

## IMPORTANT NOTICE

THE ATTACHED BASE PROSPECTUS IS AVAILABLE ONLY TO (1) QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED BELOW) WHO ARE ALSO QPS (AS DEFINED BELOW) OR (2) CERTAIN NON-U.S. PERSONS OUTSIDE OF THE UNITED STATES.

**IMPORTANT:** You must read the following before continuing. The following notice applies to the attached base prospectus (the "Base Prospectus") following this notice, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Base Prospectus. In accessing the Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer, the Arrangers and Dealers (each as defined in the Base Prospectus) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN THE UNITED STATES OR IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES DESCRIBED IN THE ATTACHED BASE PROSPECTUS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTIONS AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE BASE PROSPECTUS IS NOT BEING DISTRIBUTED TO, AND MUST NOT BE PASSED ON TO, THE GENERAL PUBLIC IN THE UNITED KINGDOM. RATHER, THE COMMUNICATION OF THE BASE PROSPECTUS AS A FINANCIAL PROMOTION IS ONLY BEING MADE TO THOSE PERSONS WHO HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE "ORDER") OR HIGH NET WORTH ENTITIES, AND OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED, FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE ORDER (EACH SUCH PERSON BEING REFERRED TO AS A RELEVANT PERSON). THIS COMMUNICATION IS BEING DIRECTED ONLY AT RELEVANT PERSONS AND ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS COMMUNICATION RELATES WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. NO PERSON OTHER THAN A RELEVANT PERSON SHOULD RELY ON IT.

THE FOLLOWING BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

**Confirmation of your Representation:** By accessing the attached Base Prospectus you confirm to us that: (i) you understand and agree to the terms set out herein; (ii) you consent to delivery of the Base Prospectus and any amendments or supplements thereto by electronic transmission; (iii) you will not transmit the attached Base Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person; and (iv) you acknowledge that you will make your own assessment regarding any credit, investment, legal, taxation or other economic considerations with respect to your decision to subscribe or purchase any of the Notes. In order to be eligible to view the attached Base

Prospectus or make an investment decision with respect to the securities, investors must be either (1) Qualified Institutional Buyers ("QIBs") (within the meaning of Rule 144A under the Securities Act) who are also qualified purchasers ("QPs") as defined in Section 2(a)(51)(A) of the U.S. Investment Company Act of 1940, as amended, or acting on behalf of such QIBs who are also QPs, or (2) not a U.S. person and outside the United States. This Base Prospectus is being sent at your request and by accepting the e-mail and accessing this Base Prospectus, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs who are also QPs or (b) not U.S. persons and outside the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia, (2) unless you are a QIB who is also a QP or acting on behalf of a QIB who is also a QP, the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, (3) you are a person who is permitted under applicable law and regulation to receive this Base Prospectus and (4) you consent to delivery of such Base Prospectus by electronic transmission.

You are reminded that this Base Prospectus has been delivered to you on the basis that you are a person into whose possession this Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Base Prospectus to any other person. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

This Base Prospectus does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that an offering of securities described herein be made by a licensed broker or dealer and the Arrangers and Dealers or any affiliate of the applicable Arrangers or Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Arranger or Dealer or such affiliate on behalf of the Issuer or holders of the applicable securities in such jurisdiction.

Under no circumstances shall the attached Base Prospectus constitute an offer to sell or the solicitation of an offer to buy any securities in any jurisdiction. Recipients of the attached Base Prospectus who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the most recent Base Prospectus and applicable Final Terms. The attached Base Prospectus may only be communicated to persons in the United Kingdom in circumstances where Section 21(1) of the Financial Services and Markets Act 2000 does not apply.

None of the Arrangers, the Dealers or any of their respective affiliates accepts any responsibility whatsoever for the contents of the attached Base Prospectus or for any statement made or purported to be made by any of them, or on their behalf, in connection with the Issuer or any offer.

This Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Arrangers, the Dealers, any person who controls them and any director, officer, employee or agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the base prospectus distributed to you in electronic format and the hard copy version available to you on request from the Issuer, the Arrangers and Dealers. Please ensure that your copy is complete. If you received the Base Prospectus by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "reply" function on your e-mail software, will be ignored or rejected. You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk, and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

## BASE PROSPECTUS



# ARAB PETROLEUM INVESTMENTS CORPORATION

## U.S.\$3,000,000,000 Global Medium Term Note Programme

Under this Global Medium Term Note Programme (the "Programme"), Arab Petroleum Investments Corporation (the "Issuer" or "APICORP") may from time to time issue notes (the "Notes") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). This Base Prospectus has been approved by the Central Bank of Ireland (the "Central Bank") as competent authority under Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area (for the purposes of this Base Prospectus, the "Prospectus Directive"). The Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union ("EU") law pursuant to the Prospectus Directive for the purpose of giving information with regard to the Notes issued under the Programme described in this Base Prospectus during the period of twelve months after the date hereof. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin ("Euronext Dublin") for the Notes to be admitted to the official list (the "Official List") and to trading on its regulated market (the "Main Securities Market"). References in this Base Prospectus to the Notes being listed (and all related references) shall mean that, unless otherwise specified in the applicable Final Terms, the Notes have been admitted to the Official List and to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2014/65/EU (as amended, "MiFID II")). The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer.

The Issuer has been assigned a long term rating of Aa3 by Moody's Deutschland GmbH ("Moody's"). The Notes to be issued under the Programme are expected to be rated Aa3 by Moody's. Moody's is established in the EU and is registered under Regulation (EC) No. 1060/2009, as amended. Moody's appears on the latest update of the list of registered credit rating agencies on the European Securities and Markets Authority ("ESMA") website at [\*\*A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.\*\*](http://www.esma.europa.eu/page>List-registered-and-certified-CRAs</a>.</p></div><div data-bbox=)

Interest and/or other amounts payable under the Notes may be calculated by reference to certain benchmarks. Details of the administrators of such benchmarks, including details of whether or not, as at the date of this Base Prospectus, each such administrator's name appears on the register of administrators and benchmarks established and maintained by ESMA pursuant to article 36 of Regulation (EU) 2016/1011 (the "Benchmarks Regulation") are set out in the section entitled "Benchmark Regulation".

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Overview" and any additional Dealer appointed under the Programme from time to time (each a "Dealer" and together the "Dealers"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the relevant Dealer shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

*Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer to fulfil its obligations under the Notes are discussed under "Risk Factors" below.*

The Notes have not been nor will be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or any U.S. state securities laws and the Notes may not be offered or sold in the United States or to, or for the account or the benefit of, U.S. persons unless an exemption from the registration requirements of the Securities Act is available and the offer or sale is made in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S ("Regulation S") under the Securities Act and within the United States only to persons who are "qualified institutional buyers" ("QIBs") in reliance on Rule 144A ("Rule 144A") under the Securities Act who are also "qualified purchasers" ("QPs") as defined in Section 2(a)(51)(A) of the U.S. Investment Company Act of 1940, as amended. See "Forms of the Notes" for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer, see "Subscription and Sale" and "Transfer Restrictions".

### Arrangers

Crédit Agricole CIB

Standard Chartered Bank

### Dealers

Crédit Agricole CIB

HSBC

J.P. Morgan

Standard Chartered Bank

29 August 2018

## IMPORTANT NOTICES

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial and economic position and prospects of the Issuer. The Issuer accepts responsibility for the information contained in this Base Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Each Tranche (as defined herein) of Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" (the "**Conditions**") as supplemented by a document specific to such Tranche called final terms (the "**Final Terms**") or in a separate prospectus specific to such Tranche (the "**Drawdown Prospectus**") as described under "*Final Terms and Drawdown Prospectuses*" below.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

The Final Terms or Drawdown Prospectus, as the case may be, in respect of any Notes will include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

This Base Prospectus must be read and construed together with any supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Notes which is the subject of Final Terms, must be read and construed together with the relevant Final Terms. In the case of a Tranche of Notes which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

The Issuer has confirmed to the Dealers named under "*Subscription and Sale*" below that this Base Prospectus contains all information which is (in the context of the Programme, the issue, offering and sale of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Base Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the Programme, the issue, offering and sale of the Notes) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer or any Dealer.

Neither the Dealers nor any of their respective affiliates have authorised the whole or any part of this Base Prospectus and none of them makes any representation or warranty or accepts any responsibility: (i) as to the accuracy or completeness of the information contained in this Base Prospectus; or (ii) any responsibility for any acts or omissions of the Issuer or any other person in connection with this Base Prospectus or the issue and offering of Notes under the Programme. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading

position of the Issuer since the date thereof or, if later, the date upon which this Base Prospectus has been most recently supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

### **Restrictions on distribution**

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*".

In particular, the Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Notes in bearer form are subject to U.S. tax law requirements. The Notes may not be offered, sold or (in the case of Notes in bearer form) delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes may be offered and sold (A) in bearer form or registered form outside the United States to non-U.S. persons in reliance on Regulation S and (B) in registered form within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A who are also qualified purchasers as defined in Section 2(a)(51)(A) of the U.S. Investment Company Act of 1940, as amended. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*".

**NEITHER THE PROGRAMME NOR THE NOTES HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF ANY OFFERING OF NOTES OR THE ACCURACY OR ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.**

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer or the Dealers that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

**IMPORTANT – EEA RETAIL INVESTORS:** If the Final Terms (or Drawdown Prospectus, as the case may be) in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore)**  
– Unless otherwise stated in the relevant Final Terms, all Notes issued or to be issued under the Programme shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12:

Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

### Certain definitions

In this Base Prospectus, unless otherwise specified:

- **"APICORP"** means Arab Petroleum Investments Corporation, a multilateral development bank;
- **"Establishing Agreement"** means the establishing agreement and statute for APICORP dated 23 November 1975 to which the governments of the 10 OAPEC Member States are signatories;
- **"GCC"** means the Gulf Co-Operation Council;
- **"Group"** means APICORP and its consolidated subsidiaries and associates;
- a **"Member State"** means a Member State of the European Economic Area;
- **"MENA"** means the Middle East and North Africa region;
- **"OAPEC"** means Organization of Arab Petroleum Exporting Countries;
- **"OAPEC Member State"** means each of the 10 member states of OAPEC, being the Democratic and Popular Republic of Algeria ("Algeria"), the Kingdom of Bahrain ("Bahrain"), the Arab Republic of Egypt ("Egypt"), the Republic of Iraq ("Iraq"), the State of Kuwait ("Kuwait"), the State of Libya ("Libya"), the State of Qatar ("Qatar"), the Kingdom of Saudi Arabia ("Saudi Arabia"), the Syrian Arab Republic ("Syria") and the United Arab Emirates (the "UAE");
- **"PRC"** means the People's Republic of China (excluding the Hong Kong Special Administrative Region of the People's Republic of China; the Macao Special Administrative Region of the People's Republic of China and Taiwan); and
- **"Relevant Jurisdictions"** mean each of the Kingdom of Saudi Arabia, the State of Kuwait, the UAE, Libya, Iraq, Qatar, Algeria, Bahrain, Egypt and Syria;

In addition, references in this Base Prospectus to **"billion"** are to a thousand million, references to **"U.S.\$"**, **"U.S. dollars"** or **"dollars"** are to United States dollars, references to **"EUR"** or **"euro"** are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended, references to **"ID"** are to the lawful currency of Iraq; references to **"LD"** are to the lawful currency of Libya; references to **"LE"** are to the lawful currency of Egypt; references to **"SR"** or **"SAR"** are to the lawful currency of the Kingdom of Saudi Arabia; references to **"TD"** are to the lawful currency of Tunisia; and **"Renminbi"**, **"CNH"**, **"RMB"** and **"CNY"** are to the lawful currency of the PRC.

Unless otherwise indicated, the financial information contained in this Base Prospectus has been expressed in U.S. dollars. The Group's functional currency is the U.S. dollar and the Group prepares its financial statements in U.S. dollars.

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them. Additionally, the figure "0" is used to indicate that a specific figure has been rounded to zero, whereas a dash indicates that there is no value for that column or row.

APICORP's website is [www.apicorp-arabia.com](http://www.apicorp-arabia.com). The information on this website or any other website mentioned in this Base Prospectus or any website directly or indirectly linked to these websites has not been verified and is not incorporated by reference into this Base Prospectus, and investors should not rely on it.

## Ratings

Tranches of Notes issued under the Programme will be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the rating(s) described above or the rating(s) assigned to Notes already issued. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be (1) issued by a credit rating agency established in the EEA and registered under the CRA Regulation, or (2) issued by a credit rating agency which is not established in the EEA but will be endorsed by a CRA which is established in the EEA and registered under the CRA Regulation or (3) issued by a credit rating agency which is not established in the EEA but which is certified under the CRA Regulation will be disclosed in the Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if (x) such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation or (y) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (z) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation.

## STABILISATION

**In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager(s) (or persons acting on behalf of the Stabilisation Manager(s)) in accordance with all applicable laws and rules.**

## PRESENTATION OF GROUP FINANCIAL INFORMATION

### Historical financial statements

The financial statements relating to the Group and incorporated by reference in this Base Prospectus are:

- the unaudited condensed consolidated financial information as at and for the six-month period ended 30 June 2018 (the "**Interim Financial Statements**");
- the audited consolidated financial statements as at and for the year ended 31 December 2017 (the "**2017 Financial Statements**"); and
- the audited consolidated financial statements as at and for the year ended 31 December 2016 (the "**2016 Financial Statements**" and, together with the 2017 Financial Statements, the "**Annual Financial Statements**").

The Interim Financial Statements and the Annual Financial Statements are together referred to as the "**Financial Statements**".

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (the "**IASB**") and interpretations issued by the International Financial Reporting Standards Interpretations Committee of the IASB (together, "**IFRS**"). The Interim Financial Statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting".

APICORP's financial year ends on 31 December and references in this Base Prospectus to "2017", "2016" and "2015" are to the 12-month period ending on 31 December in each such year.

## **Auditors and unaudited information**

The Annual Financial Statements have been audited by Deloitte & Touche - Middle East, independent auditors (the "Auditors"), in accordance with International Standards on Auditing, who have issued unqualified reports on the Annual Financial Statements. The Interim Financial Statements have been reviewed by the Auditors in accordance with International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"* who have issued an unqualified report on the Interim Financial Statements. The business address of Deloitte & Touche - Middle East is United Tower, Bahrain Bay, Manama P.O Box 421, Kingdom of Bahrain. Deloitte & Touche - Middle East is registered with the Ministry of Industry and Commerce in Bahrain. Some of its professionals are members of the Bahrain Accountants Association and/or international professional bodies.

All information in this Base Prospectus as at, or for the six-month periods ended, 30 June 2018 and 30 June 2017 is unaudited. In addition, certain other financial information in this Base Prospectus is also unaudited financial information which has been extracted without material adjustment from the accounting records of the Group which form the underlying basis of the Financial Statements.

## **Certain non-IFRS financial information**

This Base Prospectus includes certain financial information which has not been prepared in accordance with IFRS and which also constitutes alternative performance measures ("APMs") as defined in the European Securities and Markets Authority Guidelines on Alternative Performance Measures. None of this financial information is subject to any audit or review by independent auditors.

### ***Capital ratios***

This Base Prospectus includes references to capital ratios, such as total and tier 1 capital ratios. Although these ratios are not IFRS measures, APICORP believes that they are important to understanding its capital position. APICORP's interpretation of any future planned ratios and the basis of its calculation of these ratios may be different from those of other financial institutions. See *"Selected Financial Information – Selected financial ratios"*.

Although APICORP is not subject to any regulatorily-imposed capital regime, APICORP calculates its capital ratios in accordance with Basel II methodology.

## **CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS**

Some statements in this Base Prospectus may be deemed to be forward looking statements. Forward looking statements include statements concerning APICORP's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward looking statements. When used in this Base Prospectus, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward looking statements. These forward looking statements are contained in the sections entitled *"Risk Factors – Factors that may affect APICORP's ability to fulfil its obligations under Notes issued under the Programme"* and *"Description of the Group"* and other sections of this Base Prospectus. APICORP has based these forward looking statements on the current view of its management with respect to future events and financial performance. Although APICORP believes that the expectations, estimates and projections reflected in its forward looking statements are reasonable as of the date of this Base Prospectus, if one or more of the risks or uncertainties materialise, including those identified below or which APICORP has otherwise identified in this Base Prospectus, or if APICORP's underlying assumptions prove to be incomplete or inaccurate, APICORP's actual results of operations may vary from those expected, estimated or predicted. Investors are therefore strongly advised to read the sections *"Risk Factors – Factors that may affect APICORP's ability to fulfil its obligations under Notes issued under the Programme"* and *"Description of the Group"*, which include a more detailed description of the factors that might have an impact on the Group's business development and on the industry sectors in which the Group operates.

The risks and uncertainties referred to above include:

- the level of international oil and gas prices which are subject to significant fluctuations for reasons that are beyond APICORP's control;

- changes in political, social, legal or economic conditions in the markets in which APICORP and its investees operate;
- APICORP's ability to realise the benefits it expects from its existing and future investments; and
- APICORP's ability to obtain external financing or maintain sufficient capital to fund its existing and future investments and capital expenditures.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors – Factors that may affect APICORP's ability to fulfil its obligations under the Notes issued under the Programme*" and "*Description of the Group*".

All statements, including any forward looking statements contained in this Base Prospectus speak only as at the date of this Base Prospectus. Without prejudice to any requirements under applicable laws and regulations, APICORP expressly disclaims any obligation or undertaking to disseminate after the date of this Base Prospectus any updates or revisions to any forward looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward looking statement is based.

#### **NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN**

In relation to investors in the Kingdom of Bahrain, securities issued in connection with this Base Prospectus and related offering documents may only be offered in registered form to existing accountholders and accredited investors as defined by the Central Bank of Bahrain (the "CBB") in the Kingdom of Bahrain where such investors make a minimum investment of at least U.S.\$100,000 or any equivalent amount in other currency or such other amount as the CBB may determine.

This Base Prospectus does not constitute an offer of securities in the Kingdom of Bahrain pursuant to the terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Base Prospectus and any related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no securities may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Base Prospectus or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase securities, whether directly or indirectly, to persons in the Kingdom of Bahrain, other than to accredited investors (as such term is defined by the CBB) for an offer outside the Kingdom of Bahrain.

The CBB has not reviewed, approved or registered this Base Prospectus or any related offering documents and it has not in any way considered the merits of the securities to be offered for investment, whether in or outside the Kingdom of Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this Base Prospectus and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this Base Prospectus. No offer of securities will be made to the public in the Kingdom of Bahrain and this Base Prospectus must be read by the addressee only and must not be issued, passed to, or made available to the public generally.

#### **NOTICE TO RESIDENTS OF THE STATE OF QATAR**

The Notes will not be offered, sold or delivered, at any time, directly or indirectly, in the State of Qatar (including the Qatar Financial Centre) in a manner that would constitute a public offering. This Base Prospectus has not been and will not be reviewed or approved by or registered with the Qatar Central Bank, the Qatar Stock Exchange, the Qatar Financial Centre Regulatory Authority or the Qatar Financial Markets Authority in accordance with their regulations or any other regulations in the State of Qatar. The Notes are not and will not be traded on the Qatar Stock Exchange.

#### **NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA**

This document may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations issued by the Saudi Arabian Capital Market Authority (the "CMA").

The CMA does not make any representation as to the accuracy or completeness of this document, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part

of this document. Prospective purchasers of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of this document you should consult an authorised financial adviser.

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## OVERVIEW

*This overview must be read as an introduction to this Base Prospectus and any decision to invest in the Notes should be based on a consideration of the Base Prospectus as a whole, including the documents incorporated by reference. The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus.*

*Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Base Prospectus have the same meanings in this overview.*

<b>The Issuer:</b>	Arab Petroleum Investments Corporation.
<b>Description:</b>	U.S.\$3,000,000,000 Global Medium Term Note Programme.
<b>Risk Factors:</b>	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. See " <i>Risk Factors</i> ".
<b>Arrangers:</b>	Crédit Agricole Corporate and Investment Bank and Standard Chartered Bank.
<b>Dealers:</b>	Crédit Agricole Corporate and Investment Bank, HSBC Bank plc, J.P. Morgan Securities plc and Standard Chartered Bank, and any other Dealers appointed in accordance with the Dealer Agreement.
<b>Certain Restrictions:</b>	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see " <i>Subscription and Sale</i> ") including the following restrictions applicable at the date of this Base Prospectus.
<b>Notes having a maturity of less than one year</b>	
	Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 (as amended) ("FSMA") unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent in another currency, see " <i>Subscription and Sale</i> ").
<b>Issuing and Paying Agent and Transfer Agent:</b>	The Bank of New York Mellon, London Branch.
<b>Registrar:</b>	The Bank of New York Mellon SA/NV, Luxembourg Branch.
<b>Final Terms or Drawdown Prospectus:</b>	Notes issued under the Programme may be issued either (1) pursuant to this Base Prospectus and associated Final Terms or (2) pursuant to a Drawdown Prospectus. The terms and conditions applicable to any particular Tranche

of Notes will be the Terms and Conditions of the Notes as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus or, as the case may be, completed by the applicable Final Terms.

**Issuance in Series:**

Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.

**Currencies:**

Subject to any applicable legal or regulatory restrictions, Notes may be denominated in any currency agreed between the Issuer and the relevant Dealer.

**Issue Price:**

Notes may be issued at any price and on a fully paid basis, as specified in the applicable Final Terms or, as the case may be, a Drawdown Prospectus. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

**Maturities:**

The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.

**Status of the Notes:**

The Notes are senior, unsubordinated, unconditional and unsecured obligations of the Issuer.

**Form and Denomination of the Notes:**

The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and vice versa. No Notes may be issued under the Programme with a minimum denomination of less than EUR100,000 (or its equivalent in another currency). Subject thereto, Notes will be issued in such denominations as may be specified in the applicable Final Terms or, as the case may be, a Drawdown Prospectus, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

**Listing and Trading:**

Applications have been made for Notes to be admitted during the period of twelve months after the date hereof to listing on the Official List of Euronext Dublin and to trading on the Main Securities Market of Euronext Dublin.

Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

<b>Clearing Systems:</b>	Euroclear Bank SA/NV ("Euroclear") and/or Clearstream Banking S.A. ("Clearstream, Luxembourg") and/or the Depository Trust Company (the "DTC") and/or in relation to any Tranche of Notes, any other clearing system as may be specified in the applicable Final Terms or, as the case may be, a Drawdown Prospectus.
<b>Negative Pledge:</b>	The Notes will have the benefit of a negative pledge as described in Condition 5 ( <i>Negative Pledge</i> ).
<b>Rating:</b>	The Issuer has been assigned a long term rating of Aa3 (stable) by Moody's. The Notes are expected to be rated Aa3 (stable) by Moody's.
	The rating of certain series of Notes to be issued under the Programme may be specified in the applicable Final Terms or, as the case may be, the Drawdown Prospectus.
	A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
<b>Withholding Tax:</b>	All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Relevant Jurisdictions or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, subject to certain exceptions as set out in Condition 12 ( <i>Taxation</i> ).
<b>Governing Law and Submission to Jurisdiction:</b>	The Agency Agreement and the Deed of Covenant (together, the "Transaction Documents") and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
	In respect of any dispute under the Notes, the Transaction Documents and the Dealer Agreement, the parties have consented to arbitration under the LCIA Rules. Any dispute may also be referred to the courts in England (which shall have exclusive jurisdiction to settle any dispute arising from such documents).
<b>Selling Restrictions:</b>	There are restrictions on the distribution of this Base Prospectus and the offer or sale of the Notes in the United States, the EEA (including the United Kingdom), Oman, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, the United Arab Emirates (excluding the Dubai International Financial Centre (the "DIFC")), the DIFC, the State of Qatar (including the Qatar Financial Centre),

Singapore, Japan, Hong Kong and the People's Republic of China. See "*Subscription and Sale*".

**United States Selling Restrictions:**

United States Selling Restrictions: Regulation S, Category 2. Rule 144A/3(c)(7). TEFRA C/TEFRA D/TEFRA not applicable, as specified in the applicable Final Terms or, as the case may be, a Drawdown Prospectus. ERISA restrictions.

## RISK FACTORS

*APICORP believes that the following factors may affect its ability to fulfil its obligations in respect of the Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and APICORP is not in a position to express a view on the likelihood of any such contingency occurring. The order in which the risks are presented below does not necessarily reflect the likelihood of their occurrence or the magnitude of their potential impact on the Group. In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.*

*APICORP believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of APICORP to pay any amounts in connection with any Notes may occur for other reasons which may not be considered significant risks by APICORP based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.*

*The occurrence of any of the risks described below, or any other risks not currently known to APICORP, could have a material adverse effect on the Group. As used in this section, "material adverse effect" and any similar or related formulations, mean a material adverse effect on the Group's financial condition, results of operations, business, liquidity, future prospects and reputation which, in turn, could negatively affect (i) APICORP's ability to make payments in respect of Notes issued under the Programme and/or (ii) the market price of any Notes so issued.*

*Prospective investors should also consult their own financial and legal advisers about risks associated with an investment in Notes issued under the Programme and the suitability of investing in such Notes in light of their particular circumstances, without relying on APICORP. Prospective investors are advised to make, and will be deemed by APICORP to have made, their own investigations in relation to such factors before making any investment decision.*

*Words and expressions defined in "Terms and Conditions of the Notes" shall have the same meanings in this section.*

## FACTORS THAT MAY AFFECT APICORP'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME

**The Group's business principally involves lending money to, and making equity investments in, entities engaged in the oil and gas and energy sectors, principally in the OAPEC Member States, which exposes it to significant economic and political risks**

The Group's business principally involves lending money to, and making equity investments in, entities engaged in the oil and gas and energy sectors, principally in the OAPEC Member States. As a result, the Group is exposed to:

- a general economic downturn and, in particular, an economic downturn which directly impacts the GCC countries, in which the majority of its borrowers and significant equity investments are located, or Egypt, where it also has significant equity investments;
- a significant and lasting decline in oil and gas prices, such as that seen between mid-2014 and the start of 2017, which is likely to adversely affect both its borrowers (as further described under "*The Group's business is concentrated on the oil and gas and energy sectors, which materially increases its economic risks*") and the economies of those of the OAPEC Member States which are heavily dependent on the hydrocarbon sector; and
- adverse political developments in or affecting any of the OAPEC Member States including, in particular, the GCC countries and Egypt (as further described under "*The Group's business is concentrated in geographical terms, which materially increases its political risks*").

Any one or more of these developments could materially negatively impact the business of the Group's equity investees or the ability of the Group's borrowers to pay interest or principal on their loans and could

give rise to an increase in non-performing loans ("NPLs") in the Group's loan portfolio. This would in turn be likely to result in:

- an increase in the Group's impairment charges that could adversely affect its profitability;
- an adverse effect on the value of the equity investments which the Group has made which could negatively affect the Group's other comprehensive income and could also result in certain investments being impaired;
- an adverse effect on the ability of the Group's equity investee companies to pay dividends to the Group; and/or
- potentially material losses if the Group is forced to divest such investments.

Any of the foregoing could have a material adverse effect on the Group.

**The Group's business is concentrated on the oil and gas and energy sectors, which materially increases its economic risks**

As at 30 June 2018, 85.5 per cent. of the Group's U.S.\$3.2 billion direct and syndicated lending was to borrowers in the oil and gas and energy industries (including maritime transport of related products). A breakdown of the Group's loan portfolio by sub-sector within these sectors is set out under "*Management's discussion and analysis of financial condition and results of operations of APICORP—Analysis of certain statement of financial position items—Syndicated and direct loans—Portfolio sector and sub-sector concentration*". In addition, 87.5 per cent. of the Group's U.S.\$1,044.2 million direct equity investments as at 30 June 2018 were in the oil and gas and energy sectors and, as at the same date, the Group also owned U.S.\$207.1 million in fair value through other comprehensive income ("FVTOCI") debt securities issued by entities in the oil and gas sector.

The oil and gas industry, in particular, has historically been cyclical with levels of investment and profitability in that sector being materially dependent on prevailing international oil and gas prices, which have fluctuated significantly over the past two decades, and are likely to remain volatile in the future. This volatility can be illustrated using the OPEC reference basket price, which is a price based on the average of the prices of petroleum blends that are produced by OPEC member countries. According to data produced by OPEC, the average annual OPEC reference basket prices in 2015, 2016 and 2017 were U.S.\$49.49 per barrel, U.S.\$40.76 per barrel and U.S.\$52.43 per barrel, respectively, and the average OPEC reference basket price for the six month period ended 30 June 2018 was U.S.\$68.31, compared to average annual OPEC reference basket prices of around U.S.\$100 in each the four years preceding 2015.

Oil and gas prices may fluctuate in response to changes in many factors over which the Group has no control. These factors include, but are not limited to:

- economic and political developments in oil producing regions, particularly in the Middle East, the United States and Russia;
- global and regional supply and demand dynamics, and expectations regarding future supply and demand, for oil and gas products;
- the ability of members of OPEC and other oil and gas producing nations to agree upon and maintain specified global production levels and prices;
- the impact of international environmental regulations designed to reduce carbon emissions;
- other actions taken by major oil and gas producing or consuming countries;
- increased utilisation of renewable or other energy sources or the widespread adoption of technologies which reduce demand for oil and gas;
- global economic and political conditions; and
- global weather and environmental conditions.

The Group mainly invests in longer-term projects. Significant and sustained declines in international oil and gas prices could materially and adversely impact the economics of the projects being financed by the Group, which could result in the projects being restructured or, in extreme cases, becoming unviable. In all cases where there is a significant and sustained decline in oil and gas prices, the Group is likely:

- to experience reduced dividend income from its equity investee companies - for example the Group's dividend income from its available for sale direct equity investments fell from U.S.\$85.7 million in 2015 to U.S.\$57.3 million in 2016 and U.S.\$35.4 million in 2017; and/or
- to incur impairment losses on its lending to, and equity investments in, these projects, which could adversely affect its profitability, for example the Group increased its collective impairment charge relating to its direct and syndicated loans by U.S.\$10.6 million, or 77.9 per cent., in 2015 and it recorded specific impairment charges against its available for sale direct equity investments of U.S.\$5.0 million in 2015 and U.S.\$5.1 million in 2016;

In addition, the fair value of the Group's available for sale debt securities issued by oil and gas sector entities may be adversely affected by a sustained decline in the oil and gas sector which could result in significant other comprehensive losses and, potentially, additional impairment charges. For example, in 2015 the net change in the fair value of the Group's available for sale investments (excluding direct equity investments) was a decline of U.S.\$20.5 million and the net change in the fair value of the Group's available for sale direct equity investments was a decline of U.S.\$30.9 million. As a result, a substantial decline in the oil and gas prices could have a material adverse effect on the Group.

**The Group's business is concentrated in geographical terms, which materially increases its political risks**

As at 30 June 2018, 79.9 per cent. of the Group's U.S.\$3.2 billion direct and syndicated lending was to borrowers in the GCC countries and a further 9.7 per cent. was to borrowers in North Africa, principally Egypt. A geographical breakdown of the Group's loan portfolio is set out under "*Management's discussion and analysis of financial condition and results of operations of APICORP—Analysis of certain statement of financial position items—Syndicated and direct loans—Portfolio geographical concentration*". In addition, 92.4 per cent. of the Group's U.S.\$1,044.2 million direct equity investments (See "*Description of the Group—Business—Investments—Direct equity investment portfolio*") as at 30 June 2018 were in Arab world countries, with six out of a total of 19 direct equity investments in companies in Saudi Arabia, four in Egypt, two in Libya and one each in Bahrain, Iraq and Tunisia, as well as a direct equity investment in the IFC Fund to invest in the MENA region. As at the same date, the Group also had U.S.\$942.7 million in FVTOCI debt securities issued by entities in the GCC.

While some countries in the MENA region are seen as having a relatively stable political environment, a number of other jurisdictions in that region are not. Instability in the MENA region may result from a number of factors, including government or military regime change, civil unrest and terrorism. In particular, since early 2011 there has been political unrest in a range of MENA region countries, including Algeria, Bahrain, Egypt, Iraq, Libya, Saudi Arabia and Syria (all of which are OPEC Member States) and Jordan, Palestine, Oman, Tunisia and Yemen (which are not OPEC Member States). This unrest has ranged from public demonstrations to, in extreme cases, armed conflict and the overthrow of existing leadership and has given rise to increased political uncertainty across the MENA region. There is an ongoing civil war in Libya, with multiple sides claiming to be the legitimate government in the country. Conflict in Yemen has expanded into a multinational conflict, with GCC countries becoming involved in military operations against the Al Houthi militia. Unrest in Syria and conflicts between multiple sides (including the government of Bashar al-Assad, numerous rebel groups and 'Islamic State of Iraq and Syria') have led to many countries, including Russia, Iran, the United States and other North Atlantic Treaty Organization forces, becoming involved with military operations in Syria, supporting different sides.

Diplomatic relations between GCC nations and Iran have also deteriorated with many GCC nations cutting full diplomatic ties and, in June 2017, three GCC countries, Saudi Arabia, the UAE and Bahrain, and two other regional countries, Egypt and Yemen, severed diplomatic ties with Qatar, cut transport links and imposed sanctions on Qatar. The stated rationale for these actions was Qatar's support of terrorist and extremist organisations and Qatar's interference in the internal affairs of other countries.

The Group does not have operations in any of the countries currently affected by armed conflict, except in Libya where it has a direct equity investment in Arab Drilling and Workover Company (20 per cent. of

equity), which has been substantially impaired, and a direct equity investment in Arab Geophysical Exploration Services Company (16.7 per cent. of equity), which has been fully impaired. These investments together amount to less than 0.5 per cent. of APICORP's direct equity investment portfolio. See "*Description of the Group—Business—Investments—Direct equity investment portfolio*".

There is no certainty that extremists or terrorist groups will not escalate violent activities in the MENA region or that any currently stable governments in the MENA region will be successful in maintaining the prevailing levels of domestic order and stability. It is not generally possible to predict the occurrence of events or circumstances, such as war or hostilities, or the impact of these occurrences, and no assurance can be given that the Group will be able to sustain the profitable operation of its business if adverse political events or circumstances that impact the countries in which it has significant investments occur.

Investors should also note that the Group's business and financial performance could be adversely affected by political, economic or related developments outside the MENA region because of inter-relationships within the global financial markets. Moreover, there is no certainty that the governments of the countries to which the Group is particularly exposed will not implement restrictive fiscal or monetary policies or regulations, including changes with respect to interest rates and new legal interpretations of existing regulations, any of which could have a material adverse effect on the Group.

#### **The Group conducts a significant proportion of its business with related parties and has significant client concentrations**

The Group's principal related parties are its shareholders and the Group conducts a significant amount of business with companies that are controlled by its shareholders or over which its shareholders have significant influence and which are classified as related parties of the Group accordingly.

As at 30 June 2018, 71.22 per cent. of the Group's U.S.\$3.2 billion syndicated and direct loans outstanding were made to related parties. As at the same date, all of the Group's U.S.\$1,044.2 million direct equity investments were in entities that are related parties. In addition, 82.9 per cent. of the Group's U.S.\$1,177.4 million total deposits as at 30 June 2018 were from related parties.

Although it is the Group's policy that loans to related parties are made at prevailing market interest rates and subject to normal commercial negotiation as to terms and the Group applies defined criteria to making direct equity investments, no assurance can be given that the Group would not have obtained more favourable terms from loans to, or direct equity investments in, third parties. In addition, it is possible that the Group may, in the future, be influenced in its decision to advance a loan or make a direct equity investment in a related party by virtue of its relationship with the relevant shareholder which owns or significantly influences the prospective investee.

As at 30 June 2018, the Group's 10 largest loan exposures accounted for 42.4 per cent. of its lending portfolio. In addition to its credit exposure, the Group also had an equity investment in one of these clients. As a result, if any of these major clients is materially adversely affected, whether by low hydrocarbon prices, adverse economic or political conditions, or other factors, such that its ability to make payments to the Group is affected, this could result in a material increase in the Group's impairment charges and adversely affect its profitability and therefore have a material adverse effect on the Group.

#### **The Group is exposed to significant credit risk as a result of its lending activities and investments in fixed income securities**

As at 30 June 2018, the Group's syndicated and direct lending portfolio amounted to U.S.\$3,186.9 million, or 48.1 per cent. of its total assets, its investments in fixed income securities (net of provisions) amounted to U.S.\$1,248.3 million, or 18.8 per cent. of its total assets, and its commitments to underwrite and fund loans amounted to U.S.\$814.1 million, or 62.1 per cent. of its total off-balance sheet exposures.

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial exposure or instrument fails to meet its contractual obligations. Credit risks arising from adverse changes in the credit quality and recoverability of financings and amounts due from counterparties are inherent in a wide range of the Group's businesses. The Group regularly reviews and analyses its syndicated and direct lending portfolio and other credit risks, and the Group's provision for losses on its syndicated and direct lending portfolio is based on, among other things, its analysis of current and historical delinquency rates and loan management and the valuation of the underlying assets, as well as numerous other management

assumptions. However, these internal analyses and assumptions may give rise to inaccurate predictions of credit performance, particularly in a volatile economic climate. See "*The Group's risk management policies, systems and procedures may leave it exposed to unidentified or unanticipated risks*" below.

Credit risks could arise from a deterioration in the credit quality of specific counterparties, from a general deterioration in local or global economic conditions or from systemic risks within the financial system in which the Group operates. Any of these factors could affect the recoverability and value of the Group's credit-related assets, result in an increase in NPLs and require an increase in impairment provisions, which could have a material adverse effect on the Group.

**A substantial increase in impairment provisions related to the Group's syndicated and direct lending or the occurrence of losses greater than the previously recorded impairment provisions in respect of such lending would have a material adverse effect on the Group**

In connection with its syndicated and direct lending, the Group periodically establishes impairment allowances for losses, which are recorded in its income statement as "impairment, net". The Group's overall level of impairment provisioning against its syndicated and direct lending is based upon its assessment of prior loss experience, the volume and type of financing advanced to its customers, the amount and type of collateral held, industry standards, ageing/past due loans, economic conditions in its borrowers' markets and other factors related to the recoverability of the financing. The Group seeks to make an appropriate level of provision for credit losses based on management's best estimate of the amount of loss expected to be incurred, however the Group may have to significantly increase its impairment provision for credit losses in the future as a result of any increase in NPLs or adverse economic conditions leading to increases in customers defaults, or for other reasons.

On 1 January 2018, the Group adopted IFRS 9: Financial Instruments ("IFRS 9") which, among other things, introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, such that it is no longer necessary for a credit event to have occurred before a credit loss is recognised. The implementation of IFRS 9 on the Group's calculation of impairment allowances resulted in an increase in impairment charges to U.S.\$35.5 million as at 1 January 2018 and the Group expects that its provisions for credit losses are likely to become more volatile following the implementation of IFRS 9. The impact from the adoption of IFRS 9 as at 1 January 2018 has resulted in a decrease in retained earnings by U.S.\$11.4 million and fair value reserve by U.S.\$1.3 million which resulted from the reclassification of financial instrument. In addition, the impairment allowance transition arrangements under IFRS 9 resulted in a 0.6 per cent. reduction in the opening balance of the Group's equity as at 1 January 2018.

A significant increase in the Group's impairment charges or any change in its estimate of the risk of loss inherent in its syndicated and direct lending portfolio, as well as the occurrence of credit-related losses in excess of its impairment provisions, could have a material adverse effect the Group in future periods.

**The Group is subject to the risk that liquidity may not always be readily available**

Liquidity risk is the risk that the Group will not be able to meet its obligations, including funding commitments, when they fall due or will only be able to secure funding at excessive cost which then adversely impacts its profitability. Liquidity risk arises from the inability to manage unplanned decreases or changes in funding sources.

Since the global financial crisis, financial institutions have continued to experience periods of reduced liquidity due to a variety of factors. Recently, the gradual withdrawal of quantitative easing by the world's major central banks and increases in interest rates around the world could further increase liquidity pressures, particularly for emerging markets. As a result, there could be further disruptions in certain traditional sources of liquidity, such as the fixed income securities markets, asset sales and redemption of investments. The Group's access to these traditional sources of liquidity may, at times, be restricted or available only at a higher cost. The Group's funding principally comprises:

- term-borrowings from financial institutions, which amounted to U.S.\$1,362.7 million, and constituted 32.3 per cent. of its total funding, as at 30 June 2018;
- borrowing through the issue of securities in the form of conventional debt securities and sukuk, which amounted to U.S.\$1,684.4 million, and constituted 39.9 per cent. of its total funding, as at 30 June 2018; and

- deposits which it accepts from corporates, as well as from its shareholders and from banks, which amounted to U.S.\$1,177.4 million, and constituted 27.9 per cent. of its total funding, at 30 June 2018.

The Group's deposits are typically short-term in nature, with 62.6 per cent. being demand deposits or deposits with maturities of up to three months and 18.9 per cent. having maturities of more than three months but less than one year as at 30 June 2018. The Group uses these deposits principally to fund its treasury operations for the purposes of profit generation and liquidity. Although many of the Group's short-term deposits have, in the past, been rolled over on maturity such that, in practice, a significant portion have had actual maturities of a longer duration, there can be no assurance that this will continue to be the case. Reflecting the short-term nature of its deposit base and the fact that the Group's direct and syndicated lending has a more diversified maturity profile, the Group has at certain times experienced significant short-term maturity gaps. See *"Management's discussion and analysis of financial condition and results of operations of APICORP—Liquidity and funding—Funding—Deposits"*.

Accordingly, there is a risk that if a significant number of the Group's depositors choose not to roll over their deposits at any time or withdraw their deposits at a rate faster than the rate at which obligors repay financing provided by the Group, the Group could experience difficulties in funding those lost deposits. The risk of this happening is likely to increase at times of poor economic performance or material declines in oil and gas prices when the Group's customers are more likely to need cash and, at those times, it is likely to be more expensive for the Group to fund those withdrawals from other sources.

At 30 June 2018, the Group's five largest depositors accounted for 66.0 per cent. of its deposits. Any withdrawal of all or a significant portion of any of these large deposits may have a material adverse effect on the Group.

#### **The Group's direct equity investments involve specific risks**

The Group's direct equity investments involve specific risks relating to the returns that the Group derives, its ability to realise the investments and the fact that it has limited involvement in the management and operations of its investee companies. In particular:

- the Group derives a considerable portion of its income from dividends from its direct equity investments and there is no certainty that dividends will be paid or as to the amount of any dividends that are paid. In 2017, 2016 and 2015, the Group's dividend income from its direct equity investments amounted to U.S.\$35.4 million, U.S.\$57.3 million and U.S.\$85.7 million, respectively, equal to 25.0 per cent., 43.5 per cent. and 52.7 per cent., respectively, of the Group's total income in each year. Almost all of the companies in the Group's direct equity investment portfolio are directly or indirectly related to the oil and gas sector, which is cyclical by nature. Material and sustained reductions in international oil and gas prices are likely to have a significant impact on the Group's equity investees' income and profitability and therefore are likely to result in those investees declaring significantly lower or no dividends, which, as illustrated by the trend above, could result in a material reduction in the Group's income, profitability and cash flows. In addition, the spill over effect of lower oil and gas revenues for GCC economies has triggered a move by those countries to reduce government subsidies on local consumption of petrochemicals for both industrial and residential consumers. This, plus the deregulation of petrol prices and the rise in global shale gas exports, has squeezed the operating margins of petrochemical facilities. This is likely to have a significant impact on certain of the Group's investees' income and profitability, which in turn may also have a material adverse effect on the Group.
- The majority of the Group's direct equity investments are not listed on an active market and are therefore illiquid. The value of the Group's direct equity investment portfolio as at 30 June 2018 was U.S.\$1,044.2 million. As at the same date, only two companies in the portfolio were listed and actively traded, Yanbu National Petrochemical Company ("YANSAB") in Saudi Arabia and Misr Oil Processing Company ("MOPCO") in Egypt. YANSAB and MOPCO were valued at U.S.\$146.9 million and U.S.\$38.1 million, respectively, equal to 17.7 per cent. in aggregate of the total portfolio, as at 30 June 2018. If the Group elects to exit any of its other direct equity investments, which are not fair valued using quoted prices on active markets, monetising these investments could be a lengthy process and there is no certainty as to the price which would be obtainable.

- The Group does not typically consolidate its direct equity investments as it generally does not hold stakes which give it control or significant influence over its investee companies. The Group's philosophy when making direct equity investments is that it should principally act in a fiduciary and advisory capacity, typically through a seat on the relevant investee's board of directors. The Group's inability to exercise control or significant influence over the majority of its direct equity investments exposes the Group to certain risks, including the risk that an investee may make business, financial or management decisions with which the Group does not agree, or that the majority shareholders or the management of any investee may take risks or otherwise act in a manner that is contrary to the Group's interests.

The foregoing risks could result in a significant reduction in dividend income from, or the value of, the Group's direct equity investments, which could have a material adverse effect on the Group.

#### **The Group could be materially adversely affected by market risks**

The Group could be materially adversely affected by market risks that are outside its control, including, without limitation, volatility in interest rates, prices of securities and currency exchange rates. In particular, an increase in interest rates generally may decrease the value of the Group's fixed-rate loans and securities and may increase the Group's funding costs. In addition, it is the Group's experience that its fixed rate assets generally re-price faster than its fixed rate liabilities which means that the Group generally benefits at times of increasing interest rates but is adversely affected at times of falling interest rates. See "*Management's discussion and analysis of financial condition and results of operations of APICORP—Principal factors affecting results of operations—Factors affecting net interest income*" and "*Risk management—Market risk management—Interest rate risk*". Interest rates are sensitive to many factors beyond the Group's control, including the policies of central banks, political factors and domestic and international economic conditions.

The Group is also exposed to foreign exchange rate risk. This risk includes the possibility that the value of a foreign currency asset or liability will change due to changes in currency exchange rates as well as the possibility that the Group may have to close out any open position in a foreign currency at a loss due to an adverse movement in exchange rates. The Group attempts to manage its foreign exchange rate risk by conducting a regular review of exposures to currencies other than the U.S. dollar to ensure that no significant positions are taken which may expose the Group to undue risks, by not trading in foreign exchange and by hedging its exposures in currencies other than the U.S. dollar through forward contracts, although there can be no assurance that any such hedging activity will in all cases protect the Group against its foreign exchange rate risks. See also "*Risk management—Market risk management—Currency risk*".

The Group enters into derivative transactions, such as interest rate swaps and forward foreign exchange contracts to hedge its exposure to interest rate and foreign exchange rate risks. These derivative contracts had a notional value of U.S.\$2.8 billion as at 30 June 2018, compared to U.S.\$3.2 billion as at 31 December 2017 and U.S.\$2.4 billion as at 31 December 2016 and the Group's derivatives portfolio had a net negative fair value of U.S.\$24.8 million as at 30 June 2018 compared to U.S.\$7.7 million as at 31 December 2017 and U.S.\$15.4 million as at 31 December 2016. There is no assurance that the Group's derivative contracts will be successful in mitigating its interest rate and foreign exchange exposures or that the Group will not experience significant losses on its derivatives contracts from time to time.

Adverse movements in interest and foreign exchange rates may also adversely impact the revenues and financial condition of the Group's depositors, borrowers and other counterparties which, in turn, may impact the Group's deposit base and the quality of its credit exposures to certain borrowers and other counterparties. Ultimately, there can be no assurance that the Group will be able to protect itself from any adverse effects of a currency revaluation or future volatility in interest rates or currency exchange rates.

#### **The Group is exposed to a range of operational risks, including the risk of loss as a result of employee misrepresentation, misconduct and improper practice**

Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, systems and equipment failures (including, in particular, information technology ("IT") failures), natural disasters or the failure of external systems (for example, those of the Group's counterparties or vendors). The Group has implemented risk controls and loss mitigation strategies, and substantial resources are devoted to developing efficient procedures and to staff training, but it is not

possible to eliminate entirely each of the potential operational risks that the Group faces. Losses from the failure of the Group's system of internal controls could have a material adverse effect on its business generally and its reputation.

The Group's employees could engage in misrepresentation, misconduct or improper practice that could expose the Group to direct and indirect financial loss and damage to its reputation. Such practices may include embezzling clients' funds, engaging in corrupt or illegal practices to originate further business, intentionally or inadvertently releasing confidential information about clients or failing to follow internal procedures. It is not always possible to detect or prevent these types of misconduct, and the precautions which the Group takes to detect and prevent such misconduct may not be effective in all cases. There can be no assurance that measures undertaken to combat these types of misconduct will be successful. Any such actions by employees could expose the Group to financial losses resulting from the need to reimburse clients, co-investors or other business partners who suffered loss or as a result of fines or other regulatory sanctions, and could damage the Group's reputation.

#### **The Group is dependent on its IT systems and any disruption to these systems could materially disrupt the Group's business**

The Group depends on its IT systems to process its transactions on an accurate and timely basis and to store and process substantially all of the Group's business and operating data. The proper functioning of the Group's financial control, risk management, credit analysis and reporting, accounting, customer service and other IT systems, as well as the communication networks between its offices and main data processing centres, are critical to its business and its ability to compete effectively. The Group's business would be materially adversely affected if there were a partial or complete failure of any of these IT systems or communications networks. Such failures can be caused by a variety of reasons some of which are outside of the Group's control, including natural disasters, extended power outages, and computer viruses and other external electronic attacks as discussed under "*The Group's business is dependent on its IT systems which are subject to potential cyber-attack*" below. The proper functioning of the Group's IT systems also depends on accurate and reliable data and other system inputs, which are subject to internal human errors. Any failure or delay in recording or processing transaction data could subject the Group to claims for losses and regulatory fines and penalties. There can be no assurance that the Group's IT safeguards will be fully effective in the event of a disaster and or that they will protect the Group from all losses that could occur.

#### **The Group's business is dependent on its IT systems which are subject to potential cyber-attack**

In common with other financial institutions globally, the threat to the security of the Group's information and customer data from security breaches and cyber-attacks presents a real and growing risk to the Group's business. Activists, rogue states and cyber criminals are among those targeting IT systems around the world. Risks to technology and cyber-security evolve and change rapidly and require continued focus, monitoring and investment in preventative measures. Given the increasing sophistication and scope of potential cyber-attack, it is possible that future attacks may lead to significant breaches of security. A failure to adequately manage cyber-security risk and continually monitor, review and update current processes in response to new threats could have a number of material adverse effects on the Group, including disruption to its business, unauthorised disclosure of confidential information, significant financial and/or legal exposure and damage to its reputation.

#### **The Group's risk management policies, systems and procedures may leave it exposed to unidentified or unanticipated risks**

The Group is exposed to a wide range of financial risks, such as credit risk, liquidity risk, interest rate risk, currency exchange rate risk, equity price risk, and IT and other operational risks.

Although the Group has established risk management policies, procedures and internal controls based on international practices and invests substantial time and effort in the development, implementation and monitoring of risk management strategies and techniques, it cannot mitigate risk exposures under all market environments and may fail to manage its risks adequately at all times, particularly, for example, when risks that it has not identified or anticipated materialise.

The Group's methods of managing risk include the use of historical market behaviour and setting appropriate risk appetite and maximum tolerance levels to determine and monitor risk exposures. In addition, stress testing using forward-looking scenarios is designed to assist the Group in analysing the

impact of possible future events on its capital, profitability, liquidity and funding position, which in turn helps to shape the Group's strategy. The Group's risk management methods are intended to assist it in predicting possible impacts on its risk exposures, but actual outcomes may prove to be significantly different from those which its risk management models predict and could be significantly greater than historical measures indicate.

Investors should note that any failure by the Group to adequately control the risks to which it is exposed, including as a result of any failure to successfully implement new risk management systems in the future, could have a material adverse effect on the Group.

#### **The Group's internal compliance systems might not be fully effective in all circumstances**

The Group's ability to comply with all applicable regulations is largely dependent on its maintenance of compliance, audit and reporting systems and procedures, and its ability to attract and retain personnel qualified to manage and monitor such systems and procedures. Although the Group is subject to oversight by regulatory authorities, including the Central Bank of Bahrain, and performs regular internal audits through an external auditing firm, the Group cannot be certain that its systems and procedures will be fully effective in all circumstances, particularly in the case of deliberate employee misconduct or other frauds perpetrated against it. In the case of actual or alleged non-compliance with applicable regulations, the Group could be subject to investigations and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits for damages.

#### **APICORP is a multilateral development bank without guarantee-related support from its shareholders**

APICORP is a multilateral development bank, headquartered in Saudi Arabia and owned by the OAPEC Member States. Its three largest shareholders, which together own 51.0 per cent. of APICORP's shares, are Saudi Arabia, the UAE and Kuwait.

The OAPEC Member States have agreed in the Establishing Agreement to support APICORP on a joint and several basis and each shareholder has participated in APICORP's five (issued and fully paid) capital increases since it was established. In addition, APICORP has U.S.\$1 billion in callable capital, which is a joint and several obligation of each shareholder to provide additional capital within two months when called if required to service debt, to expand development operations (while maintaining capital adequacy ratios) or to absorb losses from treasury or development-related assets. The issuance of callable capital requires convening a shareholder meeting and APICORP cannot compel its shareholders to provide such capital. Accordingly, neither the agreement to support APICORP nor the callable capital is a guarantee and neither should be construed as providing contractual rights to APICORP's creditors. Accordingly, there is no certainty that APICORP's shareholders will continue to provide further capital to it and, if they do not, the Group's business and/or financial condition may be constrained.

#### **A negative change in APICORP's credit rating could limit its ability to raise funding and may increase the Group's borrowing costs**

APICORP is currently rated Aa3 (on a long-term basis) and P-1 (on a short-term basis) by Moody's. These credit ratings are an important factor in determining the Group's cost of borrowing. The interest rates charged on the Group's borrowings are also partly dependent on its credit ratings.

There is no assurance that APICORP's credit rating will remain in effect for any given period of time or that the rating will not be lowered or withdrawn entirely if circumstances in the future so warrant. A downgrade of APICORP's credit rating, or a negative change in its outlook, may:

- limit APICORP's ability to raise funding;
- increase APICORP's cost of borrowing; and
- limit APICORP's ability to raise capital.

In addition, actual or anticipated changes in APICORP's credit rating may negatively affect the market value of any Notes issued under the Programme.

The major factors that could exert downward pressure on APICORP's rating noted by Moody's in its October 2017 rating report on APICORP (the "**Moody's report**") are (i) a prolonged period of very low oil prices or a regional political shock that significantly impairs asset quality, (ii) its main shareholders experiencing further rating downgrades indicating a weaker ability to financially support APICORP, (iii) any other indication emerging that shareholders' willingness to support APICORP is weakening or (iv) liquidity risk increasing or funding pressure emerging as a result of a worsening operating environment.

The rating assigned to APICORP may not reflect the potential impact of all risks related to the Group, the market or any other factors that may affect the value of Notes issued under the Programme. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. In addition, actual or anticipated changes in APICORP's credit rating could negatively affect the market value of Notes issued under the Programme.

**The Group's continued success depends on its ability to attract and retain key management and qualified personnel**

The Group is dependent on its senior management for the implementation of its strategy and the operation of its day to day activities. While the Group has entered into two-year employment contracts with key members of its management, there is no certainty that its current members of senior management will continue to make their services available to the Group on a longer-term basis.

In addition, the Group's success will depend, in part, on its ability to continue to retain, motivate and attract qualified and experienced banking and management personnel and it may need to increase employee compensation levels to do so. Competition within the regional banking industry for qualified banking and management personnel is intense due to the low number of available qualified and/or experienced individuals compared to the level of demand. There is no certainty that the Group will at all times be able to successfully recruit and retain necessary qualified personnel. The loss of members of the Group's senior management team or an inability to recruit, train and/or retain necessary personnel could hinder the growth of the Group's business.

**The Group's ability to do business may be impaired if its reputation is damaged**

A reputation for financial strength and integrity is critical to the Group's ability to attract and retain clients. The Group's reputation could be damaged in the future by various factors, including a decline in or a restatement of or other corrections to its financial results, adverse legal or regulatory action or employee misconduct causing the Group to breach applicable legal and/or regulatory requirements. The loss of business that could result from damage to the Group's reputation could have a material adverse effect on the Group.

**The Group faces significant and increasing competition**

The Group principally competes with regional and international banks operating in the MENA region with recognised expertise in project finance as well as in the financing of energy projects. The Group cannot be certain that if its competitors offer more attractively priced and easily accessible products, its customers will nevertheless prefer the products offered by the Group and there is no certainty that the Group will be able to compete effectively against current and future competitors.

**The Group is subject to regulation**

Subject to the Establishing Agreement, APICORP is subject to certain laws, regulations, administrative actions and policies of Saudi Arabia, Bahrain and any other jurisdiction in which it operates. These regulations may limit the Group's activities, and changes in supervision and regulation, in particular in Bahrain and Saudi Arabia, could materially affect the Group's business, the products or services offered, the value of its assets, and its financial position. Although the Group complies with the policies set by the applicable regulators in each country in which it operates and continually monitors the situation, future changes in regulation, fiscal or other policies cannot be predicted and are beyond the Group's control.

### **The Group is subject to general political and economic conditions in the Middle East**

The Group currently has significant operations and interests in the Middle East. Investors should be aware that investments in emerging markets are subject to greater risks than those in more developed markets, including risks such as:

- political, social and economic instability;
- external acts of warfare and civil clashes;
- governments' actions or interventions, including tariffs, protectionism, subsidies, expropriation of assets and cancellation of contractual rights;
- regulatory and other changes in law; and
- inability to repatriate profits and/or dividends.

Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investments in emerging markets are only suitable for sophisticated investors who fully appreciate the significance of the risks involved.

### **RISK RELATING TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES**

#### ***The Notes may be subject to optional redemption by the Issuer***

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in the light of other investments available at that time.

#### ***The Notes may be redeemed prior to their final maturity date for tax reasons***

If the Issuer becomes obliged to pay any additional amounts in respect of the Notes as provided or referred to in Condition 12 (*Taxation*) of the Notes as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdictions or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, the Issuer may redeem all but not some only of the outstanding Notes in accordance with Condition 9(b) (*Redemption for Tax Reasons*) of the Notes.

In such circumstances, an investor may not be able to reinvest the redemption proceeds in a comparable security with a similar rate of return, which may have an adverse effect on the position of such investor. During any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the Early Redemption Amount. Potential investors should consider reinvestment risk in light of other investments available at that time.

#### ***Inverse Floating Rate Notes are subject to increased volatility***

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

#### ***Fixed/Floating Rate Notes are subject to additional risks***

Fixed/Floating Rate Notes are Notes which bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Such a feature to convert the interest basis, and any conversion of the interest basis, may affect the secondary market and the market value of such Notes as the change of interest basis may result in a lower interest return for Noteholders. Where the Notes convert from a fixed rate to a floating rate the spread on the Fixed/Floating Rate Notes may be less favourable than the prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. Where the Notes convert from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on those Notes and could affect the market value of an investment in the relevant Notes.

#### ***Notes issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates***

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Notes which are issued with variable interest rates or which are structured to include a multiplier or other leverage factor are likely to have more volatile market values than more standard securities.

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

### **RISKS RELATING TO NOTES DENOMINATED IN RENMINBI**

A description of risks which may be relevant to an investor in Notes denominated in Renminbi ("Renminbi Notes") is set out below.

#### ***Renminbi is not freely convertible and there are significant restrictions on the remittance of Renminbi into and out of the PRC which may adversely affect the liquidity of Renminbi Notes***

Renminbi is not freely convertible at present. The government of the PRC (the "PRC Government") continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar.

However, there has been significant reduction in control by the PRC Government in recent years, particularly over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi into and out of the PRC for the settlement of capital account items, such as capital contributions, debt financing and securities investment, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into and out of the PRC for settlement of capital account items are being developed.

Although Renminbi was added to the Special Drawing Rights basket created by the International Monetary Fund in 2016 and policies further improving accessibility to Renminbi to settle cross-border transactions in foreign currencies were implemented by the People's Bank of China ("PBoC") in 2018, there is no assurance that the PRC Government will continue to gradually liberalise control over cross-border remittance of Renminbi in the future, that the schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. Despite Renminbi internationalisation pilot programme and efforts in recent years to internationalise the currency, there can be no assurance that the PRC Government will not impose interim or long-term restrictions on the cross-border remittance of Renminbi. In the event that funds cannot be repatriated out of the PRC in Renminbi,

this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under Notes denominated in Renminbi.

***There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Renminbi Notes and the Issuer's ability to source Renminbi outside the PRC to service Renminbi Notes***

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While the PBoC has entered into agreements (the "**Settlement Arrangements**") on the clearing of Renminbi business with financial institutions (the "**Renminbi Clearing Banks**") in a number of financial centres and cities, including but not limited to Hong Kong, has established the Cross-Border Inter-Bank Payments System (CIPS) to facilitate cross-border Renminbi settlement and is further in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions, the current size of Renminbi denominated financial assets outside the PRC is limited.

There are restrictions imposed by PBoC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBoC, although PBoC has gradually allowed participating banks to access the PRC's onshore inter-bank market for the purchase and sale of Renminbi. The Renminbi Clearing Banks only have limited access to onshore liquidity support from PBoC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In cases where the participating banks cannot source sufficient Renminbi through the above channels, they will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Notes. To the extent the Issuer is required to source Renminbi in the offshore market to service its Renminbi Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all. If certain events occur (such as illiquidity, inconvertibility or non-transferability in respect of Renminbi) that result in the Issuer being unable, or it would be impracticable for it, to make payments in Renminbi, the Issuer's obligation to make such payments in Renminbi under the terms of the Renminbi Notes is replaced by an obligation to make such payments in U.S. dollars pursuant to Conditions 10(k) (*Payment of U.S. Dollar Equivalent*) and 11(g) (*Payment of U.S. Dollar Equivalent*) of the Notes.

***Investment in the Renminbi Notes is subject to exchange rate risks***

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. Recently, the PBoC implemented changes to the way it calculates the Renminbi's daily mid-point against the U.S. dollar to take into account market-maker quotes before announcing such daily mid-point. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. All payments of interest and principal will be made in Renminbi with respect to Renminbi Notes unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of the Renminbi Notes in that foreign currency will decline.

***Investment in the Renminbi Notes is subject to currency risk***

If the Issuer is not able, or it is impracticable for it, to satisfy its obligation to pay interest and principal on the Renminbi Notes as a result of Inconvertibility, Non-transferability or Illiquidity (each, as defined in the Conditions), the Issuer shall be entitled, on giving not less than five or more than 30 calendar days' irrevocable notice to the investors prior to the due date for payment, to settle any such payment in U.S. Dollars on the due date at the U.S. Dollar Equivalent (as defined in the Conditions) of any such interest or principal, as the case may be.

### ***Investment in the Renminbi Notes is subject to interest rate risks***

The PRC Government has gradually liberalised its regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. In addition, the interest rate for Renminbi in markets outside the PRC may significantly deviate from the interest rate for Renminbi in the PRC as a result of foreign exchange controls imposed by PRC law and regulations and prevailing market conditions.

As Renminbi Notes may carry a fixed interest rate, the trading price of the Renminbi Notes will consequently vary with the fluctuations in the Renminbi interest rates. If holders of the Renminbi Notes propose to sell their Renminbi Notes before their maturity, they may receive an offer lower than the amount they have invested.

### ***Payments with respect to the Renminbi Notes may be made only in the manner designated in the Renminbi Notes***

All payments to investors in respect of the Renminbi Notes will be made solely (i) for so long as the Renminbi Notes are represented by global certificates held with the common depositary for Clearstream Banking S.A. and Euroclear Bank S.A./N.V. or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles Renminbi, (ii) for so long as the Renminbi Notes are represented by global certificates lodged with a sub-custodian for or registered with the CMU, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures or, (iii) for so long as the Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. Other than as provided in Condition 10(k) (*Payment of U.S. Dollar Equivalent*) and 11(g) (*Payment of U.S. Dollar Equivalent*) of the Notes, the Issuer cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

### ***There may be PRC tax consequences with respect to investment in the Renminbi Notes***

In considering whether to invest in the Renminbi Notes, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdictions. The value of the Noteholder's investment in the Renminbi Notes may be materially and adversely affected if the Noteholder is required to pay PRC tax with respect to acquiring, holding or disposing of and receiving payments under those Renminbi Notes.

## **RISKS RELATING TO ENFORCEMENT**

### ***Enforcing foreign judgments and arbitral awards against APICORP***

If APICORP fails to meet its payment obligations under the Notes, it may be necessary to bring an action against APICORP to enforce its obligations which could be time consuming and costly. APICORP has irrevocably agreed to the Notes being governed by English law and that any disputes shall be referred to and finally resolved by arbitration under the LCIA Rules. An arbitration award rendered in London, in favour of the Noteholders should be enforceable against APICORP in the courts of those Relevant Jurisdictions which are signatories to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "**New York Convention**"). However, in practice, and notwithstanding the New York Convention, such awards may not be enforceable consistently under the laws of all of the Relevant Jurisdictions. APICORP has also agreed to submit to the jurisdiction of the courts of England (the "**English courts**") at the option of the Noteholders in respect of any dispute relating to the Notes. Notwithstanding that a judgment may be obtained in the English courts in favour of the Noteholders, there is no assurance that APICORP has or would at the relevant time have assets in the United Kingdom against which such a judgment could be enforced. Under the laws of certain of the Relevant Jurisdictions (for example, under the laws of the Kingdom of Saudi Arabia) it is unlikely that the courts of such Relevant Jurisdictions would enforce an English court judgment without re-examining the merits of the claim and such courts may not observe the parties' choice of English law as the governing law of the relevant Notes. In certain of the Relevant Jurisdictions, foreign law is required to be established as a question of fact and the interpretation of English law by the courts of such Relevant Jurisdictions may not accord with the interpretation of an English court. Additionally, in such Relevant Jurisdictions, the choice of foreign law is recognised if the courts of such Relevant Jurisdictions are satisfied that an appropriate connection exists between the relevant transaction agreement and the foreign law which has been chosen. Such courts are

unlikely, however, to honour any provision of foreign law which is contrary to public policy, order or morals in such Relevant Jurisdiction, or to any mandatory law of, or applicable in, such Relevant Jurisdiction.

Accordingly, there is no guarantee that any arbitration award rendered in London or any judgment obtained in the English courts, in each case in favour of the Noteholders, would be enforceable against APICORP in the courts of a Relevant Jurisdiction.

#### ***Claims for specific enforcement***

In the event that APICORP fails to perform its obligations under the Notes, the potential remedies available to the Noteholders include obtaining an order for specific enforcement of the relevant obligations or a claim for damages. There is no assurance that any court would order specific enforcement of a contractual obligation, as this is generally a matter for the discretion of the relevant court.

The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors including an obligation on the Noteholders to mitigate any loss arising as a result of the breach. No assurance is provided on the level of damages which a court may award in the event of a failure by APICORP to perform its obligations under the Notes.

### **RISKS RELATING TO NOTES GENERALLY**

#### ***The regulation and reform of "benchmarks" may adversely affect the value of Notes linked to or referencing such "benchmarks"***

Interest rates and indices which are deemed to be "benchmarks", are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such a "benchmark". Regulation (EU) 2016/1011 (the **"Benchmarks Regulation"**) was published in the Official Journal of the EU on 29 June 2016 and applies from 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It will, among other things, (i) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevent certain uses by EU supervised entities of "benchmarks" of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Notes linked to or referencing a "benchmark", in particular, if the methodology or other terms of the "benchmark" are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the "benchmark".

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the following effects on certain "benchmarks" (i) discourage market participants from continuing to administer or contribute to the "benchmark"; (ii) trigger changes in the rules or methodologies used in the "benchmark" or (iii) lead to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing a "benchmark".

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms in making any investment decision with respect to any Notes linked to or referencing a "benchmark".

#### ***Future discontinuance of LIBOR may adversely affect the value of Floating Rate Notes which reference LIBOR***

On 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks

to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forwards. This may cause LIBOR to perform differently than it did in the past and may have other consequences which cannot be predicted.

Investors should be aware that, if LIBOR were discontinued or otherwise unavailable, the rate of interest on Floating Rate Notes which reference LIBOR will be determined for the relevant period by the fall-back provisions applicable to such Notes. Depending on the manner in which the LIBOR rate is to be determined under the Terms and Conditions, this may (i) if ISDA Determination applies, be reliant upon the provision by reference banks of offered quotations for the LIBOR rate which, depending on market circumstances, may not be available at the relevant time or (ii) if Screen Rate Determination applies, result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR was available. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, any Floating Rate Notes which reference LIBOR.

***The conditions of the Notes contain provisions which may permit their modification, waiver or substitutions without the consent of all investors***

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

***The value of the Notes could be adversely affected by a change in English law or administrative practice.***

The structure of the issue of the Notes is based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments in respect of the Notes, or of the Issuer to comply with its obligations under the Notes.

***Investors who hold less than the minimum Specified Denomination may be unable to sell their Notes and may be adversely affected if definitive Notes are subsequently required to be issued***

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed or issued) and would need to purchase a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

***Holders of Notes held through DTC, Euroclear and Clearstream, Luxembourg must rely on procedures of those clearing systems to effect transfers of Notes, receive payments in respect of Notes and vote at meetings of Noteholders***

Notes issued under the Programme will be represented on issue by one or more Global Notes that may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or may be deposited with a nominee for DTC (each as defined under "Form of the Notes"). Except in the circumstances described in each Global Note, investors will not be entitled to receive Notes in definitive form. Each of DTC, Euroclear

and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

## INFORMATION INCORPORATED BY REFERENCE

The following information shall be deemed to be incorporated in, and to form part of, this Base Prospectus:

1. the unaudited condensed consolidated financial statements (including the review report thereon and notes thereto) of the Group in respect of the six months ended 30 June 2018 (<http://www.apicorp-arabia.com/Financials/INTERIM FINANCIALS/APICORP FS 30 JUN 2018.pdf>);
2. the audited consolidated financial statements (including the auditors' report thereon and notes thereto) of the Group in respect of the year ended 31 December 2017 (<http://www.apicorp-arabia.com/Financials/APICORP FS 2017.pdf>); and
3. the audited consolidated financial statements (including the auditors' report thereon and notes thereto) of the Group in respect of the year ended 31 December 2016 (<http://www.apicorp-arabia.com/Financials/APICORP FS 2016.pdf>).

Copies of the documents specified above as containing information incorporated by reference in this Base Prospectus may be inspected, free of charge, during normal business hours at the registered office of the Issuer and the specified offices of the Issuing and Paying Agent. Any information contained in any of the documents specified above which is not incorporated by reference in this Base Prospectus is either not relevant to investors or is covered elsewhere in this Base Prospectus.

## **FINAL TERMS AND DRAWDOWN PROSPECTUSES**

In this section the expression "necessary information" means, in relation to any Tranche of Notes, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Notes. In relation to the different types of Notes which may be issued under the Programme the Issuer has included in this Base Prospectus all of the necessary information except for information relating to the Notes which is not known at the date of this Base Prospectus and which can only be determined at the time of an individual issue of a Tranche of Notes.

Any information relating to the Notes which is not included in this Base Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Notes will be contained either in the relevant Final Terms or in a Drawdown Prospectus.

For a Tranche of Notes which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, complete this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes which is the subject of Final Terms are the Conditions described in the relevant Final Terms as supplemented to the extent described in the relevant Final Terms.

The terms and conditions applicable to any particular Tranche of Notes which is the subject of a Drawdown Prospectus will be the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus. In the case of a Tranche of Notes which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

Each Drawdown Prospectus will be constituted by a single document containing the necessary information relating to the Issuer and the relevant Notes.

## FORMS OF THE NOTES

### Bearer Notes

Each Tranche of Notes in bearer form ("Bearer Notes") will initially be in the form of either a temporary global note in bearer form (the "Temporary Global Note"), without interest coupons, or a permanent global note in bearer form (the "Permanent Global Note"), without interest coupons, in each case as specified in the relevant Final Terms. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "Global Note") will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear Bank SA/NV as operator of the Euroclear System ("Euroclear") and/or Clearstream Banking S.A. ("Clearstream, Luxembourg") and/or any other relevant clearing system.

In the case of each Tranche of Bearer Notes, the relevant Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (or any successor U.S. Treasury Regulation section including, without limitation, regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (the "TEFRA C Rules") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (or any successor U.S. Treasury Regulation section including, without limitation, regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (the "TEFRA D Rules") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

#### *Temporary Global Note exchangeable for Permanent Global Note*

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note, duly authenticated, to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

- (i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Issuing and Paying Agent; and
- (ii) receipt by the Issuing and Paying Agent of a certificate or certificates of non-U.S. beneficial ownership,

within 7 days of the bearer requesting such exchange.

#### *Temporary Global Note exchangeable for Definitive Notes*

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Bearer Notes in definitive form ("Definitive Notes") not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as

to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Issuing and Paying Agent within 30 days of the bearer requesting such exchange.

For the avoidance of doubt, Notes will only be issued with a minimum Specified Denomination and in integral multiples of another smaller amount in excess thereof if the applicable Final Terms specifies "in the limited circumstances described in the Temporary Global Note".

#### ***Permanent Global Note exchangeable for Definitive Notes***

If the relevant Final Terms specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

- (i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or
- (ii) at any time, if so specified in the relevant Final Terms; or
- (iii) if the relevant Final Terms specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:
  - (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or
  - (b) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Issuing and Paying Agent within 30 days of the bearer requesting such exchange.

For the avoidance of doubt, if Notes are to be issued with a minimum Specified Denomination and in integral multiples of another smaller amount in excess thereof as specified in the applicable Final Terms, the Notes cannot be represented on issue by a Permanent Global Note exchangeable for Definitive Notes.

#### ***Terms and Conditions applicable to the Notes***

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Final Terms which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.

#### ***Legend concerning United States persons***

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

*"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."*

### **Registered Notes**

Each Tranche of Notes in registered form ("Registered Notes") will be represented by either:

- (i) individual Note Certificates in registered form ("Individual Note Certificates"); or
- (ii) one or more unrestricted global note certificates ("Unrestricted Global Note Certificate(s)") in the case of Registered Notes sold outside the United States to non-U.S. persons in reliance on Regulation S ("Unrestricted Registered Notes") and/or one or more restricted global note certificates ("Restricted Global Note Certificate(s)") in the case of Registered Notes sold to QIBs in reliance on Rule 144A who are also QPs ("Restricted Registered Notes"),

in each case as specified in the relevant Final Terms, and references in this Base Prospectus to "**Global Note Certificates**" shall be construed as a reference to Unrestricted Global Note Certificates and/or Restricted Global Note Certificates.

Each Note represented by a Global Note Certificate will be registered in the name of Cede & Co. (or such other entity as is specified in the applicable Final Terms) as nominee for The Depository Trust Company ("DTC") and each relevant Global Note Certificate will be deposited on or about the issue date with the custodian for DTC (the "**DTC Custodian**").

Each Note represented by an Unrestricted Global Note Certificate will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Unrestricted Global Note Certificate will be deposited on or about the issue date with the common depositary.

Each Note represented by an Unrestricted Global Note Certificate will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Unrestricted Global Note Certificate will be deposited on or about the issue date with the common depositary. Each Note represented by a Restricted Global Note Certificate will be registered in the name of Cede & Co. (or such other entity as is specified in the applicable Final Terms) as nominee for The Depository Trust Company ("DTC") and the relevant Restricted Global Note Certificate will be deposited on or about the issue date with the custodian for DTC (the "**DTC Custodian**"). Beneficial interests in Notes represented by a Restricted Global Note Certificate may only be held through DTC at any time.

If the relevant Final Terms specifies the form of Notes as being "Individual Note Certificates", then the Notes will at all times be represented by Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

### ***Global Note Certificate exchangeable for Individual Note Certificates***

If the relevant Final Terms specifies the form of Notes as being "Global Note Certificate exchangeable for Individual Note Certificates", then the Notes will initially be represented by one or more Global Note Certificates each of which will be exchangeable in whole, but not in part, for Individual Note Certificates:

- (i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or
- (ii) at any time, if so specified in the relevant Final Terms; or
- (iii) if the relevant Final Terms specifies "in the limited circumstances described in the Global Note Certificate", then:
  - (a) in the case of any Global Note Certificate held by or on behalf of DTC, if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note Certificate or DTC ceases to be a "clearing agency" registered under the Exchange Act or if at any time DTC is no longer eligible to

act as such, and the relevant Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC;

- (b) in the case of any Unrestricted Global Note Certificate, if Euroclear, Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; and
- (c) in any case, if any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, each person having an interest in a Global Note Certificate must provide the Registrar (through the relevant clearing system) with such information as the Issuer and the Registrar may require to complete and deliver Individual Note Certificates (including the name and address of each person in which the Notes represented by the Individual Note Certificates are to be registered and the principal amount of each such person's holding). In addition, whenever a Restricted Global Note Certificate is to be exchanged for Individual Note Certificates, each person having an interest in the Restricted Global Note Certificate must provide the Registrar (through the relevant clearing system) with a certificate given by or on behalf of the holder of each beneficial interest in the Restricted Global Note Certificate stating either (i) that such holder is not transferring its interest at the time of such exchange or (ii) that the transfer or exchange of such interest has been made in compliance with the transfer restrictions applicable to the Notes and that the person transferring such interest reasonably believes that the person acquiring such interest is a QIB who is also a QP and is obtaining such beneficial interest in a transaction meeting the requirements of Rule 144A. Individual Note Certificates issued in exchange for interests in the Restricted Global Note Certificate will bear the legends and be subject to the transfer restrictions set out under "Transfer Restrictions".

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates against the surrender of the Global Note Certificate at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled to the Agency Agreement and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

#### ***Terms and Conditions applicable to the Notes***

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Global Note Certificate will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

#### **Summary of Provisions relating to the Notes while in Global Form**

##### ***Clearing System Accountholders***

In relation to any Tranche of Notes represented by a Global Note, references in the Terms and Conditions of the Notes to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary.

In relation to any Tranche of Notes represented by one or more Global Note Certificates, references in the Terms and Conditions of the Notes to "Noteholder" are references to the person in whose name the relevant Global Note Certificate is for the time being registered in the Register which (a) in the case of a Restricted

Global Note Certificate held by or on behalf of DTC, will be Cede & Co. (or such other entity as is specified in the applicable Final Terms) as nominee for DTC; and (b) in the case of any Unrestricted Global Note Certificate which is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or a nominee for that depositary or common depositary.

Each of the persons shown in the records of DTC, Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Note Certificate (each an "**Accountholder**") must look solely to DTC, Euroclear, Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to the holder of such Global Note or Global Note Certificate and in relation to all other rights arising under such Global Note or Global Note Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Note or Global Note Certificate will be determined by the respective rules and procedures of DTC, Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Note Certificate, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the holder of such Global Note or Global Note Certificate.

#### ***Transfers of Interests in Global Notes and Global Note Certificates***

Transfers of interests in Global Notes and Global Note Certificates within DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system will be in accordance with their respective rules and operating procedures. None of the Issuer, the Registrar, the Dealers or the Issuing and Paying Agent, the Transfer Agent and the Registrar will have any responsibility or liability for any aspect of the records of any DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system or any of their respective participants relating to payments made on account of beneficial ownership interests in a Global Note or Global Note Certificate or for maintaining, supervising or reviewing any of the records of DTC, Euroclear and Clearstream, Luxembourg or any other relevant clearing system or the records of their respective participants relating to such beneficial ownership interests.

The laws of some states of the United States require that certain persons receive individual certificates in respect of their holdings of Notes. Consequently, the ability to transfer interests in a Global Note Certificate to such persons will be limited. Because clearing systems only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note Certificate to pledge such interest to persons or entities which do not participate in the relevant clearing systems, or otherwise take actions in respect of such interest, may be affected by the lack of an Individual Note Certificate representing such interest.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Transfer Restrictions*", transfers between DTC participants, on the one hand, and Euroclear or Clearstream, Luxembourg accountholders, on the other will be effected by the relevant clearing systems in accordance with their respective rules and through action taken by the DTC Custodian, the Registrar and the Issuing and Paying Agent.

On or after the issue date for any Tranche, transfers of Notes of such Tranche between accountholders in Euroclear and/or Clearstream, Luxembourg and transfers of Notes of such Tranche between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Transfers between DTC participants, on the one hand, and Euroclear or Clearstream, Luxembourg accountholders, on the other will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, Luxembourg, on the other, transfers of interests in the relevant Global Note Certificates will be effected through the Issuing and Paying Agent, the DTC Custodian, the relevant Registrar and any applicable Transfer Agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Note Certificate resulting in such transfer and (ii) two business days after receipt by the Issuing and Paying Agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between

Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately. The customary arrangements for delivery versus payment between Euroclear and Clearstream, Luxembourg accountholders or between DTC participants are not affected.

For a further description of restrictions on the transfer of Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*".

Upon the issue of a Global Note Certificate to be held by or on behalf of DTC, DTC or the DTC Custodian will credit the respective nominal amounts of the individual beneficial interests represented by such Global Note Certificate to the account of DTC participants. Ownership of beneficial interests in such Global Note Certificate will be held through participants of DTC, including the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in such Global Note Certificate will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee. DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Registered Notes represented by a Global Note Certificate held by or on behalf of DTC (including, without limitation, the presentation of such Global Note Certificates for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in such Global Note Certificate are credited, and only in respect of such portion of the aggregate nominal amount of such Global Note Certificate as to which such participant or participants has or have given such direction. However, in certain circumstances, DTC will exchange the relevant Global Note Certificate for Individual Note Certificates (which will bear the relevant legends set out in "*Transfer Restrictions*").

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Note Certificates among participants and accountholders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Registrar, the Dealers or the Issuing and Paying Agent, the Transfer Agent and the Registrar will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their respective operations.

While a Global Note Certificate is lodged with DTC, Euroclear, Clearstream, Luxembourg or any relevant clearing system, Individual Note Certificates for the relevant Series of Notes will not be eligible for clearing and settlement through such clearing systems.

#### ***Conditions applicable to Global Notes***

Each Global Note and Global Note Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note or Global Note Certificate. The following is a summary of certain of those provisions:

**Payments:** All payments in respect of the Global Note or Global Note Certificate which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Note Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that the payment is noted in a schedule thereto.

**Payment Business Day:** in the case of a Global Note or a Global Note Certificate, shall be: if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

**Payment Record Date:** Each payment in respect of a Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

*Exercise of put option:* In order to exercise the option contained in Condition 9(e) (*Redemption at the option of Noteholders*) the bearer of a Permanent Global Note or the holder of a Global Note Certificate must, within the period specified in the Conditions for the deposit of the relevant Note give notice of such exercise to the Issuing and Paying Agent, in accordance with the rules and procedures of Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system, specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

*Partial exercise of call option:* In connection with an exercise of the option contained in Condition 9(c) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Permanent Global Note or Global Note Certificate may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of DTC, Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of DTC, Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

*Notices:* Notwithstanding Condition 19 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Note Certificate and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Note Certificate is, registered in the name of DTC's nominee or deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common safekeeper, notices to Noteholders may be given by delivery of the relevant notice to DTC and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 19 (*Notices*) on the date of delivery to DTC and/or Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions which, as completed by the relevant Final Terms, will be endorsed on each Note in definitive form issued under the Programme. In the case of any Tranche of Notes which are being (a) offered to the public in a Member State (other than pursuant to one or more of the exemptions set out in Article 3.2 of the Prospectus Directive) or (b) admitted to trading on a regulated market in a Member State, the relevant Final Terms shall not amend or replace any information in this Base Prospectus. Subject to this, to the extent permitted by applicable law and/or regulation, the Final Terms in respect of any Tranche of Notes may supplement, amend or replace any information in this Base Prospectus.*

*The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" above.*

### 1. Introduction

- (a) *Programme:* Arab Petroleum Investments Corporation (the "Issuer") has established a Global Medium Term Note Programme (the "Programme") for the issuance of up to U.S.\$3,000,000,000 in aggregate principal amount of notes (the "Notes").
- (b) *Final Terms:* Notes issued under the Programme are issued in series (each a "Series") and each Series may comprise one or more tranches (each a "Tranche") of Notes. Each Tranche is the subject of a final terms (the "Final Terms") which supplements these terms and conditions (the "Conditions"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.
- (c) *Deed of Covenant:* The Notes are constituted by, are subject to, and have the benefit of, a deed of covenant dated 29 August 2018 (as amended or supplemented from time to time, the "Deed of Covenant").
- (d) *Agency Agreement:* The Notes are the subject of an agency agreement dated 29 August 2018 (the "Agency Agreement") between the Issuer, The Bank of New York Mellon, London Branch as Issuing and Paying Agent (the "Issuing and Paying Agent", which expression includes any successor Issuing and Paying Agent appointed from time to time in connection with the Notes), The Bank of New York Mellon SA/NV, Luxembourg Branch (the "Registrar") (which expression includes any successor registrar appointed from time to time in connection with the Notes) and the transfer agent (the "Transfer Agent") (which expression includes any successor registrar appointed from time to time in connection with the Notes). In these Conditions references to the "Agents" are to the Issuing and Paying, the Registrar and the Transfer Agent and any reference to an "Agent" is to any one of them.
- (e) *The Notes:* The Notes may be issued in bearer form ("Bearer Notes"), or in registered form ("Registered Notes"). All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Final Terms. Copies of the relevant Final Terms are available for viewing during normal business hours at the Specified Offices of the Issuing and Paying Agent.
- (f) *Summaries:* Certain provisions of these Conditions are summaries of the Agency Agreement and are subject to their detailed provisions. Noteholders (as defined below) and the holders of the related interest coupons, if any, (the "Couponholders" and the "Coupons", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Agents, the initial Specified Offices of which are set out below.

### 2. Interpretation

- (a) *Definitions:* In these Conditions the following expressions have the following meanings:

"Accrual Yield" has the meaning given in the relevant Final Terms;

**"Additional Business Centre(s)"** means the city or cities specified as such in the relevant Final Terms;

**"Additional Financial Centre(s)"** means the city or cities specified as such in the relevant Final Terms;

**"Business Day"** means:

- (a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and
- (b) in relation to any sum payable in a currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre; and
- (c) in relation to any sum payable in Renminbi, a calendar day on which commercial banks and foreign exchange markets settle payments in Renminbi in Hong Kong and in the relevant Additional Business Centre(s) (if any);

**"Business Day Convention"**, in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (a) **"Following Business Day Convention"** means that the relevant date shall be postponed to the first following day that is a Business Day;
- (b) **"Modified Following Business Day Convention"** or **"Modified Business Day Convention"** means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (c) **"Preceding Business Day Convention"** means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (d) **"FRN Convention"**, **"Floating Rate Convention"** or **"Eurodollar Convention"** means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred **provided, however, that**:
  - (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
  - (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
  - (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (e) **"No Adjustment"** means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

**"Calculation Agent"** means the Issuing and Paying Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

**"Calculation Amount"** has the meaning given in the relevant Final Terms;

**"Coupon Sheet"** means, in respect of a Note, a coupon sheet relating to the Note;

**"Day Count Fraction"** means, in respect of the calculation of an amount for any period of time (the **"Calculation Period"**), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

- (a) if **"Actual/Actual (ICMA)"** is so specified, means:
  - (i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
  - (ii) where the Calculation Period is longer than one Regular Period, the sum of:
    - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
    - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (b) if **"Actual/Actual (ISDA)"** is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (c) if **"Actual/365 (Fixed)"** is so specified, means the actual number of days in the Calculation Period divided by 365;
- (d) if **"Actual/360"** is so specified, means the actual number of days in the Calculation Period divided by 360;
- (e) if **"30/360"** is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

**"Y<sub>1</sub>"** is the year, expressed as a number, in which the first day of the Calculation Period falls;

**"Y<sub>2</sub>"** is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

**"M<sub>1</sub>"** is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

**"M<sub>2</sub>"** is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D<sub>1</sub>**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"**D<sub>2</sub>**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30";

(f) if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y<sub>1</sub>**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y<sub>2</sub>**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M<sub>1</sub>**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M<sub>2</sub>**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D<sub>1</sub>**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"**D<sub>2</sub>**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30; and

if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y<sub>1</sub>**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y<sub>2</sub>**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M<sub>1</sub>**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M<sub>2</sub>**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D<sub>1</sub>**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"**D<sub>2</sub>**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30,

**provided, however, that** in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

**"Early Redemption Amount (Tax)"** means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

**"Early Termination Amount"** means, in respect of any Note, its principal amount or such other amount as may be specified in these Conditions or the relevant Final Terms;

**"Extraordinary Resolution"** has the meaning given in the Agency Agreement;

**"Final Redemption Amount"** means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

**"First Interest Payment Date"** means the date specified in the relevant Final Terms;

**"Fixed Coupon Amount"** has the meaning given in the relevant Final Terms;

**"Holder"**, in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer - Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer - Title to Registered Notes*);

**"Indebtedness"** means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

- (a) amounts raised by acceptance under any acceptance credit facility;
- (b) amounts raised under any note purchase facility;
- (c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
- (d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 90 days; and
- (e) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

**"Interest Amount"** means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

**"Interest Commencement Date"** means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

**"Interest Determination Date"** has the meaning given in the relevant Final Terms;

**"Interest Payment Date"** means the First Interest Payment Date and any other date or dates specified as such in the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

- (a) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

**"Interest Period"** means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

**"ISDA Definitions"** means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.);

**"Issue Date"** has the meaning given in the relevant Final Terms;

**"Margin"** has the meaning given in the relevant Final Terms;

**"Maturity Date"** has the meaning given in the relevant Final Terms;

**"Maximum Redemption Amount"** has the meaning given in the relevant Final Terms;

**"Minimum Redemption Amount"** has the meaning given in the relevant Final Terms;

**"Non-recourse Project Financing"** means any financing of all or part of the costs of the acquisition, construction or development of any project, provided that: (i) any Security Interest given by the Issuer is limited solely to assets of the project; (ii) the person providing such financing expressly agrees to limit its recourse to the project financed and the revenues derived from such project as the principal source of repayment for the monies advanced; and (iii) there is no other recourse to the Issuer in respect of any default by any person under the financing;

**"Noteholder"**, in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer - Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer - Title to Registered Notes*);

**"Optional Redemption Amount (Call)"** means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

**"Optional Redemption Amount (Put)"** means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

**"Optional Redemption Date (Call)"** has the meaning given in the relevant Final Terms;

**"Optional Redemption Date (Put)"** has the meaning given in the relevant Final Terms;

**"Participating Member State"** means a Member State of the European Union which adopts the euro as its lawful currency in accordance with the Treaty;

**"Payment Business Day"** means:

(a) if the currency of payment is euro, any day which is:

(i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(b) if the currency of payment is not euro, any day which is:

(i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies (including in the case of Notes denominated in Renminbi, settlement of Renminbi payments) may be carried on in the Principal Financial

Centre of the currency of payment and in each (if any) Additional Financial Centre;

**"Permitted Security Interest"** means:

- (a) any Security Interest existing on 29 August 2018;
- (b) any Security Interest securing Relevant Indebtedness of a person existing at the time such person is merged into, or consolidated with, the Issuer, provided that such Security Interest was not created in contemplation of such merger or consolidation and does not extend to any other assets or property of the Issuer;
- (c) any Security Interest existing on any property or assets prior to the acquisition thereof by the Issuer not created in contemplation of such acquisition; or
- (d) any renewal of or substitution for any Security Interest permitted by any of paragraphs (a) to (b) (inclusive) of this definition, provided that with respect to any such Security Interest the principal amount secured has not increased and the Security Interest has not been extended to any additional assets (other than the proceeds of such assets);

**"Person"** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

**"Principal Financial Centre"** means, in relation to any currency, the principal financial centre for that currency **provided, however, that:**

- (a) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (b) in relation to New Zealand dollars, it means either Wellington or Auckland as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (c) in relation to Renminbi, it means the relevant Renminbi Settlement Centre;

**"Put Option Notice"** means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

**"Put Option Receipt"** means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

**"Rate of Interest"** means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions;

**"Redemption Amount"** means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in the relevant Final Terms;

**"Reference Banks"** has the meaning given in the relevant Final Terms or, if none, four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

**"Reference Price"** has the meaning given in the relevant Final Terms;

**"Reference Rate"** means one of the following benchmark rates (as specified in the applicable Final Terms) in respect of the currency and period specified in the applicable Final Terms:

- (a) Euro-Zone interbank offered rate ("**EURIBOR**");
- (b) London interbank bid rate ("**LIBID**");
- (c) London interbank offered rate ("**LIBOR**");
- (d) London interbank mean rate ("**LIMEAN**");
- (e) Shanghai interbank offered rate ("**SHIBOR**");
- (f) Hong Kong interbank offered rate ("**HIBOR**");
- (g) Singapore interbank offered rate ("**SIBOR**");
- (h) Emirates interbank offered rate ("**EIBOR**");
- (i) Saudi Arabia interbank offered rate ("**SAIBOR**");
- (j) Australia Bank Bill Swap ("**BBSW**");
- (k) Japanese Yen LIBOR ("**JPY LIBOR**");
- (l) Prague interbank offered rate ("**PRIBOR**");
- (m) CNH Hong Kong interbank offered rate ("**CNH HIBOR**");
- (n) Turkish Lira interbank offered rate ("**TRLIBOR**" or "**TRYLIBOR**"); and
- (o) Tokyo interbank offered rate ("**TIBOR**")

**"Regular Period"** means:

- (a) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (b) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and
- (c) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

**"Relevant Date"** means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Issuing and Paying Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

**"Relevant Financial Centre"** has the meaning given in the relevant Final Terms;

**"Relevant Indebtedness"** means any Indebtedness, other than Indebtedness incurred in connection with a Non-Recourse Project Financing or Securitisation, which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or

is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

**"Relevant Screen Page"** means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

**"Relevant Time"** has the meaning given in the relevant Final Terms;

**"Renminbi Settlement Centre"** means, in relation to any sum payable in Renminbi, Hong Kong, Singapore and/or any other relevant financial centre, as specified in the relevant Final Terms;

**"Reserved Matter"** means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

**"Securitisation"** means any securitisation of existing or future assets and/or revenues, provided that: (a) any Security Interest given by the Issuer in connection therewith is limited solely to the assets and/or revenues which are the subject of the securitisation; (b) each person participating in such securitisation expressly agrees to limit its recourse to the assets and/or revenues so securitised as the principal source of repayment for the money advanced or payment of any other liability; and (c) there is no other recourse to the Issuer in respect of any default by any person under the securitisation;

**"Security Interest"** means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

**"Specified Currency"** has the meaning given in the relevant Final Terms;

**"Specified Denomination(s)"** has the meaning given in the relevant Final Terms;

**"Specified Office"** has the meaning given in the Agency Agreement;

**"Specified Period"** has the meaning given in the relevant Final Terms;

**"Subsidiary"** means, in relation to any Person (the **"first Person"**) at any particular time, any other Person (the **"second Person"**):

- (a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or
- (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

**"Sukuk Obligation"** means any undertaking or other obligation to pay any money given in connection with any issue of certificates or other securities intended to be issued in compliance with the principles of *Shari'a*, whether or not in return for consideration of any kind, which for the time being are, or are intended to be, or are capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market.

**"Talon"** means a talon for further Coupons;

**"TARGET2"** means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro;

"**Treaty**" means the Treaty on the Functioning of the European Union, as amended; and

"**Zero Coupon Note**" means a Note specified as such in the relevant Final Terms;

(b) *Interpretation:* In these Conditions:

- (i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;
- (ii) if Talons are specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (iii) if Talons are not specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;
- (iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 12 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 12 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;
- (vi) references to Notes being "outstanding" shall be construed in accordance with the Agency Agreement;
- (vii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes; and
- (viii) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Notes.

### 3. **Form, Denomination, Title and Transfer**

- (a) *Bearer Notes:* Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.
- (b) *Title to Bearer Notes:* Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.
- (c) *Registered Notes:* Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Final Terms and higher integral multiples of a smaller amount specified in the relevant Final Terms.
- (d) *Title to Registered Notes:* The Registrar will maintain the register in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

- (e) *Ownership:* The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.
- (f) *Transfers of Registered Notes:* Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.
- (g) *Registration and delivery of Note Certificates:* Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.
- (h) *No charge:* The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (i) *Closed periods:* Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.
- (j) *Regulations concerning transfers and registration:* All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

#### 4. Status

The Notes constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

#### 5. Negative Pledge

So long as any Note remains outstanding, the Issuer shall not, and the Issuer shall procure that none of its Subsidiaries will, create or permit to subsist any Security Interest, other than a Permitted Security Interest, upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or Sukuk Obligation without (a) at the same time or prior thereto securing equally and rateably therewith its obligations under the

Notes; or (b) providing such other security or other arrangement for those obligations as may be approved by an Extraordinary Resolution of Noteholders.

6. **Fixed Rate Note Provisions**

(a) *Application:* This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments - Bearer Notes*) and Condition 11 (*Payments - Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Issuing and Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fixed Coupon Amount:* The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) *Calculation of interest amount:* The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "sub-unit" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(e) *Notes accruing interest otherwise than a Fixed Coupon Amount:* This Condition 6(e) (*Notes accruing interest otherwise than a Fixed Coupon Amount*) shall apply to Notes which are Fixed Rate Notes only where the Final Terms for such Notes specify that the Interest Payment Dates are subject to adjustment in accordance with the Business Day Convention specified therein. The relevant amount of interest payable in respect of each Note for any Interest Period for such Notes shall be calculated by the Calculation Agent by multiplying the product of the Rate of Interest and the Calculation Amount by the relevant Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards). The Calculation Agent shall cause the relevant amount of interest and the relevant Interest Payment Date to be notified to the Issuer, the Issuing and Paying Agent, the Registrar (in the case of Registered Notes) and the Noteholders in accordance with Condition 19 (*Notices*) and, if the Notes are listed on a stock exchange and the rules of such exchange so requires, such exchange as soon as possible after their determination or calculation but in no event later than the fourth Business day thereafter or, if earlier in the case of notification to the stock exchange, the time required by the rules of the relevant stock exchange.

(f) *Renminbi Notes:* Notwithstanding the foregoing, each Renminbi Note which is a Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate per annum equal to the Rate of Interest. For the purposes of calculating the amount of interest, if any Interest Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month in which case it shall be brought forward to the immediately preceding Business Day. Interest will be payable in arrear on each Interest Payment Date. The Calculation Agent will, as soon as reasonably practicable after 11.00 a.m. (Hong Kong time) on each Interest Determination Date, calculate the amount of interest payable per Specified Denomination for the relevant Interest Period. The determination of the amount of interest payable per Specified Denomination by the Calculation Agent shall (in the absence of manifest error and after confirmation by the Issuer) be final and binding upon all parties. The Calculation Agent will cause the amount of interest payable per

Specified Denomination for each Interest Period and the relevant Interest Payment Date to be notified to each Agent and be notified to Noteholders as soon as reasonably practicable after their determination but in no event later than the fourth Business Day thereafter. The amount of interest payable per Specified Denomination and Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) by the Issuer without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 13 (*Events of Default*), the accrued interest per Specified Denomination shall nevertheless continue to be calculated as previously by the Calculation Agent in accordance with this provision but no publication of the amount of interest payable per Specified Denomination so calculated need be made. Unless otherwise agreed in the relevant Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to the Specified Denomination, multiplying such product by the actual number of calendar days in the relevant Interest Period or, as applicable, other period concerned and dividing it by 365, and rounding the resultant figure to the nearest Renminbi sub-unit, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

## 7. **Floating Rate Note Provisions**

- (a) *Application:* This Condition 7 (*Floating Rate Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments - Bearer Notes*) and Condition 11(k) (*Payments - Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 7(b) (*Accrual of Interest*) (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Issuing and Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) *Screen Rate Determination:* If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:
  - (i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
  - (ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:
    - (A) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and
    - (B) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period;

*provided, however, that* if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Issuer shall determine such rate at such time and by reference to such sources as it determines appropriate;

- (iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (iv) if, in the case of (i) above, such rate does not appear on that page or, in the case of (iii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
  - (A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and
  - (B) determine the arithmetic mean of such quotations; and
- (v) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided, however, that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

- (d) *ISDA Determination:* If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
  - (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
  - (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms;
  - (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on LIBOR for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms; and
  - (iv) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:
    - (A) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and
    - (B) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period,

*provided, however, that* if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or, as the case may be, next longer than the length of the relevant Interest Period, then the Issuer shall determine such rate at such time and by reference to such sources as it determines appropriate.

- (e) *Maximum or Minimum Rate of Interest:* If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.
- (f) *Calculation of Interest Amount:* The Calculation Agent will, as soon as reasonably practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "sub-unit" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.
- (g) *Publication:* The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Issuing and Paying Agent and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period *provided that* if the Calculation Agent is unable to notify such competent authority, stock exchange and/or quotation system (if any) then the Issuer will procure such notification. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.
- (h) *Notifications etc:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7(h) (*Notifications etc*) by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

## 8. **Zero Coupon Note Provisions**

- (a) *Application:* This Condition 8 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) *Late payment on Zero Coupon Notes:* If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
  - (i) the Reference Price; and
  - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Issuing and Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. **Redemption and Purchase**

(a) *Scheduled redemption:* Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 10 (*Payments - Bearer Notes*) and Condition 11 (*Payments - Registered Notes*).

(b) *Redemption for tax reasons:* The Notes may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (unless the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders, or such other period(s) as may be specified in the relevant final terms, (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if, immediately before giving such notice:

(A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 12 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdictions or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

**provided, however, that** no such notice of redemption shall be given earlier than:

(1) where the Notes may be redeemed at any time, 90 days (or such other period as may be specified in the relevant Final Terms) prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or

(2) where the Notes may be redeemed only on an Interest Payment Date, 60 days (or such other period as may be specified in the relevant final terms) prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Issuing and Paying Agent (A) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Upon the expiry of any such notice as is referred to in this Condition 9(b) (*Redemption for tax reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 9(b) (*Redemption for tax reasons*).

(c) *Redemption at the option of the Issuer:* If the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than

60 days' notice to the Noteholders, or such other period(s) as may be specified in the relevant final terms (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(d) *Partial redemption:* If the Notes are to be redeemed in part only on any date in accordance with Condition 9(c) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Issuing and Paying Agent approves and in such manner as the Issuing and Paying Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 9(c) (*Redemption at the option of the Issuer*) and the rules and procedures of the Clearing Systems in force from time to time shall specify the serial numbers of the Notes so to be redeemed, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(e) *Redemption at the option of Noteholders:* If the Put Option is specified in the relevant Final Terms as being applicable, the Issuer shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 9(e) (*Redemption at the option of Noteholders*), the Holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put) (or such other period(s) as may be specified in the relevant Final Terms), deposit with any Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Agent. The relevant Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 9(e) (*Redemption at the option of Noteholders*), may be withdrawn; **provided, however, that** if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by an Agent in accordance with this Condition 9(e) (*Redemption at the option of Noteholders*), the depositor of such Note and not such Agent shall be deemed to be the Holder of such Note for all purposes.

(f) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (e) above.

(g) *Early redemption of Zero Coupon Notes:* Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

- (i) the Reference Price; and
- (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 9(g) (*Early redemption of Zero Coupon Notes*) or, if none is so specified, a Day Count Fraction of 30E/360.

(h) *Purchase:* The Issuer or any of its respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith.

(i) *Cancellation:* All Notes so redeemed or purchased by the Issuer or any of their respective Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

10. **Payments - Bearer Notes**

This Condition 10 (*Payments – Bearer Notes*) is only applicable to Bearer Notes.

(a) *Principal:* Payments of principal shall be made only against presentation and **(provided that** payment is made in full) surrender of Bearer Notes at the Specified Office of the Issuing and Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.

(b) *Interest:* Payments of interest shall, subject to paragraph (h) below, be made only against presentation and **(provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

(c) *Payments in New York City:* Payments of principal or interest may be made at the Specified Office of an Issuing and Paying Agent in New York City if: (i) the Issuer has appointed such Issuing and Paying Agent outside the United States with the reasonable expectation that such Issuing and Paying Agent will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of such Issuing and Paying Agent is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

(d) *Payments subject to fiscal laws:* All payments in respect of the Bearer Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "Code") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 12 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Deductions for unmatured Coupons:* If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "Relevant Coupons") being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise

require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

(f) *Unmatured Coupons void:* If the relevant Final Terms specifies that this Condition 10(f) (*Unmatured Coupons void*) is applicable or that the Floating Rate Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 9(b) (*Redemption for tax reasons*), Condition 9(e) (*Redemption at the option of Noteholders*), Condition 9(c) (*Redemption at the option of the Issuer*) or Condition 13 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(g) *Payments on business days:* If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(h) *Payments other than in respect of matured Coupons:* Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).

(i) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(j) *Exchange of Talons:* On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Issuing and Paying Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 14 (*Prescription*)). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

(k) *Payment of U.S. Dollar Equivalent:* Notwithstanding anything in these Conditions, if by reason of Inconvertibility, Non-transferability or Illiquidity, the Issuer is not able to satisfy payments of any amount in respect of the Notes when due in Renminbi in the relevant Renminbi Settlement Centre, the Issuer may, on giving not less than five nor more than 30 calendar days' irrevocable notice to the Noteholders prior to the due date for payment, settle any such payment in U.S. dollars on the due date at the U.S. Dollar Equivalent of any such Renminbi- denominated amount.

In such event, payments of the U.S. Dollar Equivalent of the relevant amount in respect of the Notes shall be made upon application by the holder of the Notes to the Specified Office of the Registrar or any Transfer Agent before the Record Date, by transfer to a U.S. dollar denominated account maintained by the payee with a bank in New York City.

In this Condition 10(k) (*Payment of U.S. Dollar Equivalent*):

**"Determination Business Day"** means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange) in the relevant Renminbi Settlement Centre, London and in New York City;

**"Determination Date"** means the day which is two Determination Business Days before the due date for any payment of the relevant amount under these Conditions;

**"Governmental Authority"** means any de facto or de jure government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of the relevant Renminbi Settlement Centre;

**"Illiquidity"** means where the general Renminbi exchange market in the relevant Renminbi Settlement Centre becomes illiquid and, as a result of which, the Issuer cannot obtain sufficient Renminbi in order to satisfy its obligation to pay any amount (in whole or in part) in respect of the Notes as determined by the Issuer in good faith and in a commercially reasonable manner following consultation (if practicable) with two Renminbi Dealers;

**"Inconvertibility"** means the occurrence of any event that makes it impossible for the Issuer to convert any amount due in respect of the Notes in the general Renminbi exchange market in the relevant Renminbi Settlement Centre, other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the pricing date of the relevant Series of Notes and it is impossible for the Issuer, due to an event beyond its control, to comply with such law, rule or regulation);

**"Non-transferability"** means the occurrence of any event that makes it impossible for the Issuer to transfer Renminbi between accounts inside the relevant Renminbi Settlement Centre or from an account inside the relevant Renminbi Settlement Centre to an account outside the relevant Renminbi Settlement Centre or from an account outside the relevant Renminbi Settlement Centre to an account inside the relevant Renminbi Settlement Centre, other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the pricing date for the relevant Series of Notes and it is impossible for the Issuer, due to an event beyond its control, to comply with such law, rule or regulation);

**"Renminbi Dealer"** means an independent foreign exchange dealer of international repute active in the Renminbi exchange market in the relevant Renminbi Settlement Centre;

**"Spot Rate"** means the spot CNY/U.S. dollar exchange rate for the purchase of U.S. dollars with Renminbi in the over-the-counter Renminbi exchange market in the relevant Renminbi Settlement Centre for settlement in two Determination Business Days, as determined by the Calculation Agent at or around 11.00 a.m. (Hong Kong time) on the Determination Date, on a deliverable basis by reference to Reuters Screen Page TRADCNY3, or if no such rate is available, on a non-deliverable basis by reference to Reuters Screen Page TRADNDF. If neither rate is available, the Calculation Agent will determine the Spot Rate at or around 11.00 a.m. (Hong Kong time) on the Determination Date as the most recently available CNY/U.S. dollar official fixing rate for settlement in two Determination Business Days reported by The State Administration of Foreign Exchange of the PRC, which is reported on the Reuters Screen Page CNY=SAEC. Reference to a page on the Reuters Screen means the display page so designated on the Reuters Monitor Money Rates Service (or any successor service) or such other page as may replace that page for the purpose of displaying a comparable currency exchange rate. All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 10(k) (*Payment of U.S. Dollar Equivalent*) by the Calculation Agent, will (in the absence of wilful default, gross negligence or fraud) be binding on the Issuer, the Paying Agents and all Noteholders; and

**"U.S. Dollar Equivalent"** means the Renminbi amount converted into U.S. dollars using the Spot Rate for the relevant Determination Date.

## 11. Payments - Registered Notes

This Condition 11 is only applicable to Registered Notes.

(a) *Principal:* Payments of principal shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Issuing and Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of The Issuing and Paying Agent.

(b) *Interest:* Payments of interest shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Issuing and Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of The Issuing and Paying Agent.

(c) *Payments subject to fiscal laws:* All payments in respect of the Registered Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 12 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days:* Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not a Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of the Issuing and Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 11(d) arriving after the due date for payment or being lost in the mail.

(e) *Partial payments:* If the Issuing and Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date:* Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

(g) *Payment of U.S. Dollar Equivalent:* Notwithstanding anything in these Conditions, if by reason of Inconvertibility, Non-transferability or Illiquidity, the Issuer is not able to satisfy payments of any amount in respect of the Notes when due in Renminbi in the relevant Renminbi Settlement Centre,

the Issuer may, on giving not less than five nor more than 30 calendar days' irrevocable notice to the Noteholders prior to the due date for payment, settle any such payment in U.S. dollars on the due date at the U.S. Dollar Equivalent of any such Renminbi- denominated amount.

In such event, payments of the U.S. Dollar Equivalent of the relevant amount in respect of the Notes shall be made upon application by the holder of the Notes to the Specified Office of the Registrar or any Transfer Agent before the Record Date, by transfer to a U.S. dollar denominated account maintained by the payee with a bank in New York City.

In this Condition 11(g):

**"Determination Business Day"** means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange) in the relevant Renminbi Settlement Centre, London and in New York City;

**"Determination Date"** means the day which is two Determination Business Days before the due date for any payment of the relevant amount under these Conditions;

**"Governmental Authority"** means any de facto or de jure government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of the relevant Renminbi Settlement Centre;

**"Illiquidity"** means where the general Renminbi exchange market in the relevant Renminbi Settlement Centre becomes illiquid and, as a result of which, the Issuer cannot obtain sufficient Renminbi in order to satisfy its obligation to pay any amount (in whole or in part) in respect of the Notes as determined by the Issuer in good faith and in a commercially reasonable manner following consultation (if practicable) with two Renminbi Dealers;

**"Inconvertibility"** means the occurrence of any event that makes it impossible for the Issuer to convert any amount due in respect of the Notes in the general Renminbi exchange market in the relevant Renminbi Settlement Centre, other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the pricing date of the relevant Series of Notes and it is impossible for the Issuer, due to an event beyond its control, to comply with such law, rule or regulation);

**"Non-transferability"** means the occurrence of any event that makes it impossible for the Issuer to transfer Renminbi between accounts inside the relevant Renminbi Settlement Centre or from an account inside the relevant Renminbi Settlement Centre to an account outside the relevant Renminbi Settlement Centre or from an account outside the relevant Renminbi Settlement Centre to an account inside the relevant Renminbi Settlement Centre, other than where such impossibility is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the pricing date for the relevant Series of Notes and it is impossible for the Issuer, due to an event beyond its control, to comply with such law, rule or regulation);

**"Renminbi Dealer"** means an independent foreign exchange dealer of international repute active in the Renminbi exchange market in the relevant Renminbi Settlement Centre;

**"Spot Rate"** means the spot CNY/U.S. dollar exchange rate for the purchase of U.S. dollars with Renminbi in the over-the-counter Renminbi exchange market in the relevant Renminbi Settlement Centre for settlement in two Determination Business Days, as determined by the Calculation Agent at or around 11.00 a.m. (Hong Kong time) on the Determination Date, on a deliverable basis by reference to Reuters Screen Page TRADCNY3, or if no such rate is available, on a non-deliverable basis by reference to Reuters Screen Page TRADNDF. If neither rate is available, the Calculation Agent will determine the Spot Rate at or around 11.00 a.m. (Hong Kong time) on the Determination Date as the most recently available CNY/U.S. dollar official fixing rate for settlement in two Determination Business Days reported by The State Administration of Foreign Exchange of the PRC, which is reported on the Reuters Screen Page CNY=SAEC. Reference to a page on the Reuters Screen means the display page so designated on the Reuters Monitor Money Rates Service

(or any successor service) or such other page as may replace that page for the purpose of displaying a comparable currency exchange rate. All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 11(g) by the Calculation Agent, will (in the absence of wilful default, gross negligence or fraud) be binding on the Issuer, the Paying Agent and all Noteholders; and

**"U.S. Dollar Equivalent"** means the Renminbi amount converted into U.S. dollars using the Spot Rate for the relevant Determination Date.

The Calculation Agent will not be responsible or liable to the Issuer or any holder of the Notes for any determination of any Spot Rate determined in accordance with this provision in the absence of its own wilful default, gross negligence or fraud.

## 12. **Taxation**

(a) *Gross up:* All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Relevant Jurisdictions or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon:

- (i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or
- (ii) where the relevant Note or Coupon or Note Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such additional amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days; or
- (iii) where such withholding or deduction is required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder or any official interpretations thereof.

(b) *Taxing jurisdiction:* If the Issuer becomes subject at any time to any taxing jurisdiction other than the Relevant Jurisdictions, references in these Conditions to Relevant Jurisdictions shall be construed as references to Relevant Jurisdictions and/or such other jurisdiction.

## 13. **Events of Default**

If any of the following events occurs and is continuing:

- (a) *Non-payment:* the Issuer fails to pay any amount of principal or interest in respect of the Notes on the due date for payment thereof and such failure has continued for a period of 90 days; or
- (b) *Breach of other obligations:* the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and such default is incapable of remedy or, if capable of remedy, such default remains unremedied for 90 days; or
- (c) *Cross-default of Issuer:* the Issuer fails to pay any Indebtedness or Sukuk Obligation when due or (as the case may be) within any originally applicable grace period and provided that: (i) the amount of such Indebtedness or Sukuk Obligation, individually or in the aggregate, exceeds

U.S.\$25,000,000 (or its equivalent in any other currency or currencies); and (ii) such failure has continued for a period of 90 days,

then Noteholders holding not less than one-quarter of the aggregate principal amount of the outstanding Notes may, by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Issuing and Paying Agent, declare the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders.

**14. Prescription**

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

**15. Replacement of Notes and Coupons**

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Issuing and Paying Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity satisfactory to the Issuing and Paying Agent and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

**16. Agents**

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint an additional or successor issuing and paying agent or registrar or Calculation Agent and additional or successor issuing and paying agent; **provided, however, that:**

- (i) the Issuer shall at all times maintain an issuing and paying agent and a registrar; and
- (ii) if a Calculation Agent is specified in the relevant Final Terms, the Issuer shall at all times maintain a Calculation Agent; and
- (iii) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of an Issuing and Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain an Issuing and Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system;

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

17. **Meetings of Noteholders; Modification**

(a) *Meetings of Noteholders:* The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of not less than 90 per cent. of the Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Agency Agreement will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification:* The Notes, these Conditions and the Deed of Covenant may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the sole opinion of the Issuer, not materially prejudicial to the interests of the Noteholders.

18. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Agency Agreement, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time create and issue other series of notes having the benefit of the Deed of Covenant.

19. **Notices**

(a) *Bearer Notes:* Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

(b) *Registered Notes:* Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

20. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer,

(b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Issuing and Paying Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

21. **Rounding**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

22. **Governing Law, Jurisdiction and Dispute Resolution**

- (a) *Governing law:* The Notes, the Agency Agreement and the Deed of Covenant and any non-contractual obligations arising out of or in connection with the same are governed by, and shall be construed in accordance with, English law.
- (b) *Arbitration:* Subject to Condition 22(c) (*Option to litigate*), any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Agency Agreement, the Deed of Covenant and the Notes (including these Conditions) (including a dispute regarding the existence, validity, interpretation, performance, breach or termination or the consequences of the nullity of the same and any dispute relating to any non-contractual obligations arising out of or in connection with the same) (a "Dispute") shall be referred to and finally resolved by arbitration under the London Court of International Arbitration ("LCIA") Arbitration Rules (the "Rules"), which Rules (as amended from time to time) are incorporated by reference into this Condition 22(b). For these purposes:
  - (i) the seat of arbitration shall be London, England;
  - (ii) there shall be three arbitrators, each of whom shall be disinterested in the arbitration, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions; and
  - (iii) the language of the arbitration shall be English.
- (c) *Option to litigate:* Notwithstanding Condition 22(b) (*Arbitration*) above, any Noteholder (only where permitted so to do in accordance with the terms of the Deed of Covenant) may, in the alternative, and at its sole discretion, by notice in writing to the Issuer:
  - (d) within 28 days of service of a Request for Arbitration (as defined in the Rules); or
    - (i) in the event no arbitration is commenced,
    - (ii) require that a Dispute be heard by a court of law. If any Noteholder (only where permitted so to do in accordance with the terms of the Deed of Covenant) gives such notice, the Dispute to which such notice refers shall be determined in accordance with Condition 22(f) (*Court proceedings*) and, subject as provided below, any arbitration commenced under

Condition 22(b) (*Arbitration*) in respect of that Dispute will be terminated. Each of the parties to the terminated arbitration will bear its own costs in relation thereto.

(e) *Termination of arbitration:* If any notice to terminate is given after service of any Request for Arbitration in respect of any Dispute, the relevant Noteholder (only where permitted so to do in accordance with the terms of the Deed of Covenant and as applicable) must also promptly give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

- (i) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;
- (ii) such arbitrator's entitlement to be paid his proper fees and disbursements; and
- (iii) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

(f) *Court proceedings:* In the event that a notice pursuant to Condition 22(c) (*Option to litigate*) is issued, the following provisions shall apply:

- (i) subject to Condition 22(f)(iii) below, the courts of England shall have exclusive jurisdiction to settle any Dispute and the Issuer submits to the exclusive jurisdiction of such courts;
- (ii) the Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and
- (iii) this Condition 22(f)(iii) is for the benefit of the Noteholders only. As a result, and notwithstanding Condition 22(f)(ii) above, the Noteholder (only where permitted so to do in accordance with the terms of the Deed of Covenant) may take proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Noteholder (only where permitted so to do in accordance with the terms of the Deed of Covenant) may take concurrent Proceedings in any number of jurisdictions.

(g) *Process Agent:* The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Maples and Calder at its registered office at 11th Floor, 200 Aldersgate Street, London EC1A 4HD, or to such other person with an address in England or Wales and/or at such other address in England or Wales as the Issuer may specify by notice in writing to the Noteholders. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

(h) *Waiver of immunity:* To the extent that the Issuer has, or hereafter may (whether on the grounds of sovereignty or otherwise), acquire any immunity from any Proceedings or from execution of judgment, the Issuer agrees that no such immunity shall be claimed by or on behalf of it or with respect to its assets, and the Issuer consents generally in respect of any such Proceedings to the giving of any relief or the issue of any process in connection with any such Proceedings including, without limitation, the making, enforcement or execution against any property whatsoever of any order or judgment which may be made or given in such Proceedings.

## FORM OF FINAL TERMS

**[PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC (the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]<sup>1</sup>

**[MiFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "MiFID II")][MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

**[Notification under Section 309B(1)(c) of the [Securities and Futures Act (Chapter 289) of Singapore (the "SFA") - [Notice to be included if classification of the Notes is not "prescribed capital markets products", pursuant to Section 309B of the SFA].**

### Final Terms dated [•]

**Arab Petroleum Investments Corporation**  
**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]**

**U.S.\$ 3,000,000,000**  
**Global Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "Conditions") set forth in the Base Prospectus dated 29 August 2018 [and the supplemental Base Prospectus dated [•] which [together] constitute[s] a base prospectus (the "Base Prospectus") for the purposes of the Prospectus Directive. This document [constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive]<sup>2</sup> and must be read in conjunction with the Base Prospectus.

Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing on the website of the Central Bank of Ireland ([www.centralbank.ie](http://www.centralbank.ie)) and during normal business hours at the registered office of Arab Petroleum Investments Corporation [and copies may be obtained from [•]].

[The expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive and the expression "2010 PD Amending Directive" means Directive 2010/73/EU **provided, however, that** all references in this document to the "Prospectus Directive" in relation to any Member State of the European Economic Area refer to Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive), and include any relevant implementing measures in the relevant Member State.]

<sup>1</sup> Include where Part B item 6(v) of the Final Terms specifies "Applicable".

<sup>2</sup> Include for PD-compliant issuances.

[In accordance with the Prospectus Directive, no prospectus is required in connection with the issuance of the Notes described herein.]

1. (i) Issuer: Arab Petroleum Investments Corporation
2. (i) Series Number: [•]
- (ii) Tranche Number: [•]
- (iii) Date on which the Notes become fungible: [Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [•] on [[•]/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 22 below [which is expected to occur on or about [•]].]
3. Specified Currency or Currencies: [•]  
*(If Notes are being cleared through DTC with interest and or principal payable in a currency other than U.S. dollars, check whether DTC will accept payments in such currency)*
4. Aggregate Nominal Amount:
  - (i) Series: [•]
  - (ii) Tranche: [•]
5. Issue Price: [•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [•]]
6. (i) Specified Denominations: [•]  
(ii) Calculation Amount: [•]
7. (i) Issue Date: [•]  
(ii) Interest Commencement Date: [[•]/Issue Date/Not Applicable]
8. Maturity Date: [Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]  
[For fixed rate notes where the Interest Payment Dates are subject to modification (including Renminbi or Hong Kong dollar denominated Fixed Rate Notes), the Maturity Date will be the Interest Payment Date falling in or nearest to the relevant month and year]
9. Interest Basis: [[•] per cent. Fixed Rate]  
[•][•] [[[LIBOR/LIBID/LIMEAN/EURIBOR/SHIBOR/HIBOR/CNH HIBOR/TRLIBOR TRYLIBOR/SIBOR/EIBOR/TIBOR/SAIBOR/BBSW//JPY LIBOR/PRIBOR/[•]]+/- [•] per cent. Floating Rate]  
[Zero Coupon]  
(see paragraph [14/15/16] below)

10. Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at 100 per cent. of their nominal amount.

11. Change of Interest or Redemption/Payment Basis: [Specify the date when any fixed to floating rate change occurs or refer to paragraphs 14 and 15 below and identify there/Not Applicable]

12. Put/Call Options: [Investor Put]  
[Issuer Call]  
[(See paragraph [17/18/19] below)]

13. [(i)] Status of the Notes: [Senior]  
[(iii)] [Date [Board] approval for issuance of Notes obtained: [•] [and •], respectively  
(N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)]

### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

14. Fixed Rate Note Provisions [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)

(i) Rate[(s)] of Interest: [•] per cent. per annum payable in arrear on each Interest Payment Date

(ii) Interest Payment Date(s): [•] in each year<sup>3</sup>

(iii) Fixed Coupon Amount[(s)]: [[•] per Calculation Amount/Not Applicable] For Notes where the Interest Payment Dates are subject to modification: The amount of interest payable for any Interest Period is to be calculated in accordance with Condition 6(e).<sup>4</sup>

(iv) Broken Amount(s): [•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]

(v) Day Count Fraction: [30/360 / Actual/Actual (ICMA/ISDA) / other]

(vi) Renminbi Settlement Centre: [•] / Not Applicable

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<sup>3</sup> Note that for certain Renminbi or Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day".

<sup>4</sup> For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest RMB0.01, RMB0.005 for the case of Renminbi denominated Fixed Rate Notes, being rounded upwards, and to the nearest HK\$0.01, HK\$0.005 for the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards".

15. Floating Rate Note Provisions [Applicable/Not Applicable]

*(If not applicable delete the remaining sub-paragraphs of this paragraph)*

(i) Specified Period: [•]

(ii) Specified Interest Payment Dates:

(iii) [First Interest Payment Date]:

(iv) Business Convention: Day [Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention]

(v) Additional Business Centre(s): [Not Applicable/[•]]

(vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination]

(vii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Issuing and Paying Agent]): [•] shall be the Calculation Agent

(viii) Screen Rate Determination:

- Reference Rate: [•][•] [[LIBOR/LIBID/LIMEAN/EURIBOR/SHIBOR/ HIBOR/CNH HIBOR/TRLIBOR or TRYLIBOR/SIBOR/EIBOR/TIBOR/SAIBOR/BBSW /JPY LIBOR/PRIBOR]]
- Interest Determination Date(s): [•]
- Relevant Screen Page: [•]
- Relevant Time: [•]
- Relevant Financial Centre: [•]
- Renminbi Settlement Centre: [•] / Not Applicable

(ix) ISDA Determination:

- Floating Rate Option: [•]

• Designated Maturity:	[•]
• Reset Date:	[•]
[•] ISDA Definitions:	[2006 ]
(x) Linear interpolation	Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation ( <i>specify for each short or long interest period</i> )
(xi) Margin(s):	[+/-][•] per cent. per annum
(xii) Minimum Rate of [•] per cent. per annum Interest:	
(xiii) Maximum Rate of [•] per cent. per annum Interest:	
(xiv) Day Count Fraction:	[•]
16. Zero Coupon Note Provisions	[Applicable/Not Applicable]
	<i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Accrual Yield:	[•] per cent. per annum
(ii) Reference Price:	[•]
(iii) Day Count Fraction in relation to Early Redemption Amount:	[30/360 / Actual/Actual (ICMA/ISDA) / other]
<b>PROVISIONS RELATING TO REDEMPTION</b>	
17. Call Option	[Applicable/Not Applicable]
(i) Optional Redemption Date(s):	[•]/[Any date from and including [date] to but excluding [date]]
(ii) Optional Redemption Amount(s) of each Note:	[•] per Calculation Amount [in the case of the Optional Redemption Date(s) falling [on [•]]/in the period from and including [date] to but excluding [date]].
(iii) If redeemable in part:	
(a) Minimum Redemption Amount:	[•] per Calculation Amount
(b) Maximum Redemption Amount	[•] per Calculation Amount
(iv) Notice period:	[•]
18. Put Option	[Applicable/Not Applicable]

*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

(i) Optional Redemption [•]  
Date(s):

(ii) Optional Redemption [•] per Calculation Amount  
Amount(s) of each Note:

(iii) Notice period: [•]

19. Final Redemption Amount of [•] per Calculation Amount  
each Note

20. Early Redemption Amount  
  
Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption:

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

21. Form of Notes:

**Bearer Notes:**  
  
[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]  
  
[Temporary Global Note exchangeable for Definitive Notes on [•] days' notice]  
  
[Permanent Global Note exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]

**Registered Notes:**  
  
[Unrestricted Global Note Certificate exchangeable for unrestricted Individual Note Certificates on [•] days' notice/at any time/in the limited circumstances specified in the Unrestricted Global Note Certificate]  
  
[and]  
  
[Restricted Global Note Certificate exchangeable for Restricted Individual Note Certificates on [•] days' notice/at any time/in the limited circumstances specified in the Restricted Global Note Certificate]

22. Additional Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/[•]]

23. Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. As the Notes have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are left.]

## RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. The Issuer declares that having taken all reasonable care to ensure that such is the case, the information contained in these Final Terms is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect their import.

Signed on behalf of  
**ARAB PETROLEUM INVESTMENTS CORPORATION**

By: .....  
Duly authorised

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

#### (i) Admission to Trading:

[Application is has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the regulated market of Euronext Dublin with effect from [•].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the regulated market of Euronext Dublin with effect from [•].] [Not Applicable.]

*(When documenting a fungible issue need to indicate that original Notes are already admitted to trading.)*

#### (ii) Estimate of total expenses related to admission to trading:

### 2. RATINGS

The Notes to be issued [have been/are expected to be] rated/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:

#### Ratings:

[Moody's: [•]]

[Moody's is established in the EEA and registered under Regulation (EU) No 1060/2009, as amended (the "CRA Regulation").]

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER

*(Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the statement below:)*

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. (Amend as appropriate if there are other interests)]

### 4. **[Fixed Rate Notes only – YIELD**

#### Indication of yield:

[•]

*[The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]*

### 5. OPERATIONAL INFORMATION

#### CUSIP:

[•] [Not Applicable]

[Select "Not Applicable" if no Restricted Registered Notes will be issued]

ISIN: [•]  
Common Code: [•]  
[FISN: [•]]  
[CFI Code: [•]]  
Delivery: Delivery [against/free of] payment

Names and addresses of additional Issuing and Paying Agent(s) (if any):

## 6. DISTRIBUTION

- (i) Method of Distribution: [Syndicated/Non-syndicated ]
- (ii) If syndicated:
  - (A) Names of [Not Applicable/give names] Dealers
  - (B) Stabilisation Manager(s), if any: [Not Applicable/give names]
- (iii) If non-syndicated, name of Dealer: [Not Applicable/give names]
- (iv) U.S. Selling Restrictions: [Reg. S Compliance Category 2; [(*In the case of Bearer Notes*) - [TEFRA C/TEFRA D / TEFRA not applicable] (*In the case of Registered notes*) - [Not] rule 144A Eligible]]
- (v) [Prohibition of Sales to EEA Retail Investors: [Applicable]/[Not Applicable]  
*(If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products, "Applicable" should be specified.)*]

7. U.S. Federal Income Tax Considerations [Not applicable]/[For Notes issued in compliance with Rule 144A:][For U.S. federal income tax purposes, the Issuer intends to treat the Notes as [original issue discount Notes/fixed-rate debt/fixed-rate debt issued with original issue discount/contingent payment debt instruments, [for which purpose, the comparable yield relating to the Notes will be [•] per cent. compounded [semi-annually/quarterly/monthly], and that the projected payment schedule with respect to a Note consists of the following payments: [•]/for which purpose, the comparable yield and the projected payment schedule are available by contacting [•] at [•]]/variable rate debt instruments/variable rate debt instruments issued with original issue discount/foreign

currency Notes/foreign currency Notes issued with original issue discount/foreign currency contingent payment debt instruments, [for which purpose, the comparable yield relating to the Notes will be [•] per cent. compounded [semi-annually/quarterly/monthly], and that the projected payment schedule with respect to a Note consists of the following payments: [•]/for which purpose, the comparable yield and the projected payment schedule are available by contacting [•] at [•]/short-term Notes.]]

[*For a Qualified Reopening of Notes issued in compliance with Rule 144A:*][Qualified Reopening. The issuance of the Notes should be treated as a "qualified reopening" of the Notes issued on [•] within the meaning of the Treasury regulations governing original issue discount on debt instruments (the "**OID Regulations**"). Therefore, for purposes of the OID Regulations, the Notes issued in this offering should be treated as having the same issue date and the same issue price as the Notes issued on [•] and should [not] be considered to have been issued with original issue discount for U.S. federal income tax purposes.]

## DESCRIPTION OF THE GROUP

### OVERVIEW

APICORP, which is a multilateral development bank focused on the hydrocarbon industry, was established on 23 November 1975 pursuant to the Establishing Agreement.

The Establishing Agreement defines APICORP's purpose as:

- participating in financing petroleum projects and industries, and in fields of activity which are derived from, ancillary to, associated with or complementary to petroleum projects and industries; and
- giving priority to Arab joint ventures which benefit the OAPEC Member States and enhance their ability to utilise their petroleum resources and to invest their savings to strengthen their economic and financial potential.

APICORP seeks to achieve this purpose by supporting relevant projects through participating in syndicated loans or making direct loans and/or through equity investments. It also participates in trade financing activities, provides project-related financial advisory services and publishes research relating to the hydrocarbon industry.

The table below shows details of APICORP's shareholders (the "Shareholders") as at 30 June 2018.

Member State	Authorised capital <sup>(1)</sup>	Subscribed capital <sup>(2)</sup>	Issued and fully paid	Callable	Percentage ownership <sup>(3)</sup>
	(U.S.\$ million)				(per cent.)
Kuwait.....	408	340	170	170	17.0
Saudi Arabia.....	408	340	170	170	17.0
United Arab Emirates.....	408	340	170	170	17.0
Libya.....	360	300	150	150	15.0
Iraq.....	240	200	100	100	10.0
Qatar.....	240	200	100	100	10.0
Algeria.....	120	100	50	50	5.0
Bahrain.....	72	60	30	30	3.0
Egypt.....	72	60	30	30	3.0
Syria.....	72	60	30	30 <sup>(4)</sup>	3.0
	<b>2,400</b>	<b>2,000</b>	<b>1,000</b>	<b>1,000</b>	<b>100.0</b>

<sup>(1)</sup> All shares have a nominal value of U.S.\$1,000.

<sup>(2)</sup> Subscribed capital is the sum of issued and fully paid capital and capital which remains callable if recommended by the Board of Directors and approved by APICORP's general assembly. In April 2016, APICORP's subscribed capital was increased to U.S.\$2,000 million from U.S.\$1,500 million.

<sup>(3)</sup> Based on issued and fully paid capital.

<sup>(4)</sup> Restricted due to APICORP sanctions compliance policy.

In May 2011, APICORP's shareholders agreed to change the capital structure by introducing callable capital in the amount of U.S.\$750 million. Callable capital, which can be requested in order to service debt, to expand development operations (while maintaining capital adequacy ratios) or to absorb losses from treasury or development-related assets, is a joint and several obligation of each member country to provide additional capital within two months when called. In April 2016, the shareholders' U.S.\$1 billion line of credit was replaced with additional callable capital, which increased total callable capital to U.S.\$1 billion. Although APICORP does not have specific guarantees from its shareholders, APICORP believes that the introduction of callable capital demonstrates stronger support than the line of credit made available by its shareholders in 2008. See "*Risk Factors—APICORP is a multilateral development bank without guarantee-related support from its shareholders*".

The rights of the Shareholders are contained in the Establishing Agreement and APICORP is managed in accordance with the provisions contained in the Establishing Agreement. The Establishing Agreement ensures that APICORP is not controlled by any single member state. All resolutions are required to be approved by a majority of the votes cast, with each Shareholder having one vote per share held.

APICORP is independent in its administration and in the performance of its activities and carries out its operations on a commercial basis with the intention of generating a profit.

APICORP's financial year corresponds to the calendar year. As at 30 June 2018, the Group had total assets of U.S.\$6,630.2 million, including U.S.\$3,186.9 million in syndicated and direct loans and U.S.\$1,044.2 million in direct equity investments and an investment in an associate. The Group also has a significant treasury investment portfolio of investments at FVTOCI (primarily fixed income securities), amounting to U.S.\$1,400.0 million as at 30 June 2018, which is intended to provide earnings which are not correlated to the Group's two other more cyclical business lines of lending to, and making equity investments in, relevant projects.

In 2017, the Group had net interest income of U.S.\$66.2 million and received U.S.\$37.3 million in dividend income. The Group's profit for 2017 was U.S.\$103.6 million. In the six months ended 30 June 2018, the Group had net interest income of U.S.\$45.9 million and received U.S.\$33.4 million in dividend income. The Group's profit for the six months ended 30 June 2018 was U.S.\$150.3 million.

The Group's headquarters are located in Dammam, Saudi Arabia. In addition, APICORP has a wholesale banking branch in Manama, Bahrain, which is regulated by the Central Bank of Bahrain. Its headquarters office address is Dammam Coast Road, Al Rakkah, P.O. Box 9599, 31423 Dammam, Saudi Arabia and its telephone number is +966 (0) 3 847 0444.

## **HISTORY**

Following its establishment, APICORP commenced loan financing and direct equity investment activity with various Arab petroleum companies. Trade financing of petroleum, gas and petrochemicals began in 1987. In 2001, the Group commenced financial advisory services to assist the OAPEC Member States and companies within them with the financing of their projects. In the same year, the Board of Directors (the "Board") approved the Group's expansion into the power generation sector, with a strategic focus on generation or transmission facilities which support the development of energy-related industry projects. In 2007, the Board approved the financing of energy intensive industries such as aluminium and the establishment of energy funds. The Group continued to support the hydrocarbon and related energy sector throughout the global financial crisis, including at times when market liquidity was significantly constrained.

In 2006, APICORP established its branch in Bahrain with a view to broadening its financing services.

APICORP's initial authorised share capital was SAR 3.6 billion (U.S.\$960 million), which increased in May 2011 to U.S.\$2.4 billion. When it was established, APICORP's subscribed capital was SAR 1.2 billion (U.S.\$320 million). APICORP's subscribed capital has increased since then, most recently to U.S.\$2.0 billion in April 2016.

## **LEGAL STATUS OF APICORP**

APICORP is a corporation established in accordance with a special international agreement, the Establishing Agreement, is hosted by Saudi Arabia and enjoys, with respect to OAPEC Member States and third parties, all the rights and privileges of nationality which national companies enjoy in each Member State. APICORP is subject to the provisions of the Establishing Agreement, which are expressed to prevail in the event that there is a conflict with the internal laws of any OAPEC Member State. APICORP is also exempt from the payment of duties, taxes and all public financial costs and burdens in respect of all operations related to its objectives. APICORP is also exempted from any special fees related to subscription, incorporation, registration, increase of capital, dissolution and liquidation. The Establishing Agreement explicitly grants APICORP privileges throughout the OAPEC Member States. These privileges include:

- an undertaking by the OAPEC Member States, jointly and severally, to support APICORP, although see "*Risk Factors—Factors that may affect APICORP's ability to fulfil its obligations under Notes issued under the Programme—APICORP is a multilateral development bank without guarantee-related support from its shareholders*";
- APICORP's rights and privileges of nationality within any OAPEC Member State;

- APICORP's exemptions from payment of duties and all public and financial costs within OAPEC Member States;
- APICORP's exemption from any currency controls, including from convertibility and transfer restrictions;
- support for APICORP's personnel in entry and residency throughout the OAPEC Member States; and
- an undertaking by the OAPEC Member States to refrain from appropriating any of APICORP's assets.

APICORP's shareholders and their shareholdings have remained unchanged since it was established. The Establishing Agreement provides that only member countries of OAPEC may be shareholders in APICORP. If any shareholder ceases to be an OAPEC Member State, it would also cease to be a shareholder in APICORP and its shares would be distributed among the remaining OAPEC Member State shareholders on a *pro rata* basis.

## STRATEGY

APICORP is a multilateral development bank that contributes to the growth, development and transformation of the Arab hydrocarbon and related energy industries through the following activities:

- providing debt funding in the form of project finance, asset-based finance and structured trade finance;
- providing financial structuring and advisory services;
- providing equity funding to companies and projects; and
- providing industry and economic research.

APICORP believes that the energy sector in the MENA region offers significant prospects for investors both in terms of the number of energy and related projects and the scale of the investment required.

APICORP aims to consolidate its role as a leading development institution that focuses on the hydrocarbon and related energy industries.

The Group has been implementing and refining its current strategy since 2014. The current strategy was developed with the assistance of Boston Consulting Group and approved by the Board towards the end of 2013. The Board set a number of strategy milestones which have been substantially or fully completed and the Group continues to implement and refine its strategy.

The Group's main strategic initiatives include:

- maintaining the Group's developmental role and mandate, whilst becoming more commercially focused;
- achieving an optimum asset mix by growing the balance sheet size and rebalancing the portfolio. The strategy also envisages the Group growing its fee income and enhancing its product development activities;
- enhancing sub-sector diversification in the broader energy and related sectors and achieving greater geographic diversification;
- strengthening its funding profile by focusing on lengthening funding maturities and improving the overall cost of funding;
- achieving greater operational efficiencies through enhancements in the people, processes and systems dimensions; and
- strengthening the Group's risk and control frameworks.

## STRENGTHS

The Group believes that it benefits from a number of strengths. These include:

### **Sovereign ownership and special privileges**

APICORP is 100 per cent. owned by OAPEC Member State governments, 64.0 per cent. owned by GCC governments and 51 per cent. owned by Kuwait, Saudi Arabia and the UAE collectively. APICORP benefits from a number of special privileges afforded to it by the Establishing Agreement, see "*—Legal status of APICORP*" above. APICORP also has de facto preferred creditor status by virtue of its status as a multilateral development bank. De facto preferred creditor status is based solely on historical practice in relation to multilateral development banks. Preferred creditor status is not, however, a legal status. The preferred creditor status enjoyed by APICORP is also reflected in the fact that the OAPEC Member States have, in the Establishing Agreement, exempted APICORP from all restrictions relating to currency control and fund transfer.

### **Strong shareholder support**

The Establishing Agreement provides that the OAPEC Member States undertake:

- jointly and severally, to support APICORP, protect it and embrace its causes in every way that ensures the protection of its rights and interests internationally and otherwise (although APICORP does not benefit from a specific guarantee from its shareholders); and
- to facilitate all the activities related to APICORP's objectives and to adopt all possible measures to that end.

The OAPEC Member States have supported each of APICORP's five issued and fully paid capital increases since it was established and have also supported it with significant deposits. The Group also benefits from U.S.\$1 billion in callable capital, which provides a further indication of potential future shareholder support. In addition, the OAPEC Member States elected not to declare dividends in respect of each of 2008, 2009, 2010, 2012, 2013, 2014 and 2016 to further strengthen APICORP's financial position. A total dividend of U.S.\$30 million was declared in respect of 2017. OAPEC Member States, through their representatives on the Board, provide APICORP with opportunities to participate in, or initiate, projects in OAPEC Member States.

The Moody's report rates the strength of APICORP's shareholder support as very high and notes that APICORP's track record of receiving capital increases demonstrates a strong propensity for shareholders to provide support.

### **Solid capitalisation and low leverage**

As at 30 June 2018, the Group's capital adequacy ratios determined in accordance with Basel II methodology were 29.84 per cent. (for total capital) and 29.48 per cent. (for Tier 1 capital). The Group's total capital ratio has remained around 28 per cent. since 2009, supported by the quality of its asset portfolio and its strong track record of profitability.

The Group seeks to maintain conservative leverage levels, which it calculates as its total liabilities divided by its total equity and non-controlling interests. As at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015, the Group's leverage levels were 1.90 times, 1.90 times, 2.07 times and 1.96 times, respectively.

### **Sustained and strong financial performance**

The Group has been profitable in almost every year since it was established, including throughout the global financial crisis. In October 2012, Moody's upgraded APICORP's ratings from A1 to Aa3 with a stable outlook, principally reflecting its improved shareholder capital and funding position. This Aa3 rating has been maintained since that date.

The Group also has a low and stable amount of NPLs which were U.S.\$12.5 million as at 30 June 2018 and U.S.\$63.6 million as at 31 December in each of 2017, 2016 and 2015. These mainly comprised Iraqi loans and one Libyan loan, which are fully covered by provisions and cash collateral held. The Group's NPLs

comprised 2.05 per cent., 2.06 per cent. and 2.41 per cent., respectively, of its total gross loans as at 31 December in each of 2017, 2016 and 2015. As of 30 June 2018, the Group's NPLs reduced to U.S. \$12.5 million, or 0.38 percent of its total gross loans, as a result of a settlement agreement with the Government of Iraq in relation to the overdue Iraqi loan. See "*Management's discussion and analysis of financial condition and results of operations of APICORP—Recent developments*".

## **Focus on strategic hydrocarbon sector and geographically focussed on the GCC**

The Group focuses on financing projects in the oil and gas, petrochemical and energy sectors and has developed significant expertise in these areas since it was established in 1975. As at 31 December 2017, 76.5 per cent. of APICORP's assets were located in the GCC and 34.7 per cent. and 10.2 per cent. were located in Saudi Arabia and Qatar, respectively.

## **BUSINESS**

The Group has three principal business areas:

- project finance, asset-based finance, trade finance, structured commodity finance and financial advisory (together referred to as "**Corporate Finance**");
- captive private equity investments through direct or indirect equity investments (together referred to as "**Investments**"); and
- funding and liquidity management and the investment of excess liquidity in the Group's investment portfolio (together referred to as treasury and capital markets or "**T&CM**").

Corporate Finance principally provides debt finance and financial advisory services to businesses and projects in the oil and gas and related energy sectors.

Investments principally invests in businesses and projects in the oil and gas and related energy sectors through direct equity investments and through funds.

T&CM is principally responsible for funding and managing the Group's liquidity needs and for investing its excess liquidity.

The Group also publishes macro-economic research, with a focus on the oil and gas and related energy sectors.

### **Corporate Finance**

#### ***Introduction***

Corporate Finance arranges financing through loans and credits for projects developed by local, regional and international sponsors in the energy and hydrocarbon sectors. This financing activity is a major contributor to the Group's interest income, with syndicated and direct loans contributing U.S.\$91.5 million, or 57.4 per cent., of the Group's total interest income in 2017. The Group also provides financial advisory services to clients when specifically requested, primarily to assist them in raising finance but also in terms of project development guidance, financial feasibility studies, validation of commercial viability and structure and transaction structuring. This advice generates a small amount of fee income. Including other minor sources of income, Corporate Finance generated total income of U.S.\$107.6 million in 2017 and U.S.\$75.7 million in 2016, equal to 76.0 per cent. and 57.8 per cent., respectively, of the Group's total income in each year. For the six months ended 30 June 2018, Corporate Finance generated total income of U.S.\$80.4 million, equal to 47.3 per cent. of the Group's total income in that period (including interest income from shareholders' loan).

#### ***Products and services***

Corporate Finance principally arranges medium- to long-term finance, although it also offers shorter-term trade finance and structured commodity finance. The Group offers loans and credits both on a conventional and on an Islamic finance basis. Key medium- to long-term finance products include project finance, asset-based finance (vessels and rigs), reserve-based finance, acquisition finance, equity bridge finance and working capital finance.

The Group offers a complete suite of trade finance products and services, comprising letters of credit ("LCs") and letters of guarantee; and the handling of export LCs, including advising, negotiation and confirmation. The Group's range of structured commodity finance products includes transactional and inventory financings, borrowing base facilities, pre-export financings and prepayment facilities.

Although the Group does not have its own Islamic banking unit and Shari'a board, it typically arranges and advises on Islamic transactions and has established strong relationships with major participants in the Islamic finance industry. In line with its current strategy, in 2014, the Group launched an initiative to increase the visibility of its Islamic finance capabilities, and started to systematically offer Shari'a-compliant finance solutions to its clients along with conventional products. As a result, the share of Islamic finance assets as a percentage of the Group's total unimpaired loan portfolio grew from approximately 27 per cent. at 1 January 2015 to approximately 39 per cent. at 30 June 2018.

### ***Clients***

Corporate Finance's client base includes the national oil and gas companies of the OAPEC Member States, international companies which are active in the MENA region and a select group of privately owned companies from the MENA region. Corporate Finance's particular focus in relation to its medium- and longer-term financing is investment projects that are deemed strategic because of their economic impact, size, location, technology or diversification. These projects typically have strong support from their sponsors, which frequently include governments. Through participating in arranging and implementing the financing for these investments, Corporate Finance has developed close and long-standing relationships with the sponsors of these projects.

Corporate Finance also enjoys close relationships with all the major international and regional financial institutions which are active in financing the hydrocarbon and energy industries throughout the MENA region, and beyond when the project or trade transaction financed benefits the MENA region. The Group exclusively finances the energy and hydrocarbon sector and is active throughout the energy value chain. The segments within these sectors financed by the Group include:

- *upstream*: oil and gas production; oil field services and drilling; offshore service vessels; and mining;
- *midstream*: oil and product tankers; liquefied natural gas ("LNG") tankers; and oil and product terminals;
- *downstream*: refinery, petrochemical and gas to liquid projects;
- *utilities*: conventional power and water desalination projects; water treatment; hydrocarbon-related waste management and renewables projects; and
- *energy intensive*: aluminium and metals; cement; and polysilicon.

### ***Lending criteria***

Corporate Finance aims to finance investment projects which have a strong economic rationale and that meet a strategic purpose. The criteria applied by the Group when selecting projects for investment include:

- the quality of the sponsors, the degree of their commitment and the strength of the Group's relationship with them;
- the economic rationale and competitiveness of the project;
- the degree of "off-shorisation" of the project (revenue in U.S. dollars for U.S. dollar loans, for example);
- the degree of protection of the project from local factors, such as exchange rates, inflation and regulation;
- the resilience of the project;

- the maximisation of export credits and multilateral loans in the financing of a project in difficult countries;
- the role and visibility of the Group in the financing; and
- the remuneration – the Group provides medium-to long-term financing at market rates. However, while profit is an important factor, its decision to advance financing is not solely driven by profitability and it also takes into account the developmental impact of the project.

As a general rule, a country which has significant economic or political challenges is considered a less robust sponsor. In these instances, the Group's criteria concerning equity, project structure, guarantees, export-credits and multilateral financings are more stringent.

The Group requires prior approval from its credit and investment committee and from the Board before committing to any funded or unfunded credit facility. Each approval is required to be supported by a detailed credit application, which includes a comprehensive rating scorecard specific to the nature of the transaction.

APICORP maintains country specific lending limits, single obligor limits, single group level limits and rating wise portfolio limits for its Corporate Finance business.

The country limit for member countries is limited to 10 times their respective equity contributions, while the country cap for non-member countries is linked to their sovereign ratings as well as to a certain percentage of APICORP's total shareholders' equity, the maximum being 30 per cent. The maximum single obligor limit is 10 per cent. of the Group's net worth (being its total assets less its total liabilities). In addition, no lending commitment to any one group of companies may exceed 25 per cent. of the Group's net worth.

### ***Lending portfolio***

See "*Management's discussion and analysis of financial condition and results of operations of APICORP—Analysis of certain statement of financial position items—Syndicated and direct loans*" for a discussion of the Group's direct and syndicated loan portfolio.

### ***Commitments to lend and guarantees***

See "*Management's discussion and analysis of financial condition and results of operations of APICORP—Commitments and contingent liabilities*" for a discussion of the Group's commitments to advance syndicated and direct loans and guarantees provided by the Group in respect of loans advanced to its investee companies.

## **Investments**

### ***Introduction***

Investments invests directly in private and public companies and/or indirectly in such companies through an investment in funds. The private companies invested in operate in the oil and gas industries, and in other industries derived from, ancillary to, associated with and/or complementary to, the oil and gas industry. Priority is given to Arab joint ventures which benefit OAPEC Member States and enhance their capability to utilise their petroleum resources.

As at 30 June 2018, the Group's direct equity investment portfolio comprised 19 direct investments in companies, one capital commitment in a fund, an equity interest in a shipping fund and a managed account arrangement with Goldman Sachs & Co. Of the investments in companies, 15 are in companies located in seven Arab countries: six in Saudi Arabia, four in Egypt, two in Libya and one each in Bahrain, Iraq and Tunisia. The remaining investment is in a company located in the United Kingdom. The portfolio includes investments in six petrochemical companies; four oil and gas fields services ("OFS") companies; one liquefied petroleum gas ("LPG") extraction company; one engineering products manufacturer; one fertiliser manufacturing facility, one petroleum products storage company, one cement manufacturer, one services provider to the sub-sea and onshore environmental monitoring and inspection sectors and one independent power and water project. Five of the direct equity investments listed above have been fully impaired.

In addition to direct equity investments, the Group has also committed capital to invest in the IFC MENA Fund, as discussed further under "*—Direct equity investment portfolio*" below. The Group's commitment to the IFC MENA Fund is U.S.\$15 million.

The Group also has a 94 per cent. equity interest in APICORP Petroleum Shipping Fund ("APSF"), an investment vehicle that owns five medium range petroleum products tankers that were leased, on a bareboat basis (i.e. without a crew), to an international trading company. This charter expired in February 2018 and, since then, the vessels have been employed using a combination of index-linked charters and pool employment structures.

During 2017, APICORP entered into a managed account arrangement with Goldman Sachs & Co. for the creation of an investment partnership vehicle aimed at pursuing global energy co-investments. Goldman, Sachs & Co., through its Merchant Banking Division, acts as the Investment Manager for the investment partnership vehicle, which aims to make private equity co-investments in a diversified, global portfolio of energy assets, alongside Goldman Sachs' West Street Capital Partners VII funds. As at 30 June 2018, APICORP has completed two co-investments in North America through this investment vehicle, in the oil field services sector and in the natural gas and natural gas liquid gathering and processing sector.

In the third quarter of 2017, the Group agreed to sell one of its investments, being its 29.12 per cent. shareholding in NPS Holding Company, to a special purpose acquisition company ("SPAC") listed on NASDAQ. The transaction is subject to approvals from regulatory bodies and investors identified by the SPAC. The sale completed in June 2018.

The investments portfolio contributes to the Group's objectives of developing the hydrocarbon and energy industries in the MENA region. The total fair value of the Group's investments portfolio was U.S.\$1,044.2 million as at 30 June 2018. This portfolio generated dividend income of U.S.\$35.4 million in 2017 and U.S.\$57.3 million in 2016, equal to 25.0 per cent. and 43.5 per cent., respectively, of the Group's total income in each year. For the six months ended 30 June 2018, the portfolio generated dividend income of U.S.\$30.9 million, equal to 18.2 per cent. of the Group's total income in that period.

Most of the Group's direct equity investments are held on at fair value, although the portfolio also includes two investments, APSF and APICORP Managed Account Investment Vehicle, which are consolidated as subsidiaries and one investment, Falcon Cement Company, which is an equity accounted associate. In addition, both investments made through the managed account investment partnership vehicle with Goldman Sachs & Co. are held as investments designated at fair value through profit or loss ("FVTPL").

#### ***Investment criteria***

The Group typically invests in meaningful minority stakes when making direct equity investments and acts in a fiduciary and advisory capacity through board representation. The Group typically does not exercise significant direct influence over the management or operations of its investee companies.

The Group's investment guidelines for equity investments include:

- a targeted minimum level of dividend yield to be maintained in the overall equity investment portfolio;
- the targeting of investments in the hydrocarbon sector as well as in industries derived from, ancillary to, associated with, and/or complementary to, this sector. The guidelines also make allowance for a limited level of investment outside these sectors;
- the prioritisation of investments in the OAPEC Member States, the MENA region and investments with an Arab connection, with allowance for investments beyond these criteria subject to adhering to specific requirements;
- the provision for direct equity investments and indirect equity investments through funds;
- guidance on the collective level of investments in companies at different stages of the business life cycle, with a specific limit on investments in the early stages of development;
- guidance on targeted investment return ranges;

- guidance on preferred investment size ranges and a limit on the maximum size of each new investment;
- guidance on the preferred level of shareholding and board representation;
- guidance on the preferred and maximum investment periods;
- guidance on qualitative and developmental factors to be considered; and
- guidance on the preferred types of partners in equity investments.

**Direct equity investment portfolio**

The table below summarises the Group's direct equity investments at 30 June 2018. These investments are at FVTOCI, save where noted below. All of the investees listed below are related parties.

Company	Paid-up capital	APICORP's share	Other major shareholders	Main activities
Arab Drilling and Workover Company (ADWOC), Libya	LD 60 million (equal to U.S.\$43.6 million as at 30 June 2018)	20.00%	Arab Petroleum Services Co. ("APSCO"), Libya First Energy Bank, Bahrain	Drilling and related operations in the Arab world
Arab Company for Detergent Chemicals (ARADET), Iraq <sup>(1)</sup>	ID 36 million (equal to U.S.\$30,379.8 as at 30 June 2018)	32.00%	Iraqi government Saudi Arabian government Kuwaiti government Arab Mining Company, Amman, Jordan The Arab Investments Co., Saudi Arabia	Production and marketing of linear alkyl benzene (LAB) and by-products
Tankage Mediterranee (TANKMED), Tunisia	TD 30 million (equal to U.S.\$11.5 million as at 30 June 2018)	20.00%	Tunisian Petro Enterprise National Oil Distribution Company Bank of Tunisia/Saudi Bank of Tunisia/Kuwait	Storage and handling of petroleum products at La Skhira terminal
Arab Geophysical Exploration Services Company (AGESCO), Libya <sup>(1)</sup>	LD 35 million (equal to U.S.\$25.4 million as at 30 June 2018)	16.67%	APSCO, Libya National Oil Company, Libya	Providing seismic services for the oil and gas industry in the Arab world
Saudi European Petrochemical Company (IBN ZAHR), Saudi Arabia	SAR 1,025 million (equal to U.S.\$273.3	10.00%	Saudi Basic Industries Corporation ("SABIC"), Saudi Arabia Ecofuel, Italy	Production and marketing of methyl tertiary butyl ether (MTBE) and polypropylene

<u>Company</u>	<u>Paid-up capital</u>	<u>APICORP's share</u>	<u>Other major shareholders</u>	<u>Main activities</u>
	million as at 30 June 2018)			
The Arabian Industrial Fibers Company (IBN RUSHD), Saudi Arabia <sup>(1)</sup>	SAR 8,510 million (equal to U.S.\$2,269.3 million as at 30 June 2018)	3.45%	SABIC, Saudi Arabia Public Investments Fund ("PIF"), Saudi Arabia	Production and marketing of aromatics, purified terephthalic acid (PTA) and polyester fibres
Alexandria Fiber Company (AFCO), Egypt <sup>(1)</sup>	U.S.\$48.3 million	10.00%	Birla Group Companies Sidi Kerir Petrochemical Saudi Egyptian Industrial Investment Company	Production and marketing of acrylic fibres
Yanbu National Petrochemical Company (YANSAB), Saudi Arabia	SAR 5,625 million (equal to U.S.\$150.7 million as at 30 June 2018)	1.32%	SABIC, Saudi Arabia	Production and marketing of polyethylene, ethylene glycol, polypropylene and other by-products
Egyptian Methanex Methanol Company (EMethanex), Egypt	U.S.\$215 million	17.00%	Methanex Corporation, Canada Egyptian Petrochemicals Holding Company (Echem), Egypt Egyptian Natural Gas Holding Company ("Egas"), Egypt Egyptian Natural Gas Company (EGASCO), Egypt	Production and marketing of methanol
Misr Oil Processing Company (MOPCO), Egypt	EGP 2,291 million (equal to U.S.\$128.2	3.03%	Echem, Egypt Agrium, Canada	Production and marketing of ammonia and urea

<b>Company</b>	<b>Paid-up capital</b>	<b>APICORP's share</b>	<b>Other major shareholders</b>	<b>Main activities</b>
	million as at 30 June 2018)		National Investments Bank, Egypt Egas, Egypt EGASCO, Egypt	
The Egyptian Bahraini Gas Derivative Company (EBGDCO), Egypt <sup>(1)</sup>	U.S.\$25 million	20.00%	Egas, Egypt Danagas, Bahrain	Recovery and marketing of propane and butane
The Industrialization & Energy Services Company (TAQA), Saudi Arabia	SAR 5 billion (equal to U.S.\$1,333.3 million as at 30 June 2018)	5.88%	PIF, Saudi Arabia General Organization for Social Insurance (GOSI), Saudi Arabia	Energy and related sectors (drilling, oil and gas fields services, seamless pipe manufacturing and industrial gases, among others)
Saudi Mechanical Industries Co. (SMI), Saudi Arabia	SAR 250 million (equal to U.S.\$66.6 million as at 30 June 2018)	15.00%	Fajr Capital Jadwa Investment Company	Industrial Manufacturing (oil and gas, water pump systems and engineering components)
Falcon Cement Company B.S.C., Bahrain <sup>(1)</sup>	U.S.\$41.9 million	30.00%	Gulf Finance House (GFH) BCC Building Materials Abu Dhabi Financial Group (ADFG)	Production and marketing of cement
Ashtead Technology, United Kingdom	GBP 27.9 million (equal to U.S.\$36.8 million as at 30 June 2018)	35.00%	Buckthorn Partners LLP	Sub-sea equipment and services
Shuqaiq International Water and Electricity Company, Saudi Arabia	SAR 3 million (equal to U.S.\$0.8 million as at 30 June 2018)	13.33%	ACWA Power	Holding company for the Shuqaiq Independent Water & Power Project

<b>Company</b>	<b>Paid-up capital</b>	<b>APICORP's share</b>	<b>Other major shareholders</b>	<b>Main activities</b>
IFC Middle East and North Africa Fund, LLP (IFC Fund)	U.S.\$162.4 million <sup>(2)</sup>	9.23%	IFC Founder Partner, LLC Arab Fund for Economic and Social Development The Arab Investment Company	Investment in equity, quasi-equity or equity-related investments in IFC's member countries in the MENA region
APICORP Petroleum Shipping Fund (APSF) <sup>(3)</sup>	U.S.\$37.34 million	94.00%	Tufton Oceanic (ME) Ltd	An investment vehicle that owns five medium range petroleum products tankers
APICORP Managed Account Investment Vehicle, North America (MAIV)	U.S.\$50 million <sup>(5)</sup>	100.00%	—	Energy related

<sup>(1)</sup> Fully impaired investment.

<sup>(2)</sup> Total committed capital. IFC Middle East and North Africa Fund, LLP (IFC Fund) is classified as an investment at FVTPL

<sup>(3)</sup> Consolidated as a subsidiary.

<sup>(4)</sup> Equity accounted associate.

<sup>(5)</sup> Capital contributed by APICORP as at 30 June 2018. This account is managed by Goldman, Sachs & Co. The two investments held by this vehicle as at 30 June 2018 are Lucid Energy Group II LLC, and, BJ Services, LLC, which are designated at fair value through profit and loss. The APICORP Managed Account Investment Vehicle, North America (MAIV) is consolidated as a subsidiary of APICORP.

The table below summarises the geographical spread of the Group's direct equity investment portfolio at 30 June 2018.

Country	Number of investments	Fair value at 30 June 2018 (U.S.\$ million)	Percentage of portfolio (per cent.)
Saudi Arabia.....	6	766.2	73.4
Egypt.....	4	158.0	15.1
Libya.....	2	2.9	0.3
Tunisia .....	1	6.6	0.6
Iraq.....	1	-	-
MENA <sup>(1)</sup> .....	1	2.6	0.3
Bahrain.....	1	28.3	2.7
United Kingdom.....	1	17.0	1.6
North America <sup>(2)</sup> .....	2	62.6	6.0
<b>Total</b> .....	<b>19<sup>(3)</sup></b>	<b>1,044.2</b>	<b>100.0</b>

<sup>(1)</sup> Comprises the investment in the IFC MENA Fund

<sup>(2)</sup> Comprises the investments made through the managed account investment partnership with Goldman Sachs & Co.

<sup>(3)</sup> Excludes the investment in APSF, which is a consolidated subsidiary.

Each company in the Group's direct equity investments portfolio has its own dividend policy, which is usually governed by the amount of the annual profit earned, the company's liquidity, its business growth plans and the policies and priorities of the majority shareholders.

### **Exit strategy**

Investments is responsible for identifying potential exit opportunities, assessing the feasibility and desirability of potential exits and recommending potential divestments to the appropriate decision making body in accordance with the Group's approved authority matrix. In addition, Investments is responsible for the effective execution of exit mandates in line with the Group's investment guidelines.

Given its development mandate, the Group's direct equity investments have typically been long-term and strategic in nature. For example, five of its current direct equity investments have been held for over 30 years and the average holding period in the direct equity investment portfolio is approximately 15 years.

The Group's only exit in relation to a direct equity investment since 1 January 2015 is the sale of its 29.12 per cent. interest in NPS Holding Limited, which completed in June 2018.

### **Treasury and capital markets (T&CM)**

#### **Introduction**

T&CM's mandate is to:

- ensure that APICORP is adequately funded and that a diverse range of counterparties, products and maturity profiles are available at any given time. See further "*Management's discussion and analysis of financial condition and results of operations of APICORP—Liquidity and funding—Funding*";
- manage market risks proactively. See further "*Risk management—Market risk management*"; and
- manage an investment portfolio with the aim of providing enhanced earnings not correlated to the Group's other two main cyclical business lines.

As at 30 June 2018, T&CM had assets of U.S.\$1,400.0 million. The total market value of the investments in T&CM's fixed income securities portfolio at 30 June 2018 was U.S.\$1,225.4 million, and was principally invested in issuers with ratings between AAA and A. The average rating of the portfolio as at 30 June 2018 was A. During 2017, the T&CM fixed income portfolio represented by interest income from available for sale securities (net) generated U.S.\$36.2 million of interest income, equal to 22.7 per cent. of the Group's total interest income in that year. For the six months ended 30 June 2018, the T&CM fixed income portfolio

generated U.S.\$19.8 million of interest income, equal to 18.1 per cent. of the Group's total interest income in that period.

#### ***Investment strategy***

T&CM operates out of two centres: APICORP's head office in Dammam and APICORP's branch in Bahrain. Both treasuries work closely together, and consider their operations as one, except to the extent that local regulation dictates otherwise.

The Group's treasury investment strategy is conservative, targeting high quality assets and liquid investments aiming to provide a stable and reliable source of income throughout different economic and market conditions and un-correlated to the economic cycles inherent in the hydrocarbon-related Corporate Finance and Investments business lines. T&CM's investment policy permits investments in three major asset classes, fixed income securities (including treasury bills), funds and equities.

The aim of this strategy is to enhance profitability by providing stable year-on-year returns over cost of funds and to manage the Group's liquidity while remaining within defined risk parameters. The majority of the T&CM investment portfolio comprises fixed income securities which can either be sold or used to raise finance through sale and repurchase transactions if necessary.

The allocation of investments is mainly based on the performance outlook of each asset class, taking into account liquidity considerations, which on occasion leads the Group to adjust its asset mix to ensure that it maintains a conservative approach. T&CM endeavours to avoid significant volatility in its investment portfolio and focuses on capital preservation. Currently, the majority of the portfolio is invested in fixed income securities.

#### ***T&CM investment portfolio***

T&CM's investment portfolio is discussed further under "*Management's discussion and analysis of financial position and results of operations of APICORP—Analysis of certain statement of financial position items—Treasury investment portfolio*".

### **COMPETITION**

The Group's primary competition is from regional, international and development banks which have recognised expertise in project finance, ship finance and structured commodity finance as well as the financing of energy projects and energy trade in the MENA region. However, in many cases competitors on certain deals are also partners on other deals leading to competitive partnership. The Group is also increasingly facing competition from local banks in their own jurisdictions which have established expertise in the project financing area and are prepared to support aggressively their national champions and landmark projects. These banks also benefit from the ability to fund themselves with low cost retail deposits in their local currency. This competition directly impacts the Group's ability to win advisory and structuring mandates and also affects the pricing of transactions, particularly at times where there is significant market liquidity. This competition may also lead to certain transactions being structured in a more aggressive manner than the Group considers appropriate in light of the risks involved.

With regard to direct equity investments, the Group's competition includes investment funds and private equity companies, large family holding companies with growing interest in the oil and gas industry, and energy project developers.

See generally "*Risk Factors—Factors that may affect APICORP's ability to fulfil its obligations under Notes issued under the Programme—The Group faces significant and increasing competition*".

### **COMPLIANCE**

The Group is committed to building and maintaining a culture of ethical behaviour, corporate governance and regulatory compliance. The Group's compliance function is independent from its business activities. Among other things, the compliance function is responsible for:

- determining the internal measures and procedures needed to comply with applicable laws, regulations, procedures and internal standards and providing appropriate guidance to employees;

- monitoring adherence to all applicable laws, regulations, procedures and internal standards either directly or by delegating this responsibility to other clearly identified departments or persons as part of the Group's internal control process;
- assisting management in ensuring that all activities are conducted in conformity with all applicable requirements; and
- assessing the appropriateness of the Group's compliance-related guidelines and, where necessary, proposing amendments.

The Group's Compliance and Anti-money Laundering ("AML") Policy sets out minimum standards which must be complied with across the Group. These include:

- the appointment and approval of the Compliance Officer, who is responsible for overseeing compliance with relevant regulations, rules and best practices;
- the appointment and approval of the Money Laundering Reporting Officer (the "MLRO"), who is responsible for overseeing all AML activity within the Group;
- establishing and maintaining thorough customer due diligence, identification, verification and know your customer ("KYC") procedures, including enhanced due diligence for high risk counterparties (such as certain correspondent banks and politically exposed persons);
- in accordance with Central Bank of Bahrain regulations and Financial Action Task Force ("FATF") recommendations, the Group does not deal with banks that have no physical presence;
- ongoing monitoring of counterparty activities and frequent counterparty reviews;
- procedures for identifying and reporting suspicious transactions internally and/or to regulatory bodies (such as the Central Bank of Bahrain);
- the retention of records for minimum prescribed periods in accordance with applicable regulations; and
- appropriate reporting on compliance/AML matters to senior management and the Board (where material).

The Group is committed to preventing the use of its operations for money laundering, terrorist financing and other criminal purposes. In its approach to combat money laundering and terrorist financing, the Group is committed to adhering to all laws and regulations that are applicable in Saudi Arabia, Bahrain and other countries in which it operates. It is also committed to complying with international best practices, especially those endorsed by the FATF, the Basel Committee on Banking Supervision and the Wolfsberg Group.

The Group seeks to ensure that it maintains full compliance with all applicable laws and regulations in all jurisdictions in which it does business (including those promulgated by the U.S. Office of Foreign Assets Control, the European Union and the United Nations). APICORP complies with all applicable laws and regulations on sanctioned countries or entities regardless of its shareholding status, be it Syria or Libya, including blocking transactions where appropriate, including with respect to shareholders, investments and lending activity. The Group's Sanctions Compliance Policy covers:

- screening customers/clients and transactions globally against the sanctions lists issued by the United Kingdom's HM Treasury, the European Union, the United Nations and the United States of America Department of the Treasury – Office of Foreign Assets Control;
- prohibiting business activity, including prohibitions on commencing or continuing customer relationships or providing products or services or facilitating transactions that the Group believes may violate applicable sanctions laws or its Sanctions Compliance Policy, including dealing with individuals or entities named on a sanctions list or conducting business, directly or indirectly, involving countries or territories subject to comprehensive sanctions;

- restricting business activity involving, directly or indirectly, countries or persons subject to more selective or targeted sanctions programmes, which impacts not only the types of products or services that the Group may make available but also the types of transactions the Group may process;
- investigating all customer/client alerts or transactions that are flagged in the Group's screening systems; and
- reporting breaches of sanctions laws to the relevant regulatory authority.

Effective AML and KYC procedures form a fundamental part of the Group's internal control regime. Ongoing KYC, AML and sanctions training is provided to all of the Group's employees on a regular basis.

## **INTERNAL AUDIT**

The Group has engaged KPMG to conduct the internal audit of all of its activities. KPMG reports its findings to the Board Audit and Risk Committee.

## **INFORMATION TECHNOLOGY**

The Group uses IT to support the delivery of its business strategy. The Group uses market leading software solutions for its financial services and enterprise resource planning to provide services to its business and to respond to new trends in business strategies as they arise. The Group deals with a range of hardware and software partners as well as outsourcing vendors to achieve its long-term strategic IT vision, which is to ensure that the IT services that it delivers are reliable, secure and business aligned.

The Group has a data centre with appropriate redundancy levels, high availability and a managed virtualised environment. It has also established a disaster recovery site which enables data replication with the main data centre for all critical applications.

APICORP's cyber-security procedures aim to ensure the maximum information and network protection from cyber threats and operate at four main levels:

- network security, which aims to ensure the security of APICORP's network from threats originating both inside and outside APICORP;
- application security, which is designed to ensure that any application developed or acquired meets stringent standards of security;
- information system security, which comprises the processes and methodologies involved in keeping information confidential and available and assuring its integrity; and
- end-users security, which seeks to protect APICORP from end-users' activity and end-users from threats emanating from both within and outside APICORP.

## RISK MANAGEMENT

### INTRODUCTION

The role of risk management is to understand, measure and manage risk in all aspects of the Group's business. The Group aims to embed a risk management culture in all of its business processes and to ensure that a risk management culture is adopted throughout the organisation. Accordingly, the Group seeks to continually improve its risk management in line with industry standards and Central Bank of Bahrain guidelines and by investing in the right people and systems.

The Group's risk management framework is focused on fully integrating enterprise-wide risk management into its operations and culture. The risk management structure covers credit risk, market risk, liquidity risk, operational risk and compliance. The Group seeks to ensure that risks are proactively identified and managed and it aims to achieve an appropriate balance between risk and return and to minimise potential adverse effects on its financial performance.

The Group's risk management policies are established to identify and analyse the risks which it faces, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Group's risk management policies and systems are reviewed regularly to reflect changes in market conditions, emerging best practices and the products and services offered. 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.

### FINANCIAL RISK MANAGEMENT OBJECTIVES

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established a Board Audit and Risk committee, which is responsible for developing and monitoring the Group's risk management policies. In addition, the same 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 Board Audit and Risk committee is assisted in its oversight role by the internal audit function (which is outsourced to KPMG), which undertakes both regular and *ad hoc* reviews of risk management controls and procedures.

The Risk and ALCO Committee, which is a management level committee, is responsible for developing and monitoring the Group's risk management policies to maintain effective oversight of the key risks faced. Risk management policies have been established to identify and analyse the risks faced by the Group; set appropriate risk limits and controls; and monitor risks and adherence to limits. The Group's risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group is focusing on integrating risk management functions within its business lines and aims to develop a disciplined and integrated control environment that can optimise its risk-reward profile.

For a further discussion of the Group's Board and management committees, see "*Management and employees—Management*".

The Group's Risk Management Department is responsible for ensuring and maintaining effective enterprise-wide risk management, as contained in the Group's Risk Charter; together with all risk management policies, risk exposure thresholds, rating models and related manuals.

### CREDIT RISK MANAGEMENT

#### Introduction

Credit risk is the risk that a borrower or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group, causing a financial loss to the Group. Credit risk principally arises from the Group's direct and syndicated lending, treasury and other activities undertaken by the Group. The Group has established policies and procedures to control and monitor such risks and monitors concentration of credit risk by sector and by geographic location.

Proposed loans and direct equity investments are subject to systematic investigation, analysis and appraisal as set forth below. Once approved, all loan commitments, whether drawn or undrawn, are subject to systematic monitoring so that potential problems may be detected early and remedial action taken.

The Group's treasury activities, including its investments in fixed income securities and its bank placements, are controlled by means of a framework of limits and external credit ratings. Investing in marketable securities is primarily restricted to GCC countries, the United States and major European stock exchanges. Dealings are only permitted with approved internationally rated banks, brokers and other counterparties. Securities portfolios and investing policies are reviewed from time to time by the Risk and ALCO Committee.

### **Credit approval process**

All of the Group's credit transactions undergo two levels of review before being proposed for Board approval, with interim approval being granted as a clearance to perform further due diligence. Final approval is only granted after detailed due diligence has been conducted and the results are considered satisfactory.

Applicants for direct credit are required to submit detailed information to the Group, including relevant background information as well as specific information on their management, business model, major suppliers and customers and bank relationships and limits. In addition, the Group typically requires audited financial statements for the last three years as well as current year financial information where available. The availability of sovereign guarantees and commitments and export credit agency cover are also key factors in the evaluation of a credit application.

Officers within Corporate Finance conduct a financial analysis of the applicant, propose an internal credit grade and negotiate the key terms of the proposed facility with the applicant. They also conduct screening checks and undertake site visits. All credit applications are also reviewed independently by the Risk Management Department. Risk queries are discussed with the transaction team and the queries and their resolution are reflected in the credit application. Reference checks are made through market sources and intermediaries. Where appropriate, specialist consultants may be engaged to undertake technical, financial and/or legal due diligence. Once the credit application has been completed, it and the accompanying risk review and any external due diligence reports obtained are submitted to the management level Credit and Investment Committee for review and approval.

Where the Group is participating in a syndicated loan, the Group typically receives and reviews the standard credit package submitted to all potential syndicate participants. The Group's review process for syndicated loan participations does not materially differ from that for its direct lending.

In each case, once all internal review and validation steps have been completed, the application is submitted to the Credit and Investment Committee, which makes an appropriate recommendation to the Board. The Board has the ultimate authority to sanction commitments.

### **Credit rating and measurement**

The Group's risk rating system is the basis for determining the credit risk of its asset portfolio and, therefore, appropriate asset pricing, the portfolio management strategy and loss provisions and reserves. The risk rating is also a key factor in credit approval.

The Group's internal rating model considers multiple characteristics, including the strength of project sponsors, the relevant market and industry parameters and technical strengths of the borrower. In addition, transaction characteristics such as the security package, the political and legal environment and the financial strength of the borrower are also considered.

The Group has adopted a five-tiered asset classification, being Standard, Watch List, Substandard, Doubtful and Loss, and grades its assets under 10 rating categories. Assets within the AAA to C rating band (that is, AAA, AA, A, BBB, BB, B and C) are considered to be performing assets and assets graded DDD, DD or D are considered to be non-performing assets.

The Group's internal ratings also form the basis for its specific impairment provisioning in respect of individual assets.

The table below summarises the Group's asset classification and grading model.

Internal rating	Asset classification	Default indicator	Provision category
AAA to AA-.....	Standard	No past due payments	Collective provision
A+ to A-.....	Standard	No past due payments	Collective provision
BBB+ to BBB-.....	Standard	No past due payments	Collective provision
BB+ to B-.....	Standard	No past due payments	Collective provision
NR.....	NR	No past due payments	Collective provision
C.....	Watch list	Past due payments of 90 days or less	Collective provision
DDD.....	Sub Standard	Past due payment of 180 days or less	Specific provision
DD.....	Doubtful	Past due payment of 360 days or less	Specific provision
D .....	Loss	Past due payment of more than 360 days	Specific provision

See *"Management's discussion and analysis of financial condition and results of operations of APICORP—Analysis of certain statement of financial position items—Syndicated and direct loans"* for analyses of the Group's syndicated and direct loans by internal rating grade, and the concentrations of these loans by sector and geographic location, in each case as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

The Group has a risk-based pricing mechanism under which the allocation of capital for each loan is based on the loan's internal rating, in accordance with Basel guidance that riskier assets should require more capital. The Group's loans are priced to derive an acceptable return on capital which means that higher pricing is applied to riskier loans.

### Credit monitoring

The Group monitors its credit exposures on a regular basis as well as any external trends which may impact risk management outcomes. Internal risk management reports, containing information on key variables, portfolio delinquency and impairment performance, are presented to both the Risk and ALCO Committee and the Board Audit and Risk Committee. All exposures are monitored carefully for performance and reviewed formally on an annual basis or earlier. The Group's policies mandate client visits and monitoring of accounts to make sure that any concerns on the quality of the accounts are addressed proactively.

All non-performing accounts are monitored closely by the Corporate Finance team and the Finance and Risk Management departments. These accounts are re-evaluated and remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement and exit of the account.

### Credit mitigation

The Group seeks to mitigate potential credit losses from any given account, customer or portfolio using a range of tools, including taking collateral or guarantees in particular. The reliance that can be placed on these credit mitigation resources is carefully assessed taking into account their legal enforceability, the market value of any collateral and the counterparty risk of any guarantor.

The Group accepts a range of collateral types, including receivables; fixed assets such as plant and machinery; marketable securities; commodities; bank guarantees; and LCs. Risk mitigation policies control the approval of different collateral types.

The Group values its collateral in accordance with its risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Collateral held against impaired financings is maintained at fair value.

The Group also purchases comprehensive non-payment insurance cover for certain exposures in non-investment grade countries based on transaction credit assessments.

## LIQUIDITY RISK

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 aims to ensure that funds are available at all times to meet the Group's funding requirements.

The Group's liquidity management policies are designed to ensure that even under adverse conditions, the Group has access to adequate funds to meet its obligations, and to service its core investment and lending functions. This is achieved by the application of prudent but flexible controls, which provide security of access to liquidity without undue exposure to increased costs from the liquidation of assets or the need to bid aggressively for deposits. The Group seeks to maintain an adequate level of quality liquid assets to continuously support its liquidity needs. Well-diversified sources of funding are also maintained, and liquidity mismatches are monitored and managed on a proactive basis. The Group's liquidity risk policy is in compliance with Basel III guidelines.

As part of liquidity management, the Group also seeks to ensure the availability of bank term financing at competitive rates at all times to meet its long-term funding requirements.

The Group's 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 of the Group's liquidity policies are subject to review and approval by the Risk and ALCO Committee. Liquidity controls are provided for an adequately diversified deposit base in terms of maturities and the range of counterparties.

The table below summarises the Group's asset and liability maturity profile, based on management's estimates of repayment, as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015. A more detailed table showing individual statement of financial position line items is set out in note 28 to the 2017 Financial Statements and note 27 to the 2016 Financial Statements.

	<b>Up to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>5 years and over</b>	<b>Total</b>
(U.S.\$ million)					
30 June 2018					
Total assets.....	1,143.8	591.7	2,400.0	2,494.7	6,630.2
Total liabilities and equity.....	(839.9)	(649.6)	(2,854.3)	(2,286.4)	(6,630.2)
Maturity gap.....	303.9	(57.9)	(454.3)	208.3	—
Cumulative maturity gap.....	303.9	246.0	(208.0)	—	—
31 December 2017					
Total assets.....	823.1	849.4	2,548.1	2,016.2	6,236.8
Total liabilities and equity.....	(751.2)	(514.9)	(2,804.4)	(2,150.3)	6,236.8
Maturity gap.....	71.9	334.5	(272.3)	(134.1)	—
Cumulative maturity gap.....	71.9	406.4	134.1	—	—
31 December 2016					
Total assets.....	1,092.0	438.6	2,056.4	2,554.7	6,141.7
Total liabilities and equity.....	(1,521.2)	(468.3)	(2,128.5)	(2,023.7)	(6,141.7)
Maturity gap.....	(429.2)	(29.7)	(72.1)	531.0	—
Cumulative maturity gap.....	(429.2)	(458.9)	(531.0)	—	—
31 December 2015					
Total assets.....	1,018.4	470.0	1,624.5	2,539.8	5,652.7
Total liabilities and equity.....	(1,592.2)	(177.0)	(1,951.4)	(1,932.1)	(5,652.7)
Maturity gap.....	(573.8)	293.0	(326.9)	607.7	—
Cumulative maturity gap.....	(573.8)	(280.8)	(607.7)	—	—

The Group's funding profile has been strengthened by increasing the amount of its medium- and long-term funding. As a result, the Group's liquidity mismatch position has improved as evidenced by the trend in maturity gaps shown in the table above.

## MARKET RISK MANAGEMENT

Market risk is the risk that changes in market factors, such as interest rates, 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 optimising the return on risk.

The majority of the Group's investments (which are not actively traded) are fixed income debt securities. The Group also has a small amount of equity-related funds and equity securities. Treasury activities are controlled by the Risk and ALCO Committee and are also subject to a framework of Board-approved currency, industry and geographical limits and ratings by recognised rating agencies.

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

### Interest rate risk

The Group's syndicated and direct loans and its funding are principally denominated in U.S. dollars and the interest rates for both are typically linked to U.S. dollar LIBOR, giving the Group a significant degree of natural hedge. The Group's exposure to interest rate fluctuations on certain financial assets and liabilities is also contractually hedged through interest rate swap agreements.

The Group's exposure to interest rate risk is restricted by permitting only a limited mismatch between the re-pricing of the main components of its assets and liabilities. The table below summarises the Group's interest rate sensitivity gap by repricing period and its cumulative gap as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015. A more detailed table showing individual statement of financial position line items is set out in note 29 to the 2017 Financial Statements and note 28 to the 2016 Financial Statements.

	Up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	Total
(U.S.\$ million)					
30 June 2018					
Interest rate sensitivity gap.....	710.6	381.3	(98.9)	45.5	1,038.5
Cumulative gap .....	710.6	1,091.9	993.0	1,038.5	—
31 December 2017					
Interest rate sensitivity gap.....	220.3	582.6	(40.0)	44.2	807.1
Cumulative gap .....	220.3	802.9	762.9	807.1	
31 December 2016					
Interest rate sensitivity gap.....	355.6	138.5	—	44.2	538.3
Cumulative gap .....	355.6	494.1	494.1	538.3	
31 December 2015					
Interest rate sensitivity gap.....	346.4	(305.8)	7.2	44.2	92.0
Cumulative gap .....	346.4	40.6	47.8	92.0	

A positive figure in the table above indicates that the Group has a higher volume of assets than liabilities which re-priced in the relevant period. As the Group's gaps are generally positive, this means that the Group typically benefits in an increasing interest rate environment but is adversely affected in a falling interest rate environment.

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 parallel fall or rise in all yield curves worldwide.

The table shows an analysis of the sensitivity of the Group's statement of income and equity as at 31 December in each of 2017, 2016 and 2015 to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position).

	100 basis point parallel increase		100 basis point parallel decrease	
	Profit/loss	Equity	Profit/loss	Equity
(U.S.\$ million)				
As at 31 December 2017 .....	1.0	0.1	(1.0)	(0.1)
As at 31 December 2016.....	1.0	0.1	(1.0)	(0.1)
As at 31 December 2015 .....	1.0	0.0	(1.0)	(0.0)

### Currency risk

Currency risk is minimised by conducting a regular review of exposures to currencies other than the U.S. dollar to ensure that no significant positions are taken which may expose the Group to undue risks. The Group does not trade in foreign exchange. The Group's exposures in currencies other than the U.S. dollar are also partially hedged by entering into forward contracts.

The table below shows an analysis of the sensitivity of the Group's statement of income to a 5 per cent. strengthening or a 5 per cent. weakening of the U.S. dollar against major un-pegged foreign currencies as at 31 December in each of 2017, 2016 and 2015. The analysis assumes that all other variables, in particular interest rates, remain the same.

	5 per cent. strengthening of the dollar	5 per cent. weakening of the dollar
	(U.S.\$ million)	
As at 31 December 2017		
Euro.....	0.9	(0.9)
As at 31 December 2016		
Euro.....	0.8	(0.8)
Japanese yen.....	0.4	(0.4)
As at 31 December 2015		
Euro.....	1.0	(1.0)
Pound sterling .....	(4.4)	4.4
Kuwaiti dinar.....	(2.8)	2.8

The Group also has minor sensitivities in other currencies. For further information see note 25 to the 2017 Financial Statements and note 24 to the 2016 Financial Statements. In addition, note 30 to the 2017 Financial Statements and note 29 to the 2016 Financial Statements contain information on the Group's exposures by currency. The Group's only significant exposures are in U.S. dollars and currencies linked to the U.S. dollar.

### **Equity price risk**

Equity price risk is the risk that the Group's quoted equity investments will depreciate in value due to movements in their quoted equity prices. The Risk and ALCO Committee is responsible for managing equity price risk. Periodic listed equity price movements are reviewed by executive management and the Risk and ALCO Committee. The Group believes that it has an insignificant exposure to listed equities.

### **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 Group's 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. The Group's 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 and, as part of the Group's overall business continuity planning, APICORP intends shortly to introduce crisis management communication guidelines to ensure that all appropriate initial steps are taken in relation to both internal and external stakeholders, such as customers, employees, regulators and counterparties, in the event of a crisis. In addition, an incident management system has been developed to report, assess and control operational risks across the Group.

## CAPITALISATION

The table below shows the Group's cash and cash equivalents, financial debt and capitalisation as at 30 June 2018. This table should be read in conjunction with the Financial Statements.

	<b>As at 30 June 2018</b>
	<i>(U.S.\$ million)</i>
Cash and cash equivalents.....	23.5
Bank term financing (excluding current portion of debt) <sup>(1)</sup> .....	1,096.0
Sukuk and Bonds issued (excluding current portion of debt) <sup>(2)</sup> .....	1,467.1
Total financial debt (excluding current debt).....	2,563.1
Total equity and non-controlling interests .....	2,286.5
<b>Total capitalisation.....</b>	<b>4,873.1</b>

<sup>(1)</sup> Excludes U.S.\$266.7 million which matures within 12 months.

<sup>(2)</sup> Excludes U.S.\$66.6 million which matures within 12 months.

Except as described in this Base Prospectus, there has been no material change in the Group's capitalisation since 30 June 2018.

## SELECTED FINANCIAL INFORMATION

*The following information has been extracted from, and should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements and should also be read in conjunction with "Management's discussion and analysis of financial condition and results of operations of APICORP".*

*See also "Presentation of Group financial information" for a discussion of the sources of the numbers contained in this section.*

*All information in this section as at, and relating to the six-month periods ended, 30 June 2018 and 30 June 2017 is unaudited. Results for any interim period within a year will not necessarily be indicative of the results for the full year.*

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA

The table below shows APICORP's consolidated statement of financial position data as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June			
	As at 31 December			
	2018	2017	2016	2015
(U.S.\$ million)				
<b>Assets</b>				
Cash and cash equivalents .....	23.5	65.4	21.8	23.0
Placements with banks.....	808.6	459.7	816.8	972.1
Investment classified as held for sale.....	—	110.6	—	—
Investments.....	2,415.9	2,447.6	2,083.5	1,885.1
Investment in associates .....	28.3	27.6	107.2	106.4
Syndicated and direct loans .....	3,186.9	2,965.0	2,951.6	2,510.0
Property, equipment and vessels.....	109.1	112.0	117.4	122.1
Other assets .....	57.9	48.9	43.4	34.0
<b>Total assets .....</b>	<b>6,630.2</b>	<b>6,236.8</b>	<b>6,141.7</b>	<b>5,652.7</b>
<b>Liabilities</b>				
Deposits from banks.....	201.3	175.6	286.9	172.0
Deposits from corporates.....	863.8	1,051.3	1,133.6	1,383.1
Deposits from shareholders .....	112.2	110.8	108.8	107.5
Securities sold under agreements to repurchase.....	150.8	153.1	157.8	—
Other liabilities	119.3	76.5	76.1	68.0
Bank term financing .....	1,362.7	1,063.4	1,520.2	1,526.2
Sukuk and Bonds issued.....	1,533.7	1,455.8	855.1	484.2
<b>Total liabilities.....</b>	<b>4,343.8</b>	<b>4,086.5</b>	<b>4,138.5</b>	<b>3,741.0</b>
<b>Equity</b>				
Share capital .....	1,000.0	1,000.0	1,000.0	1,000.0
Legal reserve .....	204.5	204.5	194.0	184.5
General reserve .....	331.1	279.3	195.5	139.0
Fair value reserve on investments.....	596.9	570.8	527.4	489.3
Retained earnings .....	151.4	93.1	83.8	96.5
<b>Total equity attributable to shareholders of the corporation.....</b>	<b>2,283.9</b>	<b>2,147.7</b>	<b>2,000.7</b>	<b>1,909.3</b>
Non controlling interests.....	2.5	2.6	2.5	2.4
<b>Total liabilities, equity and non controlling interests .....</b>	<b>6,630.2</b>	<b>6,236.8</b>	<b>6,141.7</b>	<b>5,652.7</b>

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME DATA

The table below shows APICORP's consolidated statement of income data for each of the six-month periods ended 30 June 2018 and 30 June 2017.

	Six months ended 30 June	
	2018	2017
	(U.S.\$ million)	
Interest income .....	109.1	77.8
Interest expense .....	(63.2)	(45.1)
<b>Net interest income.....</b>	<b>45.9</b>	<b>32.7</b>
Dividend income .....	33.4	14.6
Realised gain/(loss) on sale of investments held for sale.....	86.7	0.0
Share of income from associate.....	0.9	5.0
Other income, net .....	3.0	7.7
Total income .....	169.9	60.0
Operating expenses .....	(19.6)	(17.9)
Impairment, net .....	-	(0.3)
<b>Profit for the period .....</b>	<b>150.3</b>	<b>41.8</b>
Profit for the period attributable to:		
Shareholders.....	150.3	41.7
Non-controlling interests.....	(0.1)	0.1
<b>Profit for the period</b>	<b>150.3</b>	<b>41.8</b>

The table below shows a summary of APICORP's consolidated statement of comprehensive income data for each of the six-month periods ended 30 June 2018 and 30 June 2017.

	Six months ended 30 June	
	2018	2017
	(U.S.\$ million)	
Profit for the period.....	150.3	41.8
Other comprehensive income/(loss)		
<i>Items that may be reclassified subsequently to the consolidated statement of income</i>		
Change in fair value of investments (debt), net .....	(5.7)	(1.3)
<i>Items that will not be reclassified to consolidated statement of income</i>		
Change in fair value of investment securities (equity) net .....	7.9	-
Change in fair value of direct equity investments, net.....	26.3	19.9
<b>Total other comprehensive income for the period .....</b>	<b>28.5</b>	<b>18.7</b>
<b>Total comprehensive income for the period .....</b>	<b>178.8</b>	<b>60.4</b>

The table below shows APICORP's consolidated statement of income data for each of 2017, 2016 and 2015.

	<b>2017</b>	<b>2016</b>	<b>2015</b>
	(U.S.\$ million)	(U.S.\$ million)	(U.S.\$ million)
Interest income .....	159.5	125.7	106.7
Interest expense .....	(93.3)	(71.9)	(61.8)
Net interest income .....	66.2	53.8	44.9
Net fee income .....	0.6	0.7 <sup>(1)</sup>	1.2
Dividend income .....	37.3	59.4	90.9
Realised gain/(loss) on available for sale investments .....	0.1	(3.1)	3.3
Unrealised gain on investments designated at FVTPL .....	15.2	—	—
Other income, net <sup>(1)</sup> .....	22.1	20.8	21.7
Total income .....	141.5	131.6	162.0
Operating expenses .....	(37.3)	(36.1) <sup>(1)</sup>	(37.7)
Impairment, net .....	(0.6)	(2.1)	(16.7)
Profit for the year .....	103.6	93.4	107.6
Profit for the year attributable to:			
Shareholders .....	103.6	93.3	107.5
Non-controlling interests .....	-	0.1	0.1
<b>Profit for the year</b>	<b>103.6</b>	<b>93.4</b>	<b>107.6</b>

<sup>(1)</sup> 2016 financial information has been derived from the 2017 Financial Statements.

The table below shows a summary of APICORP's consolidated statement of comprehensive income data for each of 2017, 2016 and 2015.

	<b>2017</b>	<b>2016</b>	<b>2015</b>
	(U.S.\$ million)	(U.S.\$ million)	(U.S.\$ million)
Profit for the year .....	103.6	93.4	107.6
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to the consolidated statement of income</i>			
Realised gain on available for sale investments recycled to profit or loss .....	—	—	(3.8)
Change in fair value of available for sale securities, net .....	(0.1)	15.3	(20.5)
Change in fair value of available for sale direct equity investments, net .....	43.5	22.9	(30.9)
Total other comprehensive income for the year .....	43.4	38.2	(55.2)
Total comprehensive income for the year .....	<b>147.0</b>	<b>131.6</b>	<b>52.4</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS DATA

The table below shows a summary of APICORP's consolidated statement of cash flows data for each of the six-month periods ended 30 June 2018 and 30 June 2017.

	<b>Six months ended 30 June</b>	
	<b>2018</b>	<b>2017</b>
	(U.S.\$ million)	(U.S.\$ million)
Net cash (used in)/ from operating activities .....	(539.0)	128.7
Net cash from investing activities .....	270.5	133.1
Net cash from financing activities .....	226.6	12.7
Cash and cash equivalents at start of period .....	65.4	21.8
Cash and cash equivalents at end of period .....	23.5	30.1

The table below shows a summary of APICORP's consolidated statement of cash flows data for each of 2017, 2016 and 2015.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(U.S.\$ million)		
Net cash from/(used in) operating activities .....	384.4	(249.5) <sup>(1)</sup>	153.7
Net cash (used in)/from investing activities.....	(287.1)	(113.1) <sup>(1)</sup>	89.7
Net cash (used in)/from financing activities .....	(53.7)	361.4	(285.4)
Cash and cash equivalents at 1 January .....	21.8	23.0	65.0
Cash and cash equivalents at 31 December .....	65.4	21.8	23.0

<sup>(1)</sup> 2016 financial information has been derived from the 2017 Financial Statements.

## SELECTED FINANCIAL RATIOS

The table below shows certain financial ratios for APICORP for each of the six-month periods ended 30 June 2018 and 30 June 2017 and for each of 2017, 2016 and 2015. Each of these ratios is an APM, see "Presentation of Group financial information—Certain non-IFRS financial information".

	As at / six months ended 30 June		As at / year ended 31 December		
	<u>2018</u>	<u>2017</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Return on assets <sup>(1)</sup> (per cent.) .....	2.27	0.67	1.66	1.52	1.90
Return on equity <sup>(2)</sup> (per cent.).....	6.57	2.03	4.82	4.66	5.63
Return on paid up capital <sup>(3)</sup> (per cent.) .....	15.03	4.18	10.36	9.34	10.76
Total capital adequacy ratio <sup>(4)</sup> (per cent.). .....	29.84	28.57	27.76	27.63	28.65
Tier 1 capital ratio <sup>(4)</sup> (per cent.).....	29.48	23.59	27.43	23.63	24.87
Total shareholders' funds/total assets <sup>(5)</sup> (per cent.)	34.45	33.15	34.44	32.58	33.78

<sup>(1)</sup> Profit for the period divided by total assets at the end of the period.

<sup>(2)</sup> Profit for the period divided by total equity and non-controlling interests at the end of the period.

<sup>(3)</sup> Profit for the period divided by share capital at the end of the period.

<sup>(4)</sup> Calculated in accordance with Basel II requirements.

<sup>(5)</sup> Total equity attributable to shareholders of the corporation divided by total assets.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF APICORP**

*The following discussion and analysis should be read in conjunction with the information set out in "Presentation of Group financial information", "Capitalisation", "Selected financial information" and the Financial Statements.*

*The discussion of the Group's financial condition and results of operations is based upon the Financial Statements which have been prepared in accordance with IFRS. This discussion contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Base Prospectus, particularly under the headings "Cautionary statement regarding forward-looking statements" and "Risk factors".*

*See "Presentation of Group financial information" for a discussion of the source of the numbers presented in this section.*

*All information in this section as at, and relating to the six-month periods ended, 30 June 2018 and 30 June 2017 is unaudited. Results for any interim period within a year will not necessarily be indicative of the results for the full year.*

### **OVERVIEW**

APICORP is a multilateral development bank focused on the hydrocarbon industry. Its purposes, as set out in the Establishing Agreement, are:

- participating in financing petroleum projects and industries, and in fields of activity which are derived from, ancillary to, associated with or complementary to petroleum projects and industries; and
- giving priority to Arab joint ventures which benefit the OAPEC Member States and enhance their ability to utilise their petroleum resources and to invest their savings to strengthen their economic and financial potential.

APICORP seeks to achieve its purpose by supporting relevant projects through participating in syndicated loans or making direct loans and/or through equity investments. It also participates in trade financing activities, provides project-related financial advisory services and publishes research relating to the hydrocarbon industry.

The Group's principal assets are its syndicated and direct loans which principally generate interest income, its direct equity investments which principally generate dividend income and its treasury investment portfolio of fixed income securities which generates interest income and which is intended to provide earnings which are not correlated to the Group's two other more cyclical business lines of lending to, and making equity investments in, projects in the oil and gas and energy industries.

In 2017, the Group had net interest income of U.S.\$66.2 million and received U.S.\$37.3 million in dividend income. The Group's profit for 2017 was U.S.\$103.6 million. In the six months ended 30 June 2018, the Group had net interest income of U.S.\$45.9 million and received U.S.\$33.4 million in dividend income. The Group's profit for the six months ended 30 June 2018 was U.S.\$150.3 million.

### **PRINCIPAL FACTORS AFFECTING RESULTS OF OPERATIONS**

The following is a discussion of the principal factors that have affected, or are expected to affect, the Group's results of operations.

#### **Changes in international oil prices**

Reflecting APICORP's mandate, the majority of the Group's direct and syndicated lending is to borrowers in the oil and gas and energy industries (including maritime transport of related products). In addition, a significant proportion of the Group's direct equity investments are in the oil and gas and energy sectors and the Group also owns debt securities classified as investments at FVTOCI issued by entities in the oil and gas sector.

The oil and gas industry has been and is expected to continue to be cyclical with levels of investment and profitability in that sector being materially dependent on prevailing international oil and gas prices, which have fluctuated significantly over the past two decades, and are likely to remain volatile in the future. According to data produced by OPEC, the average annual OPEC reference basket prices in 2015, 2016, and 2017 were U.S.\$49.49 per barrel, U.S.\$40.76 per barrel and U.S.\$52.43 per barrel, respectively, and the average OPEC reference basket price for the six month period ended 30 June 2018 was U.S.\$68.31 per barrel, compared to average annual OPEC reference basket prices of around U.S.\$100 per barrel in each of the four years preceding 2015.

Reflecting the significant fall in oil prices from mid-2014, the Group has experienced:

- a significant decline in its dividend income, see "*Factors affecting dividend income*" below;
- periods of lower demand for syndicated and direct lending, illustrated by a 6.7 per cent. decline in its syndicated and direct lending as at 31 December 2015 compared to 31 December 2014 and a 0.5 per cent. increase as at 31 December 2017 compared to 31 December 2016; and
- increased impairment provisions, particularly in 2015, see "*Results of operations—Comparison of 2017, 2016 and 2015—Impairment, net*".

### **Factors affecting net interest income**

The Group's net interest income represents the difference between its interest income and its interest expense. The Group derives interest income principally from its syndicated and direct loans made, its treasury investment portfolio of fixed income securities at FVTOCI, its placements with banks and the amortisation of loan participation and up-front fees. The Group incurs interest expense principally on its bank financing, its sukuk and bonds issued, the deposits it takes from banks, corporates and shareholders and its interest rate swaps. During the three and one-half year period under review, the Group's interest earning assets and its interest bearing liabilities have been increasing.

The Group's interest income is principally affected by the volume of its interest earning assets and the rates of interest that it charges on those assets whilst its interest expense is principally affected by the volume of its interest bearing liabilities and the rates of interest that it is charged on those liabilities.

For an analysis of the factors driving the changes in the Group's net interest income, see — "*Net interest income*" below.

### **Factors affecting dividend income**

Until 31 December 2017, the Group derived dividend income principally from its portfolio of available for sale direct equity investments. The Group's dividend income from its available for sale direct equity investments declined by U.S.\$21.9 million, or 38.2 per cent., in 2017 compared to 2016 and by U.S.\$28.4 million, or 33.1 per cent., in 2016 compared to 2015. In each case, this principally reflected the impact of lower oil and gas prices on certain of the Group's investees which are companies that are principally engaged in the oil and gas and energy industries.

Effective from 1 January 2018, the Group recognised its dividend income from its direct equity investments at FVTOCI. In the six months ended 30 June 2018, the Group's dividend income from its direct equity investments at FVTOCI amounted to U.S.\$30.9 million compared to U.S.\$13.4 million of dividend income from available for sale direct equity investments in the corresponding period of 2017, an increase of 130.6 per cent., principally reflecting a U.S.\$17.8 million increase in dividends received from the Saudi European Petrochemical Company ("**Ibn Zahr**") during the period.

### **Impact of changes in the fair value of the Group's investments**

Until 31 December 2017, the Group determined the fair value of its available for sale direct equity investments and its available for sale treasury investments on each balance sheet date. Accordingly, any changes in the valuation of these investments are recognised as "other comprehensive income (loss)" and do not impact the Group's profit for the year.

The Group recognised other comprehensive loss of U.S.\$55.2 million in 2015, reflecting the reduction in value of certain of its direct equity investments and treasury investments as a result of the decrease in oil

prices. In 2016 and 2017, the Group recognised other comprehensive income of U.S.\$38.1 million and U.S.\$43.3 million, respectively. In 2016, this reflected improved valuations of certain of its direct equity investments and treasury investments as oil prices stabilised. In 2017, the Group's other comprehensive income reflected improved valuations of certain of its direct equity investments as oil prices improved slightly.

Changes in the valuation of the Group's direct equity investment in BJ Services LLC during 2017 are recognised in the consolidated statement of income as unrealised gains or losses on investments designated at FVTPL. The Group recognised an unrealised gain of U.S.\$15.2 million on its investment in BJ Services LLC in its 2017 statement of income.

Effective from 1 January 2018, the changes in fair value of the investments classified as FVTOCI (debt) and FVTOCI (equity) are recognised under other comprehensive income. As at 30 June 2018, the Group recognised other comprehensive income of U.S.\$28.5 million, reflecting significant changes in fair value of direct equity investments amounting to U.S.\$26.3 million which is attributable to movement of fair value of its investments in YANSAB and MOPCO.

## **RECENT DEVELOPMENTS**

During 2018, APICORP entered into a final settlement agreement with the Government of Iraq in relation to overdue loans and related contractual charges made by APICORP to the Government of Iraq. Under the final settlement agreement, APICORP agreed to set off the overdue principal and contractual charges on these loans due up to the date of settlement against accrued dividends payable by APICORP to the Government of Iraq that were held as Dividend payable under other liabilities. The settlement agreement had no impact on APICORP's results for the period due to APICORP holding sufficient impairment allowance.

## **SIGNIFICANT ACCOUNTING POLICIES**

The Financial Statements have been prepared in accordance with IFRS. For a discussion of the accounting policies applied by the Group generally, see notes A to I in the 2017 Financial Statements.

The Group has implemented IFRS 9 "*Financial Instruments*" from its effective date of 1 January 2018. IFRS 9 replaces IAS 39 "*Financial Instruments: Recognition and Measurement*".

The new classifications of financial assets and liabilities under IFRS 9 have not had a material impact on the Group. In addition, the Group has elected to continue to apply the hedge accounting requirements of IAS 39, as permitted under IFRS 9. For further information, see note 3 to the Interim Financial Statements.

IFRS 9 requires APICORP to record an allowance for expected credit losses ("ECLs") for all loans and other financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the ECLs over the life of the asset.

The adoption of IFRS 9 as at 1 January 2018 resulted in a decrease in retained earnings by U.S.\$11.4 million and in fair value reserve by U.S.\$1.3 million. For further information, see note 3 to the Interim Financial Statements.

The Group has also implemented IFRS 15 "*Revenue from Contracts with Customers*" from its effective date of 1 January 2018. IFRS 15 replaces IAS 18 "*Revenue*" and IAS 11 "*Construction Contracts*". IFRS 15 introduces a new five stage approach to revenue recognition and essentially recognises revenue as or when a performance obligation is satisfied. IFRS 15 is not expected to have any material impact on APICORP.

## **CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In preparing the Group's financial statements, management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the Group's assets and liabilities, including disclosure of contingent assets and liabilities, at the date of the financial statements as well as the reported

amounts of the Group's revenue and expenses during the periods presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the Group's financial statements.

The Group's most significant accounting estimates, judgments and assumptions made in the preparation of the Group's financial statements are set out in note J to the 2017 Financial Statements. This note identifies four critical judgments involved in the application of the Group's accounting policies and three key estimates that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year, as follows:

### **Critical judgments**

#### ***Impairment of direct equity investments at FVTOCI***

The Group's portfolio of direct equity investments at FVTOCI amounted to U.S.\$950.6 million as at 30 June 2018. The Group's portfolio of available for sale direct equity investments at fair value (excluding investment in associate) amounted to U.S.\$926.8 million as at 31 December 2017, U.S.\$880.0 million as at 31 December 2016 and U.S.\$816.1 million as at 31 December 2015. The Group also has a small portfolio of other equity securities and managed funds held as available for sale equity investments.

For the years ending 31 December 2015, 2016 and 2017, the Group considers an available for sale equity investment to be impaired either when there has been a significant or prolonged decline in its fair value below its cost or if other objective evidence of impairment exists. The determination of what is "significant" (meaning a 20 per cent. or more decline in value) or "prolonged" (meaning a period equal to or over two years) requires considerable judgment. In addition, objective evidence of impairment may include deterioration in the financial health of the investee, its industry and/or sector, adverse changes in technology and reduced operational and financing cash flows.

The Group's impairment allowance in respect of its direct equity investments at FVTOCI was U.S.\$107.3 million as at 30 June 2018 (equal to 11.3 per cent. of its direct equity investments at FVTOCI at that date). The Group's impairment allowance in respect of its available for sale direct equity investments was U.S.\$107.3 million as at 31 December 2017 (equal to 11.6 per cent. of its available for sale direct equity investments at that date), U.S.\$107.3 million as at 31 December 2016 (equal to 12.2 per cent. of its available for sale direct equity investments at that date) and U.S.\$102.2 million as at 31 December 2015 (equal to 12.5 per cent. of its available for sale direct equity investments at that date). Impairment of available for sale investments is also noted as a key audit matter in the auditors' reports in relation to the 2017 Financial Statements and 2016 Financial Statements.

Effective from 1 January 2018, IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. The new impairment model also applies to certain loan commitments and financial guarantee contracts, but not to equity investments. For further information, see note 3 to the Interim Financial Statements.

### ***Operating leases***

The Group has a 94 per cent. interest in APSF, an investment vehicle that owns five commercial marine vessels, all of which were leased under a bareboat charter to an international trading company for a non-cancellable period of three years, which expired in February 2018. The vessels are currently being employed using a combination of pool employment structures and index-linked charters (for one year terms). The carrying value of these vessels was U.S.\$89.9 million as at 30 June 2018. Management has determined that the leases of these vessels should be accounted for as operating leases as not all of the significant risks and rewards of ownership have been transferred to the lessee. In making this determination, management considered the significance of the lease term compared to the estimated useful life of the vessels.

### ***Residual value of the commercial marine vessels***

The depreciable amount of the Group's commercial marine vessels is their current residual amount less their estimated residual value. Depreciation is charged on the Group's commercial marine vessels on a straight line basis over a 25-year period from the date each vessel was built. Management uses the industry

steel price to determine residual value at each reporting date. Changes in this price could impact the residual value and so have an impact on the depreciation charge in respect of the vessels. The Group's depreciation charge in respect of its vessels was U.S.\$2.7 million in the six months ended 30 June 2018, U.S.\$5.3 million in 2017, U.S.\$5.1 million in 2016 and U.S.\$4.9 million in 2015.

#### ***No significant influence over direct equity investments at FVTOCI***

Management has determined that the Group has no significant influence over Ashtead Technology. As a result, it is accounted for as a direct equity investment at FVTOCI (and not as an equity accounted associate) notwithstanding that the Group's shareholding in Ashtead Technology exceeds 30 per cent.

#### **Key estimates**

##### ***Impairment losses on loans and advances***

The Group's syndicated and direct loans amounted to U.S.\$3,186.9 million as at 30 June 2018, U.S.\$2,965.0 million as at 31 December 2017, U.S.\$2,951.6 million as at 31 December 2016 and U.S.\$2,510.1 million as at 31 December 2015. Prior to the implementation of IFRS 9, the Group reviewed its syndicated and direct loans at each reporting date to assess whether a provision for impairment should be recorded in the consolidated statement of income. Considerable judgment is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. These estimates are based on assumptions about several factors involving varying degrees of judgment and uncertainty. The Group's impairment allowance in respect of its syndicated and direct loans was U.S.\$40.8 million as at 30 June 2018 (equal to 1.2 per cent. of its gross syndicated and direct loans at that date), U.S.\$44.6 million as at 31 December 2017 (equal to 1.4 per cent. of its gross syndicated and direct loans at that date), U.S.\$44.0 million as at 31 December 2016 (equal to 1.4 per cent. of its gross syndicated and direct loans at that date) and U.S.\$47.0 million as at 31 December 2015 (equal to 1.8 per cent. of its gross syndicated and direct loans at that date). Impairment of syndicated and direct loans is also noted as a key audit matter in the auditors' reports in relation to both the Annual Financial Statements.

Effective from 1 January 2018, IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. The new impairment model also applies to certain loan commitments and financial guarantee contracts, but not to equity investments. For further information, see note 3 to the Interim Financial Statements.

##### ***Collective impairment provisions on loans and advances***

The Group makes specific impairment provisions against syndicated and direct loans that are individually determined to be impaired. In addition, it makes a collective impairment provision against syndicated and direct loans which, although not individually determined to be impaired, have a greater risk of default than when originally granted, based on various credit risk characteristics of the syndicated and direct loans. In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted to reflect 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 the historical trends. The Group's collective impairment allowance in respect of its syndicated and direct loans was U.S.\$28.3 million as at 30 June 2018 (equal to 0.9 per cent. of its gross syndicated and direct loans at that date), U.S.\$25.8 million as at 31 December 2017 (equal to 0.8 per cent. of its gross syndicated and direct loans at that date), U.S.\$25.2 million as at 31 December 2016 (equal to 0.8 per cent. of its gross syndicated and direct loans at that date) and U.S.\$24.2 million as at 31 December 2015 (equal to 0.9 per cent. of its gross syndicated and direct loans at that date).

##### ***Fair value measurement***

Certain of the Group's financial assets and liabilities, including in particular its direct equity investments and its treasury investments, are measured at fair value for financial reporting purposes. In estimating the fair value of a financial asset or liability, the Group uses a 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 Group can assess at the measurement date;

- *level 2 inputs* are inputs, other than level 1 inputs, that are observable for the asset or liability, either directly or indirectly; and
- *level 3 inputs* are unobservable inputs for the asset or liability.

Where level 1 inputs are not available, the Group's in-house qualified valuers work closely with management to establish the appropriate valuation techniques and inputs to the model. As at 31 December 2017, U.S.\$148.2 million, or 6.0 per cent., of the Group's financial assets were fair valued using level 2 inputs and U.S.\$783.6 million, or 31.9 per cent., of the Group's financial assets were fair valued using level 3 inputs. As at the same date, U.S.\$1,180.5 million, or all, of the Group's financial liabilities were fair valued using level 2 inputs. Note 27 to the 2017 Financial Statements identifies the Group's financial assets valued using level 3 inputs and provides details of the valuation techniques used and the key inputs and significant unobservable inputs.

## RESULTS OF OPERATIONS

### Comparison of the six-month periods ended 30 June 2018 and 30 June 2017

#### *Net interest income*

The Group's net interest income comprises its interest income less its interest expense. The Group derives interest income principally from its syndicated and direct loans made, its fixed income securities at FVTOCI, its placements with banks and the amortisation of loan participation and up-front fees. The Group incurs interest expense principally on its bank financing, its sukuk and bonds issued, the deposits it takes from banks, corporates and shareholders and its interest rate swaps.

The Group's net interest income was U.S.\$45.9 million in the six months ended 30 June 2018 compared to U.S.\$32.7 million in the corresponding period in 2017. The increase of U.S.\$13.2 million, or 40.4 per cent., in the six months ended 30 June 2018 reflected the changes in interest income and interest expense described below.

The table below shows the Group's interest income and interest expense for the six-month periods ended 30 June 2018 and 30 June 2017.

	Six months ended 30 June			
	2018		2017	
	(U.S.\$ million)	(per cent.)	(U.S.\$ million)	(per cent.)
<b>Interest income</b>				
Syndicated and direct loans.....	71.3	65.3	42.6	54.8
Available for sale securities (net) .....	-	-	18.1	23.3
Investment at FVTOCI (debt) .....	19.8	18.1	-	-
Placements with banks .....	9.6	8.8	9.7	12.5
Amortisation of loan participation and up front fees .....	8.3	7.6	7.4	9.4
Cash and bank balances.....	0.1	0.2	0.0	0.0
<b>Total interest income.....</b>	<b>109.1</b>	<b>100.0</b>	<b>77.8</b>	<b>100.0</b>
<b>Interest expense</b>				
Bank term financing.....	(15.4)	24.4	(22.2)	49.2
Sukuk and bonds issued .....	(22.7)	35.9	(5.9)	13.1
Deposits .....	(18.9)	29.9	(10.9)	24.2
Interest rate swaps .....	(5.1)	8.1	(2.4)	5.3
Other .....	(1.1)	1.7	(3.7)	8.2
<b>Total interest expense.....</b>	<b>(63.2)</b>	<b>100.0</b>	<b>(45.1)</b>	<b>100.0</b>
<b>Net interest income.....</b>	<b>45.9</b>		<b>32.7</b>	

The Group's interest income was U.S.\$109.1 million in the six months ended 30 June 2018 compared to U.S.\$77.8 million in the corresponding period in 2017.

The increase of U.S.\$31.3 million, or 40.2 per cent., in the six months ended 30 June 2018 compared to the six months ended 30 June 2017 principally reflected an increase in the LIBOR rate from 1.4342 per cent. at 30 June 2017 to 2.495 per cent. at 30 June 2018.

The Group's interest expense was U.S.\$63.2 million in the six months ended 30 June 2018 compared to U.S.\$45.1 million in the corresponding period in 2017.

The increase of U.S.\$18.1 million, or 40.1 per cent., in the six months ended 30 June 2018 compared to the six months ended 30 June 2017 principally reflected the increase in the LIBOR rate described above.

#### ***Net other income***

The Group's net other income principally comprises dividend income earned on its equity securities at FVTOCI, bareboat charter income, unrealised gain on investments designated at FVTPL and share of gain from associates.

The table below shows the breakdown of the Group's net other income for the six-month periods ended 30 June 2018 and 30 June 2017.

	<b>Six months ended 30 June</b>			
	<b>2018</b>		<b>2017</b>	
	<i>(U.S.\$ million)</i>	<i>(per cent.)</i>	<i>(U.S.\$ million)</i>	<i>(per cent.)</i>
Dividend income .....	33.4	26.9	14.6	53.5
Share of income from associate.....	0.9	0.7	5.0	18.3
Realised gain/(loss) on sale of investment held for sale .....	86.7	69.9	0.0	0.0
Other income, of which:				
<i>Bareboat charter income</i> .....	3.9	3.2	7.0	25.6
<i>Others</i> .....	(0.9)	(0.7)	0.7	2.6
<b>Total</b> .....	<b>124.0</b>	<b>100.0</b>	<b>27.3</b>	<b>100.0</b>

The Group's net other income was U.S.\$124.0 million in the six months ended 30 June 2018 compared to U.S.\$27.3 million in the corresponding period in 2017. The increase of U.S.\$96.7 million, or 354 per cent., in the six months ended 30 June 2018 principally reflected the gain from sale of the Group's investment in NPS (which agreement was entered into in November 2017 and completed in June 2018).

#### ***Dividend income***

The Group's dividend income principally comprises dividends that it receives on its direct equity investments coupled with a small amount of dividend income on its other equity securities.

The Group's dividend income was U.S.\$33.4 million in the six months ended 30 June 2018 compared to U.S.\$14.6 million in the corresponding period in 2017. The increase of U.S.\$18.8 million, or 128.8 per cent., in the six months ended 30 June 2018 principally reflecting a U.S.\$17.8 million increase in dividends received from Ibn Zahr during the period.

#### ***Share of income from associate***

The Group had a single associate in each six month period under review, Falcon Cement Company B.S.C. ("Falcon Cement").

The Group's share of the results of Falcon Cement was a gain of U.S.\$0.9 million in the six months ended 30 June 2018 compared to a gain of U.S.\$5.0 million from Falcon and NPS in the corresponding period in 2017. The decreased of U.S.\$4.1 million, or 82.0 per cent., in the six months ended 30 June 2018 principally reflected the transfer of NPS to assets held for sale as at 31 December 2017 (as a result of the sale agreement entered into in November 2017) and lower reported income of Falcon Cement during the period.

#### ***Bareboat charter income***

The Group has a fleet of five marine vessels which it chartered on a bareboat charter to a single charterer for a period of three years, which expired in February 2018. The vessels are currently being deployed under combination of pool employment structures and index-linked charters.

The Group's bareboat charter income was U.S.\$3.9 million in the six months ended 30 June 2018 compared to U.S.\$7.0 million in the corresponding period in 2017. The fall of U.S.\$3.1 million, or 44.3 per cent., in

the six months ended 30 June 2018 principally reflected the expiry of the bareboat charter noted above in February 2018.

#### *Operating expenses*

The Group's operating expenses principally comprise staff costs, premises costs and key management and Board remuneration.

The Group's operating expenses were U.S.\$19.6 million in the six months ended 30 June 2018 and U.S.\$17.9 million in the corresponding period in 2017.

The table below shows the breakdown of the Group's operating expenses for the six-month periods ended 30 June 2018 and 30 June 2017.

	Six months ended 30 June			
	2018		2017	
	(U.S.\$ million)	(per cent.)	(U.S.\$ million)	(per cent.)
Staff costs.....	8.9	45.4	7.6	42.5
Premises costs, including depreciation .....	6.1	31.1	5.6	31.3
Key management and Board benefits, fees and charges .....	1.1	5.6	1.3	7.2
Equipment and communications costs.....	0.9	4.6	0.8	4.5
Consultancy and legal fees .....	0.8	4.1	1.3	7.3
Employee's end of service benefits.....	1.2	6.1	0.9	5.0
Other corporate charges <sup>(1)</sup> .....	0.6	3.1	0.4	2.2
<b>Total operating expenses.....</b>	<b>19.6</b>	<b>100.0</b>	<b>17.9</b>	<b>100.0</b>

<sup>(1)</sup> Includes donations.

#### *Impairment, net*

The Group's net impairment charges relate to its syndicated and direct loans and its direct equity investments at FVTOCI.

The Group's net impairment charges were nil in the six months ended 30 June 2018 compared to U.S.\$0.3 million in the corresponding period in 2017.

#### *Profit for the period*

Reflecting the above factors, the Group recorded profit for the period of U.S.\$150.3 million in the six months ended 30 June 2018 compared to U.S.\$41.8 million in the six months ended 30 June 2017, an increase of U.S.\$108.5 million, or 259.6 per cent., in the six months ended 30 June 2018.

#### *Other comprehensive income*

The Group's other comprehensive income principally reflects fair value changes on its investments at FVTOCI, including in particular its direct equity investments.

The Group's other comprehensive income was U.S.\$28.5 million in the six months ended 30 June 2018 compared to U.S.\$18.7 million in the corresponding period in 2017 principally as a result of changes in the fair value of direct equity investments amounting to U.S.\$26.3 million attributable mainly to fair value movements of its investments in YANSAB and MOPCO.

#### *Total comprehensive income*

Reflecting the Group's profit for the period and its other comprehensive income in each period, the Group's total comprehensive income was U.S.\$178.8 million for the six months ended 30 June 2018 compared to U.S.\$60.4 million for the corresponding period in 2017.

## Comparison of 2017, 2016 and 2015

### *Net interest income*

The Group's net interest income was U.S.\$66.2 million in 2017 compared to U.S.\$53.8 million in 2016 and U.S.\$44.9 million in 2015. The increase of U.S.\$12.4 million, or 23.0 per cent., in 2017 and U.S.\$8.9 million, or 19.8 per cent., in 2016 each reflected the changes in interest income and interest expense described below.

The table below shows the Group's interest income and its interest expense for each of 2017, 2016 and 2015

	2017		2016		2015	
	(U.S.\$ million)	(per cent.)	(U.S.\$ million)	(per cent.)	(U.S.\$ million)	(per cent.)
<b>Interest income</b>						
Syndicate and direct loans.....	91.6	57.4	62.5	49.7	46.9	44.0
Available for sale securities (net).....	36.2	22.7	34.2	27.2	31.4	29.4
Placements with banks.....	16.3	10.2	16.6	13.2	11.2	10.5
Amortisation of loan participation and up front fees.....	15.4	9.7	12.5	9.9	17.2	16.1
Cash and bank balances.....	0	0.0	0	0.0	0	0.0
<b>Total interest income.....</b>	<b>159.5</b>	<b>100.0</b>	<b>125.8</b>	<b>100.0</b>	<b>106.7</b>	<b>100.0</b>
<b>Interest expense</b>						
Bank term financing.....	(36.2)	38.8	(28.6)	39.7	(21.8)	35.3
Sukuk and bonds issued.....	(23.5)	25.2	(10.7)	14.9	(10.5)	17.0
Deposits.....	(25.3)	27.1	(23.0)	31.9	(15.9)	25.7
Interest rate swaps.....	(5.0)	5.4	(6.8)	9.5	(10.7)	17.3
Other.....	(3.3)	3.5	(2.9)	4.0	(2.9)	4.7
<b>Total interest expense.....</b>	<b>(93.3)</b>	<b>100.0</b>	<b>(72.0)</b>	<b>100.0</b>	<b>(61.8)</b>	<b>100.0</b>
<b>Net interest income.....</b>	<b>66.2</b>		<b>53.8</b>		<b>44.9</b>	

The Group's interest income was U.S.\$159.5 million in 2017 compared to U.S.\$125.8 million in 2016 and U.S.\$106.7 million in 2015.

The increase of U.S.\$33.7 million, or 26.8 per cent., in 2017 compared to 2016 principally reflected an increase of U.S.\$29.1 million, or 46.6 per cent., in interest income from syndicated and direct loans which resulted mainly from increased average interest rates and to a significantly lesser extent from increased average volumes of lending. In addition, interest income from the amortisation of loan participation and up front fees increased by U.S.\$2.9 million, or 23.2 per cent., in 2017, principally as a result of new loans and an increase in the fee rates charged.

The increase of U.S.\$19.1 million, or 17.9 per cent., in 2016 compared to 2015 principally reflected an increase of U.S.\$15.6 million, or 33.3 per cent., in interest income from syndicated and direct loans which resulted from both increased average interest rates and increased average volumes of lending. In addition, interest income from placements with banks increased by U.S.\$5.4 million, or 48.2 per cent., in 2016 reflecting both increased average volumes of placements and increased average interest rates charged, while interest income from the amortisation of loan participation and up front fees fell by U.S.\$4.7 million, or 27.3 per cent., in 2016, principally as a result of a reduction in the volume of loans and, to a significantly lesser extent, a reduction in the fee rate charged.

The Group's interest expense was U.S.\$93.3 million in 2017 compared to U.S.\$72.0 million in 2016 and U.S.\$61.8 million in 2015.

The increase of U.S.\$21.3 million, or 29.6 per cent., in 2017 compared to 2016 principally reflected increases of U.S.\$12.8 million, or 29.5 per cent., in interest expense on sukuk and bonds issued and U.S.\$7.6 million, or 29.5 per cent., in interest expense on bank term financing. The increase in interest expense on sukuk and bonds issued principally reflected higher average volumes as a result of additional sukuk issued in 2017 as well as the full year effect of bonds and sukuk issued in 2016 and the increase in interest expense on bank term financing also principally reflected higher average volumes outstanding.

The increase of U.S.\$10.2 million, or 16.5 per cent., in 2016 compared to 2015 principally reflected increases of U.S.\$6.8 million, or 31.1 per cent., in interest expense on bank term financing and U.S.\$7.1 million, or 44.6 per cent., in conventional deposits. The increase in interest expense on bank term financing

is principally due to higher average LIBOR rates during 2016 compared to 2015. The increase in interest expense on conventional deposits principally reflected higher average volumes outstanding in 2016 compared to 2015.

#### **Net other income**

The Group's net other income was U.S.\$75.3 million in 2017 compared to U.S.\$77.8 million in 2016 and U.S.\$117.1 million in 2015. The fall of U.S.\$2.4 million, or 3.1 per cent., in 2017 compared to 2016 principally reflected a fall in dividend income offset by unrealised gains on investments designated at FVTPL in 2017 as discussed further below. The fall of U.S.\$39.3 million, or 33.6 per cent., in 2016 compared to 2015 principally reflected a fall in dividend income as discussed further below.

The table below shows the breakdown of the Group's net other income for each of 2017, 2016 and 2015.

	2017		2016 <sup>(1)</sup>		2015	
	(U.S.\$ million)	(per cent.)	(U.S.\$ million)	(per cent.)	(U.S.\$ million)	(per cent.)
Dividend income .....	37.3	49.5	59.4	76.4	90.9	77.6
Unrealised gain on investments designated at FVTPL .....	15.2	20.2	—	—	—	—
Realised net gain/(loss) on sale of available for sale portfolio .....	0.1	0.1	(3.1)	(4.0)	3.3	2.9
Net fee income .....	0.6	0.8	0.7	0.9	1.2	1.0
Other income, of which:						
Bareboat charter income .....	12.5	16.6	14.1	18.1	14.0	12.0
Share of gain/(loss) from associates .....	11.8	15.7	(1.8)	(2.3)	1.1	0.9
Other .....	(2.2)	(2.9)	8.5	10.9	6.6	5.6
<b>Total .....</b>	<b>75.3</b>	<b>100.0</b>	<b>77.8</b>	<b>100.0</b>	<b>117.1</b>	<b>100.0</b>

<sup>(1)</sup> In 2017, APICORP reclassified certain expenses that had provisions taken into account in determining net fee income and recorded these expenses as other corporate charges.

#### **Dividend income**

The Group's dividend income was U.S.\$37.3 million in 2017 compared to U.S.\$59.4 million in 2016 and U.S.\$90.9 million in 2015. The fall of U.S.\$22.1 million, or 37.2 per cent., in 2017 compared to 2016 principally reflected a significant reduction in the dividend from Ibn Zahr. The fall of U.S.\$31.5 million, or 34.7 per cent., in 2016 compared to 2015 principally reflected a significant reduction in the dividend from Ibn Zahr as well as a small reduction in the dividend from NPS. See "*Principal factors affecting results of operations – Factors affecting dividend income*".

#### **Unrealised gain on investments designated at FVTPL**

In 2017, the Group purchased shares in BJ Services, LLC, an unlisted United States oilfield services company, which it designated as an investment at FVTPL. The unrealised gain on this investment amounted to U.S.\$15.2 million in 2017.

#### **Bareboat charter income**

The Group's bareboat charter income fell by U.S.\$1.5 million, or 10.9 per cent., in 2017 compared to 2016 and remained constant at U.S.\$14.1 million in 2016 and U.S.\$14.0 million in 2015. The fall in bareboat charter income in 2017 compared to 2016 and 2015 principally reflected the dry-docking expense associated with the five-year inspection and overhaul of the vessels which was deducted from the charter income.

#### **Share of income from associate**

The Group had a single associate in each of 2016 and 2015, NPS, in which it had a variable shareholding over the two years of 29.12 per cent. In November 2017, the Group entered into an agreement for the sale of NPS, which is subject to certain regulatory and other approvals being obtained. As a result, the Group's investment in NPS was recorded as assets held for sale as at 31 December 2017. The sale of NPS was completed in June 2018.

With effect from 1 January 2017, the Group has classified its 30 per cent. shareholding in Falcon Cement, which was previously classified as an available for sale direct equity investment, as an investment in an associate based on management's assessment of the significant influence it has over the financial and operating decision making in respect of Falcon Cement following the appointment of a new board of directors for Falcon Cement.

Reflecting the changes in the Group's associates described above, the Group's share of the gain/(loss) from its associates was a share of gain of U.S.\$11.8 million in 2017, of which U.S.\$ 9.2 million was attributable to NPS and U.S.\$2.6 million was attributable to Falcon Cement. This compared to relatively smaller amounts in 2016 and 2015, with a share of loss of U.S.\$1.8 million in 2016 and a share of gain of U.S.\$1.1 million in 2015.

### ***Operating expenses***

The Group's operating expenses were relatively flat at U.S.\$37.3 million in 2017, U.S.\$36.1 million in 2016 and U.S.\$37.7 million in 2015.

The table below shows the breakdown of the Group's operating expenses for each of 2017, 2016 and 2015.

	<b>2017</b>		<b>2016<sup>(1)</sup></b>		<b>2015</b>	
	<i>(U.S.\$ million)</i>	<i>(per cent.)</i>	<i>(U.S.\$ million)</i>	<i>(per cent.)</i>	<i>(U.S.\$ million)</i>	<i>(per cent.)</i>
Staff costs.....	14.7	39.4	15.5	42.9	18.1	48.0
Premises costs, including depreciation ....	9.1	24.4	9.2	25.4	7.3	19.4
Key management and Board benefits, fees and charges.....	5.2	13.9	4.2	11.6	3.5	9.3
Equipment and communications costs....	2.9	7.8	3.1	8.7	3.4	9.0
Consultancy and legal fees .....	2.0	5.4	1.4	3.9	1.1	2.9
Employee's end of service benefits.....	1.6	4.3	1.6	4.4	1.6	4.2
Other corporate charges <sup>(2)</sup> .....	1.8	4.8	1.1	3.0	2.7	7.2
<b>Total operating expenses.....</b>	<b>37.3</b>	<b>100.0</b>	<b>36.1</b>	<b>100.0</b>	<b>37.7</b>	<b>100.0</b>

<sup>(1)</sup> In 2017, APICORP reclassified certain expenses that had provisions taken into account in determining net fee income and recorded these expenses as other corporate charges.

<sup>(2)</sup> Includes donations.

### ***Impairment, net***

The Group's net impairment charges were U.S.\$0.6 million in 2017 compared to U.S.\$2.1 million in 2016 and U.S.\$16.8 million in 2015, a fall of U.S.\$1.5 million, or 71.5 per cent., in 2017 and U.S.\$14.7 million, or 87.5 per cent., in 2016.

The table below shows the composition of the Group's net impairment charges in each of 2017, 2016 and 2015.

	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<i>(U.S.\$ million)</i>		
<b>Charge for the year</b>			
Syndicated and direct loans:			
Specific impairment allowance .....	—	—	0.6
Collective impairment allowance .....	0.6	1.0	10.6
Available for sale direct equity investments.....	—	5.1	5.0
Accrued interest receivable .....	—	—	4.5
Total charge .....	0.6	6.1	20.7
<b>Less: recoveries</b>			
Syndicated and direct loans.....	—	(4.0)	(3.6)
Available for sale securities.....	—	—	(0.3)
<b>Total recoveries .....</b>	<b>—</b>	<b>(4.0)</b>	<b>(3.9)</b>
<b>Net impairment charge .....</b>	<b>0.6</b>	<b>2.1</b>	<b>16.8</b>

In 2017, the Group's net impairment charge comprised only a collective impairment charge of U.S.\$0.6 million on its portfolio of syndicated and direct loans, which reflected management's assessment of changes in portfolio risk in 2017.

In 2016, in addition to a U.S.\$0.9 million collective impairment charge on the Group's portfolio of syndicated and direct loans, the Group also recorded a U.S.\$5.1 million impairment charge in respect of two Libyan and one Egyptian direct equity investees. These charges were offset by a U.S.\$4.0 million reversal of impairment relating to Iraqi defaulted loans. During 2016 U.S.\$4 million of dividends due to the Government of Iraq was withheld, resulting in an equal reversal of impairment provisions on this account.

In 2015, in addition to a U.S.\$10.6 million collective impairment charge on the Group's portfolio of syndicated and direct loans, the Group also recorded a U.S.\$5.6 million specific impairment charge relating to an Egyptian direct equity investee. In addition, the Group recorded a U.S.\$4.5 million impairment charge against interest receivable from a different Egyptian investee. These charges were offset by a U.S.\$3.6 million reversal of impairment relating to syndicated and direct loans and a U.S.\$0.3 million reversal of impairment relating to available for sale securities. The significantly higher collective impairment charge in relation to the Group's syndicated and direct loans in 2015 reflected the prevailing levels of unrest in Egypt and Libya.

#### ***Profit for the year***

Reflecting the above factors, the Group recorded profit for the year of U.S.\$103.6 million in 2017 compared to U.S.\$93.4 million in 2016 and U.S.\$107.6 million in 2015, an increase of U.S.\$10.2 million, or 10.9 per cent., in 2017 and a fall of U.S.\$14.2 million, or 13.2 per cent., in 2016.

#### ***Other comprehensive income/(loss)***

The Group's other comprehensive income was U.S.\$43.3 million in 2017 compared to U.S.\$38.1 million in 2016 and other comprehensive loss of U.S.\$55.2 million in 2015. See "*—Principal factors affecting results of operations—Impact of changes in the fair value of the Group's investments*" above.

#### **Total comprehensive income**

Reflecting the Group's profit for the year and its other comprehensive income/(loss) in each year, the Group's total comprehensive income was U.S.\$147.0 million in 2017 compared to U.S.\$131.6 million in 2016 and U.S.\$52.4 million in 2015.

### **LIQUIDITY AND FUNDING**

#### **Overview**

The Group principally uses cash to advance loans and make direct equity investments and treasury investments. The Group also uses cash to pay interest on and repay its financing and, in 2016, to pay dividends to its shareholders. The Group's principal source of cash is its cash flow from operating activities, although it also raises funding through bank term loans and the issue of bonds and sukuk and through deposits from banks, corporates and shareholders and generates cash through the sale of investments. In addition, although the Group does not benefit from shareholder guarantees, APICORP has U.S.\$1 billion in callable capital, which is a joint and several obligation of each shareholder to provide additional capital if required in certain cases and subject to the approval of its shareholders. See "*Risk Factors—APICORP is a multilateral development bank without guarantee-related support from its shareholders*".

#### **Cash flow**

The table below summarises the Group's cash flow from operating activities, investing activities and financing activities for each of the six-month periods ended 30 June 2018 and 30 June 2017.

	Six months ended 30 June	
	2018	2017
(U.S.\$ million)		
Net cash (used in)/from operating activities .....	(539.0)	128.7
Net cash from (used in) investing activities.....	270.5	(133.1)
Net cash from financing activities .....	226.6	12.7
Cash and cash equivalents at 1 January .....	65.4	21.8
Cash and cash equivalents at 30 June.....	23.5	30.1

The table below summarises the Group's cash flow from operating activities, investing activities and financing activities for each of 2017, 2016 and 2015.

	2017	2016 <sup>(1)</sup>	2015
(U.S.\$ million)			
Net cash from (used in) operating activities .....	384.4	(249.5)	153.7
Net cash (used in)/from investing activities.....	(287.1)	(113.1)	89.7
Net cash (used in)/from financing activities .....	(53.7)	361.4	(285.4)
Cash and cash equivalents at 1 January .....	21.8	23.0	65.0
Cash and cash equivalents at 31 December.....	65.4	21.8	23.0

<sup>(1)</sup> In 2017, APICORP changed the presentation of its cash flow statement by presenting its gain/loss for associates under operating activities as opposed to including this item under net change in direct equity investments under investing activities.

### ***Cash flow from operating activities***

The Group's net cash used in operating activities for the six months ended 30 June 2018 was U.S.\$539.0 million compared to net cash generated from operating activities of U.S.\$128.7 million in the corresponding period of 2017. The Group's cash flow from operations in each period before changes in operating assets and liabilities principally reflects its profit for the period adjusted to add back non-cash interest expense and to deduct dividends paid. The significant variations in the Group's operating cash flow in each period principally reflect changes in direct and syndicated loans and placements with banks.

The Group's net cash from operating activities for 2017 was U.S.\$384.4 million compared to net cash flow used in operating activities for 2016 of U.S.\$249.5 million and net cash flow from operating activities for 2015 of U.S.\$153.7 million. The Group's cash flow in each year before changes in operating assets and liabilities principally reflects its profit for the year adjusted to add back non-cash interest expense and to deduct dividends paid. The significant variations in the Group's operating cash flow in each year principally reflect changes in direct and syndicated loans and placements with banks. In particular, in 2017 the Group's net inflow from placements with banks at U.S.\$357.0 million significantly exceeded its U.S.\$9.8 million net disbursement of loans. In 2016, the Group's U.S.\$442.5 million net disbursement of loans significantly exceeded its U.S.\$155.4 million net inflow from placements with banks. In 2015, the Group's U.S.\$173.2 million net inflow from the repayment of loans significantly exceeded its U.S.\$54.2 million net outflow from placements with banks.

### ***Cash flow from investing activities***

The Group's net cash generated from investing activities for the six months ended 30 June 2018 was U.S.\$270.5 million compared to net cash used in investing activities of U.S.\$133.1 million in the corresponding period of 2017. In the six months ended 30 June 2018, the Group generated positive cash flow from investing activities as a result of a number of sales, including a net amount of U.S.\$237.9 million in investments including investments held for sale. The Group also received U.S.\$33.4 million in dividends. In the six months ended 30 June 2017, the principal investments made were a net U.S.\$87.6 million in investments at FVTOCI and U.S.\$60.0 million in direct equity investments, the cost of which was offset by U.S.\$15.1 million dividends received.

The Group's net cash used in investing activities in 2017 was U.S.\$287.1 million compared to U.S.\$113.1 million in 2016 and net cash from investing activities of U.S.\$89.7 million in 2015. In 2017, the principal investments made were a net U.S.\$275.8 million in available for sale investments and U.S.\$55.2 million in direct equity investments, the cost of which was offset by U.S.\$45.3 million dividends received. In 2016, the principal investments made were a net U.S.\$122.3 million in available for sale investments and U.S.\$48.8 million in direct equity investments, the cost of which was offset by U.S.\$59.8 million dividends

received. In 2015, the principal investment made was a net U.S.\$92.5 million in direct equity investments, the cost of which was more than offset by U.S.\$91.5 million received from the net sale of available for sale securities coupled with U.S.\$90.9 million dividends received.

#### ***Cash flow from financing activities***

The Group's net cash generated from financing activities for the six months ended 30 June 2018 was U.S.\$226.6 million compared to U.S.\$12.7 million in the corresponding period of 2017. In the 2018 period, the Group issued a CNY 630 million bond and borrowed two medium term loans of U.S.\$150.0 million each from Mizuho Bank, Ltd. and First Abu Dhabi Bank PJSC, respectively.

The Group's net cash used in financing activities in 2017 was U.S.\$53.7 million compared to net cash from financing activities of U.S.\$361.5 million in 2016 and net cash used in financing activities of U.S.\$285.4 million in 2015. In 2017, the Group raised a net U.S.\$601.3 million from the issue of bonds and sukuk and repaid a net U.S.\$458.9 million in bank term financing and a net U.S.\$191.6 million in deposits. In 2016, the Group raised a net U.S.\$381.3 million from the issue of bonds and sukuk and a net U.S.\$157.8 million from securities sold under agreements to repurchase and repaid a net U.S.\$9.4 million in bank term financing and a net U.S.\$139.4 million in deposits. In 2016, the Group also paid a dividend of U.S.\$28.8 million. In 2015, the Group raised a net U.S.\$121.8 million in bank term financing and repaid a net U.S.\$187.7 million in deposits and a net U.S.\$42.1 million in bonds and sukuk issued and repurchased a net U.S.\$177.5 million in securities sold under agreements to repurchase.

#### **Liquidity**

The Group's liquidity comprises its treasury investment portfolio, placements with banks and cash. The table below shows the Group's liquidity as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June		As at 31 December		
	2018	2017	2016	2015	
(U.S.\$ million)					
Treasury investment portfolio .....	1,400.0	1,479.4	1,203.5	1,069.0	
Placements with banks .....	808.6	459.7	816.8	972.1	
Cash and cash equivalents .....	23.5	65.4	21.8	23.0	
<b>Total liquidity</b> .....	<b>2,232.2</b>	<b>2,004.5</b>	<b>2,042.1</b>	<b>2,064.1</b>	

As at 30 June 2018, 68.2 per cent. of the Group's bank placements were with institutions that were rated AAA to A and 28.7 per cent. were with institutions that were rated BBB to B. The remaining placements were with institutions that were not rated. The Group's treasury investment portfolio is described under "*Analysis of certain statement of financial position items—Treasury investment portfolio*" below.

#### **Funding**

The Group actively manages a net funding requirement of approximately between U.S.\$4.0 billion to U.S.\$4.5 billion a year. To this end, it maintains an active relationship with counterparties across the GCC, Europe, the United States, Asia and Africa, although the bulk of its funding was sourced from the GCC in each of 2017, 2016 and 2015.

The Group's funding strategy relies on a mixture of medium to longer-term borrowings and shorter-term deposits together with a small amount of funding raised from repo-transactions using securities in its investments portfolio. The table below shows the Group's sources of funding by amount and proportion of the total as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June				As at 31 December			
	2018		2017		2016		2015	
	(U.S.\$ million)							
Borrowings.....	2,896.4		2,519.2		2,375.3		2,010.4	
Deposits .....	1,177.4		1,337.7		1,529.3		1,662.6	
Securities sold under agreements to repurchase .....	150.8		153.1		157.7		—	
<b>Total funding</b> .....	<b>4,224.6</b>		<b>4,010.0</b>		<b>4,062.4</b>		<b>3,673.0</b>	
	(per cent.)							
Borrowings.....	68.6		62.8		58.5		54.7	
Deposits .....	27.8		33.4		37.6		45.3	
Securities sold under agreements to repurchase .....	3.6		3.8		3.9		—	
<b>Total funding</b> .....	<b>100.0</b>		<b>100.0</b>		<b>100.0</b>		<b>100.0</b>	

In 2018, APICORP borrowed two medium term loans of U.S.\$150.0 million each from Mizuho Bank, Ltd. and First Abu Dhabi Bank PJSC, respectively.

### **Borrowings**

As at 30 June 2018, the Group had four fully drawn bank term loans outstanding. These term loans have margins between 0.55 per cent. and 0.6 per cent. over the Saudi riyal interbank or the London interbank offered rate, depending on the facility currency. The lenders under these facilities are leading regional and international banks.

The table below provides details of each of the Group's outstanding bank term loans as at 30 June 2018.

	As at 30 June 2018	
	(U.S.\$ million)	
SAR1,000 million loan 2014 – 2019 (fully drawn) .....		266.7
SAR3,000 million loan 2014 – 2019 (fully drawn) .....		800.0
US\$150 million loan 2018 – 2021 (fully drawn) .....		150.0
US\$150 million loan 2018 – 2021 (fully drawn) .....		150.0
Unamortised front-end fees .....		(4.0)
<b>Total bank term loans</b> .....		<b>1,362.7</b>

The Group's borrowings contain the following financial covenants:

- the ratio of total shareholders' funds to total assets must at all times be 16.67 per cent. or higher; and
- total shareholders' funds must at all times be higher than U.S.\$800 million for the bank financing.

The Group's total shareholders' funds amounted to U.S.\$2.3 billion as at 30 June 2018 and the ratio of total shareholders' funds to total assets as at that date was 34.5 per cent.

As at 30 June 2018, the Group also had three series of sukuk and three series of bonds outstanding.

The table below provides details of each of the Group's outstanding series of sukuk and bonds as at 30 June 2018.

	<b>As at 30 June 2018</b>
	<i>(U.S.\$ million)</i>
<b>Sukuk</b>	
U.S.\$500 million 2.383 per cent. sukuk due 2020.....	483.9
U.S.\$500 million 3.141 per cent. sukuk due 2022.....	485.1
SAR250 million 3.50 per cent. sukuk due 2019 .....	66.6
<b>Bonds</b>	
U.S.\$300 million floating rate bonds due 2021 .....	300.0
U.S.\$105 million floating rate bond due 2022.....	105.0
CNY630 million bond due 2021 .....	95.8
Unamortised front-end fee.....	(2.7)
<b>Total sukuk and bonds.....</b>	<b>1,533.7</b>

All of the Group's bonds and sukuk issued are listed. The Group has entered into interest rate swaps in relation to each series of fixed rate sukuk with a view to hedging its exposure to changes in fair value as a result of changes in market interest rates.

### **Deposits**

The Group is one of only a few multilateral development banks which accepts wholesale deposits.

Most of the Group's deposits are contractually short-term in nature and comprise a mix of conventional and Islamic bank deposits, deposits from corporates and deposits from APICORP's shareholders. As at 30 June 2018, these deposits together totalled U.S.\$1,177.4 million, of which 62.6 per cent. were demand deposits or deposits with maturities of up to three months and 18.9 per cent. had maturities of more than three months but less than one year. Notwithstanding the contractual maturities of the deposit portfolio, the Group's experience is that a significant portion of the portfolio is sticky in nature, with government, corporate and bank depositors holding an average year end balance of approximately U.S.\$1.5 billion in aggregate over the period from 31 December 2015 to 31 December 2017. Nevertheless, the fact that the Group's direct and syndicated lending has a more diversified maturity profile means that the Group typically has a significant short-term maturity gap as shown in note 28 to the 2017 Financial Statements and note 27 to the 2016 Financial Statements. See *"Risk factors—Factors that may affect APICORP's ability to fulfil its obligations under Notes issued under the Programme—The Group is subject to the risk that liquidity may not always be readily available"*.

The Group's deposit counterparty base includes a wide range of conventional and Islamic banks, companies, governments and government agencies.

The table below shows the Group's deposits by amount and proportion of the total as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	<b>As at 30 June</b>		<b>As at 31 December</b>	
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<i>(U.S.\$ million)</i>			
Deposits from banks.....	201.3	175.6	286.9	172.0
Deposits from corporates.....	863.8	1,051.3	1,133.6	1,383.1
Deposits from shareholders .....	112.2	110.8	108.8	107.5
<b>Total deposits.....</b>	<b>1,177.4</b>	<b>1,337.7</b>	<b>1,529.3</b>	<b>1,662.6</b>
<i>(per cent.)</i>				
Deposits from banks.....	17.1	13.1	18.8	10.3
Deposits from corporates.....	73.4	78.6	74.1	83.2
Deposits from shareholders .....	9.5	8.3	7.1	6.5
<b>Total deposits.....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

The Group accepts deposits in a range of currencies. As at 30 June 2018, 75.5 per cent. of its deposits were denominated in U.S. dollars, 1.6 per cent. were denominated in pounds sterling and the balance was denominated in other currencies.

The table below shows the weighted average effective interest rates of the Group's deposits as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June		As at 31 December	
	2018	2017	2016	2015
(per cent.)				
Deposits from banks.....	2.81	2.87	1.55	1.08
Deposits from corporates.....	2.45	1.48	1.24	1.23
Deposits from shareholders .....	2.84	2.32	1.52	1.17

#### ***Maturity profile of the Group's funding***

Of the Group's U.S.\$4,224.6 million funding outstanding as at 30 June 2018, 34.0 per cent. was scheduled to mature within 12 months. The table below summarises the maturity profile of the Group's funding (including short-term funding) as at 30 June 2018.

	As at 30 June 2018	
	(U.S.\$ million)	(per cent.)
Repayable within 12 months .....	1,437.0	34.0
Repayable between 1 and 3 years.....	2,197.6	52.0
Repayable between 3 and 5 years.....	590.0	14.0
Repayable after 5 years .....	0.0	0.0
<b>Total funding.....</b>	<b>4,224.6</b>	<b>100.0</b>

#### **ANALYSIS OF CERTAIN STATEMENT OF FINANCIAL POSITION ITEMS**

The Group's principal assets are its syndicated and direct loans, its direct equity investments (including its investment in an associate) and its treasury investment portfolio, each of which are discussed in more detail below. As at 30 June 2018, the Group's syndicated and direct loans and its direct equity investments aggregated U.S.\$5,631.2 million, or 84.9 per cent. of its total assets.

The Group's principal liabilities are its bank term financing and its bonds and sukuk issued, which are discussed under "*—Liquidity and funding—Borrowings*" above, and its deposits, which are discussed under "*—Liquidity and funding—Deposits*" above. As at 30 June 2018, the Group's bank term financing, its bonds and sukuk issued and its deposits aggregated U.S.\$4,224.6 million, or 97.3 per cent. of its total liabilities.

#### **Syndicated and direct loans**

The Group provides syndicated and direct loans for projects developed by local, regional and international sponsors in the energy and hydrocarbon sectors.

## Portfolio status and risk classification

The table below shows the status of the Group's syndicated and direct loans outstanding as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June		As at 31 December	
	2018		2017	
			(U.S.\$ million)	
<b>Unimpaired loans</b>				
Islamic.....	1,262.8	1,176.1	1,214.7	830.6
Conventional.....	2,002.5	1,865.9	1,817.5	1,750.7
Unamortised participation and up front fees.....	(50.1)	(50.5)	(54.7)	(46.3)
Collective impairment allowance .....	(28.3)	(25.8)	(25.2)	(24.2)
<b>Total unimpaired loans</b> .....	<b>3,186.9</b>	<b>2,965.7</b>	<b>2,952.3</b>	<b>2,510.8</b>
<b>Impaired loans</b>				
Non-performing loans .....	12.5	63.6	63.6	63.6
Allowance for specific impairments.....	(12.5)	(18.8)	(18.8)	(22.8)
Dividends due to the Government of Iraq, offset against defaulted loans <sup>(1)</sup> .....	-	(45.5)	(45.5)	(41.5)
<b>Total loans</b> .....	<b>3,186.9</b>	<b>2,965.0</b>	<b>2,951.6</b>	<b>2,510.1</b>

<sup>(1)</sup> As a result of the 1990-1991 second Gulf war, certain companies controlled by the Iraq government defaulted on loans amounting to U.S.\$51.8 million as at 31 December 2017. Accordingly, the Group, starting from 2003, offset 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. During the first half of 2018, APICORP entered into a final settlement agreement with the Government of Iraq in relation to the overdue loans and related contractual charges under which APICORP set off the overdue principal and contractual charges on the impaired Iraqi loans due up to the date of settlement against the dividend payable by APICORP to the Government of Iraq.

The table below shows the internal rating classification of the Group's syndicated and direct loans outstanding as at 31 December 2017. For information regarding the Group's internal rating classifications, see "*Risk management—Credit risk management—Credit rating and measurement*".

	As at 31 December	
	2017	
	(U.S.\$ million)	
<b>Neither past due nor impaired</b>		
Grade A.....		2,977.0
Grade B.....		65.0
<b>Total neither past due nor impaired</b> .....		<b>3,042.0</b>
<b>Impaired loans</b>		
Grade C.....		11.8
Grade E.....		0.7
Grade F .....		51.1
<b>Total gross impaired loans</b> .....		<b>63.6</b>
Unpaid dividends and interest due to the Government of Iraq .....		(45.5)
Allowance for impairment .....		(18.8)
<b>Carrying amount</b> .....		<b>(0.7)</b>
Collective impairment allowance .....		(25.8)
Unamortised participation and commitment fees .....		(50.5)
<b>Total syndicated and direct loans</b> .....		<b>2,965.0</b>

## Portfolio sector and sub-sector concentration

The Group's direct and syndicated loans are concentrated within the hydrocarbon and energy sector by virtue of APICORP's founding mandate. However, the Group seeks to maintain a diversified profile of loans within those sectors. The table below shows the classification by sub-sector within the hydrocarbon and energy sectors of the Group's syndicated and direct loans outstanding by amount as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June		As at 31 December	
	2018		2017	2016
	(U.S.\$ million)			
Oilfield production development services .....	421.7	304.3	347.0	343.0
Floating production, storage and offloading facilities ....	149.2	133.7	136.5	147.1
Liquefied natural gas plants.....	118.5	133.9	130.1	—
Petroleum and petrochemicals.....	390.0	404.9	480.9	519.2
Maritime transportation.....	165.3	167.3	128.7	26.4
Refineries.....	406.0	602.3	559.7	517.3
Power generation.....	542.2	469.0	482.9	448.9
Other petroleum .....	532.4	561.0	519.7	477.9
Banks and financial institutions.....	45.6	83.6	105.8	30.3
Other industries.....	416.0	105.0	60.3	—
<b>Total syndicated and direct loans.....</b>	<b>3,186.9</b>	<b>2,965.0</b>	<b>2,951.6</b>	<b>2,510.1</b>

The table below shows the classification by sub-sector within the hydrocarbon and energy sectors of the Group's syndicated and direct loans outstanding by proportion of the total as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June		As at 31 December	
	2018		2017	2016
	(per cent.)			
Oilfield production development services .....	13.2	10.3	11.8	13.7
Floating production, storage and offloading facilities ....	4.7	4.5	4.6	5.9
Liquefied natural gas plants.....	3.7	4.5	4.4	—
Petroleum and petrochemicals.....	12.3	13.7	16.3	20.7
Maritime transportation.....	5.2	5.6	4.3	1.0
Refineries.....	12.7	20.3	19.0	20.6
Power generation.....	17.0	15.9	16.4	17.9
Other petroleum .....	16.7	18.9	17.6	19.0
Banks and financial institutions.....	1.4	2.8	3.6	1.2
Other industries.....	13.1	3.5	2.0	—
<b>Total syndicated and direct loans.....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

#### *Portfolio geographical concentration*

The table below shows the geographical classification of the Group's syndicated and direct loans outstanding by amount as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June		As at 31 December	
	2018		2017	2016
	(U.S.\$ million)			
Saudi Arabia.....	1,061.3	933.5	1,083.2	1,054.7
Qatar .....	475.0	532.4	633.9	650.6
Other GCC states.....	1,011.5	927.7	823.2	516.5
Egypt and North Africa.....	308.7	207.9	211.7	140.6
<b>Total Arab world.....</b>	<b>2,856.5</b>	<b>2,601.5</b>	<b>2,752.0</b>	<b>2,362.4</b>
Europe.....	119.9	159.4	104.1	42.3
Asia Pacific .....	150.6	142.9	62.9	61.7
United States .....	59.9	61.2	32.6	43.7
<b>Total syndicated and direct loans.....</b>	<b>3,186.9</b>	<b>2,965.0</b>	<b>2,951.6</b>	<b>2,510.1</b>

The Group's direct and syndicated loans are also concentrated within the Arab world, again reflecting APICORP's mandate and its shareholder base. The table below shows the geographical classification of the Group's syndicated and direct loans outstanding by proportion of the total as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June				As at 31 December			
	2018		2017		2016		2015	
	(per cent.)							
Saudi Arabia.....	33.3		31.5		36.7		42.0	
Qatar .....	14.9		18.0		21.5		25.9	
Other GCC states.....	31.7		31.3		27.9		20.6	
Egypt and North Africa.....	9.7		7.0		7.2		5.6	
<b>Total Arab world.....</b>	<b>89.6</b>		<b>87.8</b>		<b>93.3</b>		<b>94.1</b>	
Europe.....	3.8		5.4		3.5		1.7	
Asia Pacific .....	4.7		4.8		2.1		2.5	
United States .....	1.9		2.0		1.1		1.7	
<b>Total syndicated and direct loans.....</b>	<b>100.0</b>		<b>100.0</b>		<b>100.0</b>		<b>100.0</b>	

#### *Portfolio currency and interest rate breakdown*

The Group's loans are principally denominated in U.S. dollars although it also has a small amount of loans denominated in Saudi Arabian riyal. Almost all of the Group's loans bear interest at floating rates of interest that reprice within one year or less. The table below shows the weighted average effective interest rates of the Group's syndicated and direct loans as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June				As at 31 December			
	2018		2017		2016		2015	
	(per cent.)							
Syndicated and direct loans.....	4.04		3.28		2.58		1.88	
U.S. dollar denominated.....	4.05		3.26		2.56		1.89	
Non-U.S. dollar denominated.....	4.34		3.70		3.52		—	

#### *Portfolio maturity breakdown*

The table below shows a maturity profile of the Group's direct and syndicated loans as at 30 June 2018.

	Up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	Total
Syndicated and direct loans (U.S.\$ million).....	152.8	348.5	1,705.4	980.2	<b>3,186.9</b>
Syndicated and direct loans (per cent.).....	4.8	10.9	53.5	30.8	<b>100.0</b>

#### **Direct equity investments**

The Group's direct equity investments are described under "*Description of the Group—Business—Investments*".

#### **Treasury investment portfolio**

The Group, through its T&CM business line, manages a treasury investment portfolio with the aim of providing enhanced earnings not correlated to its other two main cyclical business lines, which are direct and syndicated lending to, and direct equity investments in, companies and other entities engaged in the oil and gas and energy industries. The treasury investment portfolio principally comprises fixed and floating rate bonds, which comprised approximately 75.0 per cent. of the portfolio as at 30 June 2018. Treasury bills, managed funds and other equities make up the balance of the portfolio and classified as investments at FVTOCI (debt), investments at FVTPL and investments at FVTOCI (equity), respectively, as at 30 June 2018.

#### *Portfolio breakdown by security type*

The table below shows a breakdown of the Group's treasury investment portfolio by amount and proportion of the total as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June		As at 31 December	
	2018	2017	2016	2015
	(U.S.\$ million)			
Treasury bills .....	200.0	200.0	—	—
Fixed rate bonds.....	930.1	980.4	924.2	681.9
Floating rate bonds.....	125.3	154.9	192.9	209.8
Managed funds.....	58.9	109.6	86.4	177.2
Other equities.....	92.9	34.5	—	—
<b>Total securities .....</b>	<b>1,407.2</b>	<b>1,479.4</b>	<b>1,203.5</b>	<b>1,069.0</b>
(per cent.)				
Treasury bills .....	14.2	13.5	—	—
Fixed rate bonds.....	66.1	66.3	76.8	63.8
Floating rate bonds.....	8.9	10.5	16.0	19.6
Managed funds.....	4.2	7.4	7.2	16.6
Other equities.....	6.6	2.3	—	—
<b>Total securities .....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

All of the Group's treasury investments are fair valued using quoted prices on active markets, except for managed funds which are valued based on significant observable inputs either directly or indirectly, at the end of each reporting period. The Group uses a portion of the securities within the portfolio as collateral for repo-based financing transactions. As at 30 June 2018, securities with a fair value of U.S.\$178.6 million had been pledged as collateral for these transactions, compared to U.S.\$189.2 million as at 31 December 2017, U.S.\$189.4 million as at 31 December 2016 and nil as at 31 December 2015.

#### *Portfolio maturity breakdown*

The table below shows a maturity profile of the Group's treasury investments, which are classified both under FVTOCI and FVTPL as at 30 June 2018.

	Up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	Total
FVTOCI and FVTPL securities (U.S.\$ million).....	204.3	146.9	694.6	361.4	<b>1,407.2</b>
FVTOCI and FVTPL securities (per cent.).....	14.5	10.4	49.3	25.8	<b>100.0</b>

#### *Fixed income portfolio*

The Group's treasury investments comprise fixed and floating rate securities (its "**fixed income portfolio**"), and a small portfolio of treasury bills, managed funds and other equities. As at 31 December 2017, the Group's fixed income portfolio had a weighted average credit rating of 'A'.

The Group's fixed income portfolio principally comprises debt securities issued by financial institutions and governments and public sector bodies. The remaining securities are principally invested within the petroleum and energy sectors.

#### *Ratings classification of fixed income portfolio*

The table below shows the ratings classification by issuer type of the Group's fixed income portfolio by amount as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June		As at 31 December	
	2018	2017	2016	2015
	(U.S.\$ million)			
Rated AAA to A.....	806.1	726.8	717.9	657.2
of which:				
<i>Financial institutions</i> .....	257.2	238.8	298.6	342.6
<i>Governments and public sector</i> .....	296.1	263.5	140.0	154.3
<i>Other</i> .....	252.8	224.5	279.3	160.3
Rated BBB to B.....	321.1	361.3	352.6	189.2
of which:				
<i>Financial institutions</i> .....	98.6	139.0	159.8	131.3

	As at 30 June		As at 31 December	
	2018	2017	2016	2015
(U.S.\$ million)				
<i>Governments and public sector</i> .....	116.6	109.1	109.2	57.9
<i>Other</i> .....	106.0	113.2	83.6	—
 Unrated.....	128.2	47.2	46.6	45.4
<b>Total fixed income portfolio</b> .....	<b>1,255.4</b>	<b>1,135.3</b>	<b>1,117.1</b>	<b>891.8</b>

The table below shows the ratings classification by issuer type of the Group's fixed income portfolio by proportion of the total as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June		As at 31 December	
	2018	2017	2016	2015
(per cent.)				
<i>Rated AAA to A</i> .....	64.2	64.0	64.3	73.7
of which:				
<i>Financial institutions</i> .....	20.5	21.0	26.7	38.4
<i>Governments and public sector</i> .....	23.6	23.2	12.6	17.3
<i>Other</i> .....	20.1	19.8	25.0	18.0
 Rated BBB to B.....	25.6	31.8	31.6	21.2
of which:				
<i>Financial institutions</i> .....	7.9	12.2	14.3	14.7
<i>Governments and public sector</i> .....	9.3	9.6	9.8	6.5
<i>Other</i> .....	8.4	10.0	7.5	—
 Unrated.....	10.2	4.2	4.1	5.1
<b>Total fixed income portfolio</b> .....	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

#### *Sectoral breakdown of fixed income portfolio*

The table below shows the sectoral breakdown of the Group's fixed income portfolio by amount as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June		As at 31 December	
	2018	2017	2016	2015
(U.S.\$ million)				
<i>Oilfield production development services</i> .....	4.9	5.0	22.3	5.0
<i>Liquefied natural gas plants</i> .....	38.8	1.7	—	37.0
<i>Petroleum and petrochemicals</i> .....	101.7	43.4	—	—
<i>Maritime transportation</i> .....	78.3	58.1	60.1	45.4
<i>Refineries</i> .....	—	1.2	—	—
<i>Power generation</i> .....	59.4	53.1	6.8	68.9
<i>Other petroleum</i> .....	2.3	67.9	57.0	—
<i>Banks and financial institutions</i> .....	355.8	392.9	469.1	460.2
<i>Governments and public sector</i> .....	413.7	372.6	302.8	225.9
<i>Other industries</i> .....	200.5	139.4	199.0	49.4
 <b>Total fixed income portfolio</b> .....	<b>1,255.4</b>	<b>1,135.3</b>	<b>1,117.1</b>	<b>891.8</b>

The table below shows the sectoral breakdown of the Group's fixed income portfolio by proportion of the total as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June				As at 31 December			
	2018		2017		2016		2015	
	(per cent.)							
Oilfield production development services .....	0.4	0.4	2.0	0.6				
Liquefied natural gas plants.....	3.1	0.1	—	4.2				
Petroleum and petrochemicals.....	8.1	3.8	—	—				
Maritime transportation.....	6.2	5.1	5.4	5.1				
Refineries.....	0	0.1	—	—				
Power generation.....	4.7	4.7	0.6	7.7				
Other petroleum .....	0.2	6.0	5.1	—				
Banks and financial institutions.....	28.3	34.6	42.0	51.6				
Governments and public sector .....	33.0	32.8	27.1	25.3				
Other industries .....	16.0	12.4	17.8	5.5				
<b>Total fixed income portfolio .....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>				

*Geographical concentration of fixed income portfolio*

The Group's fixed income portfolio principally comprises debt securities issued by Arab world issuers. The table below shows the geographical classification of the Group's fixed income portfolio by amount as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June				As at 31 December			
	2018		2017		2016		2015	
	(U.S.\$ million)							
Saudi Arabia.....	404.1	251.4	212.5	177.1				
Qatar .....	142.7	102.9	106.2	109.6				
Other GCC states.....	395.9	460.8	524.2	469.5				
<b>Total Arab world.....</b>	<b>942.7</b>	<b>815.1</b>	<b>842.9</b>	<b>756.2</b>				
Europe.....	51.6	63.0	64.9	44.5				
Asia Pacific .....	34.5	14.9	7.8	—				
United States .....	226.6	242.3	201.5	91.1				
<b>Total fixed income portfolio .....</b>	<b>1,255.4</b>	<b>1,135.3</b>	<b>1,117.1</b>	<b>891.8</b>				

The table below shows the geographical classification of the Group's fixed income portfolio by proportion of the total as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June				As at 31 December			
	2018		2017		2016		2015	
	(per cent.)							
Saudi Arabia.....	32.2	22.1	19.0	19.9				
Qatar .....	11.4	9.1	9.5	12.3				
Other GCC states.....	31.5	40.6	46.9	52.6				
<b>Total Arab world.....</b>	<b>75.1</b>	<b>71.8</b>	<b>75.4</b>	<b>84.8</b>				
Europe.....	4.1	5.5	5.8	5.0				
Asia Pacific .....	2.8	1.3	0.8	—				
United States .....	18.1	21.4	18.0	10.2				
<b>Total fixed income portfolio .....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>				

### Interest rate structure of fixed income portfolio

The table below shows the weighted average effective interest rates of the Group's fixed income portfolio as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June		As at 31 December	
	2018		2017	
Fixed rate bonds .....	4.12		4.50	4.60
Floating rate bonds .....	3.08		3.06	3.10
				4.85
				1.89

### COMMITMENTS AND CONTINGENT LIABILITIES

The Group's principal commitments are to underwrite and fund loans to be made by it and to subscribe capital to direct equity investees. The Group also has limited other commitments and a contingent liability in respect of a guarantee given by it in respect of a loan made to Egyptian Bahraini Gas Derivative Company, a fully impaired direct equity investment at FVTOCI. The Group's shares in Egyptian Bahraini Gas Derivative Company have been pledged to secure this guarantee.

The table below shows the Group's commitments and contingent liabilities as at 30 June 2018.

	As at 30 June 2018	
	(U.S.\$ million)	
Commitments to underwrite and fund loans .....		814.1
Commitments to subscribe capital to direct equity investments .....		484.9
Fixed assets commitments .....		1.2
Guarantees to bank on loans of investee companies .....		10.7
Other commitments .....		1.0
<b>Total commitments .....</b>		<b>1,311.9</b>

The table below shows the movements on the Group's undrawn loan commitments and guarantees during each of the six-month periods ended 30 June 2018 and 30 June 2017 and during each of 2017, 2016 and 2015.

	Six months ended 30 June		Year ended 31 December		
	2018		2017	2016	2015
			(U.S.\$ million)		
<b>Undrawn loan commitments and guarantees</b>					
Balance at 1 January .....	787.3	932.9	932.9	713.6	709.6
Additional underwriting and commitment during the period .....	1,658.3	952.1	1,810.1	2,112.6	1,148.2
Drawdowns during the period .....	(733.3)	(450.2)	(942.8)	(1,127.9)	(849.6)
Expired commitments and other movements – net .....	(898.2)	(465.6)	(1,012.9)	(765.4)	(294.6)
<b>Balance at the end of the period .....</b>	<b>814.1</b>	<b>969.2</b>	<b>787.3</b>	<b>932.9</b>	<b>713.6</b>

### RELATED PARTY TRANSACTIONS

The Group'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 made by the Group to related parties are made at prevailing market interest rates and are 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 APICORP may, or may not, be a leader. No loans to related parties were written off in 2015, 2016 or 2017 or, save following the settlement agreement with Government of Iraq, in the six months ended 30 June 2018.

The table below summarises the Group's related party loans, direct equity investments in related parties and deposits from related parties as at, and for the six months ended, 30 June 2018 and as at, and for the years ended, 31 December 2017, 31 December 2016 and 31 December 2015.

	As at/six months ended 30 June		As at/year ended 31 December		
	2018		2017	2016	2015
	(U.S.\$ million)				
<b>Loans to related parties</b>					
Gross loans outstanding .....	2,334.3	2,130.4	2,265.2	1,829.5	
Allowance for specific impairment .....	(12.5)	(18.8)	(18.8)	(22.8)	
Dividends due to the Government of Iraq, offset against defaulted loans .....	-	(45.5)	(45.5)	(41.5)	
Commitments to underwrite and fund loans .....	350.5	469.7	524.6	445.4	
Interest from loans during the period .....	41.7	62.0	43.6	36.8	
Loan fees received during the period .....	3.4	3.9	6.1	13.2	
Allowance for specific impairments during the period .....	-	-	(5.5)	(4.5)	
<b>Investments in related parties</b>					
Investments .....	986.5	954.3	987.2	922.6	
Investments held for sale .....	-	110.6			
Commitments to invest .....	484.9	514.7	73.5	104.7	
Guarantees as shareholder .....	10.7	10.7	11.0	13.0	
Dividends received during the period .....	30.9	35.4	57.7	85.7	
<b>Deposits</b>					
Deposits from corporates .....	863.8	1,051.3	1,133.6	997.2	
Deposits from shareholders .....	112.2	110.8	108.8	107.5	
Dividend payable to shareholders .....	24.2	2.6	2.6	1.4	
Interest expense on deposits from corporates during the period .....	3.6	17.5	15.8	6.6	
Interest expense on deposits from shareholders during the period .....	1.4	2.0	1.4	1.0	

As at 30 June 2018, the Group's gross loans outstanding to related parties were 71.2 per cent. of its total gross loans outstanding, compared to 68.6 per cent. as at 31 December 2017, 73.2 per cent. as at 31 December 2016 and 69.2 per cent. as at 31 December 2015.

As at 30 June 2018, the Group's investments in related parties were 40.4 per cent. of its total investments, compared to 38.6 per cent. as at 31 December 2017, 45.1 per cent. as at 31 December 2016 and 46.3 per cent. as at 31 December 2015.

As at 30 June 2018, the Group's deposits from related party corporates were 100 per cent. of its total deposits from corporates, compared to 100 per cent. as at 31 December 2017 and 31 December 2016 and 72.1 per cent. as at 31 December 2015.

## CAPITAL ADEQUACY

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its business. The Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. Although the Group is not subject to regulatory-imposed capital requirements, it monitors and manages its capital based on the capital adequacy ratios prescribed by the Basel Committee (Basel II) and also voluntarily complies with Basel III liquidity risk management guidelines. The Group's capital adequacy as at 30 June 2018 based on qualifying capital to total risk weighted exposure was 29.84 per cent.

The table below shows the Group's capital adequacy as at 30 June 2018 and as at 31 December in each of 2017, 2016 and 2015.

	As at 30 June		As at 31 December	
	2018		2017	2016
	(U.S.\$ million, except ratios)			
<b>Risk weighted exposures</b>				
On balance sheet assets .....	6,970.6	7,006.3	5,274.8	4,819.0
Off balance sheet exposures .....	777.4	823.9	960.3	869.5
<b>Total risk weighted exposures</b> .....	<b>7,748.0</b>	<b>7,830.2</b>	<b>6,235.1</b>	<b>5,708.5</b>
<b>Capital adequacy</b>				
Tier 1 capital <sup>(1)</sup> .....	2,283.9	2,147.7	1,473.3	1,419.8
Tier 2 capital <sup>(2)</sup> .....	28.3	25.8	249.2	215.8
<b>Qualifying capital</b> .....	<b>2,312.2</b>	<b>2,173.5</b>	<b>1,722.5</b>	<b>1,635.6</b>
Total capital adequacy ratio (Basel II) .....	29.84%	27.76%	27.63%	28.65%
Tier 1 capital ratio (Basel II) .....	29.48%	27.43%	23.63%	24.82%

<sup>(1)</sup> Comprises share capital, legal and general reserves and retained earnings.

<sup>(2)</sup> Comprises investments fair value reserve and collective impairment allowance.

## DISCLOSURES ABOUT RISK

The Group is exposed to a number of risks and takes steps to mitigate certain of these risks as described in "Risk management".

## MANAGEMENT AND EMPLOYEES

### MANAGEMENT

#### Introduction

APICORP's governing bodies include the General Assembly, the Board and its committees and the Office of the Chief Executive Officer. The Chief Executive Officer, appointed by the Board, is responsible for all the activities of the Group under the supervision of the Board. The Chief Executive Officer is assisted by the senior management team.

#### The Board

The Board comprises one director appointed by each of the OAPEC Member States. The Board elects its chairman. Membership of the Board is for a term of four years and may be renewed for any number of successive terms. The Board meets once every three months.

The members of the current Board are listed below. Members of the Board represent their respective country's interest in APICORP and, as shown in the table below, most Board members are in current leadership positions in their countries.

Name	Title	Principal occupation outside APICORP	Member State <sup>(1)</sup>
Dr. Aabed bin Abdulla Al-Saadoun.....	Chairman	Deputy Minister for Companies Affairs, Ministry of Petroleum & Minerals	Saudi Arabia
Mr. Khaled Amr Al-Gunsel.....	Deputy Chairman	General Manager, Libyan Arab Foreign Investment Company	Libya
Eng. Mohamed Hassan Saafan .....	Member	First Undersecretary, Ministry of Petroleum and Mineral Resources	Egypt
Dr. Matar Hamed Al-Neyadi.....	Member	Undersecretary, Ministry of Energy	UAE
Shaikh Talal Naser A. Al-Sabah.....	Member	Assistant Undersecretary for Administration & Finance, Ministry of Oil	Kuwait
Eng. Husam Hussein Weli.....	Member	Director General, South Refineries Company	Iraq
Mr. Ebrahim Ahmad Al-Mannai .....	Member	Manager, Project Finance and Financial Controls, Qatar Petroleum	Qatar
Mr. Farid Baka .....	Member	General Manager for Budget, Ministry of Finance	Algeria
Mr. Mahmood Hashim Al-Kooheji .....	Member	Chief Executive Officer, Bahrain Mumtalakat Holding Company	Bahrain

<sup>(1)</sup> Due to the current political situation in Syria, no representative from Syria is assigned to APICORP's Board at the date of this Base Prospectus.

The address of each Board member is the registered office of APICORP at Dammam Coastal Road, Al Rakkah, Dammam, Saudi Arabia. There are no actual or potential conflicts of interest between the private interests or other duties of the directors listed above and their duties to the Group.

#### Board committees

The Board has established two committees: the Audit and Risk Committee and the Remuneration and Nomination Committee.

#### *The Audit and Risk Committee*

The Audit and Risk Committee oversees the Group's financial activities, internal control, corporate governance and risk governance. The Committee is responsible for oversight of the Group's:

- financial activities and reporting system;
- internal controls and risk management framework;
- audit functions; and
- legal and compliance requirements.

The Audit and Risk Committee comprises Shaikh Talal Nasser A. Al-Sabah as Chairman, Dr. Matar Hamed Al-Neyadi (as Deputy Chairman) and Mr. Farid Baka and Mr. Ebrahim Ahmad Al-Mannai (as members).

#### *The Remuneration and Nomination Committee*

The Remuneration and Nomination Committee oversees employee compensation and benefits. The Committee is responsible for:

- recommending appropriate remuneration and reward policies to the Board; and
- ensuring that human resources policies and practices are in line with applicable laws and regulations.

The Remuneration and Nomination Committee comprises Dr. Aabed bin Abdulla Al-Saadoun (as Chairman), Mr. Khaled Amr Al-Gunsel (as Deputy Chairman) and Shaikh Talal Naser A. Al-Sabah, Mr. Mahmood Hashim Al-Kooheji and Mr. Ebrahim Ahmad Al-Mannai (as members).

#### *Senior management*

The members of the Group's senior management team are:

Name	Title
Dr. Ahmed Ali Attiga.....	Chief Executive Officer
Mr. Bennie Burger .....	Managing Director, Investments
Mr. Nicolas Thévenot.....	Managing Director, Corporate Finance
Mr. Hesham Farid .....	Managing Director, Treasury & Capital Markets
Mr. Ali Hassan Fadel .....	Director, Legal
Mr. Ajay Kumar Jha.....	Director, Risk and Compliance
Mr. Mohammed Al-Mubarak .....	Director, Operations
Mr. Hamdi Bata.....	Director, Human Resources & Corporate Services

The address of each member of senior management is the registered office of APICORP at Dammam Coastal Road, Al Rakkah, Dammam, Saudi Arabia. There are no potential conflicts of interest between the private interests or other duties of the members of senior management listed above and their duties to the Group.

#### *Dr. Ahmed Ali Attiga (Chief Executive Officer)*

Dr. Attiga's career and experience span over 25 years in investment management, development finance, private equity, research and teaching. He has served at the Board of Executive Directors of the World Bank Group in Washington, D.C. as well as a Manager of a Private Equity fund for the State of Wisconsin in the United States of America. He also advised Saudi Arabia's Public Investment Fund on privatisation and restructuring strategies. In his early career, he held teaching and research positions at the University of Wisconsin-Madison and the Kuwait Institute for Scientific Research. He joined the Group in April 2017.

Dr. Attiga is a board member of the Emirates Development Bank and has served on the Royal International Commission to evaluate Jordan's privatisation programme. He is a Trustee of the Al-Amman Fund for the Future of Orphans, chaired by Her Majesty Queen Rania Al-Abdullah, and a member of the Arab Thought Forum among other various professional affiliations.

Dr. Attiga holds three graduate degrees from the University of Wisconsin-Madison: a Ph.D. in Finance & Development, an MBA, and an M.S. in International Economics. He obtained his B.A. in Economics (*Summa cum laude*) from Kuwait University.

#### *Mr. Bennie Burger (Managing Director, Investments)*

Mr. Burger has over 25 years' experience in the financial services industry. He previously held a wide range of roles at The Standard Bank (at various times between 1990 and 2007), most recently as Regional Director: Corporate and Investment Banking for Southern Africa and Sector Head for Construction and Infrastructure. Between 1998 and 1999 he was a Team Leader: Commercial Banking at BOE Bank and between 1999 and 2001 he was Associate Director: Corporate Banking at PSG Investment Bank. Between 2008 and 2012 he held various roles at Al Rajhi Bank and Al Rajhi Capital, most recently as Director and

Head of Investment Banking between 2010 and 2012. Between 2013 and 2014 he was Chief Financial Officer at Algihaz Holding in Saudi Arabia. He joined the Group in 2014.

Mr. Burger has a Bachelor's degree in Agricultural and Business Economics, a Bachelor's degree with Honours in Business Administration and a Master's degree in Business Administration from the University of Stellenbosch.

*Mr. Nicolas Thévenot (Managing Director, Corporate Finance)*

Mr. Thévenot has 24 years' experience in the financial services industry. He has previously worked at Crédit Agricole Indosuez in a range of roles between 1992 and 2000, most recently as Vice President-Asset Based Finance/MENA (between 1998 and 2000). He joined the Group in 2000 as head of the business group for North Africa and the Mediterranean basin in the department that handles the Group's project finance, financial advisory and trade finance activities (**P&TF**). In October 2004, he was appointed head of P&TF.

Mr. Thévenot has a Bachelor's degree and a Master's degree in Public Administration and Economics from l'Institut d'Etudes Politiques de Paris and a post graduate diploma in International Economics from the same institution.

*Mr. Hesham Farid (Managing Director, Treasury & Capital Markets)*

Mr. Farid has 31 years' experience in the financial services industry. He has previously been a credit officer at Misr Iran Development Bank (between 1984 and 1985) and he subsequently worked in a range of roles at Arab International Bank until 1996, most recently as Head of Fixed Income Investments (between 1990 and 1996). He joined the Group in 1996. He was promoted to Acting Executive Vice President – Treasury & Capital Markets Department in 2009 and assumed his current position in June 2010.

Mr. Farid has a Bachelor's degree and a Master's degree in Business Administration, both from The American University in Cairo.

*Mr. Ali Hassan Fadel (Director, Legal)*

Mr. Fadel is a Solicitor of the Supreme Court of England and Wales. He is also a Certified Compliance Officer of the American Academy of Financial Management. Mr. Fadel practiced as an Advocate in Sudan between 1984 and 1993. He subsequently studied in London between 1994 and 1998 where he qualified as a Solicitor and he practiced as a Solicitor in London between 1999 and 2005. He joined the Group in 2005.

Mr. Fadel graduated from the University of Khartoum with a Bachelor's degree in Law. Mr. Fadel also has a Master's degree in Commercial Law from the Queen Mary & Westfield College of the University of London and post graduate diplomas in English Law (Common Professional Examination) and in Legal Practice (Legal Practice Course) from the London Guildhall University.

*Mr. Ajay Kumar Jha (Director, Risk and Compliance)*

Mr. Jha has around 20 years' experience in the financial services industry. He has previously worked in a range of roles as follows: Loan Officer at TATA Finance Limited (1997 to 1999); Branch Manager at GE Capital, Indore (1999 to 2000); Regional Business Head, Mortgages at ICICI Bank, Kolkata (2001 to 2004); Assistant Vice President, Retail Banking at Citibank (2004 to 2008); Head-Credit & Risk Practice at Accenture (2008), Head of Risk at Amlak International Finance for Real Estate (2008 to 2009) and Head of Risk at Al Rajhi Capital (2009 to 2014). He joined the Group in 2014.

Mr. Jha has a Bachelor's degree in Chemistry from Delhi University and a Master's degree in Business Administration from the Institute of Management Studies, Indore, India.

*Mr. Mohammed Al-Mubarak (Director, Operations)*

Mr. Al-Mubarak has over 21 years' experience in the financial services industry. He previously worked at Banque Saudi Fransi between 1994 and 1998 in a range of roles, most recently as the Head of Nostro Cash Management in the Treasury Operations Department. He joined the Group in 1998 and assumed his current position in 2010.

Mr. Al-Mubarak has an MBA degree from the University of Bahrain and a Bachelor's degree in Management from King Fahd University of Petroleum and Minerals, Saudi Arabia.

*Mr. Hamdi Bata (Director, Human Resources & Corporate Services)*

Mr. Bata has over 10 years' experience in human resources. He previously worked at La Roche College, Pittsburgh, USA (between 2003 and 2009), most recently as Director of Academic Support (2006 to 2009), as a Managing Consultant for the Hay Group (between 2010 and 2013) and Head of Shared Services and Organisational Transformation at Castrol (between 2013 and 2015). He joined the Group in 2015.

Mr. Bata has a Bachelor's degree in International Management and Information Systems and a Master's degree in Human Resource Management – Organisational Development & Change, both from La Roche College.

***Management committees***

The Group has four management level committees.

*Executive Management Committee*

The Executive Management Committee's responsibilities include:

- reviewing and recommending the Group's corporate strategy, annual budget, business plan, human resource policy and corporate governance policy;
- periodically reviewing the Group's financial performance against its approved plan; and
- managing dispute solutions, crisis situations and key reputational risk events.

The Executive Management Committee comprises the Chief Executive Officer (as Chairman), the Deputy Chief Executive Officer and the heads of T&CM, Investments, Corporate Finance, Finance, Corporate Strategy, Risk Management & Compliance, Legal, IT, Operations, Energy Research and Human Resources & Corporate Services.

The committee generally meets monthly.

*Credit and Investment Committee*

The Credit and Investment Committee's responsibilities include:

- reviewing and recommending to the Board new debt-related transactions, equity investment proposals, and direct investment and exit guidelines;
- reviewing renewals and extensions of existing credit facilities and non-performing credit facilities;
- ensuring compliance with credit policies and procedures, and direct investments and exit guidelines; and
- reviewing joint ventures, feasibility studies and due diligence reports.

The Credit and Investment Committee comprises the Chief Executive Officer (as Chairman), the Deputy Chief Executive Officer and the heads of Finance, T&CM, Corporate Finance, Investments, Corporate Strategy, Risk Management & Compliance and Energy Research.

The committee met more than 18 times in 2017 and more than 20 times in 2016.

*The Risk and ALCO Committee*

The Risk and ALCO Committee's responsibilities include:

- reviewing the Group's funding strategy, external rating, asset and liability composition and maturity profile, capital structure and various financial ratios including capital adequacy, cost of funding and pricing policies;

- reviewing and recommending risk management policies and procedures, internal rating models, asset liability management policy, liquidity policy and liquidity contingency policy and plan;
- recommending and reporting key risk parameters and positions to the Board Audit and Risk Committee;
- monitoring and reviewing all aspects of regulatory and legal compliance;
- performing oversight of market, interest and foreign exchange risks; and
- monitoring the Group's liquidity position.

The Risk and ALCO Committee comprises the Chief Executive Officer (as Chairman), the Deputy Chief Executive Officer and the heads of Corporate Strategy, Investments, Corporate Finance, T&CM, Risk Management & Compliance and Finance.

The committee met four times in 2017 and seven times in 2017.

#### *Tender and Bid Committee*

The Tender and Bid Committee's responsibilities include:

- approving and awarding contracts within its approved budget and authority;
- reviewing and recommending tender and bid policies and procedures, including the vendor selection process;
- ensuring the development of clear guidelines for bidders;
- ensuring that ethical practices are followed and recorded; and
- facilitating purchase decisions within its authority.

The Tender and Bid Committee comprises the Managing Director, T&CM (as Chairman) and the heads of Finance and Risk and Compliance.

The committee met 14 times in 2016 and 10 times in 2016.

## **COMPENSATION**

The aggregate remuneration (comprising benefits, fees and charges) of the members of APICORP's Board and its key management amounted to U.S.\$5.2 million in 2017, U.S.\$4.2 million in 2016 and U.S.\$3.5 million in 2015.

## **EMPLOYEES**

As at 30 June 2018, APICORP had 116 full-time employees, compared to 113 at 31 December 2017, 112 at 31 December 2016 and 118 at 31 December 2015. APICORP embraces diversity and there were 16 different nationalities among its employees as at 30 June 2018.

APICORP is a performance-driven organisation and this is reflected in its reward philosophy which links performance to rewards. It aims to pay competitive rates of remuneration and seeks to match best pay practices in the GCC markets. It offers its employees a wide range of benefits, including housing and transportation allowances and annual air flight tickets to and from their countries of origin for employees and their families on a yearly basis. It also offers relocation packages, subscription allocations, premium health coverage, life insurance and different work life balance programmes. It pays employee-differentiated bonuses in accordance with performance scorecards, as well as paying above market average end of service benefits. It also provides a comprehensive training and development programme for all its employees. APICORP believes that its employees are its most important asset and focuses on ensuring optimal working conditions for its employees.

## **USE OF PROCEEDS**

The Issuer will use the net proceeds from the issue of each Series of Notes for its general corporate purposes.

## TAXATION

*The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries, the Relevant Jurisdictions or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.*

### **United States Federal Income Taxation**

The following summary discusses the principal U.S. federal income tax consequences of the ownership and disposition of the Notes. Except as specifically noted below, this discussion applies only to:

- Notes purchased on original issuance at their "issue price" (as defined below);
- Notes held as capital assets; and
- U.S. Holders (as defined below).

This discussion assumes that the Notes will be treated as debt for U.S. federal income tax purposes.

Prospective investors should note, however, that the classification of an instrument as debt or equity is highly factual, and it is possible that Notes might be issued that might be classified as equity for U.S. federal income tax purposes. No rulings have been or will be sought from the U.S. Internal Revenue Service (the "IRS") with respect to the classification of the Notes in general or with respect to any particular Notes. Prospective investors should consult their own advisors with respect to the proper classification of the Notes and the consequences of investing in any Notes that are not classified as debt for U.S. federal income tax purposes, including whether any such Notes might be considered to be interests in a passive foreign investment company for U.S. federal income tax purposes, which could have materially adverse consequences for U.S. taxable investors.

This discussion does not describe all of the tax consequences that may be relevant in light of a holder's particular circumstances or to Noteholders subject to special rules, such as:

- financial institutions;
- insurance companies;
- dealers in securities or currencies;
- persons holding Notes as part of a hedging transaction, "straddle," conversion transaction or other integrated transaction;
- former citizens or residents of the United States;
- U.S. Holders whose functional currency is not the U.S. dollar; or
- partnerships or entities or arrangements classified as partnerships for U.S. federal income tax purposes.

This summary is based on the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), administrative pronouncements, judicial decisions and final, temporary and proposed U.S. Treasury Regulations, as of the day hereof, changes to any of which subsequent to the date of this Base Prospectus may affect the tax consequences described below. Persons considering the purchase of the Notes should consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations (including the application of the alternative minimum tax and the Medicare tax on net investment income) as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

The tax treatment of certain Notes may be specified in the relevant Final Terms. Moreover, this summary does not discuss Bearer Notes. In general, U.S. federal income tax law imposes significant limitations on U.S. Holders of Bearer Notes. U.S. Holders should consult their tax advisors regarding the U.S. federal income and other tax consequences of the acquisition, ownership and disposition of Bearer Notes.

As used herein, the term "**U.S. Holder**" means a beneficial owner of a Note that is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation created or organised in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source;
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust; or

A "**Non-U.S. Holder**" is a beneficial owner of Notes that is not a U.S. Holder and is not an entity or arrangement treated as a partnership for U.S. federal income tax purposes.

If an entity or arrangement that is classified as a partnership for U.S. federal income tax purposes holds Notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Partners of such entities or arrangements holding Notes should consult with their tax advisers regarding the tax consequences of an investment in the Notes.

Under recently enacted legislation, U.S. Holders that maintain certain types of financial statements and use the accrual method of accounting for U.S. federal income tax purposes generally will be required to include certain amounts in income no later than the time such amounts are reflected on their financial statements. The application of this rule may require U.S. Holders that maintain such financial statements to include certain amounts realised in respect of the Notes in income earlier than would otherwise be the case under the rules described herein, although the precise application of this rule is unclear at this time. This rule generally will be effective for tax years beginning after 31 December 2017 or, for debt securities issued with original issue discount, for tax years beginning after 31 December 2018. U.S. Holders that use the accrual method of accounting should consult with their tax advisors regarding the potential applicability of this rule to their particular situation.

#### ***Payments of Stated Interest***

Interest paid on a Note will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is received in accordance with the Holders of a Note's method of accounting for U.S. federal income tax purposes, **provided that** the interest is "qualified stated interest" (as defined below).

Interest income (including original issue discount, as discussed below) earned by a U.S. Holder with respect to a Note will constitute foreign source income for U.S. federal income tax purposes, which may be relevant in calculating the U.S. Holder's foreign tax credit limitation. The rules regarding foreign tax credits are complex and prospective investors should consult their tax advisors about the application of such rules to them in their particular circumstances. Special rules governing the treatment of interest paid with respect to original issue discount notes and foreign currency notes are described under "*Original Issue Discount*," "*Contingent Payment Debt Instruments*," and "*Foreign Currency Notes*."

#### ***Original Issue Discount***

A Note that has an "issue price" that is less than its "stated redemption price at maturity" will be considered to have been issued with original issue discount for U.S. federal income tax purposes (and will be referred to as an "original issue discount Note") unless the Note satisfies a *de minimis* threshold (as described below) or is a short-term Note (as defined below). The "issue price" of a Note generally will be the first price at which a substantial amount of the Notes are sold to the public (which does not include sales to bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers). The "stated redemption price at maturity" of a Note generally will equal the sum of all payments required to be made under the Note other than payments of "qualified stated interest." "Qualified

"stated interest" is stated interest unconditionally payable (other than in debt instruments of the Issuer) at least annually during the entire term of the Note and equal to the outstanding principal balance of the Note multiplied by a single fixed rate of interest. In addition, qualified stated interest includes, among other things, stated interest on a "variable rate debt instrument" that is unconditionally payable (other than in debt instruments of the issuer) at least annually at a single qualified floating rate of interest or at a rate that is determined at a single fixed formula that is based on objective financial or economic information. A rate is a qualified floating rate if variations in the rate can reasonably be expected to measure contemporaneous fluctuations in the cost of newly borrowed funds in the currency in which the Note is denominated.

If the difference between a Note's stated redemption price at maturity and its issue price is less than a *de minimis* amount, i.e., 1/4 of 1 per cent. of the stated redemption price at maturity multiplied by the number of complete years to maturity, the Note will not be considered to have original issue discount. U.S. Holders of Notes with a *de minimis* amount of original issue discount will include this original issue discount in income, as capital gain, on a *pro rata* basis as principal payments are made on the Note.

A U.S. Holder of original discount Notes will be required to include any qualified stated interest payments in income in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes. U.S. Holders of original issue discount Notes that mature more than one year from their date of issuance will be required to include original issue discount in income for U.S. federal tax purposes as it accrues in accordance with a constant yield method based on a compounding of interest, regardless of whether cash attributable to this income is received.

A U.S. Holder may make an election to include in gross income all interest that accrues on any Note (including stated interest, original issue discount, *de minimis* original issue discount, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium) in accordance with a constant yield method based on the compounding of interest, and may revoke such election only with the permission of the IRS (a "**constant yield election**").

A Note that matures one year or less from its date of issuance (a "**short-term Note**") will be treated as being issued at a discount and none of the interest paid on the Note will be treated as qualified stated interest. In general, a cash method U.S. Holder of a short-term Note is not required to accrue the discount for U.S. federal income tax purposes unless it elects to do so. U.S. Holders who so elect and certain other U.S. Holders, including those who report income on the accrual method of accounting for U.S. federal income tax purposes, are required to include the discount in income as it accrues on a straight-line basis, unless another election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. Holder who is not required and who does not elect to include the discount in income currently, any gain realised on the sale, exchange, or retirement of the short-term Note will be ordinary income to the extent of the discount accrued on a straight-line basis (or, if elected, according to a constant yield method based on daily compounding) through the date of sale, exchange or retirement. In addition, those U.S. Holders will be required to defer deductions for any interest paid on indebtedness incurred to purchase or carry short-term Notes in an amount not exceeding the accrued discount until the accrued discount is included in income.

The Issuers may have an unconditional option to redeem, or U.S. Holders may have an unconditional option to require the Issuers to redeem, a Note prior to its stated maturity date. Under applicable regulations, if the Issuers have an unconditional option to redeem a Note prior to its stated maturity date, this option will be presumed to be exercised if, by utilising any date on which the Note may be redeemed as the maturity date and the amount payable on that date in accordance with the terms of the Note as the stated redemption price at maturity, the yield on the Note would be lower than its yield to maturity. If the U.S. Holders have an unconditional option to require the Issuers to redeem a Note prior to its stated maturity date, this option will be presumed to be exercised if making the same assumptions as those set forth in the previous sentence, the yield on the Note would be higher than its yield to maturity. If this option is not in fact exercised, the Note would be treated solely for purposes of calculating original issue discount as if it were redeemed, and a new Note were issued, on the presumed exercise date for an amount equal to the Note's adjusted issue price on that date. The adjusted issue price of an original issue discount Note is defined as the sum of the issue price of the Note and the aggregate amount of previously accrued original issue discount, less any prior payments other than payments of qualified stated interest.

### **Market Discount**

If a U.S. Holder purchases a Note (other than a short-term Note) for an amount that is less than its stated redemption price at maturity or, in the case of an original issue discount Note, its adjusted issue price, the amount of the difference will be treated as market discount for U.S. federal income tax purposes, unless this difference is less than a specified *de minimis* amount.

A U.S. Holder will be required to treat any principal payment (or, in the case of an original issue discount Note, any payment that does not constitute qualified stated interest) on, or any gain on the sale, exchange, retirement or other disposition of a Note, including disposition in certain non-recognition transactions, as foreign source ordinary income to the extent of the market discount accrued on the Note at the time of the payment or disposition unless this market discount has been previously included in income by the U.S. Holder pursuant to an election by the U.S. Holder to include market discount in income as it accrues, or pursuant to a constant yield election by the U.S. Holder (as described under "*– Original Issue Discount*"). In addition, the U.S. Holder may be required to defer, until the maturity of the Note or its earlier disposition (including certain non-taxable transactions), the deduction of all or a portion of the interest expense on any indebtedness incurred or maintained to purchase or carry such Note.

If a U.S. Holder makes a constant yield election (as described under "*–Original Issue Discount*") for a Note with market discount, such election will result in a deemed election for all market discount bonds acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies.

### **Acquisition Premium and Amortisable Bond Premium**

A U.S. Holder who purchases a Note for an amount that is greater than the Note's adjusted issue price but less than or equal to the sum of all amounts payable on the Note after the purchase date other than payments of qualified stated interest will be considered to have purchased the Note at an acquisition premium. Under the acquisition premium rules, the amount of original issue discount that the U.S. Holder must include in its gross income with respect to the Note for any taxable year will be reduced by the portion of acquisition premium properly allocable to that year.

If a U.S. Holder purchases a Note for an amount that is greater than the amount payable at maturity, or on the earlier call date, in the case of a Note that is redeemable at the relevant Issuer's option, the U.S. Holder will be considered to have purchased the Note with amortisable bond premium equal in amount to the excess of the purchase price over the amount payable at maturity. The U.S. Holder may elect to amortise this premium, using a constant yield method, over the remaining term of the Note (where the Note is not optionally redeemable prior to its maturity date). If the Note may be optionally redeemed prior to maturity after the U.S. Holder has acquired it, the amount of amortisable bond premium is determined by substituting the call date for the maturity date and the call price for the amount payable at maturity only if the substitution results in a smaller amount of premium attributable to the period before the redemption date. A U.S. Holder who elects to amortise bond premium must reduce his tax basis in the Note by the amount of the premium amortised in any year. An election to amortise bond premium applies to all taxable debt obligations then owned and thereafter acquired by the U.S. Holder and may be revoked only with the consent of the IRS.

If a U.S. Holder makes a constant yield election (as described under "*–Original Issue Discount*") for a Note with amortisable bond premium, such election will result in a deemed election to amortise bond premium for all of the U.S. Holder's debt instruments with amortisable bond premium.

### **Sale, Exchange or Retirement of the Notes**

Upon the sale, exchange or retirement of a Note, a U.S. Holder will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the acquisition cost of the Note increased by the amount of OID and market discount included in the U.S. Holder's gross income and decreased by any bond premium or acquisition premium previously amortised and the amount of any payment received from the Issuer other than a payment of qualified stated interest. Gain or loss, if any, will generally be U.S. source income for purposes of computing a U.S. Holder's foreign tax credit limitation. For these purposes, the amount realised does not include any amount attributable to accrued but unpaid interest on the Note. Amounts attributable to accrued but unpaid interest are treated as interest as described under "*–Payments of Interest*".

Except as described below, gain or loss realised on the sale, exchange or retirement of a Note will generally be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the Note has been held for more than one year. Exceptions to this general rule apply to the extent of any accrued market discount or, in the case of a short-term Note, to the extent of any accrued discount not previously included in the U.S. Holder's taxable income. See "*Original Issue Discount*" and "*Market Discount*." In addition, other exceptions to this general rule apply in the case of foreign currency Notes, and contingent payment debt instruments. See "*Foreign Currency Notes*" and "*Contingent Payment Debt Instruments*." The deductibility of capital losses is subject to limitations.

### ***Contingent Payment Debt Instruments***

If the terms of the Notes provide for certain contingencies that affect the timing and amount of payments (including Notes with a variable rate or rates that do not qualify as "variable rate debt instruments" for purposes of the original issue discount rules) they will be "contingent payment debt instruments" for U.S. federal income tax purposes. Under the rules that govern the treatment of contingent payment debt instruments, no payment on such Notes qualifies as qualified stated interest. Rather, a U.S. Holder must account for interest for U.S. federal income tax purposes based on a "comparable yield" and the differences between actual payments on the Note and the Note's "projected payment schedule" as described below. The comparable yield is determined by the relevant Issuer at the time of issuance of the Notes. The comparable yield may be greater than or less than the stated interest, if any, with respect to the Notes. Solely for the purpose of determining the amount of interest income that a U.S. Holder will be required to accrue on a contingent payment debt instrument, we will be required to construct a "projected payment schedule" that represents a series of payments the amount and timing of which would produce a yield to maturity on the contingent payment debt instrument equal to the comparable yield.

*Neither the comparable yield nor the projected payment schedule constitutes a representation by the Issuers regarding the actual amount, if any, that the contingent payment debt instrument will pay.*

For U.S. federal income tax purposes, a U.S. Holder will be required to use the comparable yield and the projected payment schedule established by us in determining interest accruals and adjustments in respect of an optionally exchangeable Note, unless the U.S. Holder timely discloses and justifies the use of a different comparable yield and projected payment schedule to the IRS.

A U.S. Holder, regardless of the U.S. Holder's method of accounting for U.S. federal income tax purposes, will be required to accrue interest income on a contingent payment debt instrument at the comparable yield, adjusted upward or downward to reflect the difference, if any, between the actual and the projected amount of any contingent payments on the contingent payment instrument (as set forth below).

A U.S. Holder will be required to recognise interest income equal to the amount of any net positive adjustment, i.e., the excess of actual payments over projected payments, in respect of a contingent payment debt instrument for a taxable year. A net negative adjustment, i.e., the excess of projected payments over actual payments, in respect of a contingent payment debt instrument for a taxable year:

- will first reduce the amount of interest in respect of the contingent payment debt instrument that a Noteholder would otherwise be required to include in income in the taxable year; and
- to the extent of any excess, will give rise to an ordinary loss equal to so much of this excess as does not exceed the excess of:
  - the amount of all previous interest inclusions under the contingent payment debt instrument over
  - the total amount of the U.S. Holder's net negative adjustments treated as ordinary loss on the contingent payment debt instrument in prior taxable years.

A net negative adjustment is not subject to the two per cent. floor limitation imposed on miscellaneous deductions. Any net negative adjustment in excess of the amounts described above will be carried forward to offset future interest income in respect of the contingent payment debt instrument or to reduce the amount realised on a sale, exchange or retirement of the contingent payment debt instrument. Where a U.S. Holder purchases a contingent payment debt instrument for a price other than its adjusted issue price, the difference between the purchase price and the adjusted issue price must be reasonably allocated to the daily portions

of interest or projected payments with respect to the contingent payment debt instrument over its remaining term and treated as a positive or negative adjustment, as the case may be, with respect to each period to which it is allocated.

Upon a sale, exchange or retirement of a contingent payment debt instrument, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the U.S. Holder's adjusted basis in the contingent payment debt instrument. A U.S. Holder's adjusted basis in a Note that is a contingent payment debt instrument generally will be the acquisition cost of the Note, increased by the interest previously accrued by the U.S. Holder on the Note under these rules, disregarding any net positive and net negative adjustments, and decreased by the amount of any non-contingent payments and the projected amount of any contingent payments previously made on the Note. A U.S. Holder generally will treat any gain as interest income, and any loss as ordinary loss to the extent of the excess of previous interest inclusions in excess of the total net negative adjustments previously taken into account as ordinary losses, and the balance as capital loss. The deductibility of capital losses is subject to limitations.

A U.S. Holder will have a tax basis in any property, other than cash, received upon the retirement of a contingent payment debt instrument including in satisfaction of a conversion right or a call right equal to the fair market value of the property, determined at the time of retirement. The U.S. Holder's holding period for the property will commence on the day immediately following its receipt.

Special rules apply to contingent payment debt instruments that are denominated, or provide for payments, in a currency other than the U.S. dollar ("Foreign Currency Contingent Debt Instruments"). Very generally, these instruments are accounted for like a contingent debt instrument, as described above, but in the currency of the Foreign Currency Contingent Debt Instruments. The relevant amounts must then be translated into U.S. dollar equivalents. The rules applicable to Foreign Currency Contingent Debt Instruments are complex and U.S. Holders are urged to consult their own tax advisors regarding the U.S. federal income tax consequences of the ownership and disposition of such instruments.

#### ***Foreign Currency Notes***

The following discussion summarises the principal U.S. federal income tax consequences to a U.S. Holder of the ownership and disposition of Notes that are denominated in a specified currency other than the U.S. dollar or the payments of interest or principal on which are payable in a currency other than the U.S. dollar ("foreign currency Notes").

The rules applicable to foreign currency Notes could require some or all gain or loss on the sale, exchange or other disposition of a foreign currency Note to be recharacterised as ordinary income or loss. The rules applicable to foreign currency Notes are complex and may depend on the U.S. Holder's particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a U.S. Holder should make any of these elections may depend on the U.S. Holder's particular U.S. federal income tax situation. U.S. Holders are urged to consult their own tax advisors regarding the U.S. federal income tax consequences of the ownership and disposition of foreign currency Notes.

A U.S. Holder who uses the cash method of accounting and who receives a payment of qualified stated interest in a foreign currency with respect to a foreign currency Note will be required to include in income the U.S. dollar value of the foreign currency payment (determined on the date the payment is received) regardless of whether the payment is in fact converted to U.S. dollars at the time, and this U.S. dollar value will be the U.S. Holder's tax basis in the foreign currency. A cash method U.S. Holder who receives a payment of qualified stated interest in U.S. dollars pursuant to an option available under such Note will be required to include the amount of this payment in income upon receipt.

An accrual method U.S. Holder will be required to include in income the U.S. dollar value of the amount of interest income (including original issue discount or market discount, but reduced by acquisition premium and amortisable bond premium, to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a foreign currency Note during an accrual period. The U.S. dollar value of the accrued income will be determined by translating the income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. The U.S. Holder will recognise ordinary income or loss with respect to accrued interest income on the date the income is actually received. The amount of ordinary income or loss recognised will equal the difference between the U.S. dollar value of the foreign

currency payment received (determined on the date the payment is received) in respect of the accrual period (or, where a U.S. Holder receives U.S. dollars, the amount of the payment in respect of the accrual period) and the U.S. dollar value of interest income that has accrued during the accrual period (as determined above). Rules similar to these rules apply in the case of a cash method taxpayer required to currently accrue original issue discount or market discount.

An accrual method U.S. Holder may elect to translate interest income (including original issue discount) into U.S. dollars at the spot rate on the last day of the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A U.S. Holder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the IRS.

Original issue discount, market discount, acquisition premium and amortisable bond premium on a foreign currency Note are to be determined in the relevant foreign currency. Where the taxpayer elects to include market discount in income currently, the amount of market discount will be determined for any accrual period in the relevant foreign currency and then translated into U.S. dollars on the basis of the average rate in effect during the accrual period. Exchange gain or loss realised with respect to such accrued market discount shall be determined in accordance with the rules relating to accrued interest described above.

If an election to amortise bond premium is made, amortisable bond premium taken into account on a current basis shall reduce interest income in units of the relevant foreign currency. Exchange gain or loss is realised on amortised bond premium with respect to any period by treating the bond premium amortised in the period in the same manner as on the sale, exchange or retirement of the foreign currency Note. Any exchange gain or loss will be ordinary income or loss as described below.

If the election is not made, any loss realised on the sale, exchange or retirement of a foreign currency Note with amortisable bond premium by a U.S. Holder who has not elected to amortise the premium will be a capital loss to the extent of the bond premium.

A U.S. Holder's tax basis in a foreign currency Note, and the amount of any subsequent adjustment to the U.S. Holder's tax basis, will be the U.S. dollar value amount of the foreign currency amount paid for such foreign currency Note, or of the foreign currency amount of the adjustment, determined on the date of the purchase or adjustment. A U.S. Holder who purchases a foreign currency Note with previously owned foreign currency will recognise ordinary income or loss in an amount equal to the difference, if any, between such U.S. Holder's tax basis in the foreign currency and the U.S. dollar fair market value of the foreign currency Note on the date of purchase.

Gain or loss realised upon the sale, exchange or retirement of a foreign currency Note that is attributable to fluctuation in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between: (i) the U.S. dollar value of the foreign currency principal amount of the Note, determined on the date the payment is received or the Note is disposed of; and (ii) the U.S. dollar value of the foreign currency principal amount of the Note, determined on the date the U.S. Holder acquired the Note. Payments received attributable to accrued interest will be treated in accordance with the rules applicable to payments of interest on foreign currency Notes described above. The foreign currency gain or loss will be recognised only to the extent of the total gain or loss realised by the U.S. Holder on the sale, exchange or retirement of the foreign currency Note. The source of the foreign currency gain or loss will be determined by reference to the residence of the U.S. Holder or the "qualified business unit" of the U.S. Holder on whose books the Note is properly reflected. Any gain or loss realised by these U.S. Holders in excess of the foreign currency gain or loss will be capital gain or loss except to the extent of any accrued market discount or, in the case of short-term Note, to the extent of any discount not previously included in the U.S. Holder's income. U.S. Holders should consult their own tax advisor with respect to the tax consequences of receiving payments in a currency different from the currency in which payments with respect to such Note accrue.

A U.S. Holder will have a tax basis in any foreign currency received on the sale, exchange or retirement of a foreign currency Note equal to the U.S. dollar value of the foreign currency, determined at the time of sale, exchange or retirement. A cash method taxpayer who buys or sells a foreign currency Note is required to translate units of foreign currency paid or received into U.S. dollars at the spot rate on the settlement date of the purchase or sale. Accordingly, no exchange gain or loss will result from currency fluctuations between the trade date and the settlement date of the purchase or sale. An accrual method taxpayer may

elect the same treatment for all purchases and sales of foreign currency obligations provided that the Notes are traded on an established securities market. This election cannot be changed without the consent of the IRS. Any gain or loss realised by a U.S. Holder on a sale or other disposition of foreign currency (including its exchange for U.S. dollars or its use to purchase foreign currency Notes) will be ordinary income or loss.

### **Taxation of Non-U.S. Holders**

Subject to the backup withholding and FATCA rules described below, a Non-U.S. Holder generally should not be subject to U.S. federal income or withholding tax on any payments on the Notes and gain from the sale, redemption or other disposition of the Notes unless: (i) that payment and/or gain is effectively connected with the conduct by that Non-U.S. Holder of a trade or business in the U.S.; (ii) in the case of any gain realised on the sale or exchange of a Note by an individual Non-U.S. Holder, that holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met; or (iii) the Non-U.S. Holder is subject to tax pursuant to provisions of the Code applicable to certain expatriates.

### **Backup Withholding and Information Reporting**

Information returns may be filed with the IRS in connection with payments on the Notes and the proceeds from a sale or other disposition of the Notes. A U.S. Holder may be subject to U.S. backup withholding on these payments if it fails to provide its tax identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle them to a refund, provided that the required information is timely furnished to the IRS. Non-U.S. Holders may be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of such information reporting requirements and backup withholding.

### **Reportable Transactions**

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if the loss exceeds U.S.\$50,000 in a single taxable year if the U.S. Holder is an individual or trust, or higher amounts for other U.S. Holders. In the event the acquisition, ownership or disposition of Notes constitutes participation in a "reportable transaction" for purposes of these rules, a U.S. Holder will be required to disclose its investment by filing Form 8886 with the IRS. Prospective purchasers should consult their tax advisors regarding the application of these rules to the acquisition, ownership or disposition of Notes.

### **Foreign Financial Asset Reporting**

Certain U.S. Holders that own "specified foreign financial assets" that meet certain U.S. dollar value thresholds generally are required to file an information report with respect to such assets with their tax returns. The Notes generally will constitute specified foreign financial assets subject to these reporting requirements unless the Notes are held in an account at certain financial institutions. U.S. Holders are urged to consult their tax advisers regarding the application of these disclosure requirements to their ownership of the Notes.

**The U.S. federal income tax discussion set forth above is included for general information only and may not be applicable depending upon a U.S. Holder's particular situation. U.S. Holders should consult their own tax advisors with respect to the tax consequences to them of the ownership and disposition of the Notes, including the tax consequences under state, local, foreign and other tax laws and the possible effects of changes in U.S. federal or other tax laws.**

### **The proposed financial transactions tax ("FTT")**

On 14 February 2013, the European Commission published a proposal (the "Commission's proposal") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (each other than Estonia, a "participating Member State"). However, Estonia has ceased to participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

## FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. However, if additional notes (as described under "*Terms and Conditions of the Notes—Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes.

## CERTAIN ERISA CONSIDERATIONS

The United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and Section 4975 of the Code, prohibit certain transactions involving: (a) employee benefit plans or other plans, including individual retirement accounts or Keogh plans which are subject to Title I of ERISA or as defined in and subject to Section 4975 of the Code, or any entities whose underlying assets include plan assets of such employee benefit plans or other plans for the purposes of Title I of ERISA or Section 4975 of the Code ("Plans") (together with Plans, the "**Benefit Plan Investors**"); and (b) persons who have certain specified relationships to such Plans ("parties in interest" under ERISA and "disqualified persons" under the Code; collectively, "**Parties in Interest**"). A violation of these "prohibited transaction" rules may result in the imposition of an excise tax, the rescission of the transaction or other liabilities under ERISA and/or Section 4975 of the Code for such persons, unless relief is available under an applicable statutory or administrative exemption. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may apply depending in part on the type of Plan fiduciary making the decision to acquire a Note and the circumstances under which such decision is made. Included among these exemptions are Section 408(b)(17) of ERISA (relating to certain transactions between a plan and a non-fiduciary service provider), Prohibited Transaction Class Exemption (PTCE) 95-60 (relating to investments by insurance company general accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a "qualified professional asset manager"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by an in-house asset manager). There can be no assurance that any of these class exemptions or any other exemption will be available with respect to any particular transaction involving the Notes.

Employee benefit plans which are not Benefit Plan Investors, including governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), and non-U.S. plans (as described in Section 4(b)(4) of ERISA), may be subject to U.S. federal, state or local, or non-U.S., laws which are substantially similar to the prohibited transaction provisions of ERISA or Section 4975 of the Code ("**Similar Law**"). Fiduciaries of such plans should consult with their counsel before they purchase any of the Notes or any interest therein.

Under Section 3(42) of ERISA and regulations issued by the U.S. Department of Labor, when a Benefit Plan Investor (collectively "**Plan Asset Regulations**") acquires 25 per cent. or more of any class of equity in an entity, the underlying assets owned by that entity will be treated as if they were plan assets of such Benefit Plan Investors, unless an exception otherwise applies. If the assets of the relevant Issuer were deemed to be plan assets of such Benefit Plan Investors, the relevant Issuer would be subject to certain fiduciary obligations under ERISA, and certain transactions that the relevant Issuer might enter into, or may have entered into, in the ordinary course of business might constitute or result in non-exempt prohibited transactions under ERISA and Section 4975 of the Code.

Although no assurance can be given, the Notes issued should not be considered "equity interests" for purposes of the Plan Assets Regulation and the Issuer intends to treat the Notes as indebtedness. Nevertheless, prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any of the Notes are acquired by a Benefit Plan Investor with respect to which the Issuer is a Party in Interest. Accordingly, unless otherwise stated in the Final Terms, each purchaser and transferee of any Note will be deemed to represent, warrant and agree that either: (i) it is not, is not using the assets of and shall not at any time hold such Note for or on behalf of a Benefit Plan Investor or a governmental, church or non-U.S. plan which is subject to Similar Law; or (ii) its acquisition, holding and disposition of such Note or of any interest therein, will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or, in the case of a governmental, church or non-U.S. plan, a violation of any applicable Similar Law. Any purported purchase or transfer of such a Note that does not comply with the foregoing shall be null and void *ab initio*.

This Base Prospectus is not directed to any particular purchaser, nor does it address the needs of any particular purchaser. None of the Issuer or Dealers or any of their respective affiliates shall provide any advice or recommendation with respect to the management of any purchase of Notes or the advisability of acquiring, holding, disposing or exchanging of any Notes.

## SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of Crédit Agricole Corporate and Investment Bank, HSBC Bank plc, J.P. Morgan Securities plc and Standard Chartered Bank and any additional Dealer appointed under the Programme from time to time by the Issuer (the "**Dealers**"). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and subscribed by, Dealers are set out in a Dealer Agreement dated 29 August 2018 (the "**Dealer Agreement**") and made between the Issuer and the Dealers. If in the case of any Tranche of Notes the method of distribution is an agreement between the Issuer and a single Dealer for that Tranche to be issued by the Issuer and subscribed by that Dealer, the method of distribution will be described in the relevant Final Terms as "Non-Syndicated" and the name of that Dealer and any other interest of that Dealer which is material to the issue of that Tranche beyond the fact of the appointment of that Dealer will be set out in the relevant Final Terms. If in the case of any Tranche of Notes the method of distribution is an agreement between the Issuer and more than one Dealer for that Tranche to be issued by the Issuer and subscribed by those Dealers, the method of distribution will be described in the relevant Final Terms as "Syndicated", the addresses of those Dealers and any other interests of any of those Dealers which is material to the issue of that Tranche beyond the fact of the appointment of those Dealers (including whether any of those Dealers has also been appointed to act as Stabilisation Manager in relation to that Tranche) will be set out in the relevant Final Terms.

Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be subscribed by the Dealer(s) and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such subscription. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

**United States of America:** *Regulation S Category 2; TEFRA D or TEFRA C as specified in the relevant Final Terms or neither if TEFRA is specified as not applicable in the relevant Final Terms.*

The Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or (in the case of Bearer Notes) delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Issuing and Paying Agent or the Issuer by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Issuing and Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, other than pursuant to Rule 144A, and such Dealer will have sent to each dealer to which it sells Notes during the distribution compliance period relating thereto, a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the Securities Act.

The Dealer Agreement provides that each Arranger, or any other Dealer, may directly or through its respective agents or affiliates arrange for the resale of Restricted Registered Notes in the United States only to qualified institutional buyers pursuant to Rule 144A who are also qualified purchasers as defined in Section 2(a)(51)(A) of the U.S. Investment Company Act of 1940, as amended.

## Prohibition of sales to EEA Retail Investors

Unless the Final Terms (or Drawdown Prospectus, as the case may be) in respect of any Notes specifies the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms (or are the subject of the offering contemplated by a Drawdown Prospectus) in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression "**retail investor**" means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or
  - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in the Prospectus Directive (as defined below); and
- (b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the Final Terms (or Drawdown Prospectus, as the case may be) in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area (each, a "**Relevant Member State**"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto (or are the subject of the offering contemplated by a Drawdown Prospectus, as the case may be) to the public in that Relevant Member State except that it may make an offer of such Notes to the public in that Relevant Member State:

- (a) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) *Fewer than 150 offerees*: at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) *Other exempt offers*: at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive.

**provided that** no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

## United Kingdom

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (a) *No deposit-taking*: in relation to any Notes having a maturity of less than one year:

- (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and:
- (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:
  - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
  - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

- (b) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (c) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **Oman**

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (a) this Base Prospectus has not been filed with or registered as a prospectus with the Capital Market Authority of Oman pursuant to Article 3 of the Capital Market Law Sultani Decree 80/98, as amended ("**Article 3**"), will not be offered or sold as an offer of securities in Oman as contemplated by the Oman Commercial Companies Law or Article 3, nor does it constitute a sukuk offering pursuant to the Sukuk Regulation issued by the Capital Market Authority of Oman (CMA Decision 3/2016); and
- (b) the Notes have not been and will not be offered, sold or delivered, and no invitation to subscribe for or to purchase the Notes has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Oman to any person in Oman other than by an entity duly licensed by the Capital Market Authority of Oman to market non-Omani securities in Oman and then only in accordance with all applicable laws and regulations, including Article 139 of the Executive Regulations of the Capital Markets Law (Decision No. 1/2009, as amended).

### **Kingdom of Saudi Arabia**

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Notes. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Notes pursuant to an offering should note that the offer of Notes is a private placement under Article 9 or Article 10 of the "Rules on the Offer of Securities and Continuing Obligations" as issued by the Board of the Capital Market Authority (the "**CMA**") resolution number 3-123-2017 dated 27 December 2017 (the "**KSA Regulations**"), made through an authorised person licensed to carry out arranging activities by the CMA and following a notification to the CMA under Article 11 of the KSA Regulations.

The Notes may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "Sophisticated Investors" under Article 9 of the KSA Regulations or by way of a limited offer under Article 10 of the KSA Regulations. Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Notes to a Saudi Investor will be made in compliance with Article 9 or Article 10 of the KSA Regulations.

Each offer of Notes shall not therefore constitute a "public offer", an "exempt offer" or a "parallel market offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 15 of the KSA Regulations. Any Saudi Investor who has acquired Notes pursuant to a private placement under Article 9 or Article 10 of the KSA Regulations may not offer or sell those Notes to any person unless the offer or sale is made through an authorised person appropriately licensed by the CMA and: (a) the Notes are offered or sold to a Sophisticated Investor (as defined in Article 9 of the KSA Regulations); (b) the price to be paid for the Notes in any one transaction is equal to or exceeds Saudi Riyals 1 million or an equivalent amount; or (c) the offer of sale is otherwise in compliance with Article 15 of the KSA Regulations.

### **Kingdom of Bahrain**

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold, and will not offer or sell any Notes except on a private placement basis to persons in the Kingdom of Bahrain who are "accredited investors".

For this purpose, an "accredited investor" means:

- (a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more (excluding that person's principal place of residence);
- (b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or
- (c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

### **United Arab Emirates (excluding the Dubai International Financial Centre)**

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that the Notes to be issued under the Programme have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

### **Dubai International Financial Centre**

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered and will not offer the Notes to be issued under the Programme to any person in the Dubai International Financial Centre unless such offer is:

- (a) an "Exempt Offer" in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority (the "DFSA") rulebook; and
- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module of the DFSA rulebook.

### **State of Qatar (including the Qatar Financial Centre)**

Each Dealer has represented, warrant and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes in the State of Qatar (including the Qatar Financial Centre), except (i) in compliance with all applicable laws and regulations of the State of Qatar (including the Qatar Financial Centre); and (ii) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar (including the Qatar Financial Centre).

## **Singapore**

Each Dealer has acknowledged that this Base Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold and that it will not offer or sell any Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute this Base Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase, of any Notes, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the "SFA")) pursuant to Section 274 of the SFA, or (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:
  - (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
  - (ii) where no consideration is or will be given for the transfer;
  - (iii) where the transfer is by operation of law;
  - (iv) as specified in Section 276(7) of the SFA; or
  - (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Unless otherwise stated in the relevant Final Terms, all Notes issued or to be issued under the Programme shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "FIEA"). Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not, directly or indirectly, offered or sold Notes, and that it will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other relevant laws, regulations and ministerial guidelines of Japan.

## **Hong Kong**

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "**professional investors**" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "**prospectus**" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to any Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "**professional investors**" as defined in the SFO and any rules made under the SFO.

## **People's Republic of China**

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that the offer of the Notes is not an offer of securities within the meaning of the People's Republic of China Securities Law or other pertinent laws and regulations of the PRC and the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC, except as permitted by the securities laws of the PRC.

## **General**

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Base Prospectus or any Final Terms or any related offering material, in all cases at its own expense. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification may be set out in a supplement to this Base Prospectus.

## TRANSFER RESTRICTIONS

### Regulation S Notes

Each purchaser of Bearer Notes or Unrestricted Registered Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (i) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and:
  - (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S); and
  - (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate;
- (ii) it understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period (as defined in Regulation S), it will not offer, sell, pledge or otherwise transfer such Notes except:
  - (a) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; or
  - (b) to the Issuer; or
  - (c) in the case of Unrestricted Registered Notes only, in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB who is also a QP purchasing for its own account or the account of a QIB who is also a QP,in each case in accordance with any applicable securities laws of any State of the United States;
- (iii) it understands that the Issuer, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Notes represented by an interest in an Unrestricted Global Note Certificate may be transferred to a person who wishes to hold such Notes in the form of an interest in a Restricted Global Note Certificate only upon receipt by the Registrar of a written certification from the transferor (in the form set out in Schedule 15 (*Form of Transfer Certificate*) to the Agency Agreement) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB who is also a QP, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States.

Notes represented by an interest in a Restricted Global Note Certificate may also be transferred to a person who wishes to hold such Notes in the form of an interest in an Unrestricted Global Note Certificate, but only upon receipt by the Registrar of a written certification from the transferor (in the form set out in Schedule 15 (*Form of Transfer Certificate*) to the Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144A (if available) under the Securities Act.

Any interest in a Note represented by an Unrestricted Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in a Note represented by a Restricted Global Note Certificate will, upon transfer, cease to be an interest in a Note represented by an Unrestricted Global Note Certificate and become an interest in a Note represented by a Restricted Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to Notes represented by a Restricted Global Note Certificate.

### Rule 144A Notes

Each purchaser of Restricted Registered Notes in reliance on Rule 144A, by accepting delivery of this Base Prospectus, will be deemed to have represented, agreed and acknowledged as follows (terms used in the following paragraphs that are defined in Rule 144A have the respective meanings given to them in Rule 144A):

- (i) the purchaser is (a) a QIB who is also a QP, (b) acquiring the Notes for its own account or for the account of one or more QIBs who are also QPs, (c) not formed for the purpose of investing in the Notes or the Issuer and (d) is aware, and each beneficial owner of such Notes has been advised that the sale of the Notes to it is being made in reliance on Rule 144A;
- (ii) the purchaser understands that (1) the Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB who is also a QP purchasing for its own account or for the account of one or more QIBs who are also QPs, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144A thereunder (if available), (d) pursuant to an effective registration statement under the Securities Act or (e) to the Issuer or any of its respective affiliates, in each case in accordance with any applicable securities laws of any State of the United States and (2) it will, and each subsequent holder of the Restricted Registered Notes is required to, notify any purchaser of the Restricted Registered Notes from it of the resale restrictions applicable to the Restricted Registered Notes;
- (iii) the purchaser understands that the Restricted Global Note Certificate and any restricted Individual Note Certificate (a "**Restricted Individual Note Certificate**") will bear a legend to the following effect, unless the relevant Issuer determines otherwise in accordance with applicable law:

THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY SECURITIES LAW OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE ISSUER THAT THE NOTES REPRESENTED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A WHO IS ALSO A QUALIFIED PURCHASER AS DEFINED IN SECTION 2(A)(51)(A) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED PURCHASING FOR ITS OWN ACCOUNT OR A PERSON PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHO IS ALSO A QUALIFIED PURCHASER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (4) TO THE ISSUER OR THEIR RESPECTIVE AFFILIATES.

- (iv) if it is acquiring any Notes for the account of one or more QIBs who are also QPs the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and
- (v) the purchaser understands that the Issuer, the Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Upon the transfer, exchange or replacement of a Restricted Global Note Certificate or a Restricted Individual Note Certificate, or upon specific request for removal of the legend, the Issuer will deliver only a Restricted Global Note Certificate or one or more Restricted Individual Note Certificates that bear such legend or will refuse to remove such legend, unless there is delivered to the Issuer and the Registrar such satisfactory evidence (which may include a legal opinion) as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Any interest in a Restricted Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note Certificate will, upon transfer, cease to be an interest in a Restricted Global Note Certificate and become an interest in an Unrestricted Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to an interest in an Unrestricted Global Note Certificate.

**Prospective purchasers that are QIBs who are also QPs are hereby notified that sellers of the Restricted Registered Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.**

## BENCHMARK REGULATION

Interest and/or other amounts payable under the Notes may be calculated by reference to certain benchmarks.

Details of the administrators of such benchmarks, including details of whether or not, as at the date of this Base Prospectus, each such administrator's name appears on the register of administrators and benchmarks established and maintained by ESMA pursuant to article 36 of the Benchmarks Regulation (the "**ESMA Benchmarks Register**") are set out below.

<b>BENCHMARK</b>	<b>ADMINISTRATOR</b>	<b>ADMINISTRATOR APPEARS ON ESMA BENCHMARKS REGISTER?</b>
EURIBOR	European Money Markets Institute	No
LIBOR	ICE Benchmark Administrator Limited	Yes, ICE Benchmark Administration Limited is authorised under Article 34 of the Benchmarks Regulation
SHIBOR	The National Interbank Funding Center	No
HIBOR	Treasury Markets Association	No
CNH HIBOR	Treasury Markets Association	No
TRLIBOR	Banks Association of Turkey	No
SIBOR	Association of Banks in Singapore	No
EIBOR	UAE Central Bank	No
TIBOR	JBA TIBOR Administration	No
SAIBOR	Saudi Arabia Monetary Authority	No
BBSW	ASX Limited	No
PRIBOR	Czech Financial Benchmark Facility s.r.o.	No

As at the date of this Base Prospectus, the administrators of EURIBOR, SHIBOR, HIBOR, CNH HIBOR, TRLIBOR or TRYLIBOR, SIBOR, EIBOR, TIBOR, SAIBOR, BBSW, or PRIBOR are not included in ESMA's register of administrators under Article 36 of the Benchmarks Regulation. As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that the European Money Markets Institute, The National Interbank Funding Center, Treasury Markets Association, Banks Association of Turkey, Association of Banks in Singapore, UAE Central Bank, JBA TIBOR Administration, Saudi Arabia Monetary Authority, ASX Limited or the Czech Financial Benchmark Facility s.r.o. are not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence).

## GENERAL INFORMATION

### 1. **Authorisation**

The establishment of the Programme was authorised by a resolution of the Board of Directors of the Issuer dated 14 April 2018. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

### 2. **Legal and Arbitration Proceedings**

There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Base Prospectus, a significant effect on the financial position or profitability of the Issuer and its Subsidiaries.

### 3. **Significant/Material Change**

Since 31 December 2017 there has been no material adverse change in the prospects of the Issuer or the Issuer and its Subsidiaries and since 30 June 2018, there has been no significant change in the financial or trading position of the Issuer or the Issuer and its Subsidiaries.

### 4. **Auditors**

The Interim Financial Statements have been reviewed by Deloitte & Touche – Middle East. Deloitte & Touche – Middle East has conducted its review of the Interim Financial Statements in accordance with IAS 34 '*Interim Financial Reporting*' and the International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" as stated in their review report incorporated by reference in this Base Prospectus.

The Annual Financial Statements have been audited without qualification for each of the years ended 31 December 2017 and 31 December 2016 by Deloitte & Touche - Middle East. Deloitte & Touche – Middle East has conducted its audits in respect of the Financial Statements in accordance with the International Standards on Auditing issued by the International Federation of Accountants through the International Auditing and Assurance Standards Board. Deloitte & Touche – Middle East consents to the incorporation by reference in this Base Prospectus of its reports dated 14 April 2018 and 7 May 2017, relating to the financial statements of the Issuer appearing in the 2017 Financial Statements for the year ended 31 December 2017 and the 2016 Financial Statements for the year ended 31 December 2016.

The business address of Deloitte & Touche – Middle East is Al-Zamil Tower, Government Avenue, P.O. Box 421, Manama, Kingdom of Bahrain. Deloitte & Touche – Middle East is registered with the Ministry of Industry and Commerce in Bahrain. Some of its professionals are members of the Bahrain Accountants Association and/or international professional bodies.

### 5. **Documents on Display**

Copies of the following documents (together with English translations thereof where the documents in question are not in English) may be inspected during normal business hours at the offices of the Issuing and Paying Agent in London for 12 months from the date of this Base Prospectus:

- (a) the Transaction Documents;
- (b) the Establishing Agreement;
- (c) the Issuer's registration certificate number 2050003977 dated 5/11/1396H (corresponding to 29 October 1976);
- (d) this Base Prospectus;

- (f) the documents incorporated by reference; and
- (g) any future offering circulars, prospectuses or information memoranda and any other documents incorporated herein or therein.

This Base Prospectus will also be available for viewing in electronic form on the website of the Central Bank (<http://www.centralbank.ie>) and on the website of Euronext Dublin (<http://www.ise.ie>).

## 6. **Clearing of the Notes**

The Notes have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg. The appropriate common code, International Securities Identification Number (ISIN), Financial Instrument Short Name (FISN) and Classification of Financial Instruments (CFI) code (as applicable) and/or the Committee on Uniform Security Identification Procedures (CUSIP) Number in relation to the Notes of each Tranche will be specified in the relevant Final Terms. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

## 7. **Issue Price and Yield**

Notes may be issued at any price. The issue price of each Tranche of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions and the issue price of the relevant Notes or the method of determining the price and the process for its disclosure will be set out in the applicable Final Terms. In the case of different Tranches of a Series of Notes, the issue price may include accrued interest in respect of the period from the interest commencement date of the relevant Tranche (which may be the issue date of the first Tranche of the Series or, if interest payment dates have already passed, the most recent interest payment date in respect of the Series) to the issue date of the relevant Tranche.

The yield of each Tranche of Notes set out in the applicable Final Terms will be calculated as of the relevant issue date on an annual or semi-annual basis using the relevant issue price. It is not an indication of future yield.

## 8. **The Legal Entity Identifier**

The Legal Entity Identifier (LEI) code of the Issuer is 213800A54KIUYH5YD185.

## 9. **Dealers transacting with the Issuer**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in various financial advisory, investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and/or its affiliates in the ordinary course of business for which they have received, and for which they may in the future receive, fees and expenses.

## THE ISSUER

### **Arab Petroleum Investments Corporation**

Head Office Building  
Dammam Coastal Road  
Al Rakkah  
P.O. Box 9599  
31423 Dammam  
Kingdom of Saudi Arabia

## DEALERS

### **Crédit Agricole Corporate and Investment Bank**

Broadwalk House  
5 Appold Street  
London EC2A 2DA  
United Kingdom

### **HSBC Bank plc**

8 Canada Square  
London E14 5HQ  
United Kingdom

### **J.P. Morgan Securities plc**

25 Bank Street  
Canary Wharf  
London E14 5JP  
United Kingdom

### **Standard Chartered Bank**

P.O. Box 999  
Dubai  
United Arab Emirates

## ISSUING AND PAYING AGENT AND TRANSFER AGENT

### **The Bank of New York Mellon, London Branch**

One Canada Square  
London E14 5AL  
England

## REGISTRAR

### **The Bank of New York Mellon SA/NV, Luxembourg Branch**

Vertigo Building – Polaris  
2-4 rue Eugène Ruppert  
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## LEGAL ADVISERS

*To the Issuer as to English law:*

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United Arab Emirates

*To the Issuer as to United States law:*

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*To the Dealers as to English law:*

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United Kingdom

## AUDITORS TO THE ISSUER

**Deloitte & Touche – Middle East**  
United Tower  
Bahrain Bay  
Manama P.O Box 421  
Kingdom of Bahrain

## LISTING AGENT

**Arthur Cox Listing Services Limited**  
Ten Earlsfort Terrace  
Dublin 2  
Ireland