</b>
Net movement between stages	-	9,217	(9,217)	-
Net charge for the year	6,233	(5,046)	13,069	<b>14,256</b>
<b>At 31 December</b>	<b>11,952</b>	<b>48,337</b>	<b>20,828</b>	<b>81,117</b>

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	115	-	-	<b>115</b>
Loans and advances	9,094	43,327	15,834	<b>68,255</b>
Debt securities at amortised cost	394	418	-	<b>812</b>
Loan commitments and financial guarantees	2,349	4,592	4,994	<b>11,935</b>
	<b>11,952</b>	<b>48,337</b>	<b>20,828</b>	<b>81,117</b>

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	367	(6,662)	4,495	(1,800)
At 31 December	5,719	44,166	16,976	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	1,546	7,707	4,785	14,038
	5,719	44,166	16,976	66,861

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## 26 FINANCIAL RISK MANAGEMENT (continued)

## CREDIT RISK MANAGEMENT (continued)

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

	Loans and Advances (note 5)		Placements with banks (note 4)		Debt securities at FVOCI (note 6.1)	
	2020	2019	2020	2019	2020	2019
<b>Concentration of credit risk by sector</b>						
Energy	1,570,315	1,600,930	-	-	208,997	312,388
Materials	935,336	958,029	-	-	72,821	63,093
Financials & Sovereign	38,869	-	374,692	606,850	1,508,015	1,233,954
Utilities	1,072,589	840,725	-	-	486,566	92,036
Industrials	297,107	298,031	-	-	48,427	78,755
<b>Carrying amount at 31 December</b>	<b>3,914,216</b>	3,697,715	<b>374,692</b>	606,850	<b>2,324,826</b>	1,780,226

	Loans and Advances (note 5)		Placements with banks (note 4)		Debt securities at FVOCI (note 6.1)	
	2020	2019	2020	2019	2020	2019
<b>Concentration of credit risk by location</b>						
Kingdom of Saudi Arabia	1,218,291	1,094,345	79,789	198,366	427,468	299,096
State of Qatar	536,608	490,901	-	-	136,396	108,078
Other Gulf Cooperation Council states	1,419,492	1,167,940	236,167	408,484	613,419	444,289
Egypt and North Africa	249,610	328,923	-	-	-	-
<b>Total Arab World</b>	<b>3,424,001</b>	3,082,109	<b>315,956</b>	606,850	<b>1,177,283</b>	851,463
Europe	235,023	347,268	-	-	-	139,214
Asia and Oceania	130,367	96,580	8,733	-	384,864	61,111
United States	124,825	171,758	50,003	-	762,679	728,438
<b>Carrying amount at 31 December</b>	<b>3,914,216</b>	3,697,715	<b>374,692</b>	606,850	<b>2,324,826</b>	1,780,226

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26 **FINANCIAL RISK MANAGEMENT (continued)**  
**b.) Liquidity risk and funding management**

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

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

The management of the Group has enhanced its monitoring of the liquidity and funding requirements. In response to COVID-19 outbreak, the Group invoked its contingency funding plan and continues to monitor and respond to all liquidity and funding requirements that are presented. The Group continues to calibrate stress testing scenarios to current market conditions in order to assess the impact on the Group in current extreme stress. As at the reporting date, the liquidity and funding position of the Group remains strong and is well placed to absorb and manage the impacts of this.

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)

<b>2020</b>	Up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	Contractual Outflows	Carrying Value
<b>Liabilities</b>						
Deposits	(291,476)	(199,220)	-	-	<b>(490,696)</b>	<b>(490,034)</b>
Bank term financing	(376)	(238,291)	(946,880)	-	<b>(1,185,547)</b>	<b>(1,171,871)</b>
Sukuk and bonds issued	(108,782)	(311,409)	(3,107,245)	-	<b>(3,527,436)</b>	<b>(3,602,053)</b>
	<b>(400,634)</b>	<b>(748,920)</b>	<b>(4,054,125)</b>	-	<b>(5,203,679)</b>	<b>(5,263,958)</b>
<b>Derivative instruments:</b>						
Forward exchange contracts	(405,159)	-	-	-	<b>(405,159)</b>	<b>(2)</b>
Interest rate swaps	(12,536)	(8,125)	-	-	<b>(20,661)</b>	<b>(44,539)</b>
Cross currency swaps	(448)	(981)	-	-	<b>(1,429)</b>	<b>(2,566)</b>
Off-balance sheet exposures	(263,882)	(535,391)	(545,225)	(534,356)	<b>(1,878,854)</b>	<b>(1,878,854)</b>
	<b>(682,025)</b>	<b>(544,497)</b>	<b>(545,225)</b>	<b>(534,356)</b>	<b>(2,306,103)</b>	<b>(1,925,961)</b>

<b>2019</b>	Up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	Contractual Outflows	Carrying Value
<b>Liabilities</b>						
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 issued	(28,030)	(514,073)	(2,369,246)	-	(2,911,349)	(2,927,481)
	<b>(304,952)</b>	<b>(835,457)</b>	<b>(3,948,391)</b>	-	<b>(5,088,800)</b>	<b>(4,882,537)</b>
<b>Derivative instruments</b>						
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)
	<b>(845,004)</b>	<b>(425,160)</b>	<b>(442,399)</b>	<b>(633,536)</b>	<b>(2,346,099)</b>	<b>(1,610,849)</b>

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## 26 FINANCIAL RISK MANAGEMENT (continued)

**c.) Market risk management**

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

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

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

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

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

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

	100 bp parallel increase		100 bp parallel decrease	
	Profit/loss	Equity	Profit/loss	Equity
<b>At 31 December 2020</b>	<b>1,493</b>	<b>373</b>	<b>(1,493)</b>	<b>(373)</b>
At 31 December 2019	1,591	397	(1,591)	(397)

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

	2020	2019
Fixed rate instruments		
Financial assets	3,694,754	3,591,910
Financial liabilities	(3,367,855)	(2,709,135)
	<b>326,899</b>	882,775
Variable rate instruments		
Financial assets	5,324,093	5,318,044
Financial liabilities	(4,209,217)	(4,935,398)
	<b>1,114,876</b>	382,646

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26 *FINANCIAL RISK MANAGEMENT (continued)***c.) Market risk management (continued)**

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

<b>At 31 December 2020</b>	<b>5% strengthening of USD</b>	<b>5% weakening of USD</b>
AED	1	(1)
GBP	41	(41)
KWD	18	(18)
<b>At 31 December 2019</b>	<b>5% strengthening of USD</b>	<b>5% weakening of USD</b>
AED	28	(28)
GBP	24	(24)
KWD	24	(24)

**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 2019. The capital structure of the Corporation consists of net debt and equity of the Corporation. The Corporation is not subject to any externally imposed capital requirements.

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**27 EFFECTIVE INTEREST RATES**

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

	2020	2019
<b>Interest-bearing financial assets</b>		
Fixed-rate bonds	2.93%	3.91%
Floating-rate bonds	1.72%	3.29%
Placements with banks	0.60%	2.48%
Loans and advances	2.38%	4.08%
US dollar denominated	2.36%	4.03%
Non-US dollar denominated	2.51%	4.14%
<b>Interest-bearing financial liabilities</b>		
Deposits from banks	-	3.06%
US dollar denominated	-	2.25%
Non-US dollar denominated	-	3.11%
Deposits from corporates	0.92%	2.52%
Deposits from shareholders	0.90%	2.26%
Borrowings under repurchase agreements	0.75%	2.93%
Bank term financing	1.63%	3.06%
Sukuk and Bonds	1.33%	4.17%
<b>US\$ LIBOR at 31 December was:</b>		
One-month	0.14%	1.76%
Three-month	0.24%	1.91%
Six-month	0.26%	1.91%

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**28 FAIR VALUE HIERARCHY AND CATEGORIES OF FINANCIAL INSTRUMENTS**

**a. Fair value Hierarchy**

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

The COVID-19 pandemic has resulted in a global economic slowdown with uncertainties in the economic environment. The global capital and commodity markets have also experienced great volatility and a significant drop in prices. The Group's fair valuation exercise primarily relies on quoted prices from active markets for each financial instrument (i.e. Level 1 input) or using observable or derived prices for similar instruments from active markets (i.e. Level 2 input) and has reflected the volatility evidenced during the period and as at the end of the reporting date in its measurement of its financial assets and liabilities carried at fair value. Where fair value measurements was based in full or in part on unobservable inputs (i.e. Level 3), management has used its knowledge of the specific asset/ investee, its ability to respond to or recover from the crisis, its industry and country of operations to determine the necessary adjustments to its fair value determination process.

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:

	Level 1	Level 2	Level 3	Total
<b>2020</b>				
<b>Financial assets</b>				
Debt securities at FVOCI				
Treasury Bills	324,946	49,986	-	<b>374,932</b>
Fixed-rate bonds	208,747	1,658,788	-	<b>1,867,535</b>
Floating-rate bonds	-	67,869	-	<b>67,869</b>
Other investments at FVTPL	-	-	36,189	<b>36,189</b>
Equities at FVOCI	148,924	-	710,796	<b>859,720</b>
Derivative financial assets	-	80,895	-	<b>80,895</b>
	<b>682,617</b>	<b>1,857,538</b>	<b>746,985</b>	<b>3,287,140</b>
<b>Financial liabilities</b>				
Sukuk and Bonds issued	-	1,555,608	-	<b>1,555,608</b>
Derivative financial liabilities	-	47,107	-	<b>47,107</b>
	-	<b>1,602,715</b>	-	<b>1,602,715</b>

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

	Level 1	Level 2	Level 3	Total
2019				
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 bank	-	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

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 2020	Weighted average input	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
Market multiples approach	Illiquidity discount	209,555	8%-12%	+/- 1%	2,096 / (2,096)
Discounted cash flow	Cost of equity	537,430	9%-15%	+/- 1%	77,140 / (77,140)
	Terminal growth rate		2%-3%	+/- 1%	53,164 / (53,164)
		<b>746,985</b>			

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

	2020	2019
Balance at 1 January	780,941	817,773
Total gains or losses:		
in other comprehensive income	(12,643)	(37,561)
In profit and loss	(23,198)	(31,354)
Purchases	1,885	51,850
Sold	-	(3,171)
Transfer out/in level 3	-	(16,596)
<b>Balance at 31 December</b>	<b>746,985</b>	<b>780,941</b>

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

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

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.

**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:

2020	Amortized cost	Designated at FVTPL	FVOCI – equity securities	FVOCI – debt securities	Total Carrying amount
<b>Financial assets</b>					
Cash and bank balances	57,613	-	-	-	<b>57,613</b>
Placements with banks	374,692	-	-	-	<b>374,692</b>
Investments	-	36,189	859,720	2,324,826	<b>3,220,735</b>
Loans and advances	3,866,849	47,367	-	-	<b>3,914,216</b>
Other Assets	30,052	80,895	-	-	<b>110,947</b>
<b>Total financial and other assets</b>	<b>4,329,206</b>	<b>164,451</b>	<b>859,720</b>	<b>2,324,826</b>	<b>7,678,203</b>
<b>Financial liabilities</b>					
Deposits	490,034	-	-	-	<b>490,034</b>
Other liabilities	140,063	47,107	-	-	<b>187,170</b>
Bank term financing	1,171,871	-	-	-	<b>1,171,871</b>
Sukuks and Bonds issued	2,046,445	1,555,608	-	-	<b>3,602,053</b>
<b>Total financial and other Liabilities</b>	<b>3,848,413</b>	<b>1,602,715</b>	<b>-</b>	<b>-</b>	<b>5,451,128</b>
<b>2019</b>					
	Amortized cost	Designated at FVTPL	FVOCI – equity securities	FVOCI – debt securities	Total Carrying amount
<b>Financial assets</b>					
Cash and bank balances	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
<b>Total financial and other assets</b>	<b>4,334,676</b>	<b>150,467</b>	<b>889,056</b>	<b>1,780,226</b>	<b>7,154,425</b>
<b>Financial liabilities</b>					
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
<b>Total financial and other Liabilities</b>	<b>2,989,966</b>	<b>2,008,684</b>	<b>-</b>	<b>-</b>	<b>4,998,650</b>

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**29 MATURITY PROFILE OF ASSETS AND LIABILITIES**

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

	Up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	2020 Total
<b>Assets</b>					
Cash and bank balances	57,613	-	-	-	<b>57,613</b>
Placements with banks	287,139	87,553	-	-	<b>374,692</b>
Debt securities at FVOCI	271,472	280,825	807,374	965,155	<b>2,324,826</b>
Equity securities at FVOCI	-	-	-	859,720	<b>859,720</b>
Other investments at FVTPL	-	-	-	36,189	<b>36,189</b>
Equity accounted investees	-	-	-	114,211	<b>114,211</b>
Loans and advances	125,343	805,592	2,043,224	940,057	<b>3,914,216</b>
Property, equipment & vessels	-	-	-	100,401	<b>100,401</b>
Other assets	58,680	52,267	-	-	<b>110,947</b>
<b>Total assets</b>	<b>800,247</b>	<b>1,226,237</b>	<b>2,850,598</b>	<b>3,015,733</b>	<b>7,892,815</b>
<b>Liabilities and Equity</b>					
Deposits	(291,104)	(198,930)	-	-	<b>(490,034)</b>
Bank term financing	-	(220,828)	(951,043)	-	<b>(1,171,871)</b>
Sukuks and Bonds issued	(98,141)	(297,003)	(3,206,909)	-	<b>(3,602,053)</b>
Other liabilities	(75,422)	(102,029)	(9,997)	-	<b>(187,448)</b>
Equity	-	-	-	(2,438,464)	<b>(2,438,464)</b>
Non-controlling Interest	-	-	-	(2,945)	<b>(2,945)</b>
<b>Total liabilities and equity</b>	<b>(464,667)</b>	<b>(818,790)</b>	<b>(4,167,949)</b>	<b>(2,441,409)</b>	<b>(7,892,815)</b>
<b>Maturity Gap</b>	<b>335,580</b>	<b>407,447</b>	<b>(1,317,351)</b>	<b>574,324</b>	<b>-</b>
<b>CUMULATIVE MATURITY GAP</b>	<b>335,580</b>	<b>743,027</b>	<b>(574,324)</b>	<b>-</b>	<b>-</b>
<b>2019</b>					
Total assets	1,337,505	797,318	2,752,489	2,462,109	<b>7,349,421</b>
Total liabilities and equity	(308,505)	(703,212)	(3,986,933)	(2,350,771)	<b>(7,349,421)</b>
Maturity gap	1,029,000	94,106	(1,234,444)	111,338	-
Cumulative maturity gap	1,029,000	1,123,106	(111,338)	-	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2020**

(US\$000)

**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:

<b>2020</b>	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	<b>Total</b>
<b>ASSETS</b>					
Placements with banks	286,400	52,000	-	-	<b>338,400</b>
Debt securities at FVOCI					
Floating-rate bonds	67,869	-	-	-	<b>67,869</b>
Loans and advances					
US\$ denominated	2,694,926	1,128,461	-	-	<b>3,823,387</b>
Non US\$ denominated	90,000	37,384	-	-	<b>127,384</b>
<b>LIABILITIES</b>					
Deposits					
US\$ denominated	(290,865)	(198,763)	-	-	<b>(489,628)</b>
Non US\$ denominated	-	-	-	-	-
Bank term financing	(150,000)	(1,025,000)	-	-	<b>(1,175,000)</b>
Sukuks and Bonds issued	(1,879,135)	(1,627,245)	-	-	<b>(3,506,380)</b>
<b>Interest rate sensitivity gap</b>	<b>819,195</b>	<b>(1,633,163)</b>	-	-	<b>(813,968)</b>
<b>Cumulative Gap</b>	<b>819,195</b>	<b>(813,968)</b>	<b>(813,968)</b>	<b>(813,968)</b>	

<b>2019</b>	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	<b>Total</b>
<b>ASSETS</b>					
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
<b>LIABILITIES</b>					
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)
<b>Interest rate sensitivity gap</b>	<b>669,904</b>	<b>952,283</b>	-	-	<b>1,622,187</b>
<b>Cumulative Gap</b>	<b>669,904</b>	<b>1,622,187</b>	<b>1,622,187</b>	<b>1,622,187</b>	

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2020**

**(US\$000)****31 CURRENCY EXPOSURES**

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

	<b>Assets</b>	<b>Liabilities and equity</b>	<b>2020 Net Exposure</b>	<b>2019 Net exposure</b>
<b>ASSETS, LIABILITIES AND EQUITY</b>				
United States dollar	7,416,513	(6,885,963)	530,550	462,622
Euro	6,598	(6,405)	193	96
Other OECD currencies	47,221	(129,048)	(81,827)	48,922
Asia Pacific	3,655	(102,789)	(99,134)	-
Arab currencies				
GCC	418,828	(768,610)	(349,782)	(511,640)
	<b>7,892,815</b>	<b>(7,892,815)</b>	<b>-</b>	<b>-</b>

**COMMITMENTS AND GUARANTEES**

	<b>2020</b>	<b>2019</b>
United States dollar	1,736,093	1,464,866
Saudi Riyal	142,761	117,748
	<b>1,878,854</b>	<b>1,582,614</b>

**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:

		<b>2020</b>	<b>2019</b>
Euro	EUR 1=US\$	1.2270	1.1223
Saudi riyal	SAR 1=US\$	0.2666	0.2666
Swiss franc	CHF 1=US\$	0.8850	1.0343
British pound	GBP 1=US\$	1.3594	1.3194
Egyptian pound	EGP 1=US\$	0.0634	0.0623

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2020**

(US\$000)

**32 INDUSTRY DISTRIBUTION OF ASSETS AND LIABILITIES**

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

	<b>2020</b>	2019
<b>ASSETS</b>		
Energy	2,209,225	2,339,898
Materials	1,575,851	1,607,703
Financials & Sovereign Financials	2,081,499	2,012,790
Utilities	1,630,202	972,350
Industrials	396,038	416,680
<b>Total assets at 31 December</b>	<b>7,892,815</b>	7,349,421
<b>LIABILITIES AND EQUITY</b>		
Energy	179,094	170,634
Financials & Sovereign	5,272,312	4,828,016
Equity	2,441,409	2,350,771
<b>Total liabilities and equity at 31 December</b>	<b>7,892,815</b>	7,349,421
<b>COMMITMENTS AND GUARANTEES</b>		
Energy	866,183	793,145
Materials	155,296	87,630
Financials	521,555	460,530
Utilities	292,464	152,616
Industrials	32,482	63,693
Sovereign & Public Finance	10,874	25,000
<b>Total commitments and guarantees at 31 December</b>	<b>1,878,854</b>	1,582,614

**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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**for the year ended 31 December 2020**

(US\$000)

**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:

	<b>2020</b>	2019
<b>ASSETS</b>		
Kingdom of Saudi Arabia	2,525,817	2,359,111
State of Qatar	676,174	599,735
Other Gulf Cooperation Council states	2,399,799	2,097,549
Egypt and North Africa	441,429	520,918
<b>Total Arab world</b>	<b>6,043,219</b>	5,577,313
Europe	235,141	492,952
Asia and Oceania	574,583	207,147
United States	734,528	693,661
Other North and South America	305,344	378,348
<b>Total assets</b>	<b>7,892,815</b>	7,349,421
<b>LIABILITIES AND EQUITY</b>		
Kingdom of Saudi Arabia	4,915,677	3,457,574
State of Qatar	247,225	240,734
Other Gulf Cooperation Council states	1,266,582	1,149,548
Other Middle East states	357,859	348,918
Egypt and North Africa	658,239	641,933
<b>Total Arab world</b>	<b>7,445,582</b>	5,838,707
Europe	291,624	380,303
Asia and Oceania	154,778	145,663
Other North and South America	831	984,748
<b>Total liabilities and equity</b>	<b>7,892,815</b>	7,349,421
<b>COMMITMENTS AND FINANCIAL GUARANTEES</b>		
Kingdom of Saudi Arabia	353,415	293,303
State of Qatar	-	13,861
Other Gulf Cooperation Council states	430,302	418,879
Other Middle East states	35,155	232,218
Egypt and North Africa	371,973	193,185
<b>Total Arab world</b>	<b>1,190,845</b>	1,151,446
Europe	449,094	303,845
Asia and Oceania	232,280	110,396
United States	6,635	16,927
	<b>1,878,854</b>	1,582,614

**35 COMPARATIVE**

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.