CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

CONTENTS **PAGE**

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Arab Petroleum Investments Corporation ("the Corporation"), and its subsidiaries (together "the Group") which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of income and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

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

Key audit matters	How our audit addressed the key audit matters
1. Impairment assessment on Available-for-Sale (AFS) Investments	
We focused on the impairment assessment of AFS investments because of subjective judgments involved over timing of recognition of impairment and estimation of the extent of any such impairment. As at December 31, 2017 the Group had AFS investments of USD 2,448 million. These AFS investments comprise mainly equity shares and bonds, which are subject to the risk of impairment in value due to either adverse market situation and/or liquidity constraints faced by the issuers. The management mainly performs impairment assessment on the following investments: – AFS direct equity investments – AFS securities (Fixed and Floating rate bonds) For assessing the objective evidence of impairment of equities, management monitors volatility of shares and uses the criteria of significant or prolonged decline in their fair values below their cost as the basis for determining impairment. A significant or prolonged decline in fair value below its cost represents objective evidence of impairment. The determination of what is significant and prolonged requires judgment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the equity instrument at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the length of period in which the fair value of the equity instrument has been below its original cost at initial recognition.	We assessed and evaluated the design, determined the implementation and tested the operating effectiveness of the key controls over management's processes for identifying significant or prolonged decline in the fair value of direct equity investment and/or any defaults on fixed and floating rate bonds. For equity investments, on a sample basis, we assessed the appropriateness of management criteria for determining the significant or prolonged decline in the value of investments and, ✓ evaluated the basis for determining the costs and fair value of investments; ✓ tested the costs and valuations; ✓ considered the price fluctuation movements during the holding period to determine if the decline meets the significant or prolonged criteria; ✓ we used internal valuation specialist to independently review and challenge management on the valuations where they were outside our expected range; and ✓ in the context of observed industry practice, internal valuation specialists assisted us in challenging the appropriateness of significant models and methodologies used in calculating fair values, risk exposures, completeness of risk factors and in calculating fair value adjustments.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Key audit matters	How our audit addressed the key audit matters
Impairment assessment for AFS investments is undertaken by the management using judgmental factors such as: – Significant decline in the market value of an asset or a prolonged decline; – Economic performance of the investment is not as expected based on internal reporting; – The carrying amount of the net assets of the entity is more than its market capitalization, wherever applicable; – For debt instruments such as bonds generally management considered them to be impaired when there is: ✓ evidence of a deterioration in the financial health of the investee ✓ industry or sector performance; and ✓ changes in technology; We considered this as a key audit matter since the assessment of impairment requires significant judgment by management and the potential impact of impairment could be material to the consolidated financial statements of the Corporation. Refer to note B.1.7 of the consolidated financial statements for the accounting policy relating to the impairment of AFS investments, note J-1 and J-2 for the critical accounting estimates and judgments and note 25 for the disclosures of credit and market risks respectively.	For investment in fixed and floating rate bonds, on sample basis, we assessed: ✓ the creditworthiness of counterparties; ✓ cash flows from the instruments to consider any defaults based on the terms and conditions of the issuance of each bond; ✓ credit ratings assigned by credit rating agencies; ✓ financial health of the issuer of bonds companies; and ✓ pricing of the investment in current period and future period.
2. Impairment of Syndicated and direct loans	
At December 31, 2017 the gross financing balance was USD 3,010 million against which an impairment allowance of USD 45 million was maintained. This includes impairment against specific financing and collective impairment recorded on a portfolio basis. The audit was focused on this matter due to the materiality of the balances (representing 47.5% of total assets) and the subjective nature of the calculations. We focused on impairment assessment of Syndicated and direct loans because of the subjective judgments over both timing of recognition of impairment and the estimation of the size of such impairment. We considered this is a key audit matter as the Group makes subjective judgments including making assumptions to determine the impairment and the timing of recognition of such impairment. In particular, the determination of impairment against financing includes: – the identification of impairment events and methods and judgments used to calculate the impairment against specific financing; – the use of assumptions underlying the calculation of collective impairment for portfolio of financing and the use of models to make those calculations; and – an assessment of the Group's exposure to certain industries affected by economic conditions. Refer to note B.1.7 of the consolidated financial statements for accounting policies related to impairment of syndicated and direct loans, notes J-1 and J-2 which contains the disclosure of significant accounting estimates relating to impairment against financing and explains the impairment assessment methodology used by the Group and note 4 which contains the disclosure of impairment against financing.	Our audit procedures included the assessment of controls over the monitoring of loans for the purposes of estimating incurred credit losses, and evaluating the methodologies, inputs and assumptions used by the Corporation in calculating impairments and assessing the adequacy of impairment allowances for individually assessed loans on sample basis. We assessed and evaluated the design, determined the implementation and tested the operating effectiveness of relevant controls to determine which loans are impaired and allowances against those assets. These included testing: ✓ system based and manual controls over the timely identification and recognition of impaired loans; ✓ controls over the approval, accuracy and completeness of the impairment calculation model; and ✓ governance controls, including reviewing key meetings that form part of the approval process for loans impairment allowances including continuous reassessment by the management. Where impairment was individually calculated, we tested controls over the timely identification of potentially impaired loans. We determined that we could rely on these controls for the purposes of our audit. We also tested on sample basis of syndicated and direct loans to ascertain whether the loss event (that is the point at which impairment is recognized) had been identified in a timely manner. Where impairment had been identified, we examined the forecasts of future cash flows prepared by management to support the calculations of the impairment, challenging the assumptions and comparing estimates to external evidence where available. We examined on sample basis of syndicated and direct loans which had not been identified by management as potentially impaired and formed our own judgment as to whether that was appropriate using external evidence in respect of the relevant counterparties.

Key audit matters	How our audit addressed the key audit matters
We also identified a significant risk over the impairment allowance resulting from external factors, mainly the macro-economic and credit situation in the respective countries. In light of the economic background, there is a risk that the impairment models fail to reflect the current economic conditions when determining the portfolio provisions.	We also tested collective impairment methodology, where we reviewed the model to ensure that it meets the requirements of relevant accounting standards, tested inputs and re-performed the calculations.

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

Deloitte & Touche

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017 (USD 000)

	Note	2017	2016
ASSETS			
Cash and cash equivalents		**65,404**	21,822
Placements with banks	1a	**459,720**	816,753
Investments	2.a	**2,447,646**	2,083,492
Investment in associates	2.b	**27,499**	107,275
Investment classified as held for sale	3	**110,646**	–
Syndicated and direct loans	4	**2,965,028**	2,951,598
Property, equipment and vessels	5	**111,984**	117,356
Other assets	6	**48,885**	43,438
TOTAL ASSETS		**6,236,812**	6,141,734
LIABILITIES, EQUITY AND NON-CONTROLLING INTERESTS			
LIABILITIES			
Deposits from banks	7	**175,566**	286,863
Deposits from corporates	23	**1,051,297**	1,133,581
Deposits from shareholders	23	**110,832**	108,811
Securities sold under agreements to repurchase		**153,070**	157,774
Other liabilities	8	**76,518**	76,137
Bank term financing	9	**1,063,414**	1,520,158
Sukuks and Bonds issued	10	**1,455,780**	855,146
Total liabilities		**4,086,477**	4,138,470
EQUITY			
Share capital	21	**1,000,000**	1,000,000
Legal reserve	22	**204,500**	194,000
General reserve	22	**279,317**	195,495
Fair value reserve on available-for-sale investments		**570,761**	527,427
Retained earnings		**93,136**	83,822
Total equity attributable to shareholders of the Corporation		**2,147,714**	2,000,744
Non-controlling interests		**2,621**	2,520
Total equity and non-controlling interests		**2,150,335**	2,003,264
TOTAL LIABILITIES, EQUITY AND NON-CONTROLLING INTERESTS		**6,236,812**	6,141,734
OFF-BALANCE SHEET EXPOSURES	11	**1,315,232**	1,018,956

The consolidated financial statements, which consist of pages 24 to 69 were approved by the Board of Directors on 14 April 2018 and signed on its behalf by:

Dr Aabed Al-Saadoun
Chairman

ahmed attiga

Dr Ahmed Ali Attiga
Chief Executive and General Manager

CONSOLIDATED STATEMENT OF INCOME

for the year ended 31 December 2017

(USD 000)

	Note	2017	2016
Interest income		**159,472**	125,758
Interest expense		**(93,291)**	(71,944)
Net interest income	13	**66,181**	53,814
Net fee income	14	**643**	734
Dividend income	15	**37,312**	59,379
Realized gain/(loss) on sale of available-for-sale portfolio	16	**135**	(3,067)
Unrealized gain on Investments designated at FVTPL	2a, 17	**15,201**	–
Other income, net	18	**22,096**	20,758
Total income		**141,568**	131,618
Operating expenses	19	**(37,323)**	(36,091)
Impairment, net	20	**(600)**	(2,103)
PROFIT FOR THE YEAR		**103,645**	93,424
Profit for the year attributable to:			
Shareholders of the Corporation		**103,636**	93,322
Non-controlling interests		**9**	102
		103,645	93,424
Per share information	21		
Basic and diluted earnings per share		**USD 104**	USD 93
Net asset value per share		**USD 2,148**	USD 2,000
Weighted average number of shares (in thousand)		**1,000**	1,000

The consolidated financial statements consist of pages 24 to 69.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017 (USD 000)

	2017	2016
Profit for the year	**103,645**	93,424
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to consolidated statement of income:		
Change in fair value of available-for-sale securities, net	**(52)**	15,309
Change in fair value of available-for-sale direct equity investments, net (note 2a)	**43,386**	22,828
Total other comprehensive income for the year	**43,334**	38,137
Total comprehensive income for the year	**146,979**	131,561
Total comprehensive income for the year attributable to:		
Shareholders of the Corporation	**146,970**	131,459
Non-controlling interests	**9**	102
	146,979	131,561

The consolidated financial statements consist of pages 24 to 69.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

(USD 000)

	Total Equity attributable to Shareholders of the Corporation									
				Available-for-sale investments fair value reserve						
2017	Share Capital	Legal reserve	General reserve	Securities	Direct equity investments	Total	Retained earnings	Total	Non-controlling interests	Total equity and non-controlling interests
Balance at 1 January 2017	**1,000,000**	**194,000**	**195,495**	**4,623**	**522,804**	**527,427**	**83,822**	**2,000,744**	**2,520**	**2,003,264**
Comprehensive income for the year:										
Profit for the year	–	–	–	–	–	–	**103,636**	**103,636**	**9**	**103,645**
Other comprehensive income										
– Net change in fair value of available-for-sale securities/direct equity investments	–	–	–	**(52)**	**43,386**	**43,334**	–	**43,334**	–	**43,334**
Total other comprehensive income	–	–	–	**(52)**	**43,386**	**43,334**	–	**43,334**	–	**43,334**
Total comprehensive income for the year	–	–	–	**(52)**	**43,386**	**43,334**	**103,636**	**146,970**	**9**	**146,979**
Transfer to legal reserve during 2017	–	**10,500**	–	–	–	–	**(10,500)**	–	–	–
Transfer to general reserve during 2017	–	–	**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**	**4,571**	**566,190**	**570,761**	**93,136**	**2,147,714**	**2,621**	**2,150,335**

The consolidated financial statements consist of pages 24 to 69.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED

for the year ended 31 December 2016

(USD 000)

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

The consolidated financial statements consist of pages 24 to 69.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2017 (USD 000)

	2017	2016
OPERATING ACTIVITIES		
Profit for the year	**103,645**	93,424
Adjustment for:		
Depreciation	**6,801**	6,561
Employees' end-of-service benefits	**865**	1,226
Interest expense	**93,291**	71,944
Gain on disposal of property, equipment and vessels	**(23)**	–
Share of gain/(loss) from associates	**(11,774)**	1,829
Gain on sales of available-for-sale securities	**(135)**	3,067
Net unrealized gain on Investments designated at FVTPL	**(15,201)**	–
Dividend income	**(37,312)**	(59,379)
Impairment, net	**600**	2,103
Net amortization of transaction fee	**(2,799)**	2,529
Changes in operating assets and liabilities		
Direct and syndicated loans	**(9,788)**	(442,513)
Placements with banks	**357,033**	155,357
Other assets	**(7,033)**	(9,935)
Other liabilities	**1,979**	(10,060)
	480,149	(183,847)
Finance charges paid	**(94,327)**	(65,213)
Employees' end-of-service benefits paid	**(1,427)**	(472)
Net cash from/(used in) operating activities	**384,395**	(249,532)
INVESTING ACTIVITIES		
Net change in available-for-sale investments	**(275,781)**	(122,296)
Net change in investments	**(55,229)**	(48,848)
Purchase of property and equipment, net	**(1,429)**	(1,820)
Sale proceeds from on disposal on property and equipment	**23**	–
Dividends	**45,328**	59,829
Net cash used in investing activities	**(287,088)**	(113,135)
FINANCING ACTIVITIES		
Change in non-controlling interest	**92**	–
(Repayment)/Proceeds of deposits from banks, net	**(111,297)**	108,863
Repayment from deposits from corporates, net	**(82,284)**	(249,575)
Proceeds from deposits from shareholders	**2,021**	1,348
Change in securities sold under agreements to repurchase	**(4,704)**	157,774
Repayment of bank term financing	**(458,899)**	(9,360)
Proceeds from Sukuks and bonds	**601,346**	381,281
Dividend payment	**–**	(28,800)
Net cash (used in) from financing activities	**(53,725)**	361,531
Net decrease in cash and cash equivalents for the year	**43,582**	(1,136)
Cash and cash equivalents at 1 January	**21,822**	22,958
Cash and cash equivalents at 31 December	**65,404**	21,822

Supplementary cash flow information (note 24)

The consolidated financial statements consist of pages 24 to 69.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

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 utilize their petroleum resources and to invest their funds to strengthen their economic and financial development and potential.

DOMICILE AND TAXATION

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

SHARE CAPITAL

As of December 31, 2017, and 2016, the Corporation's authorized capital is USD 2,400 million, subscribed capital is USD 2,000 million, issued & paid up capital is USD 1,000 million, whereas the remainder of USD 1,000 million is callable capital.

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

(USD 000)

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

ACTIVITIES

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

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

SUBSIDIARIES

The following subsidiaries are consolidated in these consolidated financial statements:

The Corporation has set up the APICORP Petroleum Shipping Fund Limited ("the Fund" or "the subsidiary"), a close-ended fund incorporated in Cayman Island 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 the consolidated financial statements of the Corporation. The Fund has a 100% subsidiary (the 'Charter Company'), a special purpose vehicle to act as a conduit for leasing of ships and has also set up 100% special purpose entities (SPEs) to own the vessels for the beneficial interest of the Fund.

During the year, the board of the Fund has resolved to continue the Fund (originally established during 2012 as 5 years closed-ended fund) for a further period of 3 years until 2020.

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. This is an exempt Company.

The Corporation has set up a special purpose vehicle during the year, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

SIGNIFICANT ACCOUNTING POLICIES

A General

A-1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

A-2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instrument that are measured at fair value at each reporting period as explained in accounting policies below. Of available-for-sale securities, certain direct equity investments, sukuk and derivative financial instruments.

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

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

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

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

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

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

a) Subsidiaries

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

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

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the acquisition of shipping vessels and the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Corporation and the risks and rewards transferred by the SPE, the Corporation concludes that it controls the SPE. The assessment of whether the Corporation has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Corporation and the SPE.

i. Basis of Consolidation

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

A General continued

A-2 Basis of preparation continued

i. Basis of Consolidation continued

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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

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

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

All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

ii. Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial information using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize 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 recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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

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

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

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized 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 recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

A General continued

A-2 Basis of preparation continued

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2017, have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 12 Income Taxes Recognition of Deferred Tax Assets for Unrealized Losses
- Amendments to IAS 7 Disclosure Initiative
- Annual Improvements to IFRSs 2012 – 2014 Cycle covering amendments to amendments to IFRS 12.

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28.	1 January 2018
Annual Improvements to IFRS Standards 2015 – 2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	1 January 2019
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

IFRIC 23 *Uncertainty over Income Tax Treatments*	1 January 2019

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.

Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018
Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
IFRS 9 Financial Instruments	1 January 2018

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Corporation currently plans to apply IFRS 9 initially on 1 January 2018.

IFRS 9 'Financial Instruments' replaces IAS 39 Financial Instruments: 'Recognition and Measurement' and is effective for annual periods beginning on or after January 1, 2018. IFRS 9 impacts the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

The Corporation will adopt IFRS 9 from the effective date of January 1, 2018; apply it retrospectively and recognize the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings as of January 1, 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

A **General** continued

A-2 **Basis of preparation** continued

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

New and revised IFRSs	Effective for annual periods beginning on or after
Classification of financial assets Management does not believe that the new classification requirements will have a material on its accounting for financial assets categorized under loans and receivables which are mainly composed of cash and bank balances, placements with banks, syndicated and direct loans and other assets. Financial assets classified as available-for-sale include investments in debt securities (fixed and floating rate bonds), funds, treasury bills and equities. Equity investments managed on fair value basis and held for long term strategic purposes will be designated as measured at fair value through other comprehensive income. Debt instruments will be designated as measured at fair value through other comprehensive income. Remaining investments will be designated as fair value through profit or loss. Classification of financial liabilities The Corporation has no financial liabilities classified as fair value through profit or loss except certain Sukuk issued which are designated at FVTPL. This will not have any material impact. Impairment of financial assets The Corporation believes that the new expected credit loss model (ECL) will likely increase the impairment losses. The key inputs for the measurement of ECL are the probability at default 'PD' (12-month and lifetime); loss given default 'LGD'; and exposure at default 'EAD': The key aspects of the ECL policy should mainly include: – Determination of "significant increase in credit risk" (SICR); – Low Credit Risk (LCR) exemption; – Stage Classification; – Portfolio Segmentation; – Risk Parameter Estimation; – Disclosures. Hedge accounting The Corporation will likely continue to apply hedge accounting requirements under IAS 39. This choice election is permitted under IFRS 9. Accordingly this will not have any major impact. Disclosures Extensive disclosure will be required in particular on credit risk and expected credit losses. The Corporation is in process of preparation of such disclosure requirements in its next consolidated financial statements. The Corporation is continuing to analyze the impact of the changes. The impact assessment described above is based on currently available information and is subject to changes that may arise when the Corporation presents its interim consolidated financial information as on June 30, 2018 that will include the effects of its application from the effective date. The new policies are yet to be approved by the Board of Directors and are subject to change until the Corporation presents its interim consolidated financial information for the period ended June 30, 2018.	
IFRS 15 Revenue from Contracts with Customers	
In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition: – Step 1: Identify the contract(s) with a customer. – Step 2: Identify the performance obligations in the contract. – Step 3: Determine the transaction price. – Step 4: Allocate the transaction price to the performance obligations in the contract. – Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.	1 January 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

A General continued

A-2 Basis of preparation continued

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

New and revised IFRSs	Effective for annual periods beginning on or after
Under IFRS 15, an entity recognizes when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	
Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	1 January 2018
IFRS 16 Leases	1 January 2019
IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize 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.	
In contrast, for finance leases where the Company is a lessee, as the Company has already recognized an asset and a related finance lease liability for the lease arrangement, and in cases where the Company is a lessor (for both operating and finance leases), the directors of the Company do not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognized in the Company's financial statements.	
Amendments to IAS 28 *Investment 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.	1 January 2019
Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied
IFRS 17 *Insurance Contracts*	1 January 2021
IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021.	
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2017

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

A General continued

A-3 Foreign currency transactions
Transactions in currencies other than US dollars (foreign currencies) are translated at the exchange rates ruling at the date of the transaction. All monetary assets and liabilities, denominated in foreign currencies, are translated into US dollars at rates prevailing at the reporting date. Differences arising from changes in exchange rates are recognized in the consolidated statement of income.

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

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

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

B-1 Financial assets
B.1.1 Classification
The Group classifies financial assets to the following IAS 39 categories:

Financial assets are classified into available-for-sale' (AFS) financial assets, 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 recognized and derecognized 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.

B.1.2 Recognition
Available-for-sale and held for trading (FVTPL) financial assets are recognized on a trade date basis.

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

B.1.3 Measurement
Financial assets are initially measured at fair value plus direct transaction costs except for financial assets held for trading (FVTPL) where transaction costs are recognized 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 amortized cost using the effective interest method, less allowance for impairment, if any. The unamortized 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 recognized 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 recognized 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 recognized in other comprehensive income, and presented in the fair value reserve in equity, is transferred to the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

B Financial instruments continued

B-1 Financial assets continued

B.1.4 Amortization

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

B.1.5 Fair value measurement principles

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

B.1.6 De-recognition

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

B.1.7 Impairment

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

Assets carried at amortized 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 amortized 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 judgment 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 amortized 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 recognized in consolidated statement of income and reflected in an allowance account against receivables. If an asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Interest on the impaired asset continues to be recognized 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 recognized in consolidated statement of income, then the impairment loss is reversed, with the amount of the reversal recognized 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 recognized in consolidated statement of income, is removed from equity and recognized in the consolidated statement of income. Impairment losses recognized 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 recognized in consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

B Financial instruments continued

B-2 Financial liabilities and equity instruments

B.2.1 Classification as debt or equity

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

B.2.2 Equity Instrument

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

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

B.2.3 Financial liabilities

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

B.2.4 Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

B.2.5 Initial recognition and measurement

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

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

B.2.6 Subsequent measurement

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

B.2.7 De-recognition

Financial liabilities are derecognized when the Group's contractual obligations are discharged, canceled 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

B Financial instruments continued

B-2 Financial liabilities and equity instruments continued

B.2.7 De-recognition continued

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.

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.

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 realizable value.

D Repurchase and resale agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) are not derecognized, 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 recognized 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 recognized within other income in the consolidated statement of income.

E-2 Subsequent expenditure

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

E-3 Depreciation

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

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

– Buildings	40 years
– Computers, Furniture & Equipment	5 to 10 years
– Vessels	25 years from the date built

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

E-4 Impairment of non-financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

E Property, equipment and vessels CONTINUED

E-4 Impairment of non-financial assets continued

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 recognized 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 recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in consolidated statement of income.

F Employees' end of service benefits

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

G Income recognition

G-1 Interest income and expenses

Interest income and interest expense for all interest-bearing financial instruments are recognized 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 recognized 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 amortized over the lives of the related loans. The amortized income is included in interest income.

G-4 Other income

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

H Derivative financial instruments

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

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

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

H-1 Fair value hedges

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

H Derivative financial instruments continued

H-2 Other non-trading derivatives

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

H-3 Fair value

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

I Financial guarantee

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

J Critical accounting judgments and key sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, 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 recognized in the period in which the estimates are revised and in any future periods affected.

J-1 Critical judgments 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 recognized in the consolidated financial statements:

Impairment of available-for-sale investments

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

Operating leases

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

Residual value of the commercial marine vessels

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

No significant influence over direct equity investments

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

J-2 Key sources of estimation uncertainty

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

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

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

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in note 10 and 27.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

J Critical accounting judgments and key sources of estimation uncertainty continued

J-2 Key sources of estimation uncertainty continued

Impairment losses on loans and advances

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

Collective impairment provisions on loans and advances

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

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.

K Provisions

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

L Legal and general reserves

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

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

M Offsetting financial instruments

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

N Operating leases

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

1 PLACEMENTS WITH BANKS

	2017	2016
With Islamic financial institutions	**125,000**	320,000
With conventional financial institutions	**325,667**	490,453
Margin call accounts on securities sold under agreements to repurchase	**9,053**	6,300
	459,720	816,753

2 INVESTMENTS

		2017	2016
Available-for-sale (AFS) securities	2a.1	**1,479,382**	1,203,518
Investments designated at FVTPL	2a.2	**41,492**	–
Available-for-sale (AFS) direct equity investments	2a.3	**926,772**	879,974
		2,447,646	2,083,492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

2 INVESTMENTS CONTINUED

2a.1 Available-for-sale securities

	2017	2016
Listed/unlisted		
Treasury bills	**199,987**	–
Fixed-rate bonds	**980,423**	924,201
Floating-rate bonds	**154,874**	192,880
Managed funds	**109,579**	86,437
Other equities	**34,519**	–
	1,479,382	1,203,518

Securities sold under agreements to repurchase: The Group enters into collateralized borrowing transactions (repurchase agreements) in the ordinary course of its financing activities. Collateral is provided in the form of securities held within the available-for-sale portfolio. At 31 December 2017, the fair value of available-for-sale securities that had been pledged as collateral under repurchase agreements was USD 189,233 thousands (2016: USD 189,420 thousands). These transactions are conducted under the terms that are usual and customary to standard securities borrowings and lending activities.

2a.2 Investments designated at FVTPL

	2017	2016
BJ Services, LLC – unlisted	**41,492**	–
	41,492	–

BJ Services, LLC is a United States Oilfield services company.

	2017	2016
Movements during the year:		
Additions during the year	**26,291**	–
Net unrealized change in FVTPL	**15,201**	–
Balance at 31 December	**41,492**	–

2a.3 Available-for-sale direct equity investments

	2017	2016
Unlisted equities – (see below)		
Kingdom of Saudi Arabia		
Saudi European Petro Co. (Ibn Zahr)	**461,363**	459,482
The Industrialization and Energy Services Company (TAQA)	**99,180**	97,496
Saudi Mechanical Industries (SMI)	**46,566**	46,134
Shuqaiq International Water and Electricity Company (SIWEC)	**28,145**	–
Kingdom of Bahrain		
Falcon Cement Company B.S.C.	**–**	25,526
Libya		
Arab Drilling and Workover Co. (Adwoc)	**2,922**	2,921
Arab Republic of Egypt		
Egyptian Methanex Methanol Co.	**112,881**	109,027
Non-shareholder countries		
Tankage Mediterranean (Tankmed), Tunisia	**5,240**	3,593
IFC Middle East and North Africa, LLP	**2,540**	3,128
Ashtead Technology	**14,300**	12,958
	773,137	760,265
Listed equities		
Kingdom of Saudi Arabia		
Yanbu National Petrochemical Company (Yansab)	**116,590**	107,073
Arab Republic of Egypt		
MISR Oil Processing Company SAE	**37,045**	12,636
	926,772	879,974

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

2 INVESTMENTS CONTINUED

2a.3 Available-for-sale direct equity investments continued

	2017	2016
Movements during the year:		
Balance at 1 January	**879,974**	816,101
Additions during the year	**28,938**	46,173
Transferred to investments in associates (note 2b)	**(25,526)**	–
Impairment during the year	**–**	(5,128)
Change in fair value during the year	**43,386**	22,828
Balance at 31 December	**926,772**	879,974

	2017	2016
Movements on allowance for impairment on AFS direct equity investments:		
Balance at 1 January	**107,328**	102,200
Impairment charge for the year	**–**	5,128
Balance at 31 December	**107,328**	107,328

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

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

As of 31 December 2017, all the Group's shares in Egyptian Bahraini Gas Derivative Co. of USD 5,000 thousand are pledged as security in favor of a bank to guarantee a loan issued to Egyptian Bahraini Gas Derivative Co.

	2017	2016
Commitments – uncalled share capital		
Balance at 1 January	**68,697**	98,259
Additional commitment during the year	**502,872**	15,149
Commitments fulfilled/expired	**(56,826)**	(44,711)
Commitments at 31 December	**514,743**	68,697

	2017	2016
Commitments – Guarantees		
Balance at 1 January	**10,992**	12,980
Additional/commitments/expired during the year	**(315)**	(1,988)
Commitments at 31 December	**10,677**	10,992

2b Investment in associates

	2017	2016
Investment in an associate		
Kingdom of Bahrain		
Falcon Cement Company B.S.C. (30% owned)*	**27,499**	–
United Arab Emirates		
NPS Holding Limited (29.12% owned)	**–**	107,275
	27,499	107,275

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

2 INVESTMENTS CONTINUED

2b Investment in associates continued

	2017	2016
Movements during the year:		
Balance at 1 January	**107,275**	106,429
Additions during the year	**–**	2,675
Transferred from AFS direct equity investments (note 2a.3)	**25,526**	–
Share of gain/(loss) from associate (note 18)	**11,774**	(1,829)
Transferred to investments held for sale (note 3)	**(110,646)**	–
Dividends during the year	**(6,430)**	–
Balance at 31 December	**27,499**	107,275

* The management has classified the investment in Falcon Cement Company B.S.C (FCC) effective 1 January 2017 as an associate based on the assessment of significant influence over the financial and operating decisions of FCC.

The share in total assets, liabilities, net assets of Falcon Cement Company B.S.C. (FCC) as of 31 December 2017 were USD 31,254, USD 13,589, USD 17,665 thousands respectively. Also, the share of net income in the associate was USD 2,605 thousand for the year then ended.

3 INVESTMENT HELD FOR SALE

	2017	2016
Balance at 31 December	**110,646**	–

The Group intends to sell the investment in an associate, namely NPS Holding Company, in the next 12 months. The Group has entered into a Stock Purchase Agreement in November 2017 with a Special Purpose Acquisition Company (SPAC) listed in NASDAQ, United States of America. The Stock Purchase agreement is subject to approvals from regulatory bodies and subject to de-SPAC (approvals from investors identified by the SPAC). No impairment loss was recognized on reclassification of the investment in associate as held for sale; nor as at December 31, 2017 as the fair value less cost to sell is higher than the carrying amount.

The group plans to dispose this investment and anticipates that the transaction will be completed during the second quarter of 2018.

4 SYNDICATED AND DIRECT LOANS

	2017	2016
Unimpaired loans		
– With Islamic institutions	**1,176,138**	1,214,672
– Conventional	**1,865,854**	1,817,532
Unamortized participation and upfront fees	**(50,469)**	(54,711)
Collective impairment allowance	**(25,775)**	(25,175)
Impaired loans		
Non-performing loans (see below)	**63,627**	63,627
Allowance for specific impairments	**(18,847)**	(18,847)
Dividends due to the Government of Iraq, offset against defaulted loans (see (a) below)	**(45,500)**	(45,500)
	2,965,028	2,951,598

(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 USD 51,848 thousand (2016: USD 51,848 thousands) from the Corporation.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

4 SYNDICATED AND DIRECT LOANS CONTINUED

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

Accordingly dividends of USD 45,500 thousand (2016: USD 45,500 thousand) due to the Government of Iraq (a shareholder in APICORP) have not been paid.

Since the beginning of default during 1990-92, the Corporation had kept memorandum record for contractual interest and fee on the defaulted Iraqi loans. Total contractual uncharged interest and fee on these impaired Iraqi loans as at 31 December 2017 amounts to USD 158,057 thousands (2016: USD 151,656 thousands).

Subsequent to the year end, the Corporation'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 Corporation to Government of Iraq.

	2017	2016
Unimpaired loans movement during the year		
Balance at 1 January	**3,032,204**	2,581,259
Draw-downs on new and existing loans	**942,826**	1,127,859
Repayments during the year	**(933,038)**	(677,053)
Exchange rate movements	**–**	139
Balance at 31 December	**3,041,992**	3,032,204

	2017	2016
Undrawn loan commitments and guarantees		
Balance at 1 January	**932,851**	713,569
Additional underwriting and commitment during the year	**1,810,150**	2,112,541
Drawdowns during the year	**(942,826)**	(1,127,859)
Expired commitments and other movements – net	**(1,012,883)**	(765,400)
Balance at 31 December	**787,292**	932,851

	2017	2016
Allowance for specific impairment		
Balance at 1 January	**18,847**	22,847
Reversal	**–**	(4,000)
Balance at 31 December	**18,847**	18,847

	2017	2016
Allowance for collective impairment		
Balance at 1 January	**25,175**	24,200
Additional allowance during the year	**600**	975
Balance at 31 December	**25,775**	25,175

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

5 PROPERTY, EQUIPMENT AND VESSELS

	Land	Building	Vessels	Computers, Furniture & Equipment	Total
Cost					
Balance at 1 January 2016	4,004	55,519	117,254	17,016	193,793
Additions	–	–	–	1,820	1,820
Balance at 31 December 2016	4,004	55,519	117,254	18,836	195,613
Additions	–	–	–	1,429	1,429
Disposal	–	–	–	(163)	(163)
Balance at 31 December 2017	**4,004**	**55,519**	**117,254**	**20,102**	**196,879**
Accumulated Depreciation					
Balance at 1 January 2016	–	41,711	14,251	15,734	71,696
Depreciation for the year	–	929	5,129	503	6,561
Balance at 31 December 2016	–	42,640	19,380	16,237	78,257
Depreciation for the year	–	929	5,344	528	6,801
Disposal	–	–	–	(163)	(163)
Balance at 31 December 2017	**–**	**43,569**	**24,724**	**16,602**	**84,895**
Carrying Amount					
Balance at 31 December 2017	**4,004**	**11,950**	**92,530**	**3,500**	**111,984**
Balance at 31 December 2016	4,004	12,879	97,874	2,599	117,356

The Group has five commercial marine vessels. All the five vessels have been leased to Hess Energy Trading Company, LLC in the capacity of bareboat charterer for a non-cancellable period of 3 years. The bareboat charterer has entered into a Call Option Agreement affording it the right to buy the vessel declarable at any time but not exercisable before the 1st anniversary of the acquisition of the relevant vessel (the relevant "Exercise Date").

6 OTHER ASSETS

	2017	**2016**
Accrued interest receivable	**34,188**	28,357
Dividends receivable	**314**	1,900
Employee loans and advances	**1,152**	1,756
Derivatives at fair value (note 12)	**10,430**	8,757
Other receivables and advance payments	**2,801**	2,668
	48,885	43,438

7 DEPOSITS FROM BANKS

	2017	2016
Short-term deposits from conventional banks		
US dollar currency	**–**	175,000
Non-US dollar currencies	**165,566**	10,610
Short-term Murabaha financing from Islamic financial institutions		
US dollar currency	**10,000**	98,600
Non-US dollar currencies	**–**	2,653
	175,566	286,863

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2017 (USD 000)

8 OTHER LIABILITIES

	2017	2016
Accrued interest payable	**22,328**	23,364
Dividend payable to shareholders	**2,550**	2,550
Employees' end of service benefits	**9,339**	9,901
Accrued expenses and other liabilities	**16,036**	8,832
Derivatives at fair value (note 12)	**18,080**	24,182
Call liabilities	**8,185**	7,308
	76,518	76,137
Movement on employees' end of service benefits		
Balance as at 1 January	**9,901**	9,147
Charge for the year	**865**	1,226
Paid during the year	**(1,427)**	(472)
Balance as at 31 December	**9,339**	9,901

9 BANK TERM FINANCING

	2017	2016
SAR 500 million loan 2012 – 2017 – fully drawn	**–**	133,333
SAR 440 million loan 2012 – 2017 – fully drawn	**–**	117,333
USD 105 million loan 2012 – 2018 – fully drawn (see below)	**–**	58,233
SAR 1,000 million loan 2014 – 2019 – fully drawn	**266,666**	266,666
USD 150 million loan 2014 – 2017 – fully drawn	**–**	150,000
SAR 3,000 million loan 2014 – 2019 – fully drawn	**800,000**	800,000
Unamortized front–end fee	**(3,252)**	(5,407)
	1,063,414	1,520,158

The Corporation borrows at margins ranging from 55 basis points to 60 basis points (2016: 55 basis points to 88 basis) over the Saudi riyal interbank or London interbank offered rate (depending on the facility currency).

During the year, the Group prepaid a loan facility of USD 105 million to the external lenders.

10 SUKUKS AND BONDS ISSUED

	2017	2016
USD 3 billion Sukuk program (partial drawn)		
Series 1: USD 500 million bonds 2015 – 2020 profit rate: 2.383% p.a.	**489,265**	490,191
Series 2: USD 500 million bonds 2017 – 2022 profit rate: 3.141% p.a.	**497,472**	–
SAR 250 million Sukuk 2016 – 2019 (fully drawn) profit rate: 3.50%	**66,735**	66,935
USD 300 million floating rate bond 2016 – 2021 (fully drawn) LIBOR plus margin 1.15%	**300,000**	300,000
USD 105 million floating rate bond 2017 – 2022 (full drawn) LIBOR plus margin 1.10%	**105,000**	–
Unamortized front-end fee	**(2,692)**	(1,980)
	1,455,780	855,146

USD 3 billion Sukuk Program (2015-2022):
The Sukuk program was announced during July 2015. Till date Corporation has issued Sukuk of USD 1,000 million (2015: USD 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2017 (USD 000)

10 SUKUKS AND BONDS ISSUED CONTINUED

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.

USD 300 million Floating rate Bond (2016-2021):

The Group launched USD 300 million floating rate bond for 5 years having maturity in 2021. It carry's profit rate of Libor plus 1.15% per annum. This -is the first "Formosa" bond out of the Kingdom of Saudi Arabia, targeting the Taiwanese investor base. In order to appeal to the local investor base, the Formosa bond, also known as a Taiwan foreign-denominated international bond, is listed on the International Board of the Taipei Stock Exchange. Credit Agricole CIB acted as the lead manager on the trade.

USD 105 million Floating rate Bond (2017-2022):

During the year the Group successfully launched USD 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.

11 OFF-BALANCE SHEET EXPOSURES

	2017	2016
Commitments to underwrite and fund loans (note 4)	**787,292**	932,851
Commitments to subscribe capital to available-for-sale direct equity investments (note 2a.3)	**514,743**	68,697
Guarantees to bank on loans of investee companies (note 2a.3)	**10,677**	10,992
Fixed Assets commitments	**1,515**	1,660
Other Commitments	**1,005**	4,756
	1,315,232	1,018,956

12 DERIVATIVE FINANCIAL INSTRUMENTS

Fair value hedges: The Group uses interest rate swaps to hedge its exposure to changes in fair value, of certain investments and borrowings in fixed rate bonds, attributable to changes in market interest rate. Fair values of the interest rate swap agreements are estimated based on the prevailing market rates of interest.

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

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

	2017		2016	
	Asset	Liabilities	Asset	Liabilities
Interest rate swaps (Fair value hedges)	**5,017**	**17,473**	5,167	15,153
Foreign exchange contracts (Other derivatives held for risk management)	**5,413**	**607**	3,590	9,029
At 31 December	**10,430**	**18,080**	8,757	24,182

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

	2017	2016
Interest rate swaps (Fair value hedges)	**1,711,667**	1,134,233
Foreign exchange contracts (Other derivatives held for risk management)	**1,496,223**	1,278,058
At 31 December	**3,207,890**	2,412,291

The contractual maturity analysis of the derivative instruments are included as part of liquidity risk information in note 25.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

13 NET INTEREST INCOME

	2017	2016
Interest income		
Cash and bank balances	**7**	1
Placements with banks – Islamic financial institution	**4,542**	5,326
– Conventional	**11,804**	11,277
Available-for-sale securities (net)	**36,170**	34,206
Syndicated and direct loans – with Islamic institutions	**36,355**	24,932
– Conventional	**55,192**	37,534
Amortization of loan participation and upfront fees	**15,402**	12,482
Total interest income	**159,472**	125,758
Interest expense		
Deposits from banks and other cost – Islamic institutions	**(293)**	(218)
– Conventional	**(1,425)**	(3,619)
Securities sold under agreement to repurchase deposits	**(3,315)**	(1,633)
Deposits from corporates & shareholders – Islamic institutions	**(8,143)**	(6,718)
– Conventional	**(12,137)**	(10,797)
Interest rate swaps	**(5,040)**	(6,828)
Bank term financing	**(36,154)**	(28,582)
Sukuk and bond issued	**(23,453)**	(10,686)
Amortization of front end fees on bank term financing, Sukuk and bond issued	**(3,331)**	(2,863)
Total interest expense	**(93,291)**	(71,944)
Net interest income	**66,181**	53,814

14 NET FEE INCOME

	2017	2016
Agency, advisory and other services	**643**	734
Net fee income	**643**	734

15 DIVIDEND INCOME

	2017	2016
Available-for-sale securities	**1,925**	2,090
Available-for-sale direct equity investments	**35,387**	57,289
	37,312	59,379

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

	2017	2016
Available-for-sale securities	**135**	(3,067)
	135	(3,067)

17 UNREALIZED GAIN ON INVESTMENTS DESIGNATED AT FVTPL

	2017	2016
Unrealized gain on investments FVTPL	**15,201**	–
	15,201	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

18 OTHER INCOME, NET

	2017	2016
Exchange losses, net	**215**	3,130
Fair value hedge ineffectiveness	**(52)**	50
Rent income – head office building and housing compound	**1,438**	1,869
Bareboat charter income (see (a) below)	**12,523**	14,062
Share of gain/(loss) from associates (see (b) below)	**11,774**	(1,829)
Others	**(3,802)**	3,476
	22,096	20,758

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

	2017	2016
Less than one year	**3,110**	13,676
Between one and five years	**–**	3,110

(b) It includes share of gain of USD 9 million from an associate (NPS Holding Limited) which is classified as Investment held for sale (note 3).

19 OPERATING EXPENSES

	2017	2016
Staff costs	**14,700**	15,473
Employees' end of service benefits	**1,578**	1,609
Premises costs, including depreciation	**9,149**	9,178
Equipment and communications costs	**2,856**	3,158
Key Management's and Board benefits, fees and charges	**5,209**	4,189
Donations	**200**	227
Consultancy and legal fee	**2,037**	1,381
Other corporate charges	**1,594**	876
	37,323	36,091

20 IMPAIRMENT, NET

	2017	2016
Charge for the year		
Syndicated and direct loans (note 4):		
Collective impairment allowance	**600**	975
AFS direct equity investments (note 2a.3)	**–**	5,128
	600	6,103
Less: recoveries		
Syndicated and direct loans (note 4)	**–**	(4,000)
	–	(4,000)
	600	2,103

21 SHARE CAPITAL AND PER SHARE INFORMATION

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

22 APPROPRIATIONS

	2017	2016
Legal reserve	**10,500**	9,500
Retained earnings	**83,822**	56,511
Dividends	**–**	40,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

23 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	2017	2016
Loans outstanding at 31 December – gross	**2,130,361**	2,265,178
Allowance for specific impairments outstanding at 31 December	**(18,847)**	(18,847)
Dividends due to Government of Iraq, offset against defaulted loans at 31 December	**(45,500)**	(45,500)
Commitments to underwrite and fund loans at 31 December	**469,692**	524,624
Interest from loans during the year	**62,017**	43,601
Loan fees received during the year	**3,883**	6,074
Allowance for specific impairments during the year	**–**	(5,503)

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 2017 and 2016.

Investments in related parties	2017	2016
Investments	**954,271**	987,249
Investments held for sale	**110,646**	–
Commitments to invest	**514,743**	73,453
Guarantees as shareholder	**10,677**	10,992
Dividends received during the year	**35,387**	57,739
Others		
Deposits from corporates	**1,051,297**	1,133,581
Deposits from shareholders	**110,832**	108,811
Dividend payable to shareholders	**2,550**	2,550
Interest expense on deposits from corporates during the year	**17,535**	15,821
Interest expense on deposits from shareholders during the year	**2,021**	1,353
Balances due to key management	**501**	318

For key management's compensation, refer note 19.

24 SUPPLEMENTARY CASH FLOW INFORMATION

Following the details of non-cash transactions:

	2017	2016
Transfer of AFS direct equity investments to investment in associates	**25,526**	–
Transfer of investment in associate to investment held for sale	**110,646**	–
Change in available-for-sale investments fair value reserve	**43,334**	47,678
Transfer of Dividend payment to deposit	**–**	6,000
Dividends due to the Government of Iraq, offset against defaulted loans	**–**	4,000
Changes in fair value of Sukuk issued	**–**	(9,541)

25 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

25 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

Credit risk management

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

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

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

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

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

	Syndicated and direct loans (note 4)		Placements with banks (note 1)		Bonds classified Available–for–sale (note 2a.1)	
	2017	2016	**2017**	2016	**2017**	2016
Impaired individually						
Grade F	**51,147**	51,147	**–**	–	**–**	–
Grade E	**700**	700	**–**	–	**–**	–
Grade C	**11,780**	11,780	**–**	–	**–**	–
Gross amount	**63,627**	63,627	**–**	–		
Unpaid dividends and interest due to Government of Iraq	**(45,500)**	(45,500)	**–**	–	**–**	–
Allowance for impairment	**(18,847)**	(18,847)	**–**	–		–
Carrying amount	**(720)**	(720)	**–**	–	**–**	–
Neither past due nor impaired						
Accounts without renegotiable terms						
Grade B	**64,986**	28,296	**–**	–	**–**	–
Grade A	**2,977,006**	3,003,908	**–**	–	**–**	–
Subtotal neither past due nor impaired	**3,041,992**	3,032,204	**–**	–		–
Bank placements in OECD* countries Rated A	**–**	–	**20,597**	–	**–**	–
Rated BBB	**–**	–	**12,973**	–	**–**	–
Banks placement in non-OECD countries						
Rated A to AAA	**–**	–	**245,000**	686,580	**–**	–
Rated B to BBB	**–**	–	**156,150**	50,173	**–**	–
Not Rated	**–**	–	**25,000**	80,000	**–**	–
Externally rated (investment-grade) available-for-sale investments						
Financial institutions						
Rated A to AAA	**–**	–	**–**	–	**238,779**	298,574
Rated B to BBB	**–**	–	**–**	–	**139,033**	159,673
Governments and public sector				–		
Rated A to AAA	**–**	–	**–**	–	**263,519**	140,090
Rated B to BBB	**–**	–	**–**	–	**109,070**	109,245
Others sectors						
Rated A to AAA	**–**	–	**–**	–	**224,465**	279,274
Rated B to BBB	**–**	–	**–**	–	**113,172**	83,634
Not Rated available-for-sale investments	**–**	–	**–**	–	**47,259**	46,591
Subtotal total	**3,041,272**	3,031,484	**459,720**	816,753	**1,135,297**	1,117,081
Collective impairment allowance	**(25,775)**	(25,175)	**–**	–	**–**	–
Unamortized participation and commitment	**(50,469)**	(54,711)	**–**	–	**–**	–
Total carrying amount at 31 December	**2,965,028**	2,951,598	**459,720**	816,753	**1,135,297**	1,117,081

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

25 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 31 and 33).

	Syndicated and direct loans (note 4)		Placements with banks (note 1)		Bonds classified Available–for–sale (note 2a.1)	
	2017	2016	**2017**	2016	**2017**	2016
Concentration of credit risk by sector						
Oilfield production development services	**304,285**	347,014	**–**	–	**5,006**	22,250
Floating production, storage and offloading Facilities	**133,726**	136,527	**–**	–	**–**	–
Liquefied Natural Gas (LNG) Plants	**133,923**	130,111	**9,054**	–	**1,688**	–
Petroleum and petrochemicals	**404,880**	480,906	**–**	–	**43,438**	–
Maritime transportation	**167,276**	128,650	**–**	–	**58,043**	60,120
Refineries	**602,296**	559,716	**–**	–	**1,214**	–
Power generation	**469,069**	482,874	**–**	–	**53,127**	6,804
Other petroleum	**560,957**	519,700	**–**	–	**67,851**	56,955
Banks and financial institutions	**83,600**	105,769	**450,666**	816,753	**392,932**	469,106
Governments and public sector	**–**	–	**–**	–	**372,590**	302,807
Other industries	**105,016**	60,331	**–**	–	**139,408**	199,039
Carrying amount at 31 December	**2,965,028**	2,951,598	**459,720**	816,753	**1,135,297**	1,117,081

	Syndicated and direct loans (note 4)		Placements with banks (note 1)		Bonds classified Available-for-sale (note 2a.1)	
	2017	2016	**2017**	2016	**2017**	2016
Concentration of credit risk by location						
Kingdom of Saudi Arabia	**933,525**	1,083,248	**9,054**	–	**251,406**	212,540
State of Qatar	**532,384**	633,886	**–**	275,000	**102,908**	106,224
Other Gulf Cooperation Council states	**927,682**	823,203	**426,000**	528,613	**460,782**	524,168
Egypt and North Africa	**207,901**	211,688	**–**	173	**–**	–
Total Arab World	**2,601,492**	2,752,025	**435,054**	803,786	**815,096**	842,932
Europe	**159,441**	104,044	**24,666**	12,967	**62,984**	64,888
Asia pacific	**142,853**	62,891	**–**	–	**14,853**	7,743
United States	**61,242**	32,638	**–**	–	**242,364**	201,518
Carrying amount at 31 December	**2,965,028**	2,951,598	**459,720**	816,753	**1,135,297**	1,117,081

Liquidity risk and funding management

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

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

Daily liquidity position is monitored and regular stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies are subject to review and approval by RALCO. Liquidity controls are provided for an adequately diversified deposit base in terms of maturities and the range of counter-parties. The asset and liability maturity profile based on estimated repayment terms is set out in note 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

25 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

Liquidity risk and funding management continued

Contractual maturities of financial liabilities (including interest)

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 from banks	**(10,009)**	**(68,226)**	**(110,300)**	**–**	**(188,535)**	**(175,566)**
Deposits from corporates	**(680,413)**	**(337,445)**	**(41,781)**	**–**	**(1,059,639)**	**(1,051,297)**
Deposits from shareholders	**–**	**(112,543)**	**–**	**–**	**(112,543)**	**(110,832)**
Securities sold under agreement to repurchase	**(2,311)**	**(155,773)**	**–**	**–**	**(158,084)**	**(153,070)**
Bank term financing	**17,140**	**(67,594)**	**(1,066,667)**	**–**	**(1,117,121)**	**(1,063,414)**
Sukuks and bonds 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)**
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)**	**(162,136)**	**(380,320)**	**(2,853,271)**	**(1,333,312)**

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

Market risk management

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

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

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

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 29.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

25 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

Market risk management continued

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 2017	**1,031**	**105**	**(1,031)**	**(105)**
At 31 December 2016	1,026	85	(1,026)	(85)

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

	2017	2016
Fixed rate instruments		
Financial assets	**2,242,462**	1,491,531
Financial liabilities	**(1,711,667)**	(1,134,233)
	530,795	357,298
Variable rate instruments		
Financial assets	**4,328,829**	4,578,313
Financial liabilities	**(4,038,231)**	(4,093,084)
	290,598	485,229

Currency risk is minimized 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 30. The Group's exposures in the currencies other than USD 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 USD 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 2017	**5% strengthening of USD**	**5% weakening of USD**
EUR	**879**	**(879)**
GBP	**2**	**(2)**
CHF	**(2)**	**2**
JPY	**(2)**	**2**

At 31 December 2016	5% strengthening of USD	5% weakening of USD
EUR	819	(819)
GBP	30	(30)
CHF	(1)	1
JPY	426	(426)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

25 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

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 2016.

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.

26 EFFECTIVE INTEREST RATES

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

	2017	2016
Interest-bearing financial assets		
Fixed-rate bonds	**4.50%**	4.60%
Floating-rate bonds	**3.06%**	3.10%
Placements with banks	**2.25%**	2.12%
Syndicated and direct loans	**3.28%**	2.58%
US dollar denominated	**3.26%**	2.56%
Non-US dollar denominated	**3.70%**	3.52%
Interest-bearing financial liabilities		
Deposits from banks	**2.87%**	1.55%
US dollar denominated	**1.50%**	1.56%
Non-US dollar denominated	**2.95%**	1.41%
Deposits from corporates	**1.48%**	1.24%
Deposits from shareholders	**2.32%**	1.52%
Securities sold under agreement to repurchase	**2.59%**	1.88%
Bank term financing	**2.52%**	3.06%
Sukuk Bonds	**2.81%**	3.16%
USD LIBOR at 31 December was:		
One-month	**1.56%**	0.77%
Three-month	**1.69%**	1.00%
Six-month	**1.84%**	1.32%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

27 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:

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 banks	**–**	**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**

2016	Level 1	Level 2	Level 3	Total
Financial Assets				
Available-for-sale securities				
Fixed-rate bonds	924,201	–	–	924,201
Floating-rate bonds	192,880	–	–	192,880
Managed funds	–	86,437	–	86,437
AFS direct equity investments	119,709	–	718,860	838,569
Derivative financial assets	–	8,757	–	8,757
	1,236,790	95,194	718,860	2,050,844
Financial Liabilities				
Sukuks and Bonds issued	–	557,126	–	557,126
Derivative financial liabilities	–	24,182	–	24,182
	–	581,308	–	581,308

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

27 FAIR VALUE HIERARCHY AND CATEGORIES CONTINUED

i. Valuation of financial instruments continued

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

2017	Fair value through profit or loss	Loans and receivables	AFS investments	Others at amortized cost	Carrying amount	Fair values
Cash and bank balances	–	**65,404**	–	–	**65,404**	**65,404**
Placements with banks	–	**459,720**	–	–	**459,720**	**459,720**
Available for sale securities	–	–	**1,479,382**	–	**1,479,382**	**1,479,382**
Investments designated at FVTPL	**41,492**	–	–	–	**41,492**	**41,492**
AFS direct equity investments (see (a) below)	–	–	**926,772**	–	**926,772**	**926,772**
Syndicated and direct loans *(Fair value – based On discounted cash flows at current market prices)* (see (b) below)	–	–	–	**2,965,028**	**2,965,028**	**2,965,028**
Other assets	**10,430**	**1,152**	–	**37,303**	**48,885**	**48,885**
Total assets	**51,922**	**526,276**	**2,406,154**	**3,002,331**	**5,986,683**	**5,986,683**
Deposits from banks	–	–	–	**175,566**	**175,566**	**175,566**
Deposits from corporates	–	–	–	**1,051,297**	**1,051,297**	**1,051,297**
Deposits from shareholders	–	–	–	**110,832**	**110,832**	**110,832**
Securities sold under agreement to repurchase	–	–	–	**153,070**	**153,070**	**153,070**
Other liabilities	**18,080**	–	–	**58,438**	**76,518**	**76,518**
Bank term financing *(Fair value – based on current market rates for similar remaining maturity)*	–	–	–	**1,063,414**	**1,063,414**	**1,063,414**
Sukuk issued *(Fair value – based on current market rates for similar remaining maturity)*	**1,053,472**	–	–	**402,308**	**1,455,780**	**1,455,780**
Total liabilities	**1,071,552**	–	–	**3,014,925**	**4,086,477**	**4,086,477**

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

(b) The syndicated and direct loans carry floating interest rate and therefore the management believes that the fair values of the loans are not materially different from their carrying values.

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

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

(b) The syndicated and direct loans are at floating rate and management believes the amortized cost equals the fair value of the said loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

27 FAIR VALUE HIERARCHY AND CATEGORIES CONTINUED

i. Valuation of financial instruments 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 2017	Fair value as at 2016	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of Unobservable inputs to fair value
1) Interest rate swap (refer note 12)	**Asset 5,017 Liabilities 17,473**	Asset 5,167 Liabilities 15,153	Level 2	Discounted Future cash flows based on interest rates from observable yield curves at the end of the reporting period and contract interest rates.	N/A	N/A
2) Foreign currency forward contracts (refer note 12)	**Asset 5,413 Liabilities 607**	Asset 3,590 Liabilities 9,029	Level 2	Future cash flows based on forward exchange rates from observable forward exchange rates at the end of the reporting period and contract forward rates.	N/A	N/A
3) Available-for-sale direct equity investments (refer note 2a.3)	**Saudi European Petro Co. (Ibn Zahr) Asset 461,363**	Saudi European Petro Co. (Ibn Zahr) Asset 459,482	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) Available-for-sale direct equity investments (refer note 2a.3)	**Egyptian Methanex Methanol Co. Asset 112,881**	Egyptian Methanex Methanol Co. Asset 109,027	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) Available-for-sale direct equity investments (refer note 2a.3)	**The Industrialization and Energy Services Company (TAQA) Asset 99,180**	The Industrialization and Energy Services Company (TAQA) Asset 97,496	Level 3	Market multiples	Illiquidity discount due to lack of marketability	The higher the market multiples, the higher the fair value
6) Available-for-sale direct equity investments (refer note 2a.3)	**IFC Middle East and North Africa, LLP Asset 2,540**	IFC Middle East and North Africa, LLP Asset 3,128	Level 3	Market multiples	Illiquidity discount due to lack of marketability	The higher the market multiples, the higher the fair value
7) Available-for-sale direct equity investments (refer note 2a.3)	**Tankage Mediterranean (Tankmed), Tunisia Asset 5,240**	Tankage Mediterranean (Tankmed), Tunisia Asset 3,593	Level 3	Market multiples	Illiquidity discount due to lack of marketability	The higher the market multiples, the higher the fair value
8) Available-for-sale direct equity investments (refer note 2a.3)	**Saudi Mechanical Industries (SMI) Asset 46,566**	Saudi Mechanical Industries (SMI) Asset 46,134	Level 3	Discounted cash flow	Illiquidity discount due to lack of marketability	The higher the market multiples, the higher the fair value
9) Available-for-sale direct equity investments (refer note 2a.3)	**Shuqaiq International Water and Electricity Company (SIWEC) Asset 28,145**	–	Level 2	Recent transaction	–	–
10) Available-for-sale direct equity investments (refer note 2a.3)	**MISR Oil Processing Company SAE MOPCO Asset 37,045**	MISR Oil Processing Company SAE MOPCO Asset 12,636	Level 1	Quoted price in an active market	–	–
11) Available-for-sale direct equity investments (refer note 2a.3)	**Yanbu National Petrochemical Company (Yansab) 116,590**	Yanbu National Petrochemical Company (Yansab) 107,703	Level 1	Quoted price in an active market	–	–
12) Available-for-sale direct equity investments (refer note 2a.3)	**Ashtead Technology Asset 14,300**	Ashtead Technology Asset 12,958	Level 3	Market multiples	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

27 FAIR VALUE HIERARCHY AND CATEGORIES CONTINUED

i. Valuation of financial instruments continued

Financial assets/financial liabilities	Fair value as at 2017	Fair value as at 2016	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of Unobservable inputs to fair value
13) Investments designated at FVTPL (refer note 2a.2)	**BJ Services LLC 41,492**	–	Level 3	Market multiples	–	–

The management believes that the fair value of their financial assets which are carried at amortized 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

	2017	2016
Balance at 1 January	**718,860**	745,400
Total gains or losses:		
in other comprehensive income	**–**	3,859
Purchases	**41,492**	3,512
Transfers out of level 3	**–**	(33,911)
Balance at 31 December	**760,352**	718,860

28 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	**2017 Total**
Assets					
Cash and cash equivalents	**65,404**	**–**	**–**	**–**	**65,404**
Deposits with banks	**279,720**	**180,000**	**–**	**–**	**459,720**
Available-for-sale securities	**238,672**	**127,545**	**794,757**	**318,408**	**1,479,382**
Investments designated at FVTPL	**–**	**–**	**41,492**	**–**	**41,492**
AFS direct equity investments	**–**	**–**	**–**	**926,772**	**926,772**
Investment in associates	**–**	**–**	**–**	**27,499**	**27,499**
Investments held for sale	**–**	**110,646**	**–**	**–**	**110,646**
Syndicated and direct loans	**203,532**	**418,101**	**1,711,833**	**631,562**	**2,965,028**
Property and equipment	**–**	**–**	**–**	**111,984**	**111,984**
Other assets	**35,781**	**13,104**	**–**	**–**	**48,885**
Total assets	**823,109**	**849,396**	**2,548,082**	**2,016,225**	**6,236,812**
Liabilities and Equity					
Deposits from banks	**(10,000)**	**(66,667)**	**(98,899)**	**–**	**(175,566)**
Corporate Deposits	**(677,509)**	**(333,788)**	**(40,000)**	**–**	**(1,051,297)**
Deposits from Shareholders	**–**	**(110,832)**	**–**	**–**	**(110,832)**
REPOs	**(2,310)**	**–**	**(150,760)**	**–**	**(153,070)**
Other liabilities	**(72,880)**	**(3,638)**	**–**	**–**	**(76,518)**
Bank term financing	**3,253**	**–**	**(1,066,667)**	**–**	**(1,063,414)**
Sukuks and Bonds issued	**8,206**	**–**	**(1,463,986)**	**–**	**(1,455,780)**
Equity	**–**	**–**	**–**	**(2,147,714)**	**(2,147,714)**
Non-controlling Interest	**–**	**–**	**–**	**(2,621)**	**(2,621)**
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**	**–**	
2016					
Total assets	1,092,048	438,580	2,056,445	2,554,661	6,141,734
Total liabilities and equity	(1,521,193)	(468,283)	(2,128,509)	(2,023,749)	(6,141,734)
Maturity gap	(429,145)	(29,703)	(72,064)	530,912	–
Cumulative maturity gap	(429,145)	(458,848)	(530,912)	–	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

29 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:

2017	**Up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
ASSETS					
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					
USD denominated	**2,152,513**	**713,574**	**–**	**44,220**	**2,910,307**
Non-USD denominated	**90,000**	**53,464**	**–**	**–**	**143,464**
LIABILITIES					
Deposits from banks					
USD denominated	**(10,000)**	**–**	**–**	**–**	**(10,000)**
Non-USD denominated	**–**	**(66,667)**	**–**	**–**	**(66,667)**
Deposits from corporate	**(677,510)**	**(333,788)**	**(40,000)**	**–**	**(1,051,298)**
Deposits from shareholders	**(110,832)**	**–**	**–**	**–**	**(110,832)**
Securities sold under agreement to repurchase	**(150,760)**	**–**	**–**	**–**	**(150,760)**
Bank term financing	**(1,066,667)**	**–**	**–**	**–**	**(1,066,667)**
Sukuk Bond	**(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**	

2016	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
ASSETS					
Placements with banks	816,753	–	–	–	816,753
Available for sale securities					
Floating-rate bonds	156,963	35,917	–	–	192,880
Syndicated and direct loans					
USD denominated	1,996,902	936,711	–	44,220	2,977,833
Non-USD denominated	2,160	52,211	–	–	54,371
LIABILITIES					
Deposits from banks					
USD denominated	(250,000)	(23,600)	–	–	(273,600)
Non-USD denominated	(13,263)	–	–	–	(13,263)
Deposits from corporate	(1,120,011)	(13,569)	–	–	(1,133,580)
Deposits from shareholders	(108,811)	–	–	–	(108,811)
Securities sold under agreement to repurchase	(157,774)	–	–	–	(157,774)
Bank term financing	(667,333)	(849,201)	–	–	(1,516,534)
Sukuk Bond	(300,000)	–	–	–	(300,000)
Interest rate sensitivity gap	355,586	138,469	–	44,220	538,275
Cumulative Gap	355,586	494,055	494,055	538,275	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2017 (USD 000)

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

	Assets	Liabilities and equity	**2017 Net Exposure**	2016 Net exposure
ASSETS, LIABILITIES AND EQUITY				
United States dollar	5,663,232	(4,537,569)	**1,125,663**	1,170,508
Euro	6,352	(182,236)	**(175,884)**	(163,761)
Other OECD currencies (see below)	14,508	(19,287)	**(4,779)**	(69,102)
Arab currencies				
GCC (see below)	552,719	(1,497,720)	**(945,001)**	(937,819)
Egypt and North Africa	1	–	**1**	174
	6,236,812	(6,236,812)	**–**	–

COMMITMENTS AND GUARANTEES	**2017**	2016
United States dollar	**1,277,028**	963,521
Saudi Riyal	**37,199**	53,918
Other Arab currencies		
GCC (see below)	**1,005**	1,517
	1,315,232	1,018,956

Other OECD currencies
The other member countries of the Organization 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:

		2017	2016
Euro	EUR 1=USD	**1.1990**	1.0537
Saudi riyal	SAR 1=USD	**0.2666**	0.2666
Swiss franc	CHF 1=USD	**0.9752**	0.9797
British pound	GBP 1=USD	**1.3509**	1.2285
Egyptian pound	EGP 1=USD	**0.0562**	0.0552

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

31 INDUSTRY DISTRIBUTION OF ASSETS AND LIABILITIES

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

	2017	2016
ASSETS		
Petroleum and petrochemicals		
Refineries	**603,512**	562,260
Oilfield production development and services	**471,321**	447,753
Floating production, storage and offloading facilities	**133,726**	136,720
Liquefied natural gas (LNG) plants	**135,611**	132,379
Petrochemical plants	**1,144,408**	1,160,542
Maritime transportation	**228,931**	256,428
Power generation	**746,090**	704,953
Other petroleum	**757,117**	620,369
Total petroleum and petrochemicals	**4,220,716**	4,021,404
Banks and financial institutions	**1,092,527**	1,508,202
Other industries	**350,993**	305,924
Governments and public sector institutions	**572,576**	306,204
Total assets at 31 December	**6,236,812**	6,141,734
LIABILITIES AND EQUITY		
Banks and financial institutions	**4,005,990**	3,971,878
Other petroleum and petrochemicals	**80,488**	166,592
Equity	**2,150,334**	2,003,264
Total liabilities and equity at 31 December	**6,236,812**	6,141,734
COMMITMENTS AND GUARANTEES		
Petroleum and petrochemicals		
Refineries	**150,209**	–
Oilfield production development and services	**97,648**	167,854
Liquefied natural gas (LNG) plants	**57,180**	101,779
Petrochemicals plants	**83,415**	123,687
Maritime transportation	**77,825**	48,067
Banks and financial institutions	**597,547**	217,502
Power generation	**217,176**	321,998
Other petroleum	**34,232**	38,069
Total commitments and guarantees at 31 December	**1,315,232**	1,018,956

32 SEGMENT ANALYSIS

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017 (USD 000)

33 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:

	2017	2016
ASSETS		
Kingdom of Saudi Arabia	**2,165,598**	2,145,267
State of Qatar	**635,984**	1,020,497
Other Gulf Cooperation Council states	**1,970,828**	2,017,456
Egypt and North Africa	**360,534**	337,073
Total Arab World	**5,132,944**	5,520,293
Europe	**322,115**	233,661
Asia pacific	**157,742**	71,139
United States	**434,824**	162,441
Other North and South America	**189,187**	154,200
Total assets	**6,236,812**	6,141,734
LIABILITIES AND EQUITY		
Kingdom of Saudi Arabia	**3,350,411**	2,592,133
State of Qatar	**215,033**	224,002
Other Gulf Cooperation Council states	**1,614,807**	1,871,081
Other Middle East states	**315,675**	306,007
Egypt and North Africa	**581,092**	545,719
Total Arab World	**6,077,018**	5,538,942
Europe	**8,054**	496,009
Asia pacific	**151,740**	106,783
Total liabilities and equity	**6,236,812**	6,141,734
COMMITMENTS AND GUARANTEES		
Kingdom of Saudi Arabia	**220,715**	251,110
Other Gulf Cooperation Council states	**273,698**	231,966
Other Middle East states	**47,215**	38,297
Egypt and North Africa	**105,121**	173,493
Total Arab World	**646,749**	694,866
Europe	**139,558**	228,658
Asia pacific	**33,547**	47,365
United States	**473,500**	–
Other North and South America	**21,878**	48,067
	1,315,232	1,018,956