

THE ENERGY RESET

2020

Annual Report



THE ENERGY RESET

As a multilateral development finance institution focused on the sustainable development of the energy sector in the MENA region, APICORP provides Member Countries and clients with a range of innovative financing and investment solutions to projects that have a lasting positive impact on local communities.

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APICORP AT A GLANCE

With over 45 years of experience and operational expertise in transformative energy investments across the MENA region, APICORP is uniquely positioned to stand at the forefront of the rapidly evolving energy landscape.

Y-O-Y growth in balance sheet to USD 7.89 billion despite challenges presented by the ongoing COVID crisis.

7.5%

APICORP At a Glance

working to accelerate the energy transition.

Who We Are

The Arab Petroleum Investments Corporation (APICORP) is an energy focused multilateral development financial institution with assets totaling USD 7.89 billion in countries spanning the MENA region and beyond.

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

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



Sustainably enhance
the energy sector



Build
capacity



Generate positive
returns



Create
jobs

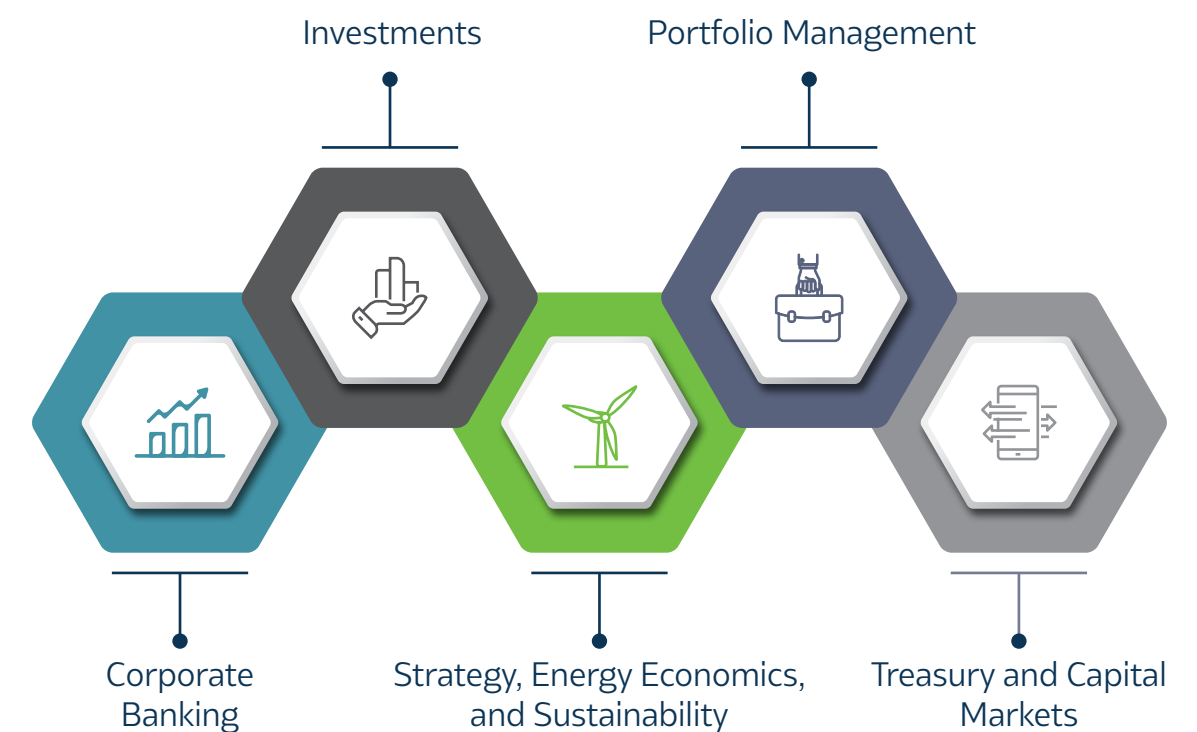


Diversify
economies

Despite challenges, APICORP continues to support the MENA energy sector, including the acceleration of the energy transition in line with global priorities and development goals.

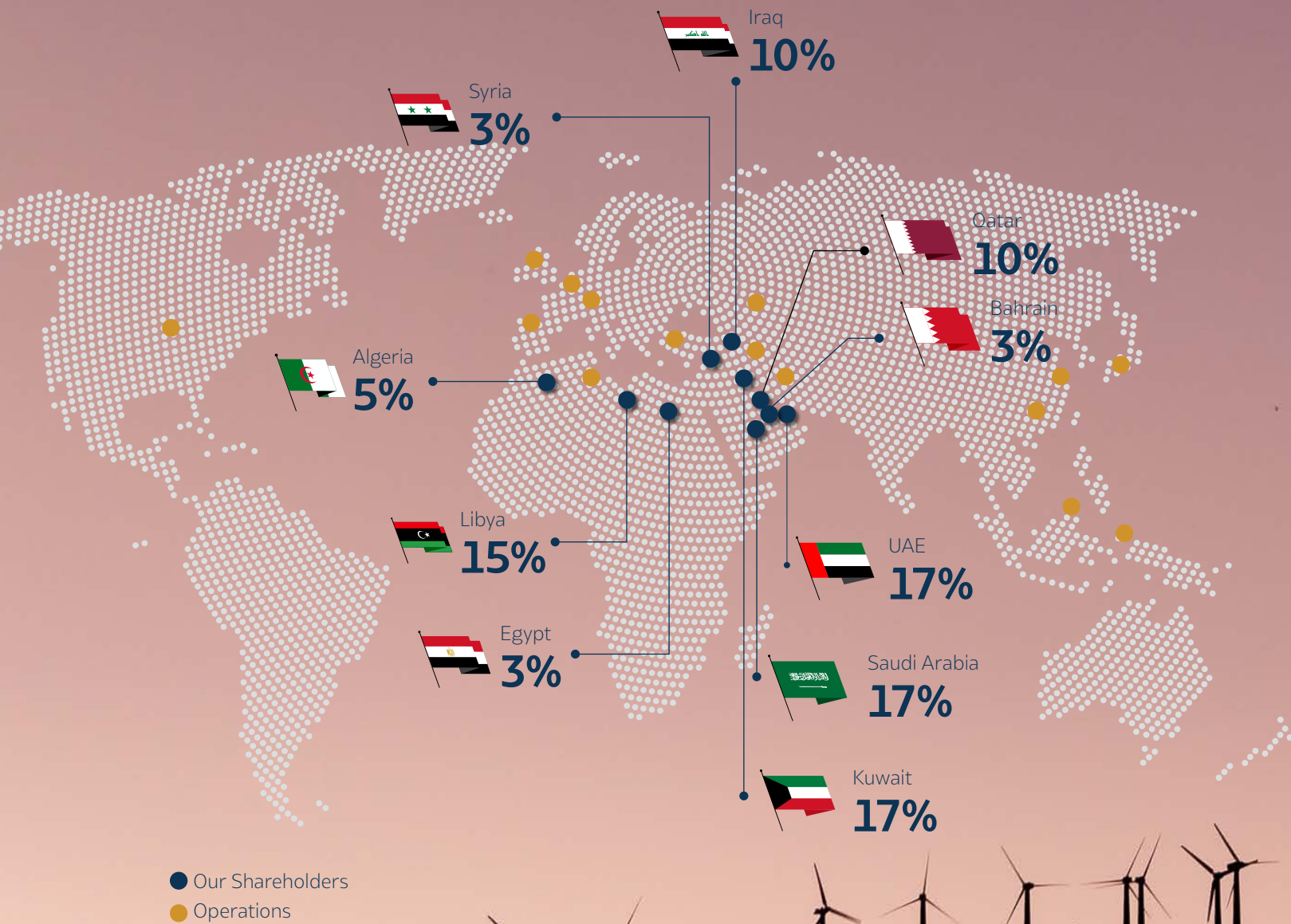
What We Do

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



Where We Operate

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



Vision

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



Mission

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

We maintained an ‘Aa2’ rating with a stable outlook from Moody’s and earned a new ‘AA’ rating with a stable outlook from Fitch.

7.89
USD BN

total assets in countries
spanning MENA and beyond



APICORP LEADERSHIP

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

Despite tremendous challenges, APICORP managed to increase net income to

USD 115 MN

Chairman’s Statement



I am very proud and honored to present to you the annual report and consolidated financial statements of the Arab Petroleum Investments Corporation (APICORP) for the year ended 31 December 2020. On behalf of the entire Board of Directors, I would like to highlight the fact that these impressive results are particularly remarkable given the challenging operational environment that has prevailed since the end of the fourth quarter of 2019. Despite the uncertainty and market volatility that came with the COVID-19 pandemic, we were able to leverage the momentum that we gained in 2019 to set new records, generate new opportunities, and create value for our shareholders and for the MENA energy sector at large.

We made no significant changes to the five-year strategy that we unveiled last year. Instead of shifting gears due to the unforeseen circumstances, we decided that it would be more prudent to stay the course and double-down on our developmental mandate and our commitment to be the partner of choice for both the private sector and governments looking to transform the regional energy landscape.

The fact that we ended the year with a 3% increase in net income, from USD 112 million in 2019 to USD 115 million in 2020, points to the Corporation’s sound and compelling fundamentals. APICORP’s balance sheet growth remained robust, with a 7.5% increase to USD 7.89 billion from USD 7.34

billion the previous year, higher than the 5% CAGR recorded over the past five years.

We managed to reduce our levels of leverage (debt-to-equity ratio) from 2.5x in June 2020 to 2.23x in December 2020, and the Corporation recorded its highest ever liquidity ratio of 349% and increased its capital adequacy ratio to 31% (+1% y-o-y).

The year also witnessed a landmark capital increase, by which the Corporation increased its authorized capital from USD 2.4 billion to USD 20 billion, subscribed capital from USD 2 billion to USD 10 billion, paid-up capital from USD 1 billion to USD 1.5 billion, and callable capital from USD 1 billion to USD 8.5 billion.

I am also exceptionally proud to report that we now stand as the only regional financial institution in MENA with two AA ratings. In addition to the Moody’s ‘Aa2’ rating with a Stable outlook, we have received our first rating from Fitch of ‘AA’ with a Stable outlook. Our ability to undergo two ratings reviews under the extremely challenging conditions of 2020 and come out with top marks is a true testament to our resilience and professionalism.

On the ensuing pages of this annual report, I encourage you delve deeper into the operational and financial highlights for each of our lines of business. They have all maintained their profitability and found new and innovative ways to carry out their operations uninterrupted throughout the lockdowns and travel restrictions of 2020. I am heartened to see that APICORP is now leading the way with a significant number of new green financing initiatives and investments that are directly addressing the threat of climate change, which can no longer be ignored. As the region, and

indeed the world, begins to recover from the impact of the COVID-19 pandemic, we are confident that we will continue to ably support the MENA energy sector, including the proactive advancement of the energy transition agenda.

On behalf of the Board of Directors and the entire team at APICORP, I would like to recognize the commendable role that the governments of our member states have played throughout this tumultuous year and would like to take this opportunity to thank them for their ongoing support. As for APICORP’s exceptionally talented managers and their team members, none of our achievements would have been possible without your hard work and dedication. I look forward to continuing this exciting journey with you in the years and months to come.

Dr. Aabed Al Saadoun

Chairman,
Arab Petroleum Investments Corporation
(APICORP)

Board of Directors



Mr. Aabed Al-Saadoun
Kingdom of Saudi Arabia

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



Mr. Salem Hnesh
State of Libya

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



Mr. Sharif Salim Al-Olama
The United Arab Emirates

Member
Undersecretary, Ministry of Energy & Infrastructure



Mr. Mohammed Khalid Al-Ghanem
State of Qatar

Member
Manager, Strategic Planning & Budget, Qatar Petroleum



Ms. Amel Abdellatif
Republic of Algeria

Member
General Manager, Taxation Directorate, Ministry of Finance



Mr. Sheikh Nimr Fahad Al-Malik Al-Sabah
State of Kuwait

Member
Undersecretary, Ministry of Oil



Mr. Alaa Kidher Kadhum Al-Yassiri
Republic of Iraq

Member
General Manager, State Organization for Marketing of Oil (SOMO)



Mr. Yousif Abdullah Hamoud
Kingdom of Bahrain

Member
Undersecretary of Financial Affairs, Ministry of Finance & National Economy



Mr. Tarek El-Molla
Republic of Egypt

Member
Minister, Ministry of Petroleum & Minerals Resources

Our distinguished Board of Directors is made up of key government officials and industry experts from our Member Countries. In 2020, we welcomed six new board members.

Chief Executive Officer's Note



We are working to address the Energy Reset by providing innovative financing solutions and making strategic investments that will shape the energy landscape.

The Energy Reset

The COVID-19 pandemic and the ensuing economic crisis have shaken global markets and forced both business and political leaders alike to rethink the trajectory of their future plans. With more than 1.9 million lives lost to the pandemic worldwide, it is difficult to fathom how so much has changed so drastically within the course of just one year. While we have witnessed far-reaching, irreversible changes across all sectors of the economy, the energy sector, in particular, is currently undergoing what can best be described as a 'Reset'.

Most large multinational oil and gas companies have already begun the process of rebranding themselves as "energy companies" in the past few years, but the recent investor and public pressure to address the climate crisis has forced them to accelerate their transition towards

Our performance, in light of the unprecedented events of 2020, has clearly demonstrated that we are a resilient organization on multiple levels.

alternative sources of energy. New European Union (EU) regulations are also seeking to prevent 'greenwashing' — meaning that companies and investment funds can no longer just talk about their commitment to sustainability without actually acting upon it.

Accountability, responsibility, and an accelerated rate of change will be key in the coming period. At APICORP, we are actively working with all of our stakeholders to ensure that we are doing our part to address the Energy Reset by providing innovative financing solutions and making strategic investments in the projects and businesses that will shape the energy landscape of tomorrow.

Our performance, in light of the unprecedented events of 2020, has clearly demonstrated that we are a resilient organization on multiple levels. In what felt like an overnight shift, we completely changed the way we work, the way we learn, and the way that we conduct our personal lives. Face masks and social distancing have become a way of life, travel has been replaced with Zoom, and every conversation begins with a health check and an analysis of the latest scientific discoveries on virus transmission and vaccines.

Despite all the difficulties, uncertainties, and the uphill battle that we are all facing in order to fully resume normal life, we have persevered.

I couldn't be prouder of the way that we, as an organization, have pulled together to ensure that our performance was never negatively impacted, all while safeguarding the health and well-being of our colleagues and families.

Despite the triple crisis (COVID-19, the oil price collapse, and the global financial and economic slowdown), we still managed to be more profitable in 2020 than we were in 2019. We still managed to grow our balance sheet. We still managed to raise our profile as a debt issuer in the sovereign, supranational, and agency (SSA) space through a landmark USD 750 million benchmark bond issuance, which achieved the lowest ever yield and spread in the Corporation's history, attracting high-quality investors from across the globe.

As a result of our consistent performance, even under duress, we were able to maintain our 'Aa2' rating with a stable outlook from Moody's and to get a second inaugural 'AA' rating with a stable outlook by Fitch — making us the only regional financial institution in MENA to hold two 'AA' ratings.

All of these achievements underscore the soundness of our long-term investment and funding strategy, as well as our agile and efficient approach to tackling the challenges of 2020.

Highlights of 2020

- Net income increased to USD 115 million despite fallout from the COVID-19 pandemic
- Balance sheet grew by 7.5% to USD 7.89 billion
- Corporate Banking and Treasury & Capital Markets portfolios were up 6% and 13%, respectively
- Key financial and risk metrics improved, including highest ever liquidity ratio (349%) and capital adequacy (31%)

While there have been no fundamental changes to our strategy as a result of the pandemic, there has been a greater focus on providing support to the countries most affected by COVID in line with APICORP's developmental mandate. At the height of the crisis when it might have seemed more prudent to stand back and let the storm pass, we decided to take a more proactive approach. We did the opposite of standing back, because we felt that when our Member Countries and key partners were struggling, it was up to us to step in and fill the funding gaps.

In April 2020, when oil prices were tanking and banks were taking a wait-and-see approach, we

announced a USD 500 million countercyclical support package to fund projects and working capital in energy sub-sectors including utilities, renewables, and petrochemicals. This support for the energy and related sectors, in our Member Countries helps to guarantee energy security and access to finance in times of crisis. We will continue to work with other multilateral development banks and financial partners to mobilize this type of funding and to mitigate the negative impact on these countries.

Green Financing

We are also extremely proud to have positively impacted our Member Countries in their energy transition journeys. One area where investments picked up in 2020 was in the renewables space.

When growth in our corporate banking book slowed down on the conventional energy side due to COVID, we saw that there was still traction on the green energy side of the business, and we were fully onboard.

Multiple green energy financing projects were disbursed last year making it a record year for renewables, the fastest area of growth in our pipeline. Approximately 13% of our funding is now directed towards renewables and that is a figure that we expect to see increase in the coming years as governments across the region seek to diversify their energy sources. We are also seeking to support regional efforts to reduce harmful emissions within conventional energy projects that are still a part of our portfolio.

Some examples of our strong push into green financing include our support for the UAEs Siraj Power, a leading distributed solar energy provider seeking regional expansion, and phase 5 of the

Mohammed bin Rashid Al Maktoum Solar Park, the largest single-site solar park in the world where we have provided USD 50 million and USD 70.5 million in financing respectively.

We also made our first equity investment in Jordan with the acquisition of a 20% equity stake in Jordan Wind Project Company, the developer of the Tafila Wind Project. The project will help Jordan to achieve its 20% clean energy generation target by the end of 2021.

All of these projects are in line with the MENA region's target to add an estimated 3GW of solar power in 2021 — doubling its total from 2020 — and almost 20GW by 2025 as countries step up their energy diversification plans.

2021 Outlook

Looking ahead, we will continue to solidify our position as the trusted financial partner to the MENA energy sector. In line with our development mandate, we aim to focus on supporting the growth of the private sector — particularly in the clean and renewable energy space — to accelerate the energy transition and build a more sustainable future for the Arab region.

Sustainability continues to be further embedded in our strategy in terms of the transactions that we finance and as part of our day-to-day operations. We are currently in the final stages of developing our Environmental, Social, and Governance (ESG) framework that will further assist us in assessing the creditworthiness of any new project or investment that we make.

I would like to take this opportunity to thank each and every member of the APICORP team. Your resourcefulness, dedication, and resilience are

40.2%

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

the backbone of our success as an organization. I would also like to thank our esteemed Board of Directors and the governments of our Member Countries for their steadfast support and their belief in our vision as the trusted financial partner to the MENA energy sector. By providing innovative financing solutions and strategic investments, we aim to help them reset priorities and cope with the current global challenges.



Dr. Ahmed Ali Attiga

Management Team



Dr. Ahmed Ali Attiga

Chief Executive Officer



Dr. Sherif Ayoub

Chief Financial Officer



Mr. Bennie Burger

Managing Director,
Investments



Mr. Ali Hassan Fadel

Director, Legal



Mr. Ajay Kumar Jha

Director, Risk and Compliance



Mr. Mohammad Khatib

Director, Information
Technology



Mr. Hesham Farid

Managing Director, Treasury
and Capital Markets



Mr. Nicolas Thévenot

Managing Director, Corporate
Banking



Mr. Hamdi Bata

Director, Human Resources
and Corporate Affairs



Basema Al Mahroos

Director, Portfolio Management

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

2020 YEAR IN REVIEW

APICORP's strong 2020 financial results despite the uncertain economic landscape that clouded most of the year illustrates the Corporation's exceptional strength and resilience.

A countercyclical support package launched by APICORP for its Member Countries and strategic partners was fully committed by the end of 2020

USD 500 MN

Management Discussion and Analysis

Despite an unprecedented year of market and operational headwinds, APICORP rose to the challenge and was able to meet the needs of its partners and deliver bottom-line growth in 2020.

2020 Highlights

APICORP’s financial performance for the period is a testament to the Corporation’s solid fundamentals and flexible operations across the board. The Corporation recorded a 3% y-o-y increase in net income to USD 115.1 million, primarily on the back of a 6% y-o-y expansion in APICORP’s Corporate Banking portfolio to USD 3.9 billion at year-end. Additionally, APICORP’s bottom-line growth was further driven by the 13% y-o-y increase in its Treasury and Capital Markets portfolio which netted USD 46 million in capital gains, reflecting a near six-fold increase from the previous year.

With regards to the balance sheet, APICORP’s resilience and ability to pivot tactically drove an impressive 7.5% y-o-y increase in assets to USD 7.9 billion, reflecting a growth rate higher than the 5% CAGR recorded over the past five years. The Corporation’s balance sheet expansion was further driven by its ability to continue executing financing solutions through its diverse innovative offerings; this was underpinned by the launch of its USD 500 million countercyclical support package to its Member Countries and strategic partners, which was fully committed by December 2020.

Meanwhile, key financial metrics continued their steady improvement in 2020, with APICORP successfully recording its highest ever liquidity ratio at 349% at year-end. Furthermore, the

Corporation increased its capital adequacy ratio by one percentage point to 31% and maintained its leverage at 2.2x, which is lower than the internally set limit of 2.5x.

APICORP’s strong financial position enabled it to successfully retain its ‘Aa2’ rating from Moody’s as well as earn an inaugural ‘AA’ rating from Fitch, with both rating agencies anticipating a stable outlook for the Corporation. APICORP now stands as the only regional financial institution in the MENA region to hold two ‘AA’ ratings, a testament to its robust financial performance and resilient operations despite the strong headwinds in the region and around the globe that resulted in quite a large number of credit rating downgrades for various institutions and countries.

The year also saw APICORP execute a landmark capital increase, where authorized capital increased to USD 20 billion from USD 2.4 billion, subscribed capital to USD 10 billion from USD 2 billion, and paid-up capital to USD 1.5 billion from USD 1 billion. Meanwhile callable capital increased from USD 1 billion to USD 8.5 billion. Notably, the unanimous approval and subscription to the capital increase was a strong testament to the exceptional shareholder support that the Corporation enjoys.

On the modus operandi front, the Corporation’s resilience was evident by its swift COVID-19

APICORP grew its corporate banking assets by 6% y-o-y to USD 3.9 billion and recorded USD 1.6 billion in drawdowns in 2020.

response measures across its operations. Remote working arrangements were rolled out to allow APICORP’s team to continue delivering a superior and uninterrupted service offering, as well as maintain the strong relationships with its clients as it continued to navigate a challenging external environment.

Business Line Highlights

Corporate Banking

APICORP grew its corporate banking assets by 6% y-o-y to USD 3.9 billion and recorded USD 1.6 billion in drawdowns in 2020. Moreover, the corporate banking line of business maintained its healthy margins over LIBOR during the period, despite the challenges faced throughout the year. The Corporation also maintained a low NPL ratio of 0.59% at year-end.

In 2020, APICORP took the strategic decision to provide much needed funding gap support to its clients, at a time when the global economic implications of the COVID-19 pandemic have had a challenging effect on the access to finance in the region. As such, the Corporation stepped up and launched a USD 500 million countercyclical support package, which was aimed at impact-driven funding for projects and working capital within the areas of utilities, renewables, and petrochemicals, among other

energy sub-sectors. The support package was fully committed throughout the year, supported by Member Countries to better weather the volatility in energy prices. It served to advance APICORP, and its clients’, sustainability goals, with six out of the 11 project finance commitments in 2020 falling under the category of sustainable utility projects.

Treasury and Capital Markets

A dynamic and challenging environment called for a more active approach to managing the Corporation’s assets and liabilities to be able to continue generating value in 2020. To that end, APICORP’s team of professionals were able to increase income from the Treasury and Capital Markets business line by 25% to USD 100 million.

These results were achieved by way of optimizing the risk-adjusted returns of the Corporation’s high-quality liquid portfolio, where USD 46 million were recorded as capital gains. In addition, the Corporation enhanced its funding profile in 2020, and hedged against prolonged market volatility, with the notable increase in medium-term financing by 26% y-o-y while decreasing short-term financing by 12%.

A key landmark shift that occurred during the year was enhancing APICORP’s profile as a debt issuer in the sovereign, supranational, and agency (SSA) space through a USD 750 million

APICORP's profile as a debt issuer in the sovereign, supranational, and agency (SSA) space was significantly enhanced through the issuance of a total of USD 1 billion in bonds in 2020, the largest in the Corporation's history.

benchmark bond issuance in June. The bond issuance achieved the lowest ever yield and spread in the Corporation's history, and attracted high-quality SSA investors from across the globe, with more than 50% of the order book being from central banks and other prominent financial institutions. The issuance's success drove the Corporation to execute a second issuance of USD 250 million, as a tap, in October, bringing the total size of the issuance to USD 1 billion in 2020, the largest ever in the Corporation's history.

100
USD MN

**income from the Treasury and
Capital Markets business line
in 2020**

Investments

The Investment portfolio size was at USD 1.05 billion at the end of 2020, while income recorded USD 40 million, with reductions in dividend income due to the COVID-19 pandemic. The Corporation has also continued to pursue quality investment opportunities to deliver on its long-term value creation strategy, and in parallel, kept its focus on identifying exit opportunities for its current investments. On that front, the Corporation expanded in the wind energy space with equity investments and has also partially exited from an equity holding to optimize its balance sheet.



APICORP's COVID Response

APICORP's swift response to the pandemic ensured the health and safety of the entire team without compromising business continuity.

2020 was a difficult year on multiple fronts with new challenges brought about by the COVID-19 pandemic. From shifting to a remote work format, to ensuring the health and safety of our people, and maintaining employee morale, dealing with the implications of the pandemic has been a successful corporation-wide effort that has demonstrated the resilience and sustainability of the entire organization.

Like all businesses across the globe, APICORP was faced with the hefty task of transitioning to remote work at a moment's notice while trying to maintain some semblance of normal. Even before lockdown measures were officially enforced, we immediately sprung into action at both our corporate headquarters in Saudi Arabia and our branch office in Bahrain.

With a robust IT infrastructure already in place, the task of moving to a virtual work environment was not as daunting as it could have been had we been starting from scratch. Without missing a beat, laptops were issued to those who did not already have them, those who required tokens to be able to access SWIFT were immediately given access.

By March 2020, APICORP had already shifted to remote communication tools while ensuring adequate security measures were in place. The division also enhanced security protocols, enabling the use of VPNs for users with access to critical services such as core banking, utilizing multifactor authentication for transactions. To facilitate the process of working from home, the division provided new equipment, including camera pods with speakers. IT also employed

740K

minutes on Zoom from March 2020 to year-end

the use of a SIP service for both Zoom and Microsoft Teams, which enables users to join meetings by phone.

Perhaps the most significant challenge of the year was the institutional transformation necessary to confront the realities of the pandemic and maintain a cohesive work environment. APICORP's HR team worked tirelessly to ensure employees were supported both professionally and on a personal level during this difficult time. Talent acquisition throughout the year proved to be a significant challenge, particularly when it involved hiring talent from outside Saudi Arabia. The team strived to find workarounds to travel restrictions and visa processing delays in order to bring on new talent and ensure that the needs of the existing expat staff were being met.

With the lifting of lockdown restrictions and the rollout of vaccines, we have eased back into working from the office with safety measures such as mask mandates and social distancing still in place.



Our year-end numbers reflect the hard work across the board to ensure everyone's safety, and continue providing excellent service to our customers during the unprecedented COVID-19 crises.

7.5%

growth in our balance sheet in the year 2020

2020 OPERATIONAL HIGHLIGHTS

All lines of businesses recorded key achievements underscoring the soundness of APICORP's long-term investment and funding strategy.

Y-O-Y increase in corporate banking
assets in 2020

6%

Corporate Banking

2020 remained particularly active for APICORP Corporate Banking. The impact of COVID-19, the collapse in oil prices, and the financial market disruption in April-May were a recipe for the perfect storm. Nonetheless, Corporate Banking operations remained active and recorded historical levels in terms of profit and asset size.

Overview

APICORP’s Corporate Banking offers conventional and Islamic debt financing solutions and unfunded products (LCs and Guarantees) to the entire energy sector value chain. The department provides credit in the form of project finance, asset based finance, trade and commodity finance, as well as corporate facilities and financial advisory services to a wide variety of projects originating from and associated with the Arab world. Credit is typically offered through medium- and long-term facilities that can sometimes extend for over 20 years.

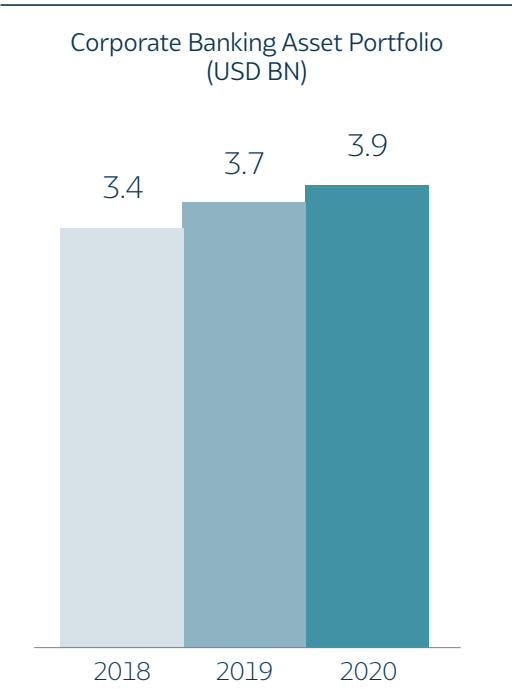
Corporate Banking serves a diverse array of clients, ranging from large public sector entities with megaprojects to a growing portfolio of privately-owned energy businesses, with a focus on those with the potential to contribute to the development of the broader energy sector in the Arab world. Corporate Banking’s asset portfolio stood, as of 31 December 2020, at USD 3.867 billion funded assets.

Financial and Operational Highlights: Unforeseen delays to reach closing, a severe slowdown in new investments, and the temporary disruption of regional financial markets in Q2 as a direct consequence of the oil price collapse made 2020 full of challenges.

Despite such strong headwinds, Corporate Banking’s net portfolio grew by 6% to reach USD 3.867 billion, from USD 3.650 billion in 2019, an

increase of USD 217 million, with drawdowns of USD 1.6 billion and repayments of USD 1.403 billion. New commitments reached USD 1.8 billion in 2020 from USD 1.4 billion in 2019 vs. USD 2 billion in the pre-COVID budget prepared in late 2019 and USD 1.7 billion in the revised budget prepared in April 2020.

Net income (margin and fees over Libor) remained stable in 2020 at USD 105.92 million, close to the 2019 historical record of USD 106.16 million and



Six out of 11 project finance commitments in 2020 were in green energy or within the category of sustainable utility projects.

slightly below the pre-COVID budget target for 2020 of USD 111 million.

These healthy levels are a direct reflection of the portfolio’s good credit quality, which has remained in the upper level of the BBB band with an average maturity of around six years. APICORP’s cautious approach and emphasis on credit quality has helped the organization avoid credit defaults and maintain a healthy portfolio even in time of crisis. In 2020, no assets went into payment default and we addressed two non-performing loans amounting to an aggregate of USD 15 million, postponing them to 2021.

2020 Transactions

Corporate Banking was able to conclude a broad spectrum of energy infrastructure deals during the year, primarily in the GCC region and particularly in the renewable and sustainable utility space. Amongst these transactions, two serve to innovatively support the nascent field of distributed solar power generation, namely UAE-based Siraj Power and Yellow Door Energy.

Trade Finance maintained solid growth of its funded and unfunded assets, as well as net income. Among the noteworthy funded transactions completed in 2020 were bilateral transactions for Alba in Bahrain, Gunvor, Trafigura, and Socar, as well as financing a terminal acquired

by Mercuria in the UAE with First Abu Dhabi Bank. Moreover, the LC desk activity showed remarkable growth during 2020, processing 60 transactions worth USD 1.4 billion and generating a total income of USD 5.3 million in 2020 vs. USD 2.9 million in 2019.

In line with its mandate as a Multilateral Development Bank, APICORP increased its risk appetite in order to support companies with solid fundamentals that were facing difficult circumstances due to the pandemic. Corporate Banking was tasked with deploying a USD 500 million countercyclical support package aimed at supporting energy sector clients in Member Countries and the region to mitigate the impact of the COVID-19 pandemic and oil price fluctuations.

The support package targeted sustainable impact-driven projects by extending funding and working capital for projects within the utilities, renewables, and petrochemicals fields, among other energy sub-sectors. The package also aimed to expand APICORP’s trade finance support for Member Countries within the broader objective of reducing fiscal and current account pressures caused by volatile market conditions. Approximately USD 200 million of the total package was committed in 2020 and is currently in the process of being disbursed.

An additional USD 300 million of new renewables assets were brought into the fold in 2020.

105.9
USD BN

Corporate Banking net income in 2020

3.9
USD BN

Value of Corporate Banking asset portfolio 2020

Landmark Transactions

Dammam ISTP

In June 2020, APICORP signed a USD 160 million non-recourse project finance facility with National Commercial Bank (NCB) and Sumitomo Mitsui Banking Corporation Europe Limited (SMBC), in support of the Kingdom of Saudi Arabia’s first Independent Sewage Treatment Plant (ISTP) in Dammam. The first of its kind in Saudi Arabia, the Dammam ISTP project was awarded to a consortium including Metito Utilities Limited, Mowah Company CJSC, and Orascom Construction, each owning 40%, 40%, and 20%, respectively.

SirajPower

APICORP signed a USD 50 million credit facility for SirajPower, one of the UAE’s leading distributed solar energy providers, in July 2020 to expand its portfolio of distributed solar energy

projects across the Middle East. The deal represents the largest lease-funding platform for distributed solar energy in the GCC. The transaction enables SirajPower to deploy its rooftop solar PV turnkey solutions across various industries, resulting in utility cost savings for the private sector while offsetting its carbon footprint. The deal is part of an innovative structure to finance an entire portfolio of distributed solar projects on a long-term basis.

Shuaa Energy 3

As a member of the mandated arranger group, in August 2020 APICORP signed a project financing facility for the fifth phase of development of the Mohammed bin Rashid Al Maktoum Solar Park in Dubai, UAE with Shuaa Energy 3 P.S.C, sponsored by Dubai Electricity and Water Authority (“DEWA”), ACWA Power, and Gulf Investment Corporation. The USD 420.2

million facility will be used for the development, construction, ownership, operation, and maintenance of a USD 564 million 900MW state-of-the-art solar photovoltaic (PV) plant. The project is aligned with Dubai’s Integrated Energy Strategy 2030, as well as the Clean Energy Strategy 2050, aimed at securing a sustainable supply of energy and diversifying energy supply sources.

Yellow Door Energy

October 2020 saw APICORP sign a five-year USD 50 million revolving construction loan-facility with Yellow Door Energy Limited (YDE), a leading UAE-based solar energy company, to develop solar-PV plants in the region with a key emphasis on Jordan, Egypt, and Pakistan. The first set of projects considered for financing are five solar PV projects in Jordan, where YDE is currently developing 79MW of solar PV projects

across the country, the largest such portfolio of any company operating in Jordan.

2021 Outlook

With a healthy pipeline of deals, Corporate Banking will continue to expand its total loan portfolio and net income in 2021, despite an environment that remains challenging, competitive, and fluctuating. In line with APICORP’s 2020-2024 strategy, Corporate Banking has plans to initiate several strategic initiatives in the coming year to better serve its clients and contribute to the transformation of the region’s energy sector by financing more sustainable projects. This transformation of the energy sector is expected to accelerate the pace of funding in the renewable and sustainable space in the entire MENA region. Corporate Banking is also committed to support MENA countries that are in the process of economic transition

Investments

2020 marked APICORP’s first equity investment in Jordan, and its first investment in wind power, with the acquisition of an effective 20% stake in the Jordan Wind Power Company, which owns and operates the Tafila Wind Farm.

Overview

APICORP’s Investments oversees the Corporation’s captive private equity business, whereby it invests a portion of our capital in direct equity stakes alongside like-minded investment partners in quality businesses, characterized by talented management teams and solid future growth prospects. Focused primarily on investments in our Member Countries and the broader MENA region, APICORP places special emphasis on businesses and projects that deliver tangible developmental impact as well as acceptable investment returns. APICORP pursues equity investments utilizing a measured and conservative approach, with an eye on maintaining a well-diversified and balanced equity portfolio.

2020 Operational Highlights

2020 was a challenging year for executing new investments as COVID-induced travel restrictions and lockdowns created significant challenges to meeting prospective partners and management teams, and performing on-the-ground due diligence required for responsible and successful deal execution. Despite the obstacles, our Investments team continued to move forward with a selective, conservative, and prudent approach towards originating and executing new equity investments.

APICORP acquired an effective 20% equity stake in the Jordan Wind Project Company (JWPC), in partnership with Tamasuk Holding,

the infrastructure and development arm of Al Blagha Holding for Investments Co. The partnership acquired a 50% stake in the Tafila Wind Farm, which is owned and operated by JWPC. The remaining 50% stake is held by Abu Dhabi’s renewable energy company, Masdar.

The Jordanian government has put into place an ambitious target for clean energy to account for 20% of overall power generation by 2021. The USD 287 million 117MW Tafila Wind Farm project, connected to the national grid, accounts for about 12% of Jordan’s operating renewable energy generation. It generates around 350GWh of clean energy annually, enough to power about 83,000 homes.

The JWPC transaction marks APICORP’s first investment in wind energy, and its first equity investment in the Hashemite Kingdom of Jordan. The investment reaffirms the Corporation’s commitment to supporting regional governments in meeting their green energy targets and transitioning towards more sustainable energy models for the future.

Significant time and effort were also spent on the refinement of internal processes, including enhancements to the investment decision making process and, very importantly, the full introduction of Environmental, Social and Governance (ESG) principles into the investments business. As a multilateral development institution, APICORP sees a clear and decisive role for itself in terms of

The team originated and assessed more than 100 potential new investment opportunities and executed one new direct equity investment.

ensuring the introduction of best practices in ESG values and principles in all our investments.

COVID-19 Impact

Prevailing limitations on physical meetings and travel due to the COVID-19 pandemic posed significant challenges for equity investors that are looking for investments in private companies and projects where physical site visits and in-person meetings are critical and essential.

The fallout from the pandemic has also severely impacted commodity prices, with a simultaneous negative effect on general market sentiment, and appetite for investments in the conventional energy sector. Despite these challenges the investments team managed to build a healthy pipeline of potential new investments. By the end of 2020, significant progress had been made towards concluding two new investments, including an indirect investment in infrastructure in emerging markets, and a direct investment in a significant greenfield renewables project in one of APICORP’s Member Countries. These investments are targeted for completion in H2 2021.

2021 Outlook

Operational challenges are likely to exist for the foreseeable future. Investments will continue to pursue diverse investment opportunities in 2021, with a sizeable active pipeline of potential investments under consideration. The expected gradual lifting of travel restrictions and lockdowns should

result in a pick-up in our investment activity. The Corporation will continue favoring investments alongside like-minded partners, in quality businesses with talented management teams and future growth potential. The Corporation seeks long-term value creation and making a discernible developmental impact.



Portfolio Management

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

Portfolio Management is a newly established unit at APICORP. The standalone unit has been mandated to actively manage the Corporation's equity and debt portfolios, a task that it has been performing successfully for the past year.

The total equity portfolio under management currently stands in excess of USD 1 billion across USD 1 billion direct and USD 73 million indirect investments.

The sharp drop in oil prices due to COVID-19 presented many challenges and affected the profitability of most of the investee companies in APICORP's portfolio. However, Portfolio Management continued to work closely with the investee companies to make sure that they had enough liquidity to run their businesses and that they were meeting their strategic targets during a very difficult and trying year.

Resources were added during the course of the year in order to enable the department to also manage APICORP's debt portfolio. Credit reviews were conducted on all of the assets that were taken over. With more and more countries opening up in 2021, the Portfolio Management team will once again resume in-person engagement and interaction with more clients on the debt side, which will open up more opportunities for cross-selling.

+1
USD BN

in investments as of FY2020

Highlights of 2020

In 2020, a number of potential investments were identified as potential exits with one of them reaching the SPA (sale and purchase agreement) stage at year-end.

- **Egyptian exit (100% ownership will be transferred back to the Egyptian government in order to optimize operations and create value for Egypt. APICORP is in the final stages of closing capital adequacy (31%)**



COVID has proven the resilience of our portfolio which is still profitable and performing despite all of the setbacks.

Strategy, Energy Economics, and Sustainability

Overview

With an established track record as a thought leader in the MENA energy sector, we produce highly respected, industry-leading research on the regional energy sector for both internal and external stakeholders. APICORP's Strategy, Energy Economics, and Sustainability unit (SEES) is playing an increasingly crucial role in supporting the Corporation's decision-making and strategy processes and providing an expanding global audience with insight on the energy transition.

SEES provides intelligence and insights on APICORP's credit and investment decisions and identifies trends that can shape business development and enhance the Corporation's agility and customer-focused approach.

A diverse team of economists and energy sector experts works diligently to map new opportunities and position APICORP as the leading authority for the promising MENA energy transition.

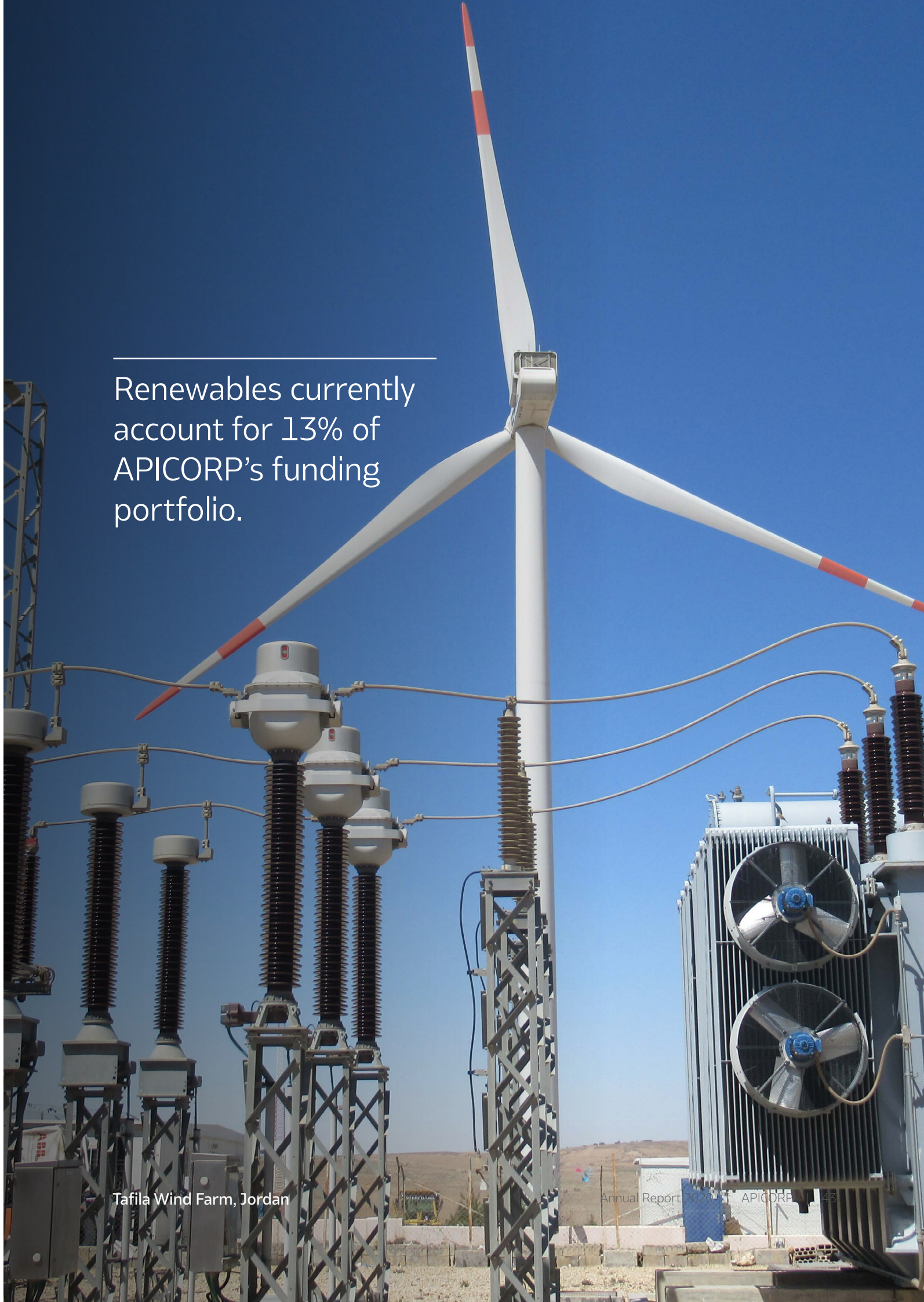
2020 Operational Highlights

2020 was a remarkably dynamic year that was characterized by a thirst for reliable insights on the MENA energy sector and regional economic aspects, on which to base investment decisions. This environment presented both challenges and opportunities for SEES. The fluid nature of the unprecedented global pandemic created a "triple crisis — health, economic, and financial" that continues to impact the energy sector. As circumstances on the ground changed drastically, investment outlooks required a fresh approach that not only involved constant monitoring and adjustments, but also prompted a more integrated approach to analyzing energy as one domain with increasingly strong dependencies on not only economic factors but extended to societies,

activism and non-state actors, health, and the environment. Accordingly, 2020 was without doubt the kick-off year for the global energy transition. As disconcerting as the volatility was, it provided APICORP with the opportunity to increase the depth and breadth of coverage of its analysis and research, as 2020 underscored the convergence of energy streams and subsectors.

APICORP's research and strategy unit met and exceeded its operational targets delivering research, analyses, and decision support interventions throughout the year. In addition to publishing their signature Energy Investment Outlooks, SEES published a number of timely ad hoc reports and advisory pieces related to COVID-19 and its impact on the energy sector. Further enhancing APICORP's contribution to energy research and analyses, APICORP CEO Dr. Ahmed Ali Attiga and Chief Economist Dr. Leila Benali co-authored a well-received paper for the Oxford Energy Forum, a quarterly journal published by the Oxford Institute for Energy Studies titled "Energy after COVID-19: Financing a Neo-Renaissance".

New in 2020 was the launch of APICORP's webinar series. Born out of necessity in a world where face-to-face interaction was no longer possible, SEES conducted three public webinars following the issuance of each investment outlook. Hosted by APICORP's Chief Economist, the energy specialists who authored the reports, and renowned guest speakers, the webinars succeeded in engaging a global audience on four continents in a dialogue on the most relevant issues affecting energy investments. The spike in interest in APICORP's reports was reflected in both strong attendance for the webinars



Renewables currently account for 13% of APICORP's funding portfolio.

Tafila Wind Farm, Jordan



Published Reports*

- APICORP’s Chief Economist’s Top Picks 2020
- MENA Energy Investment Outlook 2020-2024
- Energy After COVID-19: Financing a Neo-Renaissance
- MENA Gas & Petrochemicals Investment Outlook 2020-2024
- Beyond Energy: How MENA Economies Emerge Post-2021
- MENA Power Investment Outlook 2020-2024

**reports published in 2021*

from various time zones across the world, as well as media coverage of the reports on global platforms such as Bloomberg and industry publications such as Petroleum Economist, as well as MENA platforms such as CNBC Arabia.

Strategy Implementation

The implementation of APICORP’s five-year strategy (2020-2024) continued as planned with a strong focus on the push towards financing more projects in the renewables space as per the Corporation’s development mandate to support projects that advance the sustainable development of the energy sector. The impact of the COVID-19 pandemic and oil price volatility led to a steady increase of renewables in the power supply mix worldwide and MENA has been no exception. The main accelerators for this increased penetration in the MENA region were twofold: the unprecedented cost declines in renewable energy and a governmental shift in renewable energy targets, which range from 13% to 52% of installed capacity by 2030.

Developing an ESG Framework

SEES played an integral role in initiating and developing APICORP’s new ESG framework to

ensure that the Corporation’s strategic goals regarding renewables and the sustainable development of the region’s energy sector is formally embedded throughout the organization’s decision-making processes.

2021 Outlook

APICORP will continue to expand its flagship research products, the Energy Investments Outlooks. Starting in 2021 a slight shift in the Investment Outlooks structure took place. Instead of publishing three separate investment outlooks tackling energy subsectors such as gas, petrochemicals, and power, SEES will publish consolidated energy sector reports to address the current convergence of subsectors and the energy transition that is taking place throughout MENA.

White papers and commentaries tackling hot topics as they arise will continue to be published to provide insights on how to proceed and progress on the energy transition. As APICORP continues to develop its credentials as a prominent thought leader, SEES will continue to seek, attract, and engage a broad community of collaborators and contributors.

Number of Webinars Hosted in 2020

- MENA Energy Investment Outlook 2020-2024
- MENA Gas & Petrochemicals Investment Outlook 2020-2024
- MENA Power Investment Outlook 2020-2024

6

Research reports published

Treasury and Capital Markets

APICORP is currently one of the few financial institutions in the world rated ‘AA’ by Fitch and ‘Aa2’ by Moody’s, both with Stable outlooks.

APICORP Treasury and Capital Markets is the arm of the Corporation that proactively manages its liquidity and a diversified, high-quality fixed income portfolio. Led by a team of seasoned finance professionals, Treasury has been largely instrumental in managing a robust funding profile in order to ensure APICORP’s growth, resilience, and sustainability.

In a particularly challenging year when the COVID-19 pandemic tormented financial markets, APICORP Treasury and Capital Markets continued to demonstrate its strength and resilience with a highly proactive approach to managing assets and liabilities. By being proactive, Treasury bolstered APICORP’s strong funding profile and optimized the risk-adjusted returns of the investment portfolio, closing the year with a solid liquidity position amid the pandemic.

Operational Highlights

2020 was a landmark year for APICORP on the funding front. The Corporation increased its medium-term

financing by 26% y-o-y, while decreasing short-term funding by 12% to safeguard against prolonged market volatility. The year also saw the Corporation raise its profile as a debt issuer in the sovereign, supranational, and agency (SSA) space through the issuance of three successful transactions.

In June 2020, the Corporation issued a benchmark USD 750 million five-year bond issuance in the RegS markets as part of APICORP’s USD 3 billion Global Medium-Term Note (GMTN) program. The issuance attracted strong investor demand, with more than USD 1.1 billion in orders from a diverse base of over 40 regional and global investors. More than 50% of the order book came from central banks and official institutions across the globe.

The five-year note’s fixed cost of funding (1.46%) was the lowest in APICORP’s history. The spread of 110bps was also among the lowest in the region relative to other USD issuances that have come to market during COVID from sovereign, semi-sovereign, and MDB peers.

In October, APICORP successfully raised an additional USD 250 million through a retap of existing bonds, bringing the total size of the issuance to USD 1 billion, a clear reflection of the confidence that global investors have in APICORP.

Also notable during a remarkable year was the fact that APICORP received its second rating from Fitch. The rating agency assigned it a Long-Term Issuer Default Rating (IDR) of ‘AA’ with a Stable outlook. According to Fitch, APICORP’s Long-Term IDR of ‘AA’ is based on its excellent capitalization with a low-risk profile, and a strong liquidity assessment with a ‘medium risk’ business environment. The Stable outlook reflects Fitch’s view that “APICORP’s credit profile is resilient to negative pressures stemming from the COVID-19 pandemic

Our journey in debt capital markets began in 2012. In the 8 years that followed, we incrementally raised our profile starting with our first public sukuk issuance in 2015 and culminating with our ability to engage with SSA investors in 2020.

and oil price fluctuations.” The Fitch rating also affirmed that APICORP, as a commercially-focused MDB with an above-peer level internal capital generation, has been consistently profitable since inception with very limited credit losses, as evidenced by the high credit quality of its borrowers and ‘very low’ NPLs [non-performing loans], as well as a strong equity portfolio.

Moody’s also affirmed APICORP’s ‘Aa2’ rating with a Stable outlook. The affirmation from both Fitch and Moody’s is a confirmation of APICORP’s ability to execute its mandate as an MDB serving the crucial energy sector within its Member Countries and beyond, as the world grapples with a rapid transition to a low carbon future. The rating reaffirmation reflects the organization’s resilience during times of extreme crisis and volatile market conditions.

2021 Outlook

With the rollout of vaccines across the globe, 2021 could potentially be a better year for financial markets; however, the volatility remains. The upward trend at APICORP is expected to continue, with positive developments on the funding side already taking place in the first quarter of 2021.

In February 2021, a benchmark USD 750 million five-year bond was successfully issued, further bolstering the Corporation’s operations and capital and liquidity positions. The issuance was more than 2.5x oversubscribed, with around 57% of over USD 2 billion in orders from central banks, multilateral development banks (MDBs), and other SSA investors. This issue was followed by a retap of the above bonds, raising an additional USD 250 million in March 2021 and expanding the outstanding February issuance to USD 1 billion.

The final spread was +69bps with a 1.26% yield, both of which are the lowest ever for an APICORP bond issuance of this type. The geographic distribution of the deal was also the most diversified in the history of APICORP, with 82% of the 65 investors in the transaction coming from outside the MENA region.

The proactive approach to seize opportunities with back-to-back issuances was intended to shield APICORP against unforeseen circumstances in the second half of the year.

MANAGING RISK AND COMPLIANCE

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

Credit ratings by Fitch and Moody's make APICORP one of few financial institutions in the world to receive such exemplary scores.

'AA'
& 'Aa2'

Risk Management and Compliance

Business continuity and disaster recovery planning put to the test.

Risk and compliance are critical components of APICORP's established ability to be a resilient organization capable of meeting its development mandate and helping the energy sector even in times of extreme crisis, such as the onset of COVID-19 and the collapse of oil prices in 2020. The division is responsible for establishing the framework that governs APICORP's sound daily operations and decision-making, as well as defining, measuring, and managing risk at the corporate and business levels.

APICORP's comprehensive risk management framework is designed to align with the Board of Directors' and Management's appetite for credit, market, liquidity, and operational risk, while also taking into account the degree of concentration risk in any given country or sector, capital adequacy ratios, cost-to-income ratios, and permissible levels of leverage. The framework serves as the primary foundation for risk management and guides APICORP's strategy to ensure that it is always consistent with the Corporation's overall risk tolerance.

Each business arm has its own set of policy guidelines, taking into account risk factors unique to their primary activities. Additionally, each new transaction is subjected to an independent risk review using a risk-reward framework.

Risk and Compliance also plays a critical role in managing, maintaining, and improving APICORP's external credit rating, a key element affecting the Corporation's ability to access

capital markets, raise capital, and maintain an efficient cost of capital. APICORP's consistently strong credit rating enables it to offer competitive pricing across all financing operations, access global capital markets, including a sovereign investor base, and offer rating-based solutions such as letters of credit, guarantees, and hedging solutions. APICORP's track record of maintaining strong rating indicators signifies its robust risk management framework.

During times of operational risk, such as the COVID-19 pandemic, the department collaborates with a wide range of stakeholders to mitigate any issues that arise, such as business continuity and disaster recovery.

2020 Operational Highlights

Business Continuity and Disaster Recovery

The unprecedented events of 2020 put APICORP's newly-minted business continuity plan to the test. In February 2020 (pre-pandemic), a new business continuity management plan and a new disaster recovery plan were approved by APICORP's Board of Directors. These two new frameworks, developed by Risk and Compliance in conjunction with an external consultant, outlined the ways in which people will work, how processes will be managed and how systems will function in the case of an event that compromises continuity. The frameworks also covered system connectivity with a focus on IT-related disaster recovery processes.

Within three weeks of the framework approvals, lockdowns were being imposed on both Saudi Arabia and Bahrain and a full-fledged activation of the business continuity plan was suddenly put into place.

Things came together at lightning speed with the IT and Risk teams working round the clock to ensure that a steady stream of communication was taking place with all internal and external stakeholders. A full-fledged COVID-19 Impact Report was prepared presenting various scenarios and courses of action that the Corporation could take. The success of this initial first response was a critical factor that laid the groundwork for a smooth transition from business as usual to crisis mode.

What transpired in the weeks and months to come was unprecedented on many different levels. For the first time in APICORP's history, the business continuity plan remained in place for more than a year instead of the typical two-three week timeframe for business continuity and disaster recovery exercises. Ideally, business continuity plans are designed to ensure that only critical functions and services are being met while alternative solutions are being developed, but with the prolonged duration of the COVID-19 pandemic, business continuity began to take on a new meaning.

Maintaining Favorable Rating from Moody's and Obtaining a Second Credit Rating from Fitch

In June 2020, during the height of the COVID-19 pandemic, APICORP completed the first of two

One of 2020's main stories was how our business continuity plan performed in extraordinarily difficult circumstances.

successful credit rating exercises that took place in an extremely challenging year. Fitch Ratings assigned the Corporation a Long-Term Issuer Default Rating (IDR) of 'AA' with a Stable Outlook, based on the Corporation's excellent capitalization, low risk profile, and strong liquidity assessment with a 'medium risk' business environment. The Stable Outlook reflects Fitch's view that APICORP's credit profile is resilient to negative pressures stemming from the COVID-19 pandemic and oil price shock.

In November 2020, Moody's Investors Service affirmed APICORP's rating at 'Aa2' with a Stable outlook reflecting the Corporation's strong capital adequacy, robust asset quality, and strong asset performance. The Moody's assessment confirms that risks to the Corporation's asset performance, namely its exposure to regional geopolitical tensions, as well as pressures on key borrower countries from the coronavirus pandemic and the related oil price decline, are balanced by

APICORP's well-established resilience to these risks over the past years, its improving development-related asset portfolio diversification, and its strong risk management.

The combined ratings by Fitch and Moody's make APICORP one of few financial institutions in the world rated 'AA' by Fitch and 'Aa2' by Moody's.

Enhancement of Internal Control Processes

During 2020, APICORP established a new middle office functionality under Risk Management to improve internal control on business processes and avoid any operational risk errors. Under the new initiative, all business transactions are testified through at least three pairs of eyes i.e. Business, Middle Office, and Operations. The Middle Office ensures that transactions are in compliance with APICORP's policies and have received all necessary approvals.

2021 Outlook

With vaccine rollout gaining momentum, particularly in the GCC region, and commodity prices and exports expected to drive a rebound for most MENA countries in 2021, the outlook for the remainder of the year is slightly more stable and optimistic. Risk and Compliance will continue to work on enhancing APICORP's risk framework and practices, adapting to new challenges as they arise.

It has also completed a benchmarking exercise on market risk, based on which, a new market risk policy is being put in place and corresponding system capabilities are being developed.

Risk and Compliance is currently working on developing a full-fledged ESG framework, marking the start of APICORP's transition to adopting global best practices and reporting for environmental, social, and governance issues in line with the Corporation's mission to make a positive contribution to the ongoing development of the energy sector in MENA and beyond.

In the heart of the worst days of COVID and rock bottom oil prices, we were examined twice by two ratings agencies, Fitch and Moody's. Both affirmed that our credit and risk profiles were intact, and professed confidence in our capacity to weather the storm.

Corporate Governance

Overview

APICORP is committed to abiding by the strictest corporate governance regulations and best practices, with a clear focus on transparency and accountability in order to ensure that the Corporation is able to generate value for all stakeholders. Accordingly, APICORP has instated a solid governance framework aligned with the strictest governance standards in order to clearly define the roles and responsibilities of the company’s Board of Directors and Management team as well as put in place structures and policies that will allow for its sustainable growth.

APICORP’s Board of Directors is tasked with overseeing the company’s performance and executive leadership, disclosures, compensation and corporate structure; aligning its operations with its strategic objectives; and instating risk management and controls. In addition, the board supervises the company’s environmental protection and social impact initiatives.

APICORP’s Board of Directors consists of 10 members, with each member originating from one of the company’s Member Countries. Board members are nominated by shareholders and elected by the General Assembly, holding four-year terms upon their appointment.

The board consists of two specialized committees, the Audit and Risk Committee and the Remuneration and Governance Committee, in order to help it perform its duties and ensure sound governance.

The board is required to meet at least four times a year, followed by a meeting of the Audit and Risk Committee. With the onset of the COVID-19 pandemic, all board and committee meetings in 2020 were held virtually in order to safeguard the board members’ health and safety.

A business continuity and disaster recovery framework ensures that operations are able to resume uninterrupted in the face of disruptions.

Audit and Risk Committee

APICORP’s Audit and Risk Committee oversees the company’s financial activities and implements internal controls and risk governance. The committee is also responsible for monitoring the company’s financial reporting system, as well as reviewing its risk management framework and audit functions and ensures compliance with all legal and regulatory requirements.

Remuneration and Governance Committee

The Remuneration and Governance Committee is tasked with managing employee compensation as well as regularly reviewing the company’s corporate governance frameworks and issuing recommendations where necessary in order to ensure compliance with relevant laws and regulations and international best practices.

The committee is additionally responsible for overseeing APICORP’s four senior management



committees, which include the Credit and Investment Committee; Asset-Liability Committee; Risk Management Committee; and Tender and Bid Committee, in order to ensure that the company’s business activities are aligned with the strategy, risk appetite, and policies set by the board. The management committees report with additional feedback to the Board of Directors where necessary.

2020 Operational Highlights

In February 2020, APICORP preemptively introduced a business continuity framework as well as a disaster recovery framework in order to ensure that operations are able to resume uninterrupted in the face of any potential disruptions. This proved particularly useful in the wake of the onset of the COVID-19 pandemic and allowed the company to resume its operations unhindered.

This was supported by the company’s IT department, which worked to upgrade and introduce a number of tools to upgrade its technological and remote working infrastructure.

Following the separation of RALCO into a dedicated Risk Management Committee and an Asset-Liability Committee in 2019, a stronger focus can now be placed on managing liquidity and funding the robustness of the organization. The committees meet every month and have been adding great value to the APICORP’s treasury business and in increasing liquidity.

SUSTAINABILITY

APICORP has embarked on a strategy that internalizes sustainability best practices and integrates ESG factors in lending and investment activities.

APICORP's financing portfolio is now over 13% green

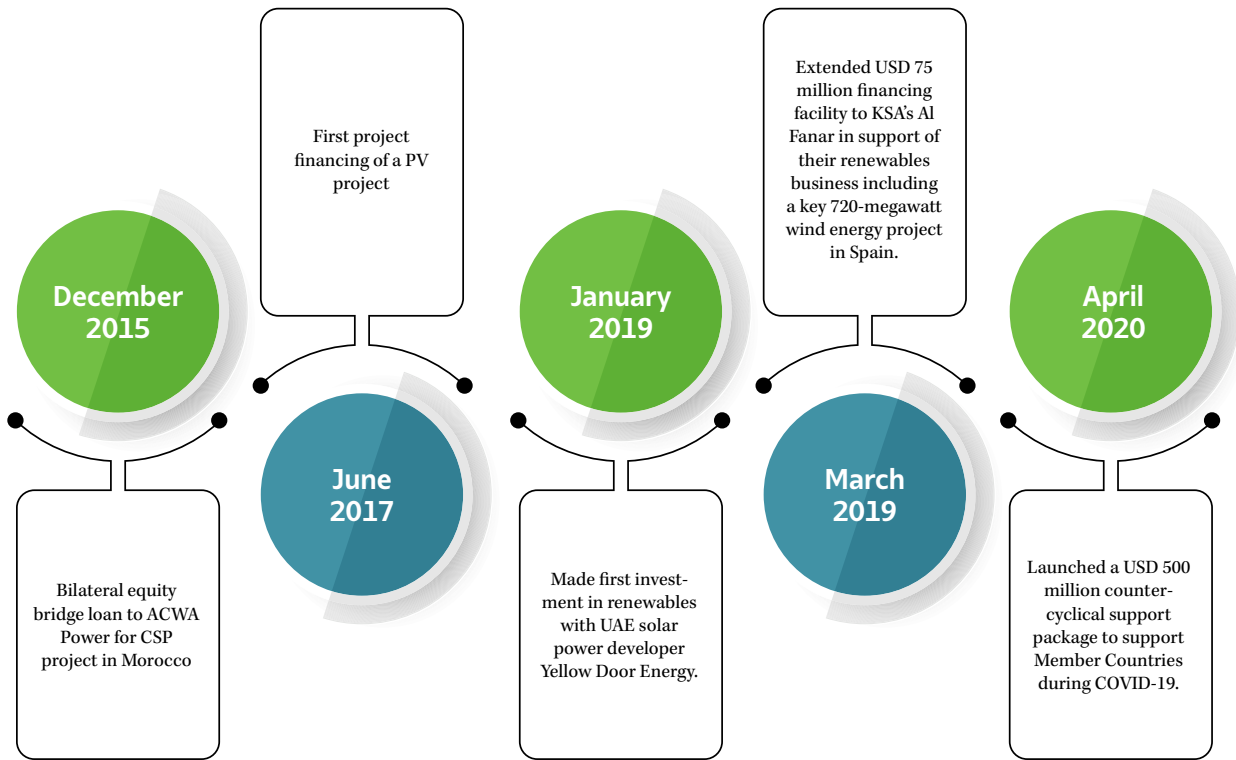
+13%

Financing the Green Energy Transition

As climate change takes center stage, governments and the private sector alike are making ambitious plans to curb their emissions and transition to a low-carbon economy.

As devastating as the COVID-19 pandemic has been, it has actually helped to accelerate the momentum behind sustainability issues. Portfolio managers today are increasingly being assessed in terms of their carbon footprint, with 'portfolio warming' emerging as a new metric by which to judge the success of investments. Whether you are a portfolio manager or a company, focusing purely on financial gains is no longer an option as investors and nations seek to adhere to the 2015 Paris Agreement, which commits nations to working towards a 2°C limit to global warming.

At APICORP, sustainability is no longer a side function or an afterthought, it is at the core of what we do as a multilateral development bank that is financing the MENA region's energy sector

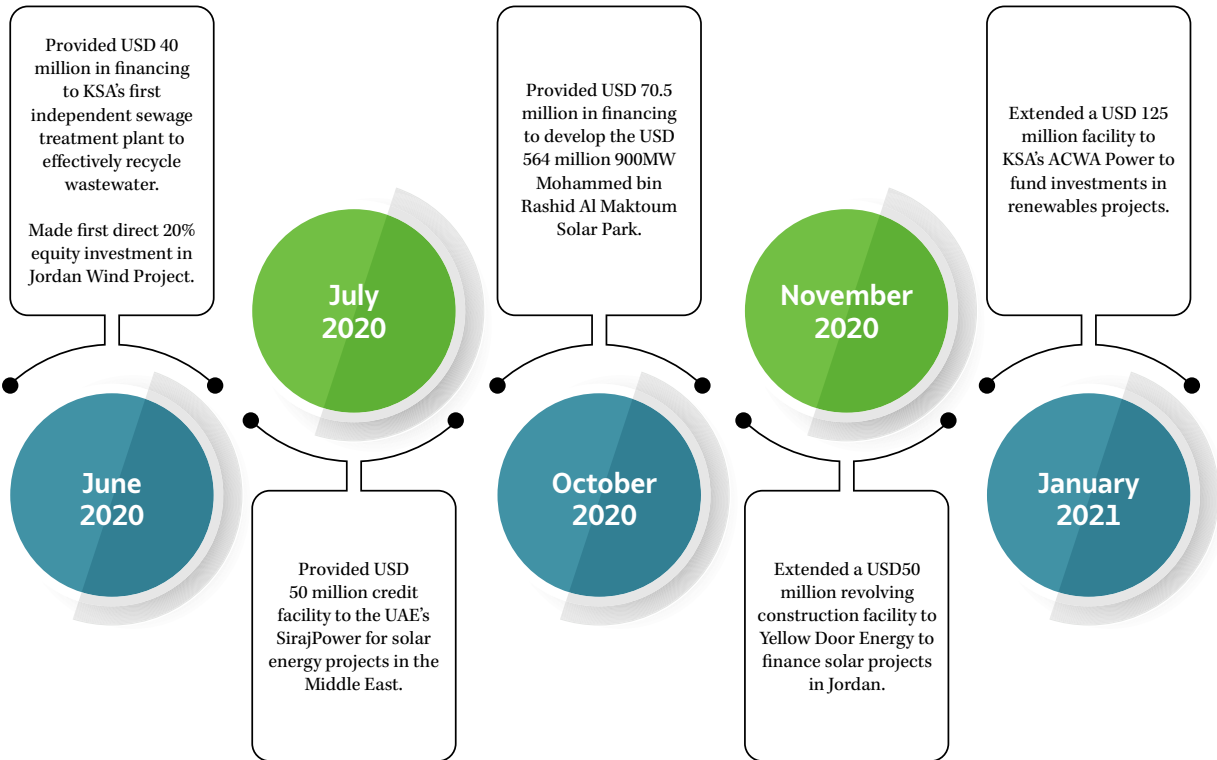


The fastest area of growth in our pipeline is renewables.

and working to usher in new era of sustainable and inclusive growth across the Arab world. As energy companies worldwide shift their focus away from fossil fuels towards renewable sources of energy, APICORP recognizes its responsibility to be at the forefront of that change and aims to act as a catalyst that can lead and accelerate the energy transition.

125
USD MN

Financing facility extended to KSA's ACWA Power to fund renewables projects



Sustainability Framework

APICORP is currently working on developing a comprehensive ESG framework that will serve to establish an integrated approach towards ESG and outline how APICORP defines its overall ESG objectives, policies, procedures, and reporting. The Corporation already considers ESG factors in its lending and investment analysis and decision-making process. As part of APICORP’s review of international standards and our own strategic priorities, we have identified three main pillars that guide the development of APICORP’s inaugural ESG framework, which will be continuously revised, systematized, and embedded across the organization.

APICORP’s financing portfolio is now over 13% green and we are looking to continue to increase this as we move towards our strategic priorities for the energy transition.



As part of a commitment to limit our carbon footprint and overall environmental impact, APICORP has pushed forward with making its building more sustainable through the installation of solar panels and other energy saving measures. Through our ongoing agreement and partnership with Yellow Door Energy, we are installing solar panels at our headquarters in Dammam and retrofit the building with energy-efficient technologies. We have also deployed water saving mechanisms and are working to optimize waste management and adopt responsible paper usage through the use of electronic platforms for document sharing and archiving.

Sustainability Pillars



Responsible Banking and Investing

- Managing direct environmental impacts
- Managing environmental and social risks in lending and investment
- Promoting innovative sustainable finance products
- Supporting client transition to a low carbon economy



Social Inclusion and Partnerships

- Promoting access to finance to support the energy sector development
- Developing and nurturing our workforce and promoting human rights and diversity
- Enhancing the social and economic profile of Member Countries and forging strategic partnerships



Financial Resilience and Governance

- Maintaining financial resilience and sustainable economic growth
- Ensuring oversights of ESG risks and opportunities at board and executive management level
- Promoting policy engagement, advocacy, and research

2020 Outlook

APICORP will continue to develop and expand its sustainability framework, striving to embed sustainable practices in all aspects of its business. This may even extend beyond APICORP’s investee companies to governance in the region, guiding the linkages between regulators, ministries, and governments. With the unprecedented impact of climate change on economic growth, transforming business models and ensuring collaboration between governments and the private sector is necessary to make the energy transition accessible to all.

Backing the sustainable development of the Arab energy sector through innovative financing solutions continues to be a strategic priority for APICORP.

OUR PEOPLE

APICORP's diverse team of talented individuals stand at the core of the Corporation's success and its ability to persevere during challenging times.

More than half our employees hail from Arab states that make up our shareholder base

60%

Our People

Our belief that human capital is our most valuable asset pushes us to continuously enhance and preserve our work environment; it is what keeps us focused to pull through challenging periods and stay course to delivering our objectives.

APICORP has always strived to attract and retain diverse teams of talented individuals. Our commitment to professionalism, dedication, and integrity has been at the core of everything we do. We manage our people and work environment in a manner that allows us to promote and preserve the values that underpin the Corporation's success.

With a team of over 125 professionals from diverse backgrounds and nationalities, APICORP's workforce reflects our longstanding commitment to excellence, equality, and diversity. Although more than half of our employees hail from Arab states that make up our shareholder base, we have also continued to attract talent on a global level, with people from Europe, Africa, North America, and Asia among our team members.

APICORP also places significant focus on talent benchmarking, to proactively manage different talent groups within the Corporation and to create tailored growth plans for each member that tackle core competencies and developmental needs across all functions of the Corporation. This includes a comprehensive review of every employee's current performance, overall competence, and future growth aspirations to understand their relative areas of focus in order to free one's potential. The solutions to fast track employee progression vary from providing training, individualized

APICORP's Employee Engagement Survey is taken seriously by top management and its results are discussed transparently with staff during town hall meetings to drive the organizational development process.

coaching and feedback, and exposure to industry trends through conference participation, along with specific programs that address competencies gaps required to fulfill the Corporation's goals.

2020 saw APICORP conduct its biannual Employee Engagement Survey, which received phenomenal feedback. The survey, designed by specialized consultants, assesses employees' experience, and serves to shape management's efforts in constructing a framework through which it enables and empowers APICORP's workforce to better perform in a work conducive environment. Engagement scores significantly improved in 2020, to which APICORP applied



higher benchmarks than global financial industry ‘high-performing’ norms, a testament to APICORP’s employee-centric approach and favorable work environment.

COVID-19 Response

2020 and the COVID-19 pandemic brought about a unique set of unprecedented challenges for HR functions across the globe. Remote working, a topic that has sparked contentious debate among human resources professionals over the years suddenly became an inescapable reality.

This past year, more than ever, APICORP put the physical and psychological health and safety of its employees front and center. As soon as it became apparent that there was no escaping COVID, the Corporation was swift to act. The situation presented a particular challenge for APICORP because employees are spread between two offices in two different countries, Saudi Arabia and Bahrain, with teams often moving from one premises to another on a daily basis.

Even as lockdowns were still being discussed, APICORP was proactive about managing safety for its entire staff and putting into place a complete remote work setup for its employees. APICORP predicted the best course of action and proactively invoked a bespoke business continuity plan while remaining cautious to delay and stagger the return to office maintaining employees’ health as a priority. Flexible work options remain and ongoing safety measures including mask mandates, sanitization, and contact tracing are being strictly enforced to manage spikes in the virus as they arise.

During the nearly four-month full lockdown and work-from-home period and even after, APICORP continued to prioritize employee wellbeing and productivity. The HR team

Everyone’s voice is heard at APICORP, through the best tools to ensure that employees’ experience remains positive, confidentially or in town hall meetings. APICORP ensures it stays updated and focused on the important areas that strengthen its policies, programs, and organizational culture.

conducted regular check-ins and provided allowances for everything from printers to physical workout equipment to ensure that employees maintained their health and productivity throughout this difficult time. To maintain employee mental health during lockdown, APICORP adopted a number of practices, including virtual coffee breaks, yoga and breathing sessions, and functional daily check-ins.

HR also worked to minimize any negative impact on the organization ensuring that APICORP continued to conduct business as usual. While layoffs and salary cuts became prevalent across the industry, APICORP not only retained its full workforce and maintained their salaries, but it also continued to expand headcount, with more than a dozen new hires during 2020.

APICORP is extremely proud of the way that each and every team member rose to the occasion, took responsibility, was accountable for their actions, and pulled their weight. At the end of the day, it’s not enough to just have a system in place. You have to design it, motivate it, and have the type of employees that care. That is what we have at APICORP. Everybody cares, everyone wants to succeed, and everybody wants to stay safe.

127
Professionals

18
Nationalities

73%
Arab nationals

13%
Women comprise 13% of our workforce, three of whom hold senior executive positions

2020 also played a critical role in expanding HR professionals' own learning curve to adapt new ways of managing their roles within their organizations. APICORP was no different, and the team rose to the occasion carrying day-to-day activities with no interruption or delays, from basic payroll processes to virtual onboarding of new employees and everything in between. Trainings were conducted online to ensure the safety of all those involved and align with travel and social distancing guidelines.

To make sure we were on the right track, we conducted several employee surveys to assess feedback on our COVID-19 response, which was overwhelmingly positive. Employee satisfaction with APICORP's handling of the tough pandemic conditions was exceptionally high on all fronts.

The COVID-19 pandemic has affected every aspect of the world's economy, our societies, as well as our daily lives. Soon enough, resilience, transparency, and honest communication appeared vital and imperative characteristics required by companies during this difficult time.

APICORP delivered on these characteristics. The company formed a COVID-19 taskforce, supported by an active crisis communication plan, which enabled the company to assess and choose the most optimum working arrangements without compromising on its employees' safety, as well as the safety of their families.

The COVID-19 pandemic has impacted the world economy and social life in different ways. APICORP has been proactive in crafting strategies and practices to deal with the crisis to protect its employees, including raising awareness, implementing prevention measures, and imposing social distancing.

Remote working and virtual meetings proved to be a wise and successful alternative to face-to-face meetings.



FINANCIAL STATEMENTS

Financial Statements

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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 (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 credit risk in Note 26 (a))

Description	How the matter was addressed in our audit
We focused on this area because:	Our procedures included:
<ul style="list-style-type: none">• 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:	<ul style="list-style-type: none">• Understanding management’s process and testing the relevant key controls over ECL, including over:
<ul style="list-style-type: none">• 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.	<ul style="list-style-type: none">• The completeness and accuracy of data flows from source system to the ECL calculation;• Model review, validation and approval;• Assessment and calculation of material SICR indicators and criteria;• The review and approval of assumptions used in the base case economic scenario used in ECL calculation; and• The ongoing monitoring and identification of loans displaying indicators of impairment and whether they are migrating on a timely basis, to lower grades for enhanced monitoring.
	<ul style="list-style-type: none">• 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.
	<ul style="list-style-type: none">• For all loans classified as stage 3 credit impaired loans, we:
	<ul style="list-style-type: none">• 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.
	<ul style="list-style-type: none">• 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 (level 3)

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

Description	How the key audit matter was addressed in our audit
We focused on this area because:	Our audit procedures included:
<ul style="list-style-type: none">unquoted equity securities of US\$ 743,383 thousands make up 9% of total assets by value; andthe 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 assumptions and estimates about the performance of the investees company.	<ul style="list-style-type: none">understanding and testing relevant key controls over valuation process including valuation governance controls;with the support of our valuation specialists, we performed the following:<ul style="list-style-type: none">evaluating the appropriateness of the valuation techniques used by management and testing their application;evaluating the reasonableness of key inputs and assumptions, with reference to historic performance of the investee and market information; andassessing reasonableness of the valuation.Evaluating the adequacy of the Group’s disclosures related to valuation of unquoted equity securities categorised as level 3 by reference to the relevant accounting Standards.

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

	Note	2020	(US\$000) 2019
Assets			
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
Total assets		7,892,815	7,349,421
Liabilities			
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
Total liabilities		5,451,406	4,998,650
Equity			
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
Total equity attributable to shareholders of the corporation		2,438,464	2,348,368
Non-controlling interests		2,945	2,403
Total equity		2,441,409	2,350,771
Total liabilities and equity		7,892,815	7,349,421

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


 Dr. Aabed Al-Saadoun
 Chairman


 Dr. Ahmed Ali Attiga
 Chief Executive and General Manager


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


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


CONSOLIDATED STATEMENT OF PROFIT OR LOSS


For the year ended 31 December 2020

	Note	2020	(US\$000) 2019
Interest income		197,711	279,714
Interest expense		(114,639)	(171,248)
Net interest income	16	83,072	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
Total income		176,987	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)
Profit for the year		115,072	111,901
Profit for the year attributable to:			
Shareholders of the Corporation		114,530	111,585
Non-controlling interests		542	316
		115,072	111,901
Per share information			
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 .


 Dr. Aabed Al-Saadoun
 Chairman


 Dr. Ahmed Ali Attiga
 Chief Executive and General Manager


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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020	(US\$000) 2019
Profit for the year	115,072	111,901
Other comprehensive income		
Items that will not be reclassified to the statement of profit or loss		
Net change in fair value of equities at FVOCI	1,905	(37,283)
Items that are or may be reclassified subsequently to the statement of profit or loss		
Net change in fair value of debt securities at FVOCI	19,336	38,727
Reclassified to profit or loss on sale of debt securities at FVOCI	(45,673)	309
Total other comprehensive income for the year		
	(24,432)	1,753
Total comprehensive income for the year		
	90,640	113,654
Total comprehensive income for the year attributable to:		
Shareholders of the Corporation	90,098	113,338
Non-controlling interests	542	316
	90,640	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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020 (continued)

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020	(US\$000) 2019
Operating activities		
Profit for the year	115,072	111,901
Adjustment for:		
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)
Changes in operating assets and liabilities		
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)
Net cash from operating activities	258,399	212,902
Investing activities		
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
Net cash used in investing activities	(457,290)	(322,915)
Financing activities		
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)
Net cash from financing activities	214,991	129,522
Net increase in cash and cash equivalents for the year	16,100	19,509
Cash and cash equivalents at 1 January	171,513	152,004
Cash and cash equivalents at 31 December	187,613	171,513
Cash and bank balance	57,613	48,620
Placement with less than three months maturity (Note 4)	130,000	122,893
Cash and cash equivalents	187,613	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:

	Autho- rised capital	Sub- scribed capital	Issued and fully paid	Callable capital	(US\$000) Percent- age
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%
	20,000,000	10,000,000	1,500,000	8,500,000	100%

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

2 GENERAL

(i) Statement of compliance

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

(ii) Basis of preparation

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

(iii) Foreign currency transactions

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

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

3 Significant accounting policies

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

A. Basis of consolidtaion

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

Special Purpose Entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the acquisition of shipping vessels as well as the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group: 1) the Corporation has power

over the SPE and is exposed to or has rights to variable returns from its involvement with the SPE; 2) the Corporation has the ability to use its power over the SPE at inception; and 3) the Corporation can subsequently affect the amount of its return, the Corporation concludes that it controls the SPE. The assessment of whether the Corporation has control over a SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Corporation and the SPE, except whenever there is a change in the substance of the relationship between the Corporation and a SPE.

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

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

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

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

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

B. Equity accounted investees

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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.

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 insubstance 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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

Reclassifications

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

Assessment of whether contractual cash flows are SPPI

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

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

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

(iii) Derecognition

Financial assets

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

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

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

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

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

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Financial liabilities

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

(iv) Modifications of financial assets and financial liabilities

Financial assets

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

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

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

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

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

Financial liabilities

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

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

(v) Offsetting

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

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

(vi) Fair value measurement

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

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

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

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

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

In determining fair valuation, the Group in many instances relies on the financial data of investees and on estimates by the management of the investee companies as to the effect of future developments. Although the Group uses its best judgment, there are inherent limitations in any estimation technique. The fair value estimates presented herein are not necessarily indicative of an amount the Group could realise in a current transaction. Future confirming events will also affect the estimates of fair value. The effect of such events on the estimates of fair value, including the ultimate liquidation of investments, could be material to the consolidated financial statements.

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

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

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(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.

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.

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.

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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.

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

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

Write-off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets

or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

Presentation of allowance for ECL in the statement of financial position

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

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

(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.

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(xi) Hedge accounting

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

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

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

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

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

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.

I. Revenue recongition

(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.

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(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.

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.

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.

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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 remerging 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.

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.

4 Placements with banks

	2020	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)
	244,692	483,957

Maturity less than three months	2020	2019
With Islamic financial institutions	80,000	22,970
With conventional financial institutions	50,000	99,923
	130,000	122,893
Balance at 31 December	374,692	606,850

5 Loans and advances

	2020	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
	4,035,759	3,804,428
Unamortized participation and upfront fees	(53,288)	(55,220)
Expected credit loss impairment allowance (note 26)	(68,255)	(51,493)
	3,914,216	3,697,715

	2020	2019
Movement during the year		
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)
Gross loan balance	4,022,509	3,778,261
Interest receivable	13,250	26,167
Balance at 31 December	4,035,759	3,804,428

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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	51,493
Net movement between stages	-	9,217	(9,217)	-
Net charge for the year	5,338	(1,436)	12,860	16,762
At 31 December 2020	9,094	43,327	15,834	68,255

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
		3,220,735	2,729,279

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)
	2,324,826	1,780,226

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.

6.2 Equity securities at FVOCI

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

Movements during the year:	2020	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)
	859,720	889,056

6.3 Investments at FVTPL

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

Movements during the year:	2020	2019
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)
Balance at 31 December	36,189	59,997

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7 Equity accounted investees

The movement on equity-accounted investees is given below:

	2020	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
Balance at 31 December	114,211	91,904

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):

	2020	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

8 Property, equipment and vessels

	Land	Building	Vessels	Computer, Furniture & Equip-ment	Capital work in progress	Total
Cost						
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)
Balance at 31 December 2019	4,004	54,793	117,254	22,665	2,959	201,675
Additions	-	-	-	333	3,901	4,234
Balance at 31 December 2020	4,004	54,793	117,254	22,998	6,860	205,909

Accumulated depreciation and impairment						
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)
Balance at 31 December 2019	-	45,436	35,395	17,752	-	98,583
Depreciation for the year	-	935	5,360	630	-	6,925
Balance at 31 December 2020	-	46,371	40,755	18,382	-	105,508

Carrying Amount						
Balance at 31 December 2020	4,004	8,422	76,499	4,616	6,860	100,401
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
	110,947	71,961

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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
	137,887	484,519

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)
	1,171,871	1,324,874

12 Sukuk and bonds issued

	2020	2019
US \$ 3 billion Sukuk programme (partially drawn) Series 1:- US \$ 500 million bonds 2015 – 2020 profit rate: 2.383% p.a.	-	498,168
Series 2:- US \$ 500 million bonds 2017 – 2022 profit rate: 3.141% p.a.	517,687	506,641
US \$ 3 billion GMTN programme (partially drawn) Series 1:- US \$ 750 million bonds 2018 – 2023 profit rate: 4.125% p.a.	803,952	783,244
US \$ 3 billion GMTN programme (partially drawn) Series 2:- 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)
	3,602,053	2,927,481

13 Other liabilities

	2020	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
	187,448	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)
Balance as at 31 December	13,312	12,621

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14 Commitments and guarantees

	2020	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
	1,878,854	1,582,614

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
At 31 December	80,895	47,107	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
At 31 December	2,641,483	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
Net hedge ineffectiveness (loss)/gain	(590)	279

16 Net interest income

Interest income	2020	2019
Cash and bank balances	297	318
Placements with banks – Islamic banks	2,773	4,807
Placements with banks – Conventional banks	7,797	21,615
Debt securities at FVOCI (net)	47,680	45,663
Loans and advances – Islamic banks	42,715	55,625
Loans and advances – 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
Total interest income	197,711	279,714

Interest expense		
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
Total interest expense	114,639	171,248

Net interest income	83,072	108,466
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

17 Dividend income

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

18 Net loss on financial assests at fvtpl

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

19 Net fee income

	2020	2019
Agency, advisory and other services	3,532	2,008
	3,532	2,008

20 Other income, net

	2020	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
	19,087	14,148

21 Operating expenses

	2020	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
	47,659	47,918

22 Impairment losses on financial instruments, net

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

23 Impairment losses on other assets, net

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

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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.

Loans to related parties

Loans to related parties	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.

Investments in related parties

	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

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”).

Credit risk grades

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

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

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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 unlikeness 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.

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.

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.

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i. Placements with banks at amortised cost

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

ii. Investments in debt securities at measured at FVOCI

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

iii. Loans and Advances at amortised cost

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

iv. Loans commitments and financial guarantees

2020	Stage 1	Stage 2	Stage 3	Total
AAA to AA-	-	-	-	-
A+ to A-	83,833	-	-	83,833
BBB to BBB-	1,275,914	30,428	-	1,306,342
BB+ to C	91,852	305,165	-	397,017
D	-	7,977	33,362	41,339
Gross amount	1,451,599	343,570	33,362	1,828,531
ECL Allowance	(2,349)	(4,592)	(4,994)	(11,935)
Carrying Amount	1,449,250	338,978	28,368	1,816,596
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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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	66,861
Net movement between stages	-	9,217	(9,217)	-
Net charge for the year	6,233	(5,046)	13,069	14,256
At 31 December	11,952	48,337	20,828	81,117

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

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

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
Concentration of credit risk by sector						
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
Carrying amount at 31-Dec	3,914,216	3,697,715	374,692	606,850	2,324,826	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
Concentration of credit risk by sector						
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	-	-	-	-
Total Arab World	3,424,001	3,082,109	315,956	606,850	1,177,283	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
Carrying amount at	3,914,216	3,697,715	374,692	606,850	2,324,826	1,780,226

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.

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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)

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

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

c.) Market risk management

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

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

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

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

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

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

	100 bp parallel increase		100 bp parallel decrease	
	Profit/loss	Equity	Profit/loss	Equity
At 31 December 2020	1,493	373	(1,493)	(373)
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:

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

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

At 31 December 2020	5% strengthening of USD	5% weakening of USD
AED	1	(1)
GBP	41	(41)
KWD	18	(18)
At 31 December 2019	5% strengthening of USD	5% weakening of USD
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.

27 Effective interest rates

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

	2020	2019
Interest-bearing financial assets		
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%
Interest-bearing financial liabilities		
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%
US\$ LIBOR at 31 December was:		
One-month	0.14%	1.76%
Three-month	0.24%	1.91%
Six-month	0.26%	1.91%

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2019	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities at FVOCI				
Treasury Bills	394,408	-	-	394,408
Fixed-rate bonds	1,303,446	-	-	1,303,446
Floating-rate bonds	69,533	-	-	69,533
Other investments at FVTPL	-	2,495	57,502	59,997
Equities at FVOCI	165,617	-	723,439	889,056
Derivative financial assets	-	43,046	-	43,046
	1,933,004	45,541	780,941	2,759,486
Financial liabilities				
Deposit from 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 unobserv-able 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)
		746,985			

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)
Balance at 31 December	746,985	780,941

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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	Desig-nated at FVTPL	FVOCI – equity securities	FVOCI – debt securities	Total Carrying amount
Financial assets					
Cash and bank balances	57,613	-	-	-	57,613
Placements with banks	374,692	-	-	-	374,692
Investments	-	36,189	859,720	2,324,826	3,220,735
Loans and advances	3,866,849	47,367	-	-	3,914,216
Other Assets	30,052	80,895	-	-	110,947
Total financial and other assets	4,329,206	164,451	859,720	2,324,826	7,678,203
Financial liabilities					
Deposits	490,034	-	-	-	490,034
Other liabilities	140,063	47,107	-	-	187,170
Bank term financing	1,171,871	-	-	-	1,171,871
Sukuks and Bonds issued	2,046,445	1,555,608	-	-	3,602,053
Total financial and other Liabilities	3,848,413	1,602,715	-	-	5,451,128

2019	Amortized cost	Desig-nated at FVTPL	FVOCI – equity securities	FVOCI – debt securities	Total Carrying amount
Financial assets					
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
Total financial and other assets	4,334,676	150,467	889,056	1,780,226	7,154,425
Financial liabilities					
Deposits	529,666	100,516	-	-	630,182
Other liabilities	87,878	28,235	-	-	116,113
Bank term financing	1,324,874	-	-	-	1,324,874
Sukuks and Bonds issued	1,047,548	1,879,933	-	-	2,927,481
Total financial and other Liabilities	2,989,966	2,008,684	-	-	4,998,650

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 to3 months	3 months to 1 year	1 yearto 5 years	5 yearsand over	2020 Total
Assets					
Cash and bank balances	57,613	-	-	-	57,613
Placements with banks	287,139	87,553	-	-	374,692
Debt securities at FVOCI	271,472	280,825	807,374	965,155	2,324,826
Equity securities at FVOCI	-	-	-	859,720	859,720
Other investments at FVTPL	-	-	-	36,189	36,189
Equity accounted investees	-	-	-	114,211	114,211
Loans and advances	125,343	805,592	2,043,224	940,057	3,914,216
Property, equipment & vessels	-	-	-	100,401	100,401
Other assets	58,680	52,267	-	-	110,947
Total assets	800,247	1,226,237	2,850,598	3,015,733	7,892,815
Liabilities and Equity					
Deposits	(291,104)	(198,930)	-	-	(490,034)
Bank term financing	-	(220,828)	(951,043)	-	(1,171,871)
Sukuks and Bonds issued	(98,141)	(297,003)	(3,206,909)	-	(3,602,053)
Other liabilities	(75,422)	(102,029)	(9,997)	-	(187,448)
Equity	-	-	-	(2,438,464)	(2,438,464)
Non-controlling Interest	-	-	-	(2,945)	(2,945)
Total liabilities and equity	(464,667)	(818,790)	(4,167,949)	(2,441,409)	(7,892,815)
Maturity Gap	335,580	407,447	(1,317,351)	574,324	-
Cumulative maturity gap	335,580	743,027	(574,324)	-	-
2019					
Total assets	1,337,505	797,318	2,752,489	2,462,109	7,349,421
Total liabilities and equity	(308,505)	(703,212)	(3,986,933)	(2,350,771)	(7,349,421)
Maturity gap	1,029,000	94,106	(1,234,444)	111,338	-
Cumulative maturity gap	1,029,000	1,123,106	(111,338)	-	-

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For the year ended 31 December 2020

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:

2020	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total	Up to 4 months
Assets						
Placements with banks	286,400	52,000	-	-	338,400	(182,400)
Debt securities at FVOCI						
Floating-rate bonds	67,869	-	-	-	67,869	67,870
Loans and advances						
US\$ denominated	2,694,926	1,128,461	-	-	3,823,387	(438,004)
Non US\$ denominated	90,000	37,384	-	-	127,384	(15,232)
Liabilities						
Deposits						
US\$ denominated	(290,865)	(198,763)	-	-	(489,628)	(106,661)
Non US\$ denominated	-	-	-	-	-	-
Bank term financing	(150,000)	(1,025,000)	-	-	(1,175,000)	(1,900,000)
Sukuks and Bonds issued	(1,879,135)	(1,627,245)	-	-	(3,506,380)	(1,375,355)
Interest rate sensitivity gap	819,195	(1,633,163)	-	-	-	(813,968)
Cumulative Gap	819,195	(813,968)	(813,968)	(813,968)	(813,968)	(1,630,550)

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

31 Currency exposures

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

	Assets	Liabilities and equity	2020 Net Exposure	2019 Net exposure
Assets, liabilities and equity				
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)
	7,892,815	(7,892,815)	-	-

	2020	2019
Commitments and guarantees		
United States dollar	1,736,093	1,464,866
Saudi Riyal	142,761	117,748
	1,878,854	1,582,614

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:

		2020	2019
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.

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For the year ended 31 December 2020

32 Industry distribution of assets and liabilities

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

	2020	2019
Assets		
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
Total assets at 31 december	7,892,815	7,349,421
Liabilities and equity		
Energy	179,094	170,634
Financials & sovereign	5,272,312	4,828,016
Equity	2,441,409	2,350,771
Total liabilities and equity at 31 december	7,892,815	7,349,421
Commitments and guarantees		
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
Total commitments and guarantees at 31 december	1,878,854	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.

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:

	2020	2019
Assets		
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
Total arab world	6,043,219	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
Total assets	7,892,815	7,349,421
Liabilities and equity		
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
Total arab world	7,445,582	5,838,707
Europe	291,624	380,303
Asia and oceania	154,778	145,663
Other north and south america	831	984,748
Total liabilities and equity	7,892,815	7,349,421
Commitments and financial guarantees		
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
Total arab world	1,190,845	1,151,446
Europe	449,094	303,845
Asia and oceania	232,280	110,396
United states	6,635	16,927
	1,878,854	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.

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