

## RATING ACTION COMMENTARY

# Fitch Upgrades APICORP to 'AA+'; Outlook Stable

Tue 11 Jun, 2024 - 08:43 ET

Fitch Ratings - London - 11 Jun 2024: Fitch Ratings has upgraded Arab Petroleum Investments Corporation's (APICORP) Long-Term Issuer Default Rating (IDR) to 'AA+' from 'AA'. The Outlook is Stable.

Fitch has also upgraded the long-term ratings on APICORP's Global Medium-Term Note Programme and debt issues and APICORP's Sukuk Limited (ASL) programme to 'AA+' from 'AA'. A full list of rating actions is below.

## KEY RATING DRIVERS

**Solvency Risks Improvement Drives Upgrade:** The upgrade of APICORP's long-term ratings is driven by a one-notch improvement in our assessment of the bank's Standalone Credit Profile (SCP), to 'aa+' from 'aa' at our 2023 review. This primarily stems from an improvement in our assessment of APICORP's risk profile, reflecting a record of operations under prudent risk management that has enabled the bank to grow its banking portfolio while maintaining high asset quality, strong loan performance and gradually reducing the sectoral concentration of its loan book. High profitability has allowed APICORP to grow its banking portfolio while maintaining stable leverage.

The solvency assessment is now aligned with that of the unchanged liquidity assessment (aa+), which coupled with a 'medium risk' business environment, leads to the 'aa+' SCP.

**'Very Low' NPLs Support Upgrade:** The bank's non-performing loans (NPL) ratio fell to 0.8% at end-2023 from 1.2% at end-2022, a 'very low' level as per Fitch's Supranational Rating Criteria. Given the strong quality of the loan book ('A-' after accounting for APICORP's preferred creditor status) and the record of loan performance over recent years (NPLs have averaged 0.7% over the past five years) we expect the NPL ratio to remain below 1% in our forecasts. We now assess overall credit risk as 'very low' from 'low' previously.

**Risk Management Policies 'Excellent':** Fitch has revised its assessment of APICORP's risk management policies to 'excellent' from 'strong'. This reflects the record of operations under prudent policies, as well as the gradual sectoral diversification away from oil and gas, which accounted for 33% of all loans at end-2023 from 45% in 2020-2022. APICORP made further enhancements to its risk framework in 2023 including on credit and operational risks.

**'Excellent' Capitalisation:** Fitch's usable capital to risk-weighted assets (FRA) ratio of 51% at end-2023 and an equity-to-adjusted-assets of 32%, were well above the 'excellent' thresholds of 35% and 25%, respectively. We expect both capitalisation metrics over the medium term to remain well above the 'excellent' thresholds and in line with the recent historical trend.

APICORP remains highly profitable, particularly relative to other multilateral development banks (MDBs), with a five-year average return on equity of 5.1% and a net profit of USD225 million in 2023 (up 51% from 2022). Unlike most MDBs, APICORP's operating model is to be profit-maximising and it has paid dividends to shareholders in some years. To support growth in capitalisation, the bank has agreed with shareholders that no dividends will be paid in 2023-2025.

**Unchanged Liquidity Assessment:** Fitch has maintained its assessment of APICORP's liquidity at 'aa+'. APICORP continues to operate with treasury assets of higher credit quality, with the share of treasury assets rated 'AA-' or above increasing to 46% at end-2023 from 29% at end-2017. Fitch expects this ratio to improve to closer to 50% over the medium term. APICORP has continued to operate with an 'excellent' liquidity buffer (defined as liquid assets divided by short-term debt) of 2.77x at end-2023 (above the 'excellent' threshold of 1.5x) from 1.3x at end-2017.

**'Medium Risk' Business Environment:** APICORP's business environment is assessed as 'medium risk', reflecting a 'medium risk' business profile and operating environment. The former considers the 'low' risk governance as well as the sectoral focus of APICORP's strategy, which we consider medium risk compared with peers. All assessments for the business environment are unchanged from last year.

**Support Assessment Unchanged:** Support is assessed at 'aa-', based on the bank's average rating of its key shareholders. Fitch defines APICORP's key shareholders as Saudi Arabia (A+/Stable), Kuwait (AA-/Stable) and United Arab Emirates (AA-/Stable), each of which account for 17% of the bank's capital.

**Strategy and Branding Evolution Continues:** APICORP's new strategy was approved by its Board of Directors in June 2023. This included the new brand name "The Arab Energy

Fund (TAEF)", although its legal name is currently unchanged. The bank has also finalised the move of its headquarters to Riyadh.

**Sukuk Programme Rating:** ASL is a special purpose vehicle incorporated in the Cayman Islands and was established to issue trust certificates (sukuk). The programme's rating is in line with APICORP's 'AA+' Long-Term IDR, which reflects Fitch's view that a default of senior unsecured obligations issued under the programme would equal a default of APICORP in accordance with Fitch's rating definitions.

**Short-Term Rating Affirmed:** Fitch has affirmed the short-term rating at 'F1+', which is the highest rating available on the short-term rating scale, so is unchanged despite the improvement in the Long-Term IDR.

## **RATING SENSITIVITIES**

### **Factors that could, individually or collectively, lead to negative rating action/downgrade:**

-- **Solvency (Credit Risk):** A deterioration in our assessment of credit risk (currently 'very low'), which could be driven by either the NPL ratio being sustained above 1% over the medium term or a decline in the adjusted average rating of loans to the 'BBB' category.

-- **Solvency (Capitalisation):** An increase in leverage or marked increase in valuation losses that erodes APICORP's capital and affects our 'excellent' capitalisation assessment.

-- **Liquidity:** Reduced liquidity buffers sustained below Fitch's 150% 'excellent threshold', a decline in the credit quality of treasury assets, and/or an increase in the share of short-term funding.

### **Factors that could, individually or collectively, lead to positive rating action/upgrade:**

-- **Solvency (Risk):** A sustained improvement in our concentration assessment (currently 'low') stemming from sectoral diversification away from the oil & gas sectors and improvement in the top five concentration metrics; and reduction in equity participation (to less than 10% of total banking exposure) over the medium term.

-- **Business Environment:** Stronger assessment of the business environment driven by an improved business profile or operating environment. This could reflect greater than expected diversification of APICORP's operations to higher-rated countries.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

APICORP has an ESG Relevance Score of '4' for Rule of Law, Institutional & Regulatory Quality. Supranationals are neither subject to bank regulation nor supervised by an external authority. Instead, supranationals comply with their own set of rules. Fitch pays particular attention to internal prudential policies, including compliance with these policies. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

APICORP has an ESG Relevance Score of '4' for Policy Status and Mandate Effectiveness due to its inherent sectoral concentration in the energy sector as a result of APICORP's mandate to invest solely in this sector. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Arab Petroleum Investments Corporation	LT IDR	AA+ Rating Outlook Stable		AA Rating Outlook Positive
	Upgrade			
	ST IDR	F1+	Affirmed	F1+
senior unsecured	LT	AA+	Upgrade	AA

APICORP Sukuk  
Limited

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senior unsecured

LT

AA+

Upgrade

AA

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## **APPLICABLE CRITERIA**

[Sukuk Rating Criteria \(pub. 13 Jun 2022\)](#)

[Supranationals Rating Criteria \(pub. 11 Apr 2023\) \(including rating assumption sensitivity\)](#)

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APICORP Sukuk Limited

UK Issued, EU Endorsed

Arab Petroleum Investments Corporation

UK Issued, EU Endorsed

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