

# SUSTAINABILITY

By closely monitoring its ESG principles  
APICORP aims to create shared value with all of  
its external investments and internal policies

# Risk Management and Compliance

A robust and constantly evolving risk management framework underpins APICORP's ability to conduct business in a transparent manner and to achieve its target growth

Risk and Compliance is core to APICORP's sound day-to-day functioning and decision-making. It sets the framework that guides how risk is defined, measured and managed at both the corporate and business levels.

At the corporate level, APICORP has a robust risk management framework that aligns with Board and Management's appetite towards credit, market, liquidity and operational risk while taking into account levels of concentration risk for any given country or sector, capital adequacy ratios, cost-to-income ratios and acceptable levels of leverage. This framework, which features more than 15 risk-related KPI's, acts as the primary foundation for risk management and guides APICORP's strategy to be in sync with the corporation's overall risk appetite at all times.

At the business level, specific policy guidelines are set for each business arm, keeping in mind key areas of risk that are relevant to their primary activities. Moreover, Risk and Compliance conducts independent risk reviews for every new transaction against a risk-reward framework.

APICORP maintains a calculated approach to mitigate risk and volatility with clearly defined strategies and requirements. Risk and Compliance provides its input on all business proposals to enable the corporation to maintain an optimal balance of risk vis-à-vis reward at both the transaction and portfolio levels and works with multiple stakeholders to address any situations that

may occur as a result of operational risk, such as business continuity and disaster recovery.

Risk and Compliance also plays a key role in managing and maintaining APICORP's external credit rating, which is of strategic importance to the corporation, and its ability to raise funds. This is done through a multidimensional exercise that takes into consideration a wide array of indicators. This approach proved to be successful as Moody's maintained the corporation's Aa3 rating while upgrading the outlook from stable to positive.

## Risk Framework

Risk and Compliance strives to bring value to the corporation by utilising both inside-out and outside-in approaches in the workplace. While its inside-out approach focuses on internal processes, policies, people, systems and tools, its outside-in approach focuses on bringing in industry best practices and benchmarking its performance.

Corporate Finance is one of APICORP's main businesses, and with an expanding loan book on the balance sheet, managing credit risk is of paramount importance. Beyond evaluating the credit worthiness of its clients, APICORP also addresses concentration and exposure risks, especially in relation to specific countries, sectors and entities.

Liquidity risk management is also key to APICORP's overall risk framework, as it sets an



adequate level of liquid assets held by Treasury in relation to the corporation's future net cash flow requirements. Liquidity risk metrics are benchmarked to industry best practices. As a provider of long-term loans and an equity investor in industry development, APICORP's liquidity risk management practice aims to balance healthy liquidity risk positions vis-à-vis its funding profile to maintain the corporation's solvency and stability.

The third key risk for APICORP is market risk. The risk management framework establishes APICORP's acceptable exposure limits to foreign currency and interest rate risks. Systems and tools have also been developed to measure real time risk positions on currency and interest rate risks.

Operational risk is the fourth focus area for risk, with focus on people, processes, and systems. Business continuity plans and crisis and disaster-management plans are key protections, and the risk management framework ensures that incidents are reported to the operational risk desk, which works with stakeholders to resolve the situation and advises on preventive measures.

Notably, APICORP's risk management framework is approved by the Board Audit Committee, at the board level, and has the oversight by the Risk and ALCO Committee, at the management level.

### 2018 Operational Highlights

In 2018, APICORP's risk performance improved across the board, indicating that the corporation's financial performance stands on solid ground. APICORP entered 2018 with enough of a liquidity buffer to cover all its committed obligations for 15 months without access to the market, and planned improvements

in its funding profile reduced maturity mismatches, further easing out its liquidity risk exposure.

The year's strong operational results were delivered while maintaining conservative leverage ratios, with 2018's ratio of long-term debt to equity at 171%. Despite APICORP's focused mandate, its total asset portfolio enjoyed sufficiently moderate concentration.

In 2018, APICORP's non-performing loans reached an all-time low of 0.34%, while insured loans as a percentage of total rose from 5% in 2017 to 7% in 2018. Significantly, for the past two years, APICORP's weighted average portfolio rating has remained at "A". Risk and Compliance, in line with IFRS 9 guidelines, ensures that the corporation maintains adequate provision coverage to bear any potential loss triggered through credit risk events or unforeseen external environments on a forward-looking basis.

Capital adequacy is one of the more telling important measurement variables, and for the past six years, APICORP has consistently maintained strong capital adequacy positions. In fact, despite the economic and geopolitical challenges faced by some of APICORP's member countries, there has been no negative effect on APICORP's capital adequacy profile. In 2018, the institution's total capital adequacy ratio (CAR) was 28.88%.

By maintaining its levels of profitability and focusing on diversification, APICORP managed to consistently strengthen its capital base and reduce the impact of oil price volatility on its results. Key achievements include diversifying Treasury assets beyond GCC, transferring exposure to industries less correlated to oil prices, such as refining and trading, entering into secured transaction



“ APICORP's risk appetite framework is benchmarked against global best practices. ”

# 28.88%

Total capital adequacy ratio (CAR) in 2018

structures, such as transactions supported through feedstock supply agreements and offtake agreements, and diversifying to new sectors, including utilities, materials, and renewables.

In 2018, APICORP also developed new standard sector and industry classifications using global standards to provide more accurate assessments of exposure and concentration. Comprehensive stress tests for exposure to credit, liquidity, and market risk were also performed, and a revised risk appetite statement, based on an extensive benchmarking exercise and management discussions, was approved by the Board of Directors.

APICORP operates a wholesale bank branch in Bahrain and, as such, it is regulated by Bahrain central bank, and compliance framework implements Central Bank of Bahrain guidelines—including Know-Your-Customer (KYC) and Anti-Money Laundering (AML) directives.

## 2019 Outlook

APICORP understands that Risk and Compliance is a core area integral to its risk-based business model, and therefore regards it as a continuously evolving practice. The year 2019 will see further improvements to tools and systems enabling APICORP to prudently manage its key risks on real time basis. APICORP is also actively working on enhancing and testing its Business Continuity and Disaster Recovery practices with new measures implemented according to international best practice.

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# Corporate Governance

APICORP strives to maintain the highest levels of corporate governance as prudent management is the lynchpin of sustaining the long-term growth of any institution

Corporate governance is a key pillar of business resiliency and long-term success that goes hand-in-hand with delivering value for all stakeholders. APICORP is committed to following best practices in corporate governance and has established a governance framework that effectively addresses the main pillars of corporate governance recommended by the leading global bodies.

In addition to providing oversight on the corporation's strategic direction, performance, and executive leadership, APICORP's Board of Directors has governance responsibility for risk management and controls, compensation, and corporate structure, as well as corporate disclosure and transparency. In addition, APICORP's board oversees the corporation's environmental and social responsibility initiatives.

APICORP's sound governance structure ensures that board and management roles are segregated. At the board level, two committees undertake the board's key oversight responsibilities:

- **Board Audit and Risk Committee** oversees APICORP's financial activities, internal controls, and risk governance. Specifically, the committee reviews APICORP's financial activities and reporting system, internal controls and risk management framework, audit functions, and legal and compliance requirements.
- **Board Remuneration and Governance Committee** has oversight related to corporate governance and employee compensation,

including recommending remuneration and reward policies to the board and ensuring that human resources policies and practices are in line with applicable laws and regulations.

Four management committees ensure that APICORP's business activities are consistent with approved strategy, risk appetite, and policies and appropriate feedback is provided to the Board of Directors, as and when required. These include the Executive Management Committee, Credit and Investment Committee, Risk and ALCO Committee, and the Tender and Bid Committee.

The Board is composed of 10 directors, each representing one of APICORP's member countries. Directors are nominated by member countries and elected by the General Assembly for a term of four years. The Board meets at least four times a year, with each board meeting preceded by a meeting of the Board Audit and Risk Committee.

## 2018 Operational Highlights

During 2018, a corporate governance workshop was held for the Board and executive management. APICORP also introduced a new compensation framework during the year.

## APICORP's Risk & Governance Framework





# Sustainability

## Powering the Future

As the energy landscape in the region evolves and countries revisit their energy mix, APICORP is developing a sustainability roadmap and ESG framework taking into consideration environmental factors that meet the needs of the region's energy transition

As a multilateral development financial institution, APICORP has a clear mandate to encourage, support and lead on sustainable development projects throughout the region. When evaluating the merits of any prospective investment or project finance deal, APICORP's management team takes multiple ESG factors into consideration that include both sustainable development and positive financial returns.

ESG factors are becoming increasingly important as studies have proven that there is a positive correlation between ESG and overall performance indicators including profitability, valuations, and risk reduction.

As such, APICORP seeks investments that help to spur economic development across the region by creating jobs, transferring knowledge, developing human capital, improving the environment and mitigating the negative impacts of climate change.

Portfolio Management works closely with the boards and management teams of APICORP's portfolio companies to introduce the same values and ESG guidelines that APICORP holds itself to as a corporation.

### 2018 Operational Highlights

In 2018, Portfolio Management made a significant push into the renewables sector with investments in Yellow Door Energy, a UAE-based solar developer with investment in solar energy and efficiency solutions in emerging markets, and Al Fanar, a Saudi-based company with 950 MW of renewable projects in Spain (550 MW wind), India (350 MW wind) and Egypt (50 MW solar PV).

The majority of APICORP's member countries have already set targets to derive between 5-30% of their electricity generation from renewables and APICORP is well-positioned to support both governments and the private sector to achieve those targets.

APICORP is taking active steps to develop its ESG credentials. The following measures have already been taken and will gradually be built upon as the corporation transitions towards a new energy landscape.

### APICORP's ESG Credentials

#### Investments in Renewables

- Solar Energy: DEWA-UAE
- Yellow Door Energy-UAE

#### Environmental

#### Investments in Recycling

- Sewage Treatment Plant (ISTP-KSA)
- Industrial Waste Management (GEMS-KSA).
- Waste-to-Energy Project (Dubai Municipality-UAE)\*
- Waste-to-Energy Project (KIA-Kuwait)\*

#### Social

- Rehabilitating agriculture with a project providing almost 10,000 people with easy access to water for irrigation in Jordan.
- Supporting skills development through donations to Saudi Petroleum Services Polytechnic (SPSP) education and training center in KSA.
- Enhancing gender diversity in the workplace, 11% of total workforce is female as of year-end 2018, of which two are members of the Executive Management Committee.
- Increasing cultural diversity with 19 different nationalities represented at APICORP.
- Investing USD 1 million in workplace safety and security including fire safety, security gates, cameras, and ample provision for disabled parking.

#### Governance

- Implementing sound governance practices including the regular revision of and benchmarking of board and management level charters and authority according to international best practice.
- Holding governance training workshops at regular intervals—with a Board Governance workshop in the summer of 2018.