

Research Update:

The Arab Energy Fund 'AA-/A-1+' Ratings Affirmed; Outlook Stable

June 19, 2025

Overview

- The Arab Energy Fund (TAEF) is a commercially focused multilateral lending institution with a mandate to sustainably support the energy sectors of members countries of the Arab Energy Organization (previously the Organization of Arab Petroleum Exporting Countries).
- We view TAEF's financial risk profile as extremely strong, based on a risk-adjusted capital ratio of 21.1% and supported by robust asset quality and risk management framework.
- We therefore affirmed our 'AA-/A-1+' long- and short-term issuer credit ratings on TAEF.
- The stable outlook reflects our expectation that TAEF will continue to enact its policy mandate without a deterioration in capital adequacy or liquidity.

Rating Action

On June 19, 2025, S&P Global Ratings affirmed its 'AA-' long-term and 'A-1+' short-term foreign currency issuer credit ratings on The Arab Energy Fund (TAEF). The outlook is stable.

Outlook

The stable outlook reflects our expectation that TAEF will continue supporting the energy sector of member countries of the Arab Energy Organization (AEO; previously the Organization of Arab Petroleum Exporting Countries [OAPEC]) while helping advance the energy transition agenda in the region, without a deterioration in capital adequacy or liquidity.

Downside scenario

We could consider a downgrade over the next 24 months if TAEF's policy importance decreased, in addition to receding shareholder support.

Also, if financial metrics were to deteriorate markedly, for example because of a rapid buildup of nonperforming assets, or risk management practices weaken, negative pressure on the rating

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would result.

Upside scenario

We could raise the rating if we observed a durable expansion in TAEF's policy importance that builds on its current business model and institutional strengths. This could be exemplified by a significant increase in shareholder support via paid-in capital that underscored a larger role for the fund or other strategic initiatives that underscored a strengthening of TAEF's mandate on behalf of shareholders.

Rationale

We base the ratings on TAEF on our assessment of its adequate enterprise risk profile and extremely strong financial risk profile, resulting in a stand-alone credit profile (SACP) assessment of 'aa-'. We assess TAEF's capital adequacy in our highest category, even without the need for extraordinary support from member countries in the form of callable capital.

TAEF was founded in 1975 by 10 AEO (formerly OAPEC) member countries to finance oil- and gas-related projects in member countries and those in nonmember countries that would contribute to knowledge transfer and capacity-building for member countries. Today, the entity actively focuses on funding energy-sector projects and companies and providing direct equity financing and trade finance solutions in member countries and more than 15 other countries. TAEF works on a commercial basis, with a mandate to generate profits that ensure self-sustainability. However, unlike a commercial bank, it does not have a mandate to maximize returns on shareholder equity. We view this mandate as adequate, given that it can largely be fulfilled by other private or domestic public institutions.

In December 2024, OAPEC renamed itself the AEO and has sought to restructure its framework to ensure the organization's focus is broadened beyond oil and gas. This aligns with TAEF's revised five-year strategy and rebranding in 2023 (it was previously known as the Arab Petroleum Investments Corp.) that seeks to enable the fund to be an engine for sustainable development in the energy sector of AEO member countries. This includes planned investments of up to \$1 billion per year in decarbonization technologies and supply chains that should help accelerate the shift toward cleaner and more sustainable energy sources. The fund is working to add advisory services on the energy transition (including cleaner and less-carbon-intensive energy production).

TAEF primarily operates in its member countries, where the energy sector is the backbone of their economies. The largest business lines for TAEF are project and corporate finance. The fund also takes stakes in entities via long-term equity investments and provides guarantees and revolving credit facilities. TAEF has a wholesale banking branch in Bahrain, regulated by the Central Bank of Bahrain, to support its trade finance business.

The fund's top five purpose-related exposures (including guarantees and other off-balance-sheet obligations and excluding treasury exposures) are to Saudi Arabia (36%), the United Arab Emirates (UAE; 17%), Bahrain (15%), Qatar (8%), and Egypt (4%). The three largest nonmember country exposures are to Oman (3%), the U.S. (3%), and Azerbaijan (2%) at year-end 2024. TAEF has a less developmentally focused mandate compared with private-sector-focused multilateral lending institutions (MLIs) and investments tend to be in higher-rated countries such as Kuwait (A+/Stable/A-1), Saudi Arabia (A+/Stable/A-1), and Oman (BBB-/Stable/B), although Bahrain (B+/Negative/B) and Egypt (B-/Stable/B) are significant exposures. Recent announcements this year appear to focus more specifically on infrastructure projects that includes a joint investment of \$1 billion in energy infrastructure with U.S. private equity firm Stonepeak, in addition to TAEF's

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acquisition of Metito Utilities, a Dubai-based water and wastewater developer.

TAEF enjoys close relationships with shareholders. We view the establishing agreement as equivalent to a treaty, and the fund is exempt from taxation in AEO member countries. Board members are normally deputy ministers in the energy or oil and gas ministries of the respective countries and meet quarterly to ensure close collaboration. No member has withdrawn from the fund. In 2020, shareholders approved an increase in authorized capital to \$20.0 billion from \$2.4 billion and subscribed capital to \$10.0 billion from \$2.0 billion. As a result, callable capital increased to \$8.5 billion from \$1.0 billion, illustrating shareholder support for the fund. However, outside the founding capital injection of \$340 million in the 1970s, TAEF has never received paid-in capital. The lack of track record of paid-in capital differentiates TAEF from most other MLIs and weighs on our assessment of shareholder support. Instead, the fund builds capital through internal generation, which member countries mostly allow it to keep.

Our assessment of adequate governance and management balances concerns over governance with a strong management framework. The shareholder base is narrow relative to other similarly rated MLIs, with 10 members, all of which have low governance indicators on average. The top three shareholders--Kuwait, Saudi Arabia, and the UAE--each control 17% of the fund and a combined 51% of voting rights. All member countries are eligible to borrow from TAEF, exposing creditors to potential agency risk. The fund occasionally pays dividends, which we view as negative because of the potential capital base erosion. Dividends are more often paid during years of strong earnings and timed to not put undue stress on the entity's financial risk profile. The board has agreed that no dividend will be paid over the next five years, supporting the fund's 2023-2028 growth strategy.

TAEF's strong internal governance and management framework balances the risks from weaker shareholders. The fund has an independent audit and risk committee. Risk management practices are benchmarked with industry standards and integrated throughout all functions and divisions. The management team has expertise in the energy sector and a strong track record of implementing internal strategy. In line with the commercial mandate, management has maintained a long-term return on equity target of 4%-5% each year, higher than that of most rated MLIs. TAEF continued to post profit growth, with net income growing 18% to a record \$266 million in 2024 and leading to a robust 8.2% return on equity for the year. Total assets expanded by about \$1 billion, or 10.5%, to reach just under \$11 billion as of year-end 2024.

We calculate TAEF's risk-adjusted capital (RAC) ratio at 21.2%, using data as of Dec. 31, 2024, and April 2025 parameters, up from 20.8% at end-2023. This increase was primarily driven by retained earnings growth which offset an increase in risk-weighted assets because of exposure growth. We expect the RAC ratio to stay near the same level over 2025-2026. We think TAEF would benefit from preferential treatment in the event of convertibility or transfer risk in a member country.

Asset quality at TAEF is relatively high because the fund does not focus on less developed countries. Based on TAEF's internal metrics, the average loan portfolio rating is 'BBB', with about 48% of the loan book rated 'A-' and above as of year-end 2024. Asset performance has been equally good and nonperforming loans decreased to 0.46% at year-end 2024 from 0.80% at year-end 2023, reaching 2020 levels. Although TAEF has no direct sovereign exposure, it does to government-related entities. Our assessment of capital adequacy is supported by the high asset quality and strategy execution, reinforcing our view that the RAC ratio will remain close to the 23% threshold for extremely strong capital adequacy.

The fund has a large equity portfolio, accounting for just over 14% of balance sheet assets. About half the equity value comes from TAEF's stake in Ibn Zahr (Saudi European Petrochemical Co.), which has paid consistent dividends and been positively revalued since TAEF became a shareholder just over 40 years ago.

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The fund maintains a conservative funding profile, with no funding gaps out to five years, based on year-end 2024 data. TAEF funds itself primarily in U.S. dollars and issues both bonds and sukuk. Short-term funding declined in 2024 to about 11% of total funding from 20% in 2023, reflecting the fund's 2024 issuance activity. While short-term funding has been a larger part of TAEF's liabilities before (for instance, 38% in 2016), we expect TAEF to maintain an 80%-90% long-term and 10%-20% short-term funding mix.

Unlike most MLIs, TAEF takes deposits at its wholesale banking branch in Bahrain. Deposits fell to \$773 million in 2024 from \$1.2 billion at year-end 2023, reflecting the fund's increase in bond issuance. TAEF raised \$2.1 billion over 2024 via public and private issuance across three-to-five-year maturities, and a further \$650 million five-year maturity in February 2025 at favorable levels. While deposits from shareholders are kept for relationship purposes, TAEF solicits deposits from regional government-related entities, banks, and other MLIs as well. We expect deposit funding to remain a part of TAEF's short-term funding mix.

The fund maintains a strong liquid asset cushion, accounting for 47% of adjusted total assets as of Dec. 31, 2024. Based on TAEF's internal metrics, about 76% of the treasury portfolio is rated 'A' or above in 2024. Our calculations of TAEF's liquidity profile incorporate stressed market conditions and assume no market access. Under these conditions, we estimate liquid assets are sufficient to service its borrowings and maintain normal operations for at least one year without slowing planned signed disbursements. For Dec. 31, 2024, our 12-month liquidity ratio was 1.2x, with scheduled loans disbursements, which incorporates S&P Global Ratings' liquidity haircuts. The six-month ratio was also 1.3x.

Shareholders provide callable capital to TAEF as a form of extraordinary support, if needed. While we already assess the fund's capital adequacy in the highest category without including callable capital, in the unlikely event TAEF's SACP weakens to 'a+' or below because of a weaker capital position, we could assign uplift based on extraordinary support from shareholders rated at least equal to TAEF's SACP, all things being equal. The fund's highest rated shareholders are Qatar (AA/Stable/A-1+) and Kuwait.

Key Statistics

The Arab Energy Fund--Selected indicators

	2020	2021	2022	2023	2024
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. \$)*	4,091	4,794	4,372	4,758	5,774
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	10.1	10.1	10.1	10.1	10.1
Private-sector loans/purpose-related exposures (%)	10.1	10.1	10.1	10.1	10.1
Gross loan growth (%)	6.6	18.4	-8.4	9.3	20.7
Preferred creditor treatment ratio (%)	10.1	10.1	10.1	10.1	10.1
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	100	100	100	100	100
Concentration of top two shareholders (%)	34	34	34	34	34
Eligible callable capital (mil. \$)	2,295	2,295	2,295	2,295	2,295

The Arab Energy Fund--Selected indicators (cont.)

	2020	2021	2022	2023	2024
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	N/A	20.9	21.5	20.8	21.2
Net interest income/average net loans (%)	2.2	1.7	3.0	4.2	4.3
Net income/average shareholders' equity (%)	4.8	4.0	5.4	7.4	8.1
Impaired loans and advances/total loans (%)	0.4	0.3	1.2	0.8	0.5
Liquidity ratios					
Liquid assets/adjusted total assets (%)	46.3	38.9	49.7	51.2	46.7
Liquid assets/gross debt (%)	76.5	63.5	98.6	109.8	84.1
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	N/A	1.2	1.5	2.0	1.3
12 months (net derivate payables) (x)	N/A	0.8	1.1	1.3	1.2
12 months (net derivate payables) including 50% of all undisbursed loans (x)	N/A	0.8	1.0	1.1	1.0
Funding ratios					
Gross debt/adjusted total assets (%)	60.5	61.3	50.4	46.7	55.5
Short-term debt (by remaining maturity)/gross debt (%)	13.8	13.5	40.8	14.6	20.0
Static funding gap (with planned disbursements)					
12 months (net derivate payables) (x)	N/A	0.9	0.9	1.0	0.9
Summary balance sheet					
Total assets (mil. \$)	7,893	7,992	8,854	9,881	10,918
Total liabilities (mil. \$)	5,451	5,438	5,933	6,712	7,564
Shareholders' equity (mil. \$)	2,441	2,554	2,921	3,169	3,354

*Not including committed disbursements. RAC--Risk-adjusted capital. N/A--Not applicable.

Ratings Score Snapshot

Issuer credit rating	AA-/Stable/A-1+
Stand-alone credit profile	aa-
Enterprise risk profile:	Adequate
Policy importance	Adequate
Governance and management expertise	Adequate
Financial risk profile:	Extremely strong
Capital adequacy	Extremely strong
Funding and liquidity	Strong
Extraordinary support	0

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Issuer credit rating	AA-/Stable/A-1+
Callable capital	0
Group support	0
Holistic approach	0

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, July 26, 2024
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed

The Arab Energy Fund (formerly APICORP)

Sovereign Credit Rating	AA-/Stable/A-1+
Senior Unsecured	AA-

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