

RISK AND GOVERNANCE

The primary purpose of APICORP’s Risk Management department is to add value through attaining optimum risk reward balance. APICORP has also created a framework of governance that delivers both accountability and transparency, and ensures the proper management of the business.

APICORP is committed to meeting the highest standards of governance, in line with international best practice. A development bank which raises debt, invests in and lends to companies across the energy sector in the MENA region also needs to ensure that it has proper systems in place to balance risk with reward, achieve a consistently strong credit rating and thereby optimize performance and add value.

APICORP has worked hard over the years to meet this requirement and has established a robust framework and structure, which it regularly reviews and updates. This ensures that enterprise and business risk is properly managed, the corporation’s creditworthiness and financial strength are maximized and the highest standards of governance are maintained.

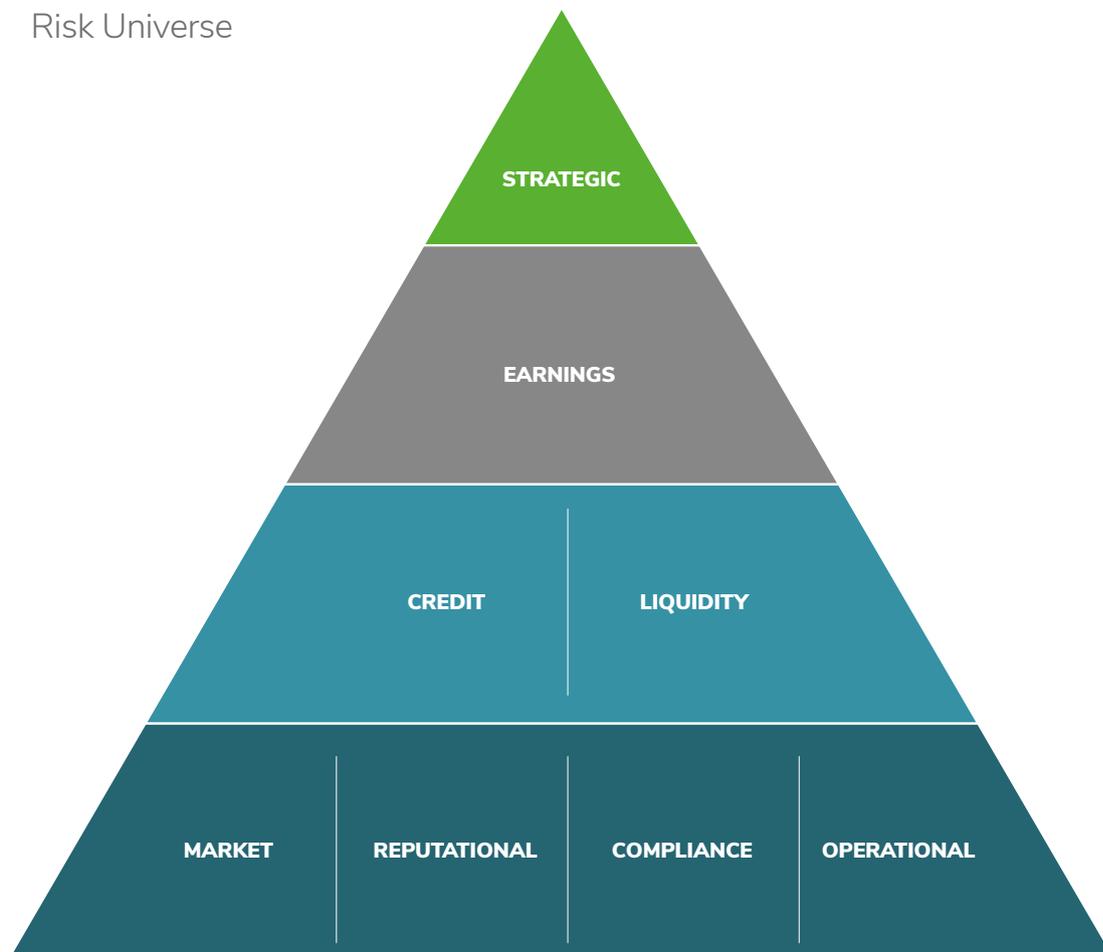
RISK MANAGEMENT

The primary purpose of the corporation’s Risk Management department is to establish and strengthen the Risk Management practice at APICORP, create a robust risk infrastructure and add value through attaining optimum risk reward balance. It does this by operating a framework through which the corporation’s Board of Directors and Senior Management define the corporation’s appetite for risk. This framework has been developed and updated over many years, to keep pace with financial regulations, industry best practice and changing market conditions.

Risk appetite is defined as the aggregate level and type of risk that an organization is willing to assume to achieve its strategic objectives and business plan. APICORP’s approach to risk management reflects this.

In assessing its appetite, APICORP’s Risk Management department considers the risk of any business opportunity initially from a strategic perspective, then from a financial perspective, and then from the perspective of impact on the corporation’s credit rating and liquidity. In all cases, the opportunity is assessed according to its level of Credit risk, market risk, operational risk, compliance risk and reputational risk.

Risk Universe



In conducting any assessment, the Risk Management department will have regard to financial performance, liquidity profile, funding profile, capital adequacy, leverage and asset quality.

If these profiles are satisfied, it means there is sufficient appetite for the opportunity to be followed through. It is then further assessed in the context of APICORP's overall strategic objectives and business plan.

- APICORP's hedging policy was finalized and hedging related activities were automated.
- APICORP's compliance and AML procedures were updated.
- An enhanced authority matrix was developed and went live.
- A new policy was implemented to streamline the corporation's procurement process.

During 2017, the Risk Management department achieved a number of successes in enhancing this framework:

- An enhanced loan pricing mechanism was developed to measure Risk Adjusted Return (RAROC) for Corporate finance transactions.
- A model validation exercise for its internal credit rating framework was conducted, and the rating process was automated.
- A stress testing exercise was performed to assess APICORP's liquidity risk and Credit Risk.

Looking ahead, APICORP's Risk Management department will be seeking to enhance its framework further, moving to a fully integrated Enterprise Risk Appetite approach. This will see the current metrics fine tuned to cover a wider spectrum of organization-wide risks.



APICORP's risk appetite framework

APICORP's risk appetite framework focuses on optimizing its risk/return profile and ensures that new strategies and business decisions are moving the Corporation toward its desired risk profile.

The framework determines the amount and type of risk the APICORP management is willing to accept in pursuit of its business objectives, measured by 13 metrics across the five categories financial performance, asset quality, liquidity profile, funding profile, capital adequacy and leverage.



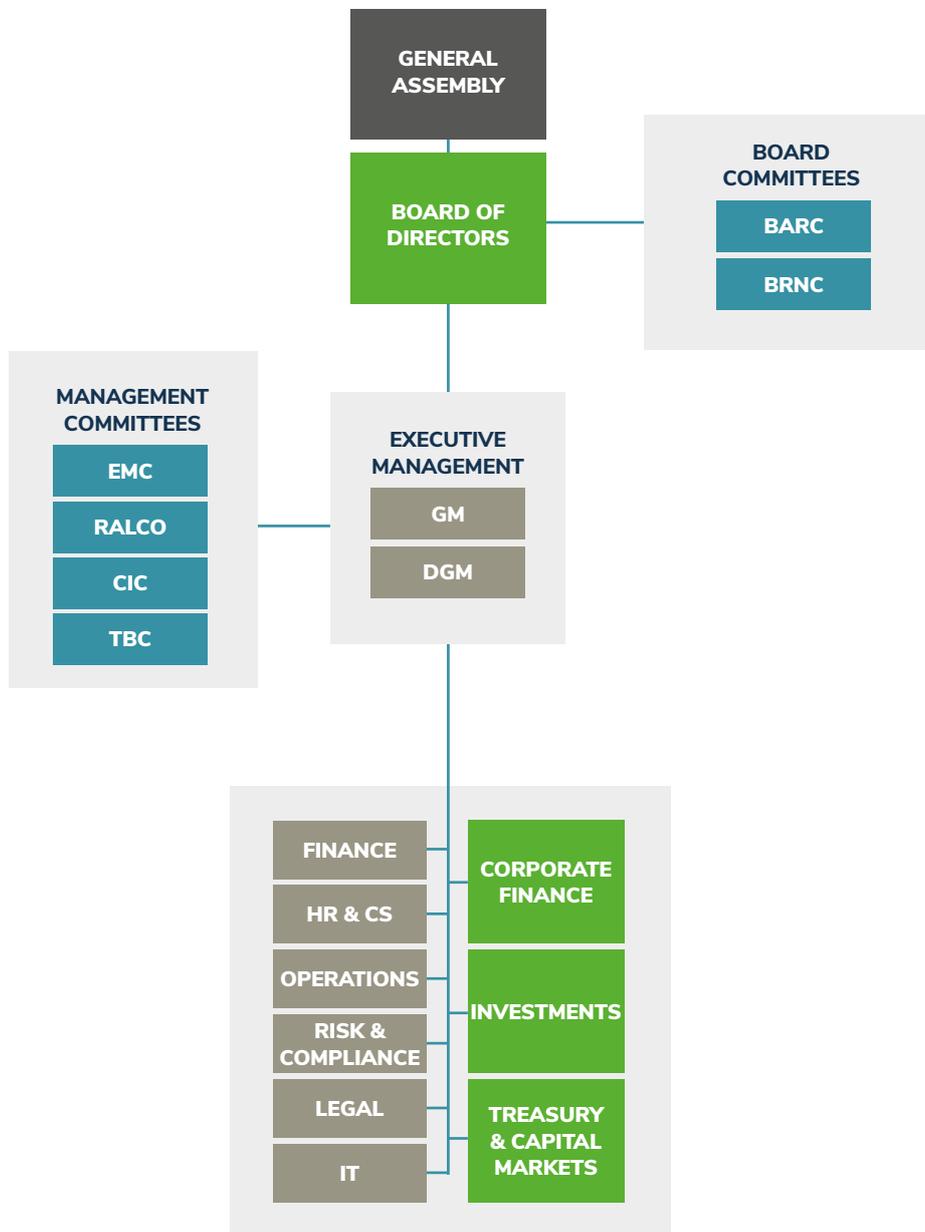
RISK AND GOVERNANCE CONTINUED

CORPORATE GOVERNANCE

APICORP has created a framework of governance that delivers both accountability and transparency, and ensures the proper management of the business, as well as underpinning the corporation's financial strength, risk profile and competitiveness.

The framework is based on three pillars: Board responsibilities, Management responsibilities,

and Policies which enable the corporation to deal with every possible issue that could impact its value, or threaten its stability or reputation. The responsibilities of the Board committees relate to matters of Risk & audit, remuneration and nomination. Management is responsible for the direction of the business through committees that cover executive management; credit and investment; risk, assets and liabilities; and tenders and bids.

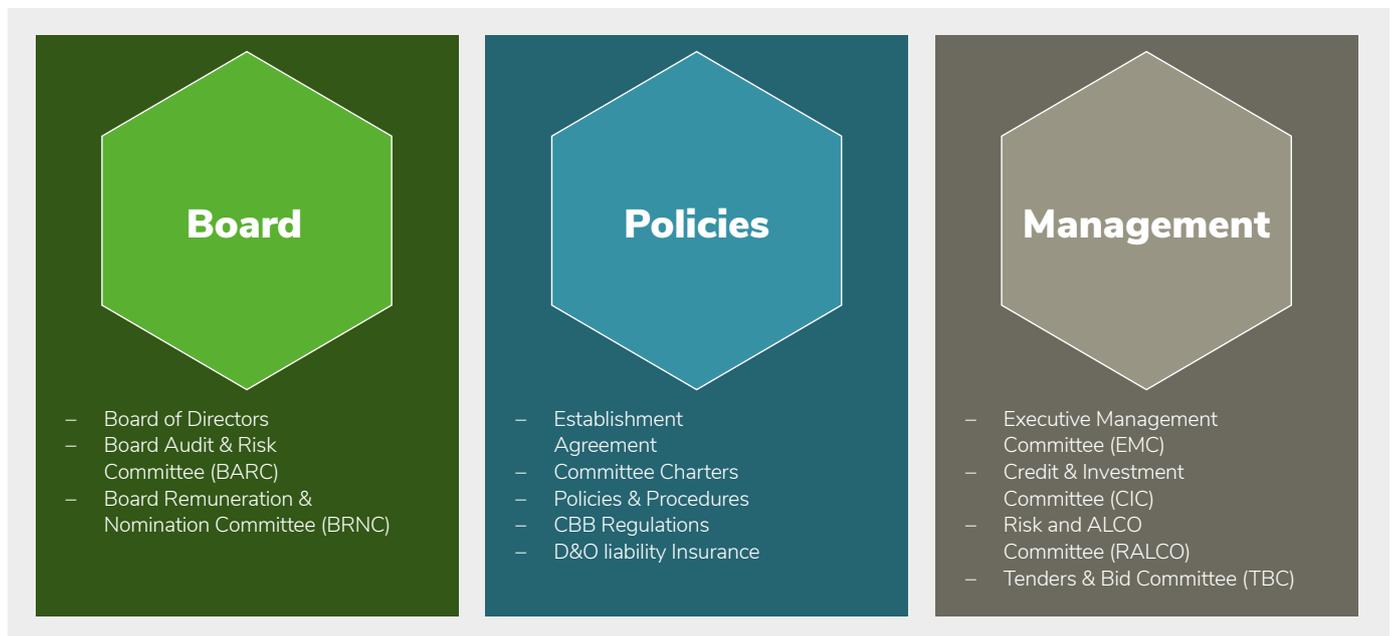


Name: Amgad Allam
Nationality: Egyptian
Length of service: 22 years
Role: Manager, Communications



“APICORP is a unique example of a joint Arab entity which has consistently made a positive contribution to the ten member states. For more than 43 years, APICORP has continued to be profitable even during more challenging market conditions. When APICORP was first established, the region’s energy industry needed a playmaker, an organization to assume the role of orchestra conductor, to coordinate the efforts of the countries in the region to make best use of its resources. APICORP was ideally suited to this role, and has continued to be a source of inspiration and innovation in the development and financing of the region’s energy industry. In addition, APICORP has a wonderful team drawn from a range of nationalities and backgrounds who positively contribute to the success story. APICORP has also successfully shared its knowledge and boosted its profile through a series of forums, beginning in 2012 and I am keen to ensure they continue.”

Governance Framework



✓ Code of Conduct ✓ Conflict of Interest Policy ✓ Grievance Policy ✓ Whistleblowing Policy
 ✓ Outsourced Internal Audit Function (Big Four Firms)

- Board representation from all member countries (except Syria).
- Board of Directors and Board Audit & Risk Committee (BARC) convened meet on quarterly basis.
- Executive Management Committee (EMC) meets on a monthly basis.