ARAB PETROLEUM INVESTMENTS CORPORATION (APICORP)

INDEPENDENT AUDITOR’S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018

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INDEPENDENT AUDITOR'S REPORT

AUDIT REPORT WILL BE PROVIDED BY DELLOITTE

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (Continued)

AUDIT REPORT WILL BE PROVIDED BY DELLOITTE

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

AUDIT REPORT WILL BE PROVIDED BY DELLOITTE

INDEPENDENT AUDITOR'S REPORT (continued)

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INDEPENDENT AUDITOR'S REPORT (continued)

AUDIT REPORT WILL BE PROVIDED BY DELLOITTE

INDEPENDENT AUDITOR'S REPORT (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law and regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte & Touche – Middle East
Partner Registration No. 157
Manama, Kingdom of Bahrain
April 14, 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 December 2018 (US$000)

	Note	2018	2017
ASSETS			
Cash and cash equivalents		26,021	65,404
Placements with banks	1	777,899	459,720
Investment classified as held for sale	2	-	110,646
Investments	3	2,432,266	2,447,646
Investment in an associate	4	27,823	27,499
Syndicated and direct loans	5	3,492,929	2,965,028
Property, equipment and vessels	6	102,183	111,984
Other assets	7	93,608	48,885
TOTAL ASSETS		**6,952,729**	6,236,812
LIABILITIES, EQUITY AND NON-CONTROLLING INTERESTS			
LIABILITIES			
Deposits and borrowings under repurchase agreements	8	819,392	1,490,765
Other liabilities	9	121,728	76,518
Bank term financing	10	1,438,563	1,063,414
Sukuks and Bonds issued	11	2,305,088	1,455,780
Total liabilities		**4,684,771**	4,086,477
EQUITY			
Share capital	22	1,000,000	1,000,000
Legal reserve	23	223,000	204,500
General reserve	23	331,085	279,317
Fair value reserve		546,700	570,761
Retained earnings		165,086	93,136
Total equity attributable to shareholders of the corporation		**2,265,871**	2,147,714
Non-controlling interests		2,087	2,621
Total equity and non-controlling interests		**2,267,958**	2,150,335
TOTAL LIABILITIES, EQUITY AND NON-CONTROLLING INTERESTS		**6,952,729**	6,236,812

The consolidated financial statements, were approved by the Board of Directors on 13 April 2019 and signed on its behalf by:

Dr. Aabed Al-Saadoun	**Dr. Ahmed Ali Attiga**	**Dr. Sherif El Sayed Ayoub**
Chairman	*Chief Executive and General Manager*	**CFA, CPA**
		Chief Financial Officer

CONSOLIDATED STATEMENT OF INCOME

for the year ended 31 December 2018 **(US$000)**

	Note	2018	2017
Interest income		245,629	159,472
Interest expense		(134,589)	(93,291)
Net interest income	14	111,040	66,181
Dividend income	15	56,414	37,312
Gain on derecognition of Investments held for sale	16	86,669	-
Net (loss)/gain on financial assets at FVTPL	17	(8,990)	15,201
Net (loss)/gain on derecognition of financial assets at FVOCI	16	(128)	135
Net fee income	18	277	643
Other income, net	19	7,451	22,096
Total income		**252,733**	141,568
Operating expenses	20	(44,789)	(37,323)
Impairment, net	21	(25,672)	(600)
PROFIT FOR THE YEAR		**182,272**	103,645
Profit for the year attributable to:			
Shareholders of the Corporation		182,806	103,636
Non-controlling interests		(534)	9
		182,272	103,645
Per share information	22		
Basic and diluted earnings per share		US $ 182	US $ 104
Net asset value per share		US $ 2,266	US $ 2,148
Weighted average number of shares (in thousand)		1,000	1,000

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018 **(US$000)**

	2018	2017
Profit for the year	182,272	103,645
Other comprehensive income/ (loss)		
Items that will not be reclassified subsequently to the consolidated statement of income:		
Net change in fair value of equity investments at FVOCI	(8,010)	43,386
Items that may be reclassified subsequently to the consolidated statement of income:		
Net change in fair value of debt investments at FVOCI	(13,971)	(52)
Total other comprehensive income for the year	(21,981)	43,334
Total comprehensive income for the year	**160,291**	146,979

Total comprehensive income for the year attributable to:		
Shareholders of the Corporation	160,825	146,970
Non-controlling interests	(534)	9
	160,291	146,979

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018 **(US$000)**

2018	**Total Equity attributable to Shareholders of the Corporation**							
	Share capital	**Legal reserve**	**General reserve**	**Fair value reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2018	1,000,000	204,500	279,317	570,761	93,136	2,147,714	2,621	2,150,335
Transition adjustments on adoption of IFRS 9 (note A-3)	-	-	-	(1,300)	(11,368)	(12,668)	-	(12,668)
Balance at 1 January 2018, restated	**1,000,000**	**204,500**	**279,317**	**569,461**	**81,768**	**2,135,046**	**2,621**	**2,137,667**
Profit for the period	-	-	-	-	182,806	182,806	(534)	182,272
Comprehensive income for the period								
- Transfer to retained earnings on derecognition of equity instruments at FVOCI	-	-	-	(780)	780	-	-	-
- Net change in fair value of debt investments	-	-	-	(13,971)	-	(13,971)	-	(13,971)
- Net change in fair value of equity investments	-	-	-	(8,010)	-	(8,010)	-	(8,010)
Total other comprehensive income	-	-	-	(22,761)	780	(21,981)	-	(21,981)
Total comprehensive income for the period	-	-	-	(22,761)	183,586	160,825	(534)	160,291
Transfer to legal reserve (note 23)	-	18,500	-	-	(18,500)	-	-	-
Dividend declared (note 23)	-	-	-	-	(30,000)	(30,000)	-	(30,000)
Transfer to general reserve (note 23)	-	-	51,768	-	(51,768)	-	-	-
Balance as at 31 December 2018	**1,000,000**	**223,000**	**331,085**	**546,700**	**165,086**	**2,265,871**	**2,087**	**2,267,958**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
for the year ended 31 December 2018 **(US$000)**

2017	Total Equity attributable to Shareholders of the Corporation							
	Share capital	**Legal reserve**	**General reserve**	**Fair value reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2017	1,000,000	194,000	195,495	527,427	83,822	2,000,744	2,520	2,003,264
Profit for the period	-	-	-	-	103,636	103,636	9	103,645
Comprehensive income for the period								
- Net change in fair value of debt investments	-	-	-	(52)	-	(155)	-	(155)
- Net change in fair value of equity investments	-	-	-	43,386	-	43,489	-	43,489
Total other comprehensive income	-	-	-	43,334	-	43,334	-	43,334
Total comprehensive income for the period	-	-	-	43,334	103,636	146,970	9	146,979
Transfer to legal reserve during 2017	-	10,500	-	-	(10,500)	-	-	-
Transfer to general reserve	-	-	83,822	-	(83,822)	-	-	-
Equity contributed by non-controlling interest	-	-	-	-	-	-	92	92
Balance as at 31 December 2017	**1,000,000**	**204,500**	**279,317**	**570,761**	**93,136**	**2,147,714**	**2,621**	**2,150,335**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2018 **(US$000)**

	2018	2017
OPERATING ACTIVITIES		
Profit for the year	182,272	103,645
Adjustment for:		
Depreciation	7,326	6,801
Employees' end-of-service benefits	2,161	865
Interest expense	134,589	93,291
Gain on disposal of property, equipment and vessels	-	(23)
Share of gain from associate(s)	(319)	(11,774)
Gain on sales of investment held for sale	(86,669)	-
Gain on sales of investments	128	(135)
Net unrealized gain on Investments designated at FVTPL	8,990	(15,201)
Dividend income	(56,414)	(37,312)
Impairment, net	20,672	600
Net amortisation of transaction fee	(1,342)	(2,799)
Changes in operating assets and liabilities		
Direct and syndicated loans drawdown	(1,531,865)	(1,003,150)
Direct and syndicated loans repayments	993,188	993,362
Placements with banks	(318,179)	357,033
Other assets	(44,723)	(7,033)
Other liabilities	1,110	1,979
	(689,075)	480,149
Finance charges paid	(110,929)	(94,327)
Employees' end-of-service benefits paid	(420)	(1,427)
Net cash (used in) / from operating activities	**(800,424)**	384,395
INVESTING ACTIVITIES		
Purchase of investments	(834,373)	(926,581)
Proceeds from investments	796,877	595,571
Proceeds from investment held for sale	197,315	-
Purchase of property and equipment	(2,525)	(1,429)
Sale proceeds from on disposal on property and equipment	-	23
Dividends	56,414	45,328
Net cash from / (used in) used in investing activities	**213,708**	(287,088)
FINANCING ACTIVITIES		
Change in non-controlling interest	-	92
Proceeds from deposits	3,356,374	5,627,780
Repayment of deposits	(4,032,248)	(5,824,044)
Proceeds from bank term financing	375,000	-
Repayment of bank term financing	-	(458,899)
Proceeds from Sukuks and bonds	862,607	601,346
Dividend payment	(14,400)	-
Net cash from / (used in) financing activities	**547,333**	(53,725)
Net (decrease) / increase in cash and cash equivalents for the year	(39,383)	43,582
Cash and cash equivalents at 1 January	65,404	21,822
Cash and cash equivalents at 31 December	**26,021**	65,404

Supplementary cash flow information (note 25)

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

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

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

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

Share capital
As of 31 December, 2018, and 2017, the Corporation's authorised capital is US $ 2,400 million, subscribed capital is US $ 2,000 million, issued & paid up capital is US $ 1,000 million, whereas the remainder of US $ 1,000 million is callable capital. The Corporation does not have ultimate parent company nor controlling interest.

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

(US$000)

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

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

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

Subsidiaries
The following subsidiaries are consolidated in these consolidated financial statements:

Subsidiaries (continued)

APICORP Petroleum Shipping Fund Limited
The Corporation has set up the APICORP Petroleum Shipping Fund Limited ("the Fund" or "the subsidiary"), a close-ended fund incorporated in Cayman Islands in 2012. The Fund is established for the purposes of investment in a series of IMO II/III MR Tankers ("commercial marine vessels"). The Fund is 94% owned by the Corporation. Assets and liabilities and results of operations of the Fund have been included in these consolidated financial statements of the Corporation.

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

In 2017, the board of directors of the Fund had resolved to continue the Fund (originally established in 2012 as 5 years closed-ended fund) for a further period of 3 years until 2020.

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 Managed Investment Vehicle
The Corporation has set up a special purpose vehicle in 2017, APICORP Managed Account Investment Vehicle L.P, incorporated in Cayman Islands. It is a 100% owned subsidiary. The Investment 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 or an equity component.

SIGNIFICANT ACCOUNTING POLICIES

A GENERAL

A-1 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). IFRSs comprise accounting standards issued by IASB as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

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

A-2 Basis of preparation
The consolidated financial statements have been prepared on the historical cost 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) instruments. 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.

The consolidated statements of financial position is stated broadly in order of liquidity.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Corporation takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

A GENERAL (continued)

A-2 Basis of preparation (continued)

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

The consolidated financial statements include the financial statements of APICORP and its subsidiaries (together “the Group”). The subsidiaries represent “APICORP Petroleum Shipping Fund Limited”, “APICORP Managed Account Investment Vehicle L.P” and “APICORP Sukuk Limited” which are registered in Cayman Island.

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

i. Basis of Consolidation

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

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

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the acquisition of shipping vessels and the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group, the Corporation has power over the SPE, is exposed to or has rights to variable returns from its involvement with the SPE and its ability to use its power over the SPE at inception and subsequently to 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 Corporation reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

A GENERAL (continued)

A-2 Basis of preparation (continued)

I Basis of Consolidation (continued)

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

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

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

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 are 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 of a subsidiary, the gain/loss on disposal is recognised in the consolidated statement of income is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets net of liabilities of the subsidiary and any NCI. All amounts previously recognised in OCI in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to income statement or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, or when appropriate, the cost on initial recognition of an investment in an associate or a joint venture.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

A GENERAL (continued)

A-2 Basis of preparation (continued)

ii. Investments in associates

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

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

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

The carrying amount of the investments (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised is not allocated to any assets, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in OCI in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

A GENERAL (continued)

A-2 Basis of preparation (continued)

ii. Investments in associates (continued)

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

iii. New and revised IFRSs applied on the consolidated financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these consolidated financial statements.

The Group applied for the first time, IFRS 9 Financial Instruments that is required to be applied with adjustments to be made in the opening balance of equity as of 1 January 2018. As required by IAS 1 Presentation of Financial Statements, the nature and effect of these changes are disclosed in Note A-3 of the consolidated financial statements.

In the current year, the Group has also applied the following new accounting standards and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2018. The application of these new accounting standards and amendments to IFRSs (except IFRS 9) has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Group's future transactions or arrangements.

- IFRS 15 Revenue from Contracts with Customers
- Conceptual Framework for Financial Reporting 2018
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards deleting short term exemptions for first-time adopters
- Amendments to IFRS 2 Share-based Payment clarifying the classification and measurement of share based payment transactions
- Amendments to IFRS 7 Financial Instruments: Disclosures about the initial application of IFRS 9
- Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception
- Amendments to IAS 40 Investment Property clarifying transfers of property to, or from, investment property
- Annual Improvements to IFRSs 2014–2016 Cycle to remove short-term exemptions and clarifying certain fair value measurements
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IAS 28 Investments in Associates and Joint Ventures providing clarification on measuring investees at fair value through profit or loss is an investment-by-investment choice

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2018.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

A GENERAL (continued)

A-2 Basis of preparation (continued)

iv. Standards and Interpretations in issue but not yet effective

New standards and significant amendments to standards applicable to the Group:	**Effective for annual periods beginning on or after**
IFRS 16 Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	January 1, 2019
Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	January 1, 2019
IFRIC 23 Uncertainty over Income Tax Treatments: The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: – Whether tax treatments should be considered collectively; – Assumptions for taxation authorities' examinations; – The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and – The effect of changes in facts and circumstances.	January 1, 2019
Amendments in IFRS 9 Financial Instruments relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	January 1, 2019
Amendment to IAS 19 Employee Benefits: The Amendments clarify that: – on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and – the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.	January 1, 2019
Amendments in IAS 28 Investments in Associates and Joint Ventures relating to long term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 1, 2019

SIGNIFICANT ACCOUNTING POLICIES (Continued)

A GENERAL (continued)

A-2 Basis of preparation (continued)

iv. Standards and Interpretations in issue but not yet effective (continued)

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.	January 1, 2019
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these IFRSs and amendments will be adopted in the initial period when they become mandatorily effective and will have no material impact on the consolidated financial statements of the Group.

A-3 Impact of Changes in Accounting Policies Due to Adoption of New Standards

a) IFRS 15 Revenue from Contracts with Customers

The Group adopted IFRS 15 ‘Revenue from Contracts with Customers’ resulting in a change in the revenue recognition policy of the Group in relation to its contracts with customers.

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. While IFRS 15 contains more structured guidance than the existing Standard IAS 18, the outcomes for revenue recognition are very similar to current practice of allocating income over the period of the service rendered and therefore IFRS 15 does not have a material impact on the Group.

b) IFRS 9 – Financial Instruments

The Group has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

A GENERAL (continued)

A-3 Impact of Changes in Accounting Policies Due to Adoption of New Standards (continued)

b) IFRS 9 – Financial Instruments (continued)

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below;

i) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost (“AC”), fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVTPL”). This classification is generally based, except equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, see below.

Under IFRS 9, the accounting for financial liabilities largely remain similar to IAS 39, except for the treatment of gains or losses arising from an entity’s own credit risk relating to liabilities designated at FVTPL. The de-recognition rules have been transferred from IAS 39 and have not been changed. The Group therefore does not have any material impact on its financial liabilities and the de-recognition accounting policy.

ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model (“ECL”). IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt bond financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Under IFRS 9, credit losses are recognized earlier under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see below.

iii) IFRS 7

To reflect the difference between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Group has adopted it, together with IFRS 9, for the beginning on 1 January 2018. Changes include transition disclosures as shown below, and detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used which are set below. Reconciliations from opening to closing ECL allowances are presented below. IFRS 7 also requires additional and more detailed disclosures for hedge accounting even for entities opting to continue to apply the hedge accounting requirements of IAS 39.

Under IFRS 9, allowances for credit losses are recognized earlier than previously recognized under IAS 39. For an explanation of how Group applies the impairment requirements of IFRS 9, see below.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

A GENERAL (continued)

A-3 Impact of Changes in Accounting Policies Due to Adoption of New Standards (continued)

b) IFRS 9 – Financial Instruments (continued)

iv) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied as of 1 January 2018, however comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

I. The determination of the business model within which a financial asset is held.
II. The designation and revocation of previous designated financial assets and financial liabilities as measured at FVTPL.
III. The designation of certain investments in equity instruments not held for trading as FVOCI.

It is assumed that the credit risk has not increased significantly for those debt securities which carry low credit risk at the date of initial application of IFRS 9.

IMPACT ON RETAINED EARNINGS AND OTHER RESERVES

The impact from the adoption of IFRS 9 as at 1 January 2018 has resulted in decrease in retained earnings by US $ 11,368 thousands and fair value reserve by US $ 1,300 thousand:

	Retained earnings US$000	Fair value reserve US$000
Balances under IAS 39 (31 December 2017)	**93,136**	**570,761**
Impact on reclassification and remeasurements:		
- Investment securities (managed fund) from available-for-sale to those measured at FVTPL	1,300	(1,300)
- Investment securities (equity) from available-for-sale to those measured at FVOCI	(5,400)	-
- Loan from loans and receivable to those measured at FVTPL	2,466	-
	(1,634)	(1,300)
Impact on recognition of Expected Credit Losses		
- Placements with banks	(54)	-
- Investment Securities (Debt) at fair value through other comprehensive income	(7,149)	-
- Syndicated and direct loans	5,444	-
- Loan commitments and financial guarantees	(7,975)	-
	(9,734)	-
Net impact on reclassification, remeasurement and recognition of ECL	(11,368)	(1,300)
Balances under IFRS 9 on date of initial application (1 January 2018)	**81,768**	**569,461**

SIGNIFICANT ACCOUNTING POLICIES (Continued)

A GENERAL (continued)

A-3 Impact of Changes in Accounting Policies Due to Adoption of New Standards (continued)

b) IFRS 9 – Financial Instruments (continued)

Classification and Measurement of Financial Instruments

The Group performed a detailed analysis of its business models for managing financial assets as well as analysing their cash flow characteristics. The below table reconciles the original measurement categories and carrying amounts of financial assets in accordance with IAS 39 and the new measurement categories under IFRS 9 as at 31 December 2017.

	Original classification under IAS 39	New classification under IFRS 9	Carrying amount as of 31 December 2017 under IAS 39	Reclassification of a loan from 'Amortised cost to FVTPL	Reclassification of a managed fund for to FVTPL	Re-measurement	New carrying amount as of 1 January 2018 under IFRS 9
Financial assets							
Cash and cash equivalents	Loans and receivables	Amortised cost	65,404	-	-	-	65,404
Placements with banks	Loans and receivables	Amortised cost	459,720	-	-	(54)	459,666
Syndicated and direct loans – I	Loans and receivables	Amortised cost	2,965,028	(43,520)	-	5,444	2,926,952
Syndicated and direct loans – II	Loans and receivables	FVTPL	-	43,520	-	2,466	45,986
Investments as FVTPL	FVTPL	FVTPL	41,492	-	61,389	-	102,881
Available-for-sale securities (Debt)	Available-for-sale	FVOCI	1,335,284	-	-	(7,149)	1,328,135
Available-for-sale securities (equity and funds)	Available-for-sale	FVOCI	144,098	-	(58,849)	(5,400)	79,849
Available-for-sale (AFS) direct equity investment	Available-for-sale	FVOCI	926,772	-	(2,540)-	-	924,232
Derivatives with positive fair value	FVTPL	FVTPL	10,430	-	-	-	10,430
Other financial assets	Loans and receivables	Amortised cost	38,455	-	-	-	38,455
Financial liabilities							
Deposits	Amortised cost/FVTPL	Amortised cost/FVTPL	1,490,765	-	-	-	1,490,765
Bank term financing	Amortised cost	Amortised cost	1,063,414	-	-	-	1,063,414
Sukuks and Bonds issued	Amortised cost/FVTPL	Amortised cost/FVTPL	1,455,780	-	-	-	1,455,780
Derivatives with negative fair value	FVTPL	FVTPL	18,080	-	-	-	18,080
Other financial liabilities	Amortised cost	Amortised cost	58,438	-	-	(7,975)	50,463

Financial Liabilities: There were no changes to the classification and measurement of financial liabilities.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

A GENERAL (continued)

A-3 Impact of Changes in Accounting Policies Due to Adoption of New Standards (continued)

b) IFRS 9 – Financial Instruments (continued)

v) Expected credit loss / Impairment allowances

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	Balances as of 31 December 2017 under incurred loss model under IAS 39	Re-Measurement due to ECL allowance	Balances as of 1 January 2018 under ECL model under IFRS 9
- Placements with banks	-	54	54
- Investments - bonds and treasury bills	-	7,149	7,149
- Syndicated and direct Loans	25,775	(5,444)	20,331
- Loan commitments and financial guarantees	-	7,975	7,975
	25,775	9,734	35,509

vi) Group exposure and movement in Impairment allowance

	Group exposure			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Exposure subject to impairments 1 January 2018				
Placements with banks	459,720	-	-	**459,720**
Investment securities (Debt) at FVOCI	1,150,150	185,132	-	**1,335,282**
Syndicated and direct loans	2,570,144	522,996	12,479	**3,105,619**
Loan commitments and financial guarantees	502,180	223,725	-	**725,905**
	4,682,194	**931,853**	**12,479**	**5,626,526**
Exposure subject to impairments 31 December 2018				
Placements with banks	777,985	-	-	**777,985**
Investment securities (Debt) at FVOCI	1,033,646	270,777	-	**1,304,423**
Syndicated and direct loans	3,008,458	582,708	12,479	**3,603,645**
Loan commitments and financial guarantees	711,500	318,802	-	**1,030,302**
	5,531,589	**1,172,287**	**12,479**	**6,716,355**

	Impairment allowance under ECL model		Specific impairments	
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Impairment allowance balance as at January 2018				
Placements with banks	54	-	-	54
Investment securities (debt) at FVOCI	1,040	6,109		7,149
Syndicated and direct loans	5,061	15,270	12,479	32,810
Loan commitments and financial guarantees	1,143	6,832		7,975
	7,298	28,211	12,479	47,988
Net transfer between stages (net)	-	-	-	**-**
Placements with banks	31	-	-	**31**
Investment securities (debt) at FVOCI	(832)	(1,029)	-	**(1,861)**
Syndicated and direct loans	(495)	23,373	-	**22,878**
Loan commitments and financial guarantees	(597)	221	-	**(376)**
Charge for year (net)	(1,893)	22,565	-	**20,672**
Impairment allowance balance as at 31 December 2018				
Placements with banks	86	-	-	**86**
Investment securities (debt) at FVOCI	208	5,080		**5,288**
Syndicated and direct loans	4,566	38,643	12,479	**55,688**
Loan commitments and financial guarantees	546	7,053		**7,599**
	5,406	**50,776**	**12,479**	**68,661**

SIGNIFICANT ACCOUNTING POLICIES (Continued)

A GENERAL (continued)

A-3 Impact of Changes in Accounting Policies Due to Adoption of New Standards (continued)

b) IFRS 9 – Financial Instruments (continued)

vii) Summary of financial assets and financial liabilities as of December 31, 2018

The following table summarizes the balances of financial and other assets and financial and other liabilities by measurement category in the consolidated statement of financial position as of 31 December 2018:

	Amortized cost	Designated at FVTPL	Mandatorily at FVTPL	FVOCI – equity securities	FVOCI – debt securities	Total Carrying amount
Financial and other assets						
Cash and cash equivalents	26,021	-	-	-	-	**26,021**
Placements with banks	777,899	-	-	-	-	**777,899**
Investments	-	57,112	59,541	1,016,478	1,299,135	**2,432,266**
Syndicated and direct loans	3,444,596	-	48,333	-	-	**3,492,929**
Other Assets	74,080	-	19,528	-	-	**93,608**
Total financial and other assets	**4,322,596**	**57,112**	**127,402**	**1,016,478**	**1,299,135**	**6,822,723**
Financial and other liabilities						
Deposits	719,591	99,801	-	-	-	**819,392**
Other liabilities	92,865	-	28,863	-	-	**121,728**
Bank term financing	1,438,563	-	-	-	-	**1,438,563**
Sukuks and Bonds issued	400,817	1,904,271	-	-	-	**2,305,088**
Total financial and other liabilities	**2,651,836**	**2,004,072**	**28,863**	**-**	**-**	**4,684,771**

A-4 Foreign currency transactions

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

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

A-5 FINANCIAL INSTRUMENTS (policy applicable before 1 January 2018)

A-5.1 FINANCIAL ASSETS

A-5.1.1 Classification

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

Financial assets are classified into available-for-sale' (AFS) financial assets, at fair value through profit and loss (FVTPL), held to maturity and loans and receivables.

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

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

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

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

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

A-5.1.2 Recognition

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

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

A-5.1.3 Measurement

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

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

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

A-5. FINANCIAL INSTRUMENTS (policy applicable before 1 January 2018) (continued)

A-5-1 FINANCIAL ASSETS (continued)

A-5.1.4 Amortization

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

A-5.1.5 Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. For financial assets traded in active markets, fair value is based on their quoted closing bid market prices or dealer price quotations at the reporting date without any deduction for transaction costs. For investments in managed funds, the net asset values quoted by the fund managers are considered representative of fair value of those investments.

A-5.1.6 De-recognition

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

A-5.1.7 Impairment

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

Assets carried at amortised cost

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

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

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

A-5. FINANCIAL INSTRUMENTS (policy applicable before 1 January 2018) (continued)

A-5-1 FINANCIAL ASSETS (continued)

A-5.1.7 Impairment (continued)

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

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

Assets classified as available-for-sale

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

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

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

A-5-2 FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

A-5.2.1 Classification as debt or equity

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

A-5.2.2 Equity Instrument

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

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

A-5.2.3 Financial liabilities

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

A-5.2.4 Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

A-5. FINANCIAL INSTRUMENTS (policy applicable before 1 January 2018) (continued)

A-5-2 FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS (continued)

A-5.2.4 Financial liabilities at FVTPL (continued)

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

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

A-5.2.5 Initial recognition and measurement

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

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

A-5.2.6 Subsequent measurement

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

A-5.2.7 De-recognition

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

Non-current assets held for sale

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

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

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

A-5. FINANCIAL INSTRUMENTS (policy applicable before 1 January 2018) (continued)

A-5-2 FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS (continued)

A-5.2.7 De-recognition (continued)

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method (see the accounting policy regarding internments in associates or joint ventures above).

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

B. FINANCIAL INSTRUMENTS (policy applicable from 1 January 2018)

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

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

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.
Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FINANCIAL INSTRUMENTS (policy applicable from 1 January 2018) (continued)

However, the Group may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and

- the Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortised cost or at FVTOCI
The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.
For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group has more than one business model for managing its financial instruments which reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FINANCIAL INSTRUMENTS (policy applicable from 1 January 2018) (continued)

Debt instruments at amortised cost or at FVTOCI (continued)

The Group considers all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that the Group does not reasonably expect to occur, such as so-called ‘worst case’ or ‘stress case’ scenarios. The Group takes into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity’s key management personnel;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and

- how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current reporting period the Group has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity. Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

In the current reporting period the Group has applied the fair value option and so has designated debt instruments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

Financial assets at FVTPL
Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and

- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or

- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FINANCIAL INSTRUMENTS (policy applicable from 1 January 2018) (continued)

Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

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

Impairment

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

- placements with banks
- debt investment securities;
- syndicated and direct loans;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

With the exception of Purchased or Originated Credit-Impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured 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).

SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FINANCIAL INSTRUMENTS (policy applicable from 1 January 2018) (continued)

Impairment (continued)

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.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

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.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FINANCIAL INSTRUMENTS (policy applicable from 1 January 2018) (continued)

Credit-impaired financial assets (continued)

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 (see below) includes unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired (POCI) financial assets
POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default
Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.
The Group considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Significant increase in credit risk
The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the 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 Group will measure the loss allowance based on lifetime rather than 12-month ECL. The Group's accounting policy is not 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. As a result the Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FINANCIAL INSTRUMENTS (policy applicable from 1 January 2018) (continued)

Significant increase in credit risk (continued)

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information. See note A-3 for more details about forward looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour. The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL.
The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Group considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FINANCIAL INSTRUMENTS (policy applicable from 1 January 2018) (continued)

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Group has an established forbearance policy which applies for corporate and retail lending.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is significant the Group deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FINANCIAL INSTRUMENTS (policy applicable from 1 January 2018) (continued)

Modification and derecognition of financial assets (continued)

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

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.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FINANCIAL INSTRUMENTS (policy applicable from 1 January 2018) (continued)

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 as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve;
- for loan commitments and financial guarantee contracts: 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.

Financial liabilities and equity
Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group or a contract that will or may be settled in the Group's own equity instruments and is a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

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

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FINANCIAL INSTRUMENTS (policy applicable from 1 January 2018) (continued)

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

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognised in profit or loss.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FINANCIAL INSTRUMENTS (policy applicable from 1 January 2018) (continued)

Financial liabilities at FVTPL (continued)

In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

Other financial liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

Derivative financial instruments

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FINANCIAL INSTRUMENTS (policy applicable from 1 January 2018) (continued)

Derivative financial instruments (continued)

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 balance sheet date. The resulting gain/loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in 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 or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations (net investment 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.

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:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, 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.

Hedge accounting
The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges and cash flow hedges as appropriate. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow 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.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FINANCIAL INSTRUMENTS (policy applicable from 1 January 2018) (continued)

Hedge accounting (continued)

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.

In some hedge relationships the Group designates only the intrinsic value of options. In this case the fair value change of the time value component of the option contract is deferred in OCI, over the term of the hedge, to the extent that it relates to the hedged item and is reclassified from equity to profit or loss when the hedged item does not result in the recognition of a non-financial item. The Group's risk management policy does not include hedges of items that result in the recognition of non-financial items, because the Group's risk exposures relate to financial items only.

The hedged items designated by the Group are time-period related hedged items, which means that the amount of the original time value of the option that relates to the hedged item is amortised from equity to profit or loss on a rational basis (e.g. straight-line) over the term of the hedging relationship.

In some hedge relationships the Group excludes from the designation the forward element of forward contracts or the currency basis spread of cross currency hedging instruments. In this case a similar treatment is applied to the one applied for the time value of options. The treatment for the forward element of a forward and the currency basis element is optional and the option is applied on a hedge by hedge basis, unlike the treatment for the time value of the options which is mandatory. For hedge relationships with forwards or foreign currency derivatives such as cross currency interest rate swaps, where the forward element or the currency basis spread is excluded from the designation the Group generally recognises the excluded element in OCI.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. FINANCIAL INSTRUMENTS (policy applicable from 1 January 2018) (continued)

Hedge accounting (continued)

Fair value hedges

The fair value change on qualifying hedging instruments is recognised in profit or loss except when the hedging instrument hedges an equity instrument designated at FVTOCI 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 FVTOCI.

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 profit or loss. For debt instruments measured at FVTOCI, 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 profit or loss instead of OCI. When the hedged item is an equity instrument designated at FVTOCI, the hedging gain/loss remains in OCI to match that of the hedging instrument.

Where hedging gains/losses are recognised in 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 EIR method is used (i.e. debt instruments measured at amortised cost or at FVTOCI) arising from the hedged risk is amortised to profit or loss commencing no later than the date when hedge accounting is discontinued.

C CASH AND CASH EQUIVALENTS

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

D REPURCHASE AND RESALE AGREEMENTS

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

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

E PROPERTY, EQUIPMENT AND VESSELS

E-1 Recognition and Measurement

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

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

E PROPERTY, EQUIPMENT AND VESSELS (continued)

E-2 Subsequent expenditure

Expenditure incurred subsequently to replace a major component of an item of property, equipment and vessels that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits expected to accrue from the item of property, equipment and vessels. All other expenditure, for example on maintenance and repairs, is expensed in the consolidated statement of income as incurred.

E-3 Depreciation

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

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

- Buildings 40 years
- Computers, Furniture & Equipment 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 consolidated statement of income for the year in which the changes arise.

E-4 Impairment of non-financial assets

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

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

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

F EMPLOYEES' END OF SERVICE BENEFITS

(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 income, 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 Group 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.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

G INCOME RECOGNITION

G-1 Interest income and expenses

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

G-2 Dividend income

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

G-3 Fee income

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

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

G-4 Other income

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

H PROVISIONS

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

I LEGAL AND GENERAL RESERVES

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

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

J OFFSETTING FINANCIAL INSTRUMENTS

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

K OPERATING LEASES

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

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

L-1 Critical judgements in applying accounting policies

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

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets sections of note A-3). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase of credit risk

As explained in note A-3, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note A-3 for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note A-3 for more details on ECL and note 28 for more details on fair value measurement.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

L-1 Critical judgements in applying accounting policies (continued)

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

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

No significant influence over an equity investment at FVOCI
The Group has no significant influence over Ashtead Technology by virtue over their participation in the policy-making process and provision of essential technical information related to above mentioned entity.

L-2 Key sources of estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default (PD): PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See note A-3 for more details, including analysis of the sensitivity of the reported ECL to changes in PD resulting from changes in economic drivers.

Loss Given Default (LGD): LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See note A-3 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Group uses valuation models to determine the fair value of its financial instruments.

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

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

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

L-2 Key sources of estimation uncertainty (continued)

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in respective notes.

Fair value measurement

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

L-3 Key changes to the significant estimates and judgements

Financial asset and liability classification

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Impairment of financial instruments

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and in Group of forward-looking information in the measurement of ECL.

Inputs, assumptions and techniques used for estimating impairment

A. 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 and including forward-looking information.

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

- Significant rating down grade since origination
- Facilities restructured during previous twelve month
- Facilities overdue by 30 days as at the reporting date.

B. Credit risk grades

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. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a moved to a different credit risk grade.

C. Generating the term structure of Probability of Default (PD)

The Group employs statistical models to analyse the data collected and generate estimates of 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, across various geographies in which the Group has taken exposures.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

L-3 Key changes to the significant estimates and judgements (continued)

Changes to Groups financial risk management objectives and policies

Credit Risk Measurement
The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9 as detailed in note A-3.

Credit risk grading
The Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group uses internal rating models tailored to the various categories of counterparty. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

Credit quality assessments
Pursuant to the adoption of IFRS 9, the Group has mapped its internal credit rating scale to Moody's rating scale, the table below provides an analysis of counterparties by rating grades and credit quality of the Group's credit risk, based on Moody's ratings (or their equivalent) as at 31 December, 2018.

Rating grade	Grade and Basis for recognising ECL	Syndicated and direct Loans (US$ 000)	Investment Securities (Debt) (US$ 000)	Loan Commitments and Guarantees (US$ 000)	Placements with banks (US$ 000)
AAA to AA-	Investment grade 12 months ECL	489,911	489,687	92,828	174,383
A+ to A-	Investment grade 12 months ECL	1,458,903	425,523	20,000	312,935
BBB to BBB-	Investment grade 12 months ECL	791,434	309,817	671,052	290,667
BB+ to B-	Investment grade Lifetime ECL	850,918	78,141	237,136	-
C	Non-investment grade Lifetime ECL	-	1,255	-	-
D	Default Lifetime ECL (credit impaired)	12,479	-	-	-
Total		3,603,645	1,304,423	1,021,016	777,985

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
for the year ended 31 December 2018 **(US$ 000)**

1 PLACEMENTS WITH BANKS

	2018	2017
With Islamic financial institutions	121,617	125,000
With conventional financial institutions	530,298	325,667
Placements under repurchase agreements	99,383	-
Margin call accounts	26,687	9,053
Expected credit loss impairment allowance (note A-3 (b)(vi))	(86)	-
	777,899	459,720

2 INVESTMENT HELD FOR SALE

	2018	2017
NPS Holding Company	-	110,646

During the year, the Group sold investment in NPS Holding Company and realised a gain of US $ 86,669 thousand.

3 INVESTMENTS

		2018	2017
Investments at FVOCI (debt)	3.1	1,299,135	-
Investments at FVTPL	3.2	116,653	-
Investments at FVOCI (equity)	3.3	1,016,478	-
Available-for-sale (AFS) securities	3.1	-	1,479,382
Investments at FVTPL	3.2	-	41,492
Available-for-sale (AFS) direct equity investments	3.3	-	926,772
		2,432,266	2,447,646

3.1 INVESTMENTS AT FVOCI (DEBT) / AVAILABLE-FOR-SALE SECURITIES (AFS)

	2018	2017
Treasury bills	224,958	199,987
Fixed-rate bonds	989,431	980,423
Floating-rate bonds	90,034	154,874
Managed funds	-	109,579
Other equities	-	34,519
Expected credit loss impairment allowance (note A-3 (b)(vi))	(5,288)	-
	1,299,135	1,479,382

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) (2017: AFS). At 31 December 2018, the fair value of investment at FVOCI (debt) (2017: AFS) that had been pledged as collateral under repurchase agreements was US $179,554 thousands (2017: US $189,233 thousands). These transactions are conducted under the terms that are usual and customary to standard securities borrowings and lending activities.

3 INVESTMENTS (continued)

3.2 INVESTMENTS AT FVTPL

	2018	2017
Mandatory at FVTPL:		
Managed funds and others	59,541	-
Designated at FVTPL:		
Unlisted equities	57,112	41,492
	116,653	41,492

Movements during the year:	**2018**	**2017**
Balance at 1 January under IAS 39	41,492	-
Transferred from available-for-sale direct equity investments (equity) (note 3.3)	2,540	-
Transferred from available-for-sale securities (note 3.1)	58,849	-
	102,881	-
Additions during the year	25,109	26,291
Fair value change (note 17)	(11,337)	15,201
Balance at 31 December	**116,653**	41,492

3.3 INVESTMENTS AT FVOCI (EQUITY) / AVAILABLE-FOR-SALE DIRECT EQUITY INVESTMENTS

	2018	2017
Unlisted equities – (see below)		
Kingdom of Saudi Arabia		
Saudi European Petro Co. (Ibn Zahr)	445,273	461,363
The Industrialization and Energy Services Company (TAQA)	108,279	99,180
Saudi Mechanical Industries (SMI)	21,162	46,566
Shuqaiq International Water and Electricity Company (SIWEC)	28,145	28,145
Libya		
Arab Drilling and Workover Co. (Adwoc)	-	2,922
Arab Republic of Egypt		
Egyptian Methanex Methanol Co.	131,722	112,881
Non-shareholder countries		
Tankage Mediterranean (Tankmed), Tunisia	6,208	5,240
IFC Middle East and North Africa, LLP (note 3.2)	-	2,540
Ashtead Technology	16,596	14,300
	757,385	773,137
Listed equities		
Kingdom of Saudi Arabia		
Yanbu National Petrochemical Company (Yansab)	126,505	116,590
Arab Republic of Egypt		
MISR Oil Processing Company SAE	29,913	37,045
Other equities	102,675	-
	1,016,478	926,772

Movements during the year:	**2018**	2017
Balance at 1 January under IAS 39	926,772	879,974
Transferred to investment at FVTPL (note 3.2)	(2,540)	-
Transferred from available-for-sale securities (note 3.1)	79,849	-
	1,004,081	879,974
Additions during the year	39,174	28,938
Sold during the year	(18,767)	-
Transferred to investment in an associate (note 4)	-	(25,526)
Fair value change	(8,010)	43,386
Balance at 31 December	**1,016,478**	926,772

3 INVESTMENTS (continued)

3.3 INVESTMENTS AT FVOCI (EQUITY) / AVAILABLE-FOR-SALE DIRECT EQUITY INVESTMENTS (continued)

Companies in which the Group holds 20% or more of the equity are not treated as associates under IAS 28 – Investments in Associates because the Group does not exercise significant influence over the management and operations of the companies. These investments primarily include private equity investments in closely held project companies where the Group intends to exit these investments principally by means of strategic buy outs by an existing shareholder or through initial public offerings. The investment committee regularly evaluates exit opportunities. Accordingly, these investments are classified as at FVOCI (EQUITY).

As of 31 December 2018, all the Group's shares in Egyptian Bahraini Gas Derivative Co. of US $ 5,000 thousand are pledged as security in favour of a bank to guarantee a loan issued to Egyptian Bahraini Gas Derivative Co.

	2018	2017
Commitments – uncalled share capital (note 12)		
Balance at 1 January	514,743	68,697
Additional commitment during the year	-	502,872
Commitments fulfilled /expired	(26,639)	(56,826)
Commitments at 31 December	488,104	514,743

	2018	2017
Commitments – Guarantees		
Balance at 1 January	10,677	10,992
Additional /commitments /expired during the year	(1,900)	(315)
Commitments at 31 December	**8,777**	10,677

4 INVESTMENT IN AN ASSOCIATE

Investment in an associate	**2018**	2017
Kingdom of Bahrain		
Falcon Cement Company B.S.C. (see below)	27,823	27,499
	27,823	27,499

Movements during the year:	**2018**	2017
Balance at 1 January	27,499	107,275
Share of gain from an associate (note 19)	319	11,774
Change in foreign exchange value	5	-
Transferred to investment held for sale (note 2)	-	(110,646)
Transferred from available-for-sale direct equity investments (note 3.3)	-	25,526
Dividends during the year	-	(6,430)
Balance at 31 December	**27,823**	27,499

The Group holds 30% (2017: 30%) of Falcon Cement Company. The total assets, liabilities, net assets of Falcon Cement Company B.S.C. (FCC) as of 31 December 2018 were US $ 29,928 thousands, US $ 11,987 thousands, US $ 17,941 thousands respectively (2017: US $ 31,254 thousands, US $ 13,589 thousands, US $ 17,665 thousands). Also, the share of net income in the associate was US $ 319 thousand (2017: US $ 2,605 thousands) for the year then ended. Share of gains from associates during 2017 include US$ 9 million from an associate NPS Holding Limited which was sold during the year.

5 SYNDICATED AND DIRECT LOANS

	2018	2017
Unimpaired loans		
- With Islamic institutions at amortised cost	1,491,383	1,176,138
- Conventional		
a) at amortised cost	2,051,450	1,865,854
b) at FVTPL	48,333	-
Unamortized participation and upfront fees	(55,028)	(50,469)
Expected credit loss impairment allowance (note A-3 (b)(vi))	(43,209)	-
Collective impairment allowance	-	(25,775)
Impaired loans		
Non-performing loans (see below)	12,479	63,627
Allowance for specific impairments	(12,479)	(18,847)
Dividends due to the Government of Iraq, offset against defaulted loans (see (a) below)	-	(45,500)
	3,492,929	2,965,028

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

As a result of the 1990-1991 second Gulf war, certain Government of Iraq controlled companies defaulted on loans amounting to US $ Nil thousand (2017: US $ 51,848 thousands) from the Group.

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

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

During the year, the Group's Board of Directors agreed to a final settlement agreement with the Government of Iraq in relation to the overdue loans and related contractual charges. Under the final settlement agreement, the overdue principal and the contractual charges on the impaired Iraqi loans till the settlement date is agreed to set off against the dividend payable by the Group to Government of Iraq. Since the Group holds sufficient on impairment allowance, hence, the settlement agreement had no impact of the result of the Group for the year.

5 SYNDICATED AND DIRECT LOANS (continued)

	2018	2017
Unimpaired loans movement during the year		
Balance at 1 January under IAS 39	3,041,992	3,032,204
Re-measurement on adoption of IFRS 9 (note A-3 (b))	2,466	-
	3,044,458	3,032,204
Draw-downs on new and existing loans	1,537,530	942,826
Repayments during the year	(993,188)	(933,038)
Fair value change (note 17)	2,347	-
Foreign currency movement	19	-
Balance at 31 December	**3,591,166**	3,041,992

	2018	2017
Undrawn loan commitments and guarantees		
Balance at 1 January	787,292	932,851
Additional underwriting and commitment during the year	1,902,448	1,810,150
Drawdowns during the year	(1,539,996)	(942,826)
Expired commitments and other movements – net	(128,728)	(1,012,883)
Balance at 31 December	**1,021,016**	787,292

Allowance for specific impairment	**2018**	2017
Balance at 1 January	18,847	18,847
Reversal	(6,368)	-
Balance at 31 December	**12,479**	18,847

Impairment allowance	**2018**	2017
Balance at 1 January (under IAS 39)	25,775	25,175
Impact on adoption of IFRS 9 (note A-3)	(5,444)	-
	20,331	25,175
ECL Impairment allowance	22,878	-
Collective impairment allowance	-	600
Balance at 31 December	**43,209**	25,775

6 PROPERTY, EQUIPMENT AND VESSELS

	Land	Building	Vessels	Computers, Furniture & Equipment	Total
Cost					
Balance at 1 January 2017	4,004	55,519	117,254	18,836	195,613
Additions	-	-	-	1,266	1,266
Balance at 31 December 2017	4,004	55,519	117,254	20,102	196,879
Additions	-	131	-	2,394	2,525
Balance at 31 December 2018	**4,004**	**55,650**	**117,254**	**22,496**	**199,404**
Accumulated Depreciation and impairment					
Balance at 1 January 2017	-	42,640	19,380	16,237	78,257
Depreciation for the year	-	929	5,344	365	6,638
Balance at 31 December 2017	-	43,569	24,724	16,602	84,895
Depreciation for the year	-	933	5,344	1,049	7,326
Impairment for the year	-	-	5,000	-	5,000
Balance at 31 December 2018	**-**	**44,502**	**35,068**	**17,651**	**92,221**
Carrying Amount					
Balance at 31 December 2018	**4,004**	**11,148**	**82,186**	**4,845**	**102,183**
Balance at 31 December 2017	4,004	11,950	92,530	3,500	111,984

7 OTHER ASSETS

	2018	2017
Accrued interest receivable	64,276	34,188
Derivatives financial instruments (note 13)	19,528	10,430
Employee loans and advances	1,020	1,152
Dividends receivable	314	314
Other receivables and advance payments	8,470	2,801
	93,608	48,885

8 DEPOSITS AND BORROWINGS UNDER REPURCHASE AGREEMENT

	2018	2017
Deposits from banks	139,468	175,566
Deposits from corporates	415,213	1,051,297
Deposits from shareholders	113,951	110,832
Borrowings under repurchase agreements	150,760	153,070
	819,392	1,490,765

9 OTHER LIABILITIES

	2018	2017
Accrued interest payable	45,988	22,328
Dividend payable to shareholders	13,650	2,550
Employees' defined benefit obligation (see below)	11,080	9,339
Accrued expenses and other liabilities	14,548	24,221
Derivatives financial instruments (note 13)	28,863	18,080
Allowance for credit losses for commitments and financial guarantees	7,599	-
	121,728	76,518

Movement on employees' end of service benefits		
Balance as at 1 January	9,339	9,901
Charge for the year	2,161	865
Paid during the year	(420)	(1,427)
Balance as at 31 December	**11,080**	9,339

10 BANK TERM FINANCING

	2018	2017
SAR 1,000 million loan 2014 – 2019 – fully drawn	266,666	266,666
SAR 3,000 million loan 2014 – 2019 – fully drawn	800,000	800,000
US$ 150 Million loan 2018 - 2021 - fully drawn	150,000	-
US$ 150 Million loan 2018 - 2021 - fully drawn	150,000	-
US$ 75 Million loan 2018 - 2021 - fully drawn	75,000	-
Unamortised front-end fee	(3,103)	(3,252)
	1,438,563	1,063,414

11 SUKUKS AND BONDS ISSUED

	2018	2017
US $ 3 billion Sukuk programme (partial drawn)		
Series 1:- US $ 500 million bonds 2015 – 2020 profit rate: 2.383% p.a.	488,494	489,265
Series 2:- US $ 500 million bonds 2017 – 2022 profit rate: 3.141% p.a.	492,140	497,472
US $ 3 billion GMTN programme (partial drawn)		
Series 1:- US $ 750 million bonds 2018 – 2022 profit rate: 4.125% p.a.	762,338	-
SAR 250 million Sukuk 2016 – 2019 (fully drawn) profit rate: 3.50%	66,635	66,735
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 (full drawn) LIBOR plus margin 1.10%	105,000	105,000
CNH 630 million bond 2018 – 2021 (full drawn) coupon rate: 4.7% p.a.	94,664	-
Unamortised front-end fee	(4,183)	(2,692)
	2,305,088	1,455,780

11 SUKUKS AND BONDS ISSUED (continued)

US $ 3 billion Sukuk Programme (2015-2022):

The Sukuk programme was announced during July 2015. Till date Group has issued Sukuk of US $ 1,000 million (2015: US $ 490 million) under two series issued during 2015 and 2017. The Sukuk carry fixed profit rates of 2.383% per annum for Series 1 and 3.141% per annum for Series 2.

Sukuk is listed on the Irish Stock Exchange and Nasdaq Dubai, and is rated Aa3 by Moody's Investor Services.

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

US $ 3 billion GMTN Programme (2018-2023):

During the year the Group established the Global Medium Term Notes programme in August 2018. Till date Group has issued Sukuk of US $ 750 million during 2018. The Bond carry fixed profit rate of 4.125% per annum.

Crédit Agricole CIB and Standard Chartered Bank acted as Global Coordinators for the Bond issuance. The Bond is listed on the Irish Stock Exchange and is rated Aa3 by Moody's Investor Services.

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

SAR 250 million Sukuk (2016-2019):

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

US $ 300 million Floating rate Bond (2016-2021):

The Group launched US$ 300 million floating rate bond for 5 years having maturity in 2021. It carry's profit rate of Libor plus 1.15% per annum. The Formosa bond, also known as a Taiwan foreign denominated international bond, is listed on the International Board of the Taipei Stock Exchange. Credit Agricole CIB acted as the lead manager on the trade.

US $ 105 million Floating rate Bond (2017-2022):

The Group successfully launched US$ 105 million floating rate bond for 5 years having maturity in 2022. It carry's profit rate of Libor plus 1.10% per annum. It is listed on the International Board of the Taipei Stock Exchange. Credit Agricole CIB acted as the lead manager on the trade.

CNH 630 million bond (2018-2021):

During the year the Group successfully launched CNH 630 million bond for 3 years having maturity in 2021. It carry's annual coupon rate of 4.7 per annum. It is listed on the Irish Stock Exchange. Standard Chartered Bank acted as the lead manager on the trade.

12 COMMITMENTS AND GUARANTEES

	2018	2017
Commitments to underwrite and fund loans (note 5)	1,021,016	787,292
Commitments to subscribe capital to investments in FVOCI (Equity) (note 3.3)	488,104	514,743
Guarantees to bank on loans of investee companies (note 3.3)	8,777	10,677
Fixed Assets commitments	1,909	1,515
Other Commitments	4,975	1,005
	1,524,781	1,315,232

13 DERIVATIVE FINANCIAL INSTRUMENTS

Fair value hedges The Group uses interest rate swaps to hedge its exposure to changes in fair value, of certain investments and borrowings in fixed rate bonds, attributable to changes in market interest rate. 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:

	2018		2017	
	Asset	**Liabilities**	Asset	Liabilities
Interest rate swaps (Fair value hedges)	**19,357**	**23,266**	4,948	16,372
Cross currency swaps (Fair value hedges)	**-**	**4,978**	69	1,101
Foreign exchange contracts (Other derivatives held for risk management)	**171**	**619**	5,413	607
At 31 December	**19,528**	**28,863**	10,430	18,080

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

	2018	2017
Interest rate swaps (Fair value hedges)	2,690,801	1,545,000
Cross currency swaps (Fair value hedges)	265,801	166,667
Foreign exchange contracts (Other derivatives held for risk management)	754,820	1,496,223
At 31 December	**3,711,422**	3,207,890

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:

	2018	2017
Gains on the hedged items attributable to risk hedged	8,939	10,802
Losses on the hedging instruments	(9,218)	(10,854)
Net hedge ineffectiveness loss	**(279)**	(52)

14 NET INTEREST INCOME

Interest income	2018	2017
Cash and bank balances	449	7
Placements with banks – Islamic financial institution	5,255	4,542
– Conventional	18,004	11,804
Investments at FVOCI (Debt) (net)	40,691	36,170
Syndicated and direct loans – with Islamic institutions	58,437	36,355
– Conventional	74,917	55,192
– Loan designated at FVTPL	31,776	-
Amortisation of loan participation and upfront fees	16,100	15,402
Total interest income	**245,629**	159,472
Interest expense		
Deposits from banks and other cost – Islamic institutions	(453)	(293)
– Conventional	(5,653)	(1,425)
Securities sold under agreement to repurchase deposits	(4,875)	(3,315)
Deposits from corporates & shareholders – Islamic institutions	(6,888)	(8,143)
– Conventional	(14,030)	(12,137)
Others	(354)	(5,040)
Bank term financing	(38,528)	(36,154)
Sukuk and bond issued	(58,752)	(23,453)
Amortisation of front end fees on bank term financing, Sukuk and bond issued	(5,056)	(3,331)
Total interest expense	**(134,589)**	(93,291)
Net interest income	**111,040**	66,181

15 DIVIDEND INCOME

Investments at FVOCI (Equity)	2018	2017
- Listed	11,956	9,117
- Unlisted	44,458	28,195
	56,414	37,312

16 GAIN/(LOSS) ON DERECOGNITION

	2018	2017
Gain on de-recognition of Investment held for sale	86,669	-
Gain on de-recognition financial assets measured at FVOCI	**(128)**	135

17 NET (LOSS)/GAIN ON FINANCIAL ASSESTS AT FVTPL

	2018	2017
Loan designated at FVTPL (note 5)	2,347	-
Investments at FVTPL (note 3.2)	(11,337)	15,201
	(8,990)	15,201

18 NET FEE INCOME

	2018	2017
Agency, advisory and other services	277	643
Net fee income	**277**	643

19 OTHER INCOME, NET

	2018	2017
Exchange losses, net	149	215
Fair value hedge ineffectiveness	(279)	(52)
Rent income	1,005	1,438
Charter income (see below)	4,980	12,523
Share of gain from associate(s)	319	11,774
Others	1,277	(3,802)
	7,451	22,096

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

	2018	2017
Less than one year	-	3,110
Between one and five years		-

20 OPERATING EXPENSES

	2018	2017
Employees' related costs	23,425	16,278
Premises costs, including depreciation	11,543	9,149
Equipment and communications costs	2,049	2,856
Key Management's and Board benefits, fees and charges	4,661	5,209
Consultancy and legal fee	1,644	2,037
Others	1,467	1,794
	44,789	37,323

21 IMPAIRMENT, NET

	2018	2017
Charge for the year		
Property, equipment and vessels (note 6)	5,000	-
Placements (note A-3 (vi))	31	-
Syndicated and direct loans (note A-3 (vi))	22,878	600
	27,909	600
Reversal for the year		
Investments at FVOCI (debt) (note A-3 (vi))	(1,861)	-
Loan commitments and financial guarantees (note A-3 (vi))	(376)	-
	(2,237)	-
	25,672	600

22 SHARE CAPITAL AND PER SHARE INFORMATION

The Group's authorised capital is US $ 2,400 million, subscribed capital is US $ 2,000 million, issued & paid up capital is US $ 1,000 million, whereas the remainder of US $ 1,000 million is callable capital. The capital is denominated in shares of US$ 1,000 each and is owned by the governments of the ten OAPEC states.

23 APPROPRIATIONS

	2018	2017
Legal reserve	18,500	10,500
General reserve	51,768	83,822
Dividends	30,000	-

During the year, following the Annual General Meeting, the shareholders' approved the distribution of dividend of US $ 30 million for the year 2017.

24 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	**2018**	2017
Loans outstanding at 31 December – gross	2,382,278	2,130,361
Allowance for specific impairments outstanding at 31 December	(12,479)	(18,847)
Dividends due to Government of Iraq, offset against defaulted loans at 31 December	-	(45,500)
Commitments to underwrite and fund loans at 31 December	539,320	469,692
Interest income from loans during the year	92,748	62,017
Loan fees received during the year	12,509	3,883

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 2018 and 2017.

Investments in related parties	**2018**	2017
Investments	1,044,301	954,271
Investment held for sale	-	110,646
Commitments to investments	488,025	514,743
Guarantees as shareholder	8,777	10,677
Dividends received during the year	56,414	35,387

Others		
Deposits from corporates	415,213	1,051,297
Deposits from shareholders	113,951	110,832
Dividend payable to shareholders	13,650	2,550
Interest expense on deposits from corporates during the year	17,810	17,535
Interest expense on deposits from shareholders during the year	3,108	2,021
Balances due to key management	355	269

For key management's compensation, refer note 20.

25 SUPPLEMENTARY CASH FLOW INFORMATION

Following the details of non-cash transactions:

	2018	2017
Transfer of equity investments to investment in Associates	-	25,526
Transfer of equity investments FVOCI to investment FVTPL	61,848	-
Transfer of investment in associate to investment held for sale	-	110,646
Change in fair value reserve	(21,961)	43,334
Transfer of Dividend payment to deposit	4,500	-

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk management objectives

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

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

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

Credit risk management

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

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

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

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

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk management (continued)

Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

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

The Group collects performance and default information about its credit exposure analysed by jurisdiction or region and by type of product and borrower as well credit risk grading. The information used is based on the internally generated rating model. Refer note L-3. The internal credit grade system is not intended to replicate external credit grades but factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a higher internal credit grade. Some of these grades are further sub-classified with a plus or a minus sign. Lower grades are indicative of a lower likelihood of default. Credit ratings are used by the Group to decide the maximum lending amount per amount group and also to set minimum pricing threshold.

The Group 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 Group will measure the loss allowance based on lifetime rather than 12-month ECL.

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk management (continued)

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

	Syndicated and direct loans (note 5)		Placements with banks (note 1)		Investments at FVOCI (Debt)/ (Available for sale securities) (note 3.1)	
	2018	2017	**2018**	2017	**2018**	2017
Impaired individually						
Rated D	12,479	63,627	-	-	-	-
Gross amount	**12,479**	**63,627**	**-**	**-**	**-**	
Unpaid dividends and interest due to Government of Iraq	-	(45,500)	-	-	-	-
Allowance for impairment	(12,479)	(18,847)	-	-	-	
Carrying amount	-	(720)	-	-	-	-
Neither past due nor impaired						
Accounts without renegotiable terms						
Rated A to AAA	1,948,814	2,111,353	-	-	-	-
Rated B to BBB	1,642,352	930,639				
Subtotal neither past due nor impaired	3,591,166	3,041,992	-	-	-	
Bank placements in OECD*						
countries Rated A	-	-	14,803	20,597	-	-
Rated BBB	-	-	18,720	12,973	-	-
Banks placement in non-OECD countries	-	-		-	-	-
Rated A to AAA	-	-	472,515	245,000	-	-
Rated B to BBB	-	-	271,947	156,150	-	-
Not Rated	-	-		25,000	-	-
Externally rated (investment-grade) available-for-sale investments						
Financial institutions						
Rated A to AAA	-	-	-	-	134,468	238,779
Rated B to BBB	-	-	-	-	89,463	139,033
Governments and public sector						
Rated A to AAA	-	-	-	-	291,764	263,519
Rated B to BBB	-	-	-	-	83,157	109,070
Others sectors						
Rated A to AAA	-	-	-	-	264,020	224,465
Rated B to BBB	-	-		-	215,338	113,172
Rated C	-	-	-	-	1,255	-
Not Rated available-for-sale investments	-	-	-	-	-	47,259
Subtotal total	3,591,166	3,041,272	777,985	459,720	1,079,465	1,135,297
Collective impairment allowance	(43,209)	(25,775)	(86)	-	(5,288)	-
Unamortised participation and commitment	(55,028)	(50,469)		-	-	-
Total carrying amount at 31 December	**3,492,929**	**2,965,028**	**777,899**	**459,720**	**1,074,177**	**1,135,297**

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

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

	Syndicated and direct loans (note 5)		Placements with banks (note 1)		Investments at FVOCI (Debt)/ (Available for sale securities) (note 3.1)	
	2018	2017	**2018**	2017	**2018**	2017
Concentration of credit risk by sector						
Oilfield production development services	847,576	304,285	-	-	4,998	5,006
Floating production, storage and offloading Facilities	-	133,726	-	-	-	-
Liquefied Natural Gas (LNG) Plants	367,607	133,923	-	9,054	3,781	1,688
Petroleum and petrochemicals	5,225	404,880	-	-	60,965	43,438
Maritime transportation	467	167,276	-	-	58,056	58,043
Refineries	350,913	602,296	-	-	1,958	1,214
Power generation	1,484,118	469,069	-	-	74,832	53,127
Other petroleum	118,866	560,957	-	-	44,811	67,851
Banks and financial institutions	44,624	83,600	777,899	450,666	304,736	392,932
Governments and public sector	156,477	-	-	-	147,862	372,590
Other industries	117,056	105,016	-	-	377466	139,408
Carrying amount at 31 December	**3,492,929**	**2,965,028**	**777,899**	**459,720**	**1,079,465**	**1,135,297**

	Syndicated and direct loans (note 5)		Placements with banks (note 1)		Investments at FVOCI (Debt)/ (Available for sale securities) (note 3.1)	
	2018	2017	**2018**	2017	**2018**	2017
Concentration of credit risk by location						
Kingdom of Saudi Arabia	989,503	933,525	76,744	9,054	233,815	251,406
State of Qatar	436,636	532,384	-	-	135,297	102,908
Other Gulf Cooperation Council states	1,154,782	927,682	667,632	426,000	372,191	460,782
Egypt and North Africa	409,654	207,901	-	-	-	-
Total Arab World	**2,990,575**	**2,601,492**	**744,376**	**435,054**	**741,303**	**815,096**
Europe	188,553	159,441	27,199	24,666	66,696	62,984
Asia pacific	175,052	142,853	6,324	-	17,757	14,853
United States	138,749	61,242	-	-	253,709	242,364
Carrying amount at 31 December	**3,492,929**	**2,965,028**	**777,899**	**459,720**	**1,079,465**	**1,135,297**

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

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

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk and funding management (continued)
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 RALCO. Liquidity controls are provided for an adequately diversified deposit base in terms of maturities and the range of counter-parties. The asset and liability maturity profile based on estimated repayment terms is set out in note 29.

Contractual maturities of financial liabilities (including interest)

2018	Up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	Contractual Outflows	Carrying Value
Liabilities						
Deposits	**(743,422)**	**(77,344)**	**-**	**-**	**(820,766)**	**(819,392)**
Bank term financing	**(272,076)**	**(881,936)**	**(375,000)**	**-**	**(1,529,012)**	**(1,438,563)**
Sukuks and bonds issued	**(25,045)**	**(80,630)**	**(2,245,315)**	**-**	**(2,350,990)**	**(2,305,088)**
	(1,040,543)	**(1,039,910)**	**(2,620,315)**	**-**	**(4,700,768)**	**(4,563,043)**
Derivative instruments:						
Forward exchange contracts	**(158,237)**	**(596,533)**	**-**	**-**	**(754,770)**	**(619)**
Interest rate swaps	**-**	**(8,360)**	**(55,048)**	**(4,235)**	**(67,643)**	**(23,266)**
Cross currency swaps	**-**	**(64,573)**	**(193,555)**	**-**	**(258,128)**	**(4,978)**
Off-balance sheet exposures	**(154,274)**	**(280,429)**	**(66,176)**	**(1,036,013)**	**(1,536,892)**	**(1,536,892)**
	(312,511)	**(949,895)**	**(314,779)**	**(1,040,248)**	**(2,617,433)**	**(1,565,755)**

2017	Up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	Contractual Outflows	Carrying Value
Liabilities						
Deposits	(692,733)	(673,987)	(152,081)	-	(1,518,801)	(1,490,765)
Bank term financing	17,140	(67,594)	(1,066,667)	-	(1,117,121)	(1,063,414)
Sukuk issued	24,945	-	(1,471,667)	-	(1,446,722)	(1,455,780)
	(650,648)	(741,581)	(2,690,415)	-	(4,082,644)	(4,009,959)
Derivative instruments						
Interest rate swaps	(2,527)	(831)	(36,859)	(1,599)	(41,816)	(17,473)
Cross currency swaps	-	(4,573)	(266,192)	-	(270,765)	(4,978)
Forward exchange contracts	(325,388)	(1,170,835)	-	-	(1,496,223)	(607)
Off-balance sheet exposures	(94,473)	(716,761)	(125,277)	(378,721)	(1,315,232)	(1,315,232)
	(422,388)	(1,888,427)	(428,328)	(380,320)	(3,124,036)	(1,333,290)

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market risk management

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

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

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

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

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

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

	100 bp parallel increase		**100 bp parallel decrease**	
	Profit/loss	Equity	Profit/loss	Equity
At 31 December 2018	**1,183**	**296**	**(1,183)**	**(296)**
At 31 December 2017	1,031	105	(1,031)	(105)

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

	2018	2017
Fixed rate instruments		
Financial assets	3,129,881	2,242,462
Financial liabilities	(2,690,801)	(1,711,667)
	439,080	530,795
Variable rate instruments		
Financial assets	5,226,468	4,328,829
Financial liabilities	(4,616,317)	(4,038,231)
	610,151	290,598

26 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market risk management (continued)

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

At 31 December 2018	5% strengthening of US $	5% weakening of US $
EUR	29	(29)
GBP	71	(71)
CNH	(475)	475

At 31 December 2017	5% strengthening of US $	5% weakening of US $
EUR	879	(879)
GBP	2	(2)
CHF	(2)	2
JPY	(2)	2

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

Operational risk

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

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from 2017.

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

27 EFFECTIVE INTEREST RATES

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

	2018	2017
Interest-bearing financial assets		
Fixed-rate bonds	4.67%	4.50%
Floating-rate bonds	3.63%	3.06%
Placements with banks	3.13%	2.25%
Syndicated and direct loans	4.75%	3.28%
US dollar denominated	4.76%	3.26%
Non-US dollar denominated	4.73%	3.70%
Interest-bearing financial liabilities		
Deposits from banks	3.18%	2.87%
US dollar denominated	2.42%	1.50%
Non-US dollar denominated	3.23%	2.95%
Deposits from corporates	2.98%	1.48%
Deposits from shareholders	3.27%	2.32%
Borrowings under repurchase agreements	3.83%	2.59%
Bank term financing	3.42%	2.52%
Sukuk Bonds	4.88%	2.81%
US$ LIBOR at 31 December was:		
One-month	2.50%	1.56%
Three-month	2.80%	1.69%
Six-month	2.88%	1.84%

28 FAIR VALUE HIERARCHY AND CATEGORIES

i. Valuation of financial instruments

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

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
Level 3 inputs are unobservable inputs for the asset or liability.
The table below analyses financial instruments, measured at fair value as at the end of the year, by level in the fair value hierarchy into which the fair value measurement is categorized:

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

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets				
Available-for-sale securities				
Treasury Bills	199,987	-	-	199,987
Fixed-rate bonds	980,423	-	-	980,423
Floating-rate bonds	154,874	-	-	154,874
Managed funds	-	109,579	-	109,579
Listed equities	34,519	-	-	34,519
AFS direct equity investments and investment designated at FVTPL	153,635	28,145	783,562	965,342
Derivative financial assets	-	10,430	-	10,430
	1,523,438	148,154	783,562	2,455,154
Financial Liabilities				
Deposit from bank	-	108,900	-	108,900
Sukuks and Bonds issued	-	1,053,472	-	1,053,472
Derivative financial liabilities	-	18,080	-	18,080
	-	1,180,452	-	1,180,452

28 FAIR VALUE INFORMATION HIERARCHY AND CATEGORIES (continued)

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

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of Unobservable inputs to fair value
	2018	2017				
1) Interest rate and cross currency swap (refer note 13)	Asset 19,357 Liabilities 28,244	Asset 5,017 Liabilities 17,473	Level 2	Discounted Future cash flows based on interest rates from observable yield curves at the end of the reporting period and contract interest rates.	N/A	N/A
2) Foreign currency forward contracts (refer note 13)	Asset 171 Liabilities 619	Asset 5,413 Liabilities 607	Level 2	Future cash flows based on forward exchange rates from observable forward exchange rates at the end of the reporting period and contract forward rates.	N/A	N/A

28 FAIR VALUE INFORMATION HIERARCHY AND CATEGORIES (continued)

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of Unobservable inputs to fair value
	2018	2017				
3) Investments at FVOCI (equity) (refer note 3.3)	Saudi European Petro Co. (Ibn Zahr) Asset 445,273	Saudi European Petro Co. (Ibn Zahr) Asset 461,363	Level 3	Discounted cash flow	Cost of equity and terminal growth rate	Higher cost of equity and lower terminal growth rate / the lower the fair value
4) Investments at FVOCI (equity) (refer note 3.3)	Egyptian Methanex Methanol Co. Asset 131,722	Egyptian Methanex Methanol Co. Asset 112,881	Level 3	Discounted cash flow	WACC and terminal growth rate	Higher cost of equity and lower terminal growth rate / the lower the fair value
5) Investments at FVOCI (equity) (refer note 3.3)	The Industrialization and Energy Services Company (TAQA) Asset 108,279	The Industrialization and Energy Services Company (TAQA) Asset 99,180	Level 3	Market multiples	Illiquidity discount due to lack of marketability	The higher the market multiples, the higher the fair value
6) Investments at FVTPL (refer note 3.2)	IFC Middle East and North Africa, LLP Asset 3,276	IFC Middle East and North Africa, LLP Asset 2,540	Level 3	Market multiples	Illiquidity discount due to lack of marketability	The higher the market multiples, the higher the fair value
7) Investments at FVOCI (equity) (refer note 3.3)	Tankage Mediterranean (Tankmed), Tunisia Asset 6,208	Tankage Mediterranean (Tankmed), Tunisia Asset 5,240	Level 3	Market multiples	Illiquidity discount due to lack of marketability	The higher the market multiples, the higher the fair value
8) Investments at FVOCI (equity) (refer note 3.3)	Saudi Mechanical Industries (SMI) Asset 21,162	Saudi Mechanical Industries (SMI) Asset 46,566	Level 3	Market Multiples	Discounted on comparable EBITDA	The higher the market multiples, the higher the fair value

28 FAIR VALUE INFORMATION HIERARCHY AND CATEGORIES (continued)

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of Unobservable inputs to fair value
	2018	2017				
9) Investments at FVOCI (equity) (refer note 3.3)	Shuqaiq International Water and Electricity Company (SIWEC) Asset 28,145	Shuqaiq International Water and Electricity Company (SIWEC) Asset 28,145	Level 3	Discounted cash flow	WACC and terminal growth rate	Higher cost of equity and lower terminal growth rate / the lower the fair value
10) Investments at FVOCI (equity) (refer note 3.3)	MISR Oil Processing Company SAE MOPCO Asset 29,913	MISR Oil Processing Company SAE MOPCO Asset 37,045	Level 1	quoted price in an active market	-	-
11) Investments at FVOCI (equity) (refer note 3.3)	Yanbu National Petrochemical Company (Yansab) 126,505	Yanbu National Petrochemical Company (Yansab) 116,590	Level 1	quoted price in an active market	-	-
12) Investments at FVOCI (equity) (refer note 3.3)	Ashtead Technology Asset 16,596	Ashtead Technology Asset 14,300	Level 3	Market multiples	-	-
13) Investments at FVOCI (equity) (refer note 3.3)	Other Equities 102,675	Other Equities 34,519	Level 1	quoted price in an active market	-	-
14) Investments designated at FVTPL (refer note 3.2)	BJ Services LLC 32,532	BJ Services LLC 41,492	Level 3	Market multiples	-	-
15) Investments designated at FVTPL (refer note 3.2)	Lucid Energy Group II, LLC 24,580	-	Level 3	Market multiples	-	-

28 FAIR VALUE INFORMATION HIERARCHY AND CATEGORIES (continued)

Financial assets/financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of Unobservable inputs to fair value
	2018	2017				
16) Sukuk and Bonds issued (refer note 11)	Sukuk and Bonds 1,904,271	Sukuk and Bonds 1,053,472	Level 2	Discounted Future cash flows based on interest rates from observable yield curves at the end of the reporting period and contract interest rates	-	-
17) Deposit from bank (refer note 8)	Deposit from bank 99,801	Deposit from bank 108,900	Level 2	Discounted Future cash flows based on interest rates from observable yield curves at the end of the reporting period and contract interest rates	-	-

The management believes that the fair value of their 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

	2018	2017
Balance at 1 January	783,562	718,860
Total gains or losses:		
in other comprehensive income	(11,237)	23,210
In income statement	(8,929)	15,201
Purchases	26,232	26,291
Transfer in level 3 from level 2	28,145	-
Balance at 31 December	**817,773**	783,562

The Group's derivatives are classified as Level 2 as they are valued using inputs that can be observe 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.

29 MATURITY PROFILE OF ASSETS AND LIABILITIES

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

	Up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	2018 Total
Assets					
Cash and cash equivalents	26,021	-	-	-	**26,021**
Placements with banks	589,751	188,148	-	-	**777,899**
Investments at FVOCI (debt)	235,431	132,520	700,327	230,857	**1,299,135**
Investments at FVTPL	-	-	-	116,653	**116,653**
Investments at FVOCI (equity)	-	-	-	1,016,478	**1,016,478**
Investment in an associate	-	-	-	27,823	**27,823**
Syndicated and direct loans	199,401	483,457	1,808,555	1,001,516	**3,492,929**
Property and equipment	-	-	-	102,183	**102,183**
Other assets	77,276	16,332	-	-	**93,608**
Total assets	1,127,880	820,457	2,508,882	2,495,510	**6,952,729**
Liabilities and Equity					
Deposits	(414,407)	(154,424)	(250,561)	-	**(819,392)**
Other liabilities	(113,099)	(8,629)	-	-	**(121,728)**
Bank term financing	(263,563)	(800,000)	(375,000)	-	**(1,438,563)**
Sukuks and Bonds issued	2,909	(66,667)	(2,241,330)	-	**(2,305,088)**
Equity	-	-	-	(2,265,871)	**(2,265,891)**
Non-controlling Interest	-	-	-	(2,087)	**(2,067)**
Total liabilities and equity	(788,160)	(1,029,720)	(2,866,891)	(2,267,958)	**(6,952,729)**
Maturity Gap	339,720	(209,263)	(358,009)	227,552	
CUMULATIVE MATURITY GAP	339,720	130,457	(227,552)		

2017					
Total assets	823,109	849,396	2,548,082	2,016,225	6,236,812
Total liabilities and equity	(751,240)	(514,925)	(2,820,312)	(2,150,335)	(6,236,812)
Maturity gap	71,869	334,471	(272,230)	(134,110)	-
Cumulative maturity gap	71,869	406,340	134,110	-	

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:

2018 **ASSETS**	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	**Total**
Placements with banks	589,751	188,148	-	-	777,899
Investments at FVOCI (debt)			-	-	
Floating-rate bonds	90,034	-	-	-	90,034
Syndicated and direct loans					
US$ denominated	2,564,998	895,364		48,333	3,508,695
Non US$ denominated	101,191	86,103			187,294
LIABILITIES					
Deposits					
US$ denominated	(560,972)	(75,000)	-	-	(635,972)
Non US$ denominated	(183,620)	-	-	-	(183,620)
Bank term financing	(641,666)	(800,000)	-	-	(1,441,666)
Sukuks and Bonds issued	(1,311,981)	(1,000,000)	-	-	(2,311,981)
Interest rate sensitivity gap	**647,735**	**(705,385)**	**-**	**48,333**	**(9,317)**
Cumulative Gap	**647,735**	**(57,650)**	**(57,650)**	**(9,317)**	

2017 **ASSETS**	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	**Total**
Placements with banks	279,720	180,000	-	-	459,720
Available for sale securities					
Floating-rate bonds	118,883	35,991	-	-	154,874
Syndicated and direct loans					
US$ denominated	2,152,513	713,574	-	44,220	2,910,307
Non US$ denominated	90,000	53,464	-	-	143,464
LIABILITIES					
Deposits					
US$ denominated	(634,088)	(333,788)	(40,000)	-	(1,007,876)
Non US$ denominated	(315,014)	(66,667)	-	-	(381,681)
Bank term financing	(1,066,667)	-	-	-	(1,066,667)
Sukuks and Bonds issued	(405,000)	-	-	-	(405,000)
Interest rate sensitivity gap	220,347	582,574	(40,000)	44,220	807,141
Cumulative Gap	220,347	802,921	762,921	807,141	

31 CURRENCY EXPOSURES

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

	Assets	Liabilities and equity	2018 Net Exposure	2017 Net exposure
ASSETS, LIABILITIES AND EQUITY				
United States dollar	6,135,805	(5,678,489)	457,316	1,125,663
Euro	5,722	-	5,722	(175,884)
Other OECD currencies (see below)	46,740	(2,568)	44,172	(4,779)
Arab currencies				
GCC (see below)	764,462	(1,176,615)	(412,153)	(945,001)
Egypt and North Africa	-	(95,057)	(95,057)	1
	6,952,729	**(6,952,729)**	-	-

	2018	2017
COMMITMENTS AND GUARANTEES		
United States dollar	1,397,036	1,277,028
Saudi Riyal	127,745	37,199
GCC (see below)	-	1,005
	1,524,781	1,315,232

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

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

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

		2018	2017
Euro	EUR 1=US$	1.1468	1.1990
Saudi riyal	SAR 1=US$	0.2666	0.2666
Swiss franc	CHF 1=US$	1.0167	0.9752
British pound	GBP 1=US$	1.2765	1.3509
Egyptian pound	EGP 1=US$	0.0557	0.0562

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

32 INDUSTRY DISTRIBUTION OF ASSETS AND LIABILITIES

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

	2018	2017
ASSETS		
Petroleum and petrochemicals		
Refineries	355,255	603,512
Oilfield production development and services	1,066,325	471,321
Floating production, storage and offloading facilities	-	133,726
Liquefied natural gas (LNG) plants	375,284	135,611
Petrochemical plants	790,102	1,144,408
Maritime transportation	65,609	228,931
Power generation	1,696,683	746,090
Other petroleum	276,772	757,117
Total petroleum and petrochemicals	**4,626,030**	4,220,716
Banks and financial institutions	1,210,693	1,092,527
Other industries	396,525	350,993
Governments and public sector institutions	719,481	572,576
Total assets at 31 December	**6,952,729**	6,236,812
LIABILITIES AND EQUITY		
Banks and financial institutions	4,277,714	4,005,990
Other petroleum and petrochemicals	407,057	80,488
Equity	2,267,958	2,150,334
Total liabilities and equity at 31 December	**6,952,729**	6,236,812
COMMITMENTS AND GUARANTEES		
Petroleum and petrochemicals		
Refineries	302,495	150,209
Oilfield production development and services	26,433	97,648
Liquefied natural gas (LNG) plants	22,483	57,180
Petrochemicals plants	101,255	83,415
Maritime transportation	-	77,825
Banks and financial institutions	789,641	597,547
Power generation	84,700	217,176
Other petroleum	197,774	34,232
Total commitments and guarantees at 31 December	**1,524,781**	1,315,232

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:

	2018	2017
ASSETS		
Kingdom of Saudi Arabia	2,239,903	2,165,598
State of Qatar	574,636	635,984
Other Gulf Cooperation Council states	2,256,505	1,970,828
Egypt and North Africa	575,160	360,534
Total Arab World	**5,646,204**	5,132,944
Europe	372,807	322,115
Asia pacific	199,131	157,742
United States	423,512	434,824
Other North and South America	311,075	189,187
Total assets	**6,952,729**	6,236,812
LIABILITIES AND EQUITY		
Kingdom of Saudi Arabia	4,271,662	3,350,411
State of Qatar	226,796	215,033
Other Gulf Cooperation Council states	1,124,402	1,614,807
Other Middle East states	332,816	315,675
Egypt and North Africa	612,350	581,092
Total Arab World	**6,568,026**	6,077,018
Europe	225,587	8,054
Asia pacific	151,000	151,740
Other North and South America	8,116	
Total liabilities and equity	**6,952,729**	6,236,812
COMMITMENTS AND FINANCIAL GUARANTEES		
Kingdom of Saudi Arabia	186,519	220,715
State of Qatar	144,843	-
Other Gulf Cooperation Council states	405,181	273,698
Other Middle East states	35,000	47,215
Egypt and North Africa	146,028	105,121
Total Arab World	**917,571**	646,749
Europe	144,238	139,558
Asia pacific	15,772	33,547
United States	447,200	473,500
Other North and South America	-	21,878
	1,524,781	1,315,232